Statement of Abdul Sm Rasheed, President and CEO, North Carolina Community Development Initiative, on Behalf of The National Congress for Community Economic Development (NCCED)

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I want to begin by thanking this Subcommittee for its support of affordable housing and community development initiatives. Chairwoman Roukema, Congresswoman Tubbs Jones, and Subcommittee members, I thank you for the opportunity to appear before you today to discuss community revitalization strategies in rural and urban communities. We are very honored that during this time of national and international crises that you made time to ensure that the House of Representatives acted on legislation that would invest in the "every-day heroes," the leaders of community based organizations that provide needed jobs, homes, and services to families and communities often neglected.

The enactment of H.R. 3974, The Community Economic Development Expertise Enhancement Act of 2002, is the top priority for the members of the National Congress for Community Economic Development. NCCED supports this legislation because it provides critical technical assistance for projects and capacity building for organizations to help the nation's community development organizations (CDCs) better utilize market forces and private sector investments in their government supported economic revitalization strategies. We appreciate the leadership of Congresswoman Tubbs Jones and Congressman Watts to introduce this bill that supports the comprehensive scope and indigenous origins of the nation's 3,600 CDCs.

What would the Community Economic Development Expertise Enhancement Act do?

CEDA would:

- Provide federal funding to enhance the capabilities of nonprofit, nongovernmental, community-based economic development organizations to leverage private sector investment as part of an overall community development strategy.
- Establish educational programs for nonprofit, nongovernmental, community-based organizations to expand their project development capabilities.
- Increase the use of tax incentives to leverage private sector investment in community economic development projects and promote and facilitate investments in community-based economic development projects from traditional and nontraditional capital sources.
- Encourage partnerships between community-based organizations that will expand and enhance the expertise of such emerging nonprofit, nongovernmental organizations in utilizing private sector investment as part of their comprehensive community development strategies.
- Ensure that viable community economic development projects are successfully pursued throughout the United States in communities having a wide range of economic, geographic, and social characteristics.

- Provide Community Reinvestment credit for investments by regulated financial institutions in community economic development projects of eligible community based economic development organizations.

What are CDCs?

NCCED is the trade association of the nation's community-based development organizations (CDCs). As H.R. 3974 states, the success of these 3,600 nonprofit CDCs is well known. The leaders of community-based organizations are often praised as "points of light" in "new markets." With area residents making up a majority of their boards of directors, CDCs are at the center of initiatives that are the difference between a community that is economically marginalized or economically viable. In many communities, local government has turned to CDCs as the primary vehicle to rebuild distressed neighborhoods. They leverage public sector funds to entice private capital and investment back to their communities. They also involve and follow the direction and priorities of community residents in designing and implementing anti-poverty activities. They are frequently the most productive – and in some cases only -- developers of affordable housing in low-income communities. CDCs also play a critical role in addressing human development needs for individuals and communities. These nonprofit CDCs undertake an economic and housing development approach to poverty alleviation that is just as critical as a social services approach.

The average CDC is a lean organization. It has an annual budget of $200,000 to $399,000, a median staff size of six and has operated for fifteen years. About sixty percent of CDCs responding to NCCED's 1998 Census reported staffs of ten or fewer members. For this reason, partnering with consultants or other peer organizations is frequently necessary. While most CDCs rely heavily on volunteers, the bulk of the complex development is handled by staff. Technical assistance plays a critical role in helping CDCs successfully undertake market-changing projects.

There are CDCs in nearly every large and medium sized city in the nation as well as in many rural areas. Fifty-two percent of CDCs serve urban areas, 26 percent serve rural areas, and 22 percent serve mixed areas. Twenty-eight percent of CDCs work in the South. Twenty seven percent serve the Northeast. Twenty-five percent serve the North Central and twenty percent serve the West. Eighty-four percent serve low-income neighborhoods including twenty-one percent in poverty level communities with an income below thirty percent of the median area income. Twenty-nine percent serve very low-income communities that earn between thirty and fifty percent of the median area income.

CDCs' positive results include:

- **Affordable Housing Production:** Built more than 550,000 homes and apartments, about one-third of the nation's affordable housing;
- **Commercial and Industrial Real Estate Development:** Produced 71 million square feet of commercial and industrial space;
- **Small and Micro-business lending:** Loaned $1.9 billion to 59,000 businesses oftentimes as the only source of credit to these entrepreneurs. CDCs often provide needed technical assistance as well; and
- **Job Creation:** Created 247,000 private sector jobs while providing employment support and training to community residents.[i]

Why does the nation need the Community Economic Development Expertise Enhancement Act?

While the impact of the work of CDCs has been profound, increasing the size and diversity of programs of CDCs could dramatically increase their productivity, which means more cost effective production of affordable housing, business lending, workforce development, and commercial, retail, and industrial development. Community development is complex, requiring significant construction, financing, zoning, fundraising, community-building, and development expertise. The average CDC development has nearly a dozen different financing sources all with different compliance requirements and requiring partnerships and collaborations. Nowhere is this needed more than in efforts to leverage private sector resources. While Congress has provided tax incentives to support community development, it has not provided any training or technical assistance to assist groups to develop and implement a private sector economic development partnership. Greater investment in the specific expertise needed for expansion in size and program sophistication of CDCs could result in more sustainable development in distressed communities throughout the United States

CEDA will expand the capacities of CDCs to complete new and necessary ventures such as mixed-use development, tax credit financing, brownfields development, immigrant and refugee assistance initiatives, economic development, ex-offender/prisoner reentry initiatives, and equity investments. CEDA will ensure organizations can make the best use of federal resources and increase their collaboration with the private sector. Technical assistance is critical to structure and implement a deal, yet technical assistance resources are inadequate, inappropriate, and inaccessible for too many groups.

What is technical assistance?

Technical assistance builds the capacity of CDCs to develop their communities. There are two broad types of technical assistance:

1. Enhancement of staff capacity in functional areas (real estate, financing, small business, investor marketing, neighborhood mapping, etc.), in which the cumulative knowledge of the staff and board improves the CDCs capacity to operate; and

2. Access to outside expertise, (bond financing, legal and accounting professional services) and other highly specialized technical areas in which the support is needed, but the CDC cannot afford to have on staff.

Some examples of technical assistance include:

- A CDC could hire an accountant and an attorney to help them set up a for-profit subsidiary in order to utilize a New Market Tax Credit allocation.
- A CDC could provide training to staff and board members to help them better manage its development and operation of the corporation. This might include training for board

members on the relationship between a parent or controlling organization and its subsidiaries, and the financial and legal consequences of having subsidiaries.

- A CDC might hire staff or a consultant (with a strong finance background) to serve as liaison to local/regional financial institutions, i.e., banks, credit unions, venture capital firms, etc., for the development of community investment strategies, sources of capital and access guides, and informational literature and brochures.
- A CDC could hire a staff-member fluent in Spanish to assist new Central American immigrants with housing, workforce development, and business opportunities.
- A CDC could hire a staff member to work with ex-offenders prior to their release from prison to help them get situated in a job and home.
- A CDC could hire a consultant to help them comply with lead-based paint regulations.

What is Capacity Building?

Capacity building is defined as "the ability of nonprofit organizations to fulfill their missions in an effective manner.[ii]" Management audits, financial indicators, business planning processes are used to gauge the capacity and performance of CDCs. Organizational capacity is a necessary condition for achieving sustained project and program success. However project technical assistance is also essential to realize the expanded cost effective CDC activity that is an objective of CEDA.

How is technical assistance and capacity building different from core operating support?

Technical assistance (TA) is specifically designed to enhance the expertise (competency) of the staff and board and increase their capacity to expand or undertake new types of needed projects. Core operating support is designed to pay for the basic ongoing costs of operating the organization (staff and support costs including community outreach and involvement and collaboration with other sectors, agencies and organizations).

There is no argument from CDC advocates or practitioners that CDCs, and nonprofits serving very low-income communities and residents, need core-operating support. There is clear evidence that increased long-term core operating support allows an organization to spend more time increasing its competencies and capacities resulting in greater production outcomes and more durable institutions.

Multi-year programs are the best approach to providing core support because they permit CDC leadership to plan and implement comprehensive development. Multi-year funding structures provide immense, concomitant benefits to CDC programs and their beneficiaries including:

1) Development of seamless multi-year community projects;
2) Ability to successfully incubate and graduate participants/ entrepreneurs in multi-year business development training programs;

3) Establishment of multi-year community partnerships, obviating the need for withdrawal caveats in contract clauses—which can avoid delays that could cause negative community relations.

Why is technical assistance needed?

Technical assistance can greatly assist the production capacities of CDCs resulting in more jobs, businesses, investments, and homes for lower-income families. A small investment by the federal government can provide returns greatly exceeding the costs within a few years. Returns include increasing the tax base due to property, income, and sales taxes paid and reducing dependence on the social welfare system. In addition, a CDC by fixing a major eyesore in a community, can change the image of that neighborhood and encourage private investment.

Community revitalization is a time-intensive process that requires a sophisticated understanding of economic markets and community dynamics. As CDCs seek to make market-based decisions, they are being asked to undertake complex deals. The funding sources themselves are much more complex including federal and state tax credits, multi-year compliance; equity and debt sources; and a variety of federal, state, and local funds. Private sector resources often require awareness of the business cultures and priorities to succeed.

How has Congress historically and currently funded technical assistance to increase the capacity of CDCs?

There is no federal assistance program that provides assistance directly to CDCs for capacity building and technical assistance. Very little of the $15 billion the federal government invests in community revitalization is distributed for technical assistance to build capacity of practitioners operating in low-income distressed communities. The vast majority of the funds are distributed through tax credits to investors or to government entities primarily for project support. The vast majority of federal community revitalization programs have no technical assistance or capacity building funds. For example, two recently enacted programs, the New Markets Tax Credit and the Assets for Independence Act include *no* funding for technical assistance or capacity building. Programs that used to provide technical assistance, like the Community Development Block Grant program (CDBG), have not been funded for years. Technical assistance funds through HOME Community Housing Development Organizations have been falling for years with no funding made available this year.

For a brief time, CDCs were assisted through Title VII of the Economic Opportunity Act. However, since the 1980s, there have been few dollars to build the capacity of these organizations. The John Heinz Neighborhood Development Program was funded at HUD from 1987 until 1996. In the early 1990s, Congress chose to include administrative and training costs as eligible activities under the two popular programs mentioned previously – CDBG and HOME. In the mid 1990s, Congress provided funding for the National Community Development Initiative ($10 million from HUD) and the Rural Community Development Initiative ($6 million

from the U.S. Department of Agriculture) to specifically provide capacity building and technical assistance.

The John Heinz Neighborhood Development Program (JHNDP) provided direct assistance to neighborhood community economic development groups, but funds were limited and not available to rural groups. The JHNDP was targeted to low and moderate-income neighborhoods. Grants of up to $75,000 were available through the program and spending requirements were flexible. Funds could be used to build the capacity of neighborhood groups, allowing them to hire additional staff, train existing staff, pay up-front pre-development costs, and explore innovative approaches to community development. The critical bridge financing provided by the JHNDP enabled small groups to undertake complex development activities, expanding private sector production and creating jobs for local residents.

CDBG and HOME. In the early 1990s, Congress made changes to CDBG and HOME, the two major federal sources for community revitalization. Congress permitted each local jurisdiction to choose to invest up to five percent of its formula allocation for "capacity building" under HOME or "technical assistance" under CDBG of community organizations. According to HUD data between 1992 and 2000, only three of 588 participating jurisdictions (PJs) chose to allocate the entire five percent of their HOME allocation to community housing development organizations. The three PJs are Lakeland, FL; Snohomish County, WA; and Kenosha, WI. Only four percent of PJs (25) allocated above four percent. Fifty-one percent (299) did not allocate any funding for CHDO capacity building. No data is available for CDBG allocations for technical assistance for nonprofits. However, CDCs report similar inability to access such funding. HOME does have a set-aside of fifteen percent for project development by CHDOs, but this does not include administrative funding. The block grant allocations of CDBG and HOME do not provide technical assistance to nonprofits. Even when the law was changed to encourage it, funds were still not allocated to T.A. for nonprofits through the block grant. Congress occasionally provided small pots of T.A. funds through HOME, HOME CHDO TA, or CDBG but it has varied dramatically by year and is highly competitive.

National Community Development Initiative. NCDI, now called Living Communities, is a collaborative of foundations and private sector corporations. NCDI began in 1991 as an effort to increase the capital available to community development corporations by pooling more funding than any one philanthropic or private sector resource could be expected to provide. The U.S. Department of Housing and Urban Development joined NCDI in 1994. Under Section Four, Congress supported NCDI with three grants ($20 million in 1994, $10 million in 1996, and $20 million in 2001).

NCDI has been very successful in the communities in which it operates. It has been a reliable resource. However, it is limited to locations served by The Local Initiatives Support Corporation (LISC) and The Enterprise Foundation. In NCDI Funding Cycle years, the funding is limited to 23 cities supported by the Collaborative. Any funding decision requires a collaborative process among all partners. The partners meet infrequently and decisions are made by consensus for a limited number of cities.

Section Four: Congress has chosen to provide about $124 million for technical assistance to CDCs through four national intermediaries: LISC, The Enterprise Foundation, Habitat for Humanity, and Youthbuild. These groups use the funds to work with affiliated organizations in the communities they serve. The intermediaries provide grants to CDCs for capacity building, local funding collaboratives, technical assistance, and training, primarily to increase housing.

Rural Community Development Initiative (RCDI). The purpose of the RCDI is to provide technical assistance to nonprofit organizations, low-income communities, and federally-recognized tribes located in rural areas to allow them to increase their capacity to undertake housing, community facility, and community and economic development projects. Like NCDI, all of the funding is provided to intermediaries. Congress appropriated $6 million in FY 2002 for the Rural Community Development Initiative, and $10 million in funding has been proposed for FY 2003. RCDI grants are made to an intermediary (a private or public organization), which provides technical assistance to grant recipients. Technical assistance can include various trainings, assistance with strategic plan development, access to alternative funding sources, and use of effective fundraising techniques. The minimum grant request is $50,000, with a maximum of $1 million. Matching funds generated by the grantee must be no less than the grant amount. It is too soon to comment on the impact of this new initiative.

Other agencies. Other agencies that provide training funds include the Economic Development Administration (EDA), Federal Emergency Management Assistance (FEMA), the Community Development Financial Institutions Fund (CDFI), and the Office of Community Services (OCS). EDA and FEMA funds are focused on training and tend to be very difficult for nonprofits to access. For example, FEMA released a request for bids to provide technical assistance to community and faith-based organizations for disaster mitigation and then ruled that only for-profit firms were eligible for funding. OCS and CDFI funds tend to be more technical assistance oriented and provide direct assistance to intermediaries to help community groups. Both OCS and CDFI funds are small resulting in a highly competitive process to receive assistance. CEDA is rare in that it provides funds directly to community groups for their priorities.

H.R. 3974 is different from those mentioned above in that it provides a critical resource for technical assistance specifically linked to the organization's project development goals. The funding would flow primarily to organizations' directly, not through a national or regional intermediary. The technical assistance would have the duration of the actual project or goal of the CDC. It would be provided in the CDC's office, not a hotel or university meeting room. The training is a one-on-one mentoring process that is specifically tied to implementation.

Most government technical assistance is primarily training on specific topics already selected by the training providers at the request of the government. These trainings tend to be short-term (a day or a week long) and classroom based. About half of CDC directors attend training on topics such as real estate development, property/asset management, strategic/business planning, organizational development, financial management, Personnel/human resource management, and fund raising. Training is provided by national, state, and regional organizations. At the national level, these include Development Training Institute, The Enterprise Foundation, Local Initiative Support Corporation, McAuley Institute, Tonya, and the National Congress for Community

Economic Development. A number of state and city community development associations provide training to member CDCs.

While both training and technical assistance are very much needed, training is available more often than technical assistance. Very few organizations offer project-specific long-term technical assistance. The Community Economic Development Expertise Enhancement Act (CEDA) meets this need.

What is the impact of technical assistance investments in CDCs?

Investments in technical assistance improve CDCs' production capacity. T.A. expands the types of development CDCs undertake and their ability to manage complex projects. T.A. results in greater production from vibrant durable organizations. Technical assistance and capacity building to CDCs ensures quality projects and compliance with grantmaker requirements and community needs. The best impact of investments made in CDCs are the figures mentioned at the beginning of this testimony: CDCs built 550,000 homes and apartments, produced 71 million square feet of commercial and industrial space, loaned $1.9 billion to 59,000 businesses, and created 247,000 private sector jobs. With adequate technical assistance, those numbers would be even greater.

Increases in production include the number of housing units, loans made, jobs created, taxes paid, a reduction in the poverty level, businesses and families assisted or decreases in poverty factors. Durable institutions have improved management systems, better-trained board members and staff, and stronger alliances with the private, public, and philanthropic sectors.[iii] Durable organizations can also meet the demands of residents and other sectors of their community by undertaking broader activities including community building and social services and other resident identified needs such as health care, education, crime prevention, and elder care.

Chairwoman Roukema and Subcommittee members, this concludes my testimony. I thank you for the opportunity to appear before you today and thank you for focusing on the national benefits that community development corporations offer and to express our strong support for H.R. 3974, The Community Economic Development Expertise Enhancement Act.

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[i] *Coming of Age*. Washington, D.C.: National Congress for Community Economic Development. 1999.
[ii] Building Capacity in Nonprofit Organizations. Carol J. Devita and Cory Fleming. Washington, D.C.: The Urban Institute. 2001.
[iii] *Community Development in the 1990s*. Christopher Walker and Mark Weinheimer. Washington, D.C.: The Urban Institute. 1998.