

STATE OF THE CDCs 2005:

An Assessment of Community Development in the Bay Area



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I. EXECUTIVE SUMMARY

The Bay Area's affordable housing challenge is well known to all, as is the presence of concentrations of poverty within an otherwise affluent region. Perhaps less well known is the decades-long effort of a special kind of community-oriented nonprofit group – community development corporations – to help create the kinds of affordable communities that children and families need to thrive.

For 25 years, the Local Initiatives Support Corporation (LISC) has believed that putting the power of real estate development into the hands of community-led institutions is the best way to improve community quality of life. This study fills a decade-long gap in our ability to document community development trends and provide important strategic guidance for the future.¹ Information comes primarily from a survey of Community Development Corporations (CDCs) in the nine-county Bay Area, consisting of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma Counties. Between September 2004 and January 2005, surveys were sent to 69 organizations, of which 45 (or 65 percent) completed the survey.

The results of this study confirm what community development insiders have long known: that CDCs are crucial to filling the gaps created by individual and family poverty and the market's disinvestment in low-income communities. They are, in many instances, the *only* effective agent of revitalization in neighborhoods abandoned by private markets.

Indeed, the story of affordable housing in the Bay Area *is* the story of nonprofit housing development, meaning that efforts to ramp up regional production to meet a widening shortfall of units will rest heavily on the continuing capacity of nonprofit developers to deliver these units. Between 2000 and 2005, annual average nonprofit production of 2,800 units amounted to more than 70 percent of the estimated 3,900 units built each year for very-low and low-income households. Nationally, the Bay Area accounts for about 5 percent of all nonprofit units developed annually, and is about 8 percent of all nonprofit housing ever produced in the United States.

But community development does not rest on housing alone. Nonprofit developers have increasingly turned their attention to commercial and retail facilities development, developing some 500,000 square feet since 2000, about one-half of all the square footage ever developed by Bay Area nonprofits. Survey figures also report 275,000 square feet of community facilities – such as senior centers, recreation facilities, and charter schools. And because of their community ties, Bay Area CDCs are increasingly called on to carry out essential services for low-income households and neighborhoods under contract with public agencies or supported by foundation and other philanthropic funders.

Despite the clear successes of CDCs in responding to community problems, they face daunting challenges that go to the core of the CDC “business model.” Because these groups take on the

hardest projects and serve people with the lowest incomes, they rarely make money on the projects they develop. Worse, groups must navigate a fragmented system of public and private finance that adds even more costs to those tied to land and construction, which CDCs report are the most widespread and severe challenges they face. The result is a shortfall in working capital and access to crucial predevelopment and acquisition funding at early project stages. These challenges place CDCs in a difficult financial position: about 30 percent of CDCs reported running at a deficit. By contrast, in an average year, about 25 percent of all nonprofit groups nationwide run an operating deficit. These operating losses result in part from government and foundation reluctance to provide direct operational support to CDCs, often preferring to fund specific projects instead.

Fortunately, the Bay Area has created a sophisticated network of public and private institutions and programs designed to meet both these challenges. To help the regional community development system respond to challenges faced by CDCs, we urge policymakers to:

I. Identify new sources of financing for affordable housing and community development.

There is no escaping the need to find new sources of financial support if progress is to be made toward strengthening low-income communities. We strongly urge creation of a state housing trust fund with dedicated funding, and urge regional leaders to consider creating a public-private funder collaborative able to exercise financial and civic leadership in community development.

II. Better coordinate community development activities across the region.

Greater collaboration is needed to bring development and services to neighborhoods currently underserved by community development organizations. The geographic coverage of CDCs is highly uneven: some needy areas remain underserved and local residents have little voice in development decisions. New and innovative partnerships are needed to bring housing and community development to underserved communities.

III. Communicate the community development story more effectively.

Despite their many accomplishments, there remains a need for coordinated, sustained outreach and communications to make the case for CDCs among community leaders, public officials and foundation staff.

The overall picture of community development corporations in the Bay Area is of an industry that has grown, and continues to grow, and that has been flexible and creative in response to changing conditions in a dynamic period. It is also a picture of an industry that still faces challenges, and requires sustained assistance and innovation on the part of funders, policymakers, and other supporters in order to continue to adapt and grow. CDCs are a vital force in the Bay Area,

meeting a critical need, but they have always required partners to fulfill their mission, and this remains the case.

II. BAY AREA COMMUNITY DEVELOPMENT AT MID-DECADE

The picture of the San Francisco Bay Area at the end of the last decade, and at the start of the new century, is one of unparalleled prosperity marred by great hardship. Most Bay Area residents live in decent housing in communities blessed with safe places for children to play, community centers, schools and libraries where adults and children alike can learn what they need to get ahead, relaxing open spaces, and opportunities to participate actively in social, civic and cultural life.

But from the poorest areas of Richmond to isolated pockets of Solano, there are communities where citizens are not safe, kids do not get what they need to realize their full potential, and adults lack connections to mainstream educational and economic opportunities. These communities of “concentrated disadvantage” – where multiple social and economic barriers to advancement come together – may be as small as a distressed multi-family housing project and as large as whole neighborhoods that suffer extremes of crime and blight.²

These communities do not arise from out of nowhere: just like all communities, they are produced partly by the workings of the market. In our region, population growth, rising incomes, and an influx of high-income earners has kicked up housing prices and rents, producing acute shortages of affordable units. Population grew from 6 million to 6.8 million between 1990 and 2000, an increase of almost 13 percent, but housing supply grew less than 8 percent.

Although conditions in rental markets have improved recently, region-wide housing shortages are projected for the foreseeable future. The Association of Bay Area Governments (ABAG), the Bay Area’s regional planning agency, forecasts a region-wide need for 231,000 units of housing between 1999 and 2006, or 33,000 new units annually. Of this total, over 30%, or 10,300 per year, need to be affordable to very low- and low-income households.³ From 1999 to 2003, only one county – Contra Costa – met the regional plan’s annual production goals in each of the four years. San Francisco and San Mateo met targets only in 2000 and Santa Clara and Marin did not meet any year’s targets.

As a result of this imbalance between supply and demand, house prices have more than doubled since 1990. By 2000, no more than 20 percent of Bay Area residents could afford to own a home; in some counties, the figure was as low as 11 percent.⁴ Rents also rose sharply in the 1990s, increasing by as much as 16 percent (in Santa Clara County). While some near-term softening of demand seems certain, the enduring appeal of the Bay Area as place to live and work, coupled with continuing constraints on housing supply, means that sales prices are likely to remain high, pricing lower-income residents out of the market.

Increases in the house prices and rents would have been bearable if incomes had kept pace. For many, they didn't. The Bay Area economy in the 1990s displayed the same bifurcation in economic prospects between higher- and lower-income workers as occurred elsewhere in California and the Nation. High-technology jobs grew, and unemployment rates dropped, but shortages of well-paid entry level jobs and the prevalence of part time, temporary, and jobs without fringe benefits left lower-income workers as a group worse off than before.

As a result, region-wide income gains accrued to the region's highest-skilled and highest-educated workers. For the region as a whole, real household income increased by 13 percent. But for lower-income groups, the changing economy meant *declining* real wages paid for part-time jobs without healthcare, paid overtime, compensated leave, and other benefits. By the United Way's Self-Sufficiency Standard, which takes account of real local living costs, some 21 to 29 percent of families are in poverty.⁵ Region-wide, 42 percent of the region's renters are overburdened by housing costs. Homelessness has increased, a result predictable given findings from previous studies.

These trends in housing prices and real incomes have resulted in a new geography of disadvantage, pushing some low-income households further to the region's economic and social margins.⁶ Much of the region's income growth came from just a few jurisdictions: Berkeley, San Francisco, and parts of San Mateo and Santa Clara in particular.⁷ Poverty rates increased in every other county but San Francisco and San Mateo. These disparities between wealthier and poorer communities are evident in differences in the amount, type, and location of goods, services, employment, transportation, physical facilities, and human and social services available to the region's citizens.

Concentrations of poverty produce a downward spiral of increasing disadvantage. For-profit investors are generally loath to commit capital to these areas, believing that buying power is weak, employees hard to find, infrastructure deteriorated, and crime and other drawbacks increasing. Lack of retail and commercial establishments cause "leakage" of income and wealth from low-income areas, as residents spend their dollars elsewhere when they shop. These cascading market failures cause real harm to families and children. For example, diminished access to grocery and produce stores and the fresh fruits and vegetables they offer has been shown to lead to poorer health, even as people pay higher prices. Poorly functioning markets produce harm in other ways, as well. Local governments that contain a large number of lower-income communities cannot afford to pay for the parks, playgrounds, community meeting space, health care facilities, libraries, and a range of other community facilities that residents of higher income areas take for granted. Ironically, lower income areas also rely more heavily on just these crucial supports.

While some communities in the Bay Area suffer from long-term economic isolation and neglect, other neighborhoods in growing urban centers have struggled to find ways to leverage new

investment for the benefit of all community members. Throughout the high technology economic boom of the late 1990s, gentrification and the threat of displacement emerged as a central community development challenge in the Bay Area, particularly in San Francisco neighborhoods like the Mission District. Over the long-run, the challenge facing the community development field is to increase opportunity both for both communities that have been historically isolated from the regional economic mainstream, and for the existing low-income residents of urban neighborhoods that are beginning to experience the positive and negative effects of new investment.

III. COMMUNITY DEVELOPERS RESPOND

Since the 1960s, a dedicated group of leaders has acted on an important insight: that committed individuals and communities can actively shape markets so that they benefit communities, not undermine them. Nationwide, and throughout the Bay Area, nonprofit community development organizations have built affordable housing, invested in community retail districts, and constructed community centers, charter schools and child care facilities. By doing so, they have helped people directly – to live in a safe and affordable home, find and hold a job, buy fresh vegetables in a newly-opened supermarket. They also have pointed investors toward profitable opportunities in places that had previously been ignored, initiating an upward cycle of new home building, job creation, school improvement, and other activities that help poor people and their children get ahead in life.

The Bay Area community development corporations (CDCs) that have invested so heavily to improve the lives of poor people are part of a national movement consisting of thousands of dedicated community leaders supported over the years by a succession of federal, state, local and philanthropic initiatives. These exerted considerable influence over the pace and direction of CDC efforts, and continue to do so to this day.

A Brief History

The founding 1960s generation of CDCs aimed primarily for economic empowerment through business and workforce development. Groups emerged primarily in the major cities of the Northeast and Midwest, although the Unity Council in Oakland and the Mexican American Community Services Agency in the South Bay date from this period. Throughout the 1970s and 1980s, as Federal programs shifted emphasis and emerging groups reacted to the disappointments of the earlier economic development efforts, CDCs as a group turned their attention toward affordable housing development. The national industry expanded throughout the West, particularly in Los Angeles and the San Francisco Bay Area. The CDC Timeline presented below displays the growth of the of the Bay Area community development field over the past few decades in relation to a few key federal, state and regional policy shifts and events that shaped the evolution of the industry.

Figure 1
CDC Timeline of Group Formation, National and State Events

Community Development Events	Year	Founding of Bay Area Organizations
	1961	Christian Church Homes
	1962	
Creation of OEO Special Impact Program	1963	
Johnson Presidency Begins	1964	Mexican American Community Services Agency, Inc. Unity Council
	1965	
Creation of Model Cities Program	1966	Satellite Housing
	1967	
Nixon Presidency Begins	1968	EAH Eden Housing
	1969	
	1970	Mid-Peninsula Housing Coalition Palo Alto Housing Corporation
	1971	TODCO
	1972	HIP Housing
	1973	Asian Neighborhood Design
Community Development Block Grants Section 8 Program	1974	Housing Conservation and Development Corporation Oakland Community Housing Incorporated
	1975	East Bay Asian Local Development Corporation
Carter Presidency Begins	1976	
Community Reinvestment Act	1977	Napa Valley Community Housing Chinatown Community Development Corporation
	1978	Bernal Heights Neighborhood Center Northbay Family Homes
	1979	South County Housing Corporation Community Housing Developers, Inc.
	1980	Emergency Housing Consortium, Inc. Burbank Housing Development Corporation Housing for Independent People, Inc.
Reagan Presidency Begins	1981	Tenderloin Neighborhood Development Corporation Richmond Neighborhood Housing Services
	1982	
	1983	East Oakland CDC Bridge Housing Corporation
	1984	Resources for Community Development Community Housing Opportunities Corporation
	1985	First Community Housing Inc.
Low-Income Housing Tax Credit	1986	Silicon Valley Habitat for Humanity Family Emergency Shelter Coalition Shelter, Inc.
McKinney Homeless Assistance Act	1987	East Bay Habitat for Humanity
	1988	San Francisco Housing Development Corporation Mercy Housing California
Loma Prieta Earthquake	1989	Episcopal Community Services
	1990	Community Development Corporation of North Richmond
	1991	
HOME Investment Partnerships Program	1992	Habitat for Humanity- San Francisco
Empowerment Zone Program	1993	Charities Housing Development Corporation Operation Dignity Citizens Housing Corporation Affordable Housing Associates

New Markets Tax Credit Program	1994	
	1995	
Community Development Financial Institutions/Welfare Reform	1996	
	1997	
	1998	
	1999	
	2000	Alameda Development Corporation
	2001	Calistoga Affordable Housing
Passage of Statewide Housing Bond, Proposition 46	2002	

The 1980s were something of a swing decade, in which new affordable housing programs reinforced the earlier emphasis on housing, but new challenges posed by a rising homeless population led groups to emphasize supportive services as well. Both new organizations and older groups created emergency shelters, transitional housing, and SROs, all of which required strong social services components (even as a conservative national administration made major cuts in social support programs).

At the end of the decade and into the early 1990s, national philanthropies, like the Rockefeller Foundation, provided the first major national support for “community-building,” which resurrected earlier conceptions of community empowerment and linked them to comprehensive, multi-pronged approaches to community development challenges. These efforts were backed by new federal support for inner city economic development in the form of Empowerment Zones and Enterprise Communities, and a new commercial investment tax credit program. Thus, the conception of CDC work seems to have come full circle, from the initial ideal of comprehensive human, social, and physical development, to more narrowly focused physical revitalization efforts, and back to community-building and close attention to economic and community empowerment.

In the Bay Area, as in other parts of the country, succeeding waves of CDC formation have resulted in a layered community development industry, consisting of groups with different specializations and geographic scopes that work cooperatively, and sometimes competitively, to take on community development challenges. Here perhaps as in no other region of the United States, nonprofit housing developers and community development corporations form a dynamic and interconnected network of entrepreneurial and innovative organizations constantly responding and adapting to policy changes and community needs.

As a group, the community development organizations which responded to LISC’s survey are diverse entities – some focus on real estate development while others are involved in community development in the broadest sense. They vary in size, in the populations and areas they serve, and the work they do. Their assistance is targeted to almost every part of society—the poor, the homeless, communities of color, persons with disabilities, seniors, youth, renters, homeowners, men, women, children. Some operate in no more than a few blocks, with only 1 or 2 staff members, while others have hundreds of employees and work in multiple jurisdictions, multiple cities, or multiple states. The continuing evolution of the CDC movement towards comprehensive community development has produced an upswing of partnership- and coalition-building⁸ in order to maximize the scope and impact of CDC work.

Table 1: Bay Area CDC Profile, 2004

Average Age	24
Average Staff Size	69

Source: Bay Area LISC CDC Survey, 2004

What CDCs Have Accomplished

Many nonprofit organizations seek to create stronger communities through their work. For their part, CDCs do so primarily by acquiring land, designing, constructing or rehabilitating buildings, and often managing the projects they develop. For-profit developers do this too, but what distinguishes CDCs is their community orientation. There are three basic ways this community point of view is expressed in what might otherwise be ordinary real estate development projects. First is development and management of affordable housing as high-quality residential communities that support low-income families. Second is development of commercial and community facilities to fill gaps in the retail, cultural, recreational, and other services available. Third is direct provision of services to residents of housing projects and the community at large.

Housing Development

One obvious response to Bay Area’s critical shortage of affordable housing is to build more housing. But unlike the failed Federal policies of several generations ago, in which poor households were collected in isolated, poorly designed, apartment blocks, contemporary affordable housing often contains a diverse group of poor and not-so-poor families living in modest, but attractive apartments, townhouses and single family dwellings. Especially as practiced by CDCs, affordable housing efforts seek not to build “units,” but to create high-quality communities that provide the supports people need to join the mainstream of American life.

Indeed, the story of affordable housing production in the Bay Area is the story of nonprofit housing development. Survey results show that nonprofit housing developers produce around 70

percent of all affordable low-income units built each year: average annual production between 2000 and 2005 came to 2,800 units of a total 3,900 units produced.⁹ (See Table 2.) This means that efforts to ramp up housing production to meet a widening shortfall of units must take account of the continuing capacity of nonprofit developers to deliver these units.

Table 2: Housing Production

	Total	2000-2005
Units	60,307	15,488
Projects	1,598	251
Rental Units		12,442
Ownership Units		1,474
Other		1,572
Total Units		15,488
CDC Average Units/Year		79
CDC Median Units/Year		43
Estimated Average Cost per Unit		\$170,207
Total Number of Units		15,488
Estimated Total Development Cost		\$2,636,173,711

Source: Bay Area LISC CDC Survey, 2004

Indeed, the Bay Area accounts for a noticeable portion of total national affordable housing production carried out by nonprofit developers. The best estimate of recent annual nonprofit sector production comes to about 55,000 units per year, about half of these from the Low-Income Housing Tax Credit and HOME programs. Bay Area nonprofits are delivering about 3,000 units per year, or 5 percent of the total national figure. Cumulative Bay Area housing production amounting to some 60,000 units is about 8 percent of all nonprofit housing ever produced in the United States.¹⁰

All told, Bay Area CDCs on average are larger producers than their counterparts elsewhere in the country, averaging about 80 units per year, about four times the national average of 20-25 units. Median annual production of 43 units compares to a national median of fewer than 10 units.¹¹ Excepting large market-rate elderly housing developers, it is likely that no more than 15 nonprofit housing producers nationwide have developed more than 5,000 units of affordable housing. As noted, four of these work in the Bay Area.¹²

Just like everywhere else in the United States, production is highly concentrated, but the ranks of top producers have grown in recent years. Four organizations have produced over 5,000 units since founding – BRIDGE, Mercy Housing California, EAH, and Mid-Peninsula Housing Coalition – accounting for 29,000 of a total 60,000 units done by all producers in the region.

Over the last five years, average annual production by these groups was in the 200 to 500 unit range. However, these long-time producers are not the only ones in the region producing at this level. Since 2000, Tenderloin Neighborhood Development Corporation and Eden Housing have both produced over 1,000 units, or roughly 200 units per year.

These nonprofit developers do not just build units – they are also responsible for managing many of the units they develop. Nearly all of the organizations that have developed housing are involved in resident services and property management – 35 of the 36 organizations that have ever produced housing also carried out resident services in 2005; 31 of these organizations were involved in the management of housing they had developed. Some of these form their own management companies, e.g., Bridge Property Management Corporation or Eden Housing Management, Inc. We do not know the total number of units under nonprofit self-management, but it probably amounts for about one-half of the 60,000 units completed.

Economic Development Activities

Small business owners, bankers, and other market actors often refrain from making financial commitments to low-income neighborhoods, believing these areas to be plagued by weak demand and high costs. But Harvard’s Michael Porter, among others, claims that the risks of retail development in inner city and low-income areas are overestimated and profitability seriously undervalued.¹³ Porter’s findings indicate that spending power per acre in dense urban areas is competitive with, or surpasses, that in higher income suburban areas.

In part to demonstrate the untapped market potential of these areas, nonprofit developers have increasingly turned their attention to commercial and retail facilities development. Nonprofit-developed commercial projects amounted to some 500,000 square feet since 2000, about one-half of all the square footage ever developed by Bay Area nonprofits. (See Table 3) As with housing, a few organizations account for a large portion of this total, with Mercy Housing California and the Unity Council alone developing about 290,000 square feet during that period.

Table 3: Commercial Development

	Total	2000-2005
Square Feet	1,023,362	509,477
Projects	72	32
CDC Mean Square Feet/Year		9,263
CDC Median Square Feet/Year		4,000

Source: Bay Area LISC CDC Survey, 2004

The projects themselves average about 18,000 square feet, which corresponds to a modest-sized commercial development. However, some larger projects have been completed, especially by

organizations that make commercial development a priority. The two most recent projects completed by EBALDC averaged 32,000 square feet; the two by Unity Council, 88,000.

The results of these efforts are clear in some commercial districts. In Oakland’s Fruitvale, where the Unity Council works, the business district dynamics have changed tremendously as a result of a “main street” program, begun in 1996. With new jobs, lower retail vacancies, new storefront facades, a community safety program, street cleaning, and physical improvements along the street, the Fruitvale’s business district feels like a different place than it was a few years ago.

Community Facilities

Concentrated disadvantage comes in several forms. It may refer to small residential communities – multifamily rental projects, for example – that are occupied solely by low-income persons and located in suburban areas without adequate public services. It may also refer to lower income neighborhoods in older cities that are financially unable to maintain or modernize the facilities they already have. The common denominator is absence of public libraries, community centers, performance spaces, recreation centers and other facilities that provide essential opportunities for seniors, youth, and families.

Community development corporations recognize that these facilities are as important to healthy communities as affordable housing and retail and commercial establishments. Many have acted on this belief to develop public and nonprofit-owned charter school buildings, playing fields, senior centers, community centers, health clinics, performance spaces, and other facilities, sometimes in conjunction with affordable housing developments. Survey figures report 275,000 square feet of community facilities, averaging about 14,000 square feet per project. (See Table 4) Survey responses also show that community facilities development is a comparatively recent activity: 65 percent of all community space developed has been completed in the last five years.

Square Feet	419,795	272,795
Projects	42	19
CDC Mean Square Feet/Year		5,456
CDC Median Square Feet/Year		1,500

Source: Bay Area LISC CDC Survey, 2004

Social Services

Economic hardship drives demand for a constellation of services, including job training, job placement assistance, and other labor-related services, social services, health care, drug and alcohol prevention and treatment, crime prevention and others. Bay Area CDCs are increasingly called on to carry out essential services for low-income households and neighborhoods under contract with public agencies or supported by foundation and other philanthropic funders. Figure 3 below lists the broad range of services reported by CDCs in the LISC survey.

Figure 3. Service Provided by Bay Area CDCs

Advocacy/Organizing	Landlord/Tenant Mediation
Child Care	Lead Abatement
Community Planning	Loan Administration
Crime Prevention	Mortgage Lending
Disabled Services	Other Counseling
Financial Literacy	Property Management
Food Assistance	Rental Assistance
Health Services	Research
Home Repair	Resident Services
Homebuyer/Credit Counseling	Small Business Lending
Homeless Services	Transitional Services
Job Placement	Youth Services
Job Training	

Source: Bay Area LISC CDC Survey, 2004

As with other areas of CDC activity, services provision is marked by change in the mix of activities pursued. Areas of recent expansion – in the last five years – or plans for initiation of new activity include services aimed to promote accumulation of financial assets, (homebuyer counseling, credit counseling and financial literacy), resident services, community planning, research, advocacy / organizing and job placement. (More than 10 percent of groups have initiated activities recently, or plan to.)

All told, the emphases on commercial revitalization activities, community facilities, and various services signify a commitment to comprehensive approaches to community development. This broad approach to the revitalization of low-income communities reinforces the idea that community development is about more than real estate development alone. That said, the mounting burden that multiple activities impose may aggravate financial burdens placed on community development organizations in an era of limited public and private sector support for the CDC movement.

IV. POLICY CHALLENGES AND EMERGING SOLUTIONS

The considerable successes CDCs have achieved in confronting the Bay Area's community development challenge have not come without struggle. Because the market cannot produce the housing, commercial and community facilities that CDCs build, government subsidies are required to make their construction economically feasible. Because CDCs choose to work on these high-cost, low-profit projects, they cannot earn the fee income they need to support themselves. And financing must be assembled piece-by-piece from government, foundations, and private sector entities. From its earliest days, the CDC model has suffered from chronic subsidy shortages, organizational undercapitalization, and fragmentary support. Although CDCs and their backers have worked hard to devise policy solutions to these problems, they persist, as do creative efforts to solve them.

Policy Challenges

These challenges also can be divided among those that are environmental – pertaining to the overall market and funding context – and institutional, dealing with the issues that CDCs face as organizations.

The affordability crisis that has evoked CDC efforts to build affordable housing has been caused by rising land and construction costs, which also make CDC developments more difficult to carry out. As costs rise, suitable construction sites become more difficult to find, especially as some local governments impose regulations that make some kinds of affordable housing more difficult and expensive to build. The inability of local government to process development and financing requests quickly, also hamstringing development. Lenders are sometimes reluctant to finance projects perceived to be high risk.

Because organizations rely on highly uncertain sources of finance, they often cannot assemble the working capital they need to seize development opportunities. They also cannot establish the credit they need to acquire buy property and carry out the design and pre-construction work needed to trigger government and lender sources of long-term finance. Because of these shortfalls in organizational finance, it is often difficult for groups to pay the salaries and professional development costs staff need to perform at peak effectiveness.

Our survey of Bay Area CDCs asked about all of these challenges. We listed a series of specific challenges and asked groups to indicate the degree to which it posed a problem for them. Most of the challenges listed in the survey were faced by more than one-half of organizations, as indicated by their posing “at least some” difficulty. But some challenges were particularly severe – rated “critical” by a substantial portion of those who reported facing them. Results are shown in Figures 4 and 5.

Figure 4. Number of CDCs facing challenges



Source: Bay Area LISC CDC Survey, 2004

Note: The number of CDCs for which a challenge is a "Moderate Problem", "Serious Problem" or "Critical Problem"

Figure 5. Percent of CDCs facing severe challenges



Source: Bay Area LISC CDC Survey, 2004

Note: Of the responses in Figure 3, the percent of CDCs for which the challenge is a "Critical Problem"

Prevalence and Severity of Challenges Faced by CDCs

The challenges faced by our group of CDCs fall into four categories based on their prevalence and severity.

Both widespread and severe:	Land costs, Construction costs, Funding competition, Working capital
Less widespread, but severe for those who encounter them:	Predevelopment and acquisition funding
Widespread but less severe:	Site availability, Regulatory issues, Administrative costs
Less widespread and less severe:	City staff, Organizational expertise, Local government, Commercial lenders

Environmental Challenges

The tension between rising prices, greater demand, and increased costs is well reflected in our survey results. Rising land and construction costs and the resulting competition for scarce funding needed to pay these costs are the most widespread and severe challenges reported by Bay Area CDCs.

What's worse, the ability of CDCs to meet to community development need, and especially the need for affordable housing, is further undermined by the threatened loss of affordable housing units already built. According to figures supplied by the California Housing Partnership, there are 6,482 federally subsidized apartments that are at-risk of being lost because the affordability periods owners agreed to in exchange for financial assistance are coming to an end. Fortunately for the Bay Area, about two-thirds of all Section 8 units and even higher percentages of those with FHA-insured mortgages are in nonprofit hands. This shields them from the pressure faced by for-profit owners to convert buildings to market rate occupancy.

However, even though a strong cadre of nonprofit housing providers and managers are available to exercise first refusal rights for those properties in for-profit hands, this is not financially feasible unless further subsidies are forthcoming. If they are not, then the so-called preservation crisis will only aggravate the already severe challenge of funding competition.

Organizational Challenges

Shortages of organizational working capital are among the most widespread and severe challenges CDCs face, and many groups find access to predevelopment and acquisition funding a severe barrier to their efforts. Unlike for-profit entities, CDCs cannot subsist only on income earned from development fees. Among groups in our survey sample, amounts earned from fees came to only 50 percent of total operating revenues, the remainder coming from government and foundation sources. This is because they carry out activities that private developers do not. And even though these activities are socially valuable, the market does not pay for them. For example, CDCs make great effort to find development opportunities that strengthen communities instead of simply picking the easiest deal. Pursuing these deals drives up costs – such as for community participation and site selection – but development fees are based on industry-wide practice, where lower-cost deals predominate.

In addition, costs of financial transactions are higher as well, as CDCs must navigate an exceptionally complicated structure of support. Four of every five dollars spent in developing nonprofit housing comes from government sources,¹⁴ and even though Federal dollars are the most important source (primarily from CDBG, HOME, and LIHTC programs) this assistance is channeled through third parties, including State and local governments, public housing authorities, and national and local financial intermediaries. For example, the California Tax Credit Allocation Committee allocates Federal low-income housing tax credits, the single most important source of cash to finance affordable rental housing. Nonprofit community development organizations, nationwide, are reported to rely on an average of more than 10 funding sources.¹⁵

This complex system of support is continually shifting, demanding skill, flexibility, and agility to sustain funding, and because each deal is financed differently, there are no savings possible from standardization.

Because costs are high and earned income is low, CDCs must seek supplemental funding to pay for operating expenses – a constant struggle since the beginning of the movement in the 1960s. In fact, some 30 percent of CDC respondents reported running an operating deficit for their last completed fiscal year prior to the survey – a median deficit of 7 percent of total operating expenses in that year. By contrast, in an average year, about 25 percent of all nonprofit groups nationwide run an operating deficit. By implication, these deficits are temporary – few groups actually go out of business altogether because they cannot cover costs over a sustained period – but they are indicative of financial stress.

Operating losses result in part from funder reluctance to provide operational support, preferring instead to fund specific projects. In addition, operating costs are rising for non-profits due to the very same factors that drive up development costs. During the 1990s, commercial rents in many parts of the Bay Area followed and surpassed the upward trend of housing prices, rising to record levels. One of the most burdensome costs for organizations during the period was the cost of

office space¹⁶ and rising land costs impaired CDCs' ability to produce commercial and retail space.

Responses to Challenges by the Broader System

Fortunately, Bay Area CDCs have not had to face these challenges alone: since the beginning, their emergence was supported by federal, state, and local governments, corporate and foundation contributors, civic leaders, and ordinary community residents. These various actors constitute a *system* of support for community and affordable housing developers. Critical to this system is the work of community development and financial intermediaries, which in the Nation and the Bay Area have performed a vital role in channeling funding, expertise, and political support from the broader community to individual CDCs. As one source put it: "*Nonprofit ... organizations do not exist in an institutional vacuum. They survive and prosper when they are part of a network of organizations that support and undergird their initiatives.*"¹⁷

In many respects, the system created to finance affordable housing and other community development investments looks much like it does in other areas of the country. Public agencies provide the grants needed to make low-income projects financially feasible, and private sector banks provide the rest. The California Department of Housing and Community Development finances housing projects using federal funds as well as state dollars. State and local governments provide their own support. The California Housing Finance Agency issues bonds to support affordable housing. Local Redevelopment Agencies invest tax-increment financing proceeds in blighted areas. And some local jurisdictions appropriate their own funding for community development projects.

In its analysis of the first two rounds of the National Community Development Initiative, the Urban Institute classed the San Francisco Bay Area as fairly typical of regions in the U.S. in terms of CDC support: not among the strongest, compared to cities with robust and well-developed support systems, such as Boston and New York, nor among the those with the fastest growing industry and CDC support system, such as Seattle, but still relatively strong and stable.¹⁸

Indeed, the Bay Area has created a sophisticated network of public and private institutions and programs designed to meet both environmental and organizational challenges. Four clear strengths of Bay Area support for community development lie in: the size and diversity of their community lending institutions, the depth of support available from local foundations, the activism of community development intermediaries like LISC, the Low Income Investment Fund (LIIF) and others, and the size and quality of centers for policy research and advocacy.

V. RECOMMENDATIONS

Emergence of community development intermediaries, new lending institutions, and a rich network of research and advocacy groups has meant creation of a *system* for supporting CDC

work, helping to smooth out disruptions in funding, adding new funding, contributing expertise, and exercising system-wide leadership. But this system faces its own challenges, for it too is crucially dependent on supportive public policies, corporate and foundation engagement, and backing by local civic leaders. The following three key recommendations provide practical steps that public and private partners in the community development system can take to address the affordable housing and community development challenges facing the Bay Area region.

I. Identify New and Stable Sources of Financial Support

There is no escaping the need to find new sources of financial support if progress is to be made toward strengthening low-income communities and helping their residents seize social and economic opportunities in the mainstream of regional life. CDCs remain highly sensitive to regional and macro-level economic conditions: Foundations are dependent on philanthropic giving, and on the condition of their portfolios; government support depends on revenue base. Each of these fluctuates widely. For example, in recent years, 53 percent of all Bay Area nonprofits have experienced a decline in institutional donation, and 44 percent declines in individual contributions.¹⁹ Three major strategies can help partly insulate CDCs from these uncertainties and increase their financial support:

- **Capitalize a State housing trust fund.** This is the most important action policymakers can take to make gains on the affordable housing shortfall. Like 37 other states, the State of California operates a housing trust fund, but unlike many of the better state-operated funds, it lacks a dedicated funding source.
- **Better coordinate funding support at the State, Regional and Local levels.** The system remains unduly complicated both at the level of the State housing agencies and across the spectrum of housing and community development funders. Foundation support is not channeled efficiently to areas of greatest need, lender and intermediary programs are sometimes duplicative and other times incomplete. A previous study²⁰ recommended creation of a single application process across the various layers of local, state, and federal funding. Another is to emulate the best national practice, such as Living Cities: the National Community Development Initiative (NCDI). Living Cities is a consortium of foundations, corporations, and Federal agencies dedicated to increasing CDC capacity and production levels in targeted communities, including the Bay Area. An important goal of the initiative is to promote construction of more supportive community development *systems* in local communities.

The Kansas City Community Development Initiative did just that, modeling itself on the national NCDI. In 2001, Greater Kansas City LISC, in collaboration with the H&R Block Foundation, the Hall Family Foundation, and local, state, and federal government agencies, founded the Kansas City Community Development Initiative (KCCDI). KCCDI aims to improve conditions of low-income neighborhoods by coordinating

community development funding and technical assistance and investing it in ways that also increase the capacity and stability of CDCs.

- **Give greater focus to operating support.** Nonprofit developers continue to need operating support to offset the extraordinary costs that effective community development imposes. Fortunately, a prominent national collaboration to ramp up support for CDCs and channel it in creative ways offers a model to the Bay Area for how new operating support could be raised and allocated more productively.

II. Coordinate Community Development Activities Across the Region

Collaboration among CDCs could increase synergy and efficiency by reducing redundancy where it occurs, or better-connecting mutually reinforcing activities. Arguably, competition among CDCs may drive them to create the best product for the lowest price; however, it can prevent cooperation.

Greater collaboration is also needed to bring development and service to neighborhoods that are currently underserved by community development organizations. The geographic concentration of CDCs is highly uneven: some needy areas remain underserved and local residents have little voice in development decisions. Where appropriate, funders and other supporters could encourage existing groups to seek development opportunities there or encourage formation of new local CDCs. These new groups could be existing, but fledgling, organizations or issues-based movements that could evolve into more institutionalized efforts. Local decision makers can take full advantage of the layered CDC industry to further encourage the productive partnerships that have emerged between larger regional developers and smaller, community-focused, groups.

III. Communicate the Community Development Story More Effectively

Despite their many accomplishments, there remains a need for coordinated, sustained outreach and communications to make the case for CDCs among community leaders, public officials and foundation staff. The majority of CDCs surveyed do not find community opposition to be a major problem, but some do. And many studies have uncovered serious community misperceptions of the effects of CDCs' activities, as when high-quality affordable housing is challenged due to fears of increased crime and diminished property values. Even local government employees are often unfamiliar with the accomplishments and potential of CDCs. CDCs will continue their outreach efforts, but they need broader and more sustained support from groups such as the Nonprofit Housing Association of Northern California and PolicyLink, which consistently undertake such outreach, and others have that have clear room to expand.

Nationally, new research is coming on line that demonstrates convincingly that community affordable housing and other community development investments have real value. At the same

time, more and better data on neighborhood change is becoming available at local levels, allowing far better analysis of community change initiatives than has been possible in the past. Bay Area funders, local governments, policy and research groups, and CDCs themselves have a promising opportunity to use research to shape investment strategies and show that their actions have real results.

VI. CONCLUSION

Community Development Corporations have a difficult mission, even in the best of times. For Bay Area CDCs, however, these are particularly challenging times. As government assistance to low income communities declines, as economic hardship continues, living costs rise, and jobs markets change, CDCs are increasingly called on to fill the gaps.

As the findings of this study demonstrate, many local CDCs have extensive track records, demonstrable experience, and increasing capacity. CDCs have built significant amounts of housing for low-income groups and other vulnerable populations throughout the Bay Area. CDCs have also responded to need and opportunity in many other ways, including development of commercial and community facilities, economic development and job training, and human service provision.

Whether work in these arenas can be sustained remains to be seen, as CDCs face mounting operating challenges, which for some organizations, may threaten their very survival. Others may retrench, carrying out only tried and true activities, such as housing development, where relatively stable funding streams are available. Or they may find ways to leverage less traditional activities into new sources of support.

Regardless of what happens, CDCs require continued assistance from local, state, and federal governments, from intermediaries and foundations, and from other sources. Local governments and others must renew efforts to reinforce existing forms of support, and to craft new ones, especially for the operating support required to keep CDCs viable in hard times. And more research is needed on the impacts of changing funding conditions, economic changes, changing political landscapes, and changing regulatory conditions on CDCs.

The overall picture of community development corporations in the Bay Area is of an industry that has grown, and continues to grow, and that has been flexible and creative in response to changing conditions in a dynamic period. It is also a picture of an industry that still faces challenges, and requires sustained assistance and innovation on the part of funders, policymakers, and other supporters in order to continue to adapt and grow. CDCs are a vital force in the Bay Area, meeting a critical need, but they have always required partners to fulfill their mission, and this remains the case.

ENDNOTES

¹ Christensen, 1998.

² Due credit to Radenbush and Earls for the term.

³ Association of Bay Area Governments Regional Housing Needs Determinations, www.abag.ca.gov/planning/housingneeds/rhnd.html

⁴ California Budget Project, 2004.

⁵ United Way, 2004.

⁶ As of 1996, the majority of affordable multifamily units (units with permanent or long-term affordability restrictions) in the Bay Area were built by non-profit producers, independently or in collaboration with public or private-sector partners (Morris, 1994), and this is likely still the case. Despite its significance as a proportion of total multifamily production, however, this amount remains only a small fraction of overall need.

⁷ For example, while income growth, measured by median income, did keep pace with rising rents in most areas--rents increased 40% for the region, while median income grew 49%--for many renters, the portion of income devoted to housing costs sharply increased (Johnson, 2004).

⁸ Glickman, 1999.

⁹ Bay Area Economics Technical Appendix, Housing Affordability and Job Match, Table 3 figures for both multifamily and singlefamily units. The estimates in this table assume that about 8.3 percent of all units produced are built as affordable to persons with low-incomes or below. This percentage is applied to region wide production as estimated by the US Census. Study staff have updated the earlier census figures and applied the 8.3 low-income percentage to arrive at annual low-income unit production of 3,900 units.

¹⁰ This estimate is based on the 1997 NCCED national estimate, updated based on estimated annual production levels, corroborated by production figures for LISC, Enterprise, NRC and HPN affiliates. The figure is reasonably well-corroborated by the Bay Area share of total nonprofit housing tax credit projects, which comes to an estimated 6 percent.

¹¹ NCCED figures show that 63 percent of groups produce fewer than 10 units. The exact median is not known to this author.

¹² This estimate is based on responses to the NCCED census questionnaires in 1994 and 1997 and information on member production levels from the Housing Partnership Network, which represents high-volume producers.

¹³ Initiative for a Competitive Inner City, 2000.

¹⁴ Morris, 1994.

¹⁵ Steinbach, 1999.

¹⁶ CompassPoint, 2000.

¹⁷ Keyes, 1996.

¹⁸ Walker, 1998.

¹⁹ United Way, 2004.

²⁰ Christensen, 1999.