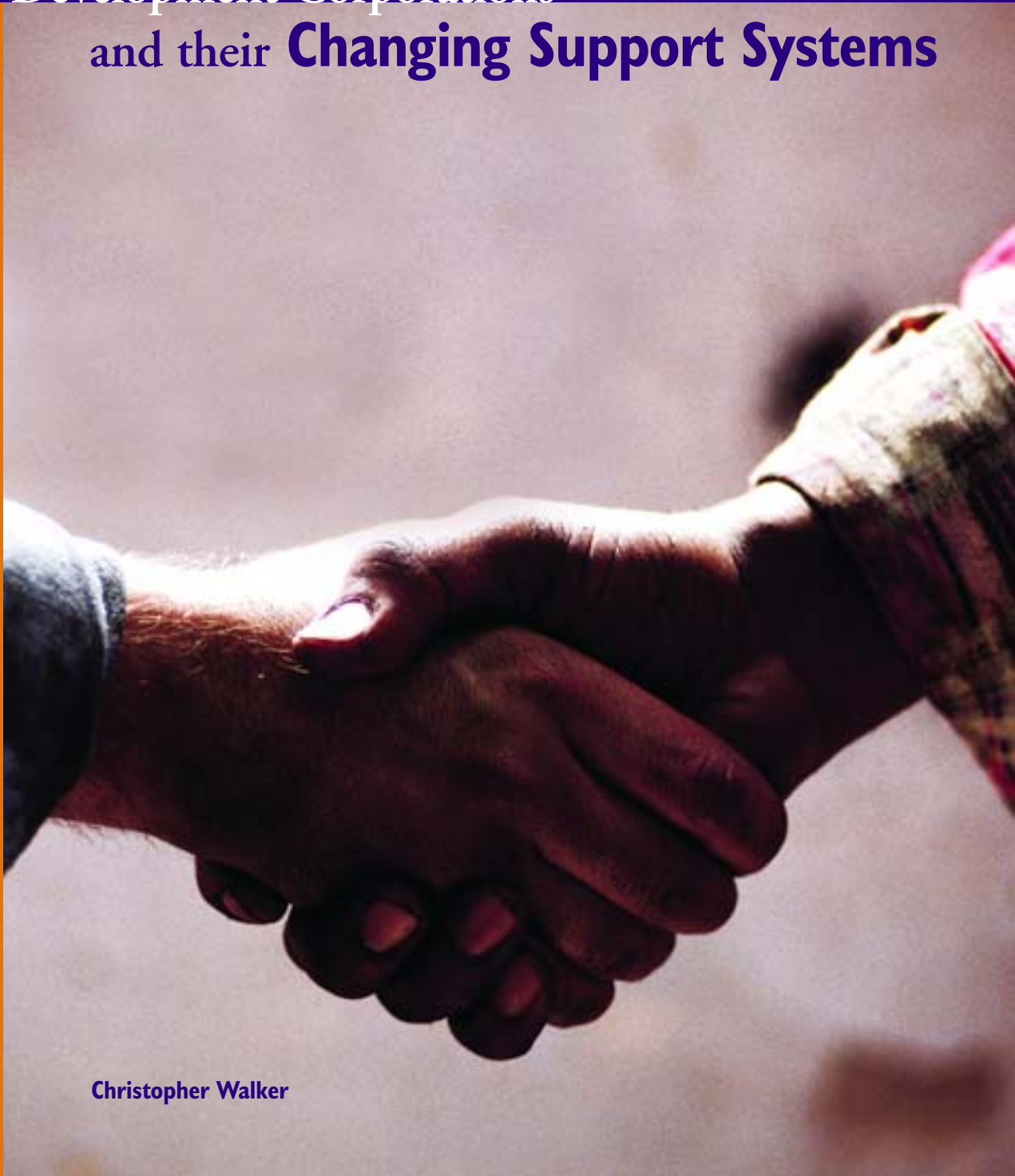




# Community Development Corporations and their **Changing Support Systems**



Christopher Walker

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## Summary of Findings and Methods

In recent years, community development corporations (CDCs) have received major attention from government and private funders as a promising way to improve urban neighborhoods and the lives of those who live in them. These groups are nonprofit, community-controlled real estate development organizations dedicated to the revitalization of poor neighborhoods. They undertake physical revitalization as well as economic development, social services, and organizing and advocacy activities. Because public services for poor communities are fragmented across multiple agencies and levels of government, CDCs often are the only institution with a comprehensive and coordinated program agenda.

This paper assesses changes over the 1990s in community development corporations and the growing support systems that have been constructed to further their work. The analysis relies on 10 years of research in the 23 cities funded by the National Community Development Initiative (NCDI), a consortium of national corporations, foundations, and the U.S. Department of Housing and Urban Development. In 2001, NCDI funders committed to an additional ten years of investment. Since that time, the organization has expanded its activities and incorporated as a nonprofit with a new name: *Living Cities: The National Community Development Initiative*.

This paper's central conclusion is that CDCs as an industry made strong gains in their number, size, outputs, and contributions to neighborhood revitalization over the 1990s. They increased their ability to influence neighborhood markets and to respond to neighborhood problems. They expanded their physical revitalization activities and began to pursue more comprehensive approaches to community improvement. These advances were largely the result of an institutional revolution within most major U.S. cities. Support for CDC initiatives had been largely ad hoc and poorly coordinated before 1990. By decade's end, support for CDCs had become more rational, entrenched, and effective.

Community development support "systems" had emerged in many cities. These systems are comprised of the interrelated people and institutions that mobilize money, expertise, and political support for community development. As prominent aspects of these systems, governments, financial institutions, and philanthropic organizations came together to create new collaborative bodies to support CDCs. These bodies linked CDCs to money, expertise, and political power. They attracted resources from local and national sources and channeled them to CDCs as project capital, operating subsidies, and technical assistance grants. They also engaged civic and political leaders in a neighborhood improvement agenda.

Two national intermediary organizations—the Local Initiatives Support Corporation (LISC) and The Enterprise Foundation (Enterprise)—can take major credit for the creation and growth of these new local collaboratives. Through their network of field offices in nearly 60 U.S. cities, LISC and Enterprise aggressively promote nonprofit community development and invest directly in CDC projects.

During the 1990s, the LISC and Enterprise networks served as the delivery mechanism for the infusion of approximately \$250 million into community development from the National Community Development Initiative (NCDI). Launched in 1991 by a collaboration of national foundations, corporations, and the U.S. Department of Housing and Urban Development, and managed by a small Secretariat of part-time consultants, NCDI supported CDC projects and invested heavily in CDC organizational capacity in 23 cities.<sup>1</sup> NCDI played a key role in catalyzing CDC gains over the 1990s.

<sup>1</sup> Please see appendix A for a more complete description of NCDI.

### Section-by-Section Findings



Section 1 discusses CDCs as an alternative model to government administration of comprehensive community programs. Unlike government, CDCs can respond quickly to development opportunities, and they can more easily assemble and coordinate the disparate programs needed to respond to neighborhood problems effectively. The record shows CDC successes. Experimental econometric analysis finds that CDC efforts *do* lead to improvements in neighborhood quality that the market recognizes, as shown by increases in residential property values. Local community development practitioners in most NCDI cities can identify at least one neighborhood where property values are rising and CDCs are most likely responsible; in two-thirds of cities, this has happened in more than one neighborhood. But to accomplish improvement objectives, CDCs must rely on the support of the broader community development system of which they are a part. This support has helped CDCs move partway toward resolution of long-standing organizational capacity issues, which stem from CDCs' unique status as community-based development organizations that take on complex public-purpose projects, usually in stagnant or declining markets.



Section 2 examines the CDC industry itself—the organizations and the projects and activities they pursue to redevelop neighborhoods. Over the 1990s, CDCs diversified their range of community development activities, with increasing interest in adopting or expanding commercial development, workforce and youth development, and community facilities programs. This diversification took place across a variety of cities in all regions of the country. Total value of CDC projects receiving support from intermediaries doubled between 1991 and 2000, and the overall size of CDC industries grew as well. The quality of CDC industries, however, as measured in terms of their size and capabilities, differed greatly over the 23 NCDI cities, even though they all improved over the decade. Differences in industry strength can best be explained by differences in the performance of community development systems.



Section 3 focuses on community development production systems—the relationships among people and institutions that mobilize, allocate, and regulate the use of land and capital for community development. Why did CDCs substantially boost their productive capabilities in the 1990s? Section 3 explores the major factors. The affordable housing industry became more adept at using the Low-Income Housing Tax Credit. Private capital became easier to secure for affordable housing. And federal housing resources grew, as did some local funds. National intermediaries supplied large amounts of hard-to-get predevelopment funding to CDC projects, which went partway toward filling a long-standing gap in the financing system. These funds also helped CDCs

move into new types of community development activities, most notably the development of for-sale housing, commercial centers, and community facilities. By the end of the decade, some CDCs were in position to take full advantage of new national sources of support for housing and commercial development.



Section 4 examines community development capacity-building systems—the relationships among people and institutions that accumulate and allocate resources to strengthen organizations’ ability to pursue community development. Both local LISC and Enterprise and CDC staff recognize the organizational improvements CDCs have made over the 1990s, especially in core financial systems, and CDCs’ strong performance in establishing and maintaining community ties. But CDCs remain vulnerable, financially, especially in view of the more expanded set of community development responsibilities they have assumed. Fortunately, community development capacity-building systems have registered larger gains than any other system. A key feature of good capacity-building programs is operating support. Before 1991, only 8 of the 23 NCDI cities had operating support programs—and these were rudimentary. By 2001, 21 cities had such programs, and many were comprehensive. Section 4 concludes by examining how the new collaboratives and capacity-building programs strengthened CDCs as organizations. Among the key factors: offering multiyear grants and establishing stronger performance standards.



Section 5 explores community development leadership systems—the relationships among CDCs and those who command community development resources. The new collaborations forged in the 1990s drew leaders across multiple sectors into community development. CDCs rose on local political agendas. Section 5 focuses especially on the intermediaries’ role in strengthening CDC leadership systems. It traces how a collaborative typically operates. The section concludes by examining factors that contributed to CDCs’ rising political credibility—including CDCs’ stronger production capability, the high profile involvement of NCDI, and stronger local leadership for community development.

By the end of the decade, CDCs had made modest gains in improving poor communities, even though most CDC neighborhoods remained isolated from the economic and social mainstream. Nevertheless, the 1990s was an important decade for community development and for CDCs. By decade’s end, a growing number of cities had created the basic elements of a well-functioning community development industry. Success in these cities paved the way for widespread future improvements in community development systems. This report assesses the record of change in CDC industries—an alternative (but not replacement) to public or for-profit development efforts—and links these changes to the support they received from government and private sector sources.



## Research Approach and Methods

Research for this paper was conducted by senior research staff from the Urban Institute and its consultants.<sup>2</sup> It draws on a seven-year investigation of NCDI by the Urban Institute, drawing on the experience of the 23 cities participating in the NCDI program (“NCDI cities”).

*Community development systems are comprised of the relationships among neighborhood leaders, including CDCs, and citywide institutions that mobilize, allocate, and wield finance, expertise, and political influence for community development purposes.*

Our research answers one core question: How have community development systems changed over the decade of the 1990s? To answer this question, we divided community development systems into four components.

- **CDC industries**, consisting of individual CDCs, and their projects and activities.
- **Production systems** to support physical revitalization projects. A production system includes the relationships among people and institutions that mobilize, allocate, and regulate the use of land and capital for community development purposes. Typical activities include development of affordable housing, commercial buildings, and community facilities.
- **Capacity-building systems** to support CDCs’ ability to carry out neighborhood improvement activities effectively. The capacity-building system consists of the relationships among people and institutions that accumulate and allocate resources to strengthen organizations’ ability to pursue community development purposes. Typical activities include provision of operating support, consulting assistance, training and seminars, and upgrades to financial, personnel, and information and asset management systems.
- **Leadership systems** to mobilize political support and resources for a community development agenda. The leadership system consists of the relationships among CDCs and those who command community development resources.

In the best functioning community development systems, these components reinforce one another, and they often do so through the following:

- **Intermediation**, which in NCDI cities was most often provided by the Local Initiatives Support Corporation (LISC) and The Enterprise Foundation. These national organizations, with offices in most major cities and all of the 23 NCDI cities, provide technical help and operating support to community organizations, principally including CDCs, and financial assistance to community development projects. In the most advanced community development environments, local intermediaries also have arisen to mobilize funding from local financial institutions and to supply technical help to a portion of the community development industry or for special types of projects.

One reason why intermediation is important is that it bridges gaps between portions of systems that have not worked together well in the past. For example, capacity systems may build the CDC staff skills needed to take advantage of the opportunities offered by the production system, or production systems are streamlined to permit small organizations to apply for funding without incurring excessive transaction costs. But as noted in the introduction, production and capacity systems do not always work together well. At the beginning of the 1990s, the most pervasive *disconnects* between the two lay in the inability of production systems, however well functioning, to generate sufficient operating support to fully cover the costs of CDC revitalization activities. One of the most important roles of intermediaries is to provide this working capital.

<sup>2</sup> Please see appendix B for more detail on the data collection and analysis methods used.

Our findings are based on our review of the accumulated evidence of community development systems change across all 23 NCDI cities during the 1990s. We rely heavily on field reports, compiled by a team of community development experts, who visited their assigned NCDI cities about every 18 months. These reports follow a common format, typically covering each of the four system components, but emphasizing different aspects of these components in each reporting cycle. Field researchers gathered information through interviews with representatives from local intermediaries, CDCs, city agencies, banks, foundations, and other informed observers.

We also rely on other sources of evidence gathered throughout the course of this research. Specifically, some of the findings contained in this report rely on the following:

1. A mail survey of CDCs to find out about CDCs' activities, assessment of capacity and priorities for the future, and ratings of other community development actors. We surveyed all CDCs in the 23 NCDI cities that were capable of producing 10 housing units per year or more (or the commercial space equivalent) as judged by local LISC and Enterprise staff. We received 163 completed surveys from 270 surveys mailed, a 60 percent response rate.
2. Documentary material on CDC activities and accomplishments, city administration programs and policies, and other local activities, as well as published reports on changes in federal policy, national funding patterns, and others. We also analyzed data from the Department of Treasury's Home Mortgage Disclosure Act files, information from the U.S. Census, and other public databases.
3. Information from LISC and Enterprise management information systems on the amount, purpose, and CDC beneficiaries of NCDI and non-NCDI funding for projects and capacity building in each NCDI city.
4. Information from LISC and Enterprise program documents submitted to the NCDI Secretariat and funders as part of their planning and reporting requirements. Most helpful were the system "Portraits" compiled in 2001 in preparation for NCDI's second decade, the local workplans prepared at the beginning of each of the three NCDI funding cycles, and annual and semiannual reports on problems and progress in implementing NCDI-funded activities.

Our analysis relies on multiple pieces of evidence, assembled and analyzed to arrive at solid conclusions about the direction and pace of change in each NCDI community.



## Neighborhood Problems and CDC Responses

Since the 1960s, the poorest neighborhoods of Philadelphia, Cleveland, Chicago, Los Angeles, and many other cities have seen the withdrawal of private capital. The most obvious signs of this disinvestment are the rows of blighted properties, many abandoned by their former owners. Disinvestment was produced by a complex mix of social and economic factors, including racial segregation and middle-class suburbanization. The physical deterioration of neighborhoods was accompanied by other changes that aggravated the downward spiral. Left with increasingly poor residents, cities lost much of their tax base and hence their ability to provide the high-quality public services needed to sustain the flow of private capital. Economic change often meant the loss of industrial jobs in inner-city neighborhoods. Concentrations of poverty produced a kind of social isolation of the poor that made it difficult for them to take advantage of mainstream economic and social opportunities.

As communities declined, government agencies and private foundations have pursued a variety of strategies to improve neighborhood quality through investments in housing rehabilitation, commercial district improvements, upgrades to the transportation and underground infrastructure, renovation of parks and open spaces, and other activities. The aim of these community development investments was to improve the quality of the neighborhood for those who lived there, and at the same time, induce outsiders to make new investments, which in turn would further improve neighborhood quality.

Most community development agencies understood that physical revitalization alone would not be enough. Poor people needed opportunities to learn job skills and find employment, and some public agencies and private philanthropies turned their attention to business development, workforce programs, and other efforts to help people seize economic opportunities. Further, families with children needed immediate help with educational programs, supervision of children

after school, and other programs to help ensure healthy and stable families. Therefore, many community development programs also included these kinds of social investments.

But blending these investments in ways that produce solid results has proven to be exceptionally difficult. Since the middle of the 1970s, when a major shift in responsibility from the federal to the local levels took place, county and municipal government agencies have had the lead responsibility for the design and implementation of community development strategies and programs. Decentralized community development has its strengths, but it also multiplied the number of governments involved. State governments, for example, allocated the Low-Income Housing Tax Credits and some affordable housing loan funds. Localities controlled the dispersal of Community Development Block Grant Program monies and other housing funds. The federal government, too, retained a diminished inventory of special-purpose programs.

## Econometric Evidence of the Impact of Community Development Corporations on Neighborhoods

Most CDCs promote reinvestment by communicating accurate market information to investors and by demonstrating, through their projects, that neighborhoods are market-worthy. The Urban Institute conducted an exploratory analysis of the impacts of CDCs on neighborhood quality in five urban neighborhoods. People interviewed in the study communities agreed that neighborhood quality had improved and that CDC efforts were partly responsible. Comparison of price trends showed that values increased. But researchers also assessed property value changes using *econometric trend* analysis, which accounts for the myriad factors other than CDC efforts that can influence property value change. This method requires very strong evidence to merit a finding of CDC impact.

The team found that CDCs had generated higher property values in two of the five study neighborhoods. In Portland, OR and Denver, econometric trend analysis produced solid evidence that the increases resulted from CDC activities and the supporting investments made by private and public agencies. In Portland, OR, property values increased 60 percent more than they would have otherwise after REACH Community Development Corporation worked with the Belmont Business Association and Belmont Neighborhood Association to design and implement

a series of business district improvements. In Denver, values increased by 50 percent more than they would have otherwise after HOPE Housing, Inc., rehabilitated a large gateway property, supported by additional private and public investment.

*The conclusion: “Policy” interventions of the sort represented by CDCs’ community development investments can produce real results that are scientifically measurable.*



CDCs had the most positive influence on property values in neighborhoods where they concentrated their activities in a clear target area or pursued projects with high visibility. And the way CDCs pursue redevelopment through community empowerment is important to

their success. All five CDCs in the study devoted considerable energy to involving people in redevelopment efforts, and residents and businesses, once induced to participate in CDC activities, continued their activism later on.

For more, see Temkin et al. (forthcoming).



Further, while local governments are far closer to the neighborhoods, local administrations generally were not all that good at harnessing different programs into a coordinated neighborhood strategy. Public works agencies oversaw infrastructure spending; housing and community

development agencies managed the housing funds; and social services funding came from city or county family services agencies. Typically, no single agency had the authority to coordinate these investments. The participation of community residents was generally missing, except through weak planning structures created by local governments. The results of these investments cannot be considered a solid record of accomplishment.

Over the past 30 years, the most promising alternative model to direct governmental administration of community development programs has been that of community development corporations. Unlike government, community development corporations

can respond quickly to the development opportunities offered by a changing marketplace. They also can mix and match programs to respond to the multiple needs within a neighborhood more easily than can city government, which is responsible for programs in all neighborhoods. And CDCs are directly accountable to governing boards that include community representation, linking CDC directors and staff links to a variety of community institutions, which can be enlisted in the task of community change.

As intermediaries between the community and the market, CDCs possess two great strengths: they produce housing units, commercial space, community facilities, and other visible neighborhood improvements to help make the lives of people in the community better. And they work with disparate community residents and leaders to help bring external resources to bear on the task of neighborhood improvement.

#### CDC Impacts on Neighborhood Markets

The public policy record does not feature many convincing examples that purposive action *can* improve neighborhoods. One reason is that sustainable change in real estate markets is hard to effect, requiring the

Table 1.1

### Scope of Neighborhood Quality Improvement Credited to CDCs in 23 NCDI Cities

Scope of Impact	Cities	Relationship to CDC Industry Strength
Impacts in Multiple Neighborhoods	Eight Cities Boston, Chicago, Cleveland, Kansas City, New York, Philadelphia, Seattle, Washington, D.C.	All but Kansas City are top-ranked cities in terms of industry size and quality. (See section 3.)
Impacts in Single Neighborhood	Eleven Cities Atlanta, Baltimore, Denver, Indianapolis, Los Angeles, Newark, Oakland, Portland, OR, San Antonio, St. Paul, Miami	These are a mix of industry size and quality, tend to be dominated by one strong CDC with a solid production record.
Impacts are Block-by-Block	Four Cities Columbus, Dallas, Detroit, Phoenix	All are relatively new industries or larger industries (Detroit) with recognized capacity problems.

participation of a myriad of large and small investors. Yet some CDCs’ investments, by directly improving quality and leading the market to show potential returns, have sent the market signals needed to induce external investment. New exploratory research shows that the markets in certain neighborhoods have responded to CDC redevelopment efforts. (See text box.)

Other research conducted as part of the NCDI assessment provides supporting evidence for the claim that CDC improvement efforts can make neighborhoods better in ways that are recognized by the market. Field researchers found widespread agreement among community development practitioners in NCDI cities that some CDC investments have produced improvements in community quality that have been recognized by the market and thus *capitalized* in higher real estate values. Even though econometric evidence was not available to demonstrate this result statistically, community development professionals in the 23 cities—CDC directors, intermediary staff, city officials, bankers, foundation staff, local academics, and others—identified neighborhoods with upswings in housing markets *thought to be due*, in some large part, to CDC redevelopment efforts. In about two-

thirds of cities, practitioners credited CDCs with successful neighborhood turnaround in at least one neighborhood. (See text box.)

Differences across cities in CDC ability to improve neighborhood quality can be explained by differences in part by the strength of regional markets, but also by the quality of CDC industries, and the quality of the community development support system. Overcoming deep and complex neighborhood problems demands long-term and consistently applied strategic investments, which few CDCs have been able to make historically. Industries with large numbers of CDCs able to make these long-term investments have achieved results, but not all industries have reached this level of size and quality. Those that have done so benefited from creation of strong community development support systems.

CDCs achieved the broadest results where they pursued a consistent community improvement strategy over time, supported by strategic alliances with other neighborhood and citywide actors. Field investigators confirmed that the CDCs most often credited with observable impacts in their neighborhoods were groups

Table 1.2

**Potential CDC Assets and Liabilities as Development Organizations and Community Organizations**

	<b>As Development Organizations v. For-Profit Developers</b>	<b>As Community Organizations v. Other (Non-Development) Community Organizations</b>
Potential CDC Assets	<p>Able to organize residents in support of redevelopment policies and projects.</p> <p>Able to secure support from public agencies.</p> <p>Able to act as coordinating agency for public investments.</p>	<p>Can bring resources into the neighborhood.</p> <p>Have connection to city, state, and national supporters.</p> <p>Follow a businesslike orientation.</p>
Potential CDC Liabilities	<p>Can be cash-starved since developments may not make money.</p> <p>Can have weak capacity to bring projects on line efficiently, at low cost.</p> <p>May be overly “political.”</p>	<p>Can be distracted from community purpose due to orientation to markets and external stakeholders.</p>

that had been at work for at least a decade. These CDCs combined two necessary strengths—a track record of successful redevelopment, including a blended portfolio of physical development and human service programs, and an ability to manage and govern themselves effectively.



CDCs in cities that created effective community development systems early on tend to have multiple, strong, capably managed CDCs able to pursue neighborhood revitalization over the long haul. The key component of support systems is the relationships among individuals and institutions that can be used to mobilize and wield finance, expertise, and political influence for community development. As the box shows, we found a rough correlation between the breadth of neighborhood impacts achieved and the strength of local community development systems.

### Why Support Systems for CDCs Are Necessary

All types of organizations and institutions have strengths and weaknesses and CDCs are no exception. As noted above, CDCs have been able to intermeditate between communities and markets in part because they are developers with special ties to community.

CDC status as development organizations conveys community benefits that other community-based organizations cannot. CDCs establish and maintain relationships with powerful outside actors, whose resources can sometimes be brought to bear to help solve a variety of neighborhood problems. They also may command substantial amounts of physical and financial assets, which confers power of a kind that social services organizations typically lack. CDC status as community-based organizations conveys advantages to the community relative to for-profit developers. They can help blend multiple community programs, not just those tied to specific development projects. They can design and build redevelopment projects that meet with community approval. And CDCs have community connections that few private developers can duplicate. And as a result, they can act in the public arena as the voice of the neighborhood.

CDCs' dual role has costs, too. As small nonprofit developers, many CDCs are cash-strapped, and compared to some private sector developers, they often lack capacity to bring projects on line efficiently, at low cost. And compared to those community-based organizations that do not depend on city govern-

ment to support internal operations and fund projects, CDCs sometimes resist appeals for a more confrontational posture toward local elected and administrative officials. Further, if they are to be built, CDC projects must meet market tests of financial soundness, which sometimes means that they cannot serve only the poorest residents in a community, or provide the services some residents may demand.

Many of the challenges faced by community development systems stem from the special difficulties posed by the dual CDC role. To overcome these difficulties, CDCs rely heavily on their relationships with others inside and outside the neighborhoods in which they work. Of special interest in this paper are the connections CDCs maintain with sources of money, talent, and expertise outside their neighborhoods. The remaining sections of this paper examine CDCs within the context of the broader financial, technical, and political systems. Across the country, these local systems vary considerably in their performance, in which community development policymakers and practitioners have invested considerable money and time to improve.







## Activities, Size, and Quality of CDC Industries

CDC industries consist of CDCs and their projects and activities. Over the 1990s, CDCs generally diversified their range of community development activities, with increasing interest in adopting or expanding commercial development, workforce and youth development, and community facilities programs. (Not all CDCs chose to expand their activities, choosing instead to partner with other organizations to provide an expanded range of community development services.) The total development costs of CDC projects receiving support from national intermediaries doubled between 1991 and 2000, and the overall size of CDC industries grew as well. The numbers of groups expanded as did their operating budgets, another indicator of the expansion of CDC community development activities. The quality of CDC industries, however, as measured in terms of their size and quality, differed greatly over the 23 NCDI cities, even though they all improved over the decade. Differences in industry strength can best be explained by differences in the performance of community development systems.

### CDC Projects and Activities

CDCs pursue their redevelopment goals by carrying out a range of community activities, selected based on neighborhood need, organizational abilities, and availability of funding and other support. Field research shows that over the 1990s, CDCs in the 23 NCDI cities took on a more diverse range of activities, actively supported by new city governments, financial institutions, and foundation investments. By the end of the decade, about one quarter of CDCs were “comprehensive” in terms of the number of activities they pursued.<sup>3</sup>

Nearly all CDCs do some kind of affordable housing development, including construction and renovation of housing for renters or homebuyers. These development activities often are accompanied by neighborhood planning efforts and community organizing intended to improve the quality of services to urban neighborhoods. In 1999, Urban Institute researchers surveyed CDCs to find out what activities they took on. (The survey population consisted of “capable” CDCs, those that local LISC and Enterprise staff reported were capable of producing 10 units per year

<sup>3</sup> “Comprehensiveness” is not a litmus test of value. Some CDCs chose to expand the range of services they provided directly, others concentrated on the few activities they already did well. Many of the latter pursued partnerships with other community organizations in lieu of taking on new functions themselves. But in view of the lack of community capacity in many poor neighborhoods, CDCs often represent the only platform for delivery of community-based services, and thus have no choice but to pursue expansion.

### Range of Community Development Activities Carried Out by CDC

Types of Programs and Activities Carried Out by Community Development Corporations	Percent of “Capable” CDCs Reporting They Conducted Activity in 1999
<b>Housing Development</b> , including both rental and homeowner housing. CDCs steadily increased their draw from a relatively fixed pool of local housing dollars and other community development resources.	94 percent
<b>Planning and Organizing</b> , including neighborhood planning, community organizing and advocacy work, community safety, neighborhood cleanup, and other programs that require active participation of residents and businesses.	80 percent
<b>Homeownership Programs</b> , including down-payment assistance, owner-occupied housing rehabilitation, pre-purchase counseling, emergency repair, and other programs to help support or increase the cadre of homeowners in low-income neighborhoods.	69 percent
<b>Commercial and Business Development</b> , including commercial district improvement and promotion programs, business technical assistance and financing, commercial building renovation and construction, industrial loft retention, and others.	60 percent
<b>Workforce and Youth Programs</b> , including job-readiness training, skills development, youth employment and training, leadership training, and so on.	55 percent
<b>Community Facilities</b> , including health clinics, schools, senior and community centers, homeless shelters, transportation improvements and programs, and other community-use infrastructure.	45 percent
<b>Open Space</b> , including community gardens, parks improvement and maintenance, greenway development and management, etc.	29 percent

Source: 1999 Urban Institute survey of CDCs in 23 NCDI cities. Number of respondents = 163.

or more, or the equivalent amount of commercial space. These capable CDCs form the basis of the analysis of CDC industry size presented later on in this section.)<sup>4</sup> The results are shown in the box on page 13.<sup>5</sup>

The near-universal emphasis on housing development and community planning is long-standing and well documented by previous research (NCCED 1998). The prevalence of CDC commercial and business development, workforce and youth programs, and renovation and construction of community facilities may be of more recent vintage. Interviews with local community development practitioners point to these as areas of CDC growth, and the increasing amounts of support CDCs received for community facilities is documented in the next section. Empirical support for this suspected CDC move into commercial development, workforce and youth, and facilities development is provided by table 2.1. For example, 11 percent of groups newly implemented a commercial development

program in 1999, and another 8.6 percent that had not operated a commercial program in the past planned to start one.<sup>6</sup>

As the table implies, organizations pursue different numbers and mixes of community development activities. Some organizations prefer to specialize in one or two activities they do well; others aspire to take on as many types of activities as organizational abilities and funding opportunities permit. As a result, the CDC industry nationwide, as well as in particular cities, is internally diverse. Table 2.2 depicts the variation in numbers of activities, median operating budgets, and median staff size for the capable CDCs that responded to the survey.

About one quarter of CDCs may be thought of as “comprehensive” in terms of the numbers of activities they pursue. These groups average million-dollar operating budgets and employ a staff of 23, about double the average for CDCs in the group.<sup>7</sup>

Table 2.1

**Past, Current, and Planned CDC Conduct of Community Development Activities (Percent of CDCs)**

	<b>Conducted Before 1999</b>	<b>New in 1999</b>	<b>Planned 2000–2001</b>	<b>Total New or Planned</b>
Housing Development	91.8	1.2	1.0	2.2
Planning and Organizing	73.6	6.7	6.2	12.9
Homeowner Programs	63.8	5.5	4.9	10.4
Commercial Development	49.1	11.0	8.6	19.6
Workforce and Youth	46.6	9.2	8.0	17.2
Community Facilities	37.4	7.4	14.1	21.5
Open Space	22.1	6.1	8.6	14.7

Source: 1999 Urban Institute survey of CDCs in 23 NCDI cities. Number of respondents = 163.

<sup>4</sup> Researchers opted to confine estimates of industry size to only “capable” CDCs in order to exclude the large number of “letterhead” organizations, which have produced few, if any, units and do not contribute in a meaningful way to neighborhood improvement.

<sup>5</sup> Factor analysis of responses to a survey of experienced CDCs shows how their individual programs have grouped together in the past. For example, CDCs that do owner-occupied rehabilitation are very likely to provide homeownership counseling as well. CDCs that operate workforce development programs also operate youth programs. We have combined the many individual programs we asked about in the survey into the general categories listed in the table above.

<sup>6</sup> This percentage does not account for the groups that may have planned to drop commercial programs in 2000 or 2001. To continue the example, 15.8 percent of groups that operated commercial programs at any time between 1991 and 1998 did not do so in 1999. This translates into an approximate “attrition” rate of approximately 2 percentage points per year, for an expected 4 percentage point “loss” in 2000 and 2001, producing a net estimate of the increase in percentage of groups doing commercial development of 15.6 percent.

<sup>7</sup> The CDCs in the survey were larger than average, compared to those responding to the latest NCCED triennial census, which records an average \$300,000 operating budget and staff of six. See National Congress for Community Economic Development (1998).

Table 2.2

**CDC Median Operating Budgets and Staff Size by Numbers of Community Development Activities Conducted**

	Percent of CDCs	Median Operating Expenses, 1999	Median Staff
<b>Number of Activities</b>			
One or Two	22	\$425,000	5.5
Three or Four	52	\$680,000	11.5
Five or Six	26	\$1,108,000	22.5
<b>All CDCs</b>	<b>100</b>	<b>\$676,000</b>	<b>11.5</b>

Source: 1999 Urban Institute survey of CDCs in 23 NCDI cities. Number of respondents = 163.

Note: Possible activities could include housing development, community planning, homeowner programs, commercial development, workforce and youth programs, community facilities, and open space. Operating expenses are self-reported for the most recently completed fiscal year at the time of our survey in October 1999.

**Growth in CDC Development Activity between 1991 and 2000**

CDC-sponsored redevelopment activities in 23 NCDI cities nearly doubled over the 1990s, as indicated by the total development costs of projects aided by the two national intermediaries. Chart 2.1 shows the annual total development costs of intermediary-financed projects in the 23 NCDI cities during the 1990s.

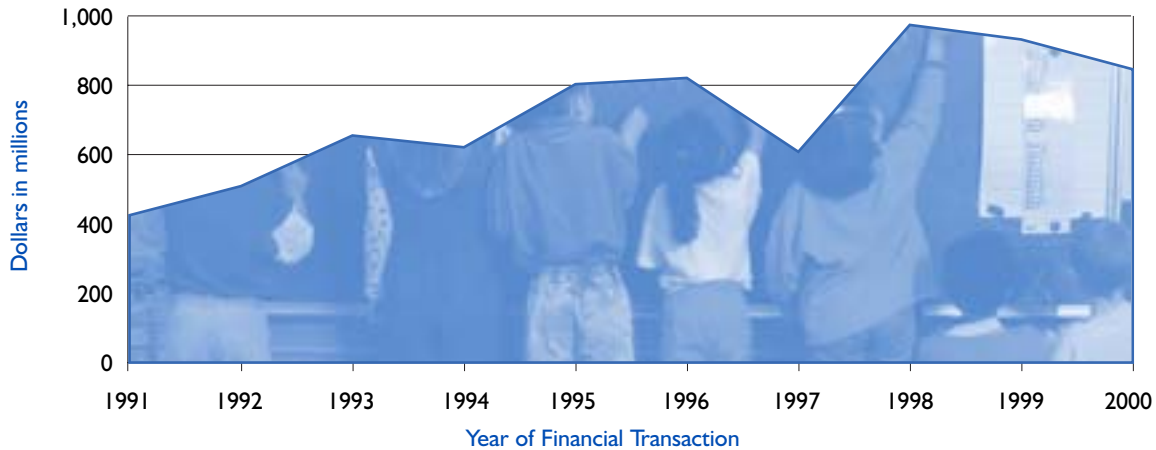


Intermediary-supported development costs doubled over the decade—from just over \$400 million in 1991 to over \$800 million by 2000.<sup>8</sup> These increases were made possible by large new inflows of federal money at the beginning of the decade and major improvements to city production systems, as documented below.

<sup>8</sup> The one-year drop in 1997 is an artifact of a change in LISC project reporting practices.

Chart 2.1

### Total Development Costs of CDC Projects Supported by National Intermediaries in NCDI Cities (1991–2000)



Source: Compiled by the Urban Institute based on information supplied by the Local Initiatives Support Corporation and the Enterprise Foundation. Includes all projects that received loans, grants, or tax credits from intermediary-affiliated national syndicators.

#### Growth in Industry Size between 1990 and 1998

In the 23 NCDI cities, the number of CDCs able to carry out redevelopment activities and the scope of those activities as reflected in operating budgets increased dramatically over the 1990s. But not all cities grew at the same rate, nor did industries change in the same way, from 1991 to 2001:

- The number of CDCs able to produce annually more than 10 housing units (or their commercial equivalent) nearly doubled. These so-called *capable* CDCs grew from an average of 4.5 CDCs per city to 8.3 per city (Walker and Weinheimer 1998, 28).

- The number of CDCs with strong local reputations for efficient production, governance, and management—the *top tier* groups—grew from an average of 2.1 per city to 3.8 per city.
- CDC operating expenses—shown above to be a good proxy for the breadth of activities CDCs undertake—grew by about 150 percent from 1991 to 1997 (the last year for which reliable information was available).

The most spectacular gains occurred in the smallest CDC industries, where operating expenses grew by nearly 250 percent. For the most part, these industries

are in cities that had no well-established track record of public support for community and neighborhood development activities prior to the 1990s. These industries received substantial infusions of new external aid through the NCDI over the decade. But even in the largest CDC industries at the beginning of the decade, total operating budgets of capable CDCs nearly doubled in size.

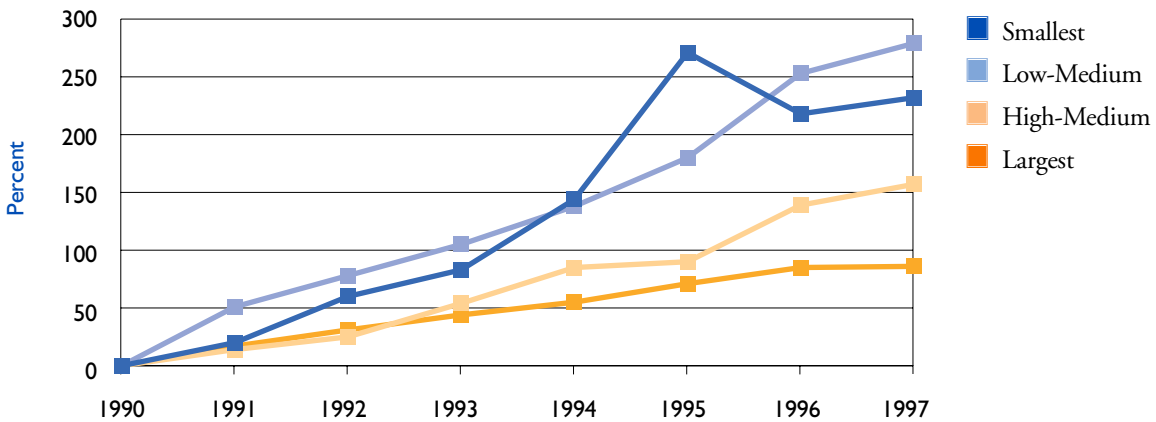
quartile of industry size in 1990. We grouped cities by quartile so as not to compare changes in very small CDC industries to those of the largest industries, which we expected would grow more slowly than others. The composition of the resulting quartiles and the cutoff expense totals used to define them is shown in the box below.<sup>9</sup>

Chart 2.2 shows the change in total operating expenses for all “capable” CDCs in the cities included in each

Although CDC industries generally grew over the decade, the growth occurred in different ways in different cities. Some cities showed strong gains in the

Chart 2.2

**Percent Change in City Total CDC Expenditures, by Categories of 1990 CDC Industry Size (1990–1997)**



Source: Compiled by Urban Institute from IRS tax return data and National Center for Charitable Statistics.

Note: Size categories based on quartiles of total CDC expenditures in 1990.

<sup>9</sup> Because Columbus had no capable CDCs in 1990 and we did not have data for the few Atlanta CDCs in that year, we used 1992 data as the beginning point for those cities.

<b>Composition of Quartiles in Chart 2.2</b>		
<b>Smallest</b>	From \$600,000	Atlanta, Columbus, San Antonio,
	To \$1,599,999	Detroit, Kansas City, Denver
<b>Low-Medium</b>	From \$1,600,000	Baltimore, Dallas, Oakland,
	To \$3,999,999	St. Paul, Portland, OR, Indianapolis
<b>High-Medium</b>	From \$4,000,000	Seattle, Cleveland, Miami, Boston,
	To \$7,499,999	Phoenix, Washington, D.C.
<b>Largest</b>	From \$7,500,000	Philadelphia, Newark, Chicago,
	To \$40,000,000	Los Angeles, New York City

number of groups that met our basic standard of capability or in the percentage of groups that passed an additional test of having a *top tier* reputation. Other cities showed gains in CDC operating funding. (See text box, below.) Only a few, most notably Philadelphia, recorded gains in both the number *and* quality of groups and in operating expenses.

**Variations in Industry Strength across Cities**

CDCs did not improve everywhere across the board. Even in cities where operating budgets grew most rapidly, some CDCs known locally as strong organizations did not increase their budgets accordingly. And some CDCs that showed large increases in operating expenses did not always strengthen their ability to

**Types of Change in CDC Industries**

**Cities showing strong increases in the number or quality of CDCs but average or below-average gains in operating expenses**

Baltimore, Atlanta, Los Angeles, Newark, Cleveland, and Boston

Growth in operating expenses reflected a general uplift in industry activities, spread across a number of CDCs and neighborhoods.

**Cities showing strong increases in CDC operating expenses but average gains or below-average gains in the number and quality of groups**

Seattle, Portland, OR, Oakland, Miami, and Indianapolis

Growth in operating expenses was generally concentrated in one or two groups,<sup>10</sup> which became new industry leaders. These tended to be groups that increased or solidified their reputation as organizations that took on a wide range of community development activities.

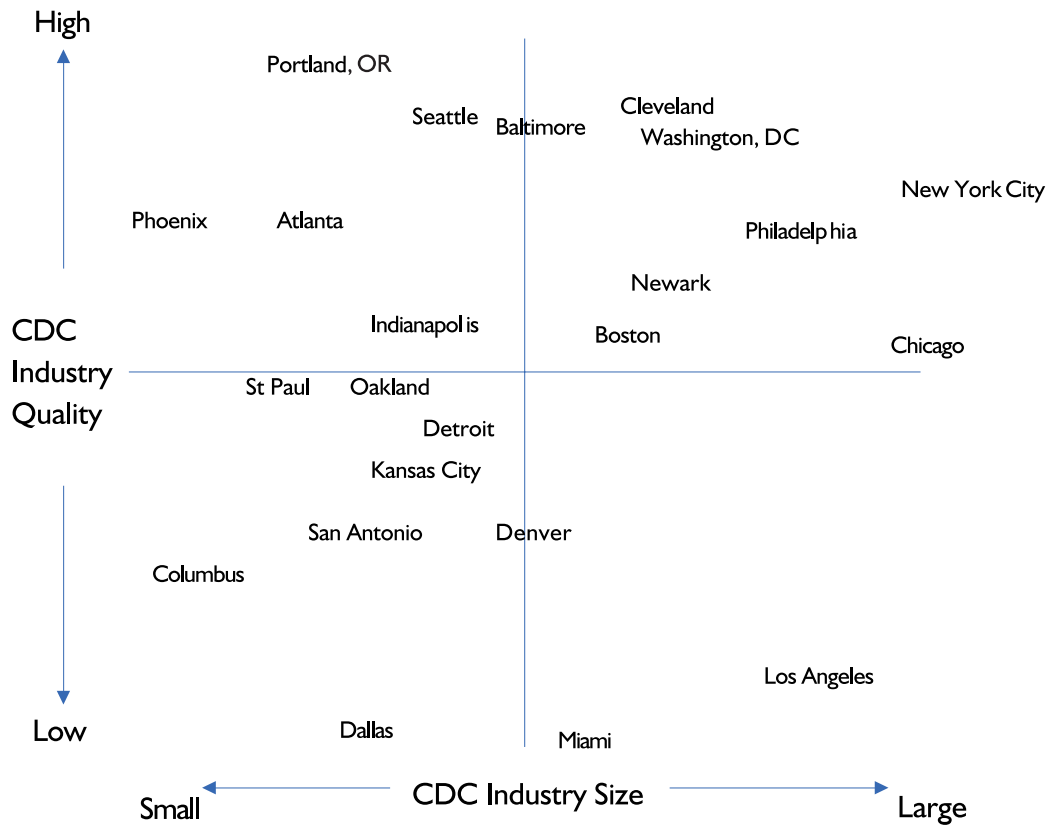
<sup>10</sup> In Seattle, HomeSight accounted for most of the increase; in Portland, OR, Northeast CDC; in Oakland, the Unity Council; in Miami/Dade County, Opa Locka CDC; and in Indianapolis, Eastside Community Investments. Both Eastside in Indianapolis and Northeast in Portland, OR have declined considerably from their 1997 peaks.

carry out development projects effectively. This distinction between size and quality applies to whole industries, and measures of industry size and quality can be used in combination to arrive at overall assessments of industry strength. Later sections of this paper will show how differences in industry strength at the end of the 1990s were tied to differences in city community development systems.

In the fall of 2000, local LISC and Enterprise staff in each of the 23 NCDI cities were asked to rate the quality of the CDC industries they serve. To do so, they used six rating factors and performance standards devised by Urban Institute researchers in cooperation with LISC, Enterprise, and the NCDI Secretariat.<sup>11</sup> The factors are the following:

- **Effective Program Delivery**, as shown by the industry percentage of CDCs with a reputation for good, neighborhood-appropriate, strategically framed projects, ability to produce to scale, and ability to manage assets;
- **Strategic Alliances**, as shown by the industry percentage of CDCs engaged in partnerships aimed at development and community building;
- **Command of Information Technology**, including the industry percentage that use it effectively for internal management as well as for analysis of neighborhood trends and community communication;
- **Community Leadership**, as shown by the share of CDCs with a community planning process, with boards and staff representative of the neighborhoods

Figure 2.1  
**CDC Industry Strength at the End of the 1990s**



Source: Urban Institute field researcher ratings (Industry Size) and Local LISC/Enterprise staff (Industry Quality).

Note: Size is a composite of a number of groups and total operating expenses; quality is a composite of six CDC capacity rating factors. See text.

<sup>11</sup> The NCDI in its first 10 years was managed by a Secretariat consisting of several consultants, working part time for NCDI, who staffed the Initiative on behalf of the funders' group and monitored the Initiative's results.





they serve, and participation in civic bodies and advocacy efforts.

- **Effective Government and Management**, as shown by the share of CDCs with strong management systems, staff expertise, and board membership;

- **Capacity to Attract Funding and Staff**, as shown by the industry share of CDCs that are financially sound, broadly funded, and capably staffed.

Local staff assessments on each indicator were summed to produce an overall industry quality score for the city. To produce an industry size estimate, the number of *capable* CDCs, the percentage of *top tier* groups, and CDC operating expense levels were combined into a summary measure of industry size for 1991 and 1997 (the last year of good operating expense data).<sup>12</sup> Figure 2.1 shows the result.

The quadrants in the chart are defined by the average size of industries and the average quality scores those industries received. Industries in the top right quadrant are comparatively large CDC industries with good local quality reputations. Industries in the top left quadrant are comparatively small CDC industries with good local quality reputations. Many cities do not fall into an extreme category as defined by the box, but for 10 of the cities, assessments of overall industry strength are relatively unambiguous. These 10 are shown in table 2.3, below.

### What Explains the Relative Performance of the 23 Cities?

In the discussions to follow, we will show that the strongest industries as shown in figure 2.1 also have some of the best functioning community development support systems. Research will show that New York City, Cleveland, Portland, OR, and Seattle have four of the top five best functioning community development systems. (Boston has the fifth.) Washington, D.C.—one of the strong industries on the chart—has a superior capacity-building system, which helps offset its complex and inefficient production system. Research also will show that Los Angeles, Miami, and Dallas have the weakest production and capacity-building systems. The other city in the weakest quartile—Columbus—created competent production and capacity-building systems only in the past several years.

But overall, CDC capacity improved in nearly every NCDI city—primarily because one or more of the building blocks of the community development *system* improved. We turn first to the production system and how it changed.

Table 2.3

#### Categories of CDC Industry Performance

Group A	Group B	Group C	Group D
Larger industries with fair to strong local reputations for quality	Smaller industries with fair to strong local reputations for quality	Larger industries with weak to fair local reputations for quality	Smaller industries with weak to fair local reputations for quality
<b>New York City</b> <b>Washington, D.C.</b> <b>Cleveland</b>	<b>Portland, OR</b> <b>Seattle</b> <b>Baltimore</b>	<b>Los Angeles</b> <b>Miami</b>	<b>Columbus</b> <b>Dallas</b>

<sup>12</sup> The reason for the lag in reporting is the typically late filing of 1-990s (because no tax payments are ever required).





## Changes in Production Systems

**H**istorically complex and inefficient, community development production systems improved over the 1990s, especially for affordable housing. New subsidies from federal and local sources helped stimulate new bank lending, which was widely viewed to be easier to obtain for CDC projects as the 1990s progressed. National intermediaries, most notably the Local Initiatives Support Corporation and The Enterprise Foundation, supplied large amounts of hard-to-get predevelopment funding to CDC projects, which went partway toward filling a long-standing gap in the affordable housing financing system. These funds also helped CDCs move into new types of community development activities, most notably the development of for-sale housing, commercial centers, and community facilities. By the end of the decade, some CDCs were in position to take full advantage of new national sources of support for housing and commercial development.

### Production System Characteristics and Problems

*A community development production system includes the relationships among people and institutions that mobilize, allocate, and regulate the use of land and capital for community development purposes.*

Generating affordable housing is by far the primary activity of the community development production system. For CDCs to produce homes and apartments, the production system must offer them access to financing. Two important developments occurred during the 1990s: (1) Local governments boosted their funding for production systems and (2) intermediaries increased their role in making the production system work for CDCs.

To understand the critical contribution made by intermediaries in supporting CDC participation in the community development production systems, figure 3.1 graphically displays the complexity of the housing finance system. As the figure illustrates, community development intermediaries support housing development at multiple points in the process, thereby

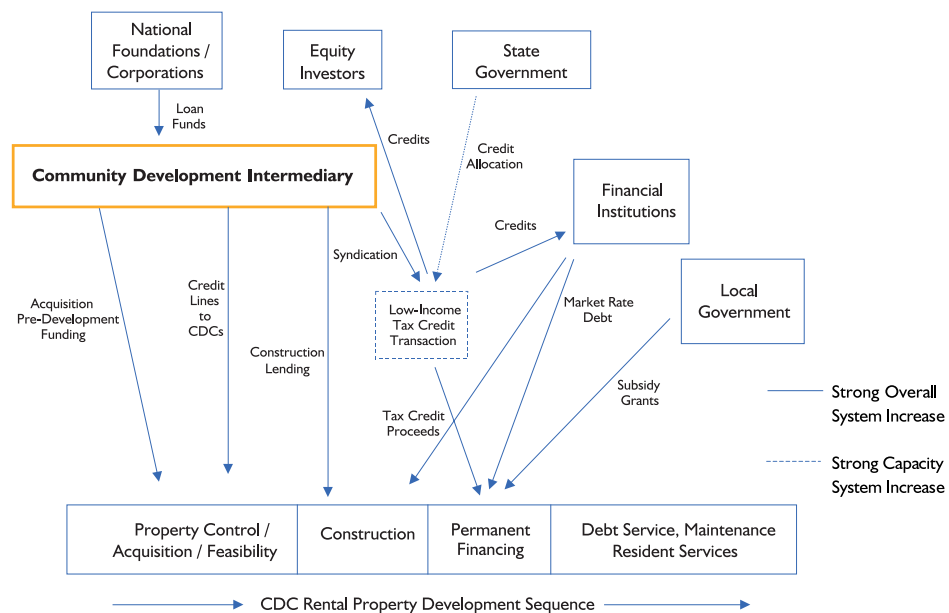
reducing (but certainly not eliminating) the burden such a fragmented system places on CDCs.

At the bottom of figure 3.1 are the types of funding required to finance affordable housing, displayed from left to right in the sequence in which these funds are usually provided.

- Predevelopment funds (for property control, acquisition, and feasibility studies) allow developers to acquire land and buildings and to develop design and financial documents needed to construct projects. Traditionally in short supply, particularly for CDCs with few retained earnings from which to finance new development, *predevelopment funding was provided by intermediaries in large amounts over the 1990s to fill a chronic funding gap.*
- Construction monies pay for actual project development. Funds for this high-risk project phase also have not traditionally been available from private lenders at favorable terms, particularly where CDCs had not yet established a strong reputation for competent project development or construction management.

Figure 3.1

## Affordable Tax-Credit-Assisted Rental Housing Production System

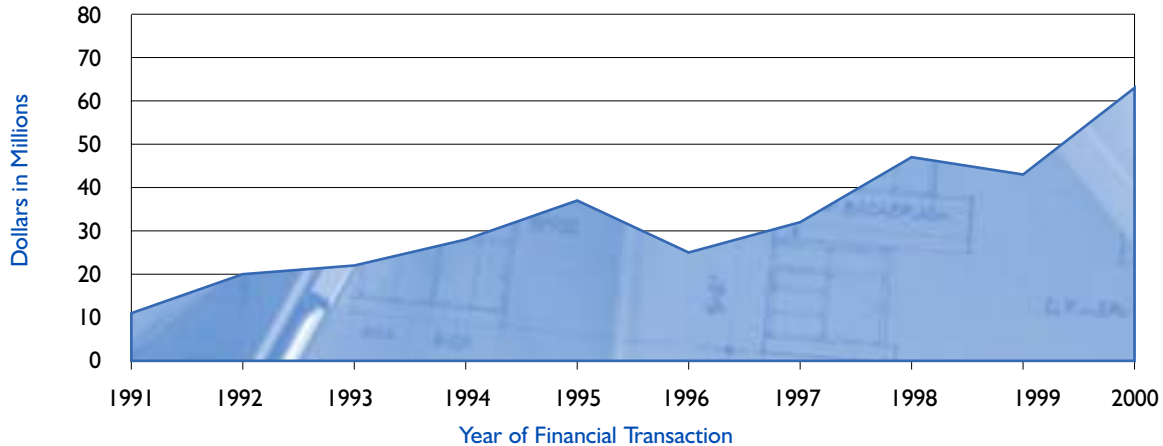


- Permanent financing consists of the equity and long-term debt needed to finance total project costs. Subsidies for these projects come from three basic sources, often used simultaneously, but allocated by multiple levels of government. Low-Income Housing Tax Credits, allocated by the U.S. Treasury to states and by states, to individual projects, are an important, but hard to use, source of project equity. Intermediaries play an increasingly important role as financial packagers, in which they help CDCs assemble the multiple elements of project finance from the many sources that provide them into a single block of project funding. Intermediaries also syndicate tax credits for sale to investors, which means they bring those who seek to buy credits for their investment value in touch with the projects that need these funds to build. The other primary sources of subsidized permanent finance include federal CDBG funds and HOME funds, allocated by local governments. Long-term debt comes primarily from private sector financial institutions, who also do construction lending and purchase housing tax credits.
- Operating dollars (for debt service, maintenance, and resident services) typically come from rental payments.<sup>13</sup> Because CDC projects were frequently thinly capitalized in the past, some projects collapsed financially, dragging groups down with them. *Intermediaries have since helped to ensure the financial soundness of properties in the development stage and assisted with later financial workouts, if necessary.*

<sup>13</sup> Operating financing here is different from the operating support or subsidies provided to CDCs to fund their own basic operations.

Chart 3.1

### Total Intermediary Acquisition, Predevelopment and Construction Finance Provided to CDC Projects in NCDI Cities, 1991–2000



Source: Compiled by the Urban Institute based on information supplied by the Local Initiatives Support Corporation and The Enterprise Foundation. Includes all projects that received loans or grants from local intermediary offices.

Any one of these types of funding may be subsidized, typically from federal sources, but large amounts of subsidy are particularly important for permanent finance, since low-income residents cannot generally afford housing financed at market rates.

The production system includes regulatory elements too, such as zoning and other land use regulations, occupancy and other permitting requirements, and laws relating to acquisition and disposition of tax-foreclosed properties. These financial and regulatory elements interact in complex ways, and multiple agencies are almost always involved. The production system for affordable housing is notoriously complicated and inefficient. The multiple levels of government, financing sources, and regulatory activities rarely work together easily.

#### Production System Changes over the 1990s

In general, over the 1990s, production systems nationwide increased their performance in six important ways:

1. *National community development intermediaries—LISC and Enterprise—moved aggressively to create new financial products that filled chronic gaps in the nonprofit portion of the affordable housing finance system.*

Two products were especially important: (1) predevelopment and construction funding and (2) lines of credit and other sources of bridge funding. Financing

for these early project phases is especially difficult to secure due to uncertainties over the financial viability of projects, the level of subsidies to be provided, city regulatory approvals, and long-term financing.

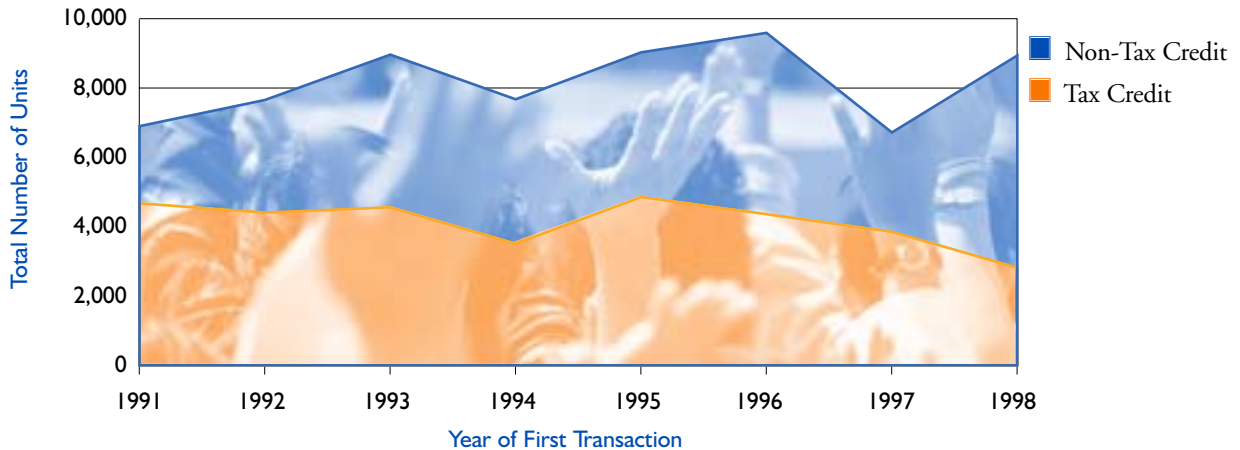
As chart 3.1 illustrates, LISC and Enterprise supplied more than \$300 million in predevelopment and construction loans and grants in the 23 NCDI cities during the 1990s. The two intermediaries committed an average of about \$28 million per year from 1991 through 1997, before a sharp upswing at the end of the decade, with 2000 levels approaching \$60 million.<sup>14</sup> In some cities, the LISC and Enterprise funds attracted new predevelopment and construction funds from private lenders, as shown by the extensive field research conducted for this report. In Chicago, for example, NCDI funding no longer needs to be used for predevelopment because local banks now provide it at competitive rates. Field research also suggested that long-term financing for CDC projects became more readily available, that is, CDC projects that earlier might have struggled to find permanent finance from private banks on affordable terms were in the enviable position of having multiple banks vie with one another to make loans.

With the upswing in real estate markets during the 1990s, many CDCs reported to field researchers that they had to compete more aggressively with private developers in their neighborhoods for land, and

<sup>14</sup> The upswing in 1995 followed by a drop in 1996 is due to a one-time, idiosyncratic increase in project funding commitments made using NCDI funding.

Chart 3.2

### Total CDC Units Developed with Intermediary Financial Assistance, 1991–1998



Source: Compiled by the Urban Institute based on information supplied by the Local Initiatives Support Corporation and The Enterprise Foundation. Includes all projects that received loans or grants from local intermediary offices, and tax credit units syndicated by National Equity Fund and Enterprise Social Investment Fund.

project costs typically rose. The competitive advantage went to CDCs that could access capital quickly, move fast on real estate opportunities, and develop a pipeline of projects that ensured that, as every deal was completed, another revenue-generating project would be ready to begin. Intermediary funding enabled CDCs to act faster and compete more successfully with private sector builders.

2. *The affordable housing industry learned how to use Low-Income Housing Tax Credits, in place since 1986, far more efficiently* (Cummings and DiPasquale, 1999). *Intermediaries played a key role in helping CDCs compete with large nonprofit developers as well as for-profit builders to obtain tax credits from state agencies responsible for allocating them.*

Chart 3.2 shows the number of tax credit and non-tax credit units supported by LISC and Enterprise in the 23 NCDI cities between 1991 and 1998. Over the period, tax credit units represented about 46 percent of all units supported. The share of tax credit units may be declining, however, reflecting increasing competition for credits in most states, the increasing costs of developing units in rising real estate markets, and the slightly increasing share of homeownership units. Excluding the apparent single-year drop in non-credit units in 1997 (an artifact of change in LISC project reporting practices), chart 3.2 shows a gradual decline in the tax credit's share of all units.

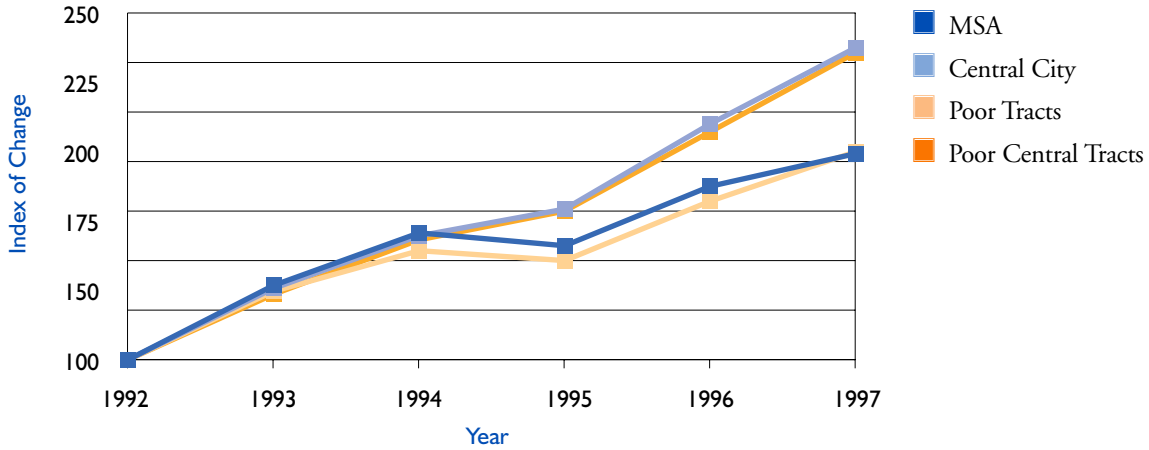
3. *Private capital—at least for rental housing—became easier to secure during the 1990s, thanks to an overall upswing in rental housing production and the Community Reinvestment Act, which encouraged banks to hike their lending volume, according to local informants. CDCs were among the principal beneficiaries.*

Our analysis of data from the Home Mortgage Disclosure Act confirms that the flow of mortgage credit to low-income neighborhoods increased in the 1990s in the 23 NCDI cities. The aggregate value of home purchase and home improvement mortgages originated increased more in census tracts with over 20 percent of the households in poverty than in less poor tracts. Total lending volume in central city poverty tracts in 1997 was 250 percent of total volume in 1990, compared with 200 percent for all metropolitan area tracts.

Field research uncovered considerable evidence that the Community Reinvestment Act (CRA) encouraged banks to lend more aggressively to CDC-sponsored projects. The CRA obligates banks to make loans in areas where they take deposits, and bank performance on this goal is monitored by federal regulatory agencies. Since enactment in 1977, CRA has been viewed by community activists as an important tool in keeping financial institutions involved in inner-city lending, and the bank mergers and acquisitions

Chart 3.3

**Change in Home Purchase and Home Improvement Mortgage Volume, 1992–1997 (Average of all 23 NCDI Cities)**



Source: Home Mortgage Disclosure Act data, 1992–1997.

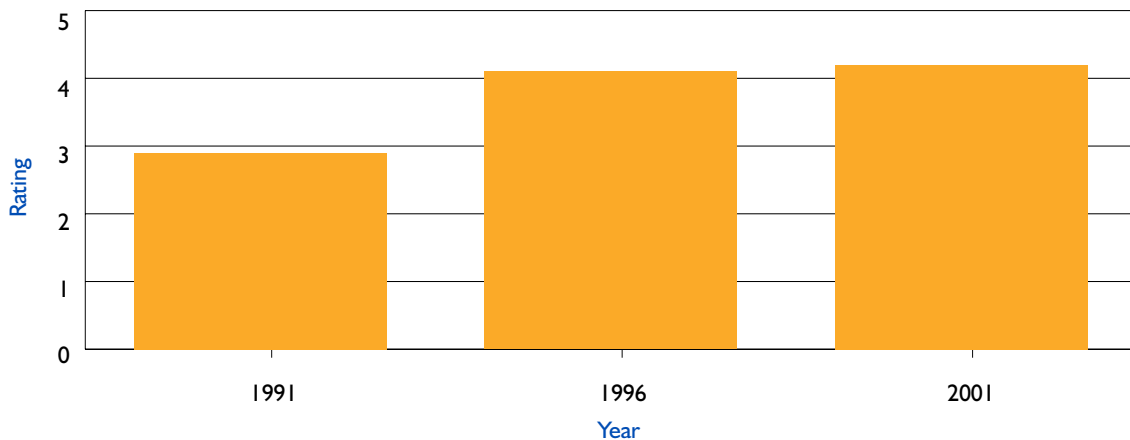
Notes: Index is based on 1992 values, therefore all values in 1992 equal 100.

of the 1990s provided activists with new opportunities to review bank performance on CRA obligations. In part as a result, banks took care to ensure that their lending records passed federal scrutiny, sometimes signing community lending agreements with local governments and other community representatives. At the same time, CDCs and others increased their ability to develop projects that met tests of financial soundness, thereby creating effective demand for bank loans.

As uncovered in field research, CDC, local LISC and Enterprise, and local government staff generally pointed to an increase in availability of private capital for CDCs. These local community development practitioners were asked to rate—on a one-to-five scale—the ease with which CDCs could obtain private capital for real estate development deals. (The text box on page 29, which displays the characteristics of a strong production system, describes what a “5” signifies on this indicator.) Chart 3.4 displays the average ratings

Chart 3.4

**Change in Ease of CDC Access to Private Capital as Rated by Local Community Development Practitioners, 1991–2001**



Source: Urban Institute field researcher ratings of NCDI city performance, 1997 and 2001.

Note: Rating range is from 1 (lowest) to 5 (highest). See text for definition of ‘5’ rating.

Table 3.1

**Changing Character of CDC Activities Throughout the 1990s**

<b>Program Area</b>	<b>Recent Changes</b>	<b>Reasons for Changes</b>
<b>Increased production of for-sale housing</b>	The percentage of CDC for-sale units increased over the 1990s, to 20 percent of all CDC units. The shift appears strongest in the most mature CDC industries: Boston, Chicago, Philadelphia, and Cleveland, but signs of change are clear in many other cities.	Local policy shifted toward ownership housing to build tax bases and stable neighborhoods. Shift came in part because the Low-Income Housing Tax Credit for rental housing became harder to get, and neighborhoods increasingly opposed even more low-income rental housing.
<b>Increase in commercial redevelopment activities</b>	More commercial activity found in half of NCDI cities, with special emphasis in some, such as Boston, where over half of the CDCs became involved in commercial development.	In some cities, a move toward commercial development came as CDCs exhausted the stock of housing in need of renovation. In many cities, commercial district improvements lagged behind those in housing, suggesting need for public policies toward retail districts.
<b>Increase in community facilities investments</b>	Increases appear to be a general trend, not limited to mature CDC industries. Intermediaries funded projects in more than 13 cities, including Atlanta, Baltimore, Chicago, Columbus, Los Angeles, Miami, New York, Oakland, Philadelphia, Phoenix, Portland, OR, Seattle, and Washington, D.C.	CDCs became involved in developing police substations, health clinics, parks, charter schools, community centers, and day care centers. New city policies induced by need to renovate aging facilities, upswing in charter school movement, and increased attention by foundation and other funders to the need for comprehensive approaches to problems.
<b>Increase in social services and community organizing activities</b>	Systems with strong CDC industries urged CDCs to complement production with strategic neighborhood planning, including targeted needs assessments in communities. Systems moved toward social services, community organizing, and other non-bricks-and-mortar activities.	Intermediary support, especially in mature industries, improved CDCs' ability to identify and target developments to community needs. Social service, organizing, and advocacy activities were a more natural link to core CDC activities than some other activities—not as large a stretch.

across the 23 NCDI cities for 1991, 1996, and 2001. Average ratings increased from just under 3.0 in 1991 to 4.3 in 2001, a 35 percent increase in the rated availability of private sector funds. Among all of the production system indicators we used, this one showed the highest overall increase, one that pertained to nearly every NCDI city.

Banks continued to be perceived as strong supporters of community development nationwide, although not all banks were considered aggressive community lenders. Nevertheless, our continuing investigations have shown a perceived increase in the availability of private sector lending over the decade.<sup>15</sup> Some of this increase may be due to short-term responses to

<sup>15</sup> In view of the considerable difficulties in doing so, we did not collect information on the flow of funds to community development projects from private sources. It is noteworthy that we found consensus in support of more easily available private lending among those who are sometimes skeptical of bank willingness to lend on risky projects in poor neighborhoods. For an industry analysis that supports the view that CRA stimulates lending, see Nothaft and Surette (2002).



Community Reinvestment Act pressures and newly available inner-city markets. Better knowledge of urban markets and lenders' heightened confidence in CDC developers also contributed.

4. *Increased federal funding for housing substantially eased competitive pressures on local housing resources and opened up new opportunities for nonprofit developers to expand production.*

The new federal HOME program, authorized in 1991, doubled annual funding available to local governments for affordable housing, from \$1.5 billion to \$3 billion nationwide (HUD 1997). CDCs were also better able to compete effectively for these resources.

5. *Throughout the country, some local governments created their own funding sources for affordable housing, particularly through capitalization of trust funds from the proceeds of dedicated tax revenues.*
6. *Together with improvements to capacity-building systems, production systems encouraged entry of CDCs into new types of community development activities.*

Not all CDCs could expand easily into non-housing areas. Moving into new areas stretches a CDC's staff and operating systems because of the need to learn new techniques and funding streams. In some cities, local funding was not freely available to all CDCs interested in undertaking a broader range of

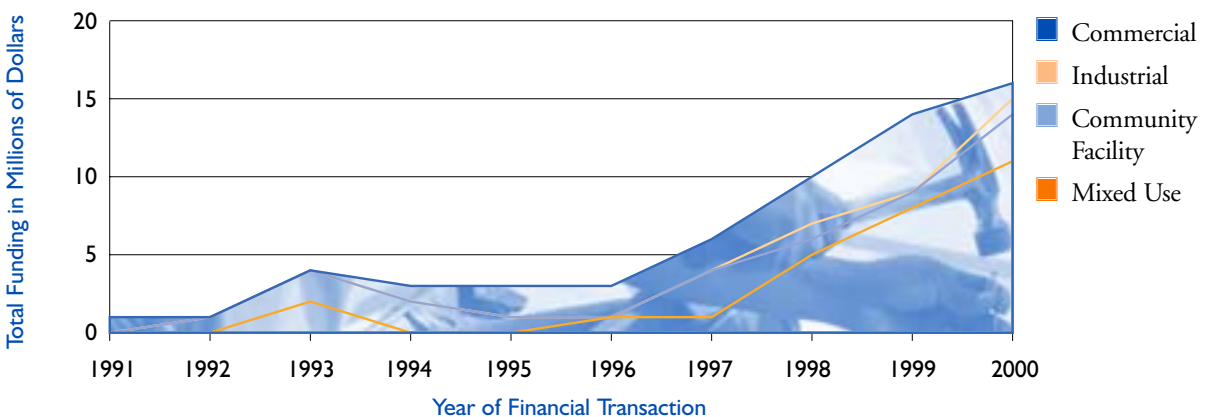
community development work. To enter into new areas, CDCs typically need to form new partnerships or relationships with funders and other service providers, both in and out of the neighborhood. Because expansion can tax organizational resources, many funders encourage CDCs to engage in partnerships with other providers rather than assume full responsibility for expanded community development activities.

These expansions of CDC activity have been encouraged in some cities by creation of new production and capacity-building programs. And commercial development expansion, in particular, is likely to get a strong boost from the New Markets Tax Credit and national intermediary efforts to encourage its use.

Over the 1990s, intermediary support for these activities grew, as local LISC and Enterprise offices responded to heightened CDC demand for a more multifaceted approach to neighborhood problems. City governments, too, became more willing to invest in community development resources in an expanded array of neighborhood projects. Chart 3.5 shows the expansion of interim financial support by the intermediaries for non-housing projects in four areas: commercial development, industrial projects, community facilities, and mixed-use projects (which contain several of community, commercial, industrial, or housing uses).

Chart 3.5

**Intermediary Supplied Acquisition, Predevelopment, and Construction Finance to CDC-Sponsored, Non-Housing Projects in NCDI Cities, 1991–2000**



Source: Compiled by the Urban Institute based on information supplied by the Local Initiatives Support Corporation and The Enterprise Foundation. Includes all projects that received loans or grants from local intermediary offices.

Table 3.2

### Indicators of a Strong Production System

#### 1) City Funding

City government uses all or nearly all its federal community development funding (e.g., HOME and CDBG) to support housing and neighborhood improvements sponsored or implemented by community-based organizations and contributes substantial amounts of its own revenues (special levies or other sources) as well.

#### 2) State Funding

State government provides strong housing and economic development project support in addition to mortgage revenue bond finance and low-income tax credits, and inner-city neighborhoods and CDC projects are clearly favored in funding allocations.

#### 3) Access to Project Financing

Sufficient acquisition, predevelopment, construction, and permanent finance are always available from public and private sources, and most CDCs have access to funding needed to get good projects completed in a timely way.

#### 4) Efficiency of Financing Delivery

State and local, and public and private, sources of finance (permanent, construction, and predevelopment) are efficiently retailed to developers of for-sale and rental housing. And relatively inexperienced developers can get both rental and for-sale deals done without extensive hand holding.

#### 5) Private Sector Financing

Relative to its size and amount of public subsidy for housing and community development, the system appears to mobilize large amounts of private sector lending for community development projects. CDCs can easily find private capital for development projects. Most bankable projects get funded on competitive terms and transaction costs are the same as typical commercial lending deals.

#### 6) Merit-based Project Awards

The system of project financing as a whole can be described as having a very strong relationship between project merit or “bankability” and the likelihood of its being subsidized. Political influence rarely causes less meritorious deals from being funded before more meritorious ones.

*Source: NCDI City Portraits, completed by local LISC/Enterprise staff in NCDI cities.*

Beginning in 1993 after influx of new funding from the National Community Development Initiative, financial support for non-housing projects rose from very small annual figures to around \$4 million. In 1997, the investment grew sharply and continued to do so over the rest of the decade, reaching nearly \$16.6 million in 2000. The amount is modest compared to the \$60 million invested by intermediaries in all CDC project activities in 2000, but the amounts are substantial compared to 1991. The rise in 1997 reflects a new influx of NCDI funding and the initiation of a new emphasis on community facilities construction or renovation in NCDI cities.

#### Differences in Quality of Local Production Systems

Although throughout the 1990s, certain elements of production systems got better across the 23 cities, some cities have managed to put in place a compar-

tively efficient and effective financing and regulatory package. Others have not. Using some basic indicators of production system quality, Urban Institute researchers and local LISC and Enterprise staff separately rated the quality of local production systems. The box above shows the indicators used, and the standards that define the best possible performance on each indicator.

The strongest systems across the whole range of indicators are New York, Portland, OR, Seattle, Cleveland, Baltimore, and Boston. Weaker systems include Detroit, San Antonio, Miami, and Los Angeles. The 1990s witnessed strongest improvements in Portland, OR, Seattle, and Indianapolis.

Generally speaking, the biggest influence on the overall size of the CDC industry across cities is the

amount of federal housing and community development aid it receives. For example, Chicago's vastly larger amounts of federal CDGB and HOME funding, and the city's guaranteed allocation of low-income housing tax credits, account for much of the difference between its production levels and those of smaller cities, for example, Portland, OR.<sup>16</sup> But once

differences in funding levels are taken into account, poor production system performance appears to constrain CDC industry size. For example, Chicago and Los Angeles receive similar levels of federal funding, but Chicago's CDC industry is substantially larger than that of Los Angeles, in part the result of the former's generally superior production system.

## Examples of Strong Production Systems

**Cleveland:** The key to Cleveland's success is the marriage of the city's public, private, and nonprofit sectors and increasingly sophisticated array of long-term project funding. Foundations and corporations created and funded Neighborhood Progress, Inc. (NPI) to provide a link between foundations, the corporate world, and CDCs. By decade's end, pre-development funding and commercial credit were more readily accessible than in the early 1990s. City housing funds went primarily to CDCs, and the city's Housing Trust Fund required that all new construction projects solicit CDC involvement. The city has become more efficient at foreclosing on tax-title and delinquent land, which has brought properties on line faster and helped CDCs take advantage of these deals. Another important feature of Cleveland's system is the Cleveland Housing Network (CHN), an umbrella housing production network formed and controlled by area CDCs, which has grown to include 19 CDCs by 2000. In the early 1990s, Enterprise staff noted that NCDI's greatest impact in the city was through the production boost it helped fund under CHN's lease-purchase program. In 1999, CHN raised over \$1.65 million from the City of Cleveland, State of Ohio, HUD, ESIC, and Enterprise for its Capital Improvements Fund and also used Enterprise funds to capitalize a new \$800,000 line of credit for its lease-purchase program. Today, CHN is reputed to be one of the most stable affordable housing organizations in the United States, producing 230 affordable, single-family homes every year.

**New York City:** By 1991, CDCs were effective housing producers as a result of the continuous stream of city-owned (*in rem*) properties and financing from the city's Department of Housing Preservation and

Development (HPD), which strongly supported nonprofit participation. As a result of the *in rem* program, funds flowed to the CDCs from several other sources, creating a highly structured financing system with established roles for the city, state, private lenders, CDCs, intermediaries, and investors. LISC, Enterprise, and the city worked hard to structure workable programs, and as the city's vacant stock was depleted, the two intermediaries were both successful in working with the city to develop new programs for three new types of properties. NCDI enhanced LISC's and Enterprise's ability to diversify their activities, allowing them to undertake an innovative child care facilities program as well as (for LISC) a range of economic development projects.

**Seattle:** The City of Seattle had begun investing substantial CDBG and HOME funds in housing early in the decade, and had originated a total of \$160 million in bond issues in from 1980 to 1995. Furthermore, a special real estate tax levy was originated to pay for housing rehabilitation and development. City support largely went to nonprofit developments. The Washington Community Reinvestment Alliance (WCRA) generated a \$75 million fund to make permanent mortgages at below-market rates. The State Housing Finance Commission and several banks capitalized the Washington Community Investment Fund with \$18 million in loans for acquisition and phase II development financing. Predevelopment funding became more readily available through LISC/NCDI and several public sources, and commercial credit for construction and permanent loans also became more readily available. Several lenders in the city described intense competition to lend to CDC projects due to CRA pressures and the potential profitability of projects.

<sup>16</sup> See Walker and Weinheimer (1998) for an extended discussion of the relationship between industry size and the volume of subsidy available to fund projects. By the end of the 1990s, subsidy volume was the single biggest influence over the size of CDC industries.

Further, it appears as if improvements to production systems and the flow of project funding have helped produce increases in the size of CDC industries. Five cities showed strong increases in industry expenditures, but not in the number and quality of groups (Seattle, Portland, OR, Oakland, Miami, and Indianapolis). Three of these showed strong production system

improvements over the decade (Seattle, Portland, OR, and Indianapolis), suggesting that changes in city policy and production system quality may have increased the flow of resources to the CDC industry. Of the other two, Miami/Dade's industry growth appears linked to large increases in disaster assistance funding throughout the mid-1990s.

## Examples of Weak Production Systems

**Detroit:** The weaknesses and inefficiencies of the city's development department have lowered the appetite of private developers to work with the city and CDCs, and generated little bank support for community development. The city's inability to process HOME applications resulted in a backlog of funds (which the city almost lost as a result). It took anywhere from six to eight months from project award to a city contract, and then another year for the funds to be available. Nonprofits are forced to seek other capital to complete projects, to be reimbursed at later dates. The city was also slow in moving land acquisition, permitting, and public infrastructure improvements and was not fully supportive of CDC involvement in affordable housing. Michigan State Housing Development Agency (MSHDA) policies for allocating CDBG and HOME funds also were problematic because allocations to CDC projects were contingent upon the city providing matching funds. Lengthy prequalification processes and difficulties acquiring local matching funds made it difficult for CDCs to circumvent city bureaucracy.

**San Antonio:** CDCs in San Antonio were relatively young and funding for projects was initially limited to HOME set-asides for CHDOs. The three largest CDCs in the city were favored by existing funding sources, and city politics made it difficult for new and emerging CDCs to establish track records. In 1999, respondents noted that the city's \$21 million CDBG dollars were allocated largely on the basis of political ties, not merit. City inefficiencies in allocating the funds were also problematic. But over the last several years, the San Antonio Development Authority (SADA) and the city's Neighborhood Action Department were restructured to rely increasingly on nonprofits for housing services. Bank lending improved slightly since the early 1990s, but lack of awareness about successful lending models, as well as concern about city slowness and CDC abilities, has dampened their eagerness to support CDC projects.

### Continuing Challenges and New Opportunities

The 1990s were an era of considerable growth in city production capacity and CDC participation in affordable housing development. New federal funds to subsidize housing development, new intermediary sources predevelopment and construction finance, more competitive application for low-income housing tax credits, and more easily available capital from private financial institutions all came together to produce this result.

The CDC industry in most cities is unlikely to see a second decade of growth resembling the first one. In most NCDI cities, CDCs are close to taking full advantage of available subsidies, which are being squeezed by rising development costs, more competition within a growing CDC industry, flat federal funding levels, and ups and downs in state and local funding. Indeed, in several cities we have found that city officials have begun to ration subsidy across CDCs and other project developers by such methods as establishing per-project funding limits or restricting developers to one project per year.

What are realistic targets for production system growth and improvement over the new decade? If CDCs and their local supporters can defend the territory already won, we should expect to see the following:



- New emphasis on reforms to city production systems, which have the potential for freeing up considerable amounts of tax-foreclosed, city-owned property for transfer to CDCs. Although progress can be expected to be slow, new political attention to the quality of city services can be expected in some cities, as reform mayors seek to modernize city management across a number of areas.<sup>17</sup>
- Attention to the CDC role in preservation of affordable housing, principally including the earliest tax credit projects and expiring-use Section 8 projects. Successful CDC involvement in acquisition of these projects from for-profit owners is critical to their continuing ability to secure state tax credit allocations, as most states have already begun to earmark credits for renovation of “preservation” properties.
- Continuing build-out of the CDC portfolio of community facilities projects, which have begun to receive new municipal government and local LISC and Enterprise funding, and which match some CDCs’ more diversified approaches to neighborhood change, including social services, education, workforce, and youth development programs.
- Aggressive CDC entry into commercial revitalization activities, supported by new federal tax credits for economic development projects, and building on recent moves by some CDC industries to support retail strip improvements as a missing component of overall neighborhood revitalization strategies.

<sup>17</sup> We averaged scores across all CDCs without taking into account differences across cities. What is remarkable is how well these results compare with the results from our expert interviews.



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## Changes in Capacity-Building Systems

**T**he chronic organizational problems that afflict CDCs are long-standing, but over the 1990s, considerable progress was made in constructing or improving state-of-the-art capacity-building systems to help overcome these difficulties. Both local LISC and Enterprise staff and CDC staff recognize the organizational improvements CDCs have made, especially in core financial systems, and their generally strong performance in establishing and maintaining community ties. But there is a clear sense that CDCs remain financially vulnerable, especially in view of the more expanded set of community development responsibilities they have assumed. But capacity-building systems that support CDCs have made very strong gains over the 1990s. Cities with already solid capacity-building systems improved their systems and innovated; cities that began the 1990s with rudimentary systems made considerable strides. Regardless of where and how gains took place, national intermediaries played a key role in bringing about the advances.

### How Capable Are CDCs and How Has This Changed?

Even though CDCs earn fees from the projects they build, the groups cannot fully pay for internal operations from the profits of development deals. That's because CDCs typically concentrate their redevelopment initiatives in one or two low-income neighborhoods, and they do not seek out the most profitable transactions. On the contrary, CDCs often undertake the hardest, least profitable developments in a neighborhood. They redevelop costly historic properties or badly deteriorated buildings on prominent community sites, or properties that cannot be fixed for a cost that can be recouped with rents that poor people can afford. CDCs' community purposes drive them to take on neighborhood planning and community organizing activities that impose additional organizational costs.

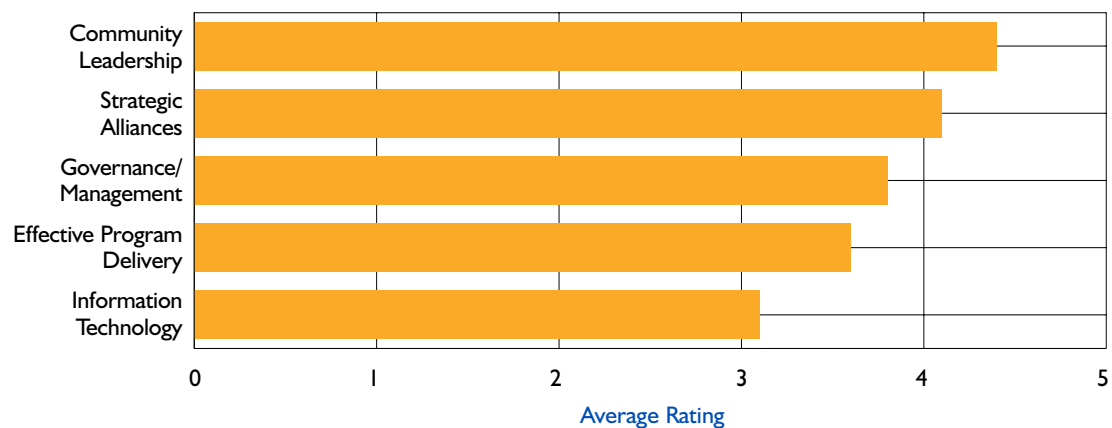
As shown below, community development corporations have not resolved all of the capacity issues that have plagued the sector for many years. According to local LISC and Enterprise staff, however strong CDCs may be in their connections to the communities in

which they work, their funding bases tend to be narrow and board and staff capacity has not kept up with increases in programmatic responsibility. CDCs' own stated priorities for future organizational improvements call for strengthened fundraising, above all. However, the larger and more comprehensive organizations report greater progress in building capacity, perhaps reflecting the priority attention they may receive from capacity-building systems.

*The community development capacity-building system consists of the relationships among people and institutions that serve to accumulate and allocate resources to strengthen organizations' ability to pursue community development purposes.*

The core function of the capacity-building system is to bolster CDCs' capacity to function effectively as redevelopment organizations. This capacity has six general elements: (1) program delivery; (2) ability to develop alliances with other entities; (3) community leadership; (4) command of information technology;

Chart 4.1

**Local LISC and Enterprise Staff Ratings of CDC Industry Quality in NCDI Cities, 2001**

Source: Compiled by the Urban Institute based on city “portraits” prepared by local staff of the Local Initiatives Support Corporation and The Enterprise Foundation, fall 2001.

Note: Ratings range from 1 (lowest) to 5 (highest). For definition of categories, see text.

(5) effective internal governance and management; and (6) ability to attract and retain funding and staff.<sup>18</sup> Detailed descriptions of these elements can be found in the accompanying text box. (These descriptions were used by local LISC and Enterprise staff as they rated the quality of CDC industries in each city.)

Local LISC and Enterprise staff find that CDCs retain strong links to their communities but need to improve as development entities. The ratings of various capacity elements in chart 4.1 show CDCs to be comparatively strong on dimensions of community leadership and

the strength of the alliances they forge inside and outside of their neighborhoods.<sup>19</sup> This is the conclusion reached by local LISC and Enterprise staff across 23 NCDI cities, and is seconded by field research conducted by members of the Urban Institute NCDI assessment team. This conclusion also is supported by CDCs’ own estimates of their capacity as reported in survey research conducted for the NCDI assessment. But industries are weaker in terms of reputation for effective program delivery and command of information technology.

<sup>18</sup> With the exception of information technology, these capacity elements are discussed at greater length in Walker and Weinheimer (1998).

<sup>19</sup> The chart shows average local LISC and Enterprise staff ratings for each general grouping of capacity indicators. The scale at the bottom of the chart should be read as the approximate share of CDCs across the 23 cities that perform well on the indicator, using the following key: 1=no CDCs; 2=one quarter; 3=one half; 4=three quarters; and 5=all.



Moreover, CDCs as a group do not have a particularly diverse funding base and have not increased staff size and expertise commensurate with increases in program and project needs. These are shown by the ratings for individual items comprising the closely related Governance and Management and the Staff Attraction and Retention categories—the areas along with program delivery in which most CDCs receive technical support from local capacity-building systems. Chart 4.2 shows that the highest-rated aspects of governance and management are the expertise of CDC staff and leadership and the basic financial soundness of organizations. Most likely, researchers would not have expected this result if local LISC and Enterprise staff

had been asked to perform these ratings at the beginning of the 1990s.

These conclusions reached by intermediary staff are seconded, for the most part, by CDC staff assessments of changes in their own organizations and their priorities for the future. CDCs report that between 1995 and 1999, they made the most progress in building development capacity, followed by gains in community linkages and community organizing. (See chart 4.3.<sup>20</sup>) Economic development ability and core capacity improved, but not as strongly. The most comprehensive groups (those carrying out five community

## Indicators of CDC Industry Quality

### Effective Program Delivery

Share of CDCs with a reputation among community development practitioners (politicians, administrators, bankers) for on-time, on-budget, and high-quality projects.

Share of CDCs with a reputation among community development practitioners for a mix of projects and programs appropriate for neighborhoods they serve.

Share of CDCs that do projects in ways likely to produce a demonstrable impact in neighborhoods, e.g., because they are investing strategically or in a comprehensive way.

Share of CDCs able to produce projects to scale.

Share of CDCs (by themselves or through agents) able to manage assets effectively, e.g., by ensuring timely collections, adequate cash reserves, and good tenant policies.

### Strategic Alliances

Share of CDCs engaged in alliances and partnerships with actors within their neighborhoods—community organizations, businesses, public agency offices—to do physical revitalization activities.

Share of CDCs engaged in alliances and partnerships with actors outside their neighborhoods—political leaders, bankers, foundation staff—to implement physical revitalization activities.

Share of CDCs engaged in alliances and partnerships with actors within their neighborhoods to implement a broad community development agenda (e.g., community safety).

Share of CDCs engaged in alliances and partnerships with actors outside their neighborhoods to implement a broad community development agenda.

### Information Technology

Share of CDCs with computer systems able to handle management information, financial management, e-mail communications, Internet research, and the like.

Share of CDCs routinely gathering and analyzing neighborhood, city, and regional data, through computerized or other means, as part of community or program planning.

Share of CDCs maintaining web pages, neighborhood chat groups, or computer technology to communicate with their constituencies (or funders).

<sup>20</sup> Because the empirical relationships defined the groupings used in the chart, and the fact that CDCs were asked different questions than were local LISC and Enterprise staff, the indicators and dimensions shown on the chart do not correspond to those listed in the exhibit on this page.

development activities or more) reported stronger improvements in core capacity, community organizing, and economic development programs than did less comprehensive groups, perhaps reflecting the amount and value of support larger groups receive in community development capacity-building systems. The corroboration of local LISC and Enterprise staff assessments by CDC self-assessments suggests that capacity-building program investments in core CDC capacity have paid off.

Further, CDCs' future priorities are consistent with intermediary staff assessments of CDC industry weakness. CDC staff placed highest priority, on average, to building core capacity, including fundraising and board and staff development. But different groups also tended to have different future capacity-building priorities. Although everyone prioritized fundraising, which would appear to be an endemic priority, comprehensive groups seek future growth in the same areas where they registered gains in the past—community organizing and economic development. More narrowly active groups, which tend to have smaller staffs and budgets, placed priority on partnerships and better board and staff.

### Community Leadership

Share of CDCs with a process (strategic planning, neighborhood meetings) to obtain views of stakeholders and residents and inform them of CDC policies and programs.

Share of CDCs with boards representative of the neighborhoods they serve.

Share of CDCs with staffs that reflect the social and demographic makeup of the neighborhoods they serve.

Share of CDCs with a voice in local and regional governmental or civic associations that advocate for or carry out development, workforce, and other policies.

Share of CDCs that engage in advocacy on local regulatory or resource allocation policies for community development.

### Effective Government and Management

Share of CDCs with effective, current, financial management systems, e.g., clean annual audits, annual operating budgets, solid financial recordkeeping, etc.

Share of CDCs with effective boards, i.e., that work effectively with staff, exercise appropriate oversight, and network effectively.

Share of CDCs that take advantage of, or create, training programs for board and staff on important issues.

### Capacity to Attract Funding and Staff

Share of CDCs that are financially sound—e.g., maintain adequate cash reserves, make timely payments to vendors and staff—and are relatively stable financially.

Share of CDCs with senior executive and project staff with skills to carry out projects effectively.

Share of CDCs that have increased staff size and expertise to match increases in program needs over the past few years.

Share of CDCs with a diverse funding base, i.e., from foundations, corporations, city government, neighborhood individuals, and businesses and program income.

*Source: NCDI City Portraits, completed by local LISC/Enterprise staff in NCDI cities.*



**Creation and Growth of New Capacity-Building Systems in the 1990s**

There is reason to believe that capacity within CDC industries has grown, and also that much remains to be done. Creation of new capacity-building programs, especially the increasing number of those that follow

best national practice in allocating operating support, appear to be responsible for much of the increase in CDC capacity over the 1990s. These programs are the cornerstone of the capacity-building system, and as the next section will show, are important to the effective exercise of community development leadership. These same programs are critical to continued ability of CDCs to make progress in meeting organizational capacity-building goals.

<b>Percent of CDCs Citing Listed Item as One of Their Priorities for Organizational Improvement, 1999</b>	
	<b>Percent</b>
<b>Core Capacity</b>	
Fundraising	45.3
Board and Staff	32.4
<b>Development Capacity</b>	
Housing Development	37.2
Asset Management	24.3
Financial Management	19.6
<b>Community Organizing</b>	
Community Organizing	23.6
<b>Economic Development</b>	
Business and Economic Programs	25.7
Workforce Programs	12.8
<b>Organizational Ties</b>	
Partnerships Inside Neighborhood	13.5
Resident Involvement	13.5
Partnerships Outside Neighborhood	8.8

*Source: 1999 UI Capable CDC Survey, N = 163*

The most critical element of the capacity-building system is the delivery of operating support. These financial subsidies pay for staff, overhead, facilities and equipment, and training. In recent years, capacity building has expanded to include broader, systemic efforts to build human capital for the community development sector by, for example, encouraging institutions of higher education to train the next generation of practitioners.<sup>21</sup>

Until the 1990s, CDC capacity-building systems consisted primarily of the weakly coordinated, *ad hoc* activities by corporations, foundations, and city governments to support CDC operations. The most common approach was to provide small, unrestricted grants for CDC operations, as illustrated in figure 4.1. (In the chart, only the funding relationship is shown, but CDCs, for their part, are obliged to report back to multiple funders.) The system was woefully inefficient: CDC directors spent so much time seeking operating grants that projects and thoughtful redevelopment strategies suffered. Corporate, foundation, and government donors were bombarded with funding requests. And when they said “yes,” funders often failed to specify any performance obligations or establish measures to access and monitor performance.

The creation of new capacity-building systems using intermediaries in key roles radically improved the situation. The new systems enabled funders to collaborate on operating support. The systems demanded organizational improvements by CDCs in return for operating support and helped groups diagnose areas in need of improvement. They provided access to technical aid and monitored whether or not performance benchmarks were met. The net result was to give funders much more assurance that their money would be well spent.

In the new capacity-building systems, funders’ operating grants went not to individual CDCs directly, but into a common pool managed by an operating support collaborative, as shown in figure 4.2. (As in figure 4.1, the CDC reporting relationship to its funders is not shown.) The local office of LISC or Enterprise typically created and staffed the collaborative. These collaboratives took on a range of programs, including operating support, technical assistance, policy and communications, and others.

<sup>21</sup> Together with the Ford Foundation, the NCDI funders created the Human Capital Development Initiative (HC DI), which aims to build the skills of community development practitioners and encourage the entry of young professionals into the field. The HC DI experience is being documented by the Center for Urban Policy Research, Rutgers University.

Chart 4.2

**Local LISC and Enterprise Ratings of the General Quality of CDC Governance and Management in NCDI Cities, 2001**

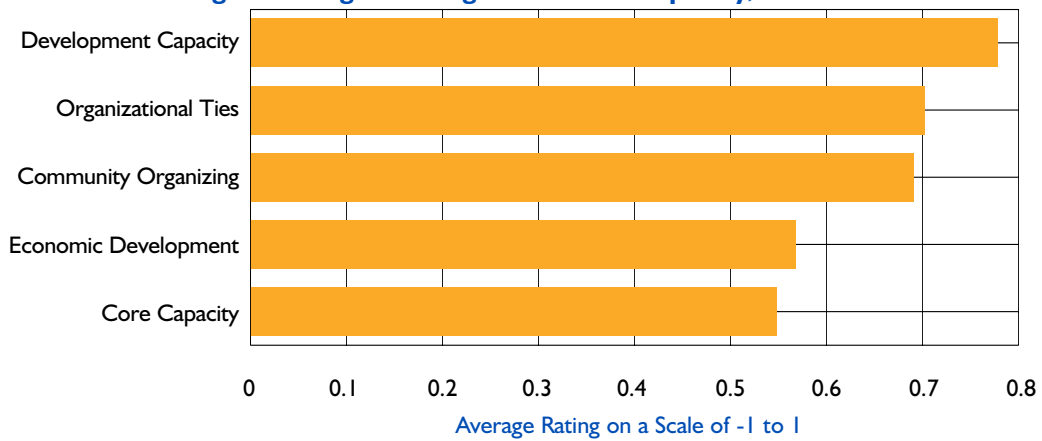


Source: Compiled by the Urban Institute based on city “portraits” prepared by local staff of the Local Initiatives Support Corporation and The Enterprise Foundation, fall 2001.

Note: Ratings range from 1 (lowest) to 5 (highest). For definition of categories, see text.

Chart 4.3

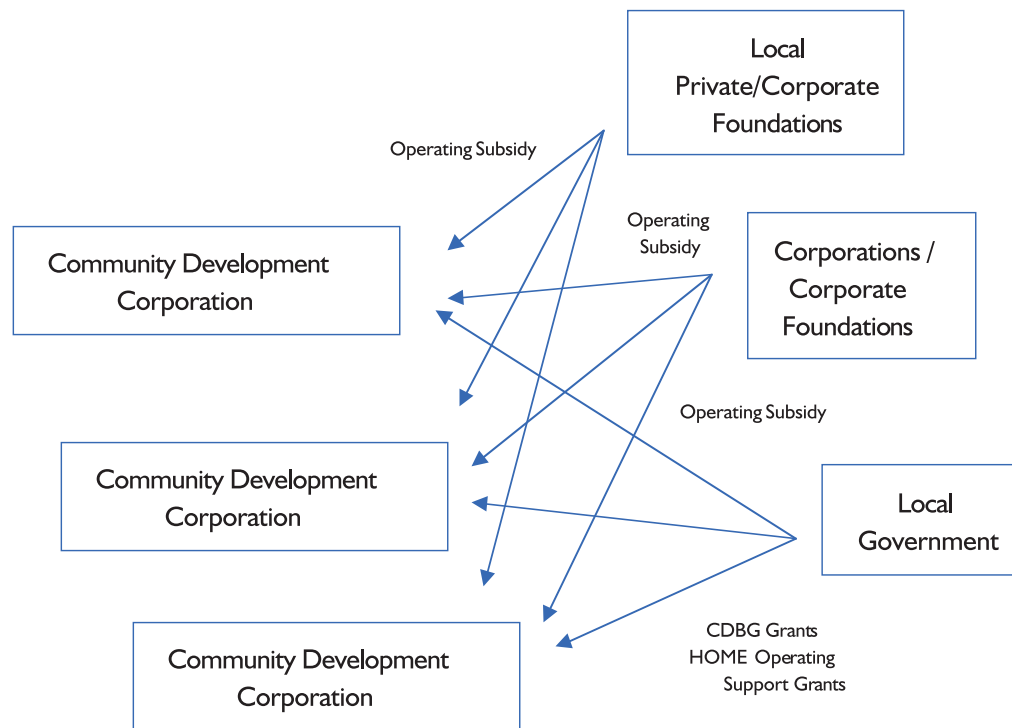
**CDC Staff Rating of Changes in Organizational Capacity, 1995–1999**



Source: 1999 UI Capable CDC Survey. N=163.

Note: Ratings may range from -1 (declined) to +1 (improved).

Figure 4.1

**CDC Capacity-Building System without Intermediation**

The model shown in figure 4.2 has considerable advantages:

- Operating support programs operated by the collaboratives are multiyear, allowing CDCs to plan for the future and anticipate funding so long as they perform effectively.
- The leverage possible with large grants of operating support enables fund managers to establish performance standards and monitor CDC progress.
- Administrative burden to make and monitor grants is shifted from corporations and foundations to the collaborative, distributing management costs across many funders.
- Because the collaborative increases the likelihood that money will be well spent, funders often are willing to invest more than they would if they had to respond on a case-by-case basis to individual funding requests.
- Affiliation with an intermediary links the collaborative to national sources of grant support and technical assistance.

The number of operating support programs in NCDI cities grew sharply during the 1990s. Before 1991, only eight cities had such programs, and they provided

bare-bones support. These early programs offered operating money and technical advice, but grants were short-term, not multiyear, and usually were not connected to an organizational development program. By 2001, 21 cities had operating support and capacity-building programs, most of them managed by support collaboratives with the features described in figure 4.2. They were multiyear, linked technical assistance to the specific needs of participating CDCs, and established standards of performance.

The biggest strides in capacity-building programs occurred in the first half of the 1990s, due in part to major new inflows of capacity-building money. Much of this came from the National Community Development Initiative, which supplied large amounts of organizational development dollars, including new HUD funding, which was targeted to investments in CDC operating support. (Another HUD program—the HOME Investment Partnership Program—also supplied capacity-building funding at local option.) Moreover, throughout the foundation community, nonprofit capacity emerged as an important new concern, which helped spur local foundations to invest in capacity-building programs.

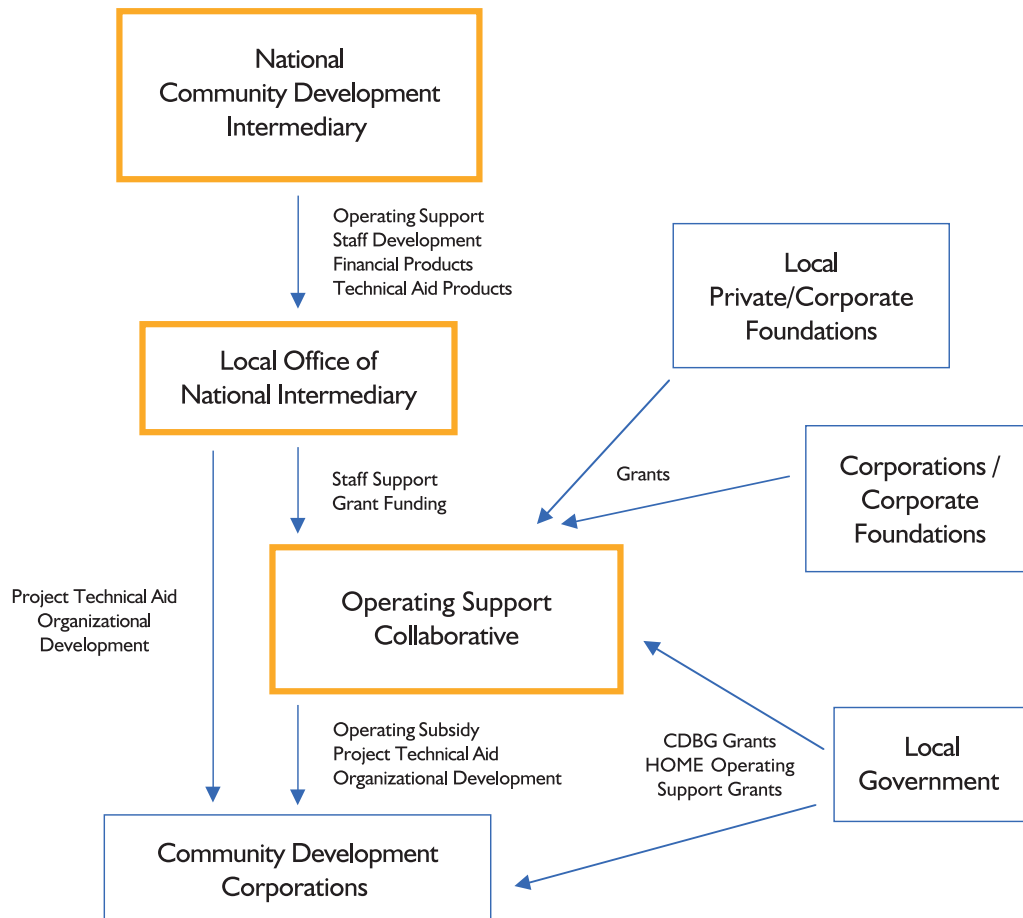
We also found that many capacity-building programs attracted new local funders, although some previous funders may have dropped out. The new funders came from various sectors—foundations and corporations—and ensured that no capacity-building program went out of business during the decade. Importantly, local governments began to work more closely with the capacity-building programs. And in an extremely important development, many capacity-building collaboratives moved beyond funding CDCs to embrace other roles in their communities.

Although generally speaking, improved capacity-building systems are a real success story of the 1990s, not all cities managed to create them. Where they did so, the results are clear in terms of overall CDC industry quality.

There is no simple relationship between capacity-building system quality and CDC industry quality, although in general, the better the capacity-building system, the better the groups within it. Philadelphia and Atlanta were among the few cities that had a reasonably good capacity-building system throughout the entire 10-year period, which helps explain why their CDC industries were rated highly.

Over the 1990s, the strongest gains in capacity-building systems were in Detroit, Kansas City, Seattle, Newark, and Washington, D.C. Two of these five were catapulted into the top rank—Seattle and Washington, D.C.—the latter almost solely on the strength of the capacity-building system it erected.

Figure 4.2  
**CDC Capacity-Building System with Intermediation**



## Indicators of a Good Capacity-Building System

### Operating Support

Capacity-building money, including general operating support and technical aid, is available from state, city, foundation, and corporate sources—all large potential sources of operating support have been tapped for their fair share.

Operating support is provided by a consistently operated formal collaborative with multiple funders, who delegate decisionmaking to a board or advisory committee able to make decisions on merit.

Operating support is available to CDCs on a multiyear basis.

Links between the local funding collaborative/program's operating support and technical assistance are strong and direct—assistance needs are identified throughout the funding process, and funding and programming address these needs.

The collaborative/program clearly articulates and uses organizational performance standards.

### Human Capital

Most CDCs and divisions within city community development departments have people on staff who have come out of other industries, for example, former bankers, corporate staff, government officials, and others who have made early and mid-career transfers into community development professions.

Local colleges and universities, including community colleges, have active, high-quality, and well-attended affordable housing/community development certificate programs, and there is clear evidence that industry leaders have participated in these programs.

CDC associations and other community development advocacy coalitions/associations frequently sponsor seminars and training sessions, scholarship programs, and other efforts to build the human capital of existing CDC staff.

*Source: NCDI City Portraits, completed by local LISC/Enterprise staff in NCDI cities.*



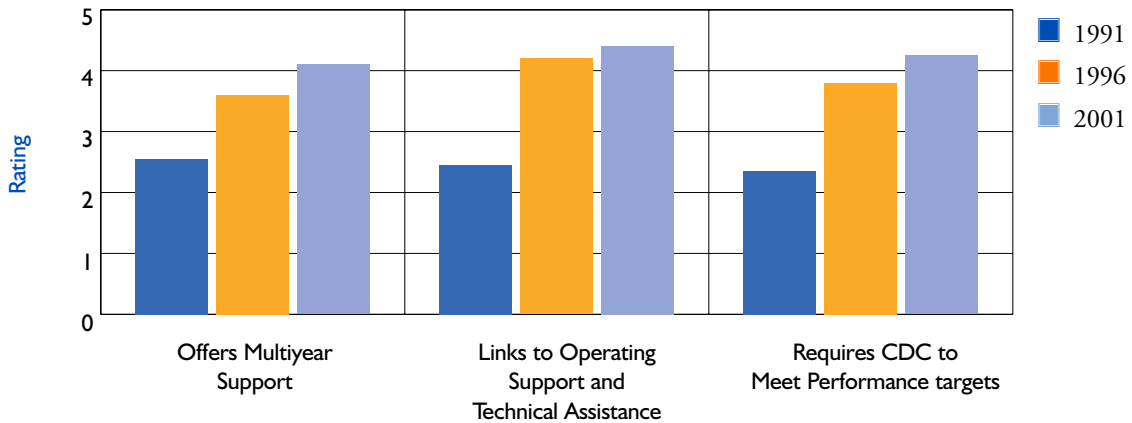
The overall improvements of capacity-building systems over the 1990s could not have taken place without the strong role of the national intermediaries and the value of the operating support and other capacity-building assistance they provided, including the amounts funded by the National Community Development Initiative.

In the 23 NCDI cities, the amounts of funding support LISC and Enterprise provided to increase CDC capacity rose substantially, as shown in chart 4.5. The chart shows that grant support from both intermediaries rose from a mere \$5 million in 1991 to \$20 million by the end of the decade. These funds consisted of dollars raised by intermediaries locally, as well as the national support provided by NCDI and the U.S. Department of Housing and Urban Development, through NCDI.

The general improvement in operating support programs, including the formation of collaboratives that meet new national standards of practice, also owes much to the national intermediaries, which disseminated best practices throughout their field networks, and to external funding, which played an important role in helping foster local improvements. When HUD joined the NCDI at the beginning of 1994, the agency supplied substantial amounts of new, capacity-building funding. HUD's entry triggered intermediary development and implementation of NCDI-wide organizational development programs to help CDCs use and report on the new funding. These programs were later expanded to include broader organizational support.

Chart 4.4

**Changes in Operating Support Program Quality, As Rated by Community Development Practitioners (1991–2001)**

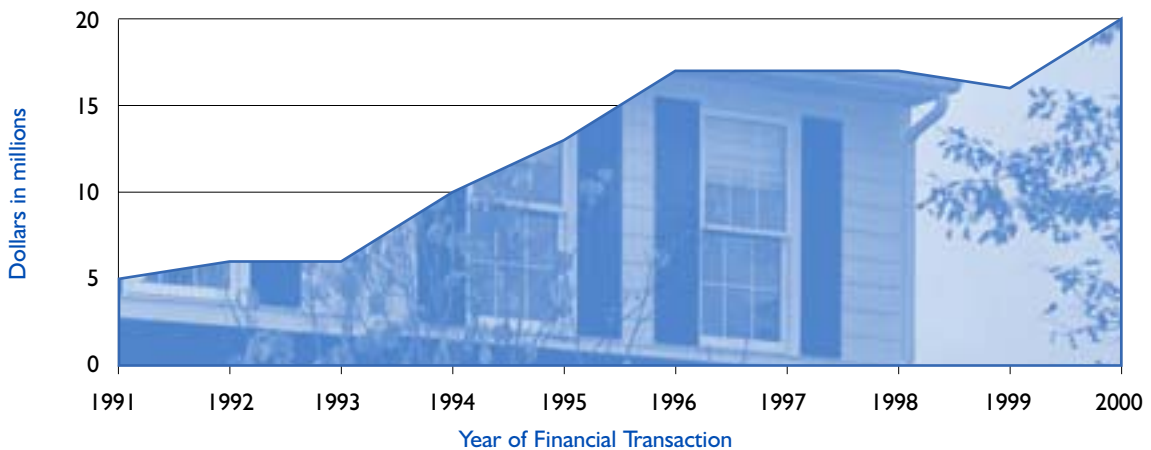


Source: Urban Institute field researcher ratings of NCDI city performance, 1997, 2001.

Note: Ratings range from 1 (lowest) to 5 (highest). See text for definition of '5' rating.

Chart 4.5

**Capacity-Building Funding Commitments, 1991–2000**



Source: Compiled by the Urban Institute based on information supplied by the Local Initiatives Support Corporation and The Enterprise Foundation. Includes all projects that received loans or grants from local intermediary offices.

Note: Capacity-building funding includes loans and grants for operating support, technical assistance, and program expenditures (e.g., staff positions for community organizing).



Generally speaking, operating support programs act as a platform for strengthening each of the six CDC capacity elements discussed above—effective program delivery, strategic alliances, information technology, government and management, ability to attract and hold staff, and community leadership. In most cities, operating programs have improved the link between operating dollars and complementary technical assistance.



Most programs have begun to adopt performance standards to assess the progress of funded groups; in some cases, organizations that fail to make reasonable progress have lost funding. Performance testing, now used increasingly, has had important system-wide effects as funders, and CDCs themselves raise expectations to match the performance standards used by the collaborative.

**Continuing Challenges and New Opportunities**

There can be little doubt that CDCs as a group improved their ability to carry out development projects over the 1990s, supported by new operating support programs and technical assistance, particularly as channeled through local funding collaboratives. Local

LISC and Enterprise and CDC staff agree that CDCs are strong, overall, in their ability to exercise leadership on behalf of low-income communities, and have been effective at partnering with leaders and organizations inside and outside the neighborhoods in which they work. Local intermediary staff are less complimentary of CDC mastery of information technology, diversity of funding, board effectiveness, and the ability

of CDC staffing levels to keep pace with a broadened community development agenda.

Fortunately, the 1990s have laid the groundwork for a sustained effort to help CDCs take on new types of organizational challenges. So long as operating support collaboratives can sustain the flow of core support funds and technical aid to CDCs, funders with a stake in the health of CDCs can direct resources to new areas of concern. Specifically, the links the collaboratives have forged among funding, performance standards, monitoring, organizational assessments, and technical support convey the leverage needed to improve CDC performance still further. Over the next decade, we should expect to see the following:

<b>Quality of CDC Industries and Capacity-Building Systems</b>	
<b>Quality of Capacity-Building Systems in 2000</b>	<b>Quality of CDC Industries</b>
Highest: Portland, OR, Boston, Cleveland, New York City, Seattle, Washington, D.C., Columbus	Four of the five cities—Portland, OR, Cleveland, New York, and Seattle—are the top-ranked cities in terms of industry quality, as shown by program delivery, alliances, information technology, government and management, capacity to attract and retain staff, and community leadership.
Mid-range: Baltimore, Philadelphia, Atlanta, Detroit, Kansas City, San Antonio, Denver, Oakland, St. Paul, Newark, Miami, Indianapolis	Highest quality industries in this group are Baltimore and Atlanta. Lowest are Miami and Columbus.
Lowest: Chicago, Phoenix, Los Angeles, Dallas	Two of the four cities—Los Angeles and Dallas—are the lowest-ranked cities in terms of industry quality.

## Selected Top-Rated Capacity-Building Systems in 2000

### Cleveland

Formed in the late 1980s, the Cleveland Neighborhood Partnership Program (CNPP) was funded by Enterprise, LISC, Neighborhood Progress, Inc. (NPI), and the City of Cleveland. CNPP provided multiyear operating funding based upon CDC business plans, their identification of target areas, and goals for their neighborhoods. By 2001, CNPP's nine largest grantees were awarded \$75,000 – \$150,000 renewal grants to create and implement comprehensive neighborhood plans for targeted areas. Six CDCs received renewals of special purpose grants averaging \$40,000.

### Portland, OR

The Portland Neighborhood Development Support Collaborative (PNDSC), made up of the city, a consortium of private funders called the Neighborhood Partnership Fund (NPF), and the Enterprise Foundation, provided operating support to several of the city's CDCs. By 2001, PNDSC had been through two cycles (in four years) of jointly allocating from the city and private sources to CDCs. In the 1999 program year, for example, of PNDSC's \$1.8 million annual allocation, NCDI funds comprised 25 percent, NPF contributed 25 percent, and the City of Portland invested 50 percent. One of PNDSC's most important contributions was that it rationalized project funding by packaging several grants from multiple funders into larger, single grants that covered multiple activities. Furthermore, PNDSC cooperated with the association of CDCs to improve asset and property management practices through training, joint learning, and benchmarking.

### Seattle

Seattle's Community Development Collaborative (SCDC), a collaborative providing multiyear core operating support to CDCs, leveraged funds from several organizations including LISC and the City of Seattle. In 1999, for example, SCDC leveraged a five-year, annual disbursement of \$900,000 from the city's Office of Economic Development. Meanwhile, the city's Office of Housing negotiated to provide an additional \$200,000 annual contribution. SCDC also implemented a strategy to assist CDCs in developing and implementing five-year business plans which formed the bases for investment decisions by the funders. In 1999, SCDC provided \$1.4 million in operating support to seven CDCs.

### Washington, D.C.

The Community Development Support Collaborative (CDSC) is a consortium of 30 foundations, banks, and intermediaries. It provides policy guidance, operational support, and management assistance grants to 10 CDCs. CDSC drew the support of LISC and Enterprise, and in the 2000 program year, CDSC provided \$840,000 in core operating support, technical assistance, and training to eight CDCs. In the early 1990s, LISC used \$500,000 in NCDI funding to capitalize the collaborative, bringing it closer to its target of \$2 million. The collaborative has been extremely successful and has grown to \$3 million per three-year funding round.

- Continuing efforts to complete unfinished business in the area of CDC ability to manage their assets, including financial restructuring for projects that had been poorly underwritten and financed in the past, and in the area of basic production skills, which need to be continuously provided to offset the effects of turnover among technical staff;
- Increased attention to CDC ability to use the latest information technologies, including Internet-based community organizing and neighborhood outcome monitoring, as well as the use of more sophisticated approaches to tracking project finances, distance-learning and skill building for staff, and communication with and reporting to funders;
- New efforts to ensure organizational accountability, including stronger board development programs and other efforts to ensure better oversight by directors, community members, and public and private funders of CDC operations and projects;
- More attempts to secure city government participation in operating support collaboratives, which would help ensure that all local operating funding is provided to CDCs based on merit, and that groups receiving funding are accountable for results.

As CDCs develop more diverse community development portfolios in response to neighborhood changes, shifts in city policy, and backing from LISC and Enterprise local offices and their partners, more and more operating support collaboratives can be expected to expand their roles in community development. This may require them to take on new funding partners, but also to establish relationships with other institutions and organizations outside the field's traditional boundaries. These may include funders and other groups devoted to family and child welfare, prisoner reentry, parks and recreation, and workforce development. This will place new challenges before the community development collaboratives, but also greatly expand the potential gains from their investments.





## Leadership Systems

The number one accomplishment of the community development leadership system in the 1990s was the creation or strengthening of strong intermediary institutions—the collaborations, partnerships, coalitions and alliances, and other bodies that help engage leaders from multiple sectors as contributors to community development. These intermediaries, which include the local offices of the Local Initiatives Support Corporation and The Enterprise Foundation, help engage citywide institutions—government, foundations, financial institutions—and community organizations in cooperative efforts to pursue community-based neighborhood revitalization.

### Leadership Systems and Their Problems

Within cities, community development is among the many legitimate claimants on financial support and public attention. Cash-short municipal governments must provide basic services, operate increasingly expensive criminal justice systems, pay huge public pension costs, and pay for other urgent needs. Community developers, including CDCs and their supporters, must participate in the give and take over competing strategic and financial choices.

Their ability to successfully claim a share of public resources in a contest with other powerful claimants cannot be taken for granted. Although a certain level of affordable housing and community development funding can be expected each year from federal sources, these funds are not always used to support neighborhood revitalization *strategies*, versus scatter-shot investments throughout a city's low-income areas. They are not always spent in ways that favor community-based organizations or community-minded for-profit developers. And they are not always used in ways that attract the support of other investors in community change, such as banks, foundations, corporations, universities and hospitals, and other city institutions.

It is the basic task of the leadership system to engage stakeholders in beneficial relationships with one another to mobilize and channel community development resources to neighborhoods. The leadership system consists of the relationships among CDCs and those who command community development resources. It is characterized by three sets of relationships:

- Among system-wide stakeholders, who include representatives from the public sector, private lenders and other corporations, foundations, and representatives of civic bodies;
- Among neighborhood stakeholders, including leaders of prominent community corporations, community-based organizations, locally important businesses, and political operatives and elected officials; and
- Between system-wide and neighborhood stakeholders, where intermediary organizations stand, including local offices of national intermediaries, local intermediaries, community development coalitions, and other citywide advocacy groups.

To create strong leadership systems, community development practitioners and policymakers must engage system-wide and neighborhood stakeholders in joint pursuit of neighborhood revitalization.

## Indicators of Strong System Leadership

### Community Development Strategies

Local political leadership has articulated a formal strategy for preservation or upgrade of low-income communities that guides planning and investment decisions by infrastructure, housing, parks and recreation, economic development, and public safety agencies.

However strategies are articulated (formal document, informal understandings), decisionmaking in most agencies clearly reflects the strategies articulated by political leaders.

There is agreement among public, corporate, banking, philanthropic, and nonprofit development sectors on strategies for city and neighborhood revitalization.

### Community and Nonprofit Roles in Community Development

Public agency funding and policy decisions accord CDCs a central role in the delivery of government programs in low-income neighborhoods; e.g., through direct delivery of programs, as community planners and organizers, as advisors to public agencies, etc.

The system for awarding project and organizational funding accords priority to projects and activities sponsored by developers (nonprofit, CDC, and for-profit) that act according to neighborhood “strategies,” and as an explicit part of the project review and decisionmaking process. Project and organizational funding requests must conform to community-accepted neighborhood strategies.

The system funds development of neighborhood strategies that include a “meaningful” process of community stakeholder participation in plan development (e.g., plans clearly reflect priorities articulated by the community).

Each of the public, corporate, philanthropic, and nonprofit community development sectors has an identified leader or leadership group that publicly and forcefully advocates for community commitments to neighborhoods and has the stature/clout to secure those commitments.

### Collaboration Within and Across Sectors in Support of Community Development

Collaboration *within* sectors can be described as routine within each of the public, corporate, philanthropic, and nonprofit community development sectors. There are established venues for collective decisionmaking (associations, task forces, funder/lender collaboratives, and working groups) within which sector leaders adopt a common position on major community development issues.

Collaboration *across* sectors can be described as routine across all of the public, corporate, philanthropic, and nonprofit community development sectors. There are established venues for collective decisionmaking (associations, task forces, funder/lender collaboratives, and working groups) that encourage sector representatives to address major community development issues-collaboratives. (Note: they need not agree on positions.)

**Methods of Engagement**

All leadership systems consist of relationships among stakeholders, but in ineffective systems, relationships are weak and link together only a few influential individuals. For example, in ineffective leadership systems, city agencies do not coordinate their investments with one another; community leaders have little influence over agency decisions; banking industry representatives maintain few lending relationships with community development corporations; and foundations have no way to use program funding to leverage public agency actions. At worst, these relationships are not only weak, but antagonistic.

Strong systems look very different in terms of the number and diversity of relationships among community development actors. Here, most of the important actors are linked somehow with one another in relationships that allow easy exchange of information, mutually beneficial trading of favors, and frequent discussion, debate, and negotiation on important issues of community development policy. At their best, these relationships permit coordinated action to solve community development problems.

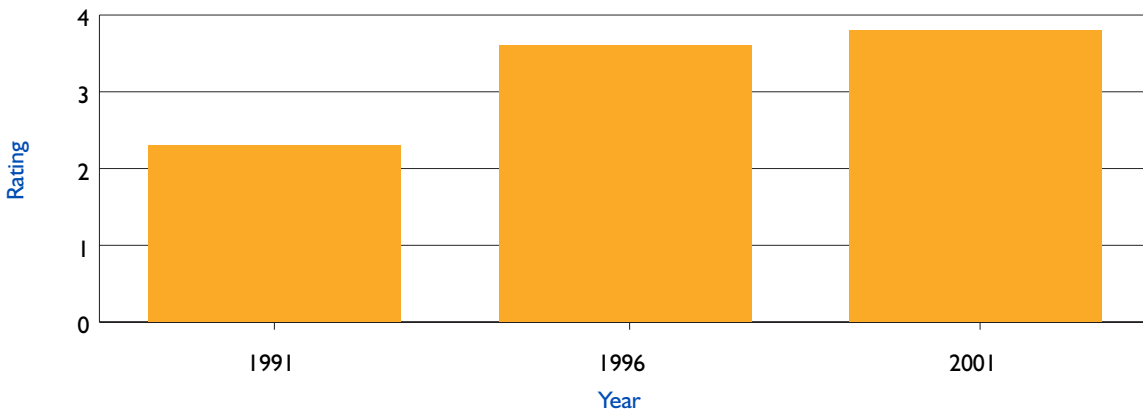
To create strong systems, community development practitioners and policymakers face the task of

engagement: How can stakeholders be connected to one another in sustainable ways that produce real changes in the flow of resources to neighborhoods? In community development, there are three primary ways to promote and sustain engagement:

- First, publicly articulated community development strategies guide agency planning and investment decisions, which are backed by general agreement among corporate, banking, philanthropic, and non-profit development sectors.
- Second, public and private strategies, funding policies and programs, and regulatory activities accord neighborhood stakeholders a central place in community development decisionmaking, supported by identifiable leaders in each sector who advocate for commitments to neighborhoods.
- Third, structures of cooperation within and across sectors bring multiple parties together, allowing them to forge productive relationships with one another and to agree on concrete community improvement policies and programs.

The text box on the previous page shows how researchers defined the strength of local strategies, nonprofit and community roles, and collaboration in their field investigations. The box shows how high performance was defined for each indicator.

**Chart 5.1**  
**Changes in CDC Prominence in Public Agendas, 1991–2001**



Source: Urban Institute field researcher ratings of NCDI city performance, 1997, 2001.

Note: Ratings range from 1 (lowest) to 5 (highest). See text for definition of '5' rating.

Collaboration, clear public strategies, and strong non-profit involvement helps produce sustained resource commitments from stakeholders, and allows systems to weather short-term shifts in resource availability, leadership changes, and other temptations to withdraw from engagement in community development.

**Trends over the 1990s**

What happened over the 1990s, and where do systems stand now? Based on field research, we draw four conclusions regarding the community development leadership as it stood in 2001.

**1. CDCs' role in local program delivery increased.**

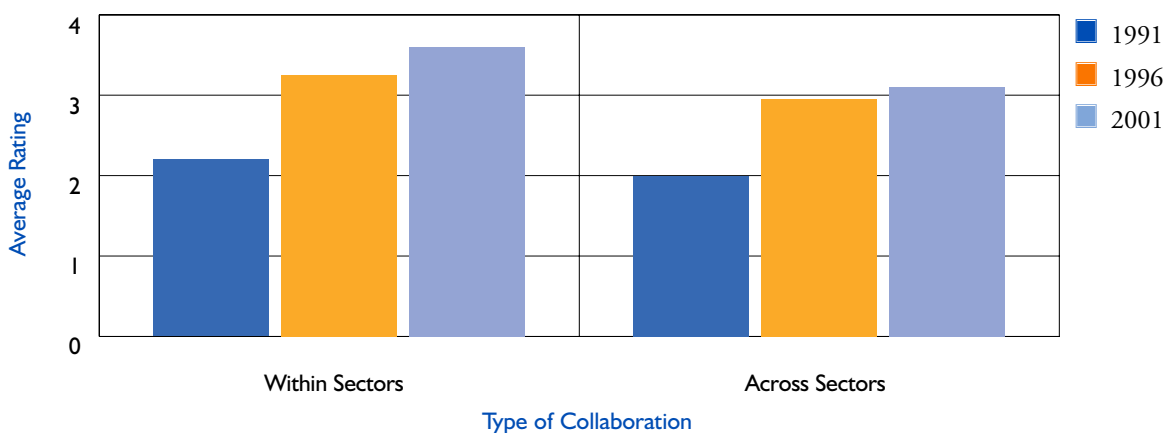
City government resource commitments are critical to the pursuit of community development activities as both the local and federal funds needed to invest in community development are allocated at the discretion of local governments. Therefore, positive views by local government elected leaders and agency staff toward CDCs are vital to CDC ability to garner the resources they need to improve neighborhoods. These positive views and the resources they bring are an important (although by no means the only) aspect of the neighborhood-system stakeholder relationship.

Over the decade, public agency funding and policy decisions more often accorded CDCs a central role in the delivery of government programs in low-income neighborhoods. This occurred in almost every NCDI city. Chart 5.1 shows how local experts rated the role of CDCs in public community development agendas in 1991, 1996, and 2001, using a one-to-five scale. The chart shows that most of this gain came over the first half of the decade, when new federal housing dollars became available, some earmarked for CDCs and NCDI put large amounts of new project and capacity-building funding into the nonprofit sector, and the Washington administrations of both parties emphasized the role of community-based organizations in urban development.

This commitment to CDCs and the implied commitment to neighborhoods it represents were not always backed by real dollars, as we know from field interviews and CDC survey results. Even if concrete resources were not always forthcoming from local governments, however, important actors in most systems at least paid lip service to the value of community-based development. In some cities, this was a considerable advance over the skepticism that prevailed in 1990.

Chart 5.2

**Changes in Collaboration among Community Development Actors in NCDI Cities as Rated by Local Community Development Practitioners, 1991–2001**



Source: Urban Institute field researcher ratings of NCDI city performance, 1997, 2001.

Note: Ratings is range from 1 (lowest) to 5 (highest). See text for definition of '5' rating. A collaboration is within or across government, finance, foundation, and CDC industry sectors.



2. *Cooperation increased within and across sectors in pursuit of neighborhood development.*

Relationships among system-stakeholders are a second component of community development leadership systems. We found a strengthening of relationships among government and private-sector actors in the most mature community development systems. In nascent CDC industries, private-sector leaders became engaged around issues of neighborhood development, and rudimentary collaborations formed to craft and debate a new neighborhood agenda.

Chart 5.2 displays the results of our survey of local experts on how well their leadership system collaborates for community development. These experts reported that collaboration had increased across the board in the 1990s, both within sectors and across sectors.

3. *Public community development strategies tended not to be particularly strong or effectively implemented.*

Field interview results make clear that political and administrative fragmentation remains a particular problem for community developers across NCDI

## Strong System Leadership in Selected Cities

**Cleveland:** Mayor Michael White supported the CDC system throughout his tenure, which generated support from City Hall during the 1990s. Neighborhood Progress, Inc. has acted as lead intermediary with LISC and Enterprise to design a rational approach to capacity building. This collaboration has increased the likelihood of effectiveness, attracted new resources, and created greater accountability on the part of CDCs for meeting production and organizational development objectives. Organizing also has taken on new life in Cleveland. Under the strong leadership of NPI, the concept of “neighborhood planning” in terms of spaces and places has become a focus of many CDCs. The nine large grantees of the Cleveland Neighborhood Partnership Program (CNPP) are working hard to create and implement comprehensive neighborhood change plans for their target areas.

**Portland, OR:** Portland, OR is a star performer in terms of collaboration between the city, CDCs, intermediaries, and the private sector. The Portland Neighborhood Development Support Collaborative (PNDSC) was formed in the mid-to-late 1990s and combined the previously separate programs of The Neighborhood Partnership Fund (NPF) and The Enterprise Foundation with that of the City of Portland. NPF is an operating support collaborative that provides CDCs with multiyear funding commitments tied to address both organizational development and community development needs. New leadership at PNDSC’s housing

division created more predictable procedures for pursuing funds and rationalized timing to try to fit with cycles of other funding sources and with property acquisition in a hot market. As a result, nonprofits were better able to compete for project subsidies and pursue tax credits and other outside resources.

**Boston:** Boston’s community development system has enjoyed strong mayoral support since the mid-1980s, and a Blue Ribbon committee of business people and practitioners was appointed in the late 1990s to find new sources of money and support for the housing production system. Broad support for the field exists in the private sector, represented by an estimated 10 local intermediaries. Between 10 and 12 funders supported NDSC through the 1990s, sponsoring several programs that have helped groups develop staff, do strategic planning and community organizing, and improve systems. Several lenders—such as BankBoston—were viewed as champions of the industry locally, and have consistent track records of financing deals and creating institutions such as the city and state housing partnerships. There are also several new state-provided or -facilitated funding pools such as the \$100 million state housing trust fund, and two \$100 million insurance pools. Each came about through intense lobbying by the housing-advocate and CDC industries. And the entry of United Way as a major provider of operating funding may be the best signal that CDC efforts have gained broad backing from local leaders.

cities, as few cities have worked out effective ways of articulating a consistent position on neighborhoods and coordinating the work of multiple city agencies. Indeed, one reason why CDCs have gained prominence in the urban delivery system is that they become *de facto* coordinators of public activities as a substitute for bureaucratic methods of doing so.

4. *Some cities have put together particularly strong leadership systems, others are notable for their weaknesses.*

As we found with other community development systems, cities were very different from one another in terms of their overall performance in system leader-

ship. As noted earlier, a strong leadership system is a composite of (a) city formulation of community development strategies that have gained acceptance within the public, corporate, banking, philanthropic, and community development sectors and are backed by real resources, (b) advocacy, decisionmaking, and funding practices that accord nonprofits and community leaders a central role, and (c) collaboration among leaders with and across sectors. On these criteria, the strongest leadership systems are those in Cleveland, Portland, OR, Boston, Indianapolis, Seattle, and Atlanta. The weakest are in Miami, Detroit, Oakland, Phoenix, and Denver.

## Challenges to Leadership Systems in Selected Cities

**Denver:** The consistent presence of NCDI throughout the decade made it possible for Enterprise to be the leader of the Housing Development Project (a Denver umbrella group) and helped rationalize funding resources to the CDC community. While HDP has been a real success and has brought together the city, the banks, Enterprise, and Mile High United Way, the institutional base has not expanded in the past several years nor has it been reconfigured to deal with the sustained surge in the real estate market. City Hall had been supportive throughout the 1990s, but provided no substantial increase in funding. Meanwhile, real estate prices rise and most new residential construction is priced far above the heads of the people for whom CDCs are building. One of the biggest issues in Denver is how to get resources (land and subsidy) for affordable housing in a metro region that is burgeoning and at the same time be increasingly concerned with smart growth and urban sprawl.

**Miami:** Miami-Dade OCED (Office of Community and Economic Development) has been criticized by most community development industry participants, including some within the public sector. Bureaucratic delays in permitting and contracting have undermined the effectiveness of CDCs and hindered their ability to increase production levels and broaden their range of community development activities. Several CDC directors called OCED “THE weak link in the system.” Further complicating matters, the philanthropic community is small relative to other cities, and the corporate sector is not noted for engagement in civic affairs.

**The Critical Role of Intermediation**

Some cities made strides to build more effective system leadership. Although these gains did not place them among the top rank of community development leadership, researchers found strong improvement in Atlanta, Washington, D.C., Indianapolis, and Columbus. Three factors, in particular, brought about the advances in community development leadership systems over the 1990s:

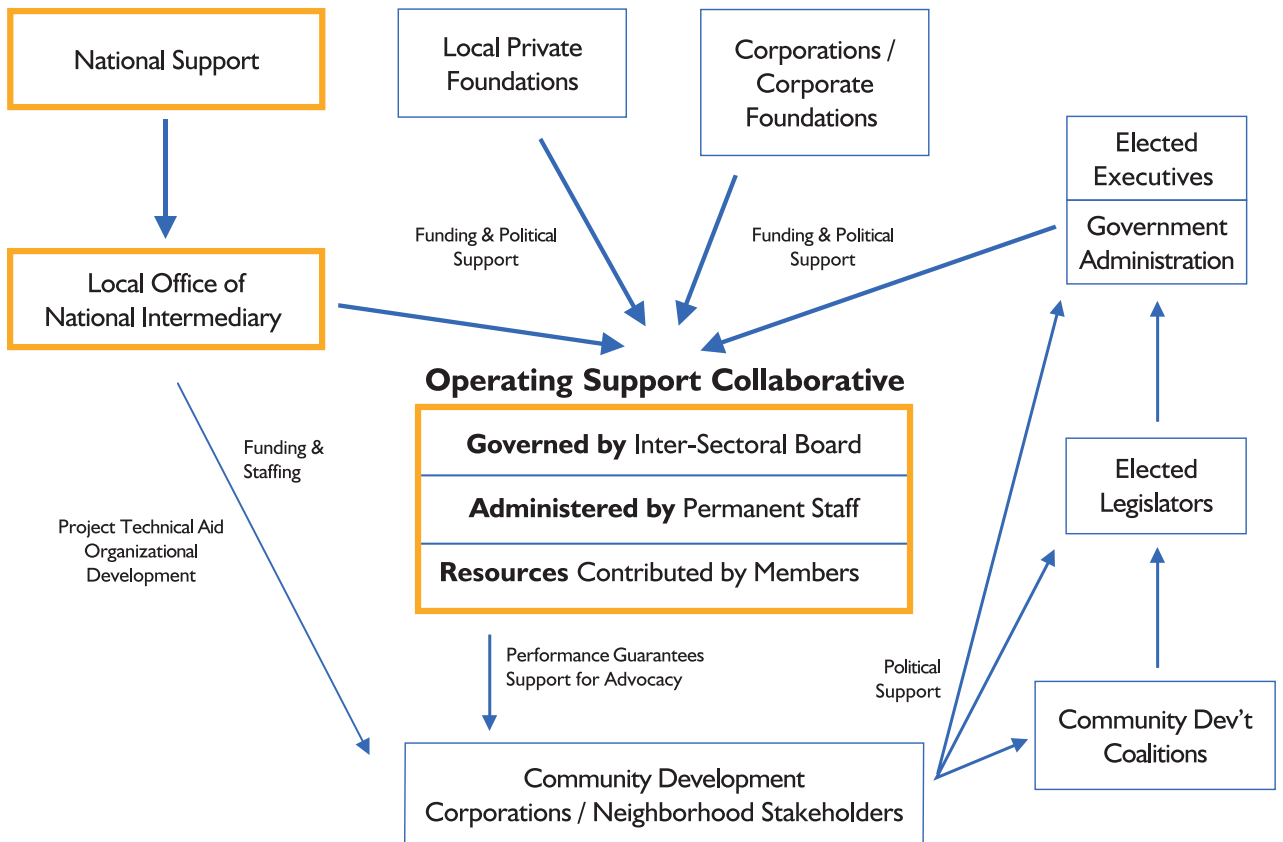
- Local LISC and Enterprise staff and leaders within the CDC industry worked actively to secure support from bankers and city government officials to improve production, and from foundation staff, city officials, and corporate supporters on the capacity-building side. The CDC industry created new coalitions to advocate for CDCs and neighborhoods.
- As CDC industries in some of the larger, more developed, community development systems became more rational in terms of support programs, performance standards, technical assistance, and financing techniques, they created standards

of practice that other cities could adopt to carry out community development more effectively. The availability of these standards helped convince financial institutions and foundations that their investments would be better spent than they may have been in the past.

- The rise of funding collaboratives and their increasing operational sophistication helped mobilize and channel new forms of support to CDCs and created a stability of policy and practice that did not exist a decade ago. The best of these collaboratives displayed an adaptability to new public policies.

It is difficult to overestimate the importance of new funding collaboratives to the strengthening of leadership systems in cities. In some systems—Cleveland, Washington, D.C., Philadelphia, Atlanta, Seattle—collaboratives have become indispensable intermediaries through which relationships among system stakeholders and between system and neighborhood stakeholders are forged and sustained. Community development corporations recognize the importance

Figure 5.1  
**Role of Local Collaboratives in Leadership System**



of collaboratives to their work: Together with the national intermediaries, CDCs regard local intermediaries and funding collaboratives as more helpful to their ability to carry out community development than any other system actors.

How collaboratives engage other institutions is depicted in figure 5.1. The collaborative recruits board members from all participating institutions, which contribute grant support as a condition of membership. Personnel from the local office of the national intermediary often staff the collaborative. The national intermediary offers access to program models, finance, and grant support.

The collaborative administers the distribution of operating support among the CDCs and monitors performance. The collaborative also serves as a platform for cooperation among its members. It encourages them to remain engaged, gets them to collaborate, provides an arena for raising and resolving community development issues, and offers CDCs access to members and the decisionmaking process.

By encouraging more diverse support for community development, intermediation has made it easier for the system to weather the departure of any single funder. The higher performance standards generated by NCDI and others, through operating support collaborations and new norms of accountability, have inspired confidence among less committed funders and induced continued support, as reported by collaboratives' more committed funders. Funders' high visibility hedges against a quiet withdrawal of support.

In addition to the new collaboratives, which were a seminal factor, five other developments made community development leadership systems more productive in the 1990s:

- Improved production systems and higher CDC outputs demonstrated the value of additional investments.

CDCs' growing reputations as developers made private financial institutions more willing to support CDCs. Foundations also invested more heavily in CDC production systems, encouraged by the prospect of visible neighborhood improvements.

- External support helped establish the political legitimacy of the CDC industry.

NCDI and the national intermediaries drew additional support to CDCs. In cities where CDCs had not already carved out a prominent community development role, NCDI's new money and prestigious parentage in major national foundations helped encourage city governments and private industry to recognize CDCs as credible actors on the policy stage. NCDI and the intermediaries also added immediate value in the form of new operating support and project finance.

- Improved urban economic conditions elevated the community development agenda.

Nearly all 23 NCDI cities registered sharp improvements in city fiscal conditions. Attention shifted away from downtown redevelopment and toward the neighborhoods.

- Foundations and civic organizations embraced comprehensive change.

The persistence of chronic poverty—and the ongoing dysfunction of public systems—led foundations, civic institutions, and others to forgo piecemeal approaches and embrace comprehensive community building. Such an approach relies heavily on nonprofit organizations. In many cities, including Baltimore, Cleveland, Denver, and Kansas City, the rise in community building coincided with a new civic spirit of collaboration among the corporate, nonprofit, and public sectors.

- Stronger local leadership for community development emerged.

The flow of new money into community development and the growing strength of intermediaries created the financial and institutional pre-conditions for the exercise of stronger local leadership. In addition, electoral changes in some cities signaled the end of an older politics of race and class conflict and the creation of new, more consensual approach to urban problems. Mayoral changes in Washington, D.C., Detroit, and Philadelphia, among others, led to the creation of new or reinvigorated partnerships among business and government to pursue new community improvement projects. In some cities, universities became more active participants in community development.



### Continuing Challenges and New Opportunities

The strengthening of national community development intermediaries and national networks of local offices is one of the most important changes in local urban policy in a decade.

In addition to their direct contributions to production

and capacity building within the community development industry, intermediaries also have helped change the local institutional and political landscape. Most important, they have made it likely that private and public actors with a stake in neighborhood improvement will cooperate with one another over the long term, not just episodically as short-term opportunities present themselves.

Of course, doubts remain about how well institutionalized the CDC leadership system is in certain cities, particularly those cities in which nonprofit community development is a recent phenomenon. Cleveland, for example, appears highly able to resist shocks to the network of institutions and relationships formed to take on neighborhood issues. Other communities, such as the Bay Area, appear more fragile, especially as elected leadership in Oakland and elsewhere focus city attention on reviving business districts and attracting middle-class residents.

The area of civic leadership is the most difficult one to predict, given the complexity of relationships within and across components of the financial services industry, local and national philanthropy, and federal, state, and local government. Perhaps we can expect to see the following:

- Stability of local funding commitments for community development from public and private sources as the network of relationships among local and national funders helps reinforce commitments to the field made throughout the 1990s;
- Increased attention to new immigrant communities as demographic changes become reflected in increased political power for Hispanic neighborhoods, in particular. This may stretch community development resources more thinly, but also may heighten overall investments in neighborhoods and away from major downtown projects.





## Conclusion

CDCs made strong gains in their ability to influence neighborhood markets and enhanced their capacity to address neighborhood problems. They produced more housing units, commercial square footage, and community facilities than ever before—and many groups started undertaking a comprehensive redevelopment agenda.

The emergence of local community development support systems in many cities made CDCs' advances possible. Support for CDC initiatives had been weak and poorly coordinated before 1990. By decade's end, local support systems had begun to deliver money, technical assistance, and political support in a more rational and organized manner. While the chronic inefficiencies plaguing community development have not been eliminated, such as cumbersome city bureaucracies and burdensome land use regulation, progress has been made in creating a smoother, functioning delivery system. New collaborative bodies, supported by mainstream institutions, were channeling project capital, operating subsidies, and technical assistance to CDCs far more effectively.

The 1990s were also a decade of growth for LISC and Enterprise. These two national intermediaries can take major credit for the new local collaboratives and the improved community development support systems. Working through these intermediaries, through its funding support and national prominence, NCDI played an important role in catalyzing CDC gains over the 1990s. Newly incorporated and committed to another ten years of investment as *Living Cities: The National Community Development Initiative*, this group will continue to make investments that promote the vitality of America's neighborhoods.

Over the coming decade, CDCs will remain vulnerable to shifts in funding policies that could make it more difficult for them to carry out their traditional community development activities. Certainly, in cities without well-established industries (and in some neighborhoods within more mature community development environments), CDCs may fail to hold on to the gains they have made. That said, it is more likely that CDCs will diversify their agendas further and bolster those aspects of capacity that continue to lag behind. Production, capacity building, and leadership systems will support this diversification, which may include the creation of new relationships among city agencies, foundations, corporations, and financial institutions within community development, and in other policy areas as well.

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## Appendix A: The National Community Development Initiative

This paper makes frequent reference to the National Community Development Initiative (NCDI), which, over the 1990s has played an important role in elevating CDC capacity by promoting improvements in production, capacity building, and leadership systems. Launched in 1991 by a group of private foundations and financial services corporations, NCDI pooled financial support from corporate, nonprofit, and government funders and through two national community development intermediaries—the Local Initiatives Support Corporation and The Enterprise Foundation—invested in CDCs and the local institutions that support them.

Over the decade, the presence of NCDI funding succeeded in drawing new resources to community development, strengthened and institutionalized support for community development among key players in local communities, and had a major impact on raising CDC operating capacity and performance standards.

The NCDI model relies on four core programmatic concepts.

- **National intermediation.** NCDI community investments are overseen by the local offices of two national intermediary organizations: the Local

Initiatives Support Corporation (LISC) and The Enterprise Foundation (Enterprise). LISC and Enterprise raise financial and technical resources at the national level and channel these resources locally into low-income neighborhoods. By NCDI's beginning in 1991, both intermediaries had amassed substantial organizational assets and expertise. NCDI funders chose to funnel their resources through LISC and Enterprise because they were confident their funds would be well spent and that their own investments would be supported by others.

- **Multiple forms of local assistance.** Two types of assistance have proven to be the most needed by CDCs: loans for development activities and grants for operating support, community programs, technical assistance, and other capacity-building activities. NCDI provides both, channeling loans from financial institutions and grants from foundations and the Department of Housing and Urban Development (HUD).
- **Local flexibility.** Each LISC and Enterprise field office develops its own program for the use of NCDI funds, consistent with objectives set by the intermediaries' national offices and the consensus of local advisory committees. Local offices may, for example, use their loan funds to generate rental housing, build units for sale to homebuyers, renovate community facilities, or undertake other development projects. The decentralized structure

### National Community Development Initiative Funders

#### Initial Funders

William and Flora Hewlett Foundation\*  
John S. and James L. Knight Foundation  
Lilly Endowment\*\*  
John D. and Catherine T. MacArthur Foundation

Pew Charitable Trusts  
Prudential Insurance Co. of America  
Rockefeller Foundation  
Surdna Foundation

#### Additional Round II Funders

Annie E. Casey Foundation  
McKnight Foundation  
Metropolitan Life Foundation

J.P. Morgan & Co.  
U.S. Department of Housing and Urban Development

#### Additional Round III Funders

Deutsche Bank (formerly Bankers Trust Co.)  
Chase Manhattan Bank  
Robert Wood Johnson Foundation

W.K. Kellogg Foundation  
Bank of America (formerly NationsBank)

Source: Urban Institute 2002.

\* The Hewlett Foundation did not invest new funds for Round III.

\*\* The Lilly Endowment did not participate with new funds after Round I.

### Cities in the National Community Development Initiative

**Atlanta**  
**Baltimore**  
**Boston**  
**Chicago**  
**Cleveland**  
**Columbus**  
**Dallas**

**Denver**  
**Detroit**  
**Indianapolis**  
**Kansas City**  
**Los Angeles**  
**Miami**  
**New York**  
**Newark**

**Philadelphia**  
**Phoenix**  
**Portland, OR**  
**San Antonio**  
**San Francisco Bay Area**  
**Seattle**  
**St. Paul/Minneapolis**  
**Washington, D.C.**

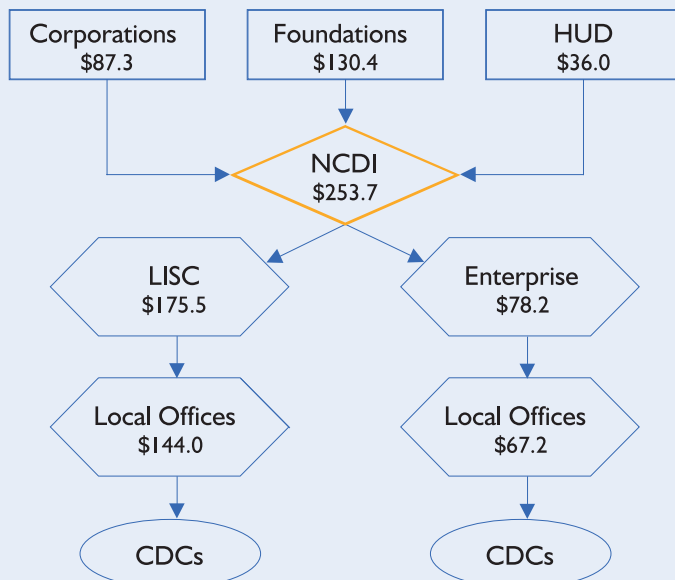
allows local offices to respond appropriately to local conditions. Because poor communities across the country share many of the same redevelopment needs and use federal funds, the local programs tend to be similar.

- **System-building emphasis.** NCDI funders did not provide funds simply to promote redevelopment projects or aid individual CDCs. Rather, they sought explicitly to engage other players in community development over the long term, leveraging their financial and political support for CDCs. As NCDI evolved, its funders made it clear that they expected strategic investments in local systems to remedy the fragmentation of the past and lay the groundwork for sustained local investments.

The chart depicts how monies flowed from funders to CDCs. Corporations, foundations, and HUD provided \$254 million to LISC and Enterprise through

NCDI. LISC and Enterprise, acting as fiscal agents for NCDI management, set aside \$10 million for policy work, communications, management, assessment, and other program support activities. The remainder of funds, amounting to \$244 million over the three phases of NCDI, were allocated to the two intermediaries based on the numbers of cities in which they operated programs. Another \$33 million was allocated by LISC and Enterprise for capacity-building programs, intermediary administration, and other NCDI consultants, including the National Congress for Community Economic Development. The remaining \$211 million, or 82 percent of all funds provided by the NCDI funders, went to local offices in the 23 cities for investments in CDCs. The two intermediaries selected field offices for funding based on their potential to achieve significant impact in their communities, and their readiness to support a larger production program.

### National Community Development Initiative Flow of Funds (Millions of Dollars)



Source: Compiled by Urban Institute based on materials supplied by NCDI.

Note: NCDI funding to LISC and Enterprise are preliminary figures and will be updated for the final report. Totals for “Local Offices” represent the sums of both grant and loan allocations throughout NCDI I, II, and III.

## Appendix B: Research Methodology

This report relies on multiple sources of information and analysis carried out over a number of years. This methodology briefly describes the principal methods we used to collect and analyze data.

### Field Reports

The analysis relies heavily on local interview information, compiled by researchers into “field reports,” which summarized the main conclusions to be drawn from the body of interviews conducted. Completed about every 18 months, these reports followed a common format, typically covering each of the four system components—CDC industries, production systems, capacity-building systems, and leadership—but emphasized different aspects of these components in each reporting cycle.

Field researchers gathered information through interviews with representatives from local intermediaries, CDCs, city agencies, banks, foundations, and other informed observers. These interview subjects were identified based on conversations with LISC and Enterprise field staff, supplemented by initial contacts with a preliminary list of suggested respondents. Over the course of seven years, the field teams compiled their own list of principal respondents, but also relied on local intermediary staff to indicate where staff turnover in banks, local government, and other institutions had occurred, or where new people had become important to the design and conduct of community development programs.

### Researcher Ratings of System Performance

In field data collection conducted in 1996, 1997, and 2001, researchers solicited information from local interview subjects on specific aspects of system performance, then produced summary “ratings” of performance. These ratings followed a five-point scale, with a description of each point on the scale supplied to aid researcher placement of each community on the scale.

Scale items included multiple indicators in each of several general systems categories: (a) system production, (b) community building, (c) CDC capacity building, (d) delivery of community development programs, (e) public and private strategies, and (f) system leadership. Researchers used multiple interviews to arrive at a synthetic judgment on system performance for 1996, 2001, and retrospectively, 1991.

Researchers rated multiple cities based on first-hand field investigations, thereby giving them a comparative perspective from within the group of communities they had visited. Throughout the rating process, researchers circulated their ratings to other field team members with knowledge of the city being rated as well as of other cities that the rating provider had not visited.

### Mail Survey of Community Development Corporations

In 1998, we surveyed community development corporations to find out about their activities, self-assessment of capacities and priorities for the future, and ratings of other community development actors. We surveyed all organizations in the 23 NCDI cities that local LISC and Enterprise staff judged capable of producing 10 housing units per year or more (or the commercial space equivalent). We received 163 completed surveys from 270 surveys mailed, a 60 percent response rate.

### **National Center for Charitable Statistics**

For each of the “capable” CDCs identified by local LISC and Enterprise staff, researchers downloaded information on their expenditures as reported to the Internal Revenue Service on Form 990, required to be filed by nonprofit organizations accepting more than \$50,000 per year in public contributions. This information is from 1989 through 1999, the most recent year for which good information was available at the time of this analysis.

### **National Intermediary Management Information Systems**

Both LISC and the Enterprise Corporation maintain management information systems that obtain and store information on the amount and purpose of thousands of loans and grants made by national and local intermediary offices. Researchers combined data from these loan-and-grant databases with information contained in databases on low-income-housing tax credit purchases by the National Equity Fund, the Enterprise Social Investment Corporation, and several regional funds.

### **NCDI Program Documents**

Throughout NCDI’s first ten years, LISC and Enterprise submitted a variety of program documents intended to support national decisionmaking and monitoring of local performance. We relied on several of these:

- program workplans submitted at the beginning of each of three NCDI funding rounds, which contained specifics on program activities, but also useful diagnoses of challenges and opportunities in local community development systems;
- local intermediary annual reports submitted at the conclusion of every year, as well as summary reports filed at the end of every NCDI funding round;
- local system assessments, or “portraits,” compiled in 2001 in preparation for NCDI’s second decade, and which contained local intermediary ratings of various system components according to a format developed by the Urban Institute research team and the NCDI secretariat.



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