

# FUEL LINES

FOR THE

## URBAN REVIVAL ENGINE

Neighborhoods, Community Development  
Corporations, and Financial Intermediaries



Alexander von Hoffman

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# Fuel Lines for the Urban Revival Engine: Neighborhoods, Community Development Corporations, and Financial Intermediaries

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## FOREWORD

As Alexander von Hoffman points out in introducing this report, the relatively young community development system in the United States is not well understood. The Fannie Mae Foundation funded von Hoffman’s research to closely examine one aspect of the system: the interaction of community development corporations (CDCs) and national community development intermediaries. The result is this report: *Fuel Lines for the Urban Revival Engine: Neighborhoods, Community Development Corporations, and Financial Intermediaries*.

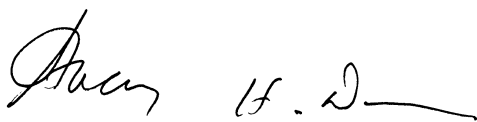
As the report’s title suggests, CDCs and other community-based organizations working to provide affordable housing and revitalize neighborhoods need infusions of “fuel” from outside their community. The three major national community development intermediaries—Local Initiatives Support Corporation (LISC), The Enterprise Foundation, and the Neighborhood Reinvestment Corporation—keep the fuel flowing, often filling gaps in the system.

Von Hoffman’s in-depth case studies of CDCs in three geographically and contextually diverse neighborhoods provide important insights for CDCs, intermediaries, funders, community leaders, and others concerned with effective community development.

While there are many commonalities in the ways CDCs and intermediaries work, von Hoffman’s work illustrates the critical influence of the neighborhood and city context, historical factors, and the local political environment. This understanding suggests support for the very basis of the community development system as we know it today: that locally based organizations are in the best position to devise workable solutions for their own communities. On the other hand, von Hoffman reveals some of the pitfalls that can occur because of the local political, historical, or neighborhood environment.

Although local understanding is critical, von Hoffman shows the key role that can be played by the national intermediaries, working through local offices, to ensure the success of affordable housing development and other projects. As von Hoffman’s cases show, a financial contribution from an intermediary does not have to be for a large amount to enable or save a project; modest contributions at critical junctures can be key. The intermediaries are flexible, share goals with the community organizations, and often are willing to fund planning and predevelopment activities that many other funders do not support.

Those of us involved in the maturing community development system need to understand the roles of the system’s players, the context of our work, and the evolution of the system. Von Hoffman’s report helps to advance our understanding.



Stacey H. Davis  
President and CEO, Fannie Mae Foundation

# Fuel Lines for the Urban Revival Engine: Neighborhoods, Community Development Corporations, and Financial Intermediaries

*Alexander von Hoffman*

## Executive Summary

### RATIONALE

The purpose of *Fuel Lines for the Urban Revival Engine* is to increase understanding of the community development system, identify the impediments to its working effectively, and thereby point the way to improving it.

Despite the prosperity of the past 20 years, the presence of poverty, inferior housing, crime, and drugs; the lack of retail stores; and the inadequacy of governmental services have continued to plague inner-city neighborhoods in the United States. To revive troubled neighborhoods, civic and government leaders have adopted a set of programs and institutions known collectively as the community development system.

The primary agents of the system are independent organizations called community development corporations (CDCs) that strive to improve adverse physical, social, and economic conditions in which poor people live. CDCs are nonprofit entities—usually authorized as 501(c)(3) organizations—that typically serve and carry out housing, economic, and social programs within a defined territory.

To help CDCs survive and tackle the large problems that plague their districts, supporters of community development devised a network of national and local institutions—primarily government agencies and foundations—to provide financial and technical support to CDCs and help them expand the scale and scope of their activities. Among the most important private institutions that support community development are nonprofit philanthropic and banking organizations known as financial intermediaries.

The leading national financial intermediaries—the Local Initiatives Support Corporation (LISC), The Enterprise Foundation, and the Neighborhood Reinvestment Corporation—collect and distribute large sums of money for community development organizations and projects and provide training and advice to community development practitioners.

During the past two decades the community development system has assisted urban neighborhoods across the United States. With the help of government agencies, financial intermediaries, and philanthropies, CDCs have developed countless homes, helped start or expand new businesses, trained people for jobs, and administered child care and other programs.

Despite its noteworthy achievements, the community development system is not well understood. Critics, mainly in the academic ranks, accuse CDCs and supporting organizations of being inefficient or even subverting the wishes of local residents. Few studies exist, however, that would help assess the accuracy of the charges or assist those in the field who want to make the system more productive.

This work is an attempt to help fill the gap in our knowledge by examining CDCs and financial intermediaries—their functions and interactions—and indicate ways to improve the community development system.

## **SUBJECT AND SCOPE**

This report consists of three detailed case studies of housing development projects carried out by CDCs in Washington, DC; Boston; and Miami with the help of the financial intermediary LISC.

The case studies explore the reasons CDC staff select community development projects, the ways in which intermediaries affect CDCs and their projects, and what other factors might influence the choice and success of community development projects.

Research quickly demonstrated that a region's institutional and political environments profoundly influence both CDCs and local offices of financial intermediaries, a fact that scholars and practitioners have not sufficiently recognized. Thus, this report also illuminates the influence of the environment on the community development system.

## **METHODOLOGY**

The format of the practice report restricts the research to an in-depth study of a few important aspects of the community development system rather than a comprehensive review of the entire scope of its operations. The three case studies presented, therefore, examine the development and management of low-income rental housing, the most common type of project undertaken by CDCs. Other types of programs that CDCs carry out are noted, but not scrutinized.

Similarly, each case considers a single financial intermediary, LISC, and the kind of support that it provided for the housing projects. Although not the largest of the three national intermediaries, LISC is the best known and most praised and criticized and, arguably, has the widest impact on community nonprofit organizations. Like the CDCs, LISC has a variety of other programs, such as those that provide technical assistance to CDCs. The programs are referred to at the points in the narrative where they apply.

To illuminate the strategies of CDC and intermediary officers, I chose the cases from a large group of projects that LISC program officers deemed to carry a significant degree of risk. The three cases were selected to reflect a range of CDCs, neighborhoods, problems CDCs face, relationships between CDC and LISC officers, and local support for community development.

The projects in each of these cases were completed as planned. In two of the cases the projects strengthened or sustained the relationship between the CDC and LISC, but in the third case, in Miami, difficulties arising from the project helped distance the parties from one another.

## MAJOR FINDINGS

1. *CDCs operate in neighborhoods with a range of demographic and economic characteristics.*

The stereotype of a neighborhood in need of community development programs is a declining African-American ghetto district, but in fact poor and needy people live in a variety of communities. Such neighborhoods may be growing or shrinking in population, may have many or few African Americans or immigrants, and may include middle-class and even upper-class residents. In some neighborhoods housing is plentiful but frequently substandard; in others it is scarce and too expensive for low-income families. The prices and availability of developable land vary from place to place. Similarly, retail stores may be plentiful in one neighborhood and uncommon in another.

2. *The history and conditions of a CDC's neighborhood influence its community development strategies.*

In each of the case studies, the CDC staff chose to build housing for low-income people, but the goals of the project varied according to local circumstances. In Miami's Liberty City, a neighborhood that fits the conventional view of a low-income, inner-city neighborhood, Tacolcy Economic Development Corporation developed Edison Gardens for reasons commonly associated with community development: to provide low-income people with new, high-quality homes at subsidized rates and at the same time improve the physical quality of the neighborhood.

In contrast, in Washington, DC, the Development Corporation of Columbia Heights developed low-income housing to eliminate a nuisance property, stabilize the block for homeowners, and make it safe for children to pass on their way to school. Because the neighborhood already contained a great deal of subsidized housing, however, the CDC was as interested in improving the neighborhood as it was in providing housing for the poor.

The staff and board of Allston Brighton CDC in Boston developed low-income housing to defend the interests of the poor in the face of middle-class homeowners' opposition to subsidized housing. The organization pursued noncontroversial neighborhood improvement projects in part to persuade other civic groups to approve low-income housing projects.

In the short term, the availability of sites within a given neighborhood determined what CDCs were able to do. The shortage of land and tight rental market in Boston's Allston Brighton neighborhood, for example, forced the CDC to preserve existing low-income housing, rather than embark on large-scale, new-construction projects. In Miami's Liberty City, the shortage of sites suitable for developing large-scale housing profitably was one reason the Tacolcy Economic Development Corporation began to develop housing outside its neighborhood service area.

*3. Participation of local residents in setting or approving the goals of the CDC is critical to the organization's success, although it can also be problematic.*

It is an inherent principle in community development that neighborhood residents should have a voice in setting the direction of their local CDC. In two of the cases, CDC staff kept in touch with their local constituencies, organized tenants in their housing developments, and built support for CDC programs.

Yet neighborhoods with mixed populations—whether by economic group, rental or ownership tenure, or ethnicity—raise the question of whether other constituencies, working- and middle-class residents, for instance, also should have a say in community development.

Despite the rhetoric of community participation, the leaders of CDCs can find that too much openness creates problems in carrying out their community development programs. Fearing that community development projects will diminish local property values and quality of life, neighborhood residents or business owners who are members of a CDC's board of directors may oppose projects proposed by the CDC director and staff.

*4. The officers of community development organizations and financial intermediaries usually have the same goals.*

The case studies presented here contradict the charges that intermediaries divert or lure CDCs from a true "community development agenda." In fact, CDC staff members and intermediary officers frequently have a mutual interest in carrying out projects.

Furthermore, CDC and intermediary officers often share a sense of moral mission in their work. The individuals on either side of the funding application believe fervently that non-profit organizations and community development strategies are best suited for reviving neighborhoods and assisting their low-income residents. Finally, community development career paths that lead from CDCs to intermediary or government agencies may, in some cases, strengthen the ties between funders and practitioners. Such career moves can also cause conflicts, however, because CDCs often lose their best talent to funders.

*5. The political environment of the city or region greatly influences the success of CDCs and local financial intermediaries.*

The political environment of a city helps determine the success not only of CDCs, but also of the other components of the local community development system. The CDCs, local intermediaries (such as an LISC field office), philanthropic corporations, and foundations

in a particular city or region operate in the same political environment. They are all aided or constrained by the prevailing attitudes toward community development and nonprofit organizations.

Boston represents one end of the spectrum. There, support for community development permeates all levels of government and the private sector, nurturing community and housing development organizations and programs. Miami exists at the other extreme; in Miami enthusiasm for private business ventures and relative indifference to nonprofit community development pose large obstacles for CDCs and supporting institutions.

## **POLICY RECOMMENDATIONS**

All those interested in community development—government officials, program officers in funding organizations, practitioners, and scholars—must understand that community development programs should be tailored to the particular characteristics of specific places.

Organizations that financially assist CDCs should take into account the different goals and types of CDCs—similar to the way the Boston LISC office understood the particular needs of the Allston Brighton CDC. Worthy community organizations may not fit the stereotype of a CDC.

CDCs should develop techniques for taking local opinion into account without undermining their goals or jeopardizing their projects.

Funding officers and practitioners should strive to maintain a trusting relationship, if at all possible. Trust is a crucial ingredient in the relationship of CDC and intermediary officers; the lack of trust will jeopardize the fulfillment of community development goals.

The supporters of community development at all levels should redouble their efforts to strengthen community development systems, particularly in regions in which support for nonprofit community development is weak. National intermediaries and foundations should encourage or lead campaigns to educate officials, business leaders, and neighborhood activists—through institutes and other forums—and to make sustained local political lobbying or advocacy on behalf of community development a high priority.

In locales in which it proves impossible to build a strong network of support for nonprofit community development, CDC officers and their institutional supporters should explore alternative approaches to community development. These might include building low-income housing directly, collaborating with for-profit companies to carry out mutually agreed on community development goals, or possibly invigorating the local public housing authority.