140
738
THS

THESIS

LIBRARY
Michigan State
University

PLACE IN RETURN BOX to remove this checkout from your record.
TO AVOID FINES return on or before date due.
MAY BE RECALLED with earlier due date if requested.

DATE DUE	DATE DUE	DATE DUE

2/05 c:/CIRC/DateDue.indd-p.15

THE COMING OF AGE OF COMMUNITY DEVELOPMENT CORPORATIONS: THE LIFEBLOOD OF THE COMMUNITY ECONOMIC DEVELOPMENT MOVEMENT

by

Donna Wynant

PLAN B RESEARCH PAPER

Submitted to
The School of Urban Planning
and Landscape Architecture
in partial fulfillment of the requirements
for the degree of

MASTER OF URBAN PLANNING

1986

TABLE OF CONTENTS

INTRODUCTION

COMMUNITY ECONOMIC DEVELOPMENT

Economic Development has certainly captured a great deal of the planner's attention in the past few years. Communities have suffered from declining tax bases when business and industry decide to pick up and move to the Sun Belt or, in some cases, overseas to take advantage of lower taxes, wages, energy and other operating costs.

Economic development programs have been increasingly more relied upon to retain existing or attain new business and industry to a state or locality to stabilize and improve its tax base. These programs are often geared to attracting major industry, as opposed to smaller firms, which tend to be more capital (rather than labor) intensive. While these types of industry may improve a city's tax base, they often do little to provide employment opportunities to residents of poor and disinvested communities.

After all, business development in the distressed community is dramatically different from business development in the healthier, more economically viable community. A certain type of environment must exist for a business to succeed-- an environment nonexistant in most of our inner-cities or remote rural areas. They are more likely to suffer disadvantages such as:

1. -below-average level of education among residents who usually lack a wide variety of technical, entrepreneurial, and organizational skills needed in business development. There is also a higher

incidence of social and health problems among residents;

2. -relative absence of commercial, manufacturing or industrial activity in the area that makes an area more attractive to prospective investors;

3. -relative absence of local institutions and organizations which serve to meet local people's needs as well as potential business investment;

4. -inadequacy of local political organizations that could serve to regulate and give guidance to prospective businesses;

5. -inadequate infrastructural improvements which provide environmental support to the development of local businesses (e.g. streets, utility systems, water and waste disposal systems, police and fire protection, adequate land sites); and

6. -lack of public amenities that make the location of a business attractive, such as: quality local schools, parks and recreation, medical facilities and services and entertainment.

Obviously, trying to attract businesses to the economically distressed community is not an easy task. The problems are severe, multi-faceted and interrelated. Any strategy to do so must be comprehensive in its approach and will require considerable resources. It cannot be a "quick fix" type of a strategy-- but one that will take time to accomplish its goals.

The economic development that has captured the attention of many planners has been the traditional economic development variety which is usually accomplished through a local or state economic development corporation that uses a "top down" approach to development. With this strategy, local community residents are often the last to be given consideration as to how an industry would directly affect their lives and their community. Community economic development, on the other hand, is all the things economic development is, but different in a major way. The creating, identifying, improving, etc. is done under the guidance and control of the local residents. The community economic development approach of counteracting the forces of decline rests on the premise that "the solutions lie, at least in part, in the empowering of communities to help themselves-- chiefly through the infusion of capital and technical and managerial talent". (Barbe/Sekera, p. 97)

According to Stewart Perry, community economic development is:

> ...the creation or strenthening of economic organizations (or more technically, economic institutions) that are controlled or owned by the residents of the area in which they are located or in which they will exert primary influence. The institutions that are owned or controlled locally can include such forms as business firms, industrial development parks, housing development corporations, banks, credit unions, and CDCs (Community Development Corporations) themselves as the most broadly generalized, guiding institutions. They might also include organizations or services that upgrade the human and social environment in such a way as to increase the economic value and energy of the community. (Perry, 1973, p. 16)

The community economic development approach emphasizes the need for a public-private partnership.

> Private capital must play a role but there must be government involvement to provide infrastructure and incentives that are needed to induce and support participation. But in exchange for government subsidies, private businesses can be requested to become true partners in the development of the local economy so long as there are profits in prospect. They can be asked to hire and train local residents for jobs, to stimulate the creation of local ancillary businesses, to bank with local lending institutions, to agree to remain in the area for a certain period and even allow generous buy-out provisions to community corporations wishing to purchase the company's assets if it decides to

leave the area. (Economic Development and Law Center Report, Oct./Dec. 1981, p. 11)

THE COMMUNITY DEVELOPMENT CORPORATION AS COMMUNITY ECONOMIC DEVELOPMENT VEHICLE

The main vehicle of community economic development has been the community development corporation. There are several types of community-based organizations that implement community economic development programs (e.g. credit unions, cooperatives), but it is the CDC that is comprehensive in its approach. The CDC also stresses the concept of community control by operating from a locally selected community-based Board of Directors.

There have been many CDCs to operate throughout the United States in inner-city areas, rural areas, regions and states. Some may emphasize business development-- others may concentrate more on the development of housing or human services. While they are certainly not panaceas for alleviating poverty in this country, they do "offer an alternative means of assisting the poor and the disadvantage to become a part of and to benefit from the nation's social and economic mainstream. While they are not sufficient unto themselves to end poverty, they have demonstrated that they can be foundation stones for social and economic change in some communities and supplemental and complementary institutions in others". (R.M. Kelly, 1976, p. 143).

PURPOSE OF PAPER

The purpose of this paper is threefold:

1. to provide an overview of CDCs;
2. to investigate the impact of recent changes in funding; and
3. to present future trends in CDCs.

In order to accomplish this, this paper will first begin with a basic description of the CDC; followed by its historical background since the 1960s. An overview of CDC funding and activities should then provide the reader with a good introduction to the CDC before delving into: "Organizational Forms of CDCs"; "Financial Assistance"; and "Economic Development Functions". The paper will then discuss how CDCs are operating under the Reagan Administration and will then end with "Summary and Conclusions."

CDCs have been around since the 1960s, but may actually be coming of age in recent years. The CDC offers a comprehensive approach that offers structural change to enable the poor community to become more self-sufficient in many ways. It recognizes that real substantial change will not be realized within the poor community until its residents gain greater control over economic and political power. Any other approach will only be piecemeal at best in its attempt to alleviate the symptoms of poverty. This country can no longer afford to throw scarce resources at complex problems that demand a more thorough analysis and wholistic treatment of the disenfranchised/disinvested community.

II. WHAT IS A COMMUNITY DEVELOPMENT CORPORATION?

A community development corporation is "a locally owned, locally controlled organization that uses business forms and methods to promote economic, political, and social development in the community in which it is based." (Schramm, p. 85) The CDC has been considered the main vehicle of community economic development (CED) in the United States. It, in effect, acts as a kind of "tool" that turns out more tools to accomplish CED. That is, "it turns out the ideas, the businesses, the services, and the organizations for influencing people outside the area in favor of the needs of the area." (Perry, 1972, p. 21)

Community Development Corporations contribute to the process of financing CED in several ways. It can: help assure good financial management of limited community development capital; it can access sources of capital external to the community (from state and federal government and private sources, for example); and it can leverage local private sources of capital for community economic development.(Schramm, p. 85)

While other community-based organizations may contribute to accomplishing CED, what distinguishes the CDC from other groups are the following attributes:

- a corporate, usually private nonprofit, form of organization, with professional, managerial and technical staff;
- membership representation from, and majority control vested in, a low-income community;
- an economic development and investment orientation, with the goals of increasing the incomes of and reducing dependency among the low-income population on whose behalf it operates;

- the attraction of financial and management resources and use of economic development techniques in order to foster investment and growth, and halt decline, in distressed areas.

(Barbe & Sekera, 1983, p. 86)

III. A BRIEF HISTORICAL BACKGROUND OF THE CDC

The community economic development movement dates back to the 1960s when attention was focused on relieving tension within the inner-city ghetto by improving the physical environment and social conditions of its residents. To address the problem, the Office of Economic Opportunity was established to implement a new approach innolving community business and economic development, along with service programs, that would be directed toward individuals.

The OEO first funded community economic development under the Special Impact Program, otherwise known as Title I-D of the Economic Opportunity Act of 1966. The OEO eventually turned its funds over to the Department of Labor in 1967, at which time the SIP became funded under the CSA. The only innovation stemming from the Special Impact Program while under the OEO was the Bedford-Stuyvesant project, which was also the best known CDC. It essentially was created by Senator Robert F. Kennedy and his staff. The board of directors for this project was the Development and Service Corporation which consisted of influential business and financial figures of New York City. This group lent enormous status and support to a separate board, chosen by a leading black judge that directed the all-black Bedford-Stuyvesant Restoration Corporation. Other interested Congressmen, in view of the project's success, tried to put pressure on the OEO to fund similar kinds of projects. The OEO, however, decided to approve projects on an experimental basis only. In 1972, Congress passed an amendment to the OEO legislation (title VII) which authorized community economic development, removing it from an experimental category. This legislation required the OEO to fund locally controlled CDCs which plan and implement CED programs. The OEO eventually became the CSA in 1975.

IV. RANGE OF CDC FUNDING AND ACTIVITIES

Community Development Corporations operate in a variety of geographic, ethnic, political, social and economic environments and represent a number of the poorest communities in the country. CDCs have often been identified with one activity or area of emphasis over others such as: business development; housing; and social services. Other CDCs may be more cross-disciplinary in their approach to community economic development. These CDCs may link business development, housing, job training, social services, and institution building as elements of the CED strategy.

The National Congress for Community Economic Development gives detailed profiles of 18 different CDCs in the United States in its book entitled: Community Development Corporation Profile Book. The chart on the next page gives an overview of the types of CDCs (rural and urban) and their areas of emphasis.

Funding for CDCs come from a variety of sources. These may include: the local community residents themselves, labor organizations, private industry, private foundations, churches, and government agencies. CDCs have also received funds from a variety of charitable institutions, but the Ford Foundation has provided by far the largest support in this category.

The chief support for a very significant proportion of the CDCs in the past has been the Office of Economic Opportunity (now the Community Services Administration). The Model Cities

Program of HUD was also an important source of funding. The Small Business Administration, Economic Development Administration, Office of Minority Business Enterprise, Farmers Home Administration and other federal agencies have also provided both financial and technical assistance. With "seed money" from government agencies, the CDCs have successfully levered additional funds from local and regional banks and other lending institutions.

SOME EXAMPLES OF CDCs AND THEIR AREAS OF EMPHASIS*

	Type of Organization	Urban or Rural	Primary Ethnic Constituency	Geographic Location	Major Emphasis
1. Bronx Venture Corporation	CDC	Urban	Hispanic	New York City Northeast	Business Devel.
2. Commun. Dev. Corp. of Kansas City	CDC	Urban	Black	Kansas City, Missouri Midwest	Business Devel.
3. Commun. Ent. Dev. Corp. of Alaska	CDC	Rural	Native American	Statewide Alaska Farwest	Business Devel.
4. Chicanos Por La Causa	CDC	Urban Rural	Hispanic	Phoenix and Ariz. SW	Cross-Disciplinary
5. Coastal Ent., Inc.	CDC	Rural	White	Maine Northeast	Business Devel.
6. Corp.for New Enter. Dev.	CDC	Rural	Black	NW Louisiana Southeast	Business Devel.
7. Delta Foundation	CDC	Rural	Black	NW Mississippi, SE	Business Devel.
8. Dineh Cooperatives	CDC	Rural	Native American	Navaho Res. Arizona SW	Business Devel.
9. Eastside Com. Investments	CDC	Urban	White	Indianapolis Midwest	Business Development/Housing
10. Home Educ. Livelihood Program	Farmworker-Rural Dev. CBO	Rural	Hispanic	Rural New Mexico SE	Cross-Disciplinary
11. Impact Seven	CDC	Rural	White/Native Amer.	NW Wisconsin Midwest	Business Devel. and Housing
12. Mt. Assoc.for Com.Econ.Dev.	CDC	Rural	White	Kentucky Southeast	Business Devel. and Housing
13. Rural New York Farmworker Opportunities	Farmworker Org.	Rural	Black and Hispanic	New York Pennsylvania New Jersey Ohio	Employment and Training
14. Northern Comm. Inv. Corporation	CDC	Rural	White	No. Vermont & New Hampshire, NE	Business Devel. and Housing
15. Southern Coop Dev. Fund	Rural Coop Dev. Bank	Rural and Urban	Black	14 states in Southeast	Business Devel.
16. Spanish Spkg. Unity Council	CDC	Urban	Hispanic	Oakland/Alameda Cty. FW	Cross-Disciplinary
17. Tri-Island Eco.Dev.Cl.	CDC	Urban Rural	Black	U.S.Virgin Is. NE	Business Devel.
18. Walnut Hills Red. Fdn.	CDC	Urban	Black	Cincinnati Midwest	Housing
Totals	15 CDCs 2 Farmworker Orgs. 1 Dev. Bank	5 Ur. 9 Ru. 4 Ur. & Ru.	6 Black 4 Hispanic 5 White 2 Native Americans 1 Black & Hispanic	NE - 5 SE - 4 MW - 4 SW/FW - 5	8 Business Devel. 4 Cross-Discip. 4 Business Devel. & Housing 1 Housing 1 Employment & Training

*SOURCE: Community Development Corporation Profile Book, 1985, p.2

V. <u>ORGANIZATIONAL STRUCTURE OF COMMUNITY DEVELOPMENT CORPORATIONS</u>

Most community development corporations are organized as not-for-profit corporations which are exempt from taxation under Section 501(C)(3) of the Internal Revenue Code. CDCs may also be organized as for-profit corporations or cooperatives. The choice of the corporate structure is usually based on a number of factors: possible funding sources (e.g. federal agencies, banks, private foundations), and the type of funding involved (grant or loan). State laws, organizational goals, tax considerations and control are other factors dictating corporate structure. (CCED brochure, p. 8) When organized as a for-profit corporation, the CDC is structured to allow for an income generating venture to give the nonprofit corporation for several profit-making subsidiaries that the CDC wholly or partially owns. Dividends from these businesses are then turned over to the CDC, which in turn, invests the revenue in other businesses, services, or facilities needed by the community. (Schramm, 1981, p. 85)

With the for-profit CDC, issues of stock are purchased by residents of the community. Dividends from business subsidiaries are subsequently distributed among the CDC's stockholders.

The cooperative CDC sells either stock or memberships to community residents. "Unlike the stockholder in the for-profit CDC, however, the cooperative member shares in CDCs' profits, not according to the quantity of stock owned, but in proportion to either the member's output, in a producer cooperative, or patronage of the CDCs business, in a consumer coop." (Schramm, 1981, p. 85)

The CDC Board and Membership

The Board of Directors is the decision-making body of the CDC. It basically defines goals, formulates strategies, seeks funding, hires staff, and monitors projects. The size and composition of the Board, usually established in the by-laws, varies among CDCs.

A number of methods have been used in the selection of CDC Board members:

- direct election by membership;
- election of representatives from the membership of designated organizations with the community;
- the appointment of members to represent certain constituencies e.g. business, public sector, development experts, community leaders; or
- self-selection by those actively involved in the CDC.

The membership of nonprofit CDCs is usually made up of local residents who live in a geographically defined area. Non-residents may be allowed as members in some CDCs such as businessmen or representatives of organizations. Bylaws are often written, however, to insure that there is low-income control of the Board of Directors or that a certain percentage of the members are low-income. Sometimes a nominal membership fee or a minimum number of meetings in attendance is required.

Essentially, membership eligibility and structure of the board may depend on the following factors: the corporate structure of the CDC; its bylaws; its major funding source (e.g. SBA, CSA, etc. that may have certain requirements of the board).

CDC STAFFING

CDCs use three major types of staffing structures: functional, program/product, and matrix organization. Some may use a combination of thes. (Resources, Aug. 1983, p. 5) A CDC using the functional structure is divided into separate functional areas that are geared to a group's clients and provides services and activities to that particular constituency. Such areas, for example, may include business development, housing, and social services. The program/product structure fixes responsibility for all activities to a particular program.

The matrix design on the other hand integrates the strengths of both the functional and the program structure while trying to avoid their weaknesses. (Resources, Aug. 1983, p. 5) Individuals within this structure are assigned to a particular function or program, but also have assignments and responsibilities elsewhere in the CDC. This structure allows for a greater amount of flexibility, but may lead to some confusion as to the reporting relationships.

The formalized staffing structures is an important component of the successful operation of the CDC. Yet, it should guard against becoming overmanaged or bureaucratized. It may otherwise limit the creativity and flexibility of its employees.

Whatever structure is selected, any CDC should have among its staff: someone with strong administrative and managerial skills (not necessarily the director, whose major responsibilities may include public relations, fund raising, etc.); a property development specialist; a business analyst; and a legal consultant. The staff, generally, should be committed to community development and have good writing and communication skills. (CCED brochure, 1979, p. 14)

VI. FINANCIAL ASSISTANCE

Community Development Corporations in the past have had access to a variety of private and public funds that have been used for organizational support-- covering costs of office, rental expences, administrative staff, etc., as well as for the finance of actual development projects.

A. Public Monies

Direct grants have been made to CDCs under the Title I program of the Economic Development Administration (EDA). Such grants have been used to meet up to 50 percent of the cost of acquisition, development, or imporvement of land or buildings, including related machinery and equipment. Loans and guarantees have also been available to nonprofit CDCs for up to 100 percent of the project costs of acquiring, developing, and improving land and buildings. Loans for certain industrial and commercial purposes may cover up to 65 percent of the total project cost. (Schramm, 1981, p. 86)

The Small Business Administration has also been an important source of funding. The SBA operates a number of loan, loan guarantee, and equity programs, making the SBA an important source of investment and working capital for the start-up of new, or the expansion of existing, CDC businesses. (Schramm, 1981, p. 86). Eligibility for this type of financing is limited to for-profit business concerns.

Nonprofit CDCs are also eligible for grants totaling up to 90 percent of their program costs under the Title VII program of the Community Service Administration. (Schramm, 1981, p. 86)

1. Debt Financing

The SBA has been an important source of investment and working capital for the start-up of new, or the expansion of existing, CDC businesses. It operates a number of loan, loan guarantee, and equity programs. Eligibility for funds is limited to for-profit concerns.

The EDA makes loans and guarantees available to nonprofit CDCs for up to 100 percent of project costs of acquiring, developing, and improving land and buildings. Loans for certain industrial and commercial purposes may cover up to 65 percent of the total project cost. (Schramm, 1981 p. 86)

The Farmer's Home Administration (FmHA) has made business and industrial development loans to CDCs that are located outside the boundary of a city of 50,000 or more.

2. Financial Assistance for Training and Other Employee Costs

Nonprofit CDC were able to receive grants under the Comprehensive Employment and Training Act (CETA) to provide training and employment for 'economically disadvantaged' people.

3. Guaranteed and Sheltered Markets

Under the Minority Set Aside Program within the Small Business

Administration, a for-profit CDC or a business subsidiary of a non-profit CDC may be eligible for special government contracts if 51 percent of the CDC is owned by minority individuals. Under this program, federal agencies "set aside" certain contracts for goods and services to be provided by the SBA, which in turn subcontracts with small, minority-owned businesses.

4. Cutbacks in Financial Assistance

Much of the federal assistance obtained through programs such as EDA, HUD, CSA and the FmHA has been reduced or eliminated. Much of this federal assistance is being turned over to the states in the form of block grants. (See Section VIII: CDCs Under the Reagan Administration).

B. PRIVATE MONIES

Since Federal resources have dwindled in the past few years, CDCs have had to rely more on private sources. Available public funds are often used to leverage more dollars from the private sector. Fortunately, there has been significant growth in private resources, particularly from lending institutions, such as Bank America, and insurance companies, such as Prudential and Aetna Life and Casualty. They have provided millions of dollars in loans, and have helped capitalize national financial intermediaries, such as the Local Initiatives Support Corporation and the Enterprise Foundation.

VII. ECONOMIC DEVELOPMENT FUNCTIONS

Community Development Corporations perform a number of very important functions in accomplishing economic development. Some may place more emphasis on one economic development area than other areas-- others may be cross-disciplinary in their attempt to link the various economic development strategies. These major areas may be described as:

1. Enterprise development and assistance;
2. Human resource development;
3. Area planning; and
4. Cooperative development

A. Enterprise Development and Assistance

Probably the most important philosophy to come out of the community-based economic development movement has been that job creation and business development is crucial in enabling the poor community to become more self-sufficient. Many CDCs began with the idea that they would start up and operate a wholly-owned business. Many, however, failed. This was not surprising, given the tremendous odds a business faces in the depressed community such as: lack of financing, business and technical expertise, and problems with crime, etc.

In the area of enterprise development and assistance, CDCs have been moving away from assisting single businesses, and instead are moving toward strategies that strengthen the marketing and distribution of a particular industry that demonstrates significant job creation potential for low-income people.

Various strategies involved in enterprise development and assistance include:

- Debt capital;
- Equity capital;
- Sectoral intervention/technical assistance using production and marketing techniques;
- Capitalizing on the local natural resource base (e.g. fisheries, forest products, small farms);
- Utilization of franchises to access markets, jobs, and revenue ofr other community economic development projects; and
- Infrastructure development.

The following sections will describe some of these strategies and how some CDCs have put them to work.

1. Debt Capital

A source of low-cost, long-term financing is a basic ingredient of economic development. CDCs provide loans to local enterprises in a number of ways. Tennco, Inc., a CDC operating in 10 counties of Tennessee, has a revolving loan fund that is a wholly-owned, primarily subsidiary CDC. The loan fund guarantees up to 50 percent of a $40,000 loan made by local banks to small business. (Schramm, 1981, p. 87) CDCs often use a revolving loan fund to assist small businesses. Impact Seven, Inc., a CDC serving rural northwestern Wisconsin, uses a revolving loan fund capitalized by a $662,500 grant from the Economic Development Administration. It looks at the number of new, full-time jobs that an investment will create as a major criteria for assistance. This revolving loan fund has led to 78 jobs as of 1985 and has loaned $1,994,300 to 11 businesses. Of this money, $1,331,800 was leveraged from banks. (CDC Profile Book, 1985, p. 66)

2. Equity Capital

The initial high risks of developing business and housing projects in the inner-city community and remote rural areas require the CDC to have sufficient "seed" capital to attract investors. However, the need for equity capital, or "front end" money, is one of the biggest obstacles the small business person will face in trying to establish a business in these areas. Capital is simply not available since income and savings are so low in the community. As a consequence, businesses are often financed, if at all, with a high proportion of debt instead of equity. To address this lack of financing, some CDCs have operated as venture capital institutions to provide assistance and services to entrepreneurs. As a venture capital intermediary, CDCs raise and invest capital to create jobs and to generate an income flow to the CDC to provide services to the area.

CDCs are in a favorable position in that they can obtain financing from a greater variety of sources than private venture capital intermediaries due to their hybrid organizational form (i.e. quasi-public/quasi-private). They can then start up a new enterprise as a subsidiary or other affiliate of the CDC, often through a holding company arrangement.

One of the biggest advantages the CDC has over the conventional system of minority entrepreneurship (i.e. obtaining financing through the downtown bank) is that it can sell stock. Through community stock sales it can tap equity money of the local residents who have small savings but who are not entrepreneurs. In this way, it can capitalize on the growing desire of ghetto residents to participate in self-help efforts. (Fauz, 1971, p. 54)

CDCs may also attract private donors, foundations and government agencies into making contributions (usually tax exempt) of equity capital to the CDC. They may attract this outside capital, convert it into equity capital, and then keep it under community control.

3. Technical Assistance

The CDC offers a most valuable service to the community by lending its expertise to local enterprises. One type of technical assistance is the managerial advise offered by CDCs to help in the conducting of day-to-day operations of existing businesses. Centralized services may also be provided, such as the drafting of grant applications and the packaging of business investment deals. CDCs may also help in the development of needed technical innovations and processes. Feasibility studies of a group's proposal are also often conducted by a CDC. Market studies and structural surveys are two activities a CDC may engage in to provide physical development.

4. Infrastructure Development

Another important economic development function the CDC performs is the improvement of the physical and service infrastructure that supports business development. This may involve land development or improvements in transportation facilities to make commercial, industrial, or retail activity more viable. (Schramm, 1981, p. 88) Other infrastructural projects may include the improvement of utilities, public services (e.g. crime control and fire prevention), and amenities (e.g. parks and recreational areas).

Also, within the area of infrastructure development, CDCs are among the most effective community-based renewable energy financing institutions. For example, the South Dakota CDC pools financial resources from different agencies and channels it, along with technical assistance and local volunteer labor, to community-based small businesses. The San Bernadino West Side CDC is probably the most innovative and successful energy CDC. It pools money to retrofit 10 abandoned houses under Section 8 housing guidelines. (Schramm, 1981, p. 149)

Many CDC infrastructure projects have been done in cooperation with local and state governments. Some CDCs have established construction companies to bid on and perform the work. Other CDC infrastructure projects have largely been funded by the private sector.

B. Human Resource Development

This is an important aspect to any CDC in that it increases the skills and capacity of the local work force to sustain a viable local economy. Human resource development may include training programs in management and skills, some of which may lead to certification upon completion, making the formerly "unskilled" person marketable for a future permanent job.

The CDC recognizes the importance of the low-income population having access to primary labor market jobs (e.e. those with good pay, fringe benefits, stability and advancement potential) in order to attain their economic independence. Many CDCs have experience in providing job training for primary labor market employment. They have done so as funded by the CETA program. This program has since been replaced with the Job Training Partnership Act program.

C. Area Planning

Many CDCs engage in some sort of planning for their target areas, whether it is in the long-range planning of economic sectoral development or in the identification of capacity restrictions on local economic development. For example, the Los Angeles Community Union (TELACU) has developed a master plan with a goal of "creating long-term, gainful and dignified employment opportunities for area residents. The plan targets a long-term need for financial institutions and new sources of employment." (Schramm, 1981, pp. 89)

D. Housing Development

Many early CDCs were formed to provide decent, affordable housing to low-income communities. The need to increase decent housing has also been an important strategy in the stabilization of neighborhoods in addition to providing for a basic need. Housing projects have also created short-term construction jobs that sometime lead to permanent jobs in construction and housing management, thereby enhancing the job skills of low-income residents in the long run.

CDCs have used HUD's CDBG program and Section 8 Rental Subsidies programs to undertake single family, multi-family, scattered site, and congregate housing projects, etc. However, with severe reductions in housing funds from the Federal government, CDCs have turned to syndication and other private sector strategies to support projects. Syndication is a means for raising capital through forming limited partnerships to sell tax losses to investors. (Barbe/Sekera, 1983, p. 94)

Several national private intermediaries have helped CDCs obtain financing for housing and other development activities. The Local Initiatives Support Corporation in New York City and the Enterprise Foundation in Columbia, Maryland are two well known private sources.

E. Cooperative Development

Many CDCs conduct activities that provide for cooperation in production and consumption that would not be otherwise possible.

The Southern Cooperative Development Fund, Inc., based in Lafayette, Louisiana, is a development bank serving the southeastern United States. It has made over 200 loans worth $13 million to 75 low-income cooperatives. Local cooperatives and community-based organizations have leveraged over $10 million with SCDF's assistance. (CDC Profile Book, 1985, p. 93)

Coastal Enterprises. Inc., a private nonprofit rural CDC in Maine, has organized a firewood cooperative that provides an outlet for increased production of local firewood and increases the availability of cheap fuel to low-income consumers. The CEI provides financial and technical assistance to small businesses and cooperatives in natural resource industries, such as fisheries, forest products, and small farms, to generate employment, income, and equity opportunities for low-income area residents. (CDC Profile Book, 1985, p. 18)

COMMUNITY DEVELOPMENT CORPORATIONS DURING THE REAGAN ADMINISTRATION

The Reagan administration began to dismantle many federal community development programs, in the early 1980s. The Administration Acts led to the demise of the Community Services Administration's Office of Economic Development, the Economic Development Administration's Office of Special Projects, and the Department of Housing and Urban Development's Office of Neighborhood Self-Help Development. (Resources V.2 #8. p. 1)

Many organizations lost much of their funding as a result of these cutbacks. In order to survive, groups have had to become more sophisticated and more reliant upon private development tools and resources. Increasingly diversified sources of funding has become the trend among CDCs today. A greater emphasis is now placed on revenue-sharing activities, staff professionalization, and strengthened working relationships with state and local governments, and with private corporations and lenders. (Resources V.2, #8 p. 1) CDCS today are, however still accessing CDB , JTPA funds and Health and Human Services Department Discretionary Fund Grants. In addition, state community economic development programs have been established in Massachusetts, Minnesota, Florida, Illinois, New Hampshire, and in Wisconsin.

Several private sources such as lending institutions and insurance companies have provided funds to CDCs and have also helped to capitalize financial intermediaries such as L.I.S.C. and the Enterprise Foundation.

Today with more attention focused on the private sector for funding sources, CDC projects must show a lower level of risk to attract such dollars. The private sector places greater emphasis on loans compared to grants. There is, therefore a greater reliance upon debt financing as opposed to equity financing. The end result is, that today, the marginal project is more easily rejected by the private sector due to the uncertain cash flow for loan payments.

The technique of leveraging has become widely used in attracting private dollars to CDC projects. Leveraging is accomplished by utilizing a small grant or loan to attract additional funds from different sources. Many projects are also inevitably dependent upon several sources due to the fact that most funders limit the size of grants or loans they make.

Another technique, more commonly used by CDCs today, is the syndication strategy. Syndication basically involves the sale of partnership interests in a project, primarily for tax benefits. Hope Communities, Inc. (in Detroit), for example, used syndication in structuring the financing for a 20-unit low-income housing project, without Section 8 rental assistance. (Resources V.2 #8 p.2)

Today, CDCs are utilizing a venture capital strategy, despite the fact these funds were discontinued under the Title VII program. This strategy places a reliance on the developing firm's management and on the ability of the CDC to provide appropriate technical assistance. The strategy involves the joint ownership and control over a business.

As a partner, the CDC makes a contribution to the partnership in the form of land, financing, cash and/or labor. In return, the organization receives a share of the ownership interest and business's profits or increase in value. (Economic Development Law Center Report, Oct./Dec. '81 p.16). Impact even Inc., a rural CDC in rural northwestern Wisconsin, uses the venture capital strategy to target funds to new or expanding businesses, primarily manufacturing companies, that show profitable growth and significant job creation. (CDC Profile Book, p. 66).

Many CDCs have established revolving loan funds to provide financing to small businesses. This is often a preferred method of implementing business development strategy because it often makes a broader impact on a community and has lower risk as compared to direct investment.

Some CDCs, in recent years have utilized business incubators. These take the form of commercial buildings that provide low rent and shared services (secretarial, phone, copying, computers, etc.) to newly formed businesses. (Resources V.2 # 8 p.3) It essentially links physical development with business development. The Flint Community Development Corporation's subsidiary corporation "Durant-Four Building, Inc." is a commercial-industrial incubator, opened in early 1985, that assists 35 to 40 new companies and has created up to 300 new jobs. The incubator provides on-site management and technical assistance services, as well as financial, referral and support services. (Flint CDC-1984 Annual Report)

There has been in the past, an increased emphasis on technical expertise among community groups and less emphasis on organizational development and community institution building. Staffing has also changed in that there has been a shift from generalists to specialists in areas such as finance, marketing, and accounting. The need for staff with technical skills has increased as CDCs do development projects.

Most CDCs have dropped any board training when faced with reduced budgets and many have reduced the size of their Board of Directors. As the boards get smaller, the level of business representation usually gets bigger.

It has also become more difficult to obtain funds for core support of a CDC. With the exception of CDBGs and the Job Training Partnership Act (JTPA), there are no federal resources for core support. Even state supported community economic development provides little money to administrative support for community-based groups. Fortunately, some private foundations fund core staff, usually on a limited basis. The Ford Foundation funds core staff.

With fewer fund to work with, CDCs have had to turn to volunteers to supplement staffing. According to McNeely, CDCs have "broadened their base by involving community residents in sophisticated planning; by designing highly participatory activities related to and supportive of the more sophisticated and narrowly controlled major development projects;

and by using community volunteers to carry out some of the work that normally would be contracted to consultants or assigned to staffs" (McNeely, 1984, pp.36).

By using volunteers, the cost of doing various tasks may be substantially reduced and community leaders and residents, moreover, may gain first-hand knowledge of skills in working toward improving their community. A good example of how an organization can benefit from volunteers on staff may be found in the Neighborhood Housing Service (of Baltimore). It uses volunteers to conduct a promotion and sales campaign for vacant houses in the area (McNeely, 1984, pp.38).

Besides using volunteers to reduce costs, the CDC board and staff should pass on skills by training participants in a substantive area of the project and in the feasibility and planning techniques to be used in project development. Leadership skills of volunteers may also be developed by bringing in highly experienced business leaders to participate in the planning process of the CDC.

To sustain the involvement of community volunteers in complex and large-scale projects, CDCs should organize more short-term, highly participatory activities during the project development stage. For example, the Bedford-Styversant Restoration Corporation organized a residential street improvement program throughout its commercial "superblock" program (McNeely, 1984, pp.37).

IX. SUMMARY AND CONCLUSIONS

Summary

The Community Development Corporation offers a comprehensive approach to the betterment of inner-city communities and depressed rural areas of this country by enabling them to become more economically self-sufficient as well as politically empowered through the control of their own economic enterprises. Many CDCs began in the late 1960s and early 1970s when they enjoyed funding from federal sources such as the Community Services Administration's Office of Economic Development, the Economic Development Administration's Office of Special Projects, and the Development of Housing and Urban Development's Office of Neighborhood Self-Help Development. Contributions also came from private sources such as the Ford Foundation and major corporations.

The purpose of this paper was to provide background information on the Community Development Corporation as a tool for accomplishing community economic development. It has attempted to give an overview of its organizational structure, its funding sources, and the economic development functions it performs. It also discussed the current status of CDCs under the Reagan administration and how they have adjusted to severe cutbacks and elimination of the public funding sources relied upon in the past.

Future Research

Further research into the new generation of CDCs within the 1980s would provide insight into how community economic development is being accomplished through limited public resources and increased private sector strategies. It is also crucial that in the future CDCs link up with other community-based organizations to provide a coordinated approach of service delivery to a target area.

Conclusions

Community Development Corporations are as important (if not more important) today as they have been in the past. It is critical, however, that if the CDC is to survive, it must seek to diversify state, local and private funding sources, and must continue to look for creative approaches to address the economic and social needs of our impoverished communities. These creative approaches are evident in the newer CDC projects that utilize techniques of: leveraging public and private dollars; syndication to raise capital for housing and commercial projects; venture capital strategies to create more jobs; business incubators to link physical development with business development, etc.

The prospect for the future is encouraging. While community economic development is a relatively new discipline, CDCs have survived for almost two decades. They have demonstrated their ability to adapt to changes in the political and economic environment, while meeting the needs of the distressed community. It may well be that the CDC is truly coming of age in the 1980s despite the many cutbacks in programs it once enjoyed in the past. The CDC offers a promising future for community-based economic development and may, in fact, still be the best hope for the empowerment of this country's poor and disenfranchised.

BIBLIOGRAPHY

Barbe, Nancy and June Sekera. "A State-Community Partnership: Targeting Economic Development to Aid Distressed Communities," Resources, April 1984.

Barbe, Nancy and June Sekera. States and Communities: The Challenge for Economic Action. Washington, D.C.: The National Congress for Community Economic Development, November 1983.

Bivens, William E, III, editor. Syndication Strategies for Community-Based Development Corporations. Washington, D.C.: National Congress for Community Economic Development, February 1983.

Blaustein, Arthur and William Frej. The Housing and Community Development Act of 1974: An Analysis of Relevant Provisions and Potential Strategies for Community Development Corporations. Berkeley, California: (The National Economic Development Law Project) Earl Warren Legal Institute, 1975.

Block, Carl E. "Marketing Techniques for the Community-Based Enterprise," Law and Contemporary Problems 36 (Spring 1971), 173-190.

Buhl, Lance C. "Philanthropic Support for Community Economic Development: A Corporate Perspective," Resources, Vol. 3, No. 9. Washington, D.C.: National Congress for Community Economic Development, September, 1985.

Daniels, Belden and Larry Litvak. Innovations in Development Finance. Washington, D.C.: Council of State Planning Agencies, 1979.

Erdmann, Robin, Harlan Gradin and Robert O. Zdenek. Community Development Corporation Profile Book. Washington, D.C.: National Congress for Community Economic Development, September 1985.

Faux, Geoffrey. CDC's: New Hope for the Inner City. New York, N.Y.: The Twentieth Century Fund, 1971.

Faux, Geoffrey. "Politics and Bureaucracy in Community Controlled Economic Development." Law and Contemporary Problems 36 (Spring 1972), 277-296.

Federal Reserve Bank of Chicago. (A conference sponsored by,). "Community Development Corporations Conference." Chicago. September 24, 1985. Materials obtained: handouts, forms, brochures, Indiana National portfolio, etc.

Garn, Harvey A. and Nancy L. Tevis, Carl E. Snead. Evaluating Community Development Corporations-- A Summary Report. Washington, D.C.: The Urban Institute, March 1976.

Harberfield, Steve, "Economic Planning in Economically Distressed Communities: The Need to Take a Partisan Perspective". Economic Development & Law Center Report. Oct./Dec. 1981.

Hallman, Howard. Neighborhoods: Their Place in Urban Life. Beverly Hills: Sage Publications, 1984.

Kelly, Rita Mae. Community Control of Economic Development: The Boards of Directors of Community Development Corporations. New York: Praeger Publishers, 1977.

Kelly, Rita Mae. Community Participation in Directing Economic Development. Cambridge, Mass.: Center for Community Economic Development, 1976.

McNeely, Joseph. "The Challenge of Community Development to Neighborhood Leadership," Urban Resources, Vol. 1, No. 3. Winter 1984.

Martinez, Arabella and David Carlson. "Minority Leadership Development: Promise versus Reality in Community Development Corporations," Resources, Washington, D.C.: National Congress for Community Economic Development, November 1983.

Mayer, Neil S. Neighborhood Organizations and Community Development: Making Revitalization Work. Washington, D.C.: The Urban Institute Press, 1984.

Michigan Coalition for Community Economic Development. (A Conference sponsored by,). "Controlling our Economic Destiny: Community Economic Development in Michigan." Romulus Township, MI. September 12, 13, 1985. Materials obtained: articles (reprints from Resources and the Economic Development and Law Center Report, etc.) and portfolio on the Flint Community Development Corporation.

Mico, Paul. Developing Your Community-Based Organization. Oakland, CA: Third Party Publishing Co, 1981.

Mier, Robert and Wim Wiewel. "Business Activities of Not-For-Profit Organizations: Surviving the New Federalism?" American Planning Journal, Summer 1983.

National Housing and Economic Development Law Project. A Lawyer's Manual on Community-Based Economic Development. Berkeley, CA, 1974.

National Urban League. "An Introduction to Community-Based Economic Development." A paper presented at the "Urban Symposium" in Battle Creek, MI, 1983.

Oxendine, John E. and Alvin N. Puryear. "Profit Motivation and Management Assistance in Community Economic Development," Law and Contemporary Problems.

Perry, Stewart. "National Policy and the Community Development Corporation," Law and Contempory Problems 36 (Spring 1972)

Perry Stewart. Federal Support for CDCs: Some of the History and Issues of Community Control Cambridge, Mass.: Center for Community Economic Development, 1973 .

Poplack, Lauren R. "The Evolution of Minnesota's State CDC Program," *National Economic Development Law Project Report*, March/April 1978.

Posner, Robert. "Survey of CDC Involvement with CETA Programs," *National Economic Development Law Project Report*, March/April 1978.

Schramm, Richard, ed. *Financing Community Economic Development: A Resource Guide for Community Planners, Organizers, Activists*. Program in Urban and Regional Studies. Ithica, N.Y.: Community Economic Development Workshop, Dept. of City and Regional Planning, 1981. (Chapter 14: "Community Development Corporations," by John E. Davis and Michael R. Hattery. pp. 85-90).

Sturdivant, Frederick D. "Community Development Corporations: The Problem of Mixed Objectives," *Law and Contemporary Problems* 36 (Winter 1971), pp. 35-50.

Sussman, Carl. "Development Finance is Under Way in Massachusetts," *Center for Community Economic Development Newsletter*, December 1976-January 1977.

West, Gordon and William Frej. *Conference Transcripts: A National Training Workshop Conference on Housing and Community Development Opportunities for CDCs*, October 29-31, 1975. Sponsored by: The National Economic Development Law Project, Earl Warren Legal Institute. University of California, Berkeley, CA, February 1976.

Zdenek, Robert. "A Time for Reflection: Emerging Patterns and Trends in Community Economic Development," *Resources*, August 1984.

Zdenek, Robert. "Board Members: Selection and Responsibilities," *Resources*, Washington, D.C: National Congress for Community Economic Development, August 1983.

Zdenek, Robert. "Community-Based Development: Selection of Mature Organizations Stresses Achievements, Diversity," *Resources*, Vol. 3, No. 8, August 1985.

Zdenek, Robert. "State CED Networks: Creating Effective Participation in State Development Agendas," *Resources*, December 1985.

Zdenek, Robert. "State Support Grows for Community-Based Development," *Resources*, February 1983.

Zdenek, Robert. "Three Management Essentials: Organizational Structure, Staffing, Management Process," *Resources*, August 1983.

MICHIGAN STATE UNIVERSITY LIBRARIES
3 1293 02656 8851