Evolving Challenges for Community Development Corporations

The Causes and Impacts of Failures, Downsizings and Mergers

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# EVOLVING CHALLENGES FOR COMMUNITY DEVELOPMENT CORPORATIONS: THE CAUSES AND IMPACTS OF FAILURES, DOWNSIZINGS, AND MERGERS

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We also thank the dozens of key informants who shared their knowledge about community development corporations that failed, downsized, or merged in recent years (see appendix A). The information they provided was invaluable in helping us select the six organizations to study. Finally, we are in debt to the people who were interviewed for this study (see appendix B). We appreciate their willingness to share their experiences with us. We hope that this project both accurately reflects what they told us and contributes to a deeper understanding of the challenges being faced by community development corporations throughout the country.
EXECUTIVE SUMMARY

Community development corporations (CDCs) are key vehicles for providing better housing and promoting community development in low- and moderate-income neighborhoods. These organizations, however, face a variety of challenges to their continued viability. In recent years many have failed, downsized, or merged with other organizations. This study represents the first systematic analysis of CDCs that have failed, downsized, or merged. By analyzing the experiences of six organizations—two that failed, two that downsized, and two that were the product of a merger—we identify the factors that contributed to these organizational changes and the impacts on the communities served. The study also recommends ways for both CDCs and their supporters to address the challenges they face and reduce the prevalence of downsizing and failure.

In recent years, CDCs have become increasingly important actors in many low- and moderate-income communities. In neighborhoods where the loss of private businesses has often been endemic and where private and even public investment may be extremely low, CDCs provide housing and create jobs and economic opportunities for residents. As key engines of community growth and revitalization, CDCs have been the subject of considerable study, and their continued viability and productivity are widely viewed as important in efforts to improve deteriorated neighborhoods and their residents’ opportunities.

Over the past 30 years, much attention has been paid to the growth in the number of CDCs. The widely cited National Congress for Community Economic Development surveys, for example, have shown a near-doubling in the number of CDCs between 1988 and 1999. Recently, however, several large, well-respected CDCs have failed or been drastically downsized, and others have merged with different organizations. One of the most dramatic examples of a CDC failure is Indianapolis’s East Side Community Investments, which had been one of the nation’s largest and most celebrated CDCs. Between the early 1990s and 1997 it went from a staff of 115 to a staff of 6 and in October 2001 it finally went out of business.

These incidents led us to ask several questions:

1. Are CDC failures, downsizings, and mergers isolated instances, or are they part of a more general pattern among CDCs across the country?

2. What are the contextual and organizational factors that lead to CDC failures, downsizings, and mergers?
3. How do CDC failures, downsizings, and mergers affect the communities served?

4. What policies and other actions are needed to respond to failures, downsizings, and mergers among CDCs?

Given the nature of the research questions, we chose a systematic case study approach. We began by identifying a large number of CDCs that failed, downsized, or merged and systematically selected six CDCs for careful study:

- Failed organizations
  1. Community Development Corporation of Wisconsin (CDCW) in Milwaukee
  2. Whittier Housing Corporation (WHC) in Minneapolis

- Downsized organizations
  1. Oak Cliff Development Corporation (OCDC) in Dallas
  2. Advocate Community Development Corporation (ACDC) in Philadelphia

- Merged organizations
  1. Albina Community Development Corporation (Albina) in Portland
  2. Slavic Village Development (SVD) in Cleveland

To learn more about the factors contributing to CDC failure and downsizing, we also selected comparison organizations for the two organizations that failed and the two that downsized. We hoped that studying those organizations would help clarify the reasons why CDCs fail or downsize.

Three-day site visits were made to each city to conduct interviews with key informants, including the CDCs’ current and former executive directors, other staff, and board members. City officials, representatives of local intermediary organizations, and others were also interviewed. Relevant documentation, such as letters and reports, was collected during the visits.

Prevalence of Failures, Downsizings, and Mergers

On the question of whether the failures, downsizings, and mergers of the CDCs we studied are isolated phenomena, our results suggest that they are not. In fact, they are prevalent across the country. Although we were unable to conduct a census of organizations experiencing those changes, through a series of telephone calls, we were able to compile a list of 103 organizations that had reportedly experienced one of these changes within the past three years. Of those, 46 organizations had failed, 41 had experienced a significant downsizing, and 16 had been part of mergers. This indicates that CDC failures, downsizings, and mergers appear to be widespread and deserve the attention of researchers, policy makers, and CDC intermediaries.
Causes of Failures, Downsizings, and Mergers

We found that both contextual and organizational factors contribute to CDC failures, downsizings, and mergers.

**Contextual Factors**

Six specific contextual factors were identified. First, changes in local housing markets raised new challenges for several CDCs. Weakening demand for CDC-owned or -managed housing played an important role in the two CDC failures studied, while a strong market made it difficult for organizations in one of the mergers studied to acquire property for development. CDCW in Milwaukee, for example, experienced weakened demand for housing in its primary target area; this weakening was at least partially responsible for higher than expected turnover and vacancy rates in CDCW's rental housing. This contributed to financial problems and, ultimately, to the organization's failure.

Second, the growth in the number of CDCs played an important role in the organizational changes studied. Over time, this growth has led to increased competition for the limited public, foundation, and private resources available. Increased competition for funding was identified as an important factor in the downsizing of both OCDC in Dallas and ACDC in Philadelphia. Competition for funding was also identified as important in the two mergers studied. CDC funders in both Portland and Cleveland wanted to reduce the number of CDCs vying for their limited dollars.

Third, changes in local city policies were found to have profound, often unanticipated effects on all but one of the CDCs studied. In two instances, the processes for distributing city-controlled funds were changed, leading to cuts in funding available for CDC-sponsored housing developments. In Milwaukee and Minneapolis, neighborhood groups were given a larger say in the allocation of city housing and community development funds. Because the development of affordable housing was not a high priority among these groups, these changes led to sharp cutbacks in funding for CDC-sponsored developments.

Fourth, intermediaries and other local funders of CDCs were found to pressure CDCs to take certain actions, although they often provided financial support to assist CDCs in taking those actions. The mergers in Cleveland and Portland, for example, came about largely because local funders joined with their cities to put pressure on CDCs to merge. This raises questions about when and how intermediaries and other funders should intervene in CDC affairs.

Fifth, in several cities the lack of local support groups—also known as trade associations—limited communication between CDC directors and local funders, and among a city's CDC directors. The lack of CDC trade groups in Milwaukee, Minneapolis, and Dallas was cited as a factor contributing to the failure or downsizing of the organizations studied there. Many interviewees felt that trade groups were needed, both to share information among CDCs and to ensure that CDCs are effectively represented in the political process.
Finally, the level of trust among key actors played an important role in both failures, one downsizing, and both mergers. In Portland, for example, a lack of trust among the CDCs involved in the merger contributed to decisions to cease merger talks.

Organizational Factors

Six organizational factors were also identified as contributing to the changes studied. First, the breadth of missions of the organizations studied played an important role in both failures, one downsizing, and both mergers. Organizations with a narrow mission were vulnerable to changes in both community needs and funding priorities. In Dallas, for example, OCDC’s exclusive focus on constructing single-family homes left it vulnerable to a shift in funding from homeownership to multifamily rental housing.

Second, overreliance on a single source of funding was said to have contributed to one failure and both downsizings. CDCW in Milwaukee, for example, was heavily dependent on the city for financial support, and much of that support was tied to the production of housing units. Thus, a slowdown in housing production led to serious funding cutbacks. Similarly, a large percentage of OCDC’s revenues came from an in-fill housing program funded by the city. When that contract was not renewed, the organization was forced to downsize substantially.

A third organizational factor involved internal management problems, which were cited as contributing to both failures, both downsizings, and one merger. In particular, problems in project management and property management were identified. Project management problems included inaccurate financial projections leading to cost overruns, overly optimistic underwriting assumptions, inadequate cost control and accounting systems, and poor-quality construction. Property management problems included inadequate tenant screening and eviction procedures, inadequate maintenance of properties, and lack of social support services for tenants. CDCW in Milwaukee experienced both types of management problems: It experienced cost overruns on many of its rehabilitation projects, and tenant screening and eviction procedures were said to be inadequate.

Fourth, a lack of staff or board capacity undermined the performance of and support for both failed CDCs, both downsizings, and one merger. Turnover in executive directors contributed to the problems experienced by WHC in Minneapolis and ACDC in Philadelphia. Many organizations found it difficult to retain experienced staff because city agencies and private sector companies paid substantially higher salaries. In addition, poorly balanced or passive boards of directors contributed to several organizations’ decline. In some instances, such as with OCDC in Dallas, the board included very few community residents, and this cost the organization dearly when it needed community support to lobby for continued city funding. In other instances, such as in Milwaukee, the board did not adequately monitor the CDC’s financial health and did not react in time to save it.

Fifth, communication problems played an important role in the organizational changes experienced in both failures, both downsizings, and one merger. These problems included poor communication between executive directors and their boards, between executive directors and funders,
between executive directors and city officials or politicians, and among CDC supporters. In Milwaukee, the lack of communication between the executive director and the board, as well as among the city’s various CDC supporters, was said to have contributed to CDCW’s demise.

Finally, lack of community support for various CDC activities was identified as an important factor in both failures and one downsizing. For example, vociferous community opposition to the Whittier Alliance’s focus on providing rental housing for very low income households led to the creation of WHC and contributed to the city’s decision not to provide the new organization with funds to develop additional housing. In Milwaukee, CDCW had not developed strong community support, so there was very little community response when the city decided to cut the organization’s funding.

**Impacts of Failures, Downsizings, and Mergers**

Turning to the question of the impacts of failures, downsizings, and mergers on the communities served, our results suggest that CDC failure and downsizing can have a variety of negative effects. Those effects vary depending on the community context and the characteristics of the organizations involved.

Five types of negative impacts were identified. First, the experiences in Milwaukee, Dallas, Philadelphia, and Portland indicate that failure and downsizing can undermine both public and private sector confidence in CDCs as effective providers of affordable housing and other services. The failure of CDCW in Milwaukee, for example, led both city officials and private lenders to look for ways to involve the private sector in the production of affordable housing. The loss of confidence in CDCs was particularly likely when the failed or downsized CDCs were prominent organizations in their local areas.

CDC failure and downsizing were also found to negatively affect the production of affordable housing, resulting in more households having to live in substandard housing, pay very high proportions of their incomes for housing, or both. At its height, CDCW was producing 150 units of affordable housing per year. After it failed, this production was lost, and there was no evidence that other organizations were making up for it.

The loss of existing affordable housing was also a frequently cited effect in selected cities. Again, the most dramatic example of this was Milwaukee, where the failure of CDCW resulted in approximately 100 units being sold to investor/owners, some of whom were described as “slum landlords.” The loss of affordable housing units was more likely when private financial institutions, rather than public or nonprofit organizations, held the first mortgage.

CDC failure and downsizing were also found to contribute to neighborhood instability. Both the downsizing of OCDC in Dallas and the failure of CDCW in Milwaukee left many properties vacant and boarded up for extended periods of time, negatively affecting the quality of life—and, some suggested, real estate values—in the area. This effect was more likely if the failed CDC owned a large number of units within a small geographic area.
Finally, CDC failure and downsizing sometimes led to fear, confusion, and distress among the inhabitants of the properties involved. When, for example, WHC in Minneapolis decided to dissolve, residents did not know whether they would have to move out of their homes, and tenants had to live in properties that were inadequately maintained. Poor communication with tenants only added to resident fear and distress.

In contrast to the largely negative impacts of CDC failure and downsizing, the stated effects of CDC mergers were largely positive. They included an increase in organizational capacity, greater ease in fund raising, and the reintroduction of community organizing.

**Recommendations**

The results of our study led us to offer the following recommendations:

**CDCs and their support communities should develop strategic plans and revise them periodically.**

Two of the major contextual factors that we identified as leading to problems for CDCs were changes in local housing markets and growth in the number of CDCs. Strategic planning that involves local CDCs, funders, and policy makers can help all involved anticipate and respond to those changes.

**Narrowly focused CDCs should consider diversifying the types of activities provided, the geographic area served, the clientele of the housing units developed, and the sources of funding.**

Diversification makes an organization less vulnerable to changes in both funding priorities and community desires. The decision to diversify, however, should be approached cautiously and involve both residents of the original target area and the local CDC support community. The full set of potential benefits and risks should be weighed, and the timing and speed of any diversification should be carefully considered.

**CDCs should work hard to maintain the support of residents in the communities they serve.**

A lack of community support for various CDC activities was identified as an important factor in the failure or downsizing of three of the organizations studied. The boards and staffs of CDCs need to work hard to ensure that their activities have widespread community support.

**CDCs need to work closely with local social service agencies to ensure that the tenants in CDC properties receive the support services they need.**

Given that tenants of affordable housing developments often need social services, CDCs should work with local social service agencies to see that they receive those services. CDCs do not
necessarily have to directly provide the services, but they should be prepared to make referrals to other appropriate service organizations.

**Citywide support and trade organizations should be created in cities where they do not exist.**

Any city with multiple CDCs should create and nourish two types of support organizations. First, CDC support groups are needed to facilitate communication and coordination among the often numerous funders and technical assistance providers that operate in cities. Second, CDCs should organize trade associations to share knowledge, coordinate activities, collaborate on projects, and advocate for their interests.

**CDCs and their support communities should enhance mutual trust through participation in collaborative projects.**

The level of trust and extent of prior collaboration among key actors played an important role in the organizational changes that occurred. Joint projects and other forms of collaboration should help foster trust among CDCs and between CDCs and the public, nonprofit, and private members of the local support community.

**City policy makers should assess the impacts of proposed policy changes on CDCs and involve them in those decisions.**

Changes in city policies had significant, often unanticipated effects on all but one of the CDCs studied. Thus, when city policy makers propose policy changes that would affect the distribution of funds for affordable housing, they should analyze those changes carefully to understand their effects on the financial health of local CDCs.

**Adequate core operating support for CDCs should be provided.**

Because CDCs are rarely able to break-even, let alone make a profit, the basic funding for CDC operations needs to be provided by external sources, such as city and state funders and private foundations. In view of the hazards that can be created by an overreliance on a single funding source, both funders and CDCs should seek creative solutions to this dilemma.

**The CDC support community, in collaboration with CDCs, should develop realistic performance standards for CDCs and assist them in achieving those standards.**

Funders should not be expected to carry indefinitely an organization that is not functioning well. Rather than precipitously reducing an organization’s support, however, funders should provide the organization with lead-time to plan for funding reductions or increase continued support. Taking care not to overwhelm the CDCs’ own agendas with a heavy-handed approach, funders need to work with CDCs to create realistic performance standards.
The CDC support community should provide additional opportunities for staff and board training to increase retention.

Although there are a number of national initiatives focused on increasing CDC capacity, additional help is needed. CDC supporters must better understand the types of assistance needed and commit to providing high-quality training programs and consulting.

CDCs and their support communities should maintain open communication lines and respond quickly to problems as they develop.

Communication problems played an important role in the organizational changes experienced in five of the six cases studied. It is important to identify and acknowledge problems as they arise and not allow them to fester.
Over the past 30 years, community development corporations (CDCs) have become increasingly important actors in low- and moderate-income communities. In neighborhoods where the loss of private businesses has been endemic and where private and even public investment may be extremely low, CDCs provide housing and create jobs and economic opportunities for residents. As one of the key engines of community growth and revitalization, CDCs have been the subject of considerable study, and their continued viability and productivity is widely viewed as important in improving deteriorated neighborhoods and their residents’ opportunities.1

One prominent view of CDCs is that they have experienced uninterrupted growth since the 1970s. Reports by the National Congress for Community Economic Development (NCCED), which has been tracking CDCs and their accomplishments since 1988, reveal that the number of CDCs has grown from an estimated 200 groups in the mid-1970s, to some 1,500 to 2,000 groups in 1988, to approximately 3,600 in 1999. Housing production has been the primary activity of the great majority of CDCs. They have developed or rehabilitated more than 550,000 housing units; 45 percent of these were produced between 1994 and 1997. Many CDCs also sponsor job creation and economic development activities (NCCED 1989, 1999).

Despite their growth and productivity, however, many CDCs are now facing serious challenges to their continued viability. Recently, several prominent CDCs have gone out of business. Others are downsizing significantly or merging with other CDCs, while others are grappling with serious financial problems, such as how to keep their housing stock affordable to low-income households while maintaining financial solvency.

One of the most dramatic examples of a CDC failure was the demise of Eastside Community Investments in Indianapolis, which was one of the largest CDCs in the country. Between the early 1990s and 1997 it went from a staff of 115 to a staff of 6 (Rohe et al. 1998) and in October 2001 it finally went out of business. In addition, while many CDCs may appear to be functioning smoothly on a day-to-day basis, they are facing significant financial problems that threaten their viability (Bratt et al. 1994).

While most CDCs focus on improving the quantity and quality of the neighborhood’s affordable housing, ancillary effects include improved perceptions of neighborhood safety as well as increased community capacity (Briggs and Mueller 1997). Thus, when CDCs fail or downsize, the

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1 According to the National Congress for Community Economic Development, CDCs are nonprofit organizations that “focus on win-win outcomes benefiting business and community.” In addition, they are “multi-disciplined; based on economic practices; entrepreneurial and indigenous.” Further, “they derive their leadership and governance from residents and other stakeholders in the communities they serve and can therefore uniquely assess local needs and tap into local resources” (NCCED 1999, 3). Other nonprofit organizations, such as human services providers, may be focused on poor communities but not entrepreneurial; some nonprofits, such as neighborhood-based health centers, may be indigenous but not multidimensional; and still other nonprofits, such as boys and girls clubs, may derive their leadership and governance from residents and other stakeholders but not be entrepreneurial.
withdrawal of services, organizing, and advocacy activities may significantly damage the residents' overall quality of life. Alternatively, other organizations may step in and fill the void; there may have been simply too many CDCs in the local area, and the loss of one may not substantially affect the target neighborhood.

When confronted by serious challenges to organizational viability, CDCs are likely to respond in one of three ways: going out of business, downsizing, or merging with one or more other groups. The major goal of this research was to assess the causes of CDC failures, downsizings, and mergers and to determine the effects these changes have on the communities served. There are four major research questions:

1. Are CDC failures, downsizings, and mergers isolated instances, or are they part of a more general pattern among CDCs across the country?

2. What are the contextual and organizational factors that lead to CDC failures, downsizings, and mergers?

3. How do CDC failures, downsizings, and mergers affect the communities served?

4. What policies and other actions are needed to respond to failures, downsizings, and mergers among CDCs?

**Definition of Key Research Concepts**

This study focuses on three types of organizational change among CDCs: failure, downsizing, and merger. A CDC that met with “failure,” by our definition, simply went out of business; before that, it may have accomplished some or even all of its intended objectives and benefited its target population.

We could find no established definition of “downsizing” as it applies to nonprofit organizations, and we acknowledge that over their life cycles most organizations experience fluctuations, both up and down, in budgets and staffing. For this study, however, we were interested not in minor downturns that are part of a typical growth process but rather in major reductions in resources and staffing. We defined “major” as at least a 40 percent reduction in staff size, substantially reducing staff capacity and hence the organization’s ability to deliver services.

Finally, “merger” was defined as the joining of two or more extant organizations. These mergers may be a survival strategy for one or more organizations experiencing financial stress, or they may simply be an attempt by healthy organizations to become more efficient and provide more integrated services to the target population.

As discussed above, a main objective of our research was to identify both the contextual and the organizational factors associated with CDC failures, downsizings, and mergers. Organizational factors may include personnel issues such as staff capacity to manage key programs and activities and board of director capacity and involvement. Also included in this category are issues
pertaining to the management of housing either owned or operated by CDCs and the level of community support for CDCs and their activities.

Contextual factors are those that are largely beyond the CDCs’ control but that affect their ability to operate. These may include local economic changes that affect the demand for CDC services, community changes that alter the CDCs’ relationships with other area organizations, and changes in the financial or technical support available to CDCs.

Failures, downsizings, and mergers will likely alter the services or programs available to the communities served and thus should have noticeable community impacts. These impacts may be “hard” (e.g., a reduction in the number of residential or commercial properties produced or managed) or “soft” (e.g., worsening perceptions of neighborhood safety or a loss of confidence in CDCs as service providers).

Methodology

Given the nature of the research objectives, we chose a systematic case study approach. The case study approach is particularly well suited to studying the kinds of organizational changes that interested us. By visiting a number of sites and carrying out in-depth interviews, we were able to develop a clear understanding of the contextual and organizational factors contributing to each organization’s problems and how they led to specific responses. In addition, although data collected on community effects are largely qualitative, they help us understand the impacts of organizational changes in the communities served. As with all research based on a limited number of observations, it is difficult to draw generalizations from our findings. However, we believe that our research illuminates the organizational challenges and responses of many CDCs and their support communities.

Through telephone interviews with over 100 key informants we first identified a large number of CDCs that had experienced the changes of interest and classified those CDCs based on several dimensions. We were committed to selecting CDCs that would provide geographic diversity as well as variation in the level of support provided to CDCs from the CDC support community. In addition, CDCs considered for further study were located in cities with populations of at least 100,000, had been in operation for at least four years, had a significant record of producing or managing a significant number of affordable housing units, and had experienced the change within the prior three years. Finally, we selected groups that, we believed, had experienced the changes for reasons other than blatant organizational incompetence or possibly illegal operations. Based on these criteria, we systematically selected six CDCs for careful study:

- Failed organizations
  1. Community Development Corporation of Wisconsin (CDCW) in Milwaukee
  2. Whittier Housing Corporation (WHC) in Minneapolis

- Downsized organizations
  1. Oak Cliff Development Corporation (OCDC) in Dallas
  2. Advocate Community Development Corporation (ACDC) in Philadelphia
• Merged organizations
  1. Albina Community Development Corporation (Albina) in Portland, OR
  2. Slavic Village Development (SVD) in Cleveland

To learn more about the factors contributing to CDC failure and downsizing, we also selected comparison organizations for the two organizations that failed and the two that downsized. Comparison organizations were selected by asking local informants at each site to identify financially healthy organizations that were as similar as possible, in terms of size and major activities sponsored, to the principal organizations under study. By studying these comparison organizations, we hoped to better understand the reasons for the failures or downsizings. Comparison organizations were not selected in the two merger examples. Given that mergers involve at least two organizations, we did not think comparing merged organizations to other organizations would be meaningful or useful. (Appendix A lists the people contacted to help us identify the failed, downsized, and merged CDCs; appendix B lists the interviews at each site; appendix C presents a more detailed description of methodology; and appendix D provides the interview guideline that we used for our site interviews.)

Prevalence of Failures, Downsizings, and Mergers

On the question of whether the failures, downsizings, and mergers of the CDCs we studied are isolated phenomena, our results suggest that they are not. In fact, they are prevalent across the country. Although we were unable to conduct a census of organizations experiencing those changes, through a series of telephone calls, we were able to compile a list of 103 organizations that had reportedly experienced one of these changes within the past three years. Of those, 46 organizations had failed, 41 had experienced a significant downsizing, and 16 had been part of mergers. This indicates that CDC failures, downsizings, and mergers appear to be widespread and deserve the attention of researchers, policy makers, and CDC intermediaries.

Organization of Report

The report is divided into two sections. The first section, chapters 1 through 7, presents an overview of the study, its findings, and the recommendations based on the findings. The second section presents the six detailed case studies.

More specifically, chapter 2 presents a review of the literature relevant to the research questions posed. Chapter 3 provides brief summaries of the six case studies. Although the full cases are presented in the second section of the report, these summaries present the basic facts of each case. Chapters 4 and 5 explore the contextual and organizational factors, respectively, that contributed to the changes experienced by the CDCs studied. Given our finding that there are many similarities in the factors contributing to failures, downsizings, and mergers, we organized these key chapters around a series of crosscutting themes rather than organizing the chapters by the type of change experienced. Chapter 6 examines the effects of CDC downsizings, failures, and mergers on the communities served, and chapter 7 presents a summary of our findings and a set of recommendations based on the findings.
CDCs are one of the key vehicles for providing better housing and promoting community development in poor neighborhoods. Thus, understanding how various challenges may affect their operations has important implications for the viability of the housing they own or manage and for the residents in the communities they serve. This research is aimed at better understanding the causes and processes of the changes confronting CDCs and providing guidelines to the public, private, and nonprofit actors and institutions that are key to CDC survival and growth.
CHAPTER 2
LITERATURE REVIEW

Since the mid-1970s community development corporations (CDCs) have gained increasing recognition for their contributions to the low-income housing and community development agendas. With about 3,600 such organizations across the country, and more than 550,000 units of housing produced or rehabilitated, CDCs have become major actors in societal efforts to provide decent, affordable housing and healthy communities. This key role is evident in CDCs’ involvement in disposing of federally owned properties previously owned by failed savings and loans and commercial banks; in the HOME, Low-Income Housing Tax Credit (LIHTC), and Empowerment Zones/Enterprise Communities programs; and in initiatives to preserve federally subsidized, privately owned housing for low-income tenants. The important role of CDCs is also acknowledged through the support that a variety of prominent national foundations have provided to CDCs and their activities (Eisen 1992; Walker and Weinheimer 1998).

Because of their expanding role, CDCs have been the subject of a number of research studies. That research has focused on how and why these organizations develop (Berndt 1977; Bratt 1989; Keating, Rasey, and Krumholz 1990; Zdenek 1987); the types of activities in which they are engaged (Mayer 1984; National Congress for Community Economic Development [NCCED] 1989, 1991, 1995, 1999; Vidal 1992); the ways in which they contribute to building community and creating social benefits (Bratt and Keyes 1997; Briggs and Mueller 1997; Pierce and Steinbach 1987, 1990; Robinson 1996; Rubin 2000; Stoutland 1999; Sullivan 1993); the factors that help them succeed (Cowan, Rohe, and Baku 1999; Mayer 1984; Mayer and Blake 1981); the mechanisms that enhance their capacity (Glickman and Servon 1999b; Walker and Weinheimer 1998); the challenges they face (Bratt 1989; Stoecker 1997; Vidal 1997); the extent to which they are able to maintain close ties to their communities while assuming increasingly technical development roles (Bratt 1997; Rohe 1998; Stoecker 1997); and the extent to which they can tackle the root causes of poverty and deteriorated neighborhoods, as opposed to only alleviating some of the most distressing symptoms (Berndt 1977; Stoecker 1997). As discussed below, there is very little information on the extent, causes, and effects of CDC failures, downsizings, and mergers.

We begin by reviewing the literature that explicitly addresses CDC failures, downsizings, and mergers. Because of the paucity of this literature, we then review more general literature on the challenges faced by CDCs and on the factors affecting their success. We have assumed that many of these factors will also be at play in failures, downsizings, and mergers. Finally, we explore literature on the potential impacts of CDC failures, downsizings, and mergers in the communities they serve.

CDC Failures, Downsizings, and Mergers

While reports of CDCs in trouble are largely anecdotal, there is evidence that some CDCs are going out of business, experiencing significant downsizing, or merging with other CDCs. One of
the first studies to recognize the problem of CDC failure was conducted in Chicago. The report observed that during 1995 “three high-profile CDCs…terminated their development activities and essentially [went] out of business…leaving behind a troubled portfolio of low-income residential projects that they had developed and managed over the years. In addition, several other CDCs were going through unsettling leadership changes” (Futures Committee on Community Development 1997, 3).

Of the several prominent CDCs that have failed or downsized, Eastside Community Investments (ECI) in Indianapolis has probably been the most studied (Johnson and Reingold 2000; Steinbach 1999; Steinbach and Zdenek 1999). At its height in the early 1990s, ECI had a staff of more than 115 people and annual revenues exceeding $8 million. By 1997, however, ECI could not meet its payroll and was on the verge of financial collapse (Johnson and Reingold 2000). In October 2001 it finally went out of business.

According to Steinbach and Zdenek (1999), ECI’s problems can be traced to its reliance on developer fees to cover its costs. As these fees started to diminish, in part because of the greater difficulty in putting deals together as a result of intense competition for LIHTCs, additional operating income was needed. Seeking other ways to generate funds for the organization, the board decided to move into a new type of for-profit business activity—manufacturing prefabricated building materials. This decision proved disastrous: The business failed and ultimately cost ECI over $800,000. In addition, Steinbach (1999) cites insufficient cash flow and unanticipated staff turnover as key to the organization’s severe financial difficulties and, ultimately, its need to significantly reduce the size of its staff and overall operations.

Banana Kelly in Bronx, NY, is another prominent CDC that has received considerable attention because of both its once-stellar record and its recent decline. Buildings owned by the CDC are reported to have severely deteriorated, with piles of garbage, cracked walls, and rat infestations. Utility bills have gone unpaid. Problems appear to stem from a combination of a decline in funds from foundations, government, and development projects; poor management of the organization’s finances; and possible inappropriate use of CDC funds for travel (Waldman 2000).

According to Proscio (1998), proceedings editor of a Local Initiatives Support Corporation–sponsored (LISC-sponsored) conference on six CDCs’ failures, a key factor leading to CDC problems was financial and programmatic overextension. Moreover, funders and stakeholders failed to recognize these problems sufficiently early to help CDCs rectify them. None of the groups, however, was able to identify a single “trigger” factor that altered the situation from a problem to a full-scale crisis. Proscio notes that “serious crises, the kind that jeopardize an organization’s survival, are cumulative affairs in which individual problems, no one of which is fatal, gradually gain mass and momentum until the available forces for remedy are too little, too late” (1998, 5).

Information on the extent and causes of CDC mergers is particularly sparse. To our knowledge, the only article on the subject was written by Daniel Hoffman, who offers the observation that “among nonprofits, particularly those engaged in housing and community development, mergers or acquisitions by one another are rare” (2000, 36). In describing the successful merger of two organizations, Hoffman observes that “the advantages of merging had to be exponential not simply additive” and that a key factor related to success was that neither organization was in crisis (2000, 38).
Beyond these isolated case studies, there has not been a systematic research project examining what causes CDCs to fail, downsize, or merge. Nor has there been research on the impacts those changes have on the communities served. Therefore, we turn to the literature on the factors related to CDC success and performance. We expect that many of the factors associated with success are also associated with failure. Whereas staff stability, for example, may lead to success, staff instability may lead to failure. Prior literature on CDCs has also identified a number of challenges faced by CDCs. If not successfully addressed, those challenges may lead to CDC decline or failure. Similar to other studies of organizational performance, our study considers both contextual and organizational factors affecting the performance of CDCs (see, for example, Hager et al. 1996).

**Contextual Factors Affecting CDC Performance**

The literature on CDCs and other nonprofit organizations suggests that several categories of contextual factors are associated with CDC performance: federal policies and programs, the role of national intermediaries, local support systems, and local market conditions.

**Federal Policies and Programs**

Much of the literature on CDCs acknowledges how changing federal policy has presented challenges for CDCs (Bratt et al. 1998; Rohe 1998; Rubin 2000; Stoecker 1997; Vidal 1997). The context in which CDCs function has been characterized by devolution of policy making down to state and local levels (Ammann and Salsich 1997; Galster 1996). As federal dollars available for community development activities declined during the 1980s and early 1990s, the number of nonprofit organizations undertaking these kinds of initiatives grew (NCCED 1995). Zdenek and Steinbach (2002) observe that an increase in the number of CDCs has increased the competition for funds.

One of the major shifts in federal funding for housing during the 1980s and 1990s was the loss of deep subsidies through a single stream of funding, such as the public housing and Section 8 new construction/substantial rehabilitation programs. In view of this decline, CDCs have needed to assemble a host of funding sources. Several studies have explored the costs and obstacles of nonprofit housing production; many have observed that to produce low-income housing, CDCs must engage in “patchwork financing,” assembling an array of loans, grants, and tax credits in their development deals (Clay 1990; Hebert et al. 1993; Stegman 1991; Walker 1993). The ability of CDCs to overcome the challenges imposed by such a complex system is, however, sometimes viewed as an asset rather than a liability (Quercia, Rohe, and Levy 2000).

Since the 1996 welfare program changes, several researchers have also explored how subsidized housing developments are likely to be affected by reductions in welfare payments. For example, the loss of welfare as an entitlement program could mean that very low income tenants of subsidized housing would have less money to pay the rent (Newman and Harkness 1997). This, in turn, may result in financial problems for CDCs, which may have difficulty collecting rents or raising rents to cover increasing costs.
The Role of National Intermediaries

Several foundations have invested large amounts of money in CDCs and have formed national nonprofit intermediaries, including LISC and the Enterprise Foundation. The Neighborhood Reinvestment Corporation, the third key national intermediary, receives the bulk of its funding through congressional appropriations.

A major philanthropic endeavor known as the National Community Development Initiative involves 12 foundations, 5 major financial institutions and investment and insurance companies, as well as the U.S. Department of Housing and Urban Development in a 10-year effort to accelerate the growth, scale, and impact of CDCs in 23 cities across the country. Walker and Weinheimer (1998) report substantial gains between 1991 and 1997 in capacities of the participating CDCs to undertake community development projects, especially housing production, as a result of this effort. The researchers also highlight the role of collaborations and networks in assisting and supporting CDC activities.

Further research on CDC partnerships and support systems comes from a multiyear study by researchers based at Rutgers University. With funding for 17 partnerships coming from the Ford Foundation, they explore whether and how such partnerships improve CDCs’ capacity to undertake additional activities and, ultimately, whether there are positive impacts on the economic and social conditions of the low-income neighborhoods (Nye and Glickman 1995, 1998). While the researchers recognize the difficulties of ascribing causality in this type of situation, they conclude that partnerships do, indeed, increase CDCs’ capacity (Glickman and Servon 1999a).

In a recent study, von Hoffman (2001) analyzed three examples of CDC housing development projects carried out with LISC assistance to assess the ways in which intermediaries influence CDCs and their projects. He found that intermediaries did not interfere with the agendas of CDCs; rather, they had a “mutual interest in carrying out projects” (2001, 3). He also found that the local political environment had an important impact on the success of CDCs, intermediaries, and the projects they support. Finally, he reported that the fact that CDC staff members often move to jobs in city government or at intermediaries strengthens the bonds between CDCs and their funders.

Local Support Systems

As the federal government became less directly involved in community development through the 1980s and 1990s, and as responsibility for these activities devolved to state and local governments, the latter have often created an array of programs and institutions aimed at promoting community development. But even before the “devolution revolution,” at least some states and cities introduced innovative programs to support CDCs’ efforts.

A number of studies have highlighted the extent to which some state and local governments have developed support programs and, in some cases, sophisticated community development systems (Bratt 1989; Committee for Economic Development 1995; Goetz 1993; Yin 1998).
Goetz, for example, found that of 124 cities reporting having nonprofit developers, most provided administrative funding, project financing, predevelopment financing, or technical assistance (1993, 122). The existence and sophistication of local support systems may be important factors in explaining CDC failures, downsizings, and mergers.

**Local Market Conditions**

The important connections between the activities of CDCs and market forces have been acknowledged by a number of researchers. Strong national and local economies increase investment in CDCs and provide clients with jobs and hence the income to pay rent or purchase homes (Ammann and Salsich 1997; Bratt et al. 1998; Cowan, Rohe, and Baku 1999; Galster 1996; Glickman and Servon 1999b; Keyes et al. 1996; Nye and Glickman 1995, 1998; Rohe 1998; Walker and Weinheimer 1998). There has also been some work exploring questions of how poor markets create problems for CDCs, particularly in terms of locating tenants who can afford the rent and maintaining buildings in high-crime areas (Bratt et al. 1994; Rohe et al. 1998). An understudied issue, however, is the way in which strong market conditions affect CDCs. Because many locales have been experiencing considerable growth and inflation in land and housing costs, particularly since the mid-1990s, understanding how these changes affect CDCs is important.

In addition, it has been suggested that as neighborhood revitalization begins to take hold, the newer residents may be less supportive of a community development agenda aimed at lower-income households (Bratt 1989, 239–40). Although the NIMBY (“not in my backyard”) response has been most often associated with suburban locations, it is quite possible that it will be increasingly present in low-income neighborhoods that are undergoing gentrification.

**Organizational Factors Affecting CDC Performance**

Several organizational factors have been associated with CDC performance: staffing issues, board issues, mission issues, community involvement issues, networking issues, and funding issues.

**Staffing Issues**

The major staffing issues associated with CDC performance include staff size, staff turnover, and staff capacity. Several researchers have found that organizations with larger staffs are more effective. After studying exemplary CDCs, Vidal (1997) found that size and stability enable an organization to identify and pursue projects that further its mission and contribute to its viability. Not only are larger organizations more effective in terms of raw output, they have also been found to be more efficient (Cowan, Rohe, and Baku 1999; Rohe et al. 1991). Larger CDCs are more likely than smaller ones not only to survive but also to provide effective and efficient community development programs.
Staff turnover has also been found to be an important determinant of CDC performance. Cowan, Rowe, and Baku examined the factors influencing the performance of CDCs involved in the NeighborWorks Network and found: “The longer the tenure of the executive director… the more efficiently the organization will generate capital investment for its service area” (1999, 334). In addition, the study found that salary affects directors’ tenure and that longer tenure is positively associated with organizational efficiency. Turnover and “burnout” among key staff members also inhibit CDC performance (Bratt 1989; Cowan, Rohe, and Baku 1999; Mayer and Blake 1981).

Others who have studied CDC performance have identified staff capacity as a key factor. For example, Gittell and Wilder (1999) discuss the importance of organizational competency, and Glickman and Servon (1999b) underscore the need for an effective executive director, as well as competent and stable staff members (see also Zdenek 1999). Adequate staff capacity helps ensure that the organization functions well from a fiscal and management perspective. Staff members are needed to launch and manage projects, and the organization’s internal management will suffer if key management skills are lacking.

One key area in which CDCs must be competent is housing portfolio management. According to Bratt et al., “Beyond [an] initial snapshot of relative well-being loom some major financial problems which, if not addressed, will greatly threaten the stock of affordable housing included in this study.” While the authors cautioned against extrapolating from their findings to the larger universe of nonprofit-owned housing, they nevertheless concluded that they “found indicators that signal concern and that warrant attention” (1994, 103).

**Board Issues**

The effectiveness of nonprofit organizations in general has also been linked to their boards. Herman and Renz (1999), for example, underscore the importance of the board while at the same time noting that boards’ exact influence on organizational effectiveness is not clear. As the policy-making body of the nonprofit, the board has a legal duty to ensure that agency actions are consistent with goals and objectives. Gibelman, Gelman, and Pollack (1997) emphasize the need for nonprofits to clarify board and staff responsibilities, to pay attention to the recruitment and retention of active board members, and to provide systematic and ongoing board training.

With specific reference to CDCs, Steinbach and Zdenek have observed: “The Achilles heel of many CDCs is the board of directors” (1999, 10). They further caution: “The board that a CDC starts out with may not be the right board later; when its activities are more complex and the impact of decisions is more risky…. Sometimes boards conflict with staff or try to micromanage. Other boards ossify, age in place. Continuity is a strength in managing an organization, but boards need turnover, too, to infuse new energy and ideas” (1999, 10).

Further evidence of the importance of the board and its relationship to the CDC’s staff comes from the LISC conference on failed CDCs. Proscio (1998) notes that in several cases the staff and board were in conflict or the board failed to effectively govern the organization.
Mission Issues

In the broader domain of nonprofit organizations, scholars have noted that these organizations face a unique challenge: how to be accountable to different constituencies, including “the public at large, the government, donors, clients, and their own employees…. This often places nonprofits at the center of conflicting, often irreconcilable demands and vested interests” (Fitzgibbon 1997, 34). CDCs may also face a constantly changing group of clients. Fitzgibbon (1997) has further suggested that nonprofit organizations focused on community organizing may have a particularly difficult time defining their community. This can be particularly problematic for groups focused on one social or ethnic group, as changes in the composition of the geographic area served can make it difficult to accomplish their missions.

Another mission-related issue is the challenge of remaining financially sound “while continuing to serve a charitable intent and public purpose, neither of which is designed to make a profit for shareholders or owners” (Fitzgibbon 1997, 35). With specific reference to CDCs, Bratt et al. (1994) have referred to this dilemma as the double bottom line. They have noted that at the core of good housing management is attention to the basics, such as marketing units, collecting rent, and maintaining the quality of buildings. But, in addition to these essential tasks, CDCs must further tenant well-being and community building. According to the authors, “Maintaining both elements of good practice is critical for nonprofit sponsors” (1994, 71).

Most CDCs are engaged in a variety of community development activities, based on their perception of their community’s needs, their staff capacity, and the availability of funds and other types of assistance (Vidal 1997). Because CDCs often adopt a comprehensive approach to community development and are close to the community, they are thought to be in a good position to coordinate effective community improvement efforts (Blakely 1989). But some have cautioned that CDCs should focus on a narrow range of activities that they can do well.

The existing literature includes only scant evidence on whether CDCs are better off (1) diversifying their activities to include different types of housing or a combination of housing, commercial real estate development, or small business assistance; or (2) specializing in one or possibly two activities. In one of the few essays that touches on this subject, Steinbach and Zdenek observe:

The changing competitive climate means that the best way to serve your neighborhood today may be to go beyond your own borders to undertake development or offer business loans…. Increasingly, the biggest strategic risk many mature CDCs face is deciding whether or not to engage in more unfamiliar community-building activities. CDC lore has encouraged such holistic interventions since the 1960s, and those CDCs that have become more comprehensive are accorded national recognition for being so innovative. But going comprehensive is also risky. (1999, 11)

They conclude that the push to become more comprehensive should be resisted unless key components of organizational structure are already in place. Similarly, Walker and Weinheimer, while clearly articulating the rationale for CDCs to move into nonphysical community-building activities, warn: “Pushing CDCs to expand activities too fast can cause harm. CDCs as a group are still small and fragile organizations. Engaging in community-building activities is a complex

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undertaking for most...[and will require] a steady infusion of outside funding” (1998, 13). Noting that such funding is not generally available, they therefore urge caution in making big leaps into community building.

The issues around specialization versus comprehensiveness are complex and merit further investigation. On the one hand, it may be argued that an organization that specializes in one area may have learned to provide that service at a consistently high quality, with staff well trained in the set of activities that is needed. Also, if an organization has become involved in activities for which it is not well suited, or where staff capacity may be lacking, organizational resources may be spread too thinly. On the other hand, an organization that becomes too specialized may be unable to adapt if, for some reason, it cannot continue that activity or service.

Community Involvement Issues

One of the assumed strengths of CDCs is their bond with their local communities. Their ability to develop projects consistent with community needs and desires, as well as their concern for residents, is believed to distinguish them from for-profit developers as well as from public housing authorities or local departments of housing and community development. Thus, maintaining an ongoing connection to the local community is an important task for CDCs.

Some writers have argued that the “bricks and mortar” aspects of CDC activities conflict with their commitment to organizing and advocacy (Schuman 1986; Stoecker 1997), while others disagree (Bratt 1989; Mott 1985). Glickman and Servon emphasize the ongoing importance of strong community participation, noting that “without a strong and active constituent base, CDCs face difficulty arguing their cause outside the community” (1999b, 527). Further, Gittell and Wilder (1999) found that all four of the successful CDCs they studied engaged in advocacy and community organizing efforts. Thus, CDCs are often consciously working to ensure a stable and strong base of local support.

Networking Issues

Networking issues as they relate to CDCs are a relatively recent area of focus. Keyes et al. (1996) observe that the strength of a nonprofit’s institutional network is a key factor in its overall capacity to produce and maintain low-income housing. Similarly, Glickman and Servon find that the ability of CDCs “to build networks with other organizations is an important aspect of capacity building” (1999b, 524). Without connections to other public, private, and nonprofit institutions, a CDC may have trouble moving its mission forward and garnering political support.

Funding Issues

It is self-evident that adequate and stable funding is essential for CDCs to carry out their missions. Not surprisingly, this factor has been identified as crucial by a number of researchers
CDCs require at least two major types of funding: core operating support and funds for project development. Core operating support is a problem for most CDCs but is particularly difficult for younger organizations without other sources of income. State and local support programs, as well as national intermediaries, have played critical roles in helping CDCs cover the costs of their basic operations.

CDCs generally seek funding from a wide array of public and private funders. However, achieving an adequate funding base usually takes considerable time and expertise on the part of CDC staff (Glickman and Servon 1999b; Leiterman and Stillman 1993). Also, if a CDC’s operating support comes largely from developer fees, it is vulnerable to collapse if development opportunities become scarce.

Putting together development deals necessitates the kind of “patchwork financing” discussed above. CDCs must not only rely on multiple sources to launch a given project but also locate funding sources that enable them to move quickly when a development opportunity arises. Unlike private developers with “deep pockets,” CDCs often struggle to find the money needed to quickly secure a piece of land or a building adequate for rehabilitation or other development activities (Glickman and Servon 1999b).

**Effects of CDC Organizational Changes**

In reviewing the literature on CDCs, we found very little discussion on the consequences of CDC failures, downsizings, or mergers. One of the few comments on this subject comes from the case study of ECI by Johnson and Reingold (2000). These authors suggest that the collapse of the organization “has resulted in substantial efforts within the Indianapolis CDC industry to enhance capacity and accountability” (24). Each CDC in the city is being helped to strengthen its effectiveness, and the local community development industry as a whole is improving.

Despite this apparently positive impact of the ECI failure, when CDCs falter there are likely to be immediate negative impacts. The demise or substantial downsizing of a CDC may significantly damage the quality of life of the CDC’s tenants: the properties may be poorly maintained, or, in the worst-case scenario, tenants may be evicted and forced to seek alternative housing. As organizing, advocacy, and other services provided by many CDCs are cut back or eliminated, other local residents may also be negatively affected. Finally, a CDC failure or substantial downsizing may cause local funders to be more wary of supporting projects initiated by other CDCs within the area. On the other hand, in the face of CDC failures and downsizings, other organizations may step in and fill the void. If there simply were too many CDCs in the local area, the loss of one may not substantially impact the neighborhoods served. Moreover, surviving CDCs may be strengthened by the decrease in competition.

The impact of downsizing or failure is likely to depend on the type of CDC and its environment. The failure of a small organization, for example, is not likely to have the same impact as the failure of a large one.
Conclusion

There is very little research on CDC failures, downsizings, and mergers. The challenges facing CDCs have been discussed in the literature, but it is not clear why some CDCs are able to overcome those challenges while others are not. This research, then, is designed to provide a better understanding of both the causes of CDC failures, downsizings, and mergers and the impacts of those events on the communities served. It represents the first systematic study of CDCs that have undergone significant operational changes.

We also wanted to explore the extent to which factors associated with CDC success also helped explain CDC failures, downsizings, and mergers. By looking at examples of CDCs across the country, we hoped to assess the role of local market dynamics, including how increases in property values affect CDC viability. We also hoped to better understand the role that diversification of activities played in these organizational changes.

By studying the impacts of CDC failures, downsizings, and mergers, we hoped to gain some insights into the ways in which communities are affected and to identify the conditions that lead organizations to change their operations. Ultimately, we wanted to contribute to the development of better policies and interventions that would allow CDCs to be more productive and viable.
Chapter 3
SUMMARIES OF CASES

In this chapter we provide brief summaries of the six case studies that are the basis for the cross cutting analyses presented in chapters 4 through 6 and the conclusions and recommendations presented in chapter 7. For those who want additional detail, the full case descriptions are presented in the second half of this report. In each of the summaries we provide a brief description of the context in which the community development corporation (CDC) operated and a history of the organization up to the time of our visit. For the two failed and downsized organizations, we also provide brief descriptions of the comparison organizations selected in each city.

Community Development Corporation of Wisconsin (CDCW): Organizational Failure

CDCW provided affordable housing in Milwaukee from 1989 until it filed for bankruptcy in March 1999. During this time Milwaukee’s population declined by 8.9 percent (U.S. Bureau of the Census 2000). As of 1990, 30 percent of the city’s population was African American and 6 percent was Hispanic. The poverty rate in 1989 was 18.5 percent, with poverty households highly concentrated in selected areas of the city, particularly the primary area served by CDCW. Between 1980 and 1990 Milwaukee lost 1.7 percent of its civilian jobs, the largest decline being in the manufacturing sector. As of 1994 there were 739 boarded-up properties in the city.

Milwaukee is not known for having a strong support system for CDCs. Yet several organizations provided assistance to CDCW as well as other Milwaukee CDCs. These organizations included two statewide groups: the Wisconsin Partnership for Housing Development (WPHD), a non-profit that provides technical and financial support to CDCs, and the Wisconsin Housing and Economic Development Authority (WHEDA), a state agency that provides tax credits and below-market-rate loans to sponsors of affordable housing developments. At the city level, the Milwaukee Community Block Grant Office provides Community Development Block Grant (CDBG) and HOME funds to the city’s CDCs to develop affordable housing and a local office of the Local Initiatives Support Corporation (LISC) opened in 1995.

In the late 1980s Milwaukee’s leaders in both the public and private sectors saw a need for a large developer of affordable housing, and in 1989 CDCW, originally the Milwaukee Housing Assistance Corporation, was created. The city of Milwaukee contracted with WPHD to develop bylaws and personnel management policies, recruit a board of directors, and staff the organization until permanent staff could be hired. The first executive director left within a year, and a new executive director was hired in 1992 after a protracted search.

1 However, in the case of Portland, OR, we have provided an update, roughly one year after the site visit.
CDCW began to develop small- to medium-sized apartment complexes in the predominantly African-American Northside area of the city. This area has the highest poverty rate in the city and contains many older housing units that need repair. Facing political pressure, CDCW also took on properties from other CDCs that had gone out of business. Many of these properties needed repair and had problem tenants and relatively low occupancy rates. CDCW staff spent considerable time turning these developments around.

CDCW’s projects were funded by a variety of sources, including WHEDA, a lending consortium called the Housing Partnership Corporation, and several private banks. By 1997 CDCW had developed 21 separate housing projects totaling 722 units. CDCW also provided ongoing property management for rental complexes, many developed by CDCW. By the late 1990s CDCW had a staff of 25 and an annual operating budget of over $1 million; it was developing approximately 150 units of affordable housing per year.

In 1997 financial problems began to surface. For some time CDCW had been losing money on its property management operation because of soft demand for housing in the Northside area, inadequate tenant screening, and personnel problems. Unable to compete effectively with the higher salaries and better working conditions offered by private management companies, CDCW was having trouble keeping competent management staff. The financial losses did not create an immediate crisis, however, because the organization was able to cover this deficit with funds generated from its development work.

In 1998, however, CDCW’s development activities slowed because of changes in city policies and internal management problems. CDCW was staffed to rehabilitate multifamily developments using the Low-Income Housing Tax Credit (LIHTC) program, but the city decided to focus its resources instead on the purchase, rehabilitation, and resale of single-family homes. The city also allowed neighborhood organizations to determine how CDBG funds were to be spent in their areas, and these groups drastically reduced the funding for affordable housing. In addition, CDCW was unable to keep up with the rehabilitation of single-family units and had trouble selling units once they were rehabilitated. In mid-1998 a report by the city comptroller found that CDCW had 32 properties that were sitting vacant (some had been vacant for over a year) with little or no rehabilitation. Cost overruns were also a problem. This combination of problems severely reduced CDCW’s operating income, and the red ink began to spread.

Somewhat belatedly, CDCW sought assistance in overcoming its financial problems, but it was unable to secure what was needed. CDCW asked the city for $700,000 to finish 31 buildings it had acquired, but the city approved only $55,000—to finish 11 partially rehabilitated units for which there were buyers. City officials felt that the organization was too far in debt and was unlikely to overcome its problems. CDCW also asked its lenders to restructure their loans, but without city support the lenders were unwilling to do this. In March 1999 CDCW filed for bankruptcy and closed its doors.

CDCW was the largest and most prominent CDC in Milwaukee, and its demise was said to have had a number of negative impacts: city officials and the financial community lost confidence in CDCs as effective producers of affordable housing; the capacity to produce affordable housing in the city was diminished; a number of properties were sold to “slum landlords”; and the neighborhoods once served by CDCW were destabilized.
The comparison organization chosen in Milwaukee is the Walker’s Point Development Corporation (WPDC). WPDC serves the Walker’s Point neighborhood on Milwaukee’s south side, a predominantly low-income area with a somewhat better reputation than the Northside area. WPDC was incorporated in 1980 “to provide affordable housing and to promote neighborhood stabilization and development” (Walker’s Point Development Corporation Brochure 2000). At the time of our visit, WPDC had a staff of 14, including 8 professional and 6 support staff members.

Like CDCW, WPDC produces new housing, rehabilitates older housing, and manages rental housing. At the time of our visit it managed 230 rental units. Unlike CDCW, however, WPDC also offers a home-buyer counseling program and an economic development program focused on the promotion of retail, commercial, and industrial activity in its target area. It does this through the acquisition and rehabilitation of commercial properties and through the provision of technical assistance to entrepreneurs to develop or expand businesses. As will be discussed in more detail in chapters 4 and 5 of this report, the main reasons that WPDC survived while CDCW failed appear to be that WPDC served an area with stronger housing demand, sponsored a more diverse set of program activities, received financial support from a wider variety of funders, and responded more effectively to financial problems.

**Whittier Housing Corporation (WHC): Organizational Failure**

WHC served the Whittier neighborhood in Minneapolis from 1994 through 2000, a time of rapid growth for the Minneapolis/St. Paul metropolitan area. Between 1990 and 1999 the population increased by 13.1 percent, from approximately 2.5 million to 2.8 million (U.S. Bureau of the Census 2000). Most of this growth, however, was in suburban communities. The Minneapolis population actually decreased 4 percent during this period, from approximately 368,000 to 353,000 people. Like most other communities in the country during the late 1980s and early 1990s, Minneapolis had a relatively slow-growing economy and relatively high unemployment (Metropolitan Council of the Twin Cities 1992). During this period, demand for housing in the central city was weak. In the mid-1990s, however, the economy picked up dramatically. Interviewees described a booming economy with labor shortages, rising median incomes, and a low rental vacancy rate, said to be around 1 percent.

The activities of CDCs in Minneapolis have been supported by a rich collection of public, nonprofit, and private organizations. One of the key players, the Minneapolis Community Development Agency, funds the production of both rental and owner-occupied housing from CDBG, HOME, and LIHTC revenues and from housing revenue bonds. Another is the Minnesota Housing Finance Agency, which provides equity investments for affordable housing developments through the LIHTC program and loans at below-market interest rates. The Family Housing Fund (FHF) of Minneapolis/St. Paul, a nonprofit organization, was created in 1980 to promote housing for low-income families and provide financing to CDC-sponsored housing developments. The FHF also helped form the Interagency Stabilization Group (ISG), a consortium of all the city’s major funders of CDCs, to assist CDC-sponsored housing developments that are experiencing financial problems. Finally, in 1991 the city introduced the Neighborhood Revitalization Program (NRP), which provides $20 million a year for neighborhood development and improvement projects.
The Whittier Alliance was created in 1978 to work toward the revitalization of Minneapolis’s Whittier neighborhood, which was showing serious signs of decline. The alliance served a dual role as the city-recognized citizen advisory group and as a Whittier neighborhood CDC. For the next 12 years the alliance pursued its mission by sponsoring a variety of neighborhood improvement activities, including buying and rehabilitating different multifamily housing developments.

In 1990 the Whittier Alliance was chosen to inaugurate Minneapolis’s first NRP area. NRP provides funds to neighborhood organizations to develop and then implement neighborhood revitalization plans. The alliance undertook an 18-month planning process and devised a strategy that focused on developing additional affordable rental housing and social services for the area’s lower-income residents. When homeowners and private apartment owners got wind of this plan they orchestrated a takeover of the organization and developed a new plan that did not include additional rental housing.

The alliance’s new board also had little interest in continuing to own and manage the multifamily properties the alliance had developed during the 1980s, so WHC was established as a separate organization and the properties, seven leasehold cooperatives with 16 buildings and 158 units, were transferred to it. At the time of the transfer, many of these buildings needed further renovation. The corporation received its initial funding from NRP and the ISG, which assists troubled affordable housing developments. WHC expected to receive additional funding from NRP to develop more housing, but under pressure from local landlords the city decided to leave those funds with the alliance. This closed the door on an important source of support for rehabilitating the transferred units and developing additional units. WHC’s sole focus was turning around the 11 buildings it owned. At its height WHC had a staff of three—a director, a co-op organizer, and a secretary—and contracted with private asset and property managers.

Given the poor condition of the properties it inherited, WHC felt it needed to improve them before taking on new projects. There was never enough money, however, to make the substantial repairs needed. Before the ISG was willing to provide substantial funding to rehabilitate the units, it wanted to see a stabilization plan. WHC’s staff developed such a plan, but the ISG judged it inadequate. One person described it as a “chicken and egg problem.” The ISG wanted to see management changes, but WHC argued it needed funds in order to make the changes. For example, the ISG wanted WHC to bring in general partners, but without an up-front commitment of funds for rehabilitation there was little interest among potential partners. WHC did receive some ISG support, but never enough to do the extensive property rehabilitation that was needed. WHC staff also had trouble finding effective property management companies, which contributed to the continued decline in the buildings’ attractiveness.

In 2000, after a final failed attempt to secure additional equity investments from the National Equity Fund, WHC closed its doors. At the time of our visit, responsibility for some of the developments had been transferred to other nonprofit organizations in the city. Interviewees were confident that the remaining WHC developments would be transferred to other nonprofits, thus ensuring that the units would remain affordable to low-income households.

The 7th Street/Fort Road Federation was chosen as the comparison organization in the Twin Cities. Like the Whittier Alliance, it combines neighborhood advocacy with housing develop-
ment. The federation serves a largely working class, ethnically diverse area south of downtown St. Paul. In response to city plans to demolish the neighborhood's older homes and replace them with apartments and commercial and industrial buildings, the federation was created in 1973 to advocate for renovating existing buildings. When the federation incorporated as a CDC in 1978 it became directly involved in development, including rehabilitating single- and multifamily housing. However, the federation has maintained its original mission as a neighborhood advocacy organization and represents the area in the city's District Council Program.

Its most recent major development project involved renovating 29 houses and building 22 town houses. In 1999 the federation had an operating budget of approximately $400,000 and a staff of three—an executive director, a community organizer, and a development assistant. Its philosophy has been to keep a small staff and contract out for services. Its funding comes from the city, LISC, and local foundations and businesses. The main reasons the 7th Street/Fort Road Federation survived while WHC failed are that the federation serves an area that did not experience the same degree of decline, sponsors housing developments for a more diverse population, maintains a steady flow of development funds, and has the support of all segments of the community served.

Oak Cliff Development Corporation (OCDC): Organizational Downsizing

Throughout the 1980s, Dallas witnessed rapid regional growth, a phenomenon not shared by parts of South Dallas, including the Oak Cliff area. The first group of CDCs in Dallas was formed to serve the South Dallas area, and even today the greatest concentration of CDCs is in this area. The CDC movement has grown in the Dallas area, and in the mid-1990s there were over 25 CDCs. The City of Dallas and other intermediaries like the Enterprise Foundation provide technical assistance and some operating support for the CDCs.

OCDC was formed when the housing outreach program of a local Lutheran church found that there was an overwhelming demand for affordable housing in the South Dallas area. The CDC incorporated in 1987. With some support from the Lutheran church, OCDC undertook the rehabilitation of a single house as its first project. Since then it has focused on developing homeownership projects for low- and middle-income families.

After its initial success, OCDC received generous support from the region's financial and philanthropic institutions and enjoyed steady growth as it completed several development projects. OCDC was nominated to receive the American Bankers Association's national service award the same year it received the American Institute of Architects's community service award. OCDC also received a presidential proclamation in the area of community development and recognition from the mayor of Dallas.

In 1993 OCDC was made administrator for the Dallas in-fill housing program. This contract gave OCDC an opportunity to focus on new construction of single-family homes. With adequate administration fees for the expanded services provided by the contract, OCDC hired additional staff. At its peak, OCDC had eight full-time staff members. Over the next few years,
OCDC continued to focus on new single-family homes and concentrated most of its resources on administering the in-fill housing contract.

Even as OCDC flourished, it lost capacity as several experienced staff members moved on to better positions. This reduced staff capacity affected OCDC adversely. Another adverse event was the vocal community opposition to OCDC’s Independence Park Project, a planned-unit development of 112 new homes. This opposition brought the organization unfavorable media and political attention. However, the most significant factor leading to the organization’s downsizing was the loss of the in-fill housing contract and the subsequent reduction of OCDC’s operating budget.

When OCDC’s in-fill housing program contract expired, the city elected not to renew it. Caught unprepared, OCDC appealed the decision and spent several months entangled in an unsuccessful bureaucratic appeal process. During this time, holding costs and legal fees drained the organization’s reserves. In addition, housing production suffered greatly, cutting into OCDC’s potential income from developer fees. OCDC found itself facing a severe financial crunch. OCDC was unsuccessful in finding alternate sources of operating support. As a result of mergers, the local banking industry, which had been a strong supporter in earlier years, was unable to provide the necessary financing. In addition, the number of CDCs had increased, so the competition for limited resources had become fierce. Squeezed out and lacking adequate operating support, OCDC was forced to downsize significantly. It lost most of its staff, and its production capacity diminished.

The loss of a major provider of affordable housing in the city and the slowdown in the revitalization of the Oak Cliff area are significant impacts. Some contend that the increased production in recent years by other providers may have mitigated the loss, but others disagree. Staffed full time by only its founding executive director, OCDC continues to struggle to make an effective comeback.

The comparison organization chosen in Dallas is the Operation Relief Community Development Corporation (ORCDC). ORCDC is a growing CDC that operates in the South Dallas and Fair Park areas, particularly in the Edgewood addition. The current executive director formerly worked with OCDC. ORCDC, which now oversees a wide variety of projects and services, started initially by operating a food pantry and an after-school program and summer camp for children in transitional housing.

Recently, ORCDC completed several projects, including a 12-unit transitional housing complex and an 18-unit apartment complex for low-income residents. It has also constructed one new single-family home and renovated four others. Still in progress are two single-family homes, a 144-unit apartment complex, and a 30-unit senior citizen complex. The main reason ORCDC thrived while OCDC downsized was that ORCDC developed more diversified sources of funding, sponsored a more diverse set of both housing and social services programs, developed stronger political support among city officials, and maintained stronger community support.
Advocate Community Development Corporation (ACDC): Organizational Downsizing

Philadelphia has a long history of CDC activity and a strong support network that includes city agencies and national intermediaries. Several of the more effective CDCs enjoy operating support from two major initiatives and a host of foundations. About 65 CDCs currently operate in the city, with the greatest concentration in North Philadelphia. Included in this group is ACDC, which operates adjacent to Temple University, in lower North Philadelphia.

The neighborhoods in this area suffer from a concentration of poverty, an abundance of vacant structures, and growing social problems. However, there are many sections that have low crime rates and are home to middle-class and professional African-American families. With their rich architectural heritage and proximity to Temple University, these neighborhoods are seen as assets for the revitalization efforts spearheaded by ACDC.

Founded in 1968, ACDC was among the city's first CDCs. Its founder, at the time a member of a parents' group, was concerned about the difficulty another member was having finding affordable housing. She served as president of the board of trustees until 1996.

ACDC completed its first project, 15 new homes for families on welfare, in 1971. Following its early success, ACDC continued developing housing while also developing an area master plan that helped lead to positive changes in public policy, including more financial resources for the target neighborhoods. In its second decade, ACDC undertook several larger housing projects and led a successful effort to designate the Diamond Street area as the city's first historic district. In its third decade, ACDC developed its first rental housing units and continued its revitalization efforts. Over three decades, ACDC completed 365 houses in its target area.

Throughout these years, the organization received widespread recognition for its work and was well supported by funders. Much of the organization's success is attributed to its founder's charismatic leadership. Although she was officially president of the board, she was also de facto executive director; for most of her tenure ACDC did not have an executive director. During these years, rather than developing in-house capacity, ACDC relied on consultants and contract employees to complete projects. Although this strategy may have been economical in the short term, the lack of in-house capacity cost the organization dearly in later years.

The organization began facing challenges when its founder developed health problems and was unable to devote the same energy and time to day-to-day activities. The existing staff could not handle the complexities of development projects, and the founder's resignation created a crisis both on the board and within the staff.

After her resignation, the board tried to support ongoing initiatives but found it difficult to provide the necessary leadership, especially after several members resigned. As the board struggled to find alternate leadership, communications with funders suffered and ACDC lost much of its operating support.
The search for an executive director was not easy for ACDC. The first two choices did not work out, and the third’s tenure was cut short by ill health. All the while the development of new projects decreased and the potential developer fees diminished. Without adequate operating support, the organization was forced to downsize dramatically.

The ACDC downsizing resulted in a slowdown in the revitalization of the Diamond Street corridor, a cutback in the production of affordable housing, and deterioration in the area’s housing stock. ACDC also had been a leading voice for the community. For a while it lost some of its strength, although the current leadership is actively presenting community concerns to the local administration and other agencies.

The organization is making a steady comeback. After several years of staff turnover, ACDC has found stable board and staff leadership. The board has expanded to include more professional expertise and is actively setting policy for the organization. ACDC has made great strides in recovering support from funding agencies and is actively working on partnerships to develop several projects. Many interviewees believe ACDC may witness a new growth cycle.

The comparison organization chosen in Philadelphia is the Greater Germantown Housing Development Corporation (GGHDC). Formed in 1977 to serve the Germantown area, this organization is a leading producer of housing among CDCs in the city, having produced 146 units for homeownership and 422 rental units. It has also developed over 75,000 square feet of commercial space. It is a mature organization, with 26 employees and one of the largest operating budgets among the city’s CDCs. GGHDC has experienced changes in both board and staff leadership, but these transitions went much more smoothly than they did at ACDC. The main reasons GGHDC thrived while ACDC downsized was that GGHDC recruited a stronger, more active board of directors, developed more effective board and staff leadership, put a greater emphasis on staff development, and established an effective relationship with a corporate partner.

**Albina Community Development Corporation (Albina): Organizational Merger**

Two groups that have served Portland’s Northeast section for years merged in July 2001 to form the Albina Community Development Corporation. Over the past decade Portland has experienced enormous growth in land and housing costs. After a period in the late 1980s and early 1990s when the city and funders supported the creation and expansion of CDCs, market changes and funding constraints in the late 1990s made it more difficult to sustain CDCs. The Northeast section of Portland, which is one of the poorest areas of the city and also has the largest concentration of African Americans in Oregon, was home to five CDCs. Between 1990 and 2000 this area was significantly upgraded: the many buildings that were once vacant, boarded up, and threatened with foreclosure are now largely gone.

Portland CDCs received, in addition to city funds, funds from the Neighborhood Partnership Fund (NPF), a local intermediary started in 1990 by the Oregon Community Foundation and the Ford Foundation. But by the mid-1990s the city and funders wanted to rationalize the vari-
ous funding streams, and in 1996 the Portland Neighborhood Development Support Collaborative, known simply as the “collaborative,” was formed. Three public, private, and nonprofit funders make up the group: the Enterprise Foundation, NPF, and the city Bureau of Housing and Community Development. Recognizing that the CDCs needed to streamline their operations, representatives of the city and funders met in late 1998 to acknowledge the market changes, the increased challenges confronting the CDCs, and the desire to reduce the level of operating support for these groups.

In addition to changes in the real estate market that made it increasingly difficult for CDCs to find inexpensive land and buildings for development, the collaborative questioned the CDCs’ accomplishments based on their work plans. Four of the five CDCs in the Northeast section—Housing Our Families (HOF), Sabin CDC, Franciscan Enterprise, and Northeast Community Development Corporation (NECDC)—were perceived as unstable. The fifth group, Portland Community Reinvestment Initiatives (PCRI), was asked by the collaborative to participate in meetings about streamlining CDC activities in the Northeast but declined. The CDCs were not explicitly asked to merge; instead, they were asked to find a way to work more efficiently. Over the following months, and for a variety of reasons, only three groups remained in the discussions, and then one of those went out of business. The remaining two CDCs, Sabin and HOF, were on the verge of merging when Franciscan Enterprise rejoined the discussions. All three groups were slated to merge into a single organization on July 1, 2001. However, at the last minute, the membership of Sabin voted not to join in the merger. The new organization resulting from the merger of HOF and Franciscan Enterprise is Albina.

Before the funders asked the groups to improve productivity and efficiency, there had been only limited interaction and cooperation among the CDCs. Although the groups had worked together on several initiatives through the Community Development Network, there was no real relationship among the various board and staff members and no formal partnership on specific projects. The executive directors of the CDCs had changed many times, derailing opportunities for cultivating relationships. The merger discussions were difficult, with many tense interactions along the way. Moreover, although the CDCs involved could see the logic of a merger, in retrospect they agree it would not have happened without explicit directives from the city and funders. Apart from the boards, which were a mix of residents and nonresidents, virtually no area residents or other community groups participated in the merger discussions, and there was no public controversy over the merger among the CDCs, the community, and the collaborative.

Franciscan Enterprise was created in 1987 and HOF in 1991. While there was community participation in their creation, a key impetus was the city’s support of CDCs throughout Portland during that period. In general, CDCs in Portland did not grow from strong community activism and protest. Prior to 1987, there were just two CDCs in Portland.

HOF came to the merger with 268 rental units, all but 80 managed by an outside property management company. It had 7.5 staff positions and an annual budget of $800,000. Franciscan had completed 120 units of rental housing, some of which were part of a mixed-use development. Its budget was about $650,000, and it had a staff of 6.5.
Slavic Village Development (SVD): Organizational Merger

Cleveland has one of the most sophisticated and supportive community development systems in the country. A series of public, private, and nonprofit organizations provide funds and technical assistance to the city’s 40 to 50 CDCs. Slavic Village Broadway Development Corporation (SVBDC) and Broadway Area Housing Coalition (BAHC) merged in 1998 to form SVD. Although ostensibly the merger of two organizations, SVD included the vestiges of earlier neighborhood organizations working in housing, commercial development, and advocacy.

BAHC started in 1980 and was primarily involved with low-end, market-rate housing for sale. SVBDC, which was involved with commercial/storefront projects, grew from a 1991 merger of Slavic Village Association and Broadway Development. The perception at that time was that funders were pressuring the groups to merge, but the organizations were reluctant to do so.

By 1997, however, this reluctance had dissipated. Increasingly, the CDCs felt they would not be able to carry the overhead of two separate organizations and that a merger was in the best interests of all involved. They also felt that funders would not agree to the two continuing to exist on their own, despite the fact that both were viewed as quite competent.

In many respects the recent history of the Slavic Village–Broadway area mirrors that of scores of older inner-city neighborhoods. It is a story of population decline, demographic changes, and changes in the industrial base. There are few large tracts of land available in the neighborhood, making land difficult to assemble and large-scale development, therefore, nearly impossible. Overall, the city is booming; a great deal of new housing has been built since 1990, but it is not being built fast enough to fulfill the demand. Despite a recent growth in the minority population, the Slavic Village–Broadway area is a largely white, lower-middle-class area. In 1990 about 5 percent of its population was African American, a figure that has perhaps doubled in the past decade. About 10 percent of the population is Hispanic.

The North and South sections of the area had somewhat different demographics. The North was generally poorer, with a larger proportion of renter and African-American households. Residents in the South section were more often white, and there was a higher rate of homeownership.

In 1981, six CDCs got together and formed the Cleveland Housing Network (CHN) to facilitate the development process by providing technical assistance to the member groups and by assisting with the financing and management of their lease-purchase units. The hope was that an umbrella organization would be more successful than the individual CDCs in locating funders and investors in LIHTC deals. CHN is now a consortium of 19 CDCs that focuses on homeownership for low- and moderate-income households.

City funds for housing, which come from the HOME program and from CDBG allocations, are funneled through the Cleveland Housing Trust Fund, established in 1991 and controlled by the city. The funds go toward CDC core operating support as well as other activities. In addition, Cleveland’s 21 city councillors all receive an allocation of CDBG funds to be used in their wards; much of this goes to CDCs. The Cleveland Neighborhood Partnership Program (CNPP)
awards core operating support grants to CDCs on a competitive basis. CNPP is run by Neighborhood Progress, Inc., which itself was created by Cleveland Tomorrow, a group of the region’s 50 largest multinational corporations and its major local foundations, including the George Gund Foundation.

At the time of the merger, there was generally a high level of trust and personal connection among the executive directors, staffs, and board members of BAHC and SVBDC. Nevertheless, there had been some tension between the two groups prior to the merger, and some relatively small issues had to be sorted out. BAHC, considerably larger and stronger than SVBDC, traditionally focused on housing production. In recent years, however, BAHC had become more involved with commercial development, somewhat usurping SVBDC’s traditional turf. Thus, although both groups were well connected to the mayor and city councillors, questions kept arising about why two organizations, each doing a component of community development work, should continue to be funded.

The merger is widely viewed as a success, with the new organization stronger than either of the two prior groups. But even in the best situations, mergers are not easy. Currently, SVD is building about 50 new units and rehabilitating another 30 or so per year, plus managing close to 350 rental units owned by other nonprofits in Cleveland. Credited with doing the largest volume of housing rehabilitation in the city, SVD is converting buildings that had been subdivided into small units back into single-family residences.

One interviewee said she was not sure the merger would have succeeded if there had not been a high level of trust based more on a shared vision of the neighborhood than on personalities. Although the recent merger met with bumps here and there, people were interested in what was best for the neighborhood: “They all kept their eye on the prize.”

The next two chapters summarize the factors that led to the failures, downsizings, or mergers experienced by the six organizations we studied. Chapter 4 presents the contextual factors, while chapter 5 presents the organizational factors involved.
Chapter 4

CONTEXTUAL FACTORS

The challenges faced by community development corporations (CDCs) involve both contextual and organizational factors. Contextual factors, such as the health of the local economy and the level of support for CDCs among public and private institutions, are largely beyond the control of a CDC, yet they can have profound and lasting impacts on its viability. This is particularly true when CDCs fail to anticipate changes in key contextual factors and effectively respond to them. This chapter identifies and describes the key contextual factors that contributed to failures, downsizings, and mergers in the six CDCs studied.

Based on the interviews conducted at each site, we identified six key contextual factors that contributed to the organizational changes being studied: market forces, increased competition for resources, changes in city policies, the role of intermediaries and other funders, a lack of CDC support organizations, and the level of trust (table 1). Each will be discussed in turn.

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Note: ACDC = Advocate Community Development Corporation; Albina = Albina Community Development Corporation; CDCW = Community Development Corporation of Wisconsin; OCDC = Oak Cliff Development Corporation; SVD = Slavic Village Development; WHC = Whittier Housing Corporation.

Market Forces

Among the many factors influencing a CDC’s financial health, the upward or downward cycles of housing markets are among the most critical. Regardless of a CDC’s internal management systems, staff capabilities, or financial and technical resources, market forces can create enormous problems for CDCs. Weakening demand for CDC-owned or -managed housing played an important role in the two CDC failures studied, while a hot housing market made it difficult for organizations in one of the mergers studied to acquire property for development.
Weak market conditions created serious problems for both the Community Development Corporation of Wisconsin (CDCW) and Whittier Housing Corporation (WHC), contributing to their demise. In Milwaukee, deteriorating neighborhood conditions reduced the demand for the units owned by CDCW. Milwaukee lost 8.9 percent of its population between 1990 and 1999. The CDC’s main target area, Northside, was particularly hard hit by these losses, as housing vacancy rates and abandonment increased. In 1994 there were over 700 boarded-up units in the city, most located in the Northside area. One person observed: “We have a rotating stock of vacant housing units in the city.” The Northside area was also known as a high-crime area.

All of these forces conspired to create a “soft” market for housing owned by CDCW. This soft market meant that the staff had difficulty keeping the units fully leased, so vacancies increased and rent revenues fell. They were also unable to raise rents to cover escalating costs for fear of pushing the vacancy rate even higher. This further cut into rental revenues. The Walker’s Point Development Corporation, the comparison organization in Milwaukee, operated in a slightly higher income area and had a much smaller stock of rental properties, so it was not as affected by the soft market.

Unfavorable market changes also played an important role in the demise of WHC in Minneapolis. During the 1980s and early 1990s the Whittier neighborhood experienced a marked increase in crime and drug-related problems. As suggested by one observer: “The neighborhood was the key problem. No one anticipated that the area would decline the way it did.” Moreover, these problems led to the out-migration of higher-income households and a higher proportion of lower-income households.

Under these circumstances, WHC was finding it impossible to charge rents that could cover the 7 to 8 percent annual increases in expenses. The lack of additional revenues meant that proper maintenance on the buildings was deferred, and this, in turn, made them even less desirable to prospective tenants. Again, the end result was that rental revenues did not keep up with expenses. The area served by the 7th Street/Fort Road Federation, the comparison group in the Twin Cities, was a more stable working-class neighborhood that did not experience the same decline. Demand for property in this area remained relatively strong, compared with demand in the Whittier neighborhood.

In contrast, in Portland the market created a completely different set of problems for the CDCs serving the Northeast section of the city. Here a newly emerging strong real estate market was reducing the availability of land and buildings, thereby making development aimed at lower-income households particularly difficult. After about 10 years of concerted community development work, and with the overall economy in Portland thriving, it has been difficult if not impossible for CDCs there to find good development deals. The changes in Portland were summed up by one interviewee, who noted: “In 1991 there were over 2,000 vacant and abandoned properties, predominantly in the Northeast section of town. Now there are probably not five houses that are vacant and abandoned.”

1 According to several telephone informants, similar situations also existed in other cities, such as New York. Also, a Sacramento, CA, group reportedly merged with a larger regional organization because the market in the area simply was not big enough to keep the smaller group in business; there was minimal development in the pipeline, and future possibilities for development projects were viewed as limited.
With the several CDCs in the area chasing fewer and fewer opportunities, the city and the funders became concerned about the relatively large number of organizations that seemed to be running out of good projects. The idea to streamline these groups’ operations was a logical response to the changing market conditions and directly contributed to the push for a merger. In the case of the CDCs in Northeast Portland, the paucity of development opportunities dramatically reduced the groups’ developer fees, the lifeblood of many, if not most, CDCs.

One of the interviewees in Portland observed that there might have been a way to insulate the housing market from inflationary pressures. She expressed regret that some $30 million in city revenues for housing had not created long-term affordability protections and suggested that the city should have employed a land trust model, in which ownership of the land is held by a trust, not the homeowner, and the resale price is controlled through provisions in the ground lease. Had a community land trust been set up, more of the housing would have remained affordable to low- and moderate-income households.

The Portland case also reveals one of the ironies of community development. The more CDCs succeed in renovating and reselling or renting dilapidated and derelict properties, the more they contribute to community revitalization. This revitalization, in turn, leads to higher house and land prices and fewer vacant properties; thus CDCs are priced out of the market. One person commented: “The work the CDCs did in the housing area helped launch community development in the Northeast. But combined with market forces, CDCs are being squeezed out.” Our telephone interviews with key informants in cities across the country indicated that several other cities, including New York and Chicago, are also experiencing similar escalations in house and land values, making it very difficult to acquire property that can be developed as affordable housing and threatening the financial viability of those organizations. In response, several of these organizations were switching their emphasis to social service or economic development activities.

While many interviewees noted the ways in which market forces had significantly affected CDC operations, no one mentioned that there had been any strategic planning related to market forces. The organizations affected were not prepared for these market changes and did not have effective strategies for coping with them. This clearly contributed to their decline.

**Increased Competition for Resources**

In recent years, cities and states have instituted a host of programs to offer financial and technical assistance to CDCs involved in housing rehabilitation, production, and management. The growth of national intermediaries like the Local Initiatives Support Corporation (LISC), the Enterprise Foundation, and the Neighborhood Reinvestment Corporation has also boosted the financial and technical support available to CDCs, and this has led to an increase in their number. In 1991, for example, LISC sponsored a national demonstration program to create new CDCs in several cities in which few existed (Gittell and Vidal 1998).

This growth in the number of CDCs affects existing CDCs both positively and negatively. On the positive side, it has led to strong CDC support networks in many cities. With strength in
numbers, the member organizations have a greater collective voice and receive greater political attention from local government and other public and private agencies. On the other hand, the large increase has resulted in a very competitive funding environment in many cities, because the growth in available resources has not kept pace with the growth of CDCs. More groups are vying for a share of the limited resources available.

Another factor affecting CDCs has been the entry of some for-profit developers into the affordable housing market in many cities. This is a particular problem in the competition for Low-Income Housing Tax Credits (LIHTCs), which many CDCs rely on to finance rental developments. For-profit developers are often larger, better capitalized, and more experienced than CDCs, and in many locales they have been more successful in competing for the limited tax credits and hence the investments they generate.

Increased competition for funding contributed to the downsizing of both the Advocate Community Development Corporation (ACDC, Philadelphia) and the Oak Cliff Development Corporation (OCDC, Dallas), and it was also said to have motivated the mergers in both Cleveland and Portland. In Philadelphia, even though the amount of funds for CDC operating support has been increasing, the number of CDCs has also increased, resulting in heightened competition for the available funds. One interviewee flatly stated: “There are too many CDCs in Philadelphia.” This increased competition has particularly affected the smaller and less productive groups, which find it hard to win support.

In the past, ACDC (Philadelphia) had been the beneficiary of a number of state and local funds to cover its operations. As the organization experienced a leadership crisis, however, funders began to shift their support to organizations that were perceived to be more effective. Without adequate operating support, it became even more difficult to attract talented staff. As a result, the organization had to downsize its operations, decreasing its capacity to undertake development, which further reduced its available resources. The funding shortages also required a greater expenditure of staff and board time on fund-raising activities, which also decreased the organization’s productivity.

In Dallas, although the city offered support for CDC operating expenses, there was stiff competition among the city’s CDCs for those funds. One person commented: “The operating support offered CDCs by the city is simply inadequate.” Moreover, other sources of funds to cover the operating expenses were also in very short supply. Thus, after a multiyear city contract expired, OCDC had great difficulty finding alternative funding to cover its operating budget and was forced to downsize.

In both Portland and Cleveland, there was a growing perception that there were too many CDCs and not enough resources to support them all. In Portland, a meeting of city and funder representatives to discuss market forces and the need to reduce operating support resulted in five Northeast-area CDCs being asked to work together more efficiently. According to one interviewee, “The collaborative was offering the groups a ‘carrot.’ They were saying that if you stay in the discussions [to merge], at a minimum you will continue to get funding. If you don’t cooperate you definitely won’t get funding.” After years of discussion, two of the five organizations merged and one went out of business.
In Cleveland, an attempt by funders to “rationalize” the CDC system encouraged mergers among CDCs. Funders encouraged the merger between Broadway Area Housing Coalition (BAHC) and the Slavic Village Broadway Development Corporation as early as 1991, but at that time BAHC board members voted against the merger. In the following years, however, the funding environment became more competitive. The two groups that entered into the merger were aware that resources were likely to become increasingly scarce and that both faced the possibility of declining support from the city and local intermediaries. Without these resources, the groups’ ability to function would be in question. Thus, merging was practical and logical.

Changes in City Policies

Most CDCs depend heavily on their local governments for support. Studies indicate that the federal government, through its Community Development Block Grant (CDBG) and HOME programs, is the largest source of support for CDCs (National Congress for Community Economic Development [NCCED] 1995; Vidal 1992). Almost all these funds, however, are distributed through local governments, which ultimately decide which organizations receive funding and for what purposes. Thus, local government policy concerning fund distribution and use is critical to CDCs. In fact, changes in city policies played an important role in both failures, one downsizing, and both mergers studied.

City policy changes played important roles in the demise of CDCW and WHC. In both instances, changes in the policies governing the distribution of city-controlled funds for housing and community development had significant, albeit unintended, impacts on the organizations’ viability.

In the case of CDCW, the Milwaukee city government made two important policy changes. First, the city decided to switch from a citywide allocation of CDBG and HOME funds to a neighborhood-based system, with each of 17 eligible neighborhoods deciding how to spend the funds in its area. Unfortunately for CDCW, most neighborhood organizations did not see the development of low-income housing as a high priority, which resulted in a significant drop in the funding available to CDCs. Second, the city decided to deemphasize the production of rental housing developments and to emphasize the purchase, rehabilitation, and resale of single-family homes. Before this policy change, CDCW had been developing rental projects using the LIHTC program and receiving healthy development fees. One interviewee noted: “The city had a policy of producing affordable rental units. So CDCW did a lot of rentals...then the city turned to home ownership and did not continue to support rentals.” The switch to single-family rehabilitation taxed the organization’s technical capacity as well as its finances. The staff were not prepared to handle single-family rehabilitation and resale, and the fees received for this work were substantially less than those received from rental property development.

In Minneapolis, the city’s decision to create the Neighborhood Revitalization Program (NRP) set off a chain of events that eventually led to the demise of WHC. The participation of the Whittier Alliance in NRP led to the takeover of the board by local property owners who did not want more affordable housing in their area. According to one interviewee, the NRP process “brought homeowners into the process,” making them “a more powerful force in neighborhood decision
making.” The board takeover led the alliance to turn over its rental properties to WHC. Yet most of the NRP housing funds remained with the alliance, which denied WHC the financial support it needed to produce additional housing and generate its own operating support. St. Paul, where the 7th Street/Fort Road Federation (our comparison group) is located, did not adopt a program like NRP, and the city’s long-term relationship with the federation and other CDCs was not disrupted.

In Dallas the change in city policy concerning the outsourcing of its in-fill housing program affected OCDC dramatically, leading directly to its downsizing. In this example, community resistance to OCDC’s affordable housing developments undermined political support for the organization and led to the cancellation of city funding for its in-fill housing program, which provided a large share of the organization’s operating support. One person commented: “The change in attitude of city officials was quite shocking.” OCDC has had a difficult time adjusting to this loss of city support.

Changes in city policies also played important roles in the Portland and Cleveland mergers. In both cases city policies changed from supporting the creation of new CDCs to encouraging mergers among them. In response to the proliferation of CDCs, public officials in both cities—wanting to create fewer, larger, more sophisticated organizations—adopted policies designed to “streamline the delivery system.” In collaboration with other CDC funders in their cities they embarked on a concerted campaign to encourage mergers among organizations serving the same areas.

Role of Intermediaries and Other Funders

CDC intermediaries, such as LISC, the Enterprise Foundation, and the Neighborhood Reinvestment Corporation, and local funders, such as financial institutions and other corporations, also played important roles in the organizational changes that took place in several of the organizations studied. On the one hand, these intermediaries and local funders pressured CDCs to make changes in their modes of operation; on the other, they often provided valuable support in assisting CDCs in making those changes. CDC intermediaries and other funders played important roles in the failure of WHC (Minneapolis) and in the Portland and Cleveland mergers.

In Minneapolis some intermediary organizations and other CDC funders were said to have bought into the idea that to avoid the further concentration of poverty, new affordable housing should be built in the suburbs, not in the central city. Thus, support for the housing efforts of CDCs serving the central city was said to have waned in recent years. According to one interviewee: “Orfield [a Minnesota state legislator and author of Metropolitics: A Regional Agenda for Community and Stability, 1997] got everyone to agree that they did not want more affordable housing in the city. The CDCs ended up on the wrong side of this argument.” Thus, the funding available for the development of affordable housing in the city was said to have decreased in recent years.

Intermediary organizations played a very direct role in the WHC’s rise and fall. The Interagency Stabilization Group (ISG), composed of representatives of the key public and private funders in
Minneapolis/St. Paul, supported the creation of WHC. In addition, selected members of the ISG provided operating or repair funds to the WHC throughout its history. In return for this support, the ISG required WHC to develop a strategic plan, hire an asset management company, and take other actions to move toward self-sufficiency. Unfortunately, the organization was never able to accomplish that.

Local intermediary organizations also played important roles in the Portland and Cleveland mergers. These mergers were, in fact, precipitated by local intermediaries joining forces with city officials to pressure, sometimes subtly and sometimes not so subtly, CDCs to merge. Like the city agencies, the intermediaries and other local funders sought to rationalize and streamline the CDC delivery systems in their cities. At the same time, however, they provided substantial amounts of financial and technical support to assist in the merger processes. One interviewee in Portland commented: “We did the Portland thing—we asked the CDCs to get it together. We decided to give them money to hire consultants; quite a lot of money was spent before we came up with the partnership concept.” Similarly, one person in Cleveland said: “The intermediaries have provided good leadership to enable CDCs to be more strategic: they have provided operating grants, cheap interim financing, and up-front grant money for projects.” It seems clear that the mergers would not have taken place if it were not for the pressure and the support provided by the local intermediaries.

The main issue raised by these examples is when and how the intermediaries and funders should intervene in CDC affairs. CDCs believe they are autonomous organizations that serve locally defined needs and as such should not be dictated to by intermediaries and funders. Yet intermediaries and funders have their own interests to consider, and it is reasonable for them to set conditions for receipt of their funding. The challenge, then, is for intermediaries and funders to find a balance between allowing CDCs autonomy to fulfill their missions as they see fit and imposing conditions for support. As one person in Cleveland commented, “There will always be creative tension between the intermediaries and the CDCs.” Our findings are somewhat less sanguine than those of von Hoffman (2001), who, based on a study of three CDC housing developments carried out with the assistance of an intermediary organization, concluded that intermediaries did not interfere with CDC agendas.

**Lack of CDC Support Organizations**

In addition to the intermediary organizations, two types of CDC support organizations have developed in many cities. The first type is typically composed of representatives of key public, private, and nonprofit organizations in a city and is designed to foster communication and collaboration among the members. The second type is typically composed of representatives of the CDCs in a city and is designed to help them share knowledge, coordinate activities, and influence local public policy. The lack of one or both types of support organizations was identified as an important factor in both failures and one downsizing.

In Milwaukee, the failure of CDCW was at least partially attributed to the lack of a forum for key CDC funders to develop an effective strategy for helping CDCW overcome its problems. Some interviewees felt that CDCW could have been rescued if there was a means for the key
CDC support groups to communicate. One interviewee suggested: “The failure to create a functioning and functional public-private partnership, that also includes the nonprofit as partners at the table, is the clearest and most painful lesson we learned.” At the time of our visit, the local LISC office and others in the city were in the process of organizing such a group in an effort to provide better support to the city’s remaining CDCs.

In Minneapolis and Dallas, there was a perceived need for an organization made up of representatives of CDCs within the city. Minneapolis has a number of intermediary organizations that provide financial and technical assistance to CDCs, but there is no organization that facilitates communication among CDCs or that provides a mechanism for them to influence city policy. The lack of such an organization was seen as preventing local CDCs from effectively responding to political and economic change. As Goetz notes, “There is little available in the city or regionally to assist in the networking and political capacities of nonprofit developers, and this has undoubtedly hindered the ability of the CDC movement to effectively respond to the changing political environment of Minneapolis in the 1990s” (1998, 5). Similarly, in Dallas an interviewee suggested that a CDC trade organization might have helped OCDC more effectively respond to the city’s decision not to renew the in-fill housing contract.

Level of Trust

The final contextual factor that was cited as contributing to the organizational changes being studied was the level of trust among the various actors involved in CDC activities. Coleman (1988), Lin (2001), and Putnam (1995), among others, have argued that trust is an essential component of social capital—a history of shared norms and trusting, reciprocal relationships that allow participants to collaborate effectively. Our case studies suggest that the level of social capital among the key actors in the CDC community was an important factor in the organizational changes studied. Issues of trust and social capital were cited as important factors in both failures and both mergers.

In Milwaukee, the CDCW executive director did not mention the organization’s financial problems to either the city or his own board of directors, which included several major funders, because he did not trust that sharing this information would generate a supportive response. He was concerned that full disclosure of the organization’s financial problems would scare off funders and worsen the organization’s financial situation. One person suggested: “The city sees itself as a disciplinarian. It would rather investigate the organization than help it.” Thus, by the time the problems were discussed, the organization was very far in debt and no one was willing to provide the level of assistance needed to bail it out.

In contrast, Walker’s Point Development Corporation (WPDC), our comparison organization in Milwaukee, handled a similar crisis very differently. The executive director was surprised to receive calls from bank representatives and U.S. Department of Housing and Urban Development officials saying that WPDC was behind on mortgage payments. One bank was threatening to foreclose on one of the mortgage loans. It turned out that WPDC had a cash flow problem that the financial manager had not brought to the attention of the executive director. The executive director responded to this crisis by discussing this problem with WPDC’s lenders, who
agreed to give WPDC some breathing room by deferring loan payments. This gave WPDC time
to get its financial house in order. Thus, rather than hide the problems, WPDC was willing to
acknowledge them and trust that it would receive help, and it was right.

Lack of trust was also mentioned as an important factor in the WHC (Minneapolis) failure. In
this instance, the CDC’s staff never won the trust of key members of the ISG, who were skepti-
cal of the staff’s ability to plan for and implement the needed property renovations or to man-
age the properties. One person noted: “The WHC developed a strategic plan [for stabilizing the
development] but the ISG wanted more. [WHC] would never get their trust.” WHC staff mem-
bers never trusted that the ISG wanted them to succeed. They believed that some ISG mem-
bers withheld support because they had not wanted WHC to be created in the first place.

In Portland, the CDCs in the city’s Northeast had little experience working together before
merger discussions began. When the CDCs were asked by the collaborative of local funders and
city officials to “work more closely together,” the organizations had few shared experiences and
little mutual trust on which to draw. In fact, one interviewee noted: “Before the collaborative
requested that the CDCs get together, the CDCs in Northeast had never given each other the
time of day.” Clearly, this did not bode well as a basis for establishing a new, trusting relationship
around a highly charged issue—the possibility of merging several organizations.

Portland also provided an example of how race and gender power differentials may create some
additional, often unspoken, tensions. One person noted: “Race is the elephant on the table that
no one wants to talk about.” All key members of the local collaborative pushing for the merger
were white men. All five executive directors of the CDCs were women, three of them women
of color. There is no evidence or accusation of either racism or sexism on the part of any col-
laborative member, but the power relationships did sort out by race and gender. Further, when
this issue was discussed with members of the collaborative, they expressed considerable frus-
tration and sensitivity about this situation and acknowledged that an unfortunate division exist-
ed along these lines. It is impossible to ascertain the extent to which race and gender played a
role, but these factors may have been an additional obstacle to the development of trust among
those involved.

Finally, Cleveland presents an example of a city in which social capital is abundant. With one of
the oldest, most sophisticated and supportive community development systems in the country,
many of Cleveland’s key actors have worked closely together for years. These relationships and
a high level of trust proved invaluable in the successful merger between the two organizations
in the Slavic Village–Broadway neighborhood. One person commented: “Everyone is collaborat-
ing, including LISC and Enterprise. When we have disagreements it is more like family fighting.
We just get the job done. The number one ingredient is relationships, and we have that in
spades…. All trusted that they were working with the best interests of the neighborhood in
mind.”
Conclusion

Contextual factors may sometimes create insurmountable obstacles for a CDC or group of CDCs. Where market conditions are changing dramatically and competition for resources is becoming acute, some groups will weather the challenges, while others may not. In addition, changes in city policies or in local and national intermediaries’ operations or orientations will have varying impacts on any given CDC’s viability. Depending on the changes being promulgated and how narrowly or broadly targeted they are, some CDCs will have particular difficulties, while others may be able to overcome the challenges. Finally, permeating all the contextual issues is the level of trust and social capital among CDCs and other actors in the CDC support community. Where trust is strong and deep, where partnerships and collaboration are standard practice, and where there are organizations supporting the work of CDCs, CDCs will likely have considerably greater tools with which to navigate through difficult times.
Although contextual factors influenced the organizational changes in our six cases, organizational factors were also important. In fact, the challenges faced by the community development corporations (CDCs) in this study often resulted from an interaction of contextual and organizational factors. In this chapter we present the major organizational factors that contributed to the failures, downsizings, or mergers studied. These factors include the breadth of the organization's mission, overreliance on a single funding source, internal management problems, lack of staff or board capacity, communication problems, and lack of community support (table 2).

### Breadth of Organizational Mission

The essential mission of a CDC largely determines the products and services it offers, the geographic area covered, and the characteristics of the clients served. Often, the missions of CDCs are narrowly defined, and this may make them particularly vulnerable to changes such as weakened demand for housing in their target areas or funder priority shifts. The breadth of organizational mission was identified as a factor in both failures, one downsizing, and both mergers.

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#### Table 2. Summary of Key Organizational Factors Contributing to Failures, Downsizings, and Mergers

Three elements of an organization's mission may affect its ability to respond to contextual changes: (1) diversity in project types, (2) diversity in geographic area served, and (3) diversity in income groups served. Diversity in the types of housing and other development is important in
that it broadens the potential sources of project and operating support. It also allows a CDC to take advantage of changes in market forces and hedge against inevitable downturns in specific markets. A CDC with too narrow a range of products may not be able to adapt rapidly to changing community needs or to changing funder priorities. Finally, a narrow range of products may lead to the loss of support from certain elements of the community.

Diversity in geographic area served may also be an important factor in maintaining organizational stability. Most CDCs are neighborhood based, serving relatively small areas. This limits their development opportunities and subjects their entire housing portfolio to local market forces.

Finally, diversity in income groups served may be another important factor in a CDC’s ability to respond to change. Although most CDCs are formed to serve low- and moderate-income residents, some focus exclusively on serving very low income households. Given that very low income households are more likely than others to have difficulty staying current on their rent payments and may have other social problems that negatively affect management costs, serving them exclusively may result in greater financial risk for the CDC. Alternatively, serving a more economically diverse clientele may produce greater financial stability for the organization.

Both failed organizations in our study had missions that lacked all three types of diversity. In Milwaukee, the Community Development Corporation of Wisconsin (CDCW) had a large portfolio of rental housing that was heavily concentrated in the distressed Northside area and, given its location, it largely served very low income households. As the demand for housing in this area weakened throughout the 1990s, CDCW found it difficult to keep occupancy rates up. Moreover, this weak market precluded rent increases, which, in turn, affected CDCW’s ability to cover increases in operating costs on a large proportion of its units.

By contrast, the Walker’s Point Development Corporation (WPDC), our comparison organization, pursued a more diversified development agenda. Along with affordable housing developments, it developed market-rate housing targeted to moderate-income households, and it purchased and rehabilitated commercial properties in the local business district. It has also begun to develop properties outside its original target area, thereby geographically diversifying its portfolio. This diversification made WPDC less vulnerable to the softening Milwaukee housing market during the 1990s.

Similarly, in Minneapolis the Whittier Alliance (the parent organization of Whittier Housing Corporation [WHC]) focused exclusively on developing rental housing for very low income residents. Its developments were concentrated in several blocks of one neighborhood. The lack of diversity meant that the organization’s entire portfolio was negatively affected by the softening demand for housing in the Whittier area. Moreover, serving such a narrow income group led to the loss of broader community support for the organization and ultimately to the takeover of the alliance and the transfer of the units to WHC. The financial viability of WHC, in turn, suffered from the same lack of diversity.

In contrast, the 7th Street/Fort Road Federation, the comparison organization in the Twin Cities, pursued a more diverse housing agenda, including the rehabilitation of single-family homes, the development of housing for the elderly, and the development of a limited amount of rental
housing. The federation’s staff suggested that its diversified approach to housing production helped it remain financially sound and maintain community support.

Lack of diversity in CDC activities also played an important role in the downsizing of the Oak Cliff Development Corporation (OCDC, Dallas). OCDC specialized in a single product, namely the construction of new single-family houses for low- and moderate-income families. OCDC staff felt that this strategy allowed them to produce more units of higher quality. Several other people, however, suggested that this narrow focus made OCDC vulnerable to changes in city policy and reduced the number of potential funders. When funders began switching to an emphasis on multifamily rental housing, OCDC was not prepared for the change. OCDC staff we interviewed now believe that a more diverse mix of products is essential for the organization’s survival.

Similar to the comparison organizations in Milwaukee and the Twin Cities, the comparison organization in Dallas, Operation Relief Community Development Corporation (ORCDC), developed a more diverse array of housing, including rental housing for different population groups and homeownership projects that included new construction and the rehabilitation of existing units. Having a more diverse portfolio, it was suggested, helps mitigate risks by reducing a CDC’s reliance on the development of a single type of housing and allowing it to weather market changes.

Finally, breadth of mission also played an important role in both mergers studied. Most Portland, OR, CDCs were created to rehabilitate dilapidated housing. Over time, however, market changes in the Northeast section of Portland made it difficult for CDCs to find properties that could be rehabilitated and sold as affordable housing. Thus, many CDCs found that they faced reduced opportunities and dwindling resources, which put pressure on organizations to merge. Similarly, one argument for why the two Cleveland organizations should merge was that a merged organization would have the broader mission of developing both housing and commercial property in a coordinated way. Also, because one of the groups, Broadway Area Housing Coalition (BAHC), was moving beyond its traditional housing mission into economic development, the rationale for having two separate groups was further diminished.\footnote{Similarly, Hoffman (2000) notes that a key reason for the merger was encroachment; two organizations had started to branch out into the traditional development domains of the other group. He writes: “Each organization was beginning to take on unfamiliar tasks; but tasks that were familiar to the other organization” (2000, 37).}

As discussed in chapter 7, there are clear tradeoffs and risks associated with an organization broadening its mission, mix of activities, and geographic focus. This decision can become particularly acute for groups that have long-standing commitments to serving very low income households and neighborhoods.

\footnote{Information gathered during our telephone conversations also reinforced this point. We were told about groups in both Baltimore and Indianapolis that had performed complementary activities and that merged because they wanted to create a more comprehensive organization. Also, we were told that a successful merger had taken place in North San Diego between an organization with weak financial reserves but a strong social services component and an organization with significant financial reserves and a desire to move into social services. The merger was viewed as a way for one organization to provide a broader array of needed community services.}

Evolving Challenges of Community Development Corporations
Overreliance on a Single Funding Source

The quest for resources, particularly core operating support, is a constant theme in discussions about CDCs. CDCs typically support themselves with a combination of grants from public, private, and nonprofit organizations and with fees for various services. Housing development and management, for example, provide revenue from both developer fees and management fees. Overreliance on any single funding source, however, may make an organization vulnerable to interruptions in that funding. Such overreliance played an important role in one failure, both downsizings, and one merger studied.

CDCW (Milwaukee) depended heavily on the city for financial support, and much of that support was tied to the production of housing. Thus, the slowdown in CDCW’s housing production led to serious funding cutbacks. The lack of more flexible foundation funds not directly tied to the production of housing units left CDCW with very little financial cushion. The heavy reliance on city funds also meant that it was difficult for CDCW to refuse requests made by the city, such as assuming responsibility for the housing portfolios of failed CDCs. As one person noted, “There were a lot of political demands to get involved [with the problem properties]. [The executive director] was being pulled in many directions.”

In contrast, the executive director of WPDC, the comparison organization in Milwaukee, made a conscious effort to diversify its funding sources. When the executive director took over, 70 percent of the organization’s funding was coming from the city. At the time of our visit, this figure had dropped to 35 percent. The remainder of its support came from a variety of other government organizations and foundations. Thus, the loss of a single funder would not be likely to result in the total collapse of the organization.

Overreliance on city support was also important in explaining the downsizing of OCDC (Dallas). Again, a very large percentage of the organization’s revenues came from the in-fill housing program funded by the city, and the executive director assumed that support would continue. One person suggested: “By expecting the in-fill contract to be renewed, the organization may have become complacent and may not have devoted enough time and resources to looking for other projects.” Thus, when the city contract was not renewed, the organization had little to fall back on. In contrast, ORCDC, the comparison organization in Dallas, made a concerted effort to diversify its funding sources. It was successful in garnering support from financial institutions and foundations as well as from the city. As such, it will not be as vulnerable to interruptions in any single source of funds.

The downsizing of Advocate Community Development Corporation (ACDC, Philadelphia) was also said to be at least partially attributable to overreliance on a single source of funds—in this case, developer fees. One person commented: “Lower production meant lower developer’s fees [which made it] difficult to continue operations.” In addition, in Portland, overreliance on developer fees was cited as a factor contributing to the financial instability of several organizations involved in the merger discussions. One interviewee noted: “[Housing Our Families] HOF was in trouble and could see that their operating budget was heavily dependent on developer’s fees”; “HOF was aware that these fees were becoming increasingly unavailable since development was becoming more and more difficult to carry out.” Thus, it is never healthy for a CDC
to be overly dependent on developer fees, because organizational viability then requires a constant flow of new deals. If production is slowed, for whatever reason, the group’s viability is threatened.

**Internal Management Problems**

Effective management is as important in the success of CDCs, as it is to all organizations. Good organizational planning and decision making, financial accounting, staff development and supervision, and other dimensions of management are critical to CDC viability. Thus, it is no surprise that management problems were important in explaining both failures, both downsizings, and one merger studied. In the case of OCDC (Dallas), the loss of several key staff members was said to be responsible for project delays and inefficiencies that, in turn, contributed to the city’s decision not to extend its contract with OCDC to develop in-fill housing.

The management problems we heard about in our interviews can be grouped into two categories: (1) problems in day-to-day organization operations and development of properties, and (2) problems in the ongoing management of rental properties. The operations and development problems included inadequate accounting systems, flawed pro formas, and inaccurate cost controls. The property management problems included inadequate property maintenance, inadequate procedures for screening and evicting tenants, and inadequate tenant support services.

An inadequate accounting system that was not able to keep up with the organization’s rapid growth, for example, was cited as a key factor in the failure of CDCW (Milwaukee). One person commented: “There was never a functional accounting system. No one could tell you what was in the checking account. There were huge spreadsheets for individual properties but little overall assessment of where the organization stood at any point in time.” Lacking a strong accounting system, CDCW struggled to identify financial problems and respond to them rapidly.

Overly optimistic assumptions in the pro formas prepared for development projects also played an important role in both organizational failures. Those pro formas overestimated revenues from future rent increases and underestimated future operating costs. In Minneapolis, the underwriting of the projects of the Whittier Alliance (the parent group of WHC) was described by different informants as “wildly flawed,” “incredibly optimistic,” and “unreasonable.” Both CDCW (Milwaukee) and WHC found that, because of the tenants’ relatively flat incomes and the soft demand for the units, they could not raise rents without displacing tenants and increasing vacancy rates. The capital and operating reserves for these projects were also woefully inadequate.

Inadequate cost controls and project delays were also cited as part of the larger management problem in the failure of CDCW (Milwaukee) and the downsizings of both OCDC (Dallas) and ACDC (Philadelphia). In both Milwaukee and Philadelphia, cost overruns were said to have led to financial losses and the suspension of construction activities. CDCW allowed substantial cost overruns on its single-family rehabilitation projects and fell way behind on its production schedule, leading the city to deny the organization’s request for bailout funding. In ACDC’s case, the halt in construction was prolonged, and even though the properties were eventually completed, the organization developed a reputation for poor project management.
In Portland, the financial difficulties facing the Northeast section’s CDCs were a significant reason that some CDCs merged. Several of the groups were particularly vulnerable to outside influence because of their weakened financial status. If a group is widely acknowledged as being in financial trouble, it may be difficult or impossible to find a willing merger partner. In fact, in Portland an organization that was viewed as financially strong, Portland Community Reinvestment Initiatives (PCRI), did not want to be part of the merger and was excused from merger discussions by the local intermediary promoting the discussions. According to one observer, PCRI was viewed as “the strong horse,” and the collaborative apparently hoped to hitch a weaker group to it.

Also, prior to the discussions that led to the creation of the Albina CDC, PCRI had been involved in assessing the desirability of a merger with another local CDC, Northeast Community Development Corporation (NECDC). However, PCRI also rejected the idea of that merger, and NECDC later went out of business. Given that PCRI was not having financial difficulty, it was not being pressured by the intermediary to enter into a merger, either with NECDC or with the groups that eventually formed Albina CDC.

As suggested above, property management problems also played an important role in the outcomes of several of the organizations studied. Inadequate property maintenance was a problem in both failures and one downsizing. In Milwaukee, Minneapolis, and Philadelphia, property managers were said to be slow to respond to tenant requests for repairs, and the overall property conditions declined over time. The lack of sufficient revenues to make repairs clearly contributed to these problems. In Minneapolis the properties deteriorated to the point that WHC was cited by the city for housing code violations and the executive director said she “felt bad about being a slum landlord.”

Inadequate tenant screening and eviction procedures were also cited as problems in both failures studied. This was a particular problem for CDCW (Milwaukee), where several people observed that selection procedures were ineffective in screening out potential problem tenants and property managers were complacent about evicting them. These problem tenants contributed to the deterioration of the properties and increased the property vacancy rates. One person suggested: “Tenants in Milwaukee have a lot of choices so poor management means you end up with bad tenants, properties run down and a downward spiral occurs.” WHC (Minneapolis) had similar problems with tenant screening. According to one interviewee: “Property management was a nightmare. The property management staff felt threatened. It’s a high risk and costly population to house.”

Interviewees in both Milwaukee and Minneapolis said the lack of tenant support services contributed to the failures of their cities’ CDCs. CDCs often target very low income and at-risk populations that may need social services to address substance abuse, domestic abuse, or mental health problems. These problems affect the success of housing developments but are often beyond the purview of property management. As one person in Milwaukee commented, “Making sure that residents who need them are connected with the services is an integral part of the property manager’s job…. I absolutely believe that the absence of those services is part of what undid CDCW and the rest of the CDCs in Milwaukee.” Similarly, an interviewee in Minneapolis said: “The problem is a social problem, not a housing problem.”
Lack of Staff or Board Capacity

Lack of staff or board capacity is another factor that contributed to the failures, downsizings, and mergers studied. To carry out their missions effectively, CDCs must have staffs that have the technical expertise to successfully plan and implement development projects or manage rental properties. For their part, CDC boards need to establish policy, supplement the skills of their staffs, and ensure that the organizations are meeting community needs. In our study, three dimensions of capacity surfaced frequently: (1) the importance of strong and consistent leadership, (2) the lack of staff expertise, and (3) the composition and involvement of the boards of directors.

Strong, stable leadership has been identified as a factor in CDC success. Leadership changes played an important role in the failure of WHC (Minneapolis) and the downsizing of ACDC (Philadelphia). In Minneapolis, WHC’s leadership changed three times in its relatively short history. This undermined the organization’s ability to effectively address the problems in its housing developments.

In Philadelphia, the founder of ACDC left after providing decades of uninterrupted leadership, both as board president and as de facto executive director, leaving the CDC without leadership at both levels. During the next few years, ACDC struggled to find effective new leadership. Failing to do so, ACDC saw revenues from projects declining and was forced to downsize. The experience underscores the need for CDCs to prepare for changes in leadership and have detailed transition plans in place. The Greater Germantown Housing Development Corporation (GGHDC), the comparison organization in Philadelphia, was said to enjoy strong staff and board leadership. When there has been a change in staff or board leadership, the leadership at the other level has seen the organization through.

Lack of staff expertise is the second dimension of staff and board capacity that was commonly mentioned as contributing to both failures, both downsizings, and one merger. The most common reason offered for inadequate staff capacity is lack of resources to recruit and retain experienced personnel. In Milwaukee, CDCW had great difficulty retaining experienced property management staff. One person suggested: “People didn’t stay if they were any good. The pay was too low.” The scale of CDCW’s property management operation was also seen as a problem. One interviewee suggested: “Property management has to be done at a scale big enough to attract and keep a skilled property management staff, and a large enough staff to allow different people to do what they do best. Combining roles in a single person that require different kinds of experience and different ways of working creates problems.”

In Minneapolis, WHC never had more than three staff members: an executive director, a community organizer, and a secretary. Although it supplemented this small staff by contracting for

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2 In the course of our telephone calls, we also heard about several mergers having taken place because of various personnel problems that had led to organizational instability. In Newark, we were told that a CDC was led to merge because the board had tried to micromanage the organization, resulting in the departure of the executive director. Also, as noted in footnote 1, one of the organizations involved in the North San Diego merger was viewed as financially weak. Finally, it was reported that a merger took place between two Connecticut nonprofits because one of the organizations was floundering.
management services, the staffing level proved inadequate for the challenges the CDC faced. Moreover, the executive director with the longest tenure did not have a background in real estate development or management, hampering her ability to tackle management problems and reducing her credibility with at least some funders.

In the case of ACDC’s downsizing (Philadelphia), the leadership made a strategic decision to use consultants and contract employees to complete projects. This may have been efficient for the short term, but it failed to build the organization’s in-house capacity and credibility among funders. In contrast, GGHDC, the comparison group in Philadelphia, put great emphasis on hiring and training its own staff, and this seemed to work well. In Dallas, OCDC lost several experienced staff members to other organizations and, given the low salaries it offered, it was unable to replace the lost staff with equally experienced staff. One person commented: “The replacement staff were not well trained, and the administration of several developments was slow and sloppy.” Similarly, in Portland several of the CDCs involved in merger discussions found it difficult to retain the most experienced staff members. They were said to have been lured away by city agencies, intermediaries, or for-profit businesses that paid higher salaries, creating high rates of turnover.

The composition and the involvement of the board of directors is a third dimension of organizational capacity. In some cases a CDC’s board did not possess the real estate development and management skills necessary to assist staff or successfully monitor their activities. In other cases the board did not have enough community representation to attract community support when needed.

In both of the CDC failures the boards of directors were described as passive and complacent. In Milwaukee, CDCW’s board members were described as experienced and capable but not as active as needed. For example, during the period leading up to CDCW’s demise, the board’s finance committee was inactive, so the organization’s financial problems caught many board members by surprise. In Minneapolis, WHC’s board “did not come out to fight the battle,” according to one interviewee. The board was also criticized for not insisting on better property management and for not understanding the implications of the financial reports it received from staff.

Board issues were also important in both downsizings. The ACDC (Philadelphia) board was said to be passive and inclined to blindly follow its charismatic leader in the early 1990s. Moreover, the board lacked sufficient expertise in real estate management and development, which caused problems when the founding president left after decades of leadership. As one person commented, “There were members of the community on the board but little development or management expertise.” In contrast, GGHDC, the comparison organization in Philadelphia, has maintained a board said to have the right balance of members with professional and management skills and community representatives.

In the case of OCDC (Dallas), the board was largely composed of professionals who did not live in the area. According to interviewees, this lack of community representation cost the CDC dearly when it tried to lobby politicians to continue city funding for OCDC.
Communication Problems

Given that CDCs depend on a variety of other organizations for support, effective communication with those organizations is essential. Indeed, communication problems played an important role in all but one of the cases studied.

Communication problems were mentioned as important contributors to both failures. In the case of CDCW (Milwaukee), several interviewees suggested that the executive director was reluctant to share the organization's financial problems with either the board or the city for fear of scaring off major funders, many of whom were represented on the board. By the time the financial problems surfaced, the organization was far in debt and no one was willing to provide the level of support needed to keep it afloat. In Minneapolis, communication between WHC and the Interagency Stabilization Group (ISG), which was providing WHC critical financial and technical support, was said to be limited by an ISG policy requiring organizations to communicate through a single member of the group. WHC leaders felt they could have been more effective in maintaining ISG support if they could have presented their case directly to the full board.

Communication between the CDCs and their supporters was also a problem in both downsizings. In the case of OCDC (Dallas), the executive director did not communicate well with political leaders, particularly the local city council representative, who was kept “out of the loop” about OCDC’s plans for a large development project. When disgruntled residents brought the project to his attention, he opposed it aggressively. Moreover, the lack of strong city council support apparently played a major role in the city’s decision not to renew OCDC’s in-fill housing contract.

In Philadelphia, several interviewees suggested that the ACDC board never discussed the organization’s staffing and financial problems with the CDC’s funding partners. Having done so might have meant continued support from funders as well as technical assistance for staff and board training. In addition, there were communication problems between ACDC and its corporate partner, which was supposed to be providing technical assistance. According to one interviewee, “During the changes at ACDC, the communication between the CDC and its corporate partner broke down.” Thus, ACDC did not benefit from this potentially helpful partnership.

Finally, communication problems affected the Portland merger. In this instance, the group of funders who initiated the process apparently had an agenda but did not clearly communicate it to the CDCs involved. The funders asked the CDCs to figure out a more efficient way to work together, but what they really seemed to have had in mind was a merger. Only after a series of meetings, resulting in a plan that did not involve merger, were the funders explicit about wanting the organizations to merge. Because of this lack of clarity, the CDCs became frustrated and all involved wasted a lot of time and effort.

Lack of Community Support

When it comes to the production of affordable housing and the revitalization of urban neighborhoods, the fact that CDCs are closer to the community and controlled by community resi-
dents is often said to give CDCs an advantage over public or private entities. CDCs are said to be more likely to understand and be responsive to the unique needs and desires of neighborhood residents. This, in turn, is thought to result in greater community support (Rohe 1998). Unfortunately, in both failures and one downsizing studied, this ideal was not achieved. In two instances, factions within the communities actively opposed the organization’s activities. In a third instance, the community was simply passive and did not rally to support the CDC when it needed support.

In both the failure of WHC (Minneapolis) and the downsizing of OCDC (Dallas), vociferous community opposition played an important role. In Minneapolis, the Whittier Alliance’s focus on providing housing for low-income renters was actively opposed by a group of neighborhood homeowners and private landlords. The homeowners were concerned about concentrating poverty and the perceived impacts of additional rental housing on their property values, while the landlords were concerned about competition for tenants. This group staged a “takeover” of the alliance’s board and redirected the organization away from the development of affordable rental units. This, in turn, led to the creation of WHC, which, given its failure to adequately manage its properties, was never able to win community support. In comparison, as noted earlier, in the Twin Cities, the 7th Street/Fort Road Federation has pursued a more diverse housing strategy that includes rehabilitating single-family homes, developing units for the elderly, and developing a limited amount of rental housing. Federation staff believe that this strategy has helped the CDC retain strong community support.

In Dallas, OCDC’s plans for a new subdivision of 112 affordable homes generated considerable resistance from community residents who felt the new project lacked sufficient community involvement and would negatively affect property values. They argued that OCDC should stick to developing in-fill housing, which contributed to neighborhood revitalization and dispersed the affordable units, rather than developing large new subdivisions that would concentrate lower-income families and do little to help the existing neighborhood. Disgruntled community members complained to their city council representative, leading to the cancellation of OCDC’s contract with the city and, ultimately, to its downsizing. By contrast, ORCDC, the comparison organization in Dallas, has maintained close ties with neighborhood associations and groups and has contact with many segments of the community through the services it provides. Thus, the group enjoys strong community support.

In Milwaukee, CDCW had not developed a strong base of community support, so there was very little community response when the city decided to cut the organization’s funding. Community residents did not actively lobby or otherwise pressure civic leaders to save the organization. There was no outpouring of citizen support that might have convinced city officials to help CDCW get back on its feet. In the absence of such support, it was easier for the city to let CDCW fail.

What accounts for the lack of community support for these CDCs? Our cases suggest several explanations. First, the original impetus for creating both failed organizations came from city officials and other civic leaders, rather than from neighborhood organizations or residents. CDCW (Milwaukee) was created by a public-private partnership that saw the need for a large producer of affordable housing in the city. Similarly, WHC (Minneapolis) was created by the city when the
new board of the Whittier Alliance had no interest in managing rental housing. Beyond the few neighborhood residents who served on the boards, the community had very little to do with the creation or operation of either CDC. Moreover, the organizations did little to involve the larger community after they were created. Thus, residents in the communities served had little commitment to these organizations, and they did not mobilize to help the organizations survive.

Second, the size of the area served by a CDC may affect the degree of community support for and identification with it. CDCW, for example, served a large section of Milwaukee and had started development projects in other Wisconsin cities. Thus, no neighborhood claimed CDCW and none came to its aid when problems arose. As suggested earlier, however, a smaller target area does not allow for a geographically diverse housing portfolio, so there may be an important tradeoff between the likelihood of strong community support and portfolio diversification. Or it may be that organizations that serve a larger geographic area need to work harder to build community support.

Third, our cases suggest that community opposition to CDC-sponsored housing projects may stem from conflict between the goal of producing additional affordable housing and the goal of neighborhood revitalization. CDCs that are narrowly focused on producing affordable housing may run a greater risk of sparking community opposition, because residents may place a higher priority on other types of housing or other types of neighborhood improvements. There may be a mismatch between CDC leaders’ priorities and neighborhood residents’ priorities. Both the Whittier Alliance (Milwaukee) and OCDC (Dallas) experienced this problem. Community residents are more likely to support a more balanced community development strategy that includes both rental and owner-occupied housing and targets a broader range of income groups.

Fourth, in at least one instance support for a CDC eroded as the composition of the neighborhood changed. Ironically, this change was at least partially the result of the CDC’s success in improving its target community. Improved neighborhood conditions attracted higher-income residents who opposed the creation of additional affordable housing in the area. In Portland, Housing Our Families (HOF), one of the groups involved in the merger, found it increasingly difficult to develop additional low-rent housing because of a growing NIMBY (“not in my backyard”) attitude. As gentrification took hold, HOF’s housing development agenda increasingly came under criticism. One interviewee suggested: “Now we have a different community. Now we have a Starbucks and gentrification. In 1991 the goal was to get rid of boarded up property; now it’s ‘we don’t want rehabbed property because we don’t want renters.’”

Finally, community support for a CDC appears to be influenced by the perceived effectiveness of that CDC. In our examples, effectiveness in managing rental developments was particularly important. The rental units owned by both CDCW (Milwaukee) and WHC (Minneapolis) were poorly maintained, and this undermined their community support. In addition, poor building maintenance was effective ammunition for the opponents’ fight to stop the construction of additional affordable rental housing. Opponents can single out problem properties and ask, “Why would we support more housing like that?”
Conclusion

Our case studies suggest that six major organizational factors contribute to failures, downsizings, and mergers. First, the breadth of an organization’s mission affects its ability to adjust to changes in contextual factors such as changes in market conditions or the policies of major funders. Organizations with more diverse activities, larger service areas, and a broader clientele may be better able to adapt to changes in contextual factors. Second, overreliance on a single source of funds makes CDCs vulnerable to collapse and reduces their autonomy. Third, internal management problems, such as ineffective project and property management, contribute to the downsizing and failure of CDCs. This, in turn, undermines funder confidence in CDC effectiveness. Fourth, lack of staff or board capacity undermines CDC performance. The turnover and lack of professional staff contribute to management problems; poorly balanced or passive boards are also problematic. Fifth, communication problems appear to play an important role. Poor communication between executive directors and their boards, between executive directors and both funders and city officials, and among CDC supporters all contributed to the failures and downsizings studied. Finally, lack of community support, or outright hostility, to the activities of CDCs can play an important role in downsizings and failures.
Chapter 6
IMPACTS OF CDC FAILURES, DOWNSIZINGS, AND MERGERS

One of the major objectives of our research was to assess the impacts of community development corporation (CDC) failures, downsizings, and mergers on the communities and individuals served. Some have argued that such organizational changes are generally positive, as they are in the business sector, because less competitive and productive organizations are weeded out. The assumption is that CDCs providing a needed service in an efficient manner will thrive; otherwise, they will decline and be replaced by more effective organizations.

The counterargument is that CDCs do not operate in the same competitive marketplace as small businesses. CDCs are filling needs for affordable housing and other services that private sector providers deem unprofitable. Given this lack of profit potential, there is not a lot of competition to provide those services, and if a CDC fails, other organizations are unlikely to step in to fill the void. Thus, CDC failures, downsizings, and even mergers may leave communities and individuals without badly needed services, such as the creation of affordable housing.

Our research results suggest that CDC failure and downsizing can have a variety of negative impacts on the communities and individuals served. The specific type of impact, however, varied; it depended on both the context and the characteristics of the specific organization involved. Because the impacts of mergers tend to be different than those of failure and downsizing, they will be discussed in the last section of this chapter.

CDC failure and downsizing, according to interviewees, had five types of negative impacts: loss of confidence in CDCs, a decline in the production of affordable housing, loss of existing affordable housing, destabilized neighborhoods, and distress among tenants of CDC-owned properties.

Loss of Confidence in CDCs

The failure or downsizing of the CDCs in Milwaukee, Dallas, and Philadelphia undermined both public and private sector confidence in CDCs as effective providers of affordable housing and other services. In Milwaukee the failure of the Community Development Corporation of Wisconsin (CDCW) and several other CDCs caused the city administration to lose confidence in the CDC model and explore ways to involve the private sector in the production of affordable housing. Furthermore, lending institutions in Milwaukee became reluctant to invest in CDC-sponsored housing developments. The remaining CDCs in Milwaukee are now said to be “hunkering down” and reluctant to propose any new initiatives. One person commented that the failure of CDCW “hurt the nonprofits. It was horrible in the press and that splash hit everyone.”

Similarly, the downsizings of the Oak Cliff Development Corporation (OCDC, Dallas) and the Advocate Community Development Corporation (ACDC, Philadelphia) have made the local
financial institutions in those communities more wary of funding CDC projects. In Dallas, there is also concern that public and private support have shifted from CDC-sponsored housing developments for low-income households to private sector developments for higher-income households. One person noted: “Banks and others are more wary of funding CDCs since one of the ‘stars’ they supported downsized.” In addition, in Portland, OR, one of the CDCs involved early on in the merger talks, the Northeast Community Development Corporation, eventually went out of business, and this failure was said to have reduced support and private funding for all the city’s CDCs.

The failure of the Whittier Housing Corporation (WHC, Minneapolis), however, did not have the same effect. It did not appear to reduce city or funder confidence in CDCs within the city. This raises the question of under what circumstances CDC failure or downsizing leads to a more general loss of confidence in CDCs. Several factors appear to be important. First, the broader history of CDC performance in a city seems to be a factor. In Milwaukee, for example, the failure of several other CDCs clearly magnified the impact of CDCW's failure and eroded public and private sector confidence in CDCs as effective producers of affordable housing. Second, the size and prominence of the failed or downsized CDC appear to be important. Both CDCW (Milwaukee) and OCDC (Dallas) were among the largest, most productive, and most recognized CDCs in their respective cities. Thus, their demise was a severe blow to the credibility of all CDCs within their cities. The failure of WHC in Minneapolis, however, did not lead to a general loss of confidence because it was relatively small and had not established itself as a prominent CDC in the city. Moreover, as one person noted, “WHC withered away rather than having experienced a catastrophic failure.”

Decline in the Production of Affordable Housing

Another frequently mentioned impact of CDC failure and downsizing was a decline in the production of affordable housing in the local community. This was particularly the case where the organizations involved were among the larger producers of affordable housing in the city. At its height, for example, CDCW (Milwaukee) was producing 150 units of affordable housing per year, an output that ended when CDCW failed. With the loss of CDCW, one person observed: “Virtually nothing is being done in affordable housing in the city.” The result is that many more households are left living in substandard housing, paying a very high proportion of their incomes for housing, or both. The downsizing of OCDC (Dallas) and ACDC (Philadelphia) had similar, although not quite as severe, impacts in their respective cities.

In instances when CDCs fail or are substantially downsized, one might hope that other organizations could make up the loss in affordable housing production. However, there is no evidence of this in our case studies. In fact, as noted above, the failure and downsizing of large producers of affordable housing often cause a loss of confidence in the capability of other local CDCs, making it difficult for them to expand or even maintain their current levels of production.
Loss of Existing Affordable Housing

The failure and downsizing of CDCs can also lead to the loss of existing affordable housing units. The most dramatic example of this was in Milwaukee, where an estimated 100 housing units owned by CDCW were sold to investor/owners, some of whom were described as slum landlords. It is very likely that the rents for these units will rise substantially, and some of the existing residents will have to move. As a result of the sale, the subsidies that made those units affordable were lost, and the U.S. Department of Housing and Urban Development is requiring the city to repay the funds.

In Minneapolis, however, WHC’s failure did not lead to the loss of affordable housing units. The different experiences in Milwaukee and Minneapolis suggest that the disposition of units owned by failed CDCs is largely determined by two factors. First, the type of organization that holds the first mortgage is important. If private financial institutions hold the first mortgages on properties owned by failed CDCs, they are likely to dispose of them by foreclosing and offering them to the highest bidder, which (as in Milwaukee) may be a slum landlord. If the first mortgage is held by a public or nonprofit organization, however, the properties are likely to be transferred to another nonprofit organization to ensure that they remain affordable. Second, the involvement of CDC intermediaries is often important. CDC intermediaries, such as the Interagency Stabilization Group in Minneapolis, can provide financial and technical assistance that ensures that properties are successfully transferred to other nonprofit organizations. This is particularly true if the units involved need repairs, because additional subsidies may be required to cover the repairs and still maintain affordability.

Destabilized Neighborhoods

The failure and downsizing of CDCs can also lead to increased neighborhood instability, as CDC-owned housing units remain vacant, fall into disrepair, or both. In Milwaukee, many properties remained boarded up and vacant for over a year after CDCW failed. Several interviewees said these vacancies had a devastating impact on the stability of the surrounding area. In Dallas the abrupt cancellation of the city’s in-fill housing contract also left properties vacant for an extended period of time, contributing to flat or even declining real estate values in the Oak Cliff area, according to several interviewees. Finally, the downsizing of ACDC (Philadelphia) left many units slated for rehabilitation to deteriorate further. Many of these are deteriorating beyond the point of rehabilitation and will likely have to be demolished. One person commented: “The entire housing scene of North Philadelphia has suffered.” ACDC’s downsizing also weakened the community’s voice in Philadelphia’s political affairs. With diminished capacity, the organization could not be as involved as it had been in serving as a community advocate.

Several factors appear to determine the extent to which a CDC’s failure or downsizing will negatively affect the targeted neighborhood. First, the number and location of units owned or managed by the CDC are important. The larger and more concentrated the portfolio, the more likely there will be neighborhood destabilization. Second, the type of housing units owned seems to make a difference. Rental properties financed with tax credits are less likely to be left vacant or allowed to deteriorate, because the limited partners typically step in and take control of the
properties. Single-family homes financed with bank loans may be in greater jeopardy of deteriorating, becoming vacant, or both. Particularly troublesome are properties that have been purchased for rehabilitation but have not yet been refurbished. Based on our cases, these units tend to sit vacant and continue to deteriorate, hence contributing to neighborhood destabilization.

Third, again, the active involvement of CDC intermediaries and other supporters is important in minimizing negative impacts on a neighborhood. These organizations can play an important role by helping downsized organizations complete projects or by transferring units to other entities.

**Distress among Tenants of CDC-Owned Properties**

The failure of a CDC can cause considerable distress among the very people the organization is trying to serve—the residents of the units owned or managed by the CDC. For example, when WHC (Minneapolis) dissolved, the residents reportedly were quite anxious about being displaced. According to one interviewee, “There were fear and confusion…. The residents did not get enough notice about the dissolution.” They wondered whether they would have to move out of their homes. Moreover, during the period leading up to WHC’s failure, the properties were so badly maintained that WHC was cited by the city for housing code violations, and the executive director “felt bad about being a slum landlord.” Similarly, residents in CDCW units (Milwaukee) had to live in poorly maintained housing both before and after CDCW went out of business.

The extent of distress among residents appears to be determined by at least two factors. The first is the degree to which rents remain affordable and units are kept in decent repair. It is important for intermediaries and other CDC supporters to devise a plan to transfer the units to other organizations that can maintain them. The second factor is the degree of communication and consultation with residents. In Minneapolis WHC’s organizer spent time with residents helping them understand the implications of WHC’s failure. Although resident anxiety was not totally dispelled, this effort clearly helped to reduce it.

**Effects of CDC Mergers**

Of the two CDC mergers studied, only the Cleveland merger had actually occurred at the time of our visit. The Portland merger took place on July 1, 2001. Thus, this discussion of the impacts of mergers is largely based on the Cleveland experience. The impacts, which are generally positive, include an increase in organizational capacity, greater ease in fund raising, and the reintroduction of community organizing and advocacy.

Among those interviewed in Cleveland, there is general agreement that the Slavic Village Development (SVD) is stronger than either of the groups that merged. Now the largest CDC in the city, SVD is viewed as one of Cleveland’s three strongest CDCs. The merger was said to have substantially increased the capacity of the new group. In particular, the combination of housing and economic development activities in the same organization allows for better use of resources and a more holistic view of the neighborhood and its needs. The organization can
work on nodes of housing and nodes of economic development in tandem. SVD’s larger, more comprehensive approach is also said to help in fund raising, because funders are attracted to the merged organization’s comprehensive vision of community development.

With the merger, community organizing and advocacy were reintroduced. These activities had once been part of the agendas of each organization, but over time the two groups had lost contact with community residents. SVD wanted to change this. With the help of a local intermediary and a grant from a nonprofit, SVD is engaged in organizing and advocacy and has expanded community involvement in its activities. The organization was recently successful in a highly visible effort to keep a neighborhood hospital from closing, and it is working to allay the racial tensions that have been growing in the community.

The only negative impact of merging was mentioned by one informant in Portland, who was concerned that the conflicts associated with the merger process may have alienated some longtime CDC supporters, including board and staff members, residents, and funders. This suggests that the level of conflict involved in a merger process will have an impact on the new organization and possibly on other CDCs in the city.

Conclusion

Our research suggests that CDC failure and downsizing can have a variety of negative impacts, including loss of confidence in CDCs, a decline in the production of affordable housing, loss of existing affordable housing, destabilized neighborhoods, and distress among tenants of CDC-owned properties. The impacts of any specific failure or downsizing, however, depend on the broader history of CDC performance in the city, the size and prominence of the failed or downsized organization, the production level and number of units owned by the failed or downsized organization, the first mortgage holder, the willingness of the intermediaries to assist in the transfer of units to other nonprofit organizations, the sources of the original funding, and the extent of communication with residents of the units involved. There was no evidence of other organizations making up for the loss of affordable housing production caused by the failures or downsizings studied, although given more time this may happen. Nonetheless, the results reveal that CDC failures and downsizings can have a variety of negative impacts that, if possible, should be avoided.

The impacts of the mergers studied were largely positive and included an increase in organizational capacity, greater ease in fund raising, and the reintroduction of community organizing and advocacy. The one negative impact of merging was the possible alienation of some longtime supporters of CDCs who may be concerned with how a given merger process is handled.
Chapter 7
CONCLUSIONS AND RECOMMENDATIONS

Over the past 30 years, much attention has been paid to the growth in the number of community development corporations (CDCs). The widely cited National Congress for Community Economic Development surveys, for example, showed a near doubling of the number of CDCs between 1988 and 1999. Recently, however, several large, well-respected CDCs have failed or been drastically downsized while some have merged with other organizations. These incidents led us to ask several questions.

First, we asked: Are CDC failures, downsizings, and mergers isolated occurrences, or are they part of a more general pattern across the country? Although it was beyond the scope of this project to identify the actual number of CDCs that have failed, downsized, or merged, through a series of telephone calls to over 100 key informants in various locales across the United States we were able to generate a list of some 103 organizations that had reportedly experienced one of these changes within the three prior years. More specifically, informants identified 46 failures, 41 downsizings, and 16 mergers. Overall, our telephone interviews revealed that CDC failures, downsizings, and mergers are not isolated occurrences. Rather, they seem to be widespread within the CDC industry.

Second, we asked: What are the contextual and organizational factors that lead to CDC failures, downsizings, and mergers? In general, contextual factors relate to changes in the economic and political landscape in which CDCs operate and are largely beyond the control of individual CDCs. Organizational factors have to do with the capacities of and choices made by individual CDCs, factors over which CDCs have more control. At the outset, it should be noted that our study reinforces a key finding presented by Proscio in his 1998 overview of six CDCs that had encountered serious difficulties: It is often not possible to identify a single “fatal” problem. Instead, what we have seen is that the various factors—which are invariably both contextual and organizational—interact, resulting in a serious challenge to organizational viability. While it would be appealing to conclude “if x contextual or organizational problem arises, then y negative outcome will invariably follow,” our six case studies reveal no such neat pattern. But by understanding how the factors may express themselves and combine to create significant challenges, organizations may be able to recognize signs of serious CDC distress and intervene appropriately.

We also acknowledge that not all CDCs facing difficulties should be saved. Where there are signs of widespread organizational incompetence or illegal activities, for example, a CDC should likely be assisted in closing its doors. Also, market forces may dictate significant changes in a CDC’s operations. While we recognize the possibility that CDCs may need to make major changes under these circumstances, it was beyond the scope of this study to develop detailed guidelines on when CDCs should go out of business, downsize, or merge.

Six contextual and six organizational factors were found to play important roles in the changes experienced by the CDCs studied. The contextual factors are market forces, increased competition for resources, changes in city policies, the role of intermediaries and other funders, lack of CDC support organizations, and level of trust. The organizational factors are breadth of organi-
zational mission, overreliance on a single funding source, internal management problems, lack of staff or board capacity, communication problems, and lack of community support. The findings on the importance of these factors lead us to the recommendations presented later in this chapter.

It is relevant to ask if failures, downsizings, and mergers are the result of different sets of factors. As shown in tables 1 and 2 (see pp. 29 and 39, respectively), although there are some differences, all the factors contributed to at least two types of organizational change, and many of them contributed to all three types. These factors may best be seen as organizational stressors that—depending on their number, their severity, and the organizational response to them—may lead to any of the three outcomes. The difference between an organizational failure and a downsizing is likely related to the number and severity of stress factors as well as how the CDC and the local support community respond to those stress factors. If the CDC responds effectively and if the local support community lends a hand, an organization that might otherwise have failed may simply downsize. In the case of mergers, there are certain preconditions that must be met before a merger can occur, such as the presence of other organizations willing to merge and the availability of technical assistance to help them through the often difficult merger process.

Third, we asked: How do CDC failures, downsizings, and mergers affect the communities served? To recap, we identified five major types of negative impacts. First, as found in Milwaukee, Dallas, Philadelphia, and Portland,1 CDC failure or downsizing can undermine both public and private sector confidence in CDCs as effective providers of affordable housing and other services. This loss of confidence is more likely to occur when it comes on the heels of other CDC failures, as was the case in Milwaukee, and when the failed or downsized organization is large and prominent within its community, as was the case in Dallas.

CDC failure and downsizing was also found to negatively affect the production of affordable housing, resulting in more households living in substandard housing, paying very high proportions of their incomes for housing, or both. This is particularly the case if the organizations involved were relatively large producers of affordable housing. Moreover, we found little evidence that other CDCs made up for this loss by increasing their level of housing production.

A third negative impact of CDC failure and downsizing was the loss of existing affordable housing. The most dramatic example of this was in Milwaukee, where the failure of the Community Development Corporation of Wisconsin (CDCW) resulted in approximately 100 units being sold to investor/owners, some of whom were described as slum landlords. This situation is probably most likely to arise when the first mortgage holders are private financial institutions instead of public or nonprofit entities, and when intermediaries do not assist in transferring the properties to other nonprofit organizations.

Fourth, CDC failure and downsizing were also found to contribute to neighborhood instability. Both the downsizing of the Oak Cliff Development Corporation (OCDC, Dallas) and the failure

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1 During our site visit to Portland, we learned that one of the organizations that had originally been part of the merger discussions went out of business, creating the negative impact noted above.
of CDCW (Milwaukee) left many properties vacant and boarded up for extended periods of time, reducing the quality of life and property values in the local area. Moreover, when the Advocate Community Development Corporation (ACDC, Philadelphia) downsized, many units that were slated for rehabilitation were left to deteriorate further. The impacts of downsizing or failure on neighborhood stability appear to be most significant if a large number of units are involved, if the units are clustered geographically, if the units are single-family homes, and if the properties remain vacant. CDC intermediaries need to assist in efforts to ensure that the properties are made habitable and are occupied.

Finally, CDC failure and downsizing can lead to fear, confusion, and distress among the residents of the properties owned or managed by failed or downsized organizations. When, for example, the Whittier Housing Corporation (WHC, Minneapolis) decided to dissolve, residents did not know whether they would have to move out of their homes, and tenants had to live in buildings that were inadequately maintained. The level of resident distress seems to be related to two factors: whether there exists a clear strategy for transferring the units to another organization that will keep them affordable and the degree of communication and consultation with tenants.

In view of these negative impacts on CDCs, residents, and the community at large, we come to the fourth and final major question of this research: What policies and other actions are needed to respond to failures, downsizings, and mergers among CDCs? The following recommendations are aimed at CDCs and their support communities. Included within the category of “support communities” are public, nonprofit, and private organizations.

**Recommendations**

*CDCs and their support communities should develop strategic plans and revise them periodically.*

Two of the major contextual factors that we identified as leading to problems for CDCs were changes in the local housing markets and growth in the number of CDCs. Strategic planning can help in anticipating and responding to these changes. First, in some instances, failure to anticipate or respond to market changes led to financial problems. In the case of CDCW (Milwaukee), for example, a weakening in the demand for housing in its primary target area was at least partially responsible for higher than expected turnover and vacancy rates in its rental housing portfolio. Ultimately, this led to financial problems that contributed to the organization’s failure. In other instances, such as in Portland, a robust housing market made it difficult for several CDCs to acquire properties at a price that would allow them to rent or sell the units to low- or moderate-income households. This led to pressure for the CDCs in the area to merge.

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2 One of the ways that CDCs may want to hedge against increasing land costs is to use different forms of land and housing ownership, such as community land trusts. During periods of low demand, land trusts and other mechanisms that remove land and buildings from the private speculative market could be created. When the market improves, having an inexpensive supply of development opportunities available would benefit the low-income housing goals of both cities and CDCs. One interviewee in Portland noted that this approach should have been pursued there and would have been a major benefit to the CDCs and to the community, as land prices soared in the mid- and late 1990s. In addition to the community land trust model, there are other forms of restricted ownership options that can promote long-term affordability, including deed restrictions and limited equity cooperatives and condominiums.
Strategic planning is also needed to address the growth in the number of CDCs in a city. Over time, CDC growth has led to increased competition for public, foundation, and private resources, whose growth has not kept pace with the expansion of CDCs. In many cities this seems to be at least partially due to the spate of mergers in the banking industry, which has left many cities with fewer banks overall and fewer locally owned banks with strong commitments to supporting CDCs.

To address both market changes and increased competition, CDCs, funders, and policy makers need to work together to formulate strategies to be carried out both at the city level and by individual CDCs. Given the competitive environment in which CDCs often operate, communities need to periodically assess their needs and the roles of local CDCs in addressing those needs. In some cities, certain neighborhoods may be served by multiple CDCs, creating unnecessary competition, while others are underserved. Such a collective effort should ensure that all neighborhoods are served and competition among CDCs is minimized.

CDCs also need to initiate their own regular assessments of both market changes and the products and services offered by other CDCs serving their target areas. They need to read the market and position themselves to remain competitive, building on their strengths while keeping the needs of their local communities in focus. If there are a number of CDCs working in a given area, they should anticipate that city officials or members of the local intermediary might suggest a merger. CDCs should not be surprised by the suggestion that there are too many groups operating in a given area, particularly if land, buildings, and financial resources are becoming increasingly scarce or costly, and if development activities are being threatened.

Ideally, CDCs should be able to collaborate with other groups to offer a comprehensive array of services. To do this effectively, CDCs need assistance from their city governments and other local funders as well as from local and national intermediaries. Supporting CDC strategic planning initiatives should be a significant priority of the CDC support community.

In cases when strategic planning initiatives suggest that one or more CDCs should go out of business, downsize, or merge with other groups, continued collaboration between the CDC, the local intermediary, and the CDC trade organization would likely minimize the negative impacts on the properties owned and on the CDC’s reputation. In some cases, streamlining or merging CDC functions may be in a community’s best interests. In those instances, the challenge is to ensure that there is as little disruption in services as possible, while optimizing organizational efficiency.

Narrowly focused CDCs should consider diversifying the types of activities provided, the geographic area served, the clientele of the housing units developed, and the sources of funding.

A major aspect of an organization’s strategic planning should address the question of how much it should diversify versus specialize its activities. CDCs must tread a thin line between the two. Specialization requires a narrower range of staff expertise, which is deepened with each new project. But it also makes an organization vulnerable to changes in funding priorities and community desires. Diversification, on the other hand, makes an organization less vulnerable to
those changes but may lead to performance problems caused by a lack of staff expertise or financial resources.

In our case studies we found that the groups that failed or were downsized tended to have missions that were narrowly focused. In Milwaukee, for example, CDCW experienced financial problems when the City of Milwaukee shifted its emphasis from rental housing to homeownership. Similarly, in Dallas, OCDC's heavy focus on constructing single-family homes left it vulnerable to a shift in city funding priorities from homeownership toward multifamily rental housing. The comparison organizations in these cities, however, had a broader set of activities, which seemed to provide a hedge against changing market and political conditions.

Another dimension of the specialization/diversification dichotomy concerns the size and social characteristics of the geographic area served. CDCs that targeted areas that are small, homogeneous, or both were vulnerable to changes in market conditions in those areas. The units owned and managed by both CDCW (Milwaukee) and WHC (Minneapolis), for example, were concentrated in neighborhoods where the demand for housing decreased significantly. Thus, rents could not be raised to meet increases in operating costs, and financial problems ensued. Having a larger, more diverse target area allows a CDC to diversify the location of its properties, thereby reducing the organization’s vulnerability to market weakness in particular areas of a city.

A third dimension of the specialization/diversification dichotomy concerns the income groups served by CDCs. Although CDCs are typically geared to serving low- and moderate-income households, focusing exclusively on very low income households may increase an organization’s financial vulnerability. Housing very low income households typically requires deeper subsidies that are difficult to find. In Minneapolis, for example, all of WHC’s housing developments served very low income households that could not afford rent increases; hence funding for proper building maintenance was not available. A portfolio that also included housing for moderate-income households may have provided enough revenues to cross-subsidize the developments for very low income households.

A final dimension of the specialization/diversification dichotomy concerns the sources of CDC funding. CDCs that rely primarily on one funding source seem to be particularly vulnerable to downsizing and failure. Abrupt changes in the policies of city agencies, foundations, or other principal funders can leave CDCs with little time to find replacement funds and can lead to downsizing or failure. CDCW (Milwaukee), WHC (Minneapolis), and OCDC (Dallas) were all heavily dependent on single sources of funding. Interruptions in funding from those sources left those organizations in serious financial crises. With a more diverse set of funders, CDCs are not as vulnerable to interruptions in any one source.

In addition, relying on a single funding source leaves CDCs vulnerable to the dictates of, or at least pressure from, funders wanting CDCs to adopt certain agendas or programs and erodes a CDC’s ability to address local concerns as it sees fit. Because CDCW (Milwaukee) relied heavily on city funds, it was pressured into making decisions, such as taking on problem properties from failed CDCs, that were not in its best interest. CDCs with diversified funding sources can maintain autonomy over their activities; they can afford to go against the wishes of individual funders without threatening their viability.
Several of our comparison groups, notably those in Milwaukee, the Twin Cities, and Dallas, all had diversified one or more aspects of their operations, targeting a broader spectrum of residents, types of development, or geographic locations. These decisions and activities appear to have contributed to the greater viability of these organizations.

Although there are clear benefits associated with increased diversification, there may also be risks that are not evident in our case studies but might be found in other examples of CDC failure and downsizing. If not done carefully and with sufficient resources, mission diversification may lead to poor performance and loss of funder support. Taking on new activities requires acquiring new staff with the appropriate skills, a greater degree of coordination, and management expertise, and results in additional fund-raising demands. Expanding the target area, if not handled properly, may result in loss of support from the original community served. Finally, diversification of the income groups served may result in loss of support from funders that are narrowly focused on supporting housing for very low income households. In addition, a CDC that has been focused on very low income households may feel that it is compromising its agenda by serving other income groups.

It is likely, too, that before an organization can seriously move toward diversifying its activities, it must reach a level of competence in a single activity. In addition, very small organizations are probably not good candidates for diversification, since it is virtually certain that human and financial resources would be spread too thinly.

The decision to diversify, then, should be approached cautiously and involve both residents of the original target area and the local CDC support community. The full set of potential benefits and risks should be weighed, and the timing and speed of diversification should be carefully considered.

**CDCs should work hard to maintain the support of residents in the communities they serve.**

A lack of community support for various CDC activities was identified as an important factor in the failure or downsizing of three organizations studied. For example, vociferous community opposition to the Whittier Alliance's focus on providing additional rental housing for very low income households led to the "takeover" of the alliance and the creation of WHC (Minneapolis). Similarly, in Dallas, OCDC's plan for a new 122-unit subdivision of affordable homes generated considerable community resistance and contributed to the loss of its city funding.

The boards and staffs of CDCs need to work hard to ensure that their activities have widespread community support. The best way to do this is by opening up a dialogue with a wide variety of community residents and by directly involving them in the review of proposed new activities and projects. This can also be accomplished by involving residents on committees, periodically convening general meetings with the larger community, and holding social events in the area served. Ensuring that CDC-owned or -managed properties are well run and maintained is also important in retaining community support.

If a CDC becomes aware that it is losing touch with its local community, it should initiate a neighborhood planning process, such as the one undertaken by one of the original groups...
involved with the Cleveland merger. The importance of CDCs maintaining close community ties was dramatically evident in the last-minute negative vote by the membership of one of the CDCs that was slated to merge in Portland. In that case, the lack of close connections to the community, as well as inadequate communication, led to this surprise outcome.

**CDCs need to work closely with local social service agencies to ensure that the tenants in CDC properties receive the support services they need.**

Given that some tenants of affordable housing developments need social services, CDCs should work with local social service agencies to see that tenants receive those services. Several of those interviewed in Milwaukee suggested that tenants in properties managed by CDCW had issues beyond the need for affordable housing, including domestic abuse, lack of after-school care, substance abuse, and lack of job training. Similarly, many tenants in properties managed by WHC (Minneapolis) were said to have similar issues that reduced the ability of WHC to effectively manage the properties.

CDCs do not necessarily have to directly provide those services, but they can make referrals to other appropriate service organizations. They can also establish formal partnerships with service organizations so that those agencies will both refer prospective tenants to CDCs and provide those tenants with supportive services. The provision of social services, however it is arranged, will likely reduce property management problems and positively contribute to CDCs’ financial health.

**Citywide support and trade organizations should be created in cities where they do not exist.**

Any city with multiple CDCs should create and nourish two types of support organizations: (1) a CDC support group including the major public, private, and nonprofit funders and technical assistance providers in the city and (2) a trade organization of local CDCs. We offer this recommendation based on what we learned in several cities. In Milwaukee, for example, the lack of a forum for CDC supporters to discuss CDCW’s problems and develop a coordinated approach to addressing them was cited as an important factor in the organization’s failure. Moreover, the lack of CDC trade groups in Milwaukee, Minneapolis, and Dallas was also cited as contributing to the failure or downsizing of the organizations studied in those cities.

CDC support groups are needed to facilitate communication and coordination among the often numerous funders and technical assistance providers that operate in cities. This type of organization can also develop coordinated strategies for assisting CDCs that experience problems but have the potential to be effective providers of affordable housing and other needed community services. The Interagency Stabilization Group (ISG) in Minneapolis is a good example of this type of organization.

The second type of organization, the trade association, should be organized by the CDCs themselves for the purposes of sharing knowledge, coordinating activities, collaborating on projects, and otherwise supporting the work of the CDCs.

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3 Cleveland’s West Side Rental Housing Collaborative, which consists of 26 CDCs and social service organizations, is a good example of such a collaborative (Chupp and Burkholder 2001).
and advocating for their needs. Such an organization gives CDCs more influence over some of the contextual factors that affect their financial health, such as changes in city policies. While this type of group must be grounded within the CDC community, the broader CDC support community should support its development and maintenance.

**CDCs and their support communities should enhance mutual trust through participation in collaborative projects.**

In several of our case studies, the level of trust and extent of prior collaboration among key actors played an important role in the organizational changes that occurred. In Portland, the organizations involved in the merger had few working relationships, and there was a lack of trust, which undermined the merger process. On the other hand, the key actors in the merger of the CDCs in Cleveland had developed a high level of trust through working together over the years, and this was said to have significantly contributed to the relative smoothness of the merger.4

Although it is impossible to mandate trust, and although trust cannot be easily or intentionally created, concrete opportunities for groups to work together are likely to promote a more trusting, mutually supportive community development climate. Joint projects and other forms of collaboration should prove helpful in fostering trust, both among CDCs and between CDCs and the public, nonprofit, and private members of the local support community. Collaborative efforts are often challenging, but the likely outcome—people seeing and acting on their shared agendas, rather than their areas of disagreement—is likely to yield positive results for community residents.

**City policy makers should assess the impacts of proposed policy changes on CDCs and involve them in those decisions.**

Changes in city policies had significant, often unanticipated impacts on all but one of the CDCs studied. In both Milwaukee and Minneapolis, the process for distributing city-controlled housing funds changed, resulting in sharp cutbacks in funding available to local CDCs. In Dallas a more conscious decision was made to discontinue support for OCDC’s in-fill housing program, but the city did not seem to understand what the full impact of that decision would be on the financial health of OCDC. Finally, in both Portland and Cleveland, city agencies decided to encourage streamlining or mergers of selected CDCs. These policy changes had dramatic impacts on CDCs but in most instances were not made in consultation with them.

Thus, when city policy makers propose policy changes that would affect the distribution of funds for affordable housing, they should analyze those changes carefully to understand their impacts on the financial health of local CDCs. To ensure that their voice is heard, CDCs should be involved in formulating, reviewing, and commenting on city policies that may affect them. This should ensure that policy changes do not catch CDCs by surprise and should enhance the level of trust between CDCs and local policy makers.

4 Hoffman (2000) also notes the importance of the two groups that merged in Scranton, PA, having worked closely together on a joint project before the merger. The two executive directors reportedly came to view themselves as collaborators as well as competitors.
Adequate core operating support for CDCs should be provided.

Despite the fact that CDCs are called “corporations,” they generally cannot cover their operating expenses. The work that CDCs do is often carried out in weak markets where there is little or no opportunity to sell their services at a break-even rate, let alone make a profit. The basic funding for CDC operations needs to be provided by external sources, such as city and state funders, in collaboration with private entities such as foundations.

Although it is acknowledged that city policies in relation to CDCs may change, it is critical that local and state policies concerning CDCs take into account the need for CDCs to be able to cover their core operating functions. Increased competition for resources was a factor for both of the organizations that experienced downsizing, as well as for the organizations that merged in both Portland and Cleveland. Although we are recommending significantly more resources to cover CDC operations, we are also aware of the hazards that can be created by an overreliance on a single funding source. This presents an important dilemma that both funders and CDCs should acknowledge and for which creative solutions should be sought.

The CDC support community, in collaboration with CDCs, should develop realistic performance standards for CDCs and assist them in achieving those standards.

What should happen if a CDC is not performing appropriately or meeting other standards of output? Clearly, the funders should not be expected to carry indefinitely an organization that is not functioning well. However, rather than precipitously reducing an organization’s support, funders should provide the organization with lead time to either plan for such a cutback or increase continued support.

In several of our cases, intermediaries and other local funders of CDCs had guided CDCs to take certain actions. The two mergers, for example, came about largely because local funders joined with the city to put pressure on CDCs to merge. In Portland, in particular, funders were eager to streamline a group of CDCs that were at various levels of financial difficulty. In Cleveland, the funders’ concern related more to overlap and efficiency of services being delivered by the two CDCs in the area. In Minneapolis, the ISG, a local intermediary, insisted that WHC hire an asset manager and develop a strategic plan.

These cases reveal largely unresolved questions: How can intermediaries and funders create standards for performance, along with sanctions for noncompliance, without appearing too heavy-handed and overwhelming the CDCs’ own agendas? When, how, and to what extent should intermediaries and funders intervene in CDC affairs? These are questions that warrant additional discussion by all key stakeholders.

The CDC support community should provide additional opportunities for staff and board training to increase retention.

CDCs need to effectively manage all aspects of their operations. Not surprisingly, both failed organizations and both downsized organizations in our study faced serious internal management problems that were personnel and project related. These problems might have been avoided if additional staff and board training and assistance had been available.
A lack of staff or board capacity undermined the performance of most of the CDCs in our study. Turnover in executive directors contributed to the problems experienced by WHC (Minneapolis) and ACDC (Philadelphia). In Dallas the executive director failed to maintain OCDC's political support, while in Milwaukee the executive director did not pay enough attention to CDCW's financial management systems.

In addition, a lack of professional staff capacity played an important role in five of the cases studied. Many organizations found it difficult to retain experienced staff, because city agencies and private sector companies paid substantially higher salaries. To increase retention and prevent turnover among staff, there is a need for better staff salaries and benefits. In addition, adequate transition plans should be in place to ensure a continuation of leadership.

Passive boards of directors also contributed to the decline of several organizations. In Milwaukee, for example, the board did not adequately monitor CDCW's financial situation and did not react in time to save the organization. Board members should have periodic training to ensure that they can provide the necessary strategic leadership and set policy guidelines for staff.

Project development and property management problems were also revealed as important causal factors in CDC failures, downsizings, and mergers. We found instances of inaccurate financial projections leading to cost overruns, overly optimistic underwriting assumptions, inadequate cost control and accounting systems, and poor-quality construction. CDCW (Milwaukee), for example, experienced many of these problems when it shifted from the development of rental properties to the purchase, rehabilitation, and resale of single-family homes.

Property management problems that were cited as important contributing factors in the demise of several organizations studied included inadequate tenant screening and eviction procedures, inadequate maintenance of properties, and lack of social support services for tenants. ACDC (Philadelphia), WHC (Minneapolis), and CDCW (Milwaukee) were all plagued by property management problems.

Staff and board training should focus on teaching CDC staff how to develop realistic underwriting criteria and cost projections. It should also address the importance of providing for cost increases and unexpected contingencies. Training in financial underwriting should also help to ensure that projects include funding for quality construction work. Finally, whether the property management is handled in-house or contracted out, training needs to help CDCs ensure that rent collection, tenant services, and routine maintenance are performed effectively.

Although there are a number of national initiatives focused on increasing CDC capacity, including those sponsored by the Enterprise Foundation, the Local Initiatives Support Corporation, the Neighborhood Reinvestment Corporation, the Fannie Mae Foundation, the Center for Community Change, and the National Congress for Community Economic Development, there is still a clear need for additional assistance in this area. CDC supporters must better understand the types of assistance needed and commit to providing high-quality training programs and consulting assistance. Although there are various ways that CDC staff and board members can receive additional training, many are not taking advantage of these opportunities. The CDC support community needs to better understand the reasons for this shortfall, which may include...
lack of funds to pay for the training available, lack of time to attend training, and lack of understanding of the importance of additional training.

**CDCs and their support communities should maintain open communication lines and respond quickly to problems as they develop.**

Communication problems played an important role in the organizational changes experienced in five of the six cases studied. These problems included poor communication between executive directors and their boards, between executive directors and funders, between executive directors and city officials or politicians, and among CDC supporters. In Milwaukee, the lack of communication between the executive director and the board, as well as among the city’s various CDC supporters, contributed to CDCW’s demise. In Dallas, poor communication between OCDC’s executive director and the local city council representative contributed to the loss of an important city contract. Also, in Portland poor communication between the funding community and the four organizations targeted for streamlining caused early confusion and mistrust in the merger process. Further, when CDCs are undertaking potentially controversial projects, they would be wise to inform and involve local political leaders as well as community residents early in the process. This is particularly true of CDCs that rely heavily on support from their local government.

In addition to the need for close and regular contact and communication, it is important to identify and acknowledge problems as they arise, not allowing them to fester and worsen. One of the major reasons for the demise of CDCW (Milwaukee) was that the problems facing the organization were not identified and dealt with early enough. The CDCW management did not ask for help in addressing property management problems until the organization was in deep financial trouble. CDCW’s management was concerned that sharing its problems would cause both funders and the city to eliminate new funding rather than offer needed assistance. In contrast, the Walker’s Point Development Corporation, the comparison group in Milwaukee, responded to a similar financial crisis by immediately asking for assistance and taking decisive actions to address its financial problems.

Similarly, several of those interviewed in Minneapolis felt that WHC’s problems should have been addressed sooner and more decisively. Funders should have stepped in earlier, either to provide the support needed to turn the developments around or to find other organizations to take over the units.

**When organizations are contemplating a merger, full involvement and support from all stakeholders are needed; the organizations involved must feel that they have a voice in the process.**

All key stakeholders should be brought into the merger discussions as early in the process as possible. This would include board members, residents of the community served by the CDC, and CDC staff and executive directors, as well as members of the CDC support community. Early acceptance of the merger idea, as well as an understanding of how it will likely affect the key players, is an important factor in making sure that communication is kept open and that information is as accurate as possible.
Even though some might argue that executive directors and staff should not be directly involved in conversations about a merger, it is a mistake to ignore their voice. While they may have a vested interest in the outcome, if the executive directors and staff see the merger as a logical step that is in their organization’s and community’s best interests, the likelihood of a positive outcome increases. In the Cleveland merger, for example, the enormous long-standing commitment of both CDC directors to their community allowed a seemingly comfortable transition. The willingness of one of the former executive directors to take another type of senior leadership position in the merged organization also eased the transition.

A lack of participation by the key players of the organizations involved in a merger is certain to undermine the process and create morale problems. In the Portland case, staff in particular appear to have been largely excluded from the merger discussions, which caused low morale as well as staff turnover.

Based on both the Portland and the Cleveland experiences, the CDC support community should provide outside consultants to assist each of the merging organizations. In addition, resources may be needed to deal with the logistics of merging two organizations, including space planning and office renovations, moving at least one of the groups to new offices, and addressing organizational issues, such as pay scales of staff at the merged organization.5

The need for another type of assistance surfaced in the Portland case study. When there may be tensions around issues of gender or race, outside consulting assistance may be desirable and needed. Although it is never particularly easy to acknowledge that such concerns may be creating tensions or difficult dynamics, it is far worse to let bad feelings fester. Skilled professionals can be brought in to address sensitive issues and can assist those involved to become more comfortable when such conflicts arise.

Once the merger has occurred, funding for operational support from national, state, and local intermediaries should be kept at the same level as that received by the separate groups for at least one year after the merger takes place.

Finally, it is desirable for the CDCs to initiate or at least take charge of the merger discussion. When an outside funder suggests a merger, this top-down pressure is likely to be resented by the CDCs involved. The experience in Portland highlighted the fine line that funders must walk; on the one hand, it is important for them to communicate their goals as explicitly as they can, but on the other, too much direction will likely be viewed negatively. In Cleveland, the leaders of the two merging CDCs felt that they were in charge of the process even though they acknowledged that there was some gentle pressure from the funders.

Both case studies underscore the fact that mergers are not likely to be easy. Even if all groups involved have a shared mission and vision for the neighborhood, numerous messy details will need to be resolved. Perhaps most obvious, the merger of two organizations means that at least one of the executive directors will not continue in that role. In addition, some board members may need to step down in order for the new board to be a manageable size. In addition, there

5 In the course of our telephone interviews, an informant mentioned that in an Orange County, CA, merger, Neighborhood Reinvestment Corporation funds were used to hire a consultant to work through the details.
are certain to be differences in organizational culture and day-to-day procedures. Navigating through these concerns and finding comfortable solutions are likely to take time, patience, and assistance from outside consultants. But it is clear from the Cleveland case study that a merger can result in more effective and better-coordinated housing and community development services. In the case of Portland, it is too soon to assess the long-term viability and contributions of the Albina CDC.

**Final Thoughts**

As noted at the outset of this report, this study represents the first systematic inquiry into CDC failures, downsizings, and mergers. Through six detailed case studies we were able to identify the factors contributing to these changes and their effects on target communities.

We found that several organizations studied were lacking a number of the factors identified as being associated with successful CDCs, as reviewed in chapter 2. Our research therefore provides further evidence of the importance of many factors that have been previously identified. Groups encountered difficulty in securing core operating support, responding to changes in the housing market, and raising rents to cover costs. In addition, some organizations faced serious difficulties with leadership, particularly hiring and retaining experienced executive directors or having a strategy in place for how a charismatic leader will be succeeded. We also learned that problems related to property development and management were important factors in CDC failure and downsizing, particularly poor quality of the original construction or rehabilitation and unrealistic cost projections. Further, our study confirms the importance of CDC support programs and recommends the development of local support organizations where they do not exist.

Although previous research found that a strong housing market is important to CDC success, this study underscores the way in which overheated markets can threaten the viability of CDCs. As some inner-city markets continue to rebound and thrive, questions about the viability of those areas’ CDCs will almost certainly continue to emerge.

A further observation about the market that was revealed in this study is the extent to which NIMBY (“not in my backyard”) attitudes may be creating problems for CDCs in their efforts to provide housing to very low income populations. To the extent that some CDCs are beginning to see the fruits of their efforts, in terms of rejuvenated neighborhoods and increases in rates of homeownership and property values, some new residents have begun to protest the low-income focus of their local CDCs, a situation that we are calling “NIMBY in the neighborhoods.” While diversifying programs and services to serve a somewhat higher income group may help CDCs to navigate through this problem, it is also likely that this dilemma will continue to confront organizations that are successful in upgrading neighborhoods.

There is, therefore, a two-pronged dilemma of community development. First, the more a neighborhood is improved, the more vulnerable is the organization that helped create those changes. In virtually every other realm, organizations that are successful become stronger, not weaker. Second, the more a neighborhood is upgraded, the more the longtime lower-income residents
are threatened with displacement. The phenomenon of gentrification has been well studied, but more research is needed into the specific role of CDCs as mediators of this process.

A final important contribution of this work is a deeper understanding of the limitations and risks associated with having a narrow focus. Although CDCs must be wary about becoming overextended, we found that several of our groups had become too reliant on a single type of activity and that this appeared to help precipitate failure or downsizing.

Future research is needed to address several issues. First, there is a need for more case studies of failed, downsized, and merged CDCs so that the generalizability of the factors contributing to these changes can be assessed and other relevant factors can be identified. Similarly, additional case studies may help identify other impacts, both positive and negative, of CDC failure, downsizing, and merger and further specify the conditions under which those impacts are likely to occur. Also, additional study of this issue may provide greater clarity about when, exactly, a CDC should be assisted to go out of business, downsize, or merge.

Future research might also focus on examples of CDC “turnarounds”—that is, CDCs that faced serious problems but were able to rebound. Such research may help identify effective strategies for salvaging CDCs and avoiding the negative impacts associated with their failure. Given the executive director’s importance to a CDC’s success, more research should be done into the skill sets that executive directors need to be effective. Moreover, given that it may be difficult to find executive directors with the full range of skill sets needed, future research might address how these skills can be obtained. Finally, given that some of the tenants in units owned or managed by CDCs need social services such as job training or alcohol or drug abuse treatment, research on effective models of providing services to tenants should be done.

Over the past four decades CDCs have demonstrated their effectiveness in addressing a range of low-income resident and community needs. Yet with the growth of the CDC industry, there are signs that some organizations are facing significant challenges that may threaten organizational viability and, in turn, the housing and services that CDCs provide. This study has explored the factors contributing to CDC failure, downsizing, and merger and recommends a series of steps that CDCs and the CDC support community can take to prevent adverse outcomes. We hope that CDCs will continue to gain strength and stability in their next phase of growth and development. Their long-term viability is, for the foreseeable future, an essential component of this country’s housing and community development agenda.
CASE STUDIES
COMMUNITY DEVELOPMENT CORPORATION OF WISCONSIN: ORGANIZATIONAL FAILURE

Overview

In the late 1980s public and private leaders in Milwaukee saw a need for a large developer of affordable housing, and in 1989 the Community Development Corporation of Wisconsin (CDCW), originally the Milwaukee Housing Assistance Corporation, was created. The Wisconsin Partnership for Housing Development (WPHD) organized CDCW under a contract with the city, which developed bylaws and personnel management policies, recruited a board of directors, and staffed the organization until permanent staff could be hired. The first executive director left within a year, and a new executive director was hired in 1992 after a protracted search.

CDCW began to develop small- to medium-sized apartment complexes in the predominantly African-American Northside area of the city. This area has the highest poverty rate in the city and contains a concentration of older housing units in need of repair. CDCW’s projects were funded by a variety of sources, including the Wisconsin Housing and Economic Development Authority (WHEDA), a lending consortium called the Housing Partnership Corporation (HPC), and several private banks. By 1997 CDCW had developed 21 separate housing projects totaling 722 units. CDCW also provided ongoing property management for rental complexes, many developed by CDCW. By the late 1990s CDCW had a staff of 25 and an annual operating budget of over $1 million.

In 1997 financial problems began to surface. For some time CDCW had been losing money on its property management operation. These losses did not create an immediate crisis, however, because the organization was able to cover this deficit with funds generated from its development work. In 1997, however, the development side slowed down because of changes in city policies and internal management problems. The city focused its funding on a purchase-rehabilitate-resell program; CDCW was unable to keep up with rehabilitation and had trouble selling units once they were rehabilitated. Cost overruns were also a problem. CDCW sought assistance in overcoming its financial problems from several sources but was unable to secure the assistance it needed. In March 1999 CDCW filed for bankruptcy and closed its doors.

CDCW was the largest and most prominent community development corporation (CDC) in the city, and its demise was said to have had a number of negative impacts: city officials and the financial community lost confidence in CDCs as effective producers of affordable housing, the capacity to produce affordable housing in the city was diminished, a number of properties were sold to “slum landlords,” and the neighborhoods once served by CDCW were destabilized.
Context

Milwaukee’s population declined by 3 percent between 1980 and 1990 and by 8.9 percent between 1990 and 1999 (U.S. Bureau of the Census). As of 1990, 30 percent of the city’s population was African American and 6 percent was Hispanic. The poverty rate in 1989 was 18.5 percent, with impoverished households highly concentrated in selected areas of the city, particularly in the Northside.

The total number of civilians employed in the city has also declined in recent years. Between 1980 and 1990 Milwaukee lost 1.7 percent of its civilian jobs, the largest decline being in manufacturing jobs. Between 1979 and 1994 the city lost 31,000 manufacturing jobs. This loss was partially offset by an increase in service sector jobs, but the salaries of those jobs were considerably lower. The city’s homeownership rate in 1990 was 44.8 percent, which was down from 47.2 percent in 1980. Approximately 50 percent of the city’s units were built before 1940. As of 1994 there were 739 boarded-up properties in the city (City of Milwaukee).

Milwaukee is not known for having a strong support system for CDCs. Yet several organizations provided assistance to CDCs while CDCW was in existence. WPHD, a statewide nonprofit organization, was created in 1985 to provide technical and financial support to nonprofit organizations involved in the production of affordable housing and neighborhood revitalization. It has also managed and—in partnership agreements with CDCs—developed affordable housing.

WPHD has also managed HPC and the Housing Equity Fund (HEF). HPC is a revolving loan fund capitalized by 23 private lending institutions, the City of Milwaukee, and the Wisconsin Electric Power Company. Since its inception in 1987, HPC has made loans totaling approximately $27 million for the production of over 1,000 units of affordable housing in the state. With more than $20 million committed by 21 Milwaukee corporations, HEF has made equity investments in 13 affordable housing developments, with a total of 421 units, in the central city (WPHD 1985–98).

WHEDA is a statewide public organization that provides tax credits and below-market-rate loans to sponsors of affordable housing developments. It also provides a limited amount of technical assistance to nonprofit housing developers.

At the city level, the City of Milwaukee’s Community Block Grant Office provides Community Development Block Grant (CDBG) and HOME funds to the city’s CDCs to develop affordable housing. It receives approximately $32 million in U.S. Department of Housing and Urban Development (HUD) funds each year. The Block Grant Office provides CDCs with both project funds and operating funds based on the number of affordable housing units produced with city funds.

For about five years, beginning in 1990, Milwaukee Neighborhood Partnership Incorporated (MNPI) acted as an intermediary between Milwaukee’s corporate sector and its CDCs. It also provided a forum for communication among the actors involved in supporting the production of the city’s affordable housing. MNPI went out of business because of disappointing results and infighting among its members.
The Local Initiatives Support Corporation (LISC), a relative newcomer to Milwaukee, has had three directors since it opened in 1995 and until recently has not played a major role in assisting the city’s CDCs. Its current director, however, has been working with others to develop the Steering Committee on Milwaukee Communities, an ad hoc group of representatives from corporations, foundations, and civic and nonprofit organizations who want to improve Milwaukee’s neighborhoods.

**History**

CDCW was created in 1989 by a prominent public-private partnership called the Transition Team of the Low-Income Housing Task Force, which recognized that Milwaukee needed a large producer of affordable housing. At that time there were a number of very small CDCs in the city with limited capacity to produce significant amounts of affordable housing.

Under contract from the city to develop the organization, WPHD successfully organized a very high profile board of directors, with representatives from major banks, property management companies, utilities, nonprofit organizations, and other institutions. Public and private sector funding for the development of this housing was to be secured with the help of MNPI.

However, CDCW did not get off to a smooth start. According to one interviewee, CDCW “stumbled out of the box.” The first executive director did not work out and left in less than one year, reportedly because of personality conflicts, conflicts with other organizations over turf issues, and an inability to get development projects off the ground. During the transition period WPHD provided temporary management services to keep CDCW going. After a protracted search, a new executive director was hired. WPHD continued to stay involved with CDCW by providing funding from both HPC and HEF.

The new executive director, hired in 1992, had a background as a contractor and developer, with degrees in development and finance. CDCW, which at that time had a staff of four, began to develop small- to medium-sized apartment complexes in the predominantly lower-income, African-American Northside area of the city. The Low-Income Housing Tax Credit program supported many of these developments, with equity investments arranged by HEF. Other project financing came from a variety of sources, including loans from WHEDA and several local banks. By 1997, CDCW had developed 21 separate housing projects totaling 722 units. CDCW also provided ongoing property management for the rental developments.

Some properties managed by CDCW had been inherited from other CDCs that had gone out of business. Soon after the new executive director took over, another Milwaukee CDC failed and there was political pressure for CDCW to assume the management of those units, which needed repairs and had problem tenants and relatively low occupancy rates. One interviewee, describing the transfer of these troubled properties, said that CDCW staff were “starting out with a noose around their necks.” CDCW staff spent considerable time turning these developments around.
At its height CDCW had a staff of 25 and an annual operating budget of approximately $1.2 million. It was developing 150 units of affordable housing per year and managing approximately 780 units in multifamily and scattered-site, duplex, and single-family units. By 1997, however, problems began to develop. CDCW was losing money on the property management side of its operation. Several reasons were given for this. First, neighborhood conditions continued to deteriorate, so demand for housing in the areas was soft. Turnover was high, and it took time to find new tenants. Second, some of the units were rented to problem tenants, who drove up maintenance costs and drove out good tenants.

Third, CDCW had difficulty keeping competent management staff. Work in private management companies was said to pay better and be easier. One interviewee observed that private property managers did not have to worry as much about their safety. CDCW tried to address this problem by proposing that it join with WPHD to create a subsidiary to consolidate property management and take advantage of economies of scale. WPHD asked CDCW to prepare a business plan specifying who had financial responsibility for CDCW’s property management deficits and proposing realistic strategies for addressing those problems. This plan was never developed, and the two organizations went their own ways. The property management losses did not create an immediate financial crisis, however, because the funds generated by developing rental properties were enough to cover those losses. Then, in 1997, production slowed.

Deciding that increasing homeownership in the city was the best way to revitalize neighborhoods, the city deemphasized rental housing development and became more insistent that CDCs focus on homeownership in order to receive city support. The city provided annual operating funds to a CDC based on the CDC’s estimate of the number of homes it would purchase, rehabilitate, and sell during the year. Thus, CDCW changed its focus from rental housing development to a scattered-site, purchase-rehabilitate-resale program. Several interviewees suggested that the subsidies offered by the city were insufficient to administer this program. In addition, the city capped its subsidy at $12,500 per unit, which allowed for the purchase and rehabilitation of only smaller, less attractive properties that were difficult to sell. Thus, CDCW ended up holding and renting many of its units.

At about the same time the city also changed its process of allocating CDBG and HOME funds for affordable housing. Rather than providing development funds directly to CDCs, the city allowed each of its 17 eligible neighborhoods to decide how the funds were to be spent. These allocations were determined in a series of neighborhood meetings where attendees set priorities for how funds would be used. Unfortunately for CDCW and other Milwaukee CDCs, housing in general was not a high priority, and it was owner-occupied, not rental, housing that people wanted. Thus, under this new allocation process the focus changed from rental to homeownership and housing funds decreased. Furthermore, the funds were divided among the 17 neighborhoods, making it impossible to concentrate development efforts. In the second year, realizing that more affordable housing was needed than was being requested by the neighborhood groups, the city removed housing production funds from the neighborhood planning process. Nonetheless, the production of new units by CDCW slowed during that year, and the amount it received in development fees fell dramatically.
Having acquired a number of properties for its purchase-rehabilitate-resale program, CDCW was unable to keep up with the rehabilitation and had trouble selling units once they were rehabilitated. There were rehabilitation cost overruns on some units, which cut into the profit that could have covered management losses. One interviewee suggested: “The problem was that CDCW was never built to live on rental incomes. They were built on development fees. The bigger they got the more projects they had to do.”

In mid-1998 news of CDCW’s rehabilitation backlog surfaced in a report by the city comptroller. The CDC had 32 vacant properties on which little or no rehabilitation had been done; some had been vacant for over a year. In a letter to CDCW, the city identified five performance concerns: unfinished properties from 1997, inadequate staff to manage construction, deficient 1998 contract activity, tax delinquencies on the organization’s properties, and high vacancy rates and uncollected rents in some properties.

CDCW acknowledged that it had taken development and construction management fees before properties were completed and that it lacked funds to hire staff to complete the 32 units that were under construction. The city’s block grant office, concerned over the viability of CDCW, started planning for other organizations to take over its properties. CDCW asked the city for $700,000 to finish 31 buildings it had acquired, but the city approved only $55,000—to finish 11 partially rehabilitated units for which there were buyers. City officials felt that the organization was too far in debt and unlikely to be able to overcome its problems. Some interviewees said they were surprised the city had not been more willing to help CDCW get back on its feet because the organization had been responsive to the city’s requests to take over problem properties. They were surprised to learn the city was willing to let CDCW fail.

In a final attempt to salvage the organization, CDCW asked its lenders to restructure their loans in order to stabilize its financial situation. Without city support, however, the financial institutions were not willing to work with CDCW. In February 1999, the board of directors decided to shut down the organization, and CDCW filed for bankruptcy on March 1, 1999. In a letter to the city, the board wrote the following message:

As you know we have worked with you for the last several years in an attempt to find a way to fulfill our mission as a nonprofit housing provider that has transitioned into being primarily a developer of single-family/duplex buildings for first-time homebuyers in the central city. We have discussed with you on numerous occasions the difficulties we faced, including the ability to attract sufficient construction management staff, and the lack of sufficient funds to complete and convey a number of the properties in our portfolio. However, the curtailment of housing projects and the historical economic occupancy rates on our management portfolio have created a negative cash flow situation…. Recently, we proposed that the management portfolio lenders restructure their respective obligations so as to cover the aggregate monthly cash flow deficit for an interim period, until our financial situation could be permanently stabilized…. Within the last week, several of the lenders have informed us that they are unable to support a restructuring at this time. Consequently, the Board of Directors has concluded that it is unable to continue to accomplish its mission. It is with deep regret that we must inform you that the activities of CDCW will be terminated as of February 28, 1999.
Factors Contributing to Failure

According to interviewees, the decline and failure of CDCW were the result of a series of factors, some external and some internal. Each factor is discussed below.

External Factors

The external factors identified by interviewees were the soft housing market in the inner city, changes in city policies, and the lack of support services for low-income tenants.

Soft Housing Market in the Inner City. Clearly, some problems CDCW experienced, in both property development and property management, were influenced by the soft housing market in the areas it served. This soft market was partly due to Milwaukee’s declining population; the city lost 8.9 percent of its population between 1990 and 1999. CDCW’s main target area, the Northside of Milwaukee, was hit hard by these population losses as housing vacancy rates and abandonment increased. One interviewee commented: “We have a rotating stock of vacant housing units in the city.” Another observed that the Northside area grew worse throughout the 1990s.

At the same time, household incomes within the Northside area declined, the result of Wisconsin’s W-2 welfare reform program and the shift from higher-paying manufacturing jobs to lower-paying service-sector jobs. Relatively high crime rates and a very old housing stock were also offered as reasons for the soft housing market in the Northside area. Given this soft market, CDCW had problems keeping its units fully leased and could not raise rents to cover escalating costs. Interest in purchasing homes in the area also was weak.

Changes in City Policies. Two changes in city policies had unanticipated impacts on the financial health of CDCW. The first change was the decision to go to a neighborhood-based system for allocating CDBG and HOME funds. As discussed earlier, this new approach resulted in less funding being available for affordable housing production. It also meant that properties purchased by CDCW for rehabilitation were scattered widely throughout the city’s lower-income areas. CDCW was not able to concentrate its efforts and make a noticeable impact in any one area. One interviewee noted: “Scattered-site housing is especially vulnerable in a strategy that essentially creates islands of investment in a sea of disinvestments…. When the public sector tries to spread its money among too many neighborhoods it jeopardizes all of them as well as runs the risk of wasting its money.”

The second policy change that affected CDCW was the city’s decision to focus on promoting homeownership. CDCW had geared up to develop rental housing; the new policy forced CDCW to refocus on a single-family rehabilitation and sale program. Moreover, the fees CDCW received for purchasing, rehabilitating, and selling these units were less than it was getting for developing rental properties. The subsidy limit of $12,500 per unit was not sufficient to rehabilitate many properties and sell them at affordable prices. In combination, these two city policies had an unanticipated, yet substantial, negative impact on CDCW’s financial health.
Lack of Support Services for Low-Income Tenants. Several interviewees suggested that many tenants in properties managed by CDCW and other Milwaukee CDCs have other issues beyond a need for affordable housing, including domestic abuse, lack of after-school care for children, and substance abuse. These issues clearly affect the success of housing developments but are beyond the purview of property management, even though additional support services would help the rental properties function more smoothly. One person commented: “Making sure the residents who need them are connected with the services is an integral part of the property manager’s job…. I absolutely believe that the absence of those services is part of what undid CDCW and the rest of the CDCs in Milwaukee.”

Internal Factors

A variety of internal factors was also said to have contributed to CDCW’s demise: the characteristics of the portfolio, ineffective property management, undercapitalization, board complacency, inadequate cost control and accounting systems, and poor communication.

Characteristics of the Portfolio. A major factor in the demise of CDCW was its housing portfolio, which was concentrated in the most distressed area of Milwaukee. Demand for housing in the Northside area weakened throughout the 1990s, so rents could not be raised to cover increased operating costs. In addition, the housing owned and/or managed by CDCW was in relatively small developments scattered widely throughout the area, increasing travel times and making it difficult to keep a close eye on the properties. There were 16 multifamily developments ranging from 5 to 80 units each and an assortment of single-family and duplex units that were being either rented or rehabilitated. This turned out to be a very difficult portfolio to monitor and manage. CDCW tried to expand its portfolio beyond Milwaukee to include the southern section of the state. The original name, Milwaukee Housing Assistance Corporation, was changed to CDCW and a rental development was completed in West Bend, but the bulk of its activity remained in Milwaukee’s Northside.

Ineffective Property Management. The losses on the management side of CDCW’s operations were primarily responsible for the organization’s demise. As discussed earlier, property management was always a losing proposition for the organization. Several reasons were offered for this problem. First, there was a lot of turnover in management staff, and it was difficult to attract good property managers. One person suggested that “people didn’t stay if they were any good.” The pay was low compared with what could be made in private management companies, and neighborhood conditions and tenant characteristics made the job more difficult. Some managers were said to have left out of fear of being assaulted.

Others have suggested that management costs—such as the expense of the reporting required for developments funded with tax credits—were underbudgeted. The city also required regular reports on the developments it funded. Given the soft market, it was impossible to raise rents to cover these underbudgeted costs; doing so would have simply increased vacancy rates.

Several interviewees argued that CDCW’s portfolio was not large enough to produce economies of scale and allow staff members to specialize in specific aspects of management.
one person suggested: “Property management has to be done at a scale big enough to attract and keep a skilled property management staff, and a large enough staff to allow different people to do what they do best. Combining roles in a single person that require different kinds of experience and different ways of working creates problems.” The relatively small rental portfolio also did not permit CDCW to purchase expensive management information systems that would have made the job easier.

Finally, several interviewees suggested that the management staff were not effective in screening tenants and were slow to evict them when problems arose. “Tenants in Milwaukee have a lot of choices,” said one person, “so poor management means you end up with bad tenants, properties run down, and a downward spiral occurs.” The weak demand for CDCW housing often left managers with the unpleasant choice of renting a unit to a questionable tenant or letting it sit vacant.

**Undercapitalization.** Two types of undercapitalization were mentioned as reasons for CDCW's demise: organizational undercapitalization and project undercapitalization. At the organizational level, CDCW was never able to accrue reserve funds to provide a financial cushion. To some extent this was because development fees, which could have capitalized such a reserve, subsidized the management operations.

Some people, however, felt that the organization relied too heavily on city support for its operations and was not active in seeking funding from foundations and corporations. CDCW did receive some support from the Wisconsin Electric Power Company and Eaton Manufacturing, but the largest portion of its operating funds came from the city. Foundation and corporate support for affordable housing in Milwaukee, however, was said to be hard to come by. Most of the major foundations have not been very active in supporting affordable housing activities. LISC often helps secure such support, but the Milwaukee LISC office was not very active during this period.

At the project level, many development projects were said to be too thinly capitalized. The debt coverage ratios were said to be low and the reserve funds inadequate. The city was criticized for asking CDCW to take on difficult properties in difficult neighborhoods and then failing to provide an adequate amount of subsidy to make the projects financially viable. One person put it this way: “Creating an unrealistically tight operating budget by making projects take on too much debt leaves no room for mistakes by the property managers or reversals in the market environment. When the public sector tries to spread its money among too many projects, it jeopardizes all of them.” Clearly, CDCW must take responsibility for having agreed to take on projects that were undercapitalized, although unanticipated changes in the demand for its housing may have been difficult to predict.

**Board Complacency.** As mentioned above, CDCW board members have been described as experienced and capable people from private industry, the financial community, and the nonprofit community. Yet no one on the board wanted to take responsibility for overseeing the finances of the organization, and during the period leading up to its collapse, CDCW did not have an active finance committee. Moreover, some interviewees suggested that the management did not provide the board with regular financial statements; audits were completed six to eight months
after the end of the fiscal year. One board member said he kept asking for financial statements and was told repeatedly they would be provided at the next meeting, although a former staff member disputes this claim. In any case, CDCW's financial problems caught many board members by surprise. Clearly, the board should have been more aware of the organization's financial problems and taken action to address them.

Inadequate Cost Control and Accounting Systems. Several interviewees felt that CDCW's cost control and accounting systems were inadequate. The accounting system, it was said, was not able to keep up with the rapid growth of the organization. One person commented: “There was never a functioning accounting system. No one could tell you what was in the checking account. There were huge spreadsheets for individual properties but little overall assessment of where the organization stood at any point in time.” The lack of a strong accounting system hampered CDCW's ability to identify financial problems and respond rapidly to them.

Poor Communication. According to several interviewees, poor communication was one of the reasons for CDCW's demise. The executive director, they said, did not share the organization's financial problems with either the board or the city in a timely manner for fear of scaring off major funders, many of whom were represented on the board. CDCW was largely dependent on development fees, which might have been lost if problems had been acknowledged and funders backed away from new projects. Others suggested that the city saw itself as a “disciplinarian”: “It would rather investigate the organization than help it.” Simply put, CDCW managers did not share the problems because they did not trust that other organizations would come to the organization's aid. By the time the problems surfaced, the organization was far in debt and no one was willing to provide the level of support needed to keep the organization afloat.

Communication was also said to be poor among the various public, private, and nonprofit organizations involved in producing affordable housing in the city. Once MNPI fell apart, there was no mechanism for sharing information or for developing a cooperative strategy for saving CDCW. Each major actor made independent decisions, with little or no consultation with others. The city, for example, developed a plan for transferring responsibility for managing CDCW's properties to other organizations without consulting with members of the financial and nonprofit communities. Without city support, other actors were not willing to work to save CDCW.

Impacts of the Failure

Many impacts of CDCW's failure must be understood in the larger context of the failure of Milwaukee CDCs in general. In the early 1990s there were 11 CDCs producing affordable housing in the city. By the time CDCW filed for bankruptcy in early 1999, only three CDCs remained. CDCW's failure was part of a pattern of failure by Milwaukee's CDCs brought on by the soft housing market in the targeted neighborhoods and the lack of experienced staff. The failure of CDCW had special significance, however: It was the largest, most prominent CDC in the city; it had a close relationship with city government; and its board was composed of prominent members of the business and nonprofit communities. CDCW’s failure shocked many Milwaukee residents.
Overall, the impacts of CDCW’s failure can only be described as dramatic. Interviewees identified the following negative impacts: lack of confidence in CDCs; lack of affordable housing production; properties being sold to “slum landlords”; destabilized neighborhoods; and the need to refund HUD funds.

Lack of Confidence in CDCs

The collapse of CDCW on the heels of the other CDC failures in Milwaukee undermined confidence in the CDC model of providing affordable housing in the city and the state. One interviewee said that the failure of CDCW “hurt the nonprofits. It was horrible in the press and that splash hit everyone.” The financial institutions in the city and even in other parts of the state were said to be reluctant to provide credit to CDCs or invest in CDC-sponsored housing developments. There is a view among many in the financial community that CDCs are not capable of effectively and efficiently producing and managing affordable housing. For its part, the city also lost confidence in the CDC model and is exploring ways to involve the private sector in the production of affordable housing. A director of another Milwaukee CDC said that in the present climate it is not feasible to go forward with any new initiatives. “I will hunker down for the next five to six years,” the director added, “and hope the climate changes.”

Lack of Affordable Housing Production

The demise of CDCW, the largest CDC in the city, left a large void in the production of affordable housing in Milwaukee. At its height CDCW was producing 150 affordable units per year. When that production was lost, the remaining organizations were not able to make up the loss. One person observed that, with CDCW’s failure, “virtually nothing is being done in affordable housing in the city.” This is particularly true for rental housing for families with incomes below that needed to buy a home. Moreover, there are not enough nonprofit housing organizations to spend the city’s allocation of HOME funds; between $2 and $3 million will have to be carried over into the next fiscal year. If these funds cannot be spent in a reasonable amount of time, there is a danger of losing them.

Properties Being Sold to Slum Landlords

CDCW’s properties are being disposed of in a variety of ways, largely depending on who holds the first mortgage. On the positive side, new general partners have been found for the tax credit projects. In addition, the Neighborhood Improvement Development Corporation, a subsidiary of the city, took over 30 single-family units that were under renovation and plans to sell them to owner-occupants when the units are completed. WHEDA is also providing homeownership counseling to the renters of some of the single-family units in hopes that they will buy them.

On the negative side, local financial institutions have foreclosed on some properties and sold them to the highest bidders. An estimated 100 units were said to have been sold to investor/owners, some of whom were described as slum landlords.
Destabilized Neighborhoods

Because of CDCW’s management and financial problems, many of its properties sat boarded up and vacant, waiting to be rehabilitated. Some properties were vacant for over a year. Several interviewees said that the presence of these vacant properties had a negative, even “devastating,” impact on the stability of the surrounding area, decreasing the attractiveness of the area and further undermining confidence in its future.

Need to Refund HUD Funds

Many of the units owned by CDCW were subsidized with HOME funds from HUD. In return for these subsidies, CDCW agreed to rent units to eligible low-income families. When the units were repossessed by lenders, these agreements were voided, and the city is now responsible for repaying the subsidies. Although the amount of the repayment was not fully known at the time of our visit, the payback is expected to be substantial. One person suggested that it may cost more to repay HUD than it would have to bail out CDCW.

Lessons Learned from the Failure

All individuals interviewed about the demise of CDCW were asked to identify the major lessons that they thought had been learned from the experience. In addition, through key informant interviews we identified a financially healthy CDC in Milwaukee, the Walker’s Point Development Corporation (WPDC), with characteristics similar to CDCW. WPDC serves the Walker’s Point neighborhood on Milwaukee’s south side, an area that has predominantly low-income residents but has a better reputation than the Northside area. WPDC was incorporated in 1980 and currently has a staff of 14. Among other activities, Walker’s Point manages 230 units of rental housing. In an interview with the director and a staff member from Walker’s Point, we probed why Walker’s Point had survived while CDCW had failed. Comparing Walker’s Point with CDCW helps illustrate some of the lessons learned.

**CDC executive directors and boards need to identify problems early and respond to them quickly and decisively.**

One of the major reasons for CDCW’s demise was that the organization’s problems were not identified and dealt with early enough. CDCW management did not ask for help in addressing those problems until the organization was far in the red. CDCW’s property management losses went on for some time, and although some efforts were made to address them, no effective solution was found. Moreover, the organization was slow to respond when production was curtailed. This seems to have been a result of several factors, including an inadequate accounting system that did not provide a clear financial picture of the organization and doubt that others would aid the organization. CDCW’s management was concerned that sharing its problems would cause both funders and the city to eliminate new funding rather than offer needed assistance. Thus the problems were not discussed with those who could have helped. Whether they actually would have helped will never be known.
WPDC's handling of a similar crisis provides an interesting contrast to CDCW's approach. Several years ago the executive director was surprised to receive calls from officials at both a local bank and HUD saying that WPDC was behind on mortgage payments. The bank was threatening to foreclose on one of its properties. Checking into the problem, the executive director found that the financial manager had not made payments on several loans. The organization had grown recently, and the financial manager did not have the skills to handle the expanded finances.

In response, the financial manager was fired and a more experienced person was hired. In addition, the executive director discussed the organization’s financial problem with its lenders, who agreed to give WPDC some breathing room by deferring loan payments. Moreover, one lender advanced the CDC $100,000 even though it was over 60 days delinquent on loan payments to this bank. This gave WPDC management time to get its financial house in order. Thus, rather than hide the problems, WPDC was willing to acknowledge them and ask for assistance. At least in this instance, this was a successful strategy. WPDC is now on solid financial footing.

Citywide organizations composed of representatives from public, private, and nonprofit organizations are needed to assist and support CDCs.

The lack of a citywide organization with representatives from the public, private, and nonprofit sectors inhibited communication and the development of an effective strategy for helping CDCW overcome its problems. In the past MNPI provided a forum for public, private, and nonprofit organizations with interests in CDCs to share information and develop common strategies for assisting them. Unfortunately, this organization fell apart in the mid-1990s. Thus there was no formal means for the financial institutions, the city, the state, and foundations to discuss how to help CDCW overcome its problems. One interviewee suggested: “The failure to create a functioning and functional public-private partnership that also includes the nonprofits as partners at the table is the clearest and most painful lesson we learned.”

Without such an organization, decisions were made unilaterally, without consultation with other interested parties. Lenders and other interested organizations, for example, learned through a press report that the city government had decided not to bail out CDCW but to transfer CDCW properties to other organizations. Caught by surprise by a decision they had not been part of, lenders lost interest in helping CDCW recover from its problems. Without city support the private and nonprofit organizations involved with CDCW were not willing to help.

Since the demise of CDCW, a collaborative organization called the Steering Committee for Milwaukee Communities has been organized by LISC and a local foundation. The steering committee includes representatives from Milwaukee’s city government, local foundations, corporations, and nonprofit organizations and may provide the communication tools needed to respond effectively to the CDCs’ future problems as they arise.

CDCs need to avoid relying heavily on a single source of funds.

Another lesson learned from the CDCW experience is that CDCs need to have a diversified funding base. Because CDCW was highly dependent on city support, it was vulnerable to changes in city policies. When the city let neighborhood organizations set local priorities for
CDBG spending and less funding became available for affordable housing, CDCW found itself in financial trouble. It could not make up this large loss in revenue.

Dependence on city funding also meant that CDCW took its direction from the city rather than developing its own perspective on the type of housing that was needed and the appropriate location for it. When the city decided to switch production funds from rental housing to owner-occupied housing, for example, CDCW had little choice but to go along. At the request of the city, CDCW also took on problem properties, which may not have been in its best interest. One interviewee said: “There were a lot of political demands to get involved. [The executive director] was being pulled in many directions.”

In contrast to CDCW, WPDC made a conscious effort to diversify its funding sources. When the current executive director took over, 70 percent of the organization’s funding came from the CDBG program, and the CDC had a relationship with only one bank. Today, WPDC is only 35 percent reliant on city-controlled block grant funds; the remainder of its support comes from other sources, including the United Way, the Fannie Mae Foundation, the Milwaukee Foundation, and the Federal Home Loan Bank. This diversity ensures that the loss of one funder will not jeopardize the viability of the organization. It also allows the organization more discretion to develop its own agenda rather than having that agenda dictated by a single funder.

**CDCs need to diversify the types and locations of properties being developed.**

With the exception of one development in Racine, all of CDCW’s properties were residential properties located in the Northside of Milwaukee. As noted earlier, the area had been declining steadily and demand for housing was weak. This weak demand was at least partially responsible for the high vacancy rates and the large number of problem tenants at many CDCW properties. If CDCW’s portfolio had contained properties in areas with stronger demand, the organization would not have been as vulnerable to neighborhood conditions. Similarly, developing market-rate housing or commercial property could have spread the risk and generated another income source.

WPDC has a diversified portfolio. Along with affordable housing developments funded through the tax credit program and homeless assistance funds, it has developed market-rate housing for moderate-income households. The CDC has also purchased and rehabilitated commercial properties in a local business district and provided homeownership counseling. This diversity of properties and projects makes WPDC less vulnerable to weak demand for one type of development. Moreover, WPDC is also beginning to develop properties outside its original target area, thereby geographically diversifying its portfolio.

**Cities need to do a better job of anticipating the impact of policy changes on CDCs.**

As discussed above, two changes in city policies played an important role in the demise of CDCW. First, the city’s decision to let neighborhood groups decide how the CDBG funds were to be spent led to a sharp and unanticipated drop in funding for the production of affordable housing and thus in the development fees available to CDCW. Second, the city’s decision to shift its focus from the production of new rental units to the rehabilitation of existing properties for
homeownership took CDCW in new directions, again reducing its income from development fees. The impact of these two policy changes on CDCW, while clearly unintentional, was dramatic. The lesson here is that cities should carefully analyze policy changes before they are implemented to better understand how they will affect the financial health of their CDCs.

**CDCs need more capacity building.**

The CDCW experience also points out the need for additional capacity building among CDCs. In the case of CDCW, expertise in property management and financial management was particularly lacking. WPHD has offered training on a variety of topics, but its staff members feel the training has not been effectively utilized. Attendance at the training session was said to be irregular and sporadic. The training was also seen as insufficient for the new organizations, and in the more established organizations many of those with training left for other jobs, taking the benefits of the training with them. One interviewee commented: “None of the training stuck.”

Clearly, part of the problem is the relatively low salaries paid to staff at CDCW and other CDCs. As CDC staff receives additional training, they often leave to take higher-paying jobs within the public or private sector. The CDCs are then faced with hiring and training replacement staff. The lack of resources for training and for purchasing the latest software also inhibits CDCs’ ability to effectively manage their organizations.
WHITTIER HOUSING CORPORATION:
ORGANIZATIONAL FAILURE

Overview

The Whittier Alliance was created in 1978 to work toward the revitalization of Minneapolis's Whittier neighborhood, which was showing serious signs of decline. The alliance served a dual role as the city-recognized citizen advisory group and as a community development corporation (CDC) for the Whittier neighborhood. For the next 12 years the alliance pursued its mission by sponsoring a variety of neighborhood improvement activities, including the purchase and rehabilitation of different multifamily housing developments in the neighborhood. In 1990 the Whittier Alliance was chosen as Minneapolis's first Neighborhood Revitalization Program (NRP) area. NRP provides funds to neighborhood organizations to develop and then implement neighborhood revitalization plans. The alliance undertook an 18-month planning process and came up with a plan that focused on the development of additional affordable rental housing and social services for the area's lower-income residents. When the homeowners and private apartment owners got wind of this plan, they orchestrated a takeover of the organization and developed a new plan that did not include the development of additional rental housing.

The alliance's new board also had little interest in continuing to own and manage the multifamily properties the alliance had developed during the 1980s, so a separate organization called the Whittier Housing Corporation (WHC) was established, and the properties, seven leasehold cooperatives with a total of 16 buildings, were transferred to it. At the time of the transfer many of these buildings again needed substantial renovations. The corporation received its initial funding from NRP and the Interagency Stabilization Group (ISG), which assists troubled affordable housing developments. The corporation expected to receive additional funding from NRP to develop more housing, but under pressure from local landlords the city decided to leave those funds with the alliance. This closed the door on an important source of support for rehabilitating the transferred units as well as developing additional units.

Over the next five years WHC tried to secure funds to repair the buildings. It received small amounts from the ISG but never enough to do the extensive rehabilitation that was needed. It also had trouble finding effective management companies, which contributed to the continued decline in the buildings' attractiveness. After a final, failed attempt to secure additional equity investments from the National Equity Fund, WHC closed its doors in August 2000. Responsibility for some of the developments has been transferred to nonprofit organizations in the city. Interviewees were confident that responsibility for the remaining developments would be transferred to other nonprofit organizations, thus ensuring that the units remain affordable to low-income households.
Context

The Minneapolis/St. Paul metropolitan area has grown rapidly during the past decade. Between 1990 and 1999 the population increased by about 13 percent, from approximately 2.5 million to 2.8 million. Most of this growth, however, was in suburban communities. Minneapolis's urban population actually decreased 4 percent during this period, from approximately 368,000 to 353,000 people.

Like most other communities in the country during the late 1980s and early 1990s, Minneapolis had a relatively slow-growing economy and relatively high unemployment. During this period, demand for housing in the central city was weak. In the mid-1990s, however, the economy picked up dramatically. Interviewees described a booming economy with labor shortages, rising median incomes, and a low rental vacancy rate (said to be around 1 percent). House values and rents also rose rapidly, they said, making it difficult for community development organizations to buy property and for lower-income households to pay rent. One person suggested: “Section 8 vouchers [were] as good as Confederate money,” because in a tight housing market landlords do not want to bother with the paperwork Section 8 vouchers require.

Over the past three decades, CDCs have played an important role in developing affordable housing and revitalizing Minneapolis’s low-income neighborhoods. They have produced thousands of affordable housing units, developed over 200 commercial properties, and assisted over 2,500 small businesses (Goetz 1998). These activities have been supported by a rich collection of public, nonprofit, and private organizations in the city, although the nature and degree of support have varied over time.

In the 1970s city and state housing agencies, along with the Greater Minneapolis Metropolitan Housing Corporation (GMMHC), a group of local corporations interested in promoting affordable housing, supported the creation of CDCs throughout the city. Their initial focus was rehabilitating single-family dwelling units, but soon many CDCs saw the need for developing affordable rental housing. During much of the 1980s, CDCs in Minneapolis worked closely with the City of Minneapolis’s Community Development Agency (MCDA) and the city council to produce affordable rental housing that was better integrated into the surrounding neighborhoods. The CDCs also worked to improve conditions in many of the oldest neighborhoods in the city. According to Goetz: “CDCs became the central actors in community development during the 1980s. During this decade a tight and stable trilateral relationship developed between the MCDA, the CDCs and the City Council on matters of neighborhood development…. Housing subsidies were carefully distributed to keep all CDCs in business and to spread around development opportunities” (1998, 2). The Minnesota Housing Finance Agency (MHFA), the Family Housing Fund (FHF), and other organizations also participated in financing rental housing developments in neighborhoods throughout the city. By the early 1990s, CDCs had produced more than 3,200 multifamily units in the city (Goetz and Sidney 1994).

In the early 1990s, CDCs in Minneapolis experienced several new challenges. First, the city introduced NRP in 1991 and committed $20 million a year to promoting neighborhood development and improvement projects. The planning for the expenditure of these funds was turned over to community planning organizations (CPOs) that in most instances were separate from
CDCs, thus disrupting the close trilateral relationship described above. According to Goetz, this “resulted in the introduction of new actors into the community development policy subsystem who challenged the leadership of CDCs in neighborhood-based development, and challenged the once-cozy relationship between CDCs and the MCDA” (1998, 16). In practical terms, many CPOs were not interested in supporting new rental housing developments in their areas.

Second, arguments by Myron Orfield (1997) and others in favor of the deconcentration of poverty have undermined support for affordable rental housing development in the central city. Many local public and foundation officials in Minneapolis have questioned the need for additional affordable housing in the city: “Though Orfield’s objective was to increase the development of affordable housing in the suburbs, the main effect of his campaign has been to increase opposition to the further development of affordable housing in the core areas of the region” (Goetz 1998, 16).

MCDA, for example, has reorganized its multifamily housing section, combining it with the single-family homeownership section that serves higher-income families. For its part, the FHF has widened its service area from the two central cities to the entire metropolitan area, thus spreading its funds over a larger area not served by the existing CDCs. To the extent that there is support for new housing in the city, it is focused on owner-occupied housing that would attract higher-income households to central city neighborhoods. Overall, many interviewees felt that support for CDCs has waned in recent years.

MCDA is one of the key players in the CDC support community in Minneapolis. It funds the production of both rental and owner-occupied housing from Community Development Block Grant, HOME, and Low-Income Housing Tax Credit (LIHTC) revenues and from housing revenue bonds. MCDA also provides operating funds to CDCs for specific development projects. Another key player is MHFA, which provides equity investments through the LIHTC program and loans at below-market interest rates for affordable housing developments. It also offers a predevelopment loan program and a small grants program for CDC capacity-building efforts.

The FHF of Minneapolis/St. Paul, a nonprofit organization, was created in 1980 to promote housing for low-income families. The mayors of both Minneapolis and St. Paul, as well as city council members and representatives of nonprofit organizations in both cities, sit on its board. Its funding comes from the McKnight Foundation and the cities of Minneapolis and St. Paul. The FHF provides predevelopment and project financing as well as “gap financing” loans to CDC-sponsored housing developments. It also supports capacity building in the areas of organizational management, property development, and property management and has worked with other CDC funders to streamline the funding process and support asset management.

In 1993 the FHF brought together the major funders of affordable housing to create the ISG, which assists CDC-sponsored housing developments that are experiencing financial problems and need additional funds to maintain their viability. Throughout the 1990s the cost of operating affordable rental housing increased while tenant incomes stagnated. Unable to raise rents without displacing tenants, some CDCs cut back on maintenance, and properties deteriorated. The ISG “simplifies the complex funding system for affordable rental housing by providing one place for owners to apply for stabilization assistance” (Interagency Stabilization Group 1999, 5). Its
members include MCDA, MHFA, the Local Initiatives Support Corporation (LISC), the FHF, the McKnight Foundation, and the departments of planning and economic development of the city of St. Paul.

GMMHC, created in 1970 by 14 local corporations, assists community-based development organizations in providing affordable housing. Its zero-interest revolving loan fund has helped finance the construction of over 13,000 units of affordable housing since its inception (Goetz 1998). LISC came to the Twin Cities in the late 1980s, but until recently its activities were largely focused in St. Paul. This is because GMMHC and the FHF filled LISC’s traditional roles of arranging for predevelopment financing and providing operating and technical assistance to CDCs.

Clearly, these organizations provide considerable support for CDCs in Minneapolis. As Goetz notes, however, “Most forms of support for CDCs that exist in Minneapolis are project-specific and related to the achievement of the programmatic goals of the organizations. There is less available to CDCs in terms of resources and organizational capacity and virtually nothing in the areas of networks and political capacity” (1998, 3). This has inhibited the ability of the city’s CDCs to effectively respond to the political and economic changes in recent years.

History

The story of WHC begins in 1978 with the creation of the Whittier Alliance, the result of a planning effort sponsored by the Dayton Hudson Foundation. The foundation supported an art museum in the Whittier neighborhood and was troubled by a general worsening of conditions in the area; crime and drugs and dilapidated housing were becoming major problems. The planning effort brought together various community factions, which then formed the alliance, both to represent the area to outside organizations, such as the city government, and to undertake neighborhood improvement projects.

The Whittier neighborhood, two miles south of downtown Minneapolis, developed around the beginning of the 20th century as an upper-middle-class neighborhood characterized by large single-family homes on sizable lots. As demand for the large homes declined in the 1960s, the area began to change. The city government responded by rezoning the area, and during the late 1960s and early 1970s many of the large homes were replaced by small apartment buildings, most with 20 to 30 efficiency and one-bedroom units. These new buildings, which took up most of their lots, were unattractive and poorly constructed. The social composition of the area also changed with the influx of lower-income and minority residents. In 1987 crack cocaine use became a major problem in the neighborhood, and the crime rate escalated.

In 1990 over 25 percent of Whittier’s population of 13,000 was African American, with Native Americans, Asians, and Hispanics together making up another 10 percent. Eighty-nine percent of Whittier’s residents lived in rental housing. The area’s poverty rate was 22 percent and its median income $15,700, or 60 percent of that for the city as a whole.

By the time the Whittier Alliance was organized, many of the area’s apartment buildings were poorly managed, run down, and in need of major rehabilitation. Families with children had
moved into many apartments not developed with families in mind. Thus one of the alliance’s major activities during the 1980s was to purchase, rehabilitate, and manage several of these buildings. The alliance did what was described as “moderate rehabilitation,” but major mechanical systems, such as plumbing, were not replaced. Often units were reconfigured to create two- and three-bedroom apartments, and then the buildings were turned into leasehold cooperatives. This was done to instill pride of ownership among residents and to keep property taxes low, because Minnesota taxes owner-occupied residential property at a much lower rate than investment property. This also kept the monthly payments relatively low. By 1990 the alliance had 11 staff members and managed 158 units in 11 buildings.

That year the Whittier neighborhood was chosen as Minneapolis’s first NRP area. NRP provides funds to neighborhood organizations to develop and implement neighborhood revitalization plans. In response, the Whittier Alliance undertook an 18-month planning process involving over 50 meetings with neighborhood residents. The result was a plan to spend much of the NRP funds on developing more affordable housing and social services for the area’s lower-income residents.

When the homeowners and private apartment owners got wind of this plan, they staged what several people described as a coup. The homeowners did not want more lower-income housing built in the area, and the private apartment owners thought the alliance’s housing developments were unfair competition. The two groups showed up in force for an annual meeting of the alliance and elected their own candidates to the board of directors. Because the organization’s bylaws called for the entire board to be elected at the same time, the turnover in board members was nearly complete. The new board immediately set about altering the plan developed under the old board and greatly deemphasized affordable housing, particularly rental housing. Soon after, the longtime executive director left, as did other key staff involved in the alliance’s housing programs.

Because the new board had little interest in managing the alliance’s 158 leasehold units, MCDA and NRP decided to transfer the properties to another organization. Two options were discussed: transfer to an existing nonprofit housing provider or create a new nonprofit housing organization to serve the Whittier area. The latter option won, the dominant argument being that it would be better to keep the housing under the control of a local organization. Thus WHC was created.

WHC received its initial funding from the ISG, which has been described as a one-stop shop for struggling affordable housing developments. Most developments that come to the ISG are at least partially financed by members of the group. The developments’ sponsors devise a plan for righting the problems, and it is reviewed and discussed by the ISG, with the decision to assist a particular project made by the members after some negotiation. The ISG does not control a common fund. Instead, each member decides if it will participate in assisting a particular project. Over its 10-year history, the ISG has helped 72 housing developments in Minneapolis.

Once created, WHC was charged with renovating and managing the seven housing cooperatives, as well as developing new properties by rehabilitating single-family housing with funding from NRP. Under pressure from local landlords, however, the city decided to leave the NRP
housing funds with the alliance, thus closing the door on an important source of operating funds for WHC. Its sole focus then became to turn around the 11 buildings it owned. Given the poor state of these properties, WHC needed to improve the buildings before taking on new projects. As one person suggested, “If they couldn’t manage [the buildings] effectively, no one would fund them to develop additional housing.”

At its height WHC had a staff of three (a director, a co-op organizer, and a secretary) and relied on private asset and property managers, like the Gavzey Group, which handled asset management from 1995 to 1996 until funding ran out. Members of the ISG provided operating support for the staff and some funds for building improvement.

There was never enough money, however, to make the substantial repairs that were needed. WHC staff did develop and submit a stabilization plan to the ISG, but the plan was not approved. One person described it as “a chicken and an egg problem.” The ISG wanted to see management changes before it would provide the substantial funds needed to rehabilitate the units. WHC wanted funding to make the needed changes. For example, the ISG wanted WHC to bring in co-general partners for the projects. WHC tried but could not find organizations interested in taking over properties without an up-front commitment of funds to rehabilitate the properties. Thus the process dragged on, and the properties remained in poor condition.

Toward the end, the National Equity Fund, which had arranged for LIHTC investments in many of the properties, developed a plan to layer additional tax credit investments on top of those already in the developments. Such a strategy would have provided the needed infusion of funds for rehabilitation, plus a developer fee to support WHC operations. Ultimately, however, the National Equity Fund determined that this approach was not feasible, and in the summer of 2000 the WHC board decided to shut down the organization.

Factors Contributing to Failure

External Factors

Two major external factors contributed to the downfall of WHC. The first was a downturn in neighborhood conditions. The second was the introduction of NRP.

Downturn in Neighborhood Conditions. Several interviewees identified a downturn in neighborhood conditions as a major cause of WHC’s demise. During the 1980s and early 1990s crime and drug problems escalated in the area. According to one interviewee, “The neighborhood was the key problem. No one anticipated that the area would decline the way it did.” The crime and drug problems led to an exodus of higher-income households and an increase in lower-income households. This meant that rents could not be raised, yet maintenance costs continued to increase. According to one informant, “Rents were going up 1 percent [per year] while expenses went up 7 percent to 8 percent.” The response of the alliance, and later of WHC, was to defer property maintenance, making the units even less attractive to potential residents. The Tax Reform Act of 1986 was also blamed for the downturn in neighborhood conditions. According
to another interviewee, “The tax reform act killed both the ability for private capital to accrue a return in tougher neighborhoods and the political influence these higher-income investors brought to the table.” The result of the act, it was said, was that many “good” landlords got out of the business and many bad ones went into it. Although other neighborhoods were affected, the Whittier area, one of the toughest in the city, was particularly affected.

**Introduction of NRP.** The introduction of NRP, according to several interviewees, set off a chain of events that eventually led to WHC’s demise. As mentioned earlier, the Whittier Alliance’s participation in NRP led to the creation of WHC. When the alliance’s board of directors was taken over by homeowners and apartment owners who did not want to see more affordable housing in their area, the alliance’s rental properties were turned over to WHC. However, much of the NRP housing funds remained with the alliance, and WHC was denied financial support for additional housing development.

**Internal Factors**

Several internal factors were identified by interviewees as contributing to WHC’s demise: insufficient funding, inadequate rehabilitation, lack of organizational capacity, board passivity, and ineffective property management.

**Insufficient Funding.** Several interviewees felt that the original underwriting of the properties for which WHC was eventually responsible was the most important contributor to the problems. The project underwriting was described by different informants as “wildly flawed,” “incredibly optimistic,” or “unreasonable.” The underwriting was said to have overestimated WHC’s ability to increase revenues by raising rents while underestimating maintenance and repair costs. The reserve accounts were also said to be grossly inadequate.

Others put more of the blame on the lack of adequate subsidies for the development and management of housing targeted to low-income households. Local subsidy providers, in an attempt to get as much housing as possible for their investments, were said to have provided the bare minimum needed to make the project financially feasible. One person commented: “CDCs are always expected to do more with less.” Another pointed to the lack of deep federal subsidy programs that would have provided the developments with a larger financial cushion.

**Inadequate Rehabilitation.** The apartment buildings purchased by the Whittier Alliance needed substantial rehabilitation. Unfortunately, subsidies that would have supported rehabilitation while maintaining the units’ affordability were not available. Thus the alliance made moderate improvements, in some cases not even replacing a building’s plumbing, heating, or other mechanical systems. Moreover, over time, the buildings, which were originally designed for small households, became inhabited by larger households with children. The alliance tried to address this by reconfiguring floor plans to create larger units. Several interviewees, however, suggested that these modifications were inadequate to accommodate the larger families. As one interviewee suggested: “The buildings are being used more intensively than they were designed for. The rehab was not adequate for the population.” There was, for example, no place for children to play other than the hallways and stairwells. Over time the buildings did not hold up well, making
them less attractive to inhabitants and fueling neighborhood criticism of building conditions.

*Lack of Organizational Capacity.* Several interviewees suggested that WHC’s failure was partly caused by the fact that its staff was small and unstable. The organization had only three staff members—an executive director, a community organizer who worked with the co-op boards, and a secretary. Moreover, the organization had three executive directors in six years, creating considerable instability.

Only the first executive director had real estate experience. The other two had backgrounds in fund raising and community organizing. The strategy was to contract for real estate expertise on an “as-needed” basis, but the lack of in-house experience may have hurt WHC’s credibility with the ISG. As suggested by one interviewee: “WHC developed a strategic plan [for stabilizing the developments] but the ISG wanted more. [WHC] could never get their trust.” Some believe, however, that some ISG members who did not see the need for WHC would never have been satisfied.

The city’s decision to leave the NRP housing funds with the alliance was the reason WHC could not attract or retain experienced executive directors, another interviewee offered. With no funding for new projects, interest in the director’s position was limited. In addition, the organization could not generate development fees to fund other staff positions.

*Board Passivity.* Some interviewees felt that the WHC board was not as active as it needed to be. One interviewee said: “The board did not have depth and [its members] did not come out to fight the battle.” The board was further criticized for not insisting on better property management and for not understanding the implications of the reports it received from WHC staff and management companies.

In defense of the board, others noted that it had little control over the organization because all major decisions had to be approved by the ISG and the National Equity Fund, in return for continued stabilization funds. At one point, for example, the ISG required WHC to hire a particular asset management company to oversee property management. However, as time went on and little progress was made in stabilizing the properties, some of the better board members were said to have become frustrated. They resigned from the board, further weakening it.

*Ineffective Property Management.* WHC, and the Whittier Alliance before it, relied on a succession of private companies to manage property. Several interviewees suggested that these companies did not adequately screen tenants. The result was that some tenants were involved with gangs, drugs, domestic abuse, and other illegal activities. One interviewee suggested: “Property management was a nightmare. The property management staff would be threatened. It’s a high risk and a costly population to house.” Property managers were also criticized for not keeping up with basic building maintenance and repairs. There was widespread agreement that it is difficult to find good management companies in Minneapolis willing to take on these types of properties.
Impacts of the Failure

In general, the impacts of the WHC demise were concern for the long-term survival of the developments as affordable housing, extra work for the first mortgage holders, and anxiety among development residents. At the time of our visit to Minneapolis, the first mortgage holders or limited partners were in the process of finding new general partners for the developments. In all but one instance, the responsibility for finding new general partners has fallen to public or nonprofit entities such as the National Equity Fund, MHFA, and MCDA. All interviewees felt confident that, at least in the short run, the units would be maintained as affordable housing rather than sold to private landlords. The fact that the developments are leasehold cooperatives provides an additional measure of security to residents, in that they would have to approve the change in general partner.

Some concern was expressed, however, about the long-term future of the developments, particularly once the tax credit financing period is completed. One interviewee suggested: “I believe that when these financial commitments are concluded, many of these buildings will be determined to be unsalvageable—having deteriorated to the point of no return—and will be replaced with some sort of homeownership plan.”

The other major impact of the WHC failure was on development residents. During the time WHC was responsible for the developments, residents had to put up with a variety of housing problems. Because of the financial problems, the units were not adequately maintained. One of the former executive directors stated: “I felt bad about being a slum landlord. We just didn’t have the funds to make the repairs.” When WHC finally decided to dissolve, the residents were said to be very anxious about being displaced. According to one interviewee, “There was fear and confusion [among residents].” The WHC community organizer reported spending a lot of time counseling anxious residents. Co-op board members also felt that they were not given sufficient notice that WHC was going out of business. It caught them by surprise; they had had little input in that decision.

Unlike the Community Development Corporation of Wisconsin’s demise, WHC’s failure was not seen as having a major impact on support for CDCs in the city. This lack of impact was explained by the fact that WHC was not a major player in the production of new affordable housing units. Rather, its focus was on stabilizing the developments it took over from the alliance. Furthermore, WHC was said to have “withered away rather than experienced a catastrophic failure.” Few people were surprised when they found out WHC was going to dissolve because the organization had struggled from its inception. Finally, although several other CDCs failed in recent years, most CDCs in Minneapolis have survived and continue to produce affordable housing.

Lessons Learned from the Failure

Those interviewed about the WHC failure were asked to identify the major lessons they learned from that experience. They were also asked to recommend a financially healthy organi-
zation similar to the Whittier Alliance for comparison. We hoped contrasts between WHC and the more successful organization would help illustrate some of the lessons learned.

The 7th Street/Fort Road Federation was recommended by several interviewees because, like the Whittier Alliance, it combines both neighborhood advocacy and housing development. The federation serves a largely working class, ethnically diverse area south of downtown St. Paul. In response to city plans to demolish the older homes in the neighborhood and replace them with apartments and commercial and industrial buildings, the federation was created in 1973 to advocate for renovating existing buildings. When the federation became a CDC in 1978 it became directly involved in development, including rehabilitating single- and multifamily housing. However, the federation has maintained its original mission as a neighborhood advocacy organization and represents the area in the city’s District Council Program. Its most recent major development project involved renovating 29 houses and building 22 town houses. In 1999 the federation had an operating budget of approximately $400,000 and a staff of three—an executive director, a community organizer, and a development assistant. Its philosophy has been to keep a small staff and contract out for services. Its funding comes from the city, LISC, and local foundations and businesses.

**Without strong neighborhood and funder support, starting a new CDC is very risky.**

As mentioned above, the creation of WHC resulted from city officials’ response to the “takeover” of the alliance’s board and its lack of interest in continuing to manage rental properties. Other than those who served on the board, neighborhood residents had very little to do with the creation or operation of WHC, and thus they had little commitment to it. Even the residents in WHC apartments were not very involved with the organization. Thus, WHC did not have a citizen base it could mobilize to help secure funding for making needed rental repairs or developing new affordable housing in the area.

Moreover, WHC never had strong support from the local funding community. Some important members of the ISG were not in favor of creating WHC in the first place. They thought the Whittier Alliance’s rental properties should have been transferred to an existing CDC. Once WHC was created, key funders continued to question the need for and capability of the organization and were unwilling to provide funding. Whether this was a wise decision or a self-fulfilling prophecy will never be known. What is clear, however, is that the lack of both citizen and funder support made it difficult for WHC to fulfill its mission and contributed to its demise.

**CDCs need a balanced portfolio of properties.**

The properties purchased by the Whittier Alliance and inherited by WHC were all problematic. They were unattractive and needed extensive rehabilitation. As one interviewee suggested, WHC “took properties when they were at the crisis state.” WHC did not have the resources or expertise to handle a portfolio entirely composed of problem properties. Moreover, the properties were located within several blocks, and when that area declined the marketability of all the properties was negatively affected. There were no successful developments whose surpluses could be used to make up losses on the unsuccessful ones.
In contrast, the 7th Street/Fort Road Federation has minimized the amount of rental housing developed in favor of single-family renovations. The federation has undertaken only two multi-family developments—a 22-unit rental and a 19-unit cooperative—and so does not have continuing responsibility for most of the housing it develops. On the other hand, the federation is providing little housing for very low income households, believing there is sufficient affordable housing in the area. Instead, it is building housing that will attract additional working-class families to the area. Moreover, compared with the Whittier area, the 7th Street/Fort Road area has not experienced the same degree of decline. Although the area has had problems, demand for housing has remained relatively strong.

**Decisive action is needed to address problems as soon as they are recognized.**

Several interviewees felt that WHC’s problems should have been dealt with sooner and more decisively. funders should have stepped in sooner, either to provide the support needed to turn the developments around, or to find other organizations to take over WHC’s responsibilities. According to one interviewee, “It was unconscionable that they let the decision drag on so long. People in the units suffered. Units were not kept up as they should have been.” Once the city decided to leave the NRP housing funds with the alliance, funders should have realized that WHC had no viable funding stream. At that point decisive action should have been taken to find alternatives rather than letting the process drag out for five years.

**CDCs that focus exclusively on producing housing for very low income households need to be careful not to lose the support of neighborhood residents.**

The housing developments taken on by the Whittier Alliance were largely targeted to very low income households. This is understandable given that the buildings acquired by the alliance were already in the area and in dire need of rehabilitation. Because the alliance focused exclusively on these properties, however, its support among some neighborhood residents declined. In particular, area homeowners did not think additional rental housing was in the best interest of the neighborhood. Arguing that it would further concentrate poverty and deterioration in the area, they took over the alliance and shut down housing production and rehabilitation in the area.

In contrast, the 7th Street/Fort Road Federation has pursued a more diverse housing strategy by rehabilitating single-family homes, developing units for the elderly, and developing a limited amount of rental units. There has been no community backlash against its developments, and the federation’s staff suggest this is due largely to its diversified approach to housing production and its efforts to maintain a healthy socioeconomic mix in the area.

**Affordable housing developments need to be adequately funded.**

A major reason for the demise of WHC was that the developments it inherited had high maintenance costs that could not be covered by rent receipts. This was largely due to the decision made when the buildings were purchased to undertake moderate rather than complete renovations. The original funders, as well as the alliance itself, were more focused on keeping costs low than on making sure the buildings held up over time. The buildings’ plumbing was a constant
source of problems, and even with renovations the buildings could not withstand the large number of child residents. As one interviewee suggested, “Funders are pushing for lower costs, as are CDCs. But we need to have a smaller number of successful units rather than a large number of failed units.”

The developments’ financial problems were also attributed to the original pro formas, which were overly optimistic; maintenance costs were underestimated while the ability to raise rents was overestimated. Optimistic assumptions were also made about the desirability of the Whittier neighborhood as a residential area and the increase in residents’ incomes. Representatives of several funders suggested that the experience with the Whittier developments caused them to become more conservative in their underwriting standards.

City officials need to have a better understanding of the impact of new programs on CDC viability.

NRP let neighborhood organizations determine how to spend funds that had been set aside to produce affordable rental housing. However, there was little support for more affordable housing among homeowners, the group most likely to participate in the planning process. One interviewee suggested: “The planning process was not inclusive. Renters and people of color were left out, and the CDCs were outside the process.” Thus funds for the production of affordable housing initially were reduced, which had a negative financial impact on many of the city’s CDCs. In later years, the city responded to this problem by stipulating that 52 percent of NRP funds be spent on housing, with a portion spent on the production of affordable housing. Clearly, before implementing new policies and programs, city officials need to better understand their eventual impact on the financial health of CDCs in their jurisdiction.

Neighboring St. Paul, where the 7th Street/Fort Road Federation is located, did not adopt a program like NRP, and the city’s long-term relationship with the federation, as well as with other CDCs, was not disrupted. Development funds continued to flow from the city government to the federation.

Tenants of affordable housing developments need social supports.

Tenants of WHC developments were said to face a variety of social problems, including drug abuse, domestic abuse, and unemployment. These problems negatively affected the developments but were beyond the responsibility and expertise of the property managers. One interviewee suggested: “There are not enough good tenants. The problem is a social problem, not a housing problem.” Support is needed to help tenants address these problems. In fact, WHC had applied for and received funds to offer social support services to residents, but the organization went out of business before the program could be implemented.
Oak Cliff Development Corporation: Organizational Downsizing

Overview

The Oak Cliff Development Corporation (OCDC) of Dallas was incorporated in 1987 to revitalize and rebuild neighborhoods. It has focused on developing homeownership projects for low- and middle-income community members. After its initial success rehabilitating one vacant house, the organization continued acquiring vacant houses and converting them into affordable homes. OCDC enjoyed steady growth as it successfully completed several development projects. It received generous support from financial and philanthropic institutions in the region and numerous honors for its developments, including the American Institute of Architects (AIA) Service Award in 1992 and a presidential proclamation for community development in 1995.

In 1993 OCDC received a major contract from the City of Dallas to administer its in-fill housing program. Over the next three years the organization continued to grow, producing more housing and devoting most of its resources to administering the in-fill housing contract. The corporation did not look for alternative projects or sources of support.

When the in-fill contract expired, the city elected not to renew it. Because OCDC was not prepared for this eventuality, it faced a severe financial crunch. In a competitive environment, OCDC was unable to find other funds to support its operations at the same capacity and was forced to downsize. It lost most of its staff and its production capacity diminished. Today, staffed full-time by only the founding executive director, OCDC continues to struggle to make a comeback.

Context

Since the mid-1980s Dallas has experienced tremendous regional growth, with an expanding economy supporting a buoyant housing market mostly in the northern part of the city and in the suburbs. The southern part of the city, which includes the Oak Cliff area, has not witnessed the same growth. Some neighborhoods in South Dallas saw continued deterioration in the housing market and depressed real estate prices for most of the 1990s. South Dallas has the largest minority concentration in the city as well as has the highest poverty rates.

In the late 1990s the housing market in South Dallas improved somewhat, with upscale housing developed close to the downtown and some adjacent neighborhoods revitalized. However, the larger South Dallas area is still neglected, with many vacant lots and dilapidated and abandoned houses.

The Oak Cliff area is south of the Trinity River and was an independent municipality until it was annexed by Dallas early in the last century. As in most of South Dallas, most people in Oak Cliff are members of minority groups. For years, most residents were African Americans, but there is
now a fast-growing Hispanic population. South Dallas is the target area for a number of community development corporations (CDCs), including OCDC.

The community development movement began later in Dallas than it did in other parts of the nation. The first active group of CDCs, which included OCDC, was formed in the late 1980s to serve South Dallas. Before that, some observers note, affordable housing was not much of an issue for local politicians, and very little encouragement was given to nonprofit activities. Today the greatest concentration of CDCs is still in this area.

After the early success of groups like OCDC, local banks and foundations increased their support for affordable housing, and as the support grew so did the number of nonprofit housing providers. Their growth and initial success, plus the attention they received, made affordable housing a local government issue.

In the past, the City of Dallas had not been very supportive of affordable housing and community development. According to many interviewees, the city was apathetic. One observer lamented: “The city is the last source to approach for financial support of a housing development. Usually public funds should be committed first to allow for leverage of private funds, and not the reverse.” However, most interviewees noted that in the past few years the City of Dallas has taken a more proactive approach and improved its commitment to community development.

CDCs in Dallas also enjoy strong support from national intermediaries like the Enterprise Foundation, whose Dallas office offers a variety of technical assistance and financial support for CDCs in the region. The foundation also played a role in Dallas’s selection as a target for the National Community Development Initiative, which provides loans and grants to a limited number of CDCs in the city, enabling them to increase their capacity.

By the mid-1990s, Dallas had over 25 active CDCs in various neighborhoods, with several more trying to start up. This rapid increase means more competition for resources. However, CDCs are becoming more sophisticated in gaining political attention and community support and in leveraging different funding sources, and more affordable housing is being produced. The North Texas Community Development Association, formed to provide a forum for member CDCs, has been active in promoting CDC work in the region and in improving relations with local and state governments.

The community development industry is growing stronger in Dallas, and even with limited resources, affordable housing production has increased. CDCs are also diversifying into economic development and social service projects. As the CDCs expand, however, more financial resources are needed. A recent proposal for a citywide initiative would provide substantial multiyear operating support for CDCs.

**History**

OCDC was incorporated in 1987 after the housing outreach program of a neighborhood Lutheran church discovered an overwhelming need for affordable housing. Despite explosive
growth in the Dallas region, inner-city neighborhoods were full of vacant lots and abandoned homes, even as the demand for affordable housing was growing. OCDC's mission was to foster community revitalization, rebuild neighborhoods, and provide affordable homeownership opportunities for low- and moderate-income families.

With some financial support from the Lutheran church, OCDC successfully rehabilitated its first house and then continued acquiring vacant houses and converting them into affordable homes. In stark neighborhoods that had had scant development for several decades, the rehabilitation and sale of once-vacant houses made an indelible impression. One former staff member recalled: “The staff of OCDC were very good at ensuring that every house it completed in the early years was of superior quality and looked great in every way. It was OCDC's work that suddenly made affordable housing an important issue in Dallas.”

OCDC quickly emerged as a leader in the affordable housing arena. In 1989 it became the first organization to close on a single-family home using the revolving loan fund of the City of Dallas. In 1990 OCDC received funding from the Enterprise Foundation to acquire and rehabilitate single-family properties. In 1991 OCDC received a generous grant from the Federal Home Loan Bank to assist 54 home buyers with closing costs. In addition, OCDC received multiyear operating support from other local and regional foundations. Throughout this time, OCDC enjoyed continuous leadership from the same executive director.

Supportive local banks provided generous operating funds in addition to access to project financing, giving OCDC financial stability and the opportunity to increase its housing production. OCDC further strengthened its relations with financial institutions by inviting their representatives to serve on its board of directors. In 1992 OCDC finished building its first new single-family houses and continued rehabilitating vacant houses. That same year OCDC was nominated by the American Bankers Association to receive its national service award and received the AIA Community Service Award.

OCDC's success did not go unnoticed by the City of Dallas, which made OCDC a partner in implementing the Home Ownership for People Everywhere (HOPE) III program and the administrator for the City's in-fill housing program. Approved in 1993, this contract, with its adequate administration fees, allowed OCDC to focus on new construction of single-family homes and hire additional staff members for the expanded services.

The following years were good for the organization, as it undertook numerous homeownership developments. In 1994 it completed 16 houses in Marshall Square, “the first major single-family development in South Dallas in 25 years,” according to OCDC documents. That year the development was voted the best real estate deal by the Dallas Journal. In 1995 OCDC received a presidential proclamation in the area of community development. The following year the organization received formal recognition from the mayor of Dallas as well as a certificate of recognition from Congress.

At its peak, OCDC had eight full-time staff members. It had completed more than 110 homes (rehabilitation and new construction) and had secured, transferred, and disposed of over 400 lots. It had also assisted in the sale of over $1.5 million in mortgages. In addition, OCDC part-
nered with builders and developers to stimulate affordable housing in South Dallas neighborhoods.

As OCDC gained recognition, its executive director was invited to join the advisory boards of several prominent banks and to provide technical assistance to other organizations. Because he was out of the OCDC office much of the time negotiating real estate deals, experienced staff members handled the day-to-day operations. However, in the mid-1990s several staff members moved on to positions at other organizations that involved more responsibility and offered greater opportunities. One became executive director of Operation Relief Center CDC. One interviewee observed that the loss of staff was the first sign of trouble at OCDC. Another person who had worked with OCDC said that the replacement staff members were not well trained and that the administration of several developments became “slow and sloppy.”

Around this time opposition arose to a planned-unit development of 112 new houses called the Independence Park Project. Unfortunately, the concerns of a segment of the neighboring community were not resolved adequately before OCDC decided to go ahead with the project. Although unable to stop the project, opponents successfully rallied their city council member, who had not been involved in this project and who brought the issue to the city council. A major debate ensued over community interests, with opponents arguing that big projects did little to stabilize neighborhoods and that “good old in-fill” should be pursued. These neighbors were apparently concerned about the impact these new homes would have on their real estate values and about the absence of community input in the project. As a result of controversy, the city council made several changes in the in-fill housing program. Proponents of the changes claim they made proposed projects more open to community wishes.

One interviewee recalled that although the discussion was about the impact of large projects on existing neighborhoods, residents’ real fear was that affordable housing would increase the minority presence in their neighborhoods. During these debates, OCDC was unfavorably seen as the big developer. After this, one person said: “The process became more political; this was the start of the end for the in-fill housing contract.”

When the in-fill housing contract expired, the city elected not to renew it, planning instead to streamline and reorganize its housing programs. As part of the strategy, the in-fill housing program was to be reorganized and merged with other programs. According to those close to OCDC, the city did not give OCDC adequate advance notice, and the organization was not prepared for this action. One person said that the sudden change in city officials’ attitude was “quite shocking.” Others said that if the organization had had better political allies, more favorable terms could have been negotiated.

OCDC decided to appeal the decision and hired legal help to make a stronger case. The bureaucratic appeal process was time consuming; entangled in it for several months, OCDC had high legal costs. One person recalls that the process further strained ties between OCDC and the city administration. After several months and a substantial depletion of resources, OCDC realized there was no point in pursuing the appeal and conceded. At this point, OCDC had to return all the property it had received for future developments. As one person put it, “The city made OCDC return all the property, only to deed most of it back to the organization . . . only it took nearly a year to return the property.”
Over the next two years OCDC tried without much success to develop several projects initiated under the in-fill housing program. Some deals were scuttled by delays caused by having to transfer the proposed sites back to the city. Other projects were stalled or abandoned because of cost overruns. Although OCDC continued to grapple with developments, housing production was severely curtailed.

A few interviewees felt that OCDC should have tried to develop new projects of a different type that would have allowed OCDC to continue earning developer fees. One person thought OCDC should not have pursued the appeals process with such intensity; instead, OCDC should have gone “where the money was, like rental housing and the rehabilitation program.”

In the years following the loss of the contract, OCDC was described as an organization frantically trying to progress on existing deals without much success. According to staff, OCDC had commitments and legal obligations to bankers and builders, and these could not be ignored. OCDC was committed to completing several projects that were under way when the contract expired. The organization’s limited resources were spent trying to resolve issues arising from existing projects, the staff pointed out, so there were not enough funds to explore new areas.

One interviewee said that with the exception of the executive director, OCDC did not have the staff capacity in the mid-1990s to undertake new projects. Another said that the organization seemed paralyzed and that the leadership was unable to motivate the staff to make an aggressive comeback.

Over the years, more than half of OCDC’s operating budget had come from the city contract, and the organization had not developed alternate funding sources. With the budget shortfall created by the loss of the contract, the legal expenses, and the subsequent holding costs, OCDC found itself depleting its limited reserves. As housing production slowed, developer fees were greatly reduced, and OCDC found itself in a severe financial crunch.

Staff members recalled that when OCDC turned to the banks, which had strongly supported the organization in its early years, it unexpectedly found a changed environment. In the mid-1990s the banking industry was undergoing a wave of mergers, which affected OCDC in many ways. First, banking officials were transferred or laid off, and the long-term networks OCDC had built up were suddenly lost. The mergers also dramatically decreased OCDC’s long-term operating support, as banks spread their support across larger service areas. The merged banks often had their headquarters in other cities, causing further erosion of their local bias. OCDC found that both the number of possible funding sources and the size of their grants had been reduced. In addition, the number of CDCs requesting grants had grown. At a time when OCDC needed more support, the banks failed to give it.

OCDC was never able to recover from this shock to its operating budget. It failed to generate enough revenues from its development projects and was unsuccessful in finding alternate sources for operating funds. As a consequence, the city took back some projects, and other deals unraveled. Unable to retain several employees, OCDC had to downsize drastically, decreasing its production capacity. Some staff members stayed on initially in part-time positions but gradually moved on. Today OCDC has one full-time employee, the executive director, and part-time help.
The executive director, who has been with OCDC from the beginning, is a respected professional in the housing industry. However, OCDC itself is hardly a major force today. The organization is exploring new areas of development and different sources of revenue, but it has not been successful in regaining its former glory. As one interviewee commented, “The organization never got back the great enthusiasm and energy it had. During the mid-1990s all the success made [it] complacent. And then [it] could not get out of [its complacency].”

Today the organization is a shadow of its former self. However, the leadership is building a board with more community representation, and board members are hopeful that the organization can rebuild itself. If a proposed initiative to provide CDCs with operating support is successful, several interviewees point out that groups like OCDC could grow again. In preparation, OCDC continues to look for potential development projects.

Factors Contributing to Downsizing

After years of steady growth and recognition, OCDC was forced to downsize drastically. Today it has only one full-time staff member and limited resources. Interviewees named several contributing factors, some external to the organization, some internal. Each factor is discussed below.

External Factors

Interviewees identified several external factors: changes in city policy, changes in political support, lack of community support, changes in the environment for local financial institutions, increased competition for resources, and a shift in the housing market.

Changes in City Policy. When the in-fill housing contract expired, the city decided to restructure the program and administer it in house, a change that greatly affected OCDC’s operations. Several programs were merged to provide more comprehensive community support, resulting in a more efficient administration, according to city staff.

This policy change was not anticipated by OCDC. In fact, the organization expected the contract to be renewed because a number of projects were under way. It would have been more expedient for OCDC to continue administering the contract. The organization was not prepared for the resulting financial shortfall. In addition, the pace of development was disrupted; OCDC had to reassign a large number of lots back to the city, including some where real estate deals were pending. Eventually, some lots were assigned back to OCDC, but the inordinate delay caused some time-sensitive deals to unravel. OCDC also incurred administration and holding costs for ongoing developments, even though it received no funds from the city after the in-fill contract expired.

Change in Political Support. OCDC enjoyed good political and financial support in its early days, but several observers pointed out that as it grew, it did not spend enough time cultivating
strong political connections. In addition, the organization planned large development projects but failed to seek strong community and political backing. The Independence Park Project is a good example. When planning the project, one interviewee recalled, OCDC did not involve the local council member. When dissenting residents brought the project to his attention, he opposed it aggressively. If the council member had supported the project, it might have been easier for OCDC to allay community concerns.

The controversy resulted in several changes to the in-fill housing program, including requirements for community notification and a community response period for all projects. The unfavorable media attention over the project and the political fallout were costly for OCDC. When it was time for the city contract to be renewed, the lack of strong city council support is said to have played a major role in the contract’s demise.

The city staff explained the loss of the contract as a strategic move to create an economy of scale for the city, but several interviewees disagreed, saying it was clearly a political move encouraged by people unhappy with OCDC. Influential community groups lobbied their council members to move against renewal of the contract. Even if the move was not entirely political, OCDC would have benefited if it had had strong political connections or a strong constituency to lobby on its behalf.

Lack of Community Support. The lack of community support was identified as a significant factor in the downsizing. One person noted that having a stronger constituency might have given OCDC greater political support when it lobbied the city council. Because OCDC operated in a large geographic area, it did not identify with any particular community. Choosing Oak Cliff as its service area was prudent when OCDC was looking for project opportunities, because the neighborhood offered many choices. However, the common perception among interviewees was that OCDC operated all over the city. One interviewee recalled that, except in its early years, OCDC did not view itself as aligned with one community and did not develop strong ties with most. He suggested that without a clear definition of community, it must have been difficult for residents to identify with the work of the nonprofit.

The OCDC board was not known for its community representation. Interviewees reported that the board had greater representation from financial institutions and real estate companies. This lack of community representation prevented OCDC from generating community support when it needed it.

Changes in the Environment for Local Financial Institutions. OCDC had strong support from local financial institutions. During its early years, the organization enjoyed uninterrupted operating support from many banks. However, this environment changed in the 1990s, when a wave of mergers reduced the number of local banks. As a result, the number of sources of possible operating funds decreased and many local contacts were lost. At the same time, there was a growing number of grant applicants. As the banks tried to reach a greater number of organizations, the size of the grants decreased. This change affected OCDC when it began looking for alternate sources of funding.

Increased Competition for Resources. Dallas, like many other cities across the nation, has experienced growth in the number of CDCs, intensifying the competition for limited resources. This
competition is particularly fierce when it comes to operating support, interviewees said. The City of Dallas offers relatively little operating support, and the number of banks that offer operating support apparently is decreasing.

City officials pointed out that the successful CDCs are the ones that can not only leverage administrative funds efficiently but also generate developer fees from different projects. One person observed that after the in-fill contract expired, OCDC found itself unable to compete effectively in a highly competitive environment.

Shift in the Housing Market. The shift toward affordable rental housing and more multifamily housing has been mentioned as a factor that affected OCDC. The shift was triggered partly by the need for affordable rental housing as well as by the availability of new resources like Low-Income Housing Tax Credits. Some point out that increased land costs made it more economical to pursue multifamily housing. It was also mentioned that for-profit developers began providing affordable opportunities for homeownership, which may have pushed nonprofit providers toward rental housing.

Until the in-fill contract expired, OCDC was single-minded in its focus on constructing new single-family homes. OCDC had ignored the housing trends and was not able to shift when its contract was not renewed and funders reduced their assistance for homeownership projects.

Internal Factors

A number of internal factors were identified by interviewees: lack of portfolio diversification, lack of financial diversification, a complacent and unrepresentative board, lack of staff capacity, and poor communication.

Lack of Portfolio Diversification. A salient characteristic of OCDC is that it specialized in one type of development, single-family housing. Initially, the organization rehabilitated existing houses, but later it only built new single-family houses. Even after the loss of the city contract, OCDC did not develop proposals for other types of housing.

The decision to focus exclusively on single-family housing was a strategic one strongly supported by the board of directors. The intent was to pursue what the organization did best and to build on its strength. However, it was also a costly decision. It has been pointed out that the board did not encourage the staff to consider other types of developments. One person said that this is a costly strategy when an organization is not largely self-sufficient, because funders can be whimsical. It was also noted that other CDCs in Dallas, unlike OCDC, used their expertise in single-family housing to diversify to multifamily housing.

Lack of Financial Diversification. OCDC’s dependence on a single source of funds for most of its operating revenue proved disastrous. The staff and board members pointed out that for a small organization the in-fill contract was a major undertaking requiring all their focus and limiting their ability to diversify by looking for other projects. Despite this limitation, many felt that the organization should have continued to look for other sources of revenue.
One observer said that by expecting the in-fill contract to be renewed, the organization may have become complacent and may not have devoted enough time and resources to looking for other projects. All interviewees agreed that overdependence on a single source of funds was a major factor in the downfall of OCDC. They also said that any organization needs several revenue sources so that it has greater stability if it loses one source.

**Complacent and Unrepresentative Board.** OCDC enjoyed the support of an apparently sophisticated board of trustees that included a number of real estate and financial professionals. One person suggested that the board may have been complacent about the future and should have responded more proactively to market trends. Another suggested that the uncertainties caused by the bank mergers may have affected board members from financial institutions, leading them to be less active on the board.

The board has been criticized for not making the needed community and political connections. Clearly, the board members did not foresee the need for other kinds of projects or sources of funding. One person pointed out that the complacency resulted from years of success and recognition and from overreliance on the staff’s judgment. According to current board members, changes have been made to ensure that the board is better balanced and has better community and political connections.

**Lack of Staff Capacity.** In its early years, OCDC built up a team of competent staff members who could manage the day-to-day operations with minimum supervision, allowing the executive director more freedom to plan the organization’s future. In addition, many of these staff members played a vital role in maintaining political and community networks.

In the early 1990s, OCDC lost several key staff, which was said to have adversely affected its performance. One person who dealt with OCDC recalled that in the final years of the in-fill contract, OCDC’s administration was characterized by delays and inefficiency. According to the interviewee, some of the negotiation delays and the subsequent loss of the contract may be attributed to “the mediocre performance of the organization toward the end of the contract.”

Another interviewee contended that the loss of key staff further weakened the organization’s political and community connections. OCDC’s political networks, which these staff members had maintained, disintegrated after the staff changed. Some interviewees suggested that the inexperience of the replacement staff contributed to OCDC’s inability to bounce back.

**Poor Communication.** Several interviewees pointed out that OCDC did not do a good job communicating with community residents and politicians. According to one interviewee, the OCDC leadership had strong relationships with the financial institutions, which explained OCDC’s success for many years in acquiring operating funds, but was always passive about cultivating political allies and building strong political networks. Although most interviewees praised the executive director for his ability to network, some observed that he had been complacent about developing political contacts.

Some interviewees remarked that OCDC did not communicate well with neighborhood residents. As both the organization and its proposed projects grew larger, observers said, OCDC
faced stronger opposition from skeptical neighbors scared of the impact on real estate values. One person added that some community residents saw OCDC as an unresponsive developer threatening the community’s stability.

**Impacts of the Downsizing**

When an experienced organization like OCDC is forced to downsize, there are many impacts on the community. Interviewees identified the following impacts: loss of a major housing provider, loss of confidence in CDCs, and stagnation of the Oak Cliff area.

**Loss of a Major Housing Provider**

OCDC was among the most productive nonprofit providers of housing in the Dallas/Fort Worth area for many years. Its downsizing greatly reduced its ability to develop housing, especially single-family homes. It has been observed that although the need for homeownership is growing in the area, the number of available homes has decreased.

One person pointed out that other organizations have taken up the slack, mitigating some of the production loss. Others strongly refuted this view, pointing out that no other group focuses exclusively on single-family housing the way OCDC did. In the Oak Cliff area the need for affordable homes is growing, but their availability was reduced after OCDC downsized. The greatest impact has been on the supply of new single-family homes for low- and moderate-income families.

**Loss of Confidence in CDCs**

There has been a certain adverse reaction on the part of lenders and financial institutions. As one person pointed out, financial institutions have been more wary of funding CDCs since one of the “stars” they supported downsized.

An observer said that the OCDC experience might have contributed to increased support for private developers and pointed to recent developments that were not targeted to low- and moderate-income residents. Subsidies for this housing in neighborhoods surrounding the business district came from the affordable housing pool, this person said; strong CDCs could prevent this by being more productive.

**Stagnation of the Oak Cliff Area**

The loss of a major affordable housing provider is said to have affected revitalization efforts in Oak Cliff. Even though other CDCs are working there, interviewees felt those CDCs had less
emphasis on affordable homeownership projects, which are thought to stabilize a neighborhood. In the past few years there have been few homeownership projects in the area, one observer suggested, adding that although housing production and real estate values were going up in other parts of the city, they were not rising—and may have even have decreased—in the Oak Cliff area.

Interviewees also pointed out that several properties given to OCDC initially under the in-fill housing contract are still vacant, while others are just being completed. The city, it was said, procrastinated and only recently began to find other developers to complete the projects. Given the growth in housing construction in other parts of the Dallas/Fort Worth area, the loss in production capacity of a nonprofit is unfortunate.

Lessons Learned from the Downsizing

Interviewees were asked to identify the key lessons learned from OCDC’s experience. In addition, through key informant interviews we identified the comparison organization, Operation Relief Community Development Corporation (ORCDC), a growing CDC that operates in the South Dallas and Fair Park areas, particularly in the Edgewood addition. The current executive director formerly worked with OCDC. ORCDC, which now oversees a wide variety of projects and services, started initially by operating a food pantry and an after-school program and summer camp for children in transitional housing. Recently, however, ORCDC completed several projects, including a 12-unit transitional housing complex and an 18-unit apartment complex for low-income residents. It has also constructed one new single-family home and renovated four others. Still in progress are two single-family homes, a 144-unit apartment complex, and a 30-unit senior citizen complex. Contrasting OCDC to ORCDC may help illustrate some lessons to be drawn from the OCDC experience.

**CDCs need to avoid relying on a single source of funds.**

CDCs need funding from a variety of sources. In its early years, OCDC received operating support from a number of different sources. This gave it stability and allowed it to grow rapidly. By the early 1990s, however, the majority of OCDC’s operational funds came from its one city contract. When the city refused to renew the contract, OCDC was unable to make up the revenue from other sources. Most interviewees identified overreliance on a single source of funds as the major factor leading to OCDC’s downsizing.

Depending on one funding source also meant that OCDC did not have to compete for other sources. It lost its competitive edge, and when it was forced to vie for funds with other organizations, it was unsuccessful. In contrast, ORCDC is known for its ability to tap into various sources to support its operations. The organization strives to generate multiple funding sources and has succeeded, earning support from the city, from banks, and from foundations. Its executive director stresses the need for finding different sources of support.
**CDCs need to diversify the types of projects undertaken.**

OCDC specialized in single-family housing for ownership by low- and moderate-income families. It began by successfully rehabilitating vacant houses but later focused mainly on new construction, an approach partly reinforced by the large contract with the City of Dallas. Some interviewees said that if the organization had diversified it could have taken advantage of the shift toward multifamily rental housing. Staff and board members interviewed acknowledged that OCDC’s narrow focus was a strategy strongly supported by the board, on the rationale that many CDCs attempt more than they can handle.

In hindsight, some felt that OCDC focused too narrowly and that overspecialization had its own severe drawbacks. If the housing market and the available funding change, an organization can be severely affected. One observer noted that CDCs always depend on funders to make their end products viable and profitable. When trends change, he said, funders tend to follow, and CDCs need to have a diverse portfolio of projects in order to take advantage of those changes.

It was suggested that having a diverse portfolio of projects helps mitigate risks by allowing organizations to take advantage of different funding sources. This also reduces an organization’s reliance on any one source and allows it to adapt to market changes. ORCDC has certainly taken this lesson to heart. Its portfolio contains rental housing for different types of populations and homeownership projects that include new construction and rehabilitation. ORCDC also offers social services for residents.

**CDCs need to develop strong political allies.**

Another lesson from the OCDC experience is the importance of having strong political allies. In the beginning, OCDC enjoyed good political support. Several people mentioned that when a local council member gave the organization strong support in its early days, there were positive benefits for OCDC. It was made a partner in implementing the HOPE III program and was chosen to administer the in-fill housing contract for three years, both in part because the organization enjoyed considerable political support.

However, in the early 1990s the political climate changed and OCDC did not reestablish its contacts. Several interviewees said that OCDC’s staff and board lacked political connections. One interviewee said that good political connections would have helped OCDC weather its financial crisis by attracting interim support. All interviewees agreed that CDCs must develop strong political allies and maintain these connections.

ORCDC is well known for its good political connections. Several people remarked on the strong political networks established by its executive director, who is also president of the North Texas Community Development Association, a consortium of CDCs in the region. This gives the organization even more visibility. ORCDC’s executive director acknowledged that much of what he learned about networking came from his days at OCDC, when he was one of the key staff responsible for maintaining good relations with city officials.
CDCs need to develop a strong community base and be sensitive to community concerns.

OCDC worked in an extensive geographic area with many communities, a strategy that helped the organization find sites for its different projects. However, the strategy did not generate strong community support, because no single neighborhood identified with OCDC. OCDC was seen as a citywide housing provider, one person emphasized, and not as a community group. One interviewee pointed out that community residents were underrepresented on the board of directors, adding to the perception that OCDC was not community based. As a result, OCDC was not able to generate strong community support when the organization lobbied city officials and politicians. Most interviewees stressed that CDCs need to develop strong community loyalty and be accountable to neighborhood residents.

Some interviewees also mentioned the need for CDCs to be sensitive to community needs and concerns. Residents commonly are suspicious and skeptical of affordable housing, and it is a challenge for CDCs to overcome their resistance. However, some have observed that when OCDC planned larger developments, it did not spend enough time talking with residents.

It is a lesson that has been taken to heart by newer CDCs in Dallas, which tend to operate mainly in specific neighborhoods even if they have projects elsewhere. ORCDC is a good example. It emphasizes the Edgewood addition even though the boundaries of its operation include the larger South Dallas/Fair Park area. Because ORCDC maintains close ties with neighborhood associations and groups and has contact with different segments of the community through its array of services, the organization enjoys strong community support.

CDCs need support from citywide organizations.

OCDC did not receive strong support from a network of organizations because such a network did not exist in Dallas at that time. Other CDCs provided tacit support, but the existence of an organized citywide network might have helped OCDC by providing a forum for exchanging information and advocating certain issues. Today the North Texas Community Development Association is trying to create such a platform.

In recent years, the City of Dallas has become much more responsive to community concerns, and city representatives and CDC staff meet regularly. Most interviewees agreed that there is more collaboration today and that more efforts are being made to create networks among different organizations and agencies in the city. Unfortunately, this was not the situation when OCDC faced adverse times; otherwise, timely intervention might have helped the ailing organization.

Cities need to be more supportive of CDCs.

The policy decision not to renew the in-fill contract greatly affected OCDC’s fortunes. This impact, although impossible to predict, could have been mitigated if the organization had received greater support after the contract expired. One person suggested that the city could have provided a transition by gradually phasing out its support. Unfortunately, the City of Dallas
did not do this. Many interviewees said that the operating support offered to CDCs by the city is inadequate and that greater support of CDCs is necessary. This includes not only financial support but also technical assistance and an environment for partnership.

**CDCs need to retain experienced, responsive staff members.**

OCDC might have been able to reposition itself if its executive director and key staff had been responsive to the changing environment. While OCDC was viable for several years after the contract expired, interviewees pointed out that it was unable to pull together a team and refocus. Some attributed this failure to the staff’s lack of experience, while others said the leadership was not able to motivate the team sufficiently. An experienced, professional team might have been able to reprogram the organization’s activities. Providing more training and offering better salaries are two possible ways to improve employee retention. Involving senior staff in a constant search for new projects is another way, interviewees suggested. To remain strong, CDCs need to retain experienced staff and provide adequate training to replacement staff.
ADVOCATE COMMUNITY DEVELOPMENT CORPORATION: ORGANIZATIONAL DOWNSIZING

Overview

Advocate Community Development Corporation (ACDC) was founded in 1968 to provide affordable housing and to revitalize the target neighborhood. The founder of the organization also served as the president of the board for more than two decades. Over the years, ACDC has completed 365 units of housing in North Philadelphia. For most of its history, the organization was recognized as a leading provider of affordable housing in the city. In addition to housing, the organization has also undertaken several job training and social service programs.

For many years, ACDC had no executive director. The board president provided leadership to both the board and the staff by also fulfilling the duties of executive director. In addition to using this unconventional staffing strategy, ACDC used consultants and contract employees to complete development projects. This strategy worked effectively for more than 20 years, and ACDC became recognized as one of Philadelphia's preeminent CDCs.

In 1996 the organization lost its charismatic founder as well as several experienced staff members. After a long period of stability, the next few years were difficult for the board and the organization. The board struggled to provide leadership and to find and retain an experienced executive director. In the next two years, five board members resigned, another eight were removed for lack of participation, and the executive director position changed hands three times.

With no leadership and a diminished staff, ACDC reduced its housing production. As development fees and operating grants shrank, operating support also decreased. The organization found it difficult to retain support from its funders. Given the loss of resources, ACDC was forced to downsize dramatically, and its production capacity decreased even more drastically.

Now, after several years of staff turnover, the organization has found stable leadership for both the staff and the board. The current executive director, a former planner, was on the board for a year and a half before taking the position. The board of directors is active and has recruited new members with specific skills that will benefit the organization. Most interviewees felt that the organization is making a recovery, and they expected ACDC to become a strong provider of affordable housing in the near future.

Context

A shift in manufacturing trends reduced the number of manufacturing jobs in Philadelphia by more than half between 1950 and 1970 (Adams et al. 1991). This economic decline devastated many inner-city neighborhoods, most of which had suffered earlier when urban renewal programs failed. In addition, between 1960 and 1990 Philadelphia lost more than 18 percent of its
population. North Philadelphia was especially hard hit: By 1990 it had lost 40 percent of its 1960 population, with some working-class neighborhoods shrinking by more than half.

ACDC operates in lower North Philadelphia, adjacent to Temple University. Devastated by failed urban renewal programs and economic decline, the neighborhoods in this area suffer from a concentration of poverty, an abundance of vacant structures, and growing social problems. There is a widely held perception, acknowledged by a concept plan, that these neighborhoods are blighted and undesirable places to live (Advocate Community Development Corporation 2000). As the plan also points out, there are many areas that have low crime rates and are home to middle-class and professional African-American families, areas whose rich architectural heritage is a great potential asset waiting to be developed. ACDC’s area has the great advantage of being adjacent to Temple University, which is seen as a potential partner in the revitalization efforts, many of which are being spearheaded by ACDC.

In other Philadelphia neighborhoods, similar community development corporations (CDCs) are trying to jump-start revitalization efforts. About 65 CDCs currently operate in Philadelphia, a city with a long history of CDC activity, but only a few develop projects annually (Shatkin 1998). Most CDCs in the city produce housing, although a large number are actively involved in commercial and economic development. North Philadelphia enjoys the city’s greatest concentration of CDCs. One interviewee felt that there may be too many CDCs in the city and that a certain amount of consolidation is necessary.

The support network for Philadelphia’s CDCs is strong, with a number of key agencies playing major roles. The city’s Office of Housing and Community Development works closely with CDCs, providing technical assistance and financial support, but not core operating support, for projects. The city’s Redevelopment Authority also works with CDCs. It controls the land acquisition process and is responsible for development plans and construction management.

The Philadelphia Neighborhood Development Collaborative (PNDC) and the Philadelphia Plan are two initiatives that provide operating support to the city’s major CDCs. PNDC pools financial support from a number of foundations and other sources to provide operating funds to about 16 Philadelphia CDCs. In addition, PNDC provides technical assistance to CDCs. The Philadelphia Plan pairs CDCs with corporate partners that provide operating support and technical assistance to CDCs in return for generous state tax credits. There is a large overlap in the organizations supported by PNDC and the Philadelphia Plan, allowing these fortunate CDCs to be more productive and to increase their capacity. A third initiative, the Targeted Neighborhood Initiative, funds four CDCs in targeted areas of the city.

Philadelphia CDCs have enjoyed the support of several foundations, including the William Penn Foundation and the Annie E. Casey Foundation, and have received project support and technical assistance from intermediaries like the Local Initiatives Support Corporation. The Philadelphia Association of Community Development Corporations provides advocacy and networking opportunities for member CDCs.

According to interviewees, the funding agencies and the city work closely with each other and there is good communication among them. The support network works well for successful
CDCs but may prevent smaller organizations from receiving support. A person familiar with the CDC network in other cities observed that Philadelphia has a well-developed CDC support infrastructure.

**History**

ACDC, one of the oldest CDCs in the city, was founded in 1968 by a member of a church-based parents’ group who became concerned about housing issues when a fellow member had difficulty finding affordable housing for her family. She served as president of ACDC’s board of directors from its founding until 1996, and her husband, the rector of the Church of the Advocate, was a board member until 1999.

Although ACDC has offered several social service and job training programs, since its inception housing development has been its main activity. ACDC has built or refurbished over 365 units in North Philadelphia, in the south-central area bounded by York and Broad Streets, Montgomery Avenue, and Van Pelt Street. Over the past three decades, ACDC has been the key developer of affordable housing in this area.

ACDC completed its first project, on Page Street, in 1971. In addition to providing 15 new homes for families on welfare, the project trained future occupants in home maintenance skills. Following the success of this project, ACDC undertook the Susquehanna Avenue Study, developed a number of education and job training programs, and helped create a master plan for Diamond Street that resulted in more Community Development Block Grant money being spent in the ACDC neighborhood.

During its second decade (1978–87), ACDC undertook larger housing projects. Among its major projects was the rehabilitation of 25 town houses, which were sold to low- and moderate-income buyers. The large town houses were split into two units and sold to one buyer, who could then rent out one unit, thus building equity and income at the same time. The Diamond Park I and II projects created 48 units for people with physical disabilities. Completed in 1986 after years of negotiation with the U.S. Department of Housing and Urban Development over the financial and design proposals, the project received many accolades and was featured in Architectural Record. ACDC was also instrumental in the designation of Diamond Street as a historic district, the city’s first. With the designation, historic buildings in the district became eligible for tax credits.

In its third decade, ACDC continued developing housing, including the Eleanor Miller Memorial Homes, 20 new houses for home buyers. In the early 1990s ACDC began developing rental housing. Using the Low-Income Housing Tax Credit program, ACDC completed Dorothy Lovell Gardens, a 25-unit project, and Gratz Common, a 39-unit development. The organization also rehabilitated 12 buildings and 17 new houses, both on Diamond Street. Over the years, ACDC received widespread recognition for its work in affordable housing and respect from its funders. When the Philadelphia Plan and PNDC funding initiatives were implemented, ACDC was among the few CDCs that received support from both.
According to many interviewees, the organization’s success was due largely to decades of inspired leadership by its president, who resigned at the end of 1996 for health reasons. She had spearheaded the growth of the organization from its inception. Although she was president of the board, she worked at the ACDC office for longer hours than the full-time staff, one person pointed out, and was recognized as the de facto executive director of the nonprofit. According to ACDC documents, the organization did not have an executive director between 1970 and 1992; after that time, ACDC’s executive director served more as project manager for the developments, one person observed.

Throughout its history, ACDC maintained a small full-time staff and hired consultants and contract employees to complete development projects and perform administrative functions like bookkeeping. This allowed ACDC to cut costs. At its peak the organization had five employees and several consultants, a strategy that served the organization well for most of its history.

In spite of its unconventional staffing, with its strong leadership ACDC was extremely successful and was recognized as a leader in the city, according to many. All interviewees praised the leadership and networking abilities of its founding president. Her ability to generate resources for projects and support for the organization was described as remarkable. As one person put it, “She was able to articulate the vision. Once she saw the need for a particular project, she then pursued it relentlessly. She would strive to pull together all the resources necessary to get the project done.” During her tenure, ACDC was able to generate adequate funds from numerous foundations and city and state initiatives to support its operations and projects.

ACDC began to face challenges in the early 1990s, when its board president began to have health problems and could no longer devote the same energy and time to ACDC’s day-to-day operations. Although she continued as president for several more years, she resigned in 1996. For several years before her retirement, the organization had been aware of her intention to retire and had tried to prepare for it. Without her constant presence, ACDC needed to rely on others, but the existing staff did not have the experience to manage the organization, according to many interviewees.

Because it had depended largely on consultants and contract employees, ACDC did not have adequate staff to operate smoothly after this president resigned. In addition, the scope of ACDC’s projects had become more complex and demanded professional management and experienced project managers, which the organization did not have. In 1992, ACDC selected a longtime employee as the executive director. However, some interviewees believed he was unable to provide the independent leadership the organization required. One person said he functioned as a titular head and continued to perform as a project manager.

According to one board member, during this period the board faced three major issues without the effective leadership of its charismatic president: (1) the inability of some board members to take an active leadership role, give direction to the organization, and continue networking with other agencies; (2) the board’s inability to retain competent staff to manage ACDC’s administration and developments; and (3) the problem of diminishing funds and operating resources. According to one interviewee, “the board was filled with people with admiration” for the board president and with ties to the neighboring Church of the Advocate and the local community.
However, the interviewee said, board members lacked the skills and experience in the way the organization worked and in the development process. Another person from outside the organization had the impression that the board was passive and lacked the training necessary to lead the organization. The board members struggled to provide leadership and support for ongoing initiatives. According to one interviewee, the passive board found it difficult to handle development and fund-raising problems.

In preparation for the president’s retirement, the board elected a co-chair to work with the president in the transition. In addition, as a sign of respect for the founder, the board retired the title of president and changed the position name to chairperson of the board. Other than the election of a co-chair, however, board members interviewed could not recall any other preparations during the final year of the transition. Even if there had been other transition plans, there would have been no time to implement them because health issues accelerated the president’s departure.

After the founding director’s departure, the board continued to struggle. In the next two years, when the support of board members was needed most, five resigned and eight were removed for lack of participation. With the board diminished, ACDC’s problems with housing developments, repeated executive searches, and loss of funding proved overwhelming, according to several interviewees.

After more than a year of struggle, the board’s leadership changed again and the current chairperson was elected. Taking over the leadership following the departure of the founding president has involved “a very great learning curve” for herself and the entire board, she admitted. They have had to learn a lot in the past few years, but at present, she feels, the board is more actively providing direction for the organization.

ACDC also lost several experienced staff members, including the titular executive director, which greatly decreased its capacity. In addition, the staff did not have a well-defined plan of operation. The organization, one person observed, had been run like a “mom and pop business with everything revolving around the president,” and without the president’s constant direction, staff were somewhat at sea.

The problem of attracting and retaining a stable staff has been a challenge for ACDC. After losing its titular executive director ACDC hired a new executive director, a strong project manager who had to deal with several problems. He spent most of his time resolving issues arising from housing projects. The worst crisis, he recalled, involved the rental housing projects, which suffered from inadequate reserves and poor management. Once the projects were stabilized, he moved on; in keeping with past practice, the board had retained him on only a temporary basis.

Following his departure, a consultant was hired with the help of a funder to conduct an executive search, but little was done, he recalled, to address the need for a strong staff. Several interviewees complained that the search for a new director was completed without the necessary diligence; the successful candidate was from out of town and never suited the organization. Within a few months he resigned, and ACDC was again without staff leadership.
The rapid change in staff made the board uneasy and, according to one person, created much internal turmoil. For a while, a committee of the board tried to run the organization. Some funders considered this extremely unprofessional, and some even withheld funds from the organization. As a result of conflict and changes, one person recalled, ACDC was paralyzed and very little housing was produced during these months. Several remaining staff members left because of uncertainty or were let go because of lack of funds.

By the mid-1990s, several ongoing developments were slowed or stalled and a major construction project was started and then stopped because of insufficient funds. This created a major eyesore in the community and further reinforced the perception that the organization was failing. As housing production slowed, relations with funding agencies deteriorated. ACDC no longer enjoyed a competitive edge and failed to compete for funding opportunities. One person believed that the organization’s staff troubles led to poor communication and distrust between ACDC and its corporate partner under the Philadelphia Plan, and that the partner did not want to be associated with what it felt was a “sinking ship.” When ACDC’s corporate partner withheld operating support and eventually withdrew from the partnership, another major source of operating support was lost and ACDC was forced to continue downsizing.

The current board chair recalls that she was elected “in the middle of all this craziness.” Having been both a community resident and a board member for a long time, she was determined to make a go of it. She started rebuilding connections with key funders and asking them for assistance in recruiting a new executive director. One interviewee from a funding agency recalled that he was impressed with the new board leadership and thus motivated to enlist representatives of other agencies to assist ACDC.

These efforts were spearheaded by PNDC, whose executive director recalled that representatives of several concerned agencies met with some ACDC board members to develop a plan of action. PNDC agreed to release adequate funds to support a new executive director, and a consultant was hired. Within a short time, according to interviewees, an able candidate was found and recruited with the support of some funders. Interviewees from outside organizations recall that there was renewed hope that ACDC would grow again. The new executive director managed to obtain enough resources to complete a long-stalled housing development, and the process of restructuring the board was started. Ironically, however, her tenure at ACDC was abruptly cut short when she experienced a major health problem.

By this time, ACDC had lost nearly all its staff, but with the development projects completed, one interviewee stated, the board felt more in charge and began its own executive search. In the end the board selected one of its own, a planner who had served on the board for a year and a half, for the position.

The organization is now making a comeback. A concept plan has been developed to guide the organization; a consultant has been hired to put together a financial and staffing plan; and for the first time, as one person commented, ACDC has both staff and board leadership. One funder said he was encouraged that ACDC had made great progress in the past year in seeking and receiving support from many different organizations. In addition, the board is making plans for new fund-raising efforts with definite goals and strategies.
ACDC continues its steady progress, albeit as a much smaller organization. It has outlined a strategy to expand its capacity by hiring additional employees. It is actively inviting new board members with specialized skills and strong networks to further strengthen the board. It is exploring partnerships with Temple University and a for-profit builder, among others, according to its current executive director, to promote collaboration and build on mutual strength. Several interviewees expressed the hope that with ACDC spearheading the efforts, the neighborhood’s revitalization would regain momentum.

Factors Contributing to Downsizing

According to interviewees, the downsizing of ACDC was the result of a number of factors, some external and some internal. The factors are discussed below.

External Factors

The external factors identified by interviewees were a competitive environment, ineffective partnerships, lack of input on consultants’ recommendations, and a shortage of experienced personnel for CDCs.

Competitive Environment. Over the years there has been steady growth in the number of CDCs in Philadelphia. Given the limited resources available for these organizations, competition among them has increased greatly. In its early years, ACDC was considered one of the city’s stronger CDCs and received operating support from several initiatives, including the Philadelphia Plan and PNDC.

During the 1990s, however, with unstable leadership and limited staff, ACDC was not able to produce enough housing to keep up with the city’s more productive CDCs. Given the changes in its organization, ACDC was unable to compete successfully for subsequent rounds of funding in which it previously had participated, several interviewees pointed out. The reduced operating support forced ACDC to downsize.

Ineffective Partnerships. Under the Philadelphia Plan a CDC was partnered with a major corporation in the state. The CDC received technical assistance as well as operating and project support, and the corporate partner received generous state tax credit benefits. ACDC’s partner was a bank that has since been acquired by another bank. It was not a supportive partnership, and the relationship did not go beyond the financial benefits.

Several interviewees said that ACDC needed advice about organizational management and assistance in staff recruitment, and a large corporation presumably would have strong experience in these areas. However, with an ineffective partnership, ACDC failed to receive technical assistance and guidance. Most interviewees saw this as a great loss of opportunity.
Some pointed out that during the changes at ACDC, the communication between ACDC and its corporate partner broke down, and misunderstandings ensued on several issues. Perceiving ACDC as delinquent on its commitments, according to one person, the corporate partner initially withheld funds and eventually backed out of the partnership altogether. This added to ACDC’s financial woes.

**Lack of Input on Consultants’ Recommendations.** One interviewee said that in the recent past, funding agencies provided funds to ACDC on the condition that ACDC agree to specific recommendations made by consultants. On several occasions, the interviewee observed, consultants made unilateral decisions that did not reflect the wishes of the board. This observer faulted funders for not requiring consultants to work closely with the board and for accepting the consultants’ recommendations without board input. This situation may have resulted in recommendations that were not in ACDC’s best interests.

One interviewee identified the selection of an executive director as an area where a consultant’s recommendation may have been too hasty. Although some board members objected to the recommendation, they were not heeded, this person pointed out. These dissenting opinions were not voiced loudly because members feared an appearance of dissent might cause funds to be withheld. These fears could have been resolved easily, one person said, if there had been better communication between the board and funders.

**Shortage of Experienced Personnel for CDCs.** Most interviewees commented on the difficulty of finding experienced leadership for a CDC. Someone with the experience and knowledge required to be a CDC’s executive director can usually command a much greater salary in the for-profit sector. One person who works with many CDCs said that given CDCs’ low salaries, it is difficult to attract experienced personnel. Most CDCs have to either train their staff or recruit a board member, he said. The shortage in capable personnel is a chronic problem for many CDCs—one that hurt ACDC. The current executive director, who had served on the board for several months prior to taking the position, said one factor in accepting the job was the noticeable shortage of experienced applicants.

**Internal Factors**

Interviewees mentioned a number of internal factors that led to ACDC’s downsizing: loss of charismatic leadership, board inexperience, lack of staff leadership, lack of staff capacity, lack of funds, and poor communication.

**Loss of Charismatic Leadership.** The loss of a strong and dynamic leader who founded an organization and then guided it effectively for decades is bound to disrupt the organization. One person pointed out that long periods of successful leadership can lead to complacency, which is difficult to shake off easily. With the resignation of its president, ACDC effectively lost both the leader of its board and its chief executive officer.

One board member interviewed recalled that every board member greatly admired the president and readily acquiesced to her directions. Not accustomed to acting independently, the
board found it difficult to change its passive nature even after the president resigned. Concurrently, ACDC was deprived of staff leadership as well, because it had existed for over two decades without an executive director, the president having also functioned in that capacity. One person observed that the combined loss of leadership at both the staff and board level was the single most important factor in ACDC’s downsizing.

**Board Inexperience.** Having enjoyed uninterrupted leadership for decades, ACDC’s board had evolved into a passive policy-making group. One interviewee commented that the board had community members but few people with development or management experience. Under the founding president, this person noted, board members were not required to demonstrate innovative leadership and board development was not a priority.

When its longtime leader departed, the board needed to transform itself from a policy-making body to a hands-on body actively providing leadership and undertaking certain necessary administrative functions. According to several interviewees, the management and development capacity to make this transformation was absent. It has been observed that the inexperienced board was particularly unable to take charge of fund-raising and maintaining good relations with outside agencies. Despite considerable time commitments from board members, the organization’s needs were too great. One person commented that ACDC was fortunate to have had board members and chairpersons who could devote time to the organization but that these people could not perform the day-to-day duties that could, and should, be handled by experienced staff.

**Lack of Staff Leadership.** The absence of experienced staff leadership was seen as a critical factor in the organization’s troubles. One person pointed out that when the president was no longer able to oversee the CDC’s administration, strong staff leadership might have been able to fill the void and keep things running smoothly. Between 1970 and 1992, when ACDC functioned without an executive director, a project consultant served as ACDC’s development staff. According to one person, even after accepting the position of executive director, the consultant’s role as project manager did not change. After two years in this position, he resigned shortly before the president left the organization.

Having a board president act as executive director for so many years was criticized by a few interviewees, who felt the strategy created an organization without staff leadership. They also felt that in the long run the lack of capacity was far more expensive for ACDC than what had been saved by not paying an executive director’s salary all those years. The organization has had four executive directors in five years. However, most interviewees said they are happy that in the last two years ACDC has found stable staff leadership, and they see the prospect of growth again.

**Lack of Staff Capacity.** Several interviewees suggested that the lack of staff capacity was a major shortcoming for ACDC. ACDC had a strategy of hiring consultants and contract employees to manage most of its developments, but some interviewees strongly disagreed with this approach, arguing that it did not allow ACDC to develop in-house staff capacity and that the short-term savings did not pay off in the long term.

Some pointed out that problems with the rental housing projects could have been avoided if ACDC had employed experienced project managers. Unfortunately, the contract employee who
helped develop the project had moved on to other employment by the time problems surfaced and the less experienced staff had difficulty overseeing the property. One person also observed that by the 1990s, real estate deals had become more complex and required more in-house development capacity. Some interviewees noted that the absence of in-house staff capacity cost ACDC dearly because for most of the past decade it had been unable to continue producing housing at a steady pace, which affected its ability to earn developer fees and continue its operations. One CDC director who was interviewed noted that an economical strategy for CDCs is to develop in-house capacity while hiring consultants to oversee ongoing projects. ACDC leadership, however, did not follow this strategy.

**Lack of Funds.** During most of its history, ACDC enjoyed operating support from several city and state initiatives, including significant operating support from the Philadelphia Plan and PNDC in the 1990s. During the mid-1990s, when the organization was in turmoil over leadership issues, ACDC gradually lost this support. ACDC needed additional financial support from its funders, some interviewees observed, and several people particularly regretted the loss of funds from its corporate partner in the Philadelphia Plan. These funds would have allowed ACDC to attract more experienced staff and get back on track much faster, they observed. Without the resources to support its operations, ACDC had to downsize, which reduced its capacity to produce housing. As one interviewee pointed out, the lack of operating support also forced ACDC to spend considerable resources on fund raising, resources that would have been better spent on producing affordable housing.

**Poor Communication.** A few interviewees felt that poor communication was an important factor in ACDC’s adverse experience. For example, they said, the board never discussed the organization’s problems with its funding partners, although early communication and a more proactive approach might have resulted in continued support from funders. Another person said that ACDC should have been more candid in the early 1990s and asked for more technical assistance from funding agencies to develop staff and train the board. One person speculated that better communication with funders might have resolved many issues earlier.

**Impacts of the Downsizing**

ACDC’s downsizing affected the community in a number of ways. Interviewees identified the following impacts: slowdown in Diamond Street corridor revitalization, reduced confidence in CDCs, loss of affordable housing production in North Philadelphia, deterioration of housing stock, and weakened community voice in political issues.

**Slowdown in Diamond Street Corridor Revitalization**

In the past two decades, ACDC has focused on the Diamond Street corridor, rehabilitating and building many housing units and giving the area hope for revitalization. ACDC’s recent problems slowed down housing production, adversely affecting revitalization efforts in the Diamond Street corridor and the neighboring area. No other organization took up the slack.
The slowdown occurred just when nearby Temple University was trying to develop several projects in the neighborhood. One person notes that ACDC could have used this opportunity to create partnerships that would benefit the neighborhood through new construction. However, ACDC could not capitalize on Temple’s expansion plans because the organization was not strong enough to leverage those developments. ACDC leadership is currently developing partnerships with Temple University.

**Reduced Confidence in CDCs**

The downsizing of ACDC and the problems of several other CDCs, including one prominent CDC that went out of business, have affected the climate for all Philadelphia CDCs. One interviewee noted that financial institutions are closely reviewing the development deals of other CDCs, which may slow down the approval process. Funders are taking a closer look at their member organizations and attempting to ensure some sort of early intervention when problems arise, which may affect small organizations seeking operating and project funds. One interviewee said that the experiences of groups like ACDC have made some politicians and policy makers wary, although the recent success and growth of other CDCs have apparently mitigated that effect. However, the adverse experiences of some CDCs have certainly raised concerns about the CDC model.

**Loss of Affordable Housing Production in North Philadelphia**

The slowdown in production by ACDC was seen by one neighborhood resident as a major blow to affordable housing in the immediate area as well as in North Philadelphia. Several interviewees agreed that because of ACDC’s housing production, the immediate vicinity around Diamond Street had stabilized. Ongoing production had been expected, but as the production of affordable housing has dropped over the past few years, this expectation has been lost. According to one person, developers who had been interested in the area moved on to other areas as production decreased. Another person said that affordable housing production tends to build on growth in neighboring areas and falter in similar fashion. A slowdown in ACDC’s production means that “the entire housing scene of North Philadelphia has suffered.”

**Deterioration of Housing Stock**

ACDC’s revitalization plans included rehabilitating many buildings that were vacant and needed major repairs. One problem with vacant housing is that after a certain level of deterioration it becomes too expensive to rehabilitate, adding to the development burden. In many cases the costs of demolition and new construction are so prohibitive that owners simply let the buildings stand until the houses are demolished by the city as a health hazard. Over the past few years, some of the housing stock in the Diamond Street corridor has deteriorated to such an extent that what once would have been sound rehabilitation projects may now have to be demolished. The temporary setbacks experienced by ACDC possibly changed the future of some houses in the neighborhood.
Weakened Community Voice in Political Issues

ACDC has been recognized as a leading voice for the community. In 1986 it was instrumental in achieving a historic designation for the Diamond Street corridor, the first in Philadelphia, and it has been an active proponent of several community issues since then. In the wake of its recent downsizing, the community lost some of its ability to voice concerns and be noticed. The realization that ACDC could not take care of all the community's housing concerns made a major impact on the community, one resident said. In recent years there has been a push to demolish vacant structures, the resident pointed out, even if they were historically significant. A strong ACDC might have been able to prevent their demolition. At present, ACDC staff are actively presenting the community concerns on this issue to the local administration and other relevant agencies.

Lessons Learned from the Downsizing

All interviewees were asked to identify lessons learned from ACDC's downsizing. To provide a better understanding of some of the key lessons, we identified a financially healthy, mature CDC in Philadelphia, Greater Germantown Housing Development Corporation (GGHDC), as a comparison organization. Formed in 1977 to serve the Germantown area, GGHDC is a leading producer of housing among CDCs in the city, having produced 146 units for homeownership and 422 rental units. It has also developed over 75,000 square feet of commercial space. It is a mature organization with 26 employees and one of the largest operating budgets of all CDCs. Although GGHDC's board and staff leadership has changed, the transitions have been smooth. Comparing the organizations may help illustrate the lessons to be learned from ACDC's downsizing.

**CDCs need active boards with management and professional skills in addition to community representation.**

It has been observed that the ACDC board, in addition to being passive, was strong in community representation but weak in necessary development and management skills. Board development was not a high priority for ACDC under its founding president. As a result, the board was unable to provide the necessary effective leadership after it lost its longtime leader. It has been suggested that the leadership should have ensured that the board include some members with strong management and real estate development experience. The GGHDC board has always maintained a good balance of professional and management skills in addition to community representation. According to one funding agency, the GGHDC board is a strong body with the necessary skills to effectively set policy for this active organization. CDCs should strive to maintain a strong, active board, whether or not they have a charismatic leader. In recent years, ACDC has attempted to enhance its board by adding new members with the necessary professional and management skills.
CDCs need strong, professional staff leadership.

ACDC enjoyed the same strong leadership on both the board and staff for several decades. This worked well at first, but the organization became vulnerable and weak when the leader could no longer give the organization the same energy and time; when she retired, ACDC lost both its staff and board leadership. Many interviewees suggested that this had been a costly strategy for the organization. GGHDC has had the fortune to enjoy both strong staff leadership and good board leadership, which has contributed greatly to its success, an interviewee said. During transitions at one level, the other level enjoyed committed leadership, providing uninterrupted stability for the CDC.

This has not been the case with ACDC. Since 1994 ACDC has struggled to find the right leadership. In one instance, with the help of other agencies, ACDC seemed to have found a good leader, only to lose her because she had health problems. However, within the last two years ACDC has found strong staff leadership and enjoyed continued board leadership. Many interviewees expressed optimism that the organization would make a comeback, and all interviewees stressed the importance of staff leadership.

CDCs need to build in-house capacity for development and leadership.

ACDC effectively used consultants to complete development projects and contract employees instead of full-time staff members, a strategy that may have been cost-effective when the organization enjoyed experienced leadership. In theory, this allowed the organization to tap necessary skills without having the burden of unnecessary overhead. The problem was that the organization never built up in-house capacity. By contrast, developing in-house staff is an important focus for GGHDC, according to its executive director, who believes CDCs cannot afford to hire very experienced staff. With hands-on training a CDC can develop in-house staff capacity as a viable alternative; GGHDC provides staff training in order to increase its capacity to manage development projects. Believing that a CDC should take advantage of the knowledge of consultants working on projects, the executive director also requires consultants to provide some staff training as part of their contract.

Funders need to ensure that consultants work closely with CDCs.

Several interviewees observed that during ACDC’s troubled times, different agencies assisted the organization by hiring consultants to provide technical assistance. Some of these consultants did not work closely with ACDC’s board or staff. According to board members interviewed, at times consultants’ recommendations were implemented even though the board or staff objected. One board member admitted that the perception that funding would be in jeopardy stopped him from voicing his dissent forcefully. Funders need to work closely with an organization to dispel such misperceptions. It was also recommended that consultants be required to work with an organization, presenting their recommendations to the organization before submitting them to funding agencies. The representative of a funding organization agreed with this lesson and emphasized the need to provide adequate guidance to consultants and to require them to include organization members in the process.
CDCs need to develop effective partnerships with other organizations.

As part of the Philadelphia Plan, ACDC was paired with a corporate partner, a large financial institution that has since merged with another entity. Both partners received financial benefits, and the nonprofit was expected to receive management advice. When ACDC needed technical and management skills, however, it received none from its partner. This ineffective relationship culminated when the partner terminated its financial support for ACDC.

The need for CDCs to build effective partnerships was stressed by many interviewees. Some pointed out that good partners can provide much-needed technical and management support to CDCs, which tend to be limited in their management capacity. One person stressed that just because a partnership exists does not mean partners are working together well; a good working relationship needs to be built over time with trust and patience. According to this person, ACDC and its corporate partner did not spend adequate time building their relationship.

In contrast, GGHDC and its corporate partner, also a financial institution, are seen as a model for partnerships. According to interviewees, there is more to the partnership than mutual financial benefits; the corporate partner provides GGHDC technical assistance and has helped strengthen its management systems. One person said that when CDCs build effective partnerships with different agencies, "the benefits extend beyond the realm of financial assistance and can greatly strengthen an organization."

CDCs need more capacity building.

The need for CDCs to build capacity was mentioned by most interviewees. ACDC found that it had greatly diminished capacity once the leader of the organization left, and this reduced capacity prevented the CDC from producing a significant number of housing units. ACDC also found that for a long while it was unable to attract anyone with the required expertise and management to lead the organization. Funders need to stress capacity building for CDCs and provide the resources to undertake the process.

CDCs need to plan for changes in leadership.

ACDC did not have an adequate plan that prepared it for the eventual change in leadership, so both the staff and the board found themselves at a loss. Even when the health of the president deteriorated, the organization failed to take aggressive remedial steps and develop an action plan. It has been observed that ACDC could have asked funders to provide the resources to develop such a plan. When GGHDC underwent a transition several years ago, it received assistance in strategic planning and organizational assessment from PNDC. This helped the organization maintain focus during the transition (Shatkin 1998). The current executive director served on the GGHDC board before being appointed director, and this helped the organization make a smooth transition. While the staff were in transition, the board leadership was strong and experienced. In this manner, this CDC successfully negotiated changes in leadership.
Funding agencies, including cities, need to prompt CDCs to prepare transition plans.

As described above, like many other small organizations, ACDC did not have adequate transition plans. One interviewee pointed out that small businesses like ACDC tend to get caught up in day-to-day operations and find no time to make the necessary transition plans. Having a small staff, limited resources, and demanding routines makes transition plans a low priority. This lack of preparation can be costly. Some observed that a CDC would take time to make transition plans only if funding agencies required it to do so. It was recommended that funders strongly encourage CDCs to provide transition plans.
ALBINA COMMUNITY DEVELOPMENT CORPORATION: ORGANIZATIONAL MERGER

Overview

Portland, OR, has experienced enormous growth in land and housing costs over the past decade. After a period in the late 1980s and early 1990s when the city and funders supported the creation and expansion of community development corporations (CDCs), market changes and funding constraints in the late 1990s made it harder for CDCs to remain viable. There was general recognition that their operations needed to be streamlined.

In late 1998 representatives of the city and funders met to acknowledge the market changes, the increasingly challenging climate for CDCs, and their desire to reduce the level of operating support for these groups. The five CDCs in the Northeast section were asked to come up with their own solution for how they could work more efficiently; they were not explicitly asked to merge. Over the following months, and for a variety of reasons, only three groups remained in the discussions, and then one of those went out of business. The final two groups, Sabin Community Development Corporation and Housing Our Families (HOF), were on the verge of joining together to become a single organization at the time of the interviews. Within a few months, however, another group, Franciscan Enterprise, rejoined the merger discussions. All three groups were slated to merge into a single organization on July 1, 2001. However, at the last minute, the membership of Sabin voted not to join in the merger. The new organization resulting from the merger of HOF and Franciscan Enterprise is known as Albina Community Development Corporation. It is not known whether Sabin will decide to join the newly merged organization at some point in the future.

Before the CDCs were asked to work together to improve productivity and efficiency, the CDCs had had some interactions, yet the merger discussions were difficult and tense. Moreover, although the CDCs involved could see the logic of a merger, they agreed that it would not have happened without the explicit directives from the city and funders.

Context

The Northeast section of Portland has the largest concentration of African Americans in Oregon and is one of the city’s poorest sections. There is substantial unemployment, homelessness, and drug and alcohol abuse among the residents. However, interviewees reported that the neighborhood has been improving and is very different now than when the CDCs were formed in the late 1980s and early 1990s. At that time, the area was quite blighted, with many vacant, tax-foreclosed, and boarded-up buildings. The city’s response was to create a community development industry. There has been a dramatic reduction in the number of distressed properties in the area as the CDCs have found good development opportunities throughout the neighbor-
hood and as market forces have improved. Now, inexpensive land and buildings are scarce or nonexistent, and real estate speculation has resulted in huge profits for some. The changes in Portland over the past 10 years were summed up by one interviewee: “The 1980s were a depressed period in Portland. In 1991 there were more than 2,000 vacant and abandoned properties, predominantly in the Northeast section of town. Now there are probably not five houses that are vacant and abandoned.”

In 1990 the population of the Northeast area was nearly 40,000, and about 70 percent of them were African American. Today the population is 40 to 50 percent African American and about 10 percent Latino; the remaining residents are Caucasian. There has been considerable upgrading of residential properties, predominantly single-family residences. Rental units are generally in fairly small buildings; many have only one or two units, while some have as many as eight to ten units.

At the present time, the Northeast section has both significant poverty as well as a growing NIMBY (“not in my backyard”) attitude. CDCs were once seen as saviors of poor neighborhoods, but now their projects are consistently opposed. As gentrification has taken hold, the housing development agenda of CDCs has increasingly come under criticism. For example, one Northeast neighborhood association opposes the construction of more low-rent housing in the area because its members apparently believe there has been drug dealing in some HOF units. Interviewees reported that HOF had been in the middle of a controversy about the type of future development desired by neighborhood residents. One person commented that HOF was having “a terrible time with the larger community.” Some of HOF’s problems might have been related to difficulties managing properties, noted above, but the person explained: “Now we have a different community. Now we have a Starbucks and gentrification. In 1991 the goal was to get rid of boarded up property; now it’s ‘We don’t want rehabbed property because we don’t want renters.’” Some community members would like more homeowner associations; the community voice is split.

The region’s highly acclaimed growth management policy and land use laws appear to have had some unintended negative consequences for Portland’s poorer neighborhoods. These measures have channeled money into the city and have been a boon for revitalization and neighborhood development, but gentrification and displacement are now real issues. As one person observed, “It is the peril of progress; the challenge is how to make sure neighborhoods stay available to everyone.”

The city would like to see the CDCs in the Northeast positioned to take advantage of some $200 million earmarked for that neighborhood, which will be generated from a tax-increment financing plan in what is known as the Interstate Urban Renewal District. It is anticipated that this project, which will include a light rail line north of the city, will buffer the gentrification and stabilize the neighborhood. However, there is some concern in the African-American community whether they will be able to take advantage of these revenues, because as a result of gentrification the organizations now have less of a community base. It was observed that in a way CDCs are victims of their own success. The Northeast neighborhood is better off, but its longtime residents may not be. This is the paradox of community development. One interviewee commented: “The work the CDCs did in the housing area helped launch community development in the Northeast. But combined with market forces, CDCs are being squeezed out.”
Portland developed a community development agenda somewhat later than many other cities. As of 1987 there were only four CDCs in the city: REACH, Northeast Community Development Corporation (NECDC), Franciscan Enterprise, and Central City Concern. There was also a local Habitat for Humanity. The city helped jump-start the growth of CDCs by providing a training course for volunteers in organizations that were already doing work in their neighborhoods. There was also a promise of some core operating support. Thus, for the most part the CDCs did not form in protest to city policies or problems in the private housing market (such as redlining, abandonment, arson, and landlord disinvestment), as they had in many other locales. Instead, they arose from the notion that CDCs could be part of a housing delivery system.

About 1990 the city decided to use CDCs as a central part of the city's response to blight and disinvestment. Prior to this new commitment to community development and housing, for-profit developers had shown very little interest in building low-income housing. In an effort to reclaim vacant and abandoned properties, the city put in place several new policies, including receivership, proactive code enforcement, waiver of fees, tax abatement, and grants and loans. As one person observed, "Year after year 60 percent of the city's housing funds were going unused. The city would dribble out little bits of money to the fledgling CDCs. Money was given deal by deal; there was no consistent format." This changed between 1992 and 1993, when the city's more structured support program for CDCs began to emerge. Also at that time CDCs started to receive more extensive support from the Neighborhood Partnership Fund (NPF), a local intermediary that was started in 1990 by the Oregon Community Foundation and the Ford Foundation. Some $4 million from the National Community Development Initiative has contributed significantly to NPF's overall funding. In turn, NPF provides operating support, technical assistance, and training for Portland area CDCs.

Much of the city's involvement with housing apparently was due to the interests and commitment of a former city commissioner. Because they are assigned administrative leadership of a city bureau, Portland's commissioners are more powerful than many other cities' commissioners. The commissioner whose domain was housing was assigned to oversee the Bureau of Housing and Community Development. In 1991 and 1992 that commissioner used a federally mandated citywide housing assessment called CHAS (Comprehensive Housing Affordability Strategy) to get people thinking about housing and community development. At that time housing prices were undervalued. As a result of the year-and-a-half-long public process, revitalization became part of the city's agenda. However, the city decided to work through CDCs rather than assume the role of "delivery agent." Another impetus to the formation of the Portland CDCs was the highly publicized redlining and abuse by Portland mortgage brokers. In September 1990 the Oregonian ran a series of articles highlighting the misdeeds of one particular lender. In response to the scandal, in early 1992 the city supported the formation of a new CDC in the Northeast area, Portland Community Reinvestment Initiatives (PCRI), and helped it acquire the 354 homes that had been owned by that lender.

Except for a business district revitalization program launched by Sabin in about 1990 and several other nonhousing initiatives, most of the Northeast CDCs chose to focus on housing, because that was the dominant neighborhood issue. Apparently comfortable with this approach, the city and other funders did not encourage CDCs to develop a broader set of activities and to widen their focus—but they did not discourage it either. One interviewee noted: "The city and funders
spent years trying to build CDC capacity and helping them to build units and they did that quite well. There is plenty of work for five organizations in Northeast Portland. But now they can’t all be rehabbing or producing housing—there are not enough land and buildings.” It appears that adhering primarily to a housing investment strategy did not help CDCs ride out different market waves. As one person commented, “Housing development can fizzle. The problem is that the task of neighborhood revitalization is more difficult and not just housing focused.”

Parallel funding came from the city and NPF from about 1990 to 1997. Working closely together, the Enterprise Foundation and NPF developed a formula for providing funds to CDCs. At the same time, the city had its own method of allocating resources. By the mid-1990s the city and the funders wanted to rationalize the various funding streams, and the Portland Neighborhood Development Support Collaborative, known simply as “the collaborative,” was formed in 1996. Three public, private, and nonprofit funders make up the group: the Enterprise Foundation, NPF, and the city’s Bureau of Housing and Community Development. The collaborative’s total annual budget is about $1.6 million, with about $800,000 coming from the city, and NPF and Enterprise each providing $400,000. The collaborative streamlined the application, screening, and reporting processes, but each CDC had its own contract with NPF and with the city, making for a complex accounting system. One interviewee observed: “They literally merged the city’s funding into NPF. The city did not act unilaterally. Everything was done in concert with NPF.” Another noted: “All kinds of initiatives came together from all over the city.” Further, one person commented, “If you’re not funded by the collaborative it’s hard to make it in the city.”

The collaborative began to articulate a performance-based standard for providing funding to the CDCs. CDCs were asked to define their missions, set concrete goals, and carry them out within a specified time, usually about two years. With explicit instructions like these, it is easiest for groups to define their mission and goals in terms of housing production. Although Sabin indicated that it, in fact, has carried out a number of performance-based, non-housing-oriented initiatives, for most CDCs counting the number of units produced or rehabilitated is far simpler than defining performance around the “softer” components of community development, such as organizing and other community-building activities.

Interviewees’ opinions about the city’s current level of support for CDCs ranged from “moderate” to “tremendously supportive.” The city was praised for its decision about five years ago to pump $30 million of general revenues into affordable housing production, much of it through CDC-sponsored developments. As one person noted, “Although that money is gone, and the current allocation is much less [$5 million], the city is still putting some direct funding into the CDCs.” In addition to stimulating the nonprofits, this funding also encouraged participation by the private development community, creating competition between private and nonprofit developers for the city’s low-income housing funds. NPF was also singled out for praise, as was the Community Development Network, which was started in 1995 as a trade association for CDCs and currently has 26 member CDCs. The Housing Development Center, started in 1993, provides Portland CDCs with project financing and construction management assistance. Another key agency is the Portland Development Commission, the city’s urban redevelopment authority. Focusing on housing, economic development, and other redevelopment activities, it provides financial resources targeted to housing development or job creation.
In interviews, several important issues emerged regarding Portland’s community development system. First, Portland does not seem to have enough qualified people to run the CDCs. Interviewees reported that many of the most skilled professionals have been hired by banks and private developers and that many of those with the greatest knowledge of housing and community development seem to be working for one of the city’s intermediary organizations. However, in stating this it is also important to note that several of the nation’s premier CDCs are located in Portland and are led by highly successful professionals.

Second, Portland has been proactive in keeping housing units affordable for a long time by developing significant protections. Through an organizing effort led by the Community Development Network, advocates were able to institute a 60-year affordability restriction. Unfortunately, this ordinance was passed after most of the $30 million in general revenues that had been set aside for housing had been spent. This left a significant number of units built by for-profit developers protected for low-income use for only 30 years. Most of the 5,000 units owned by non-profit organizations have significant protections through the organizations’ mission statements, even though they are not explicitly covered by the 60-year affordability requirements. Regarding long-term affordability, one person questioned whether the city had made the right decisions in how it had allocated the $30 million for housing. The interviewee noted that acquiring land and creating a land trust model would have removed the land from the private speculative market, thus ensuring long-term affordability for all the units developed with these funds.

Third, both the city and NPF have a continuing interest in community revitalization through a housing production agenda. But there appears to be no clear vision or consensus on what the CDCs’ new roles should encompass. While NPF’s written statements clearly indicate that community/economic development is the goal and that housing is a means to that end, in Portland as in many other cities there is much less clarity about how to fund non-housing-related activities. As one interviewee noted, “NPF and the city never intended for housing to be the only focus. But reclaiming vacant buildings was something people could rally around.”

Fourth, despite the relative youthfulness of Portland’s CDCs, several groups have already been struggling with growth issues; at least a couple have gone out of business. A report by the Enterprise Foundation had this to say:

Portland CDCs have experienced some growth pains…. As their housing portfolios have grown, they have increased their exposure to risk of financial and organizational strain. In some CDCs rapid program growth outpaced the development of effective organizational systems. Other CDCs found themselves struggling with overlapping target and program areas. Several organizations had difficulty replacing their original executive director while maintaining effective management practices through the process. The survival of a few CDCs is in question through mismanagement, competition for scarce resources, or failure to produce effectively (Enterprise Foundation, 1999, 11–12).

History

When the site visit was conducted in late August 2000, the merger was not yet complete, although the groups appeared to be very close to the end of a process that had started nearly
two years earlier. At that time there were two groups—Sabin and HOF—involved with the merger, not the three that were slated to merge on July 1, 2001. The third group, Franciscan Enterprise, reentered the merger discussions in the fall of 2000, and at the last minute the Sabin board voted not to join the merger.

In October 1998 the collaborative informed the five CDCs operating in Portland's Northeast section that the funders were not going to be able to continue supporting the groups at the same level. In part the impetus for this message was externally driven; the collaborative was uncertain about continued funding from the National Community Development Initiative, which supplied about 25 percent of the collaborative's funds. The loss of this money would have a significant impact.

The collaborative was concerned about changes in the area's real estate market and the CDCs' increasing difficulty accessing inexpensive land and buildings for development. In addition, the collaborative questioned the CDCs' accomplishments based on their work plans. Four of the five CDCs—HOF, Sabin, Franciscan Enterprise, and NECDC—were perceived as having varying degrees of instability. The fifth group, PCRI, although asked by the collaborative to participate, chose not to join in meetings about how to streamline the activities of the Northeast's CDCs.

PCRI's decision not to become involved with these discussions followed earlier discussions in which PCRI and NECDC had seriously considered and then rejected a merger. PCRI's executive director reportedly was adamant that the collaborative should not have been as forceful in its desire for that merger. PCRI was in a stronger financial position than the other CDCs and so did not have to work out a funding plan like the other groups. Further, because PCRI was viewed as "the strong horse," the collaborative apparently hoped to hitch a weaker group to it. But PCRI's leaving the merger discussions was widely viewed as the right decision, and the collaborative took no negative action, such as withholding operating support. This was a different message than the one communicated to the other area CDCs, which were told that without a more efficient approach, operating support would definitely be reduced.

Although HOF had recently completed the largest U.S. Department of Housing and Urban Development project in Oregon, a 74-unit development, several CDCs targeted by the collaborative were producing less housing. There was a perception, however, that all the CDCs faced significant problems, including property management difficulties, high staff turnover, financial mismanagement, board member exhaustion, problems with the neighborhood, and poor underwriting of prior housing developments.1 Explaining some of the financial issues in more detail, one person noted: "HOF was in trouble and could see that their operating budget was heavily reliant on developer fees." A dependence on developer fees to cover operating costs is common practice among virtually all CDCs involved with housing development, but "HOF was aware that these fees were becoming increasingly unavailable since development was becoming more and more difficult to carry out."

In addition to worrying about the CDCs' perceived internal problems, the collaborative was frustrated because the groups were not coming up with development deals, because of both inadequate development capacity and increasing prices in the area. The message from the collaborative was that the CDCs needed to figure out how to work more closely to save money. The
message, however, was less a stick than a carrot; one person commented: the collaborative was saying that ‘if you stay in the discussions, at a minimum you will continue to get funding. If you don’t cooperate you definitely won’t get funding.’” The collaborative indicated that it believed there were too many CDCs in Northeast Portland, particularly because the housing market was no longer depressed and there were very few vacant properties for the CDCs to develop or rehabilitate. Moreover, those that were available were very costly. However, one collaborative member indicated that the members “probably didn’t communicate well enough that they weren’t so happy with the CDCs’ progress.” Another person suggested: “The collaborative knew at the outset that what they had wasn’t working. But they didn’t quite know what they wanted. Nobody wanted to offend anyone.”

In the words of one interviewee, “We did the Portland thing: we asked the CDCs to get it together. We decided to give them money to hire consultants; quite a bit of money was spent before they came up with the partnership concept.” There was widespread agreement among interviewees that the collaborative was setting the CDCs’ agendas. One person commented: “The funders tried to push the organizations too quickly. You can make a board merger, but you can’t make an organization grow into something that it’s not; funders hoped that the organizations would become more stable and effective. The city wanted the organizations to quickly acknowledge the market changes and implement a new plan. It’s easy for a funder to tell a group to do something differently, but it’s hard for groups to figure it out and implement it at the same time.” Another interviewee noted: “There could have been a call to the larger community to generate ideas. Instead, the idea to streamline the CDCs was presented as the only option and that was the one grabbed on to.”

The funders indicated that they were trying to figure out how to be supportive without promoting a feeling of entitlement among the CDCs. They questioned how involved they should get. One interviewee observed: “If we have concerns about an executive director, should we say something? As soon as the collaborative says no more funding, the CDCs feel angry, and unjustly treated. The decision to reduce the funding to Northeast’s CDCs was a good one. If the collaborative could have communicated this more clearly early on, it would have been better.” Further, the funders desperately wanted the CDCs to shape their own agendas and to develop clear measures by which they could be held accountable. The collaborative apparently was dissatisfied with the CDCs’ abilities to reshape their missions in light of the reduced opportunities for housing development.

Despite the changes in the housing market, the CDCs still felt there was an enormous amount of work to be done and for the most part had little interest in merging. They believed the collaborative was taking too heavy a role in setting an agenda and communicated that feeling. The collaborative did not deny there was a great deal of work that needed to be done in the Northeast area but, as noted above, was concerned that the CDCs were not adequately adjusting their missions to reflect the significant market changes. Again, the collaborative apparently was looking for the groups to initiate new types of activities with reasonable outcome measures.

At least one group, Sabin, felt it was thinking and acting strategically all along. Recognizing that the activities of some area CDCs might overlap and aware of the increasing competition for
buildable land, the executive director noted that several years previously Sabin and other CDCs had discussed merger opportunities.

The executive director of one CDC reported that at an early meeting between the CDCs and the collaborative it became clear that the collaborative was not running out of funding, as had been indicated, but needed to spread the available money more broadly to the city's Southeast area. Some community members believed that the city was abandoning the Northeast area, and some CDCs began organizing politically around the issue of continued city investment in the Northeast. The city commissioner who supervised the Bureau of Housing and Community Development, who had worked closely with the previous commissioner, attempted to counter these fears by making it clear that the Northeast was not being “written off.” Although the decrease in funds suggested to some that this was, indeed, the case, members of the collaborative pointed out that “over the preceding years the Northeast section had received the majority of the collaborative’s funds. NECDC specifically had probably received more support than any other single organization in the city.”

The CDCs also somewhat resented the city’s changed orientation toward them. Although it is logical and necessary for city policies to shift over time, these changes may not necessarily feel comfortable to those involved. Just a decade earlier, in the throes of a depressed housing market, the city had embraced the CDC approach to community revitalization and housing development and had put together some generous financial and technical support programs to nurture the fledgling CDC movement. The collaborative’s message in 1998, underscoring its desire for CDCs to retrench rather than continue growing, was particularly problematic for the CDCs in view of the earlier support. Of course, from the collaborative’s point of view, streamlining the CDCs was an essential step in continuing to serve the Northeast area as effectively as possible.

The four CDCs involved in the merger discussions (HOF, Sabin, Franciscan Enterprise, and NECDC) and members of the collaborative all felt the message given by the collaborative should have been much clearer. No one ever said: “We want you to merge.” The attitude on the part of the CDCs was: “If that’s what they wanted, they should have said that from the outset.” What the collaborative appears to have wanted was a single, strong CDC in the Northeast area, but this message was never made explicit. One person expressed the view that “perhaps the collaborative should have been a bit more up front. They should have said ‘We’re not going to fund all of you. You can all exist, but we won’t fund all four groups.’” A member of the collaborative commented: “It took three to four months to say clearly that we will not fund you past June 30, 2000. We hoped they would get the message. Or, we hoped they would say that it makes sense.”

Beginning in October 1998, for about six months the collaborative paid for a facilitator to meet with the boards of each CDC; the executive directors were not involved in these discussions. A major question being asked was: How can the CDCs stop overlapping services? Merger per se was not the issue. As one person noted, “A key outcome of these meetings was that the boards got to know each other, and they got to share ideas. They got to complain about their individual and collective relationships with the funders. It was a trust-building process, and they were moving toward discovering whether and how people were interested in collaborating.”
Shortly thereafter, the CDCs’ executive directors began discussions of their own with assistance from a consultant paid for by the collaborative. As the process continued, some sense of trust began to develop. The four executive directors came up with a plan that did not involve a merger but would have created a series of cooperative arrangements whereby the four groups would enter into service contracts with one another, so that each CDC performed specialized functions that the other CDCs paid for. For example, one organization might perform the property management functions for all four CDCs under contract with the other three. However, this plan was rejected by the collaborative because no cost savings were projected. As the merger talks continued, the executive directors selected a lawyer, with funding from the collaborative, to help the group sort through the legal details. However, at least one of the four executive directors was uncomfortable with some of the dynamics of this process.

Despite the efforts to build trust, the merger discussions appear to have been hampered by the limited contact and collaboration among the CDCs prior to this. Although the groups had worked together on various initiatives through the Community Development Network, the boards and staff members had no real relationship with each other, and there had been no formal partnership on specific projects. Also, with the many changes in executive directors within the various groups, opportunities for relationships to grow were derailed. Commenting on the lack of close connections among the CDCs in the Northeast area, one interviewee stated: “Before the collaborative requested that the CDCs get together, the CDCs in Northeast had never given each other the time of day.”

There was also some sense that the relationship between the CDCs and the collaborative was strained. While this is frequently the case in grantor-grantee relationships, it appears that the collaborative was concerned about the CDCs’ capacity and frustrated that the groups had not been able to adjust better to changing market conditions by redefining their missions; there were also some personality clashes.

As the discussions continued, there was a major break between the leaders of Franciscan Enterprise and the leaders of the other three CDCs. As a result, Franciscan’s executive director was either excluded or removed herself (depending on who is questioned) from further merger talks. However, this solution proved only temporary. Within a few months, and with the departure of Franciscan’s executive director, Franciscan was back into the merger.

The three groups still involved in the discussions were Sabin, HOF, and NECDC. However, it was soon revealed that NECDC was saddled with a $500,000 debt, the result of a poor investment in a sawmill in Africa, for which NECDC had been strongly criticized by the collaborative, as well as the debt on seven houses that the group had built but had been unable to sell for about a year. In a series of letters between the collaborative and the board chair of NECDC, the different views on the extent of NECDC’s liabilities and the issue of whether these difficulties had been fully known to the collaborative were discussed at length. In addition to charges by the collaborative that funds had been mismanaged, there was a history of tension between at least one member of the collaborative and a former executive director of NECDC. In the end, the collaborative rejected NECDC’s requests for additional assistance, and the CDC went out of business September 1, 2000.
NECDC's demise was a significant loss for the community. Of all the Northwest CDCs, NECDC had been the most connected to the African-American community, and only a few years earlier, it had won a number of national achievement awards, most notably for a 130-unit Nehemiah-funded homeownership development. Ironically, this development may also have contributed to the organization's failure to locate other good development deals and sources of funding and to diversify its operations. The Nehemiah project was a major achievement, but when it was finished, the organization did not have sufficient new development opportunities to maintain its staffing and overall level of operations.

With only two groups remaining as viable partners in the merger—HOF and Sabin—things moved quickly. As one of the executive directors put it, “We put a document together to form a new organization. In 10 minutes, both board chairs had signed a document saying that a merger would take place and we agreed that Sabin would move into HOF’s headquarters.” The other executive director said: “In part, there was acknowledgment that it made sense to work together—to merge—and that duplicating services and programs was illogical. There was a desire to try to take charge of the process.”

A technical assistance consultant was hired to help both HOF and Sabin with the merger and to address the many unresolved issues, such as how to form a new board, how to pick a board chair, and what to name the new organization. As HOF and Sabin moved toward resolving these questions, the board of Franciscan Enterprise, following the departure of its executive director, expressed its interest in reentering the merger discussions. All three boards quickly and independently approved the three-way merger, and a new board with two members from each of the three original boards was to be formed. Three additional board members were to be appointed based on the skills needed to guide the new organization. However, as noted above, the Sabin membership voted against the merger, leaving HOF and Franciscan Enterprise to form the new organization.

Franciscan Enterprise was created in 1987 and HOF in 1991. While there was community participation in their creation, a key impetus was the city’s support of CDCs throughout Portland during that period. In general, CDCs in Portland did not grow from strong community activism and protest. Prior to 1987, there were just two CDCs in Portland.

HOF came to the merger with 268 rental units, all but 80 managed by an outside property management company. It had a staff of 7.5 and an annual budget of $800,000. Franciscan had completed 120 units of rental housing, some of which were part of a mixed-use development. Its budget was also about $650,000, with a staff of 6.5 full-time equivalents.

Apart from the boards, which were a mix of residents and nonresidents, virtually no local residents and other community groups were involved in the merger discussions, and there was no public controversy over the merger among the CDCs, the community, and the collaborative. Interviewees repeatedly emphasized that controversy is “not the Portland way,” meaning that people in Portland prefer consensus to confrontation. One member of the collaborative noted: “Not one resident of Northeast has called protesting the merger or the demise of NECDC. News of the merger and NECDC’s problems has been in the papers.”
The story of the merger is a fairly linear narrative agreed upon by virtually everyone involved but probably most explicitly framed by the collaborative: costs in the area were increasing, land and buildings were becoming more and more scarce, and there were too many CDCs chasing too few development deals. Therefore, there was no choice except for the collaborative to streamline its funding and for CDCs to tighten their belts. The CDCs needed to figure out how they wanted to work with each other in the future; the status quo was not okay. It was hoped that a change in the CDCs’ organizational structure would enable them to respond more appropriately to the changes in market forces, preserve existing investments, and be better able to carry out their mission.

Embedded within this story, however, are also issues of race and gender. All key members of the collaborative were white males. All five executive directors of the CDCs were women, three of them women of color. Several interviewees indicated that they did not think the collaborative would have been as quick to “push around” an all-male group, particularly one that was all white. It is impossible to ascertain the dynamic between the collaborative and the organizations involved and the extent to which race and gender played a role. As one person put it, “Race is the elephant on the table that no one wants to talk about.”

What does seem clear, however, is that the racial and gender differences between the collaborative and the CDC executive directors, while not explicitly an issue, did stimulate some strong feelings on the part of the CDCs. In saying this, it is critical to underscore that there is no suggestion or evidence of either racism or sexism on the part of any members of the collaborative. But there was a power relationship that did sort out by race and gender. Further, when this issue was discussed with members of the collaborative, they expressed considerable frustration and sensitivity about this situation and acknowledged that an unfortunate division existed along these lines.

Factors Contributing to the Merger

External Factors

The external factors identified by interviewees were the improved housing market, funders’ desire to rationalize and streamline CDCs, funders’ concern about potential loss of funds, personality conflicts, and race and gender issues.

Improved Housing Market. Changes in the Portland housing market were limiting development opportunities and making it more difficult for CDCs to develop low-income housing. The decrease in the number of low-cost properties and the amount of land available resulted in substantially fewer opportunities to build or rehabilitate housing for low-income households. Because the Northeast area groups were focused predominantly on housing production and rehabilitation, rather than a more multifaceted agenda, the lack of opportunities for housing development meant decreased outputs and reduced developer fees. This concerned the collaborative, which was moving toward an investment model in which funds given to CDCs were expected to return specific benefits in output and community development activities.
Funders’ Desire to Rationalize and Streamline CDCs. As market conditions in the Northeast section of Portland changed, the city and the funders decided that a community development agenda could be realized better through a more streamlined delivery system. Five nonprofit groups in a single geographic area, all vying for the same resources, seemed like too many. In addition, there was increasing concern that most groups’ productivity was falling below expectations. These factors provoked the funders to ask for a more rational delivery system, which meant a single, streamlined CDC or group of CDCs, although this was not communicated in a straightforward manner. Partly because the new approach contrasted with a citywide commitment formulated only a decade earlier to help develop CDCs, including those in Northeast Portland, it created some confusion among the CDCs.

Funders’ Concern about Potential Loss of Funds. One impetus for the collaborative’s message to the CDCs in 1998 that they needed to streamline their operations was concern over the potential loss of funding from the National Community Development Initiative. With some 25 percent of the collaborative’s funds coming from this single source, the collaborative believed the available dollars would have to be used as judiciously as possible.

Personality Conflicts. The NECDC staff had some tense relationships with members of the collaborative. Although such conflicts are commonplace in human interactions, the collaborative was frustrated with the group’s organization, and the recommendation for greater streamlining may have been connected to these interpersonal issues.

Race and Gender Issues. Did race and gender play any role in the way the collaborative approached the organizations? It is not possible to answer this question with any certainty. As noted above, several interviewees expressed the opinion that the all white, male collaborative would have been less “top down” with a group of male executive directors, particularly if they also had been white. All five of Northeast Portland’s CDCs had female executive directors, and three were African American. It is also possible that race played a role in some of the events leading up to the collaborative’s decision that streamlining the CDCs was essential. According to one key person, the collaborative may have been unwilling to hold NECDC accountable for its earlier difficulties partially because of Portland’s racial dynamics. Thus the issue of race may cut both ways.

Internal Factors

A variety of internal factors was said to have contributed to the need for a merger: financial instability, lack of strategic planning, acknowledgment of merger as a logical step, and an insufficient number of qualified personnel.

Financial Instability. Four of the five CDCs in the Northeast section were financially unstable. Like many CDCs across the country, they depended heavily on developer fees to cover operating expenses. This situation can create enormous financial instability if development stalls, which it had begun to do in the Northeast because of sharply escalating land and building prices. NECDC in particular had serious financial difficulties because of a failed investment in Africa and a backlog of seven unsold units. These problems ultimately led to NECDC’s demise.
Lack of Strategic Planning. The market in the Northeast section was changing, and the collaborative was requesting that CDCs work more closely together, but several CDCs appeared not to have been thinking strategically. As the CDCs pointed out, there was a great deal of work that needed to be done in their community. At the same time, however, most of the groups apparently were not adjusting their modes of operation to fit the changing circumstances. Some organizations like NECDC probably needed to cut their budgets and their staff. Other groups probably needed to develop non-housing-related performance-based activities, as Sabin apparently was able to do. The relative weakness of the CDCs’ collaborations before the merger discussions was perhaps another factor in their failure to respond strategically to the changes in the community. Ideally, one would hope that groups working on a similar agenda in a given locale would have deep connections and would see themselves as close partners in a shared mission.

Acknowledgment of Merger as a Logical Step. None of the CDCs had an internal motivation to merge, although there was some acknowledgment, particularly as the discussions moved forward, that merging was a logical step. It made sense for the groups to work more closely together and to reduce the overlap. As one of the executive directors observed, “Some of the executive directors would complain about the city/funder players. But I feel that the merger was something that needed to be done. We needed to be proactive and own the process—we needed to take charge of the process because it made sense.”

Insufficient Number of Qualified Personnel. Apparently, there are not enough qualified people in Portland to run CDCs. While there are some highly experienced, successful, and talented CDC executive directors in Portland, many of the most seasoned community development professionals are working for the city, for an intermediary, or for a for-profit firm such as a bank, housing management company, or development company. Several people commented that what the Northeast CDCs most needed was a single experienced executive director paid a significant salary from the CDCs’ pooled resources. This desire to consolidate activities under a single top-notch community development practitioner was cited as one reason people favored the merger.

Impacts of the Merger

The major consequence of the events leading up to the merger was the dissolution of NECDC. This was not a direct outcome of the merger, but the organization’s financial problems became a key issue as the discussions proceeded and financial disclosure among all the groups became an important precondition for the merger.

Regarding the community wide impacts of the merger, interviewees sensed that there had been a slight decrease in general support and private funding for CDCs. However, this appears to be related less to the merger than to NECDC’s widely publicized financial problems—which included deeding several unsold houses to the bank in lieu of foreclosure—and demise. All of this may have reduced the standing of CDCs in general.

One person eloquently summed up the consequences of the merger discussions: “I think a key overall failing of the process has been the lack of attention to the people who are the biggest assets of any community-based organization, including the staff, boards, residents, and communi-
ty supporters. Even if we end up with three ‘weak’ groups merged into one that is financially stronger, the CDC industry in Portland will have lost or alienated many people who have been supportive, and that is an enormous loss."

However, it is also important to point out that there continue to be several strong, highly visible CDCs in the city, including REACH and Rose CDC, which perhaps counterbalance the negative publicity. In addition, some CDCs in Portland have been producing at a high level. According to one interviewee, “All the contracts that NPF had with CDCs over the past year were exceeded. The contracts indicated that the CDCs would produce 700 to 800 units, and instead they produced more than 1,000 units.”

**Lessons Learned from the Merger**

The more successful a CDC is in helping to improve a neighborhood, the more prone the neighborhood will be to gentrification and increased housing prices. This is the irony of community development, one with no solution as yet. Because so much gentrification had occurred in the Northeast section, there was less of a community base for each organization, so in a way the CDCs were victims of their own success. The neighborhood is better off, but the longtime residents are not necessarily better off. In addition, it is hard to imagine a best-case scenario for a merger. As one interviewee put it, “There is no way to do a merger without blood. By its nature it’s a messy process; there is no simple way to manage it.”

*Funders need to be clear about their goals while avoiding a “top-down” approach.*

There was a high level of agreement that the funders needed to have been clearer at the outset that they wanted a merger. The funders criticized themselves, and were criticized by others, because they did not articulate their desires until after the process had been launched, a series of meetings had taken place, and a plan not involving a merger had been generated by the CDCs. The CDCs felt that although they had been asked to figure out a more efficient way of working together, the funders actually had a clear agenda in mind but were unable to articulate it for a long time. It was also acknowledged, however, that setting the agenda from the top down would have been resented by the CDCs. Funders must walk a very fine line, being explicit about their goals and objectives but not heavy-handed in steering CDC activities.

*CDCs need to read market changes more clearly and be involved with strategic planning.*

Some interviewees observed that the CDCs could have responded to their challenges somewhat more effectively but were slow to understand the impacts of the escalating costs of land and buildings in the Northeast section of Portland. The CDCs also could have used the market information to involve the larger community in generating ideas about how the CDCs could reposition themselves to deal with the changes. Instead, the idea to streamline the CDCs was presented as the only option, and the CDCs adopted it. CDCs need to be more involved with strategic planning, so they can continually assess their activities in light of changes in the market and in their communities’ needs.
**CDCs need the involvement of the larger community.**

There was very little community involvement with the CDCs other than through membership on their boards, and the CDCs did not involve the community in discussions about the collaborative’s mandate. As one interviewee noted, “There wasn’t anybody with a clear vision and sense about how to take the issue of the merger back to the community. If the executive directors had been able to get community input, they could have said ‘the community has spoken; now let’s look at a structure.’” Although the community could have been brought together for a meeting, board members and executive directors involved with the merger discussions were concerned about not disclosing details to the media before plans were finalized. The importance of broader community support was underscored in the final stage of the merger process, as Sabin’s membership voted not to merge. This type of last-minute change in plans is certain to be stressful for all involved and likely could have been avoided with earlier and more extensive community participation.

**Cities need to involve CDCs when planning changes in policies.**

Cities should, whenever possible, involve CDCs in policy shifts that affect them. The City of Portland encouraged the formation of CDCs in the early 1990s, but a decade later the agenda changed. While it is obviously appropriate for a city to change its policies when conditions change, it is also critical that these changes be promulgated with careful attention to their impact on the CDCs, their neighborhoods, and their properties. One way for a city to do this would be to create a planning team that includes the CDCs themselves. In that way, new ideas and changes in policies could be discussed before they are implemented.

**CDCs need to diversify their activities and include an agenda for advocacy.**

It is probably important for CDCs to diversify their operations as a way of hedging against changing market conditions. Limiting themselves to housing rehabilitation and development may not be sufficient to ensure long-term viability. While housing opportunities may erode in low-income communities, the areas still are likely to face a host of other serious problems that CDCs may be in a good position to address. When the CDCs in Portland were created, the city’s major focus was housing development. The market changes in Portland, and in the Northeast section in particular, provide a good example of why it is important for CDCs to adopt a diversified approach to community development, something that most of the area’s CDCs were not doing. It is important for both funders and CDCs to plan for market changes and to develop strategies for supporting a wide range of community development activities, in addition to housing. It is also important for CDCs to stay closely linked to their communities. An overly aggressive focus on housing development may exclude larger community concerns. Moreover, funders need to be mindful of the importance of organizing and advocacy activities and be willing to support such efforts.
**CDCs need operating support.**

The CDCs in Northeast Portland, as well as many other CDCs across the country, rely on developer fees to support their day-to-day operations. If operating support were provided as an ongoing subsidy, however, this major source of financial instability, particularly in a rapidly changing market, would be alleviated. In Portland, not only is the amount of operating support insufficient, but also underwriting and financing formulas of the Portland Development Commission keep the CDCs’ developer fees low, creating poor cash flow in many CDC projects.

**CDCs need to trust each other.**

Trust cannot be mandated, but it is an essential ingredient in working together, especially toward a merger of two or more CDCs. However, when the CDCs started discussions, they had not had extensive experience working together, and trust was not easy to create quickly. The situation was made more difficult by the circumstances. The executive directors were trying to get to know one another in discussions directly related to a highly charged issue—the collaborative’s requirement that the CDCs’ work more closely together. In addition, there were some interpersonal tensions between one of the CDCs and members of the collaborative.

**CDCs and funders need to acknowledge the role of race and gender.**

Race does not have to be the “elephant on the table that no one wants to talk about.” While it may not be easy to confront how gender or race may be affecting discussions, it is probably far more problematic for these issues to go unaddressed. In many locales, there are skilled professionals who can facilitate discussions on these and other potentially sensitive issues, helping all participants become more comfortable when relationships divide along these lines.

**Each CDC needs the involvement of its executive director and staff and an assigned organizational consultant.**

The executive directors, in particular, need to be well integrated into any merger discussions. Just focusing on the board is not enough. In the case of the Northeast merger, it appears that the collaborative initially felt that the discussions should be driven by the boards of directors, with assistance from outside consultants. Although executive directors have some obvious self-interest in the matter, their voice and leadership are critical and their early and sustained involvement in the process is needed. It is also essential that CDC staff members be brought into the process. According to one interviewee, “Many staff members have quit because they couldn’t deal with the stress of not knowing what was happening in the transition.” Another person observed that the collaborative made a major mistake when it hired one person to work out the details for all the organizations. Each organization needed to work with someone who could help with the unique issues facing each group.
SLAVIC VILLAGE DEVELOPMENT:
ORGANIZATIONAL MERGER

Overview

Cleveland has one of the most sophisticated and supportive community development systems in the country. Public, private, and nonprofit organizations provide funds and technical assistance to the 40 to 50 community development corporations (CDCs) in the city. Slavic Village Broadway Development Corporation (SVBDC) and Broadway Area Housing Coalition (BAHC) merged in 1998 to form Slavic Village Development (SVD). BAHC started in 1980 and was primarily involved with low-end, market-rate housing that was for sale. SVBDC, which was involved with commercial/storefront projects, grew from a 1991 merger between Slavic Village Association and Broadway Development. The perception at that time was that “funders were definitely putting pressure on the groups,” one interviewee said. However, “the climate for a merger wasn’t right for all three organizations,” and BAHC board members voted not to merge.

By 1997, though, the funders as well as SVBDC and BAHC thought it made sense to merge. The feeling at the time, according to staff, was, “We’ve been dating for so long, why don’t we get married?” Increasingly, the staff felt that they would not be able to carry the overhead of two separate organizations. They also felt that funders would not agree to the two continuing to exist on their own, despite the fact that both were viewed as quite competent. At the time of the merger, there was generally a high level of trust and personal connection among the SVBDC and BAHC executive directors, staff members, and board members. Nevertheless, there had been some tension between the two groups prior to the merger, and some relatively small issues had to be sorted out first. Senior staff and executive board members took charge of the merger and dictated the agenda, but some outside observers said they felt the merger had been driven by the funders. The merger is now widely viewed as a success, with the new organization stronger than either of the two previous groups. In fact, the merged organization is seen as one of Cleveland’s top CDCs.

Context

In many respects the recent history of the Slavic Village–Broadway area mirrors that of scores of older inner-city neighborhoods. It is a story of population decline, demographic changes, and changes in the industrial base.

About 30,000 people live in the Slavic Village–Broadway area now, but in the 1920s and 1930s there was double that number. The loss in population came about partly because of the growth in the interstate highway system. Space was needed to build the highways, so housing was demolished, and once the highways were built, it was easier for people to move to the suburbs. Changes in the labor market had a major impact on the area as well. At one time the steel and auto industries provided many jobs, but automation dramatically reduced labor needs. Like many factory towns, Slavic Village–Broadway had large areas of rooming houses for single men. During
the 1950s, as the surrounding suburbs boomed and the area’s population declined, stores lining the main streets became obsolete as retailing shifted from neighborhood-oriented “mom and pop” stores to shopping centers and supermarkets.

There are few large tracts of land available in the neighborhood, making land difficult to assemble and large-scale development, therefore, nearly impossible. Overall, the city is booming; a great deal of new housing has been built since 1990, but it is not being built fast enough to fulfill the demand. There is no problem finding tenants in Slavic Village–Broadway, where the homeownership rate is under 50 percent and it is not uncommon for a single-family unit to have been converted into two or three small apartments. Generally these are not kept in good shape and become classified as distressed properties.

CDCs are viewed as major players in Cleveland. Requests by interested parties to acquire and develop all vacant and abandoned land have to go through CDCs, thereby ensuring community support. This then also makes it attractive for private developers to work with CDCs in partnership arrangements.

Despite recent growth in the minority population, the Slavic Village–Broadway area is a largely white, lower-middle-class area. In 1990 about 5 percent of its population was African American, a figure that has perhaps doubled in the past decade. About 10 percent is Hispanic. Interviewees noted that the arrival of low-income African-American residents has prompted considerable fear among some of the residents.

A strong neighborhood agenda emerged 11 years ago after Cleveland’s current mayor was elected; the prior mayor, in contrast, had spent a lot of money on downtown redevelopment. The current political environment is contentious, with the new city council president and the city’s newspaper, the Cleveland Plain Dealer, opposing the mayor. One interviewee stated: “Cleveland has both a strong mayor and strong councillor system; everything is a political deal.”

While some interviewees felt that the city is neighborhood focused, others criticized it for not including low-income people more fully in decision making. For example, one person noted: “The Cleveland Metropolitan Housing Authority is knocking down units [although not in the Slavic Village area] and the community has not been involved. There is no agenda for the neighborhoods. It is up to the CDCs to do the planning. I have never seen a place more directed by the corporate community than Cleveland. The people at Cleveland Tomorrow [a group of private corporations] set the agenda. Things could have been better if there had been a reasonable plan for development. Although maybe it was not realistic, there has been no plan for the poor in the community as the upscale development has been occurring.”

In Cleveland, as in many other cities, a number of advocacy organizations emerged in the 1970s, protesting against redlining, blockbusting, and racial steering. Most of the city’s CDCs grew out of this agenda, although one CDC, the Hough Area Development Corporation, was chartered in the 1960s. Cleveland also has a history of supporting neighborhood-based commercial redevelopment organizations known as local development corporations (LDCs). Funded by the city since the 1970s, the LDCs have focused on small, commercial strips and have worked with merchant associations. Many Cleveland neighborhoods had both an LDC and a CDC. The LDCs
tended to limit their focus; a few expanded into housing, but most did not. Housing was left to the CDCs, which grew stronger. Because many of the housing groups had their roots in organizing, they tended to have a stronger community base.

This was true in the Slavic Village–Broadway area, where there were originally six groups: one LDC and one CDC in both the North and South sections and two organizing groups. The North and South sections of the area had somewhat different demographics. The North was generally poorer, with a larger proportion of renter and African-American households. Residents in the South section were more often white, and the section had a higher rate of homeownership.

By the mid-1980s, the advocacy organizations met with resistance from city and corporate leaders, and there was a general shift away from advocacy and toward development. Looking for good development opportunities, several CDCs modeled their programs after one started by the Famicos Foundation in the 1960s. After acquiring vacant houses through donation or purchase, the group did minimal rehabilitation and then leased the units to low-income households for 15 years, after which the families could purchase the units for the outstanding balance on the mortgage.

In 1981, six CDCs got together and formed the Cleveland Housing Network (CHN) to provide overall support to their lease-purchase programs. Originally funded with money from the federal Community Development Block Grant (CDBG) program as well as from local foundations and BP America, the network was set up to facilitate the development process by providing technical assistance to the member groups and by assisting with the financing and management of the lease-purchase units. The hope was that an umbrella organization would be more successful than the individual CDCs in locating funders and investors in Low-Income Housing Tax Credit deals. CHN is now a consortium of 19 CDCs that focuses on homeownership for low- and moderate-income households, primarily through lease-purchase arrangements. Member CDCs are responsible for developing and managing the properties and for site acquisition, preparation, and contracting, while CHN provides financing and technical assistance, as well as family support services.

City funds for housing, which come from the HOME program and from CDBG allocations, are funneled through the Cleveland Housing Trust Fund, established in 1991, and controlled by the city. The funds go toward CDC core operating support as well as other activities. In addition, Cleveland’s 21 city councillors each receive an allocation of CDBG funds to be used in their wards; much of this goes to CDCs. Usually, the councillors have $500,000 each at their disposal, but in 2000 each had $1 million, because of a special one-time supplement. This is an extraordinarily large sum of money, and it was noted that a councillor could essentially fund an entire CDC. One interviewee observed: “Because of this ward allocation system, each CDC has a real need to align its boundaries and center of productivity with the ward. Where there are three to five CDCs competing in a single ward, none is thriving. The best CDCs are those that are closely aligned with wards.”

The Cleveland Neighborhood Partnership Program (CNPP) awards core operating support grants in the range of $30,000 to $75,000 to CDCs on a competitive basis. CNPP is run by
Neighborhood Progress, Inc. (NPI), which itself was created by Cleveland Tomorrow, a group of the region’s 50 largest multinational corporations and its major local foundations, including the George Gund Foundation. As far back as 1987 and 1988 Cleveland Tomorrow’s agenda was to “rationalize” the CDC system by reducing the number of groups. Early in its history, NPI had a top-down approach and was interested in helping groups “move to scale” — in other words, to a production-oriented system. According to one interviewee, “In those years the message was ‘You’ll only get money if you produce the units,’ or ‘If you don’t merge, we won’t fund you.’” The CDCs were not invited to those discussions, and in the aftermath of one NPI-driven merger, a cooling off period was in effect because of “the bad aftertaste of that experience,” the interviewee said. Because the two merged groups had different orientations, it took about five years for the situation to even out. NPI later introduced CDCs to strategic planning and helped them shape their operations. In recent years NPI has narrowed the number of groups receiving operating support funding from 12 to 6.

Cleveland is one of only a few cities with both a Local Initiatives Support Corporation (LISC) and an Enterprise Foundation office. LISC came to Cleveland in 1982 and receives operating support from NPI. Enterprise, which came to Cleveland in 1988, assists CHN in raising equity through syndications. Both LISC and Enterprise work with an overlapping set of organizations, and both are involved with rental and lease-purchase developments. Everything they do is closely coordinated with NPI, and their staff members are treated essentially as adjunct program staff and are always at the table in NPI discussions. One staff member indicated: “There will always be some creative tension between the intermediaries and CDCs. The intermediaries have provided good leadership to enable CDCs to be more strategic; they have provided operating grants, cheap interim financing, and up-front grant money for projects. There is not a semi-viable project in town that doesn’t get done due to lack of resources; either it’s not viable, not politically supported, or the CDC doesn’t have the capacity.”

The State of Ohio directly allocates funds to CDCs through the Department of Development and the Ohio Housing Finance Agency. Together, these organizations provide technical and financial assistance, such as development grants, loans, and capital funding, to nonprofit organizations in the State. The Ohio Community Development Finance Fund is a quasi-public institution with an independent board providing support for CHN and CDCs. The Cleveland Neighborhood Development Corporation is the trade association for the City’s CDCs. Other members include some of the other larger nonprofits and banks. Funds come from foundations, notably Cleveland and Gund; membership dues; CDBG allocations; and a small amount of fund raising.

A citywide advisory committee comprises representatives from NPI, LISC, Enterprise, the City of Cleveland, and Cleveland Tomorrow. There is also a single set of reporting requirements for CDCs that is shared by NPI, LISC, and Enterprise. The city’s and NPI’s funding decisions are separate, although there is a lot of coordination. NPI funds 15 CDCs; the city funds 31, including the 15 funded by NPI. The head of the city’s community development department is a board member of NPI. One person commented: “NPI works well. Everyone is collaborating, including LISC and Enterprise. When we have disagreements it is more like family fighting. We just get the job done. The number one ingredient is relationships, and we have that in spades.”

More than 10 or 15 years ago, the CDCs drove development in the city. Today CHN is the development entity for many CDCs. It is not quite a wholesale replacement of CDC develop-
ment capacity, but one person, suggesting that it was close to that, said: “Today, almost everyone does single-family new construction and rehab through the network.”

History

SVBDC and BAHC merged in 1998 to form SVD. Although this was a merger of two organizations, it included the vestiges of earlier neighborhood organizations working in housing, commercial development, and advocacy.

BAHC started in 1980 and was primarily involved with the sale of low-end, market-rate housing. SVBDC, which was involved with commercial/storefront projects, itself grew from an earlier merger, in 1991, between Slavic Village Association and Broadway Development. For several reasons, BAHC considered and then rejected joining the merger at that time. There appears to have been a personal issue between the executive director of SVBDC, who was slated to become the executive director of the merged organization, and a key staff member at BAHC. According to this view, the BAHC staff member single-handedly and covertly organized the BAHC board to oppose the merger. In the words of an interviewee, “After the votes were taken, people on the BAHC board were really distressed and didn’t talk to anyone about why they had decided to stay out of the merger. Nobody would say what had happened.”

Another reason given for BAHC dropping out of the merger in the early 1990s was that BAHC members may have felt that “Slavic Village wasn’t bringing enough to the table.” At least one interviewee questioned why BAHC should merge when it was a success already. Nevertheless, some former BAHC staff members still feel that the earlier merger could and should have happened because it was the right thing to do at that time and would have been in the neighborhood’s best interest.

There are varying views on the extent to which the current merger was driven by funders. Some interviewees felt that NPI “forced the merger 100 percent.” Others felt that while NPI was supportive and encouraging, the merger was primarily orchestrated by the two organizations themselves. Whichever view is more accurate, it does seem clear that the funders did not want to support multiple groups in an area, with each doing a specific part of community development work; they were looking for a more integrated approach.

BAHC was considerably larger and stronger than SVBDC. BAHC traditionally had focused on housing production, although it also carried out a variety of other activities. In addition, along with BAHC’s efforts to promote housing opportunities for all, it was being typecast as an affordable housing group that was responsible for bringing African Americans into the neighborhood. Some people felt that BAHC should develop more than low-income rental housing—that it should become more comprehensive, focusing on housing for middle-income residents as well.

In recent years, BAHC had also become more involved with commercial development, somewhat usurping SVBDC’s traditional role. One interviewee commented: “Slavic Village was becoming obsolete, and BAHC was more responsive to the needs of the neighborhood.” Neverthe-
less, just five years earlier, BAHC had been heavily criticized for not being connected enough to the community. In response, BAHC launched a neighborhood planning process that resulted in a set of community-oriented strategies. One interviewee observed: “Within three years they had put together several organizing initiatives.” One of its most impressive organizing actions involved preventing the closure of a neighborhood hospital. Two hospitals in the city had been slated to close; the first dissolved without any community protest. However, the closure of St. Michael’s hospital was blocked by the actions of BAHC in collaboration with medical personnel, a councillor, a congressperson, and a former mayor. The interviewee continued: “Preventing the hospital from closing was a major victory, but the important thing is that the structure was in place to be able to win.”

Although both groups were well connected to the mayor and city councillors, questions kept arising about why two organizations, each doing a component of community development work, continued to be funded. The city councillor from the Slavic Village area, who controlled a significant amount of discretionary funds, very much supported the merger, but, in the words of one interviewee, “he never wanted to pull the trigger.” When the activities of the two organizations started to overlap, the councillor made it clear that he was unhappy about giving $350,000 from his total allotment of $500,000 in discretionary funds to the two groups.

By 1997 SVBDC’s prior executive director had moved on and the organization was being pinched financially. Foundations had cut some of its funding in favor of “bricks and mortar” projects. “That wasn’t SVBDC’s expertise,” one interviewee noted. SVBDC was “mostly doing storefront renovations” and “not competitive” in seeking funds. Funders as well as the organizations themselves thought a merger made sense. Increasingly, the staff felt that they would not be able to carry the overhead of two separate organizations. They also felt that funders would not agree to the two continuing to exist on their own.

The 1998 merger that created SVD was amicable, according to a member of SVD’s management team. It was done, the member said, “ahead of having the gun put to our head.” Presumably, those pulling the trigger would have been the city and the CDCs’ funders. In the 1991 merger, the three organizations involved felt that NPI was trying to arrange a “shotgun marriage.” In the most recent merger, NPI provided more than $25,000 to help modify the building and phone system. NPI also provided a consultant, whose role was highly valued, to facilitate discussions with the two boards.

Characteristic of the merger was a high level of trust and personal connection among the BAHC and SVBDC executive directors, staff members, and board members. In fact, several key members of both organizations had grown up together in the neighborhood, gone to school together, and remained good friends. Nevertheless, prior to the merger there had been some tension between the two groups, apparently brought on by poor communications; BAHC had moved into commercial development and other new target areas without informing SVBDC. As one interviewee put it, “There was some competition for deals; things were more cutthroat.”

Senior staff and executive board members of the two organizations indicated that they took charge of the merger, dictated the agenda, and put together a loose committee to work out the merger details, including its organizational structure. According to an interviewee, “Obviously,
you can’t have two executive directors and two board chairs. You need to address who will be the
director, and the board chair, and you need to define the mission of the new organization.”

The working committee developed a memorandum of understanding laying out the terms under
which a merger would take place. One interviewee noted: “Not everyone bought in 100 per-
cent; they lost some board members in the process. Some people from SVBDC didn’t want to
be involved in a housing agenda. Some BAHC board people also left. But the merger wasn’t
derailed by a handful of board members.” As for the community at large, most people had never
really seen the two CDCs as separate groups anyway because there had been so much cross-
membership. In fact, checks from community members are sometimes made out to one or the
other of six original neighborhood-based organizations, and SVD, as the only entity still in exis-
tence, is the recipient. There was no opposition to the merger from the community.

The merger is widely viewed as having been successful, with the new organization stronger than
either of the two merged groups had been. But even in the best situations, mergers are not
easy. The groups had different ways of doing things, different salary scales, and a different distrib-
ution of secretarial support. However, selecting a new name was probably the most difficult
issue. Board and staff members of SVBDC, as well as the executive director of BAHC, all felt
that “Slavic Village” was an important marketing tool. They wanted to hold on to that identity
because the name had long been identified with the area. On the other hand, there were racial
considerations and a sense that the name did not reflect the current diversity of the area; about
30 percent of the tenants of the properties managed by the group are African American.

In the words of one person, “There was an adjustment period.” Another pointed out that the
funders observed a seamless process but she “heard earfuls from her friends at the CDCs.”
However, it was also acknowledged that “tensions were eased because the two executive direc-
tors and the staffs of the two organizations had all known each other for a long time, and there
were many personal friendships.” One interviewee said she was not sure the merger would
have worked if there had not been such a high level of trust. The key parties “all trusted that
they were working with the best interests of the neighborhood in mind,” she said, and this was
at least as important as the personal connections.

Currently, SVD is building about 50 new units and rehabilitating another 30 or so per year, plus
managing close to 350 rental units owned by other nonprofits in Cleveland. Credited with doing
the largest volume of housing rehabilitation in the city, SVD is converting buildings that had
been subdivided into small units back into single-family residences. Its new Mill Creek develop-
ment includes 222 single-family units selling for about $175,000 each, which is high for the
neighborhood but not in comparison with other new construction in Cleveland. For existing
homes in the neighborhood, the median price is around $60,000. There seem to be two mar-
kets operating in the Slavic Village–Broadway area, with relatively high-cost new homes existing
alongside lower-cost older units. Commenting on the success of SVD in bringing the Mill Creek
development to fruition, one person observed that it was “by far the most ambitious up-scale
planned residential development in the city. There is nothing else quite like it in Cleveland, and it
involved a number of complicated activities such as site acquisition, assuaging neighborhood res-
idents, the actual development, as well as transportation planning.”
Before the merger, SVBDC had a budget of about $360,000 and four staff members. BAHC, with more than 20 staff members, had a premerger budget of $1.5 million. SVD’s budget is $1.9 million—a little more than the total of the two separate budgets. SVD now has about 30 employees, including staff involved with weatherization, property managers, and a six-person community organizing group. Many staff members have been there for 10 years or more. SVD’s funding comes from Cleveland’s CDBG funds, the councillors’ discretionary fund, and NPI, which gets money from the Ford and Gund Foundations. SVD also collects fees for service by managing property for CHN and earns some money from house sales.

SVD does not develop many of its own projects. For example, SVD was the project manager, not the developer, for the Mill Creek development. SVD assembles land and does whatever else is necessary, including creating a climate for development and placing a strong emphasis on community involvement. One interviewee offered that this approach may provide a strong model because it allows the private market to do what it does best.

One interviewee summed up by saying she was not sure the merger would have worked if there had not been a high level of trust based more on a shared vision of the neighborhood than on personalities. Although the recent merger met with bumps here and there, people were interested in what was best for the neighborhood: “They all kept their eye on the prize.” Another person noted: “All the people involved in the merger were involved with the community. That overshadowed everything else. Nobody was going to do anything to jeopardize the future success of the community.” Another observer was quick to point out that much more than personalities drives the community development efforts in Cleveland: “It’s not just the personalities of people; there is a consistent strategy over time. There has been a long-term commitment to create capacity and to mobilize resources where partnerships and collaboration are the norm. This is a strategy that fits Cleveland’s needs. The real challenge is how you build off success and how you translate capacity into other areas.”

Factors Contributing to the Merger

External Factors

Interviewees identified several external factors that contributed to the merger: funders’ desire to rationalize and streamline CDCs, the perception that one organization was more productive than the other, and lack of community opposition.

Funders’ Desire to Rationalize and Streamline CDCs. The city’s community development office, as well as the various intermediaries in the city, wanted to rationalize and streamline the CDCs, so all were behind the merger agenda. Part of this push to streamline came from a wish to concentrate resources in one organization per neighborhood. Another rationale was the desire for groups to be more comprehensive. As BAHC started to become more involved with commercial development, some people felt that its agenda and SVBDC’s were beginning to overlap too much. A greater degree of consolidation made sense.
Perception That One Organization Was More Productive Than the Other. Some in the CDC support community felt that BAHC was more productive than the smaller SVBDC and that it was only a matter of time before SVBDC’s funding would be cut dramatically. This perception likely was communicated to the two organizations. BAHC’s reputation as one of the stronger housing-oriented development groups contributed to the perception that SVBDC was the weaker group. However, it was not weaker in comparison with the other local development corporations; SVBDC was in the top tier of LDCs. Both SVBDC and BAHC were perceived as strong groups with good boards and competent and politically savvy staffs, and so there was no urgent need for a merger. However, the comparatively weaker status of SVBDC and the desire to streamline CDC operations in the area together were important factors. One person noted: “SVBDC was not able to deliver on larger commercial activities. They were being given the message that they wouldn’t get funding, not because they weren’t merged, but because they weren’t competitive. There was pressure on them to do things that were perhaps beyond their capability.” For example, when a local bank decided to build its headquarters in the neighborhood, there was debate about which should be the lead organization to work with the bank. One person noted: “The demands of the situation were larger than the capacity of SVBDC to meet the development agenda.”

Lack of Community Opposition. There had been modest confusion within the community about the exact nature and roles of the separate organizations prior to the merger. Although this did not manifest itself as external pressure to merge, neither did there appear to be strong turf issues and community allegiances to the separate organizations. Slavic Village–Broadway has had a rich array of neighborhood-based organizations, which over the past decade have dropped from six to four to two. As noted earlier, many people were members of both SVBDC and BAHC prior to the merger, and contributions from community members could be sent to any one of the other six original organizations in the area, with SVD being the final recipient. The lack of a clear community following for one group or another, the deep roots of all the organizations, and a relatively homogeneous population were all likely factors in the absence of opposition to the merger. Although some board members reportedly resigned as a result of the merger, their resistance was never a threat to the merger, and the merger was never at risk of being abandoned.

Internal Factors

A variety of internal factors also contributed to the merger: the desire to merge the orientations on housing and commercial development, trust among all involved, concern about duplicate overhead costs, and compatible personalities and leadership styles.

Desire to Merge the Orientations on Housing and Commercial Development. Funders felt it was rational for two organizations with historically separate agendas—one more focused on housing and the other focused on commercial development—to combine their efforts. This was particularly true because one group was beginning to expand beyond its traditional activities. SVD staff members who had also worked for BAHC or SVBDC readily saw the advantages in joining forces to form a single, more comprehensive organization.

Evolving Challenges of Community Development Corporations
Trust among All Involved. There was a high level of trust among the two staffs and a strong desire to work together. Both staffs saw the well-being of the neighborhood as their mission. Many had lived in the neighborhood their whole lives, had known each other for decades, and were part of the same social groups. All interviewees who were directly involved with the merger communicated the feeling that their mission to improve the neighborhood could be better accomplished by joining together. The depth and extent of the "social capital" among key actors in the community development community could best be described as "awesome."

Concern about Duplicate Overhead Costs. On a practical level, the two organizations were concerned about their ability to cover overhead expenses on their own. They acknowledged that resources for CDCs were likely to be less available in the future and that both faced the possibility of declining city and NPI support. Without these critical resources, the groups might not be able to function. Leaders of the two groups understood that the agenda of the city and the funders was to target resources to only one group in a given area. Having read the handwriting on the wall, and with SVBDC already having experienced budget cuts, they agreed that joining forces made sense.

Compatible Personalities and Leadership Styles. The SVBDC and BAHC executive directors had highly compatible leadership styles. SVBDC’s executive director was comfortable giving up the directorship to become a staff person in the merged organization and had, in fact, done this once before in an earlier merger of other organizations. SVBDC’s executive director readily acknowledged that the merger was a good idea, but the board was concerned about how she would feel about losing her position as executive director. However, SVBDC’s executive director believed “this was really the best for the neighborhood” and embraced the merger as “an opportunity to learn new skills and to reduce levels of stress.” In addition, BAHC’s executive director, who became the executive director of SVD, was extremely easygoing and comfortable with a four-person senior management team that included SVBDC’s former executive director. By contrast, one interviewee pointed out that personalities led to the collapse of another merger, Southwest Development Partners: “There were three strong women who didn’t get along; the SVBDC and BAHC merger worked for all the reasons that that one didn’t. They were able to underplay their personalities.”

Impacts of the Merger

There is considerable agreement that the merged organization is stronger than either of the two separate groups had been. SVD is now the largest CDC in Cleveland and is viewed as one of the three top groups—and perhaps the top group—in the city. Since the merger, overall capacity appears to have increased. SVD is more grounded in the community, and its board is more community-based, than was BAHC, which was seen mostly as an organization that used the Low-Income Housing Tax Credit to produce low-income housing in at-risk neighborhoods. BAHC was seen as an isolated entity whose work was driving down values, and the organization was somewhat excluded from relationships with other stakeholders. The new organization can do multiple things, so it is possible to integrate low-income housing needs into a larger overall agenda. The staff members also feel that they have done a good job promoting SVD and that the organization has a universally positive image. Reportedly, most Cleveland residents have heard of SVD.
The extent of collaboration since the merger has been described as “amazing” by observers. Having housing and commercial activities together in one organization is seen as positive, because staff members feel they are now able to make the best use of the resources of each organization and to take a more holistic view of the neighborhood. They are working on nodes of housing and nodes of commercial development in tandem. Also, they feel it is easier to raise money for the more comprehensive vision now embraced by the merged organizations. Although there had been concerns about the level of overhead being carried by the two organizations, the merged group does not appear to be saving any money, but staff members feel they are using their human resources better.

One interviewee summed up the merger by saying: “The best organizations are able to blend community building and housing. Low-income housing needs to be part of a larger agenda that includes home repair; attending to the needs of the elderly, weatherization, homeownership, and so on. Merger was part of why they are able to do more of these things. Also, there was feedback from the larger community that this was the right approach.” Underscoring the level of comradeship within SVD, one person observed: “One of the key reasons we work well is that we try to have fun together. This is just as important as doing the neighborhood work. We try not to draw a line between the two.”

Another important consequence of the merger is that SVD has been able to reintroduce an advocacy agenda that had been lost in the two separate groups, which mirrored the larger trends in Cleveland during the 1980s and early 1990s, when groups steered away from organizing. As one person put it, “NPI originally had a focus on production; they had not paid as much attention to resident leadership. But NPI began to notice that CDCs were losing links to their communities.” In response, NPI obtained funding a few years ago from Sisters of Charity to help CDCs engage in more community outreach. NPI then asked community groups to submit funding proposals to respond to their community’s needs. SVD, feeling it had lost touch with its neighborhoods, put together an organizing/advocacy agenda, with one member of its senior four-person management team in charge. The organization was recently successful in a highly visible effort to keep a neighborhood hospital from closing. SVD feels that this kind of organizing is helping to channel in a productive way the racial fears that have been growing in the community.

Despite the many positive consequences of the merger, one interviewee noted that an important weakness of SVD is its lack of production capacity. While several other groups in Cleveland are also deficient in this area, one interviewee suggested:

SVD has several deals that are in various stages of stalling because they don’t have the ability to really take charge of the development process. SVD is ambivalent about having that kind of capacity in house. They’ve created a collective collaborative culture. The up-side is that they can mobilize and build networks and partnerships and eventually things will get done. But there is a question of whether things get done fast enough. One project had started with a homeownership focus, then the outside developer they were working with decided to do higher-end rental, and SVD agreed. The developer gets to make many of the decisions that should be made by the CDC. SVD doesn’t lose sight of the big picture, but perhaps they don’t get sufficiently immersed in the deals.
In contrast to SVD, another strong CDC in Cleveland, the Detroit Shoreway CDC, has a long and comparable history but completes many deals. Shoreway has in-house production capacity, does not count on private developers, and has three to four staff members with competence in development.

Lessons Learned from the Merger

The interviewees identified several important lessons learned about the merger experience.

**CDCs need to own the process.**

It is critical that the organizations involved take ownership and drive the merger process; intermediaries and funders should not be calling the moves or dictating that a merger must happen. In the SVD merger, those most directly involved felt that they were, indeed, in control of the process. In taking responsibility for the merger, the leadership of the two groups must be willing to take charge and be willing to negotiate issues of power and control in the new organization. They need to decide who will do what. Both organizations also need to recognize that a merger can be encouraged or discouraged by certain factors, such as the prospect of reduced funding from city and local intermediaries. Accepting that resources are limited—and may be jeopardized if a merger does not happen—is usually important in decisions about mergers.

In Cleveland there is a sense that the city is squeezing CDCs a little but generally is not heavy-handed in pushing mergers, at least not now. One possible reason that SVBDC and BAHC received only gentle pressure to merge is the city's experience with several recent top-down mergers that were problematic. It was widely agreed, for example, that another merger orchestrated by NPI, this one between the Near West Housing Corporation and the Ohio City Redevelopment Association, did not, as one interviewee said, “turn out too well,” with the entire Near West board resigning.

There are two conflicting pressures on intermediaries in connection with mergers. On the one hand, it was observed: “CDCs are stuck in terms of their political process and they need someone to say ‘thou shalt’ and to have someone that they can collectively blame. BAHC almost wanted the intermediary to say that a merger is what has to happen.” On the other hand, according to another interviewee,

> there is the desire for a bottom-up process. And the inertia factor is very strong. A merger is really only done as a last recourse. You can’t push a merger when there are major deadlines and production activity underway. The director can’t be involved with saving a deal that is about to fold. There need to be advocates for the process and there has to be a convincing message to the board and staff, since the merger may threaten the board and staff. The leadership needs to be able to respond to these concerns.
Stakeholders and boards need to be involved early.

SVD staff members who had worked for the merging organizations underscored the importance of bringing the boards and other stakeholders into the process early. The need to do this is readily apparent: Without early “buy-in” from board members, the entire process can easily be jeopardized. Close communication between the board and the executive director of SVBDC, for example, allowed the latter the opportunity to clarify that she was not distressed by the prospect of giving up her leadership role and becoming a staff member of the new organization.

Mergers should benefit the larger neighborhood and create a more stable organization.

In the ideal merger, both organizations would acknowledge that they can better serve their community's needs by joining forces. The merger has to relate to both the self-interest of the organizations and their joint commitment to the work they want to accomplish. The two groups should recognize that they have more in common than not. This was a key feature of the SVD merger.

Merging CDCs need help from an independent, neutral mediator.

A full year before the merger, plans were made to involve a consultant in the negotiations. NPI helped this process by first asking each organization to list its desired goals for the merger. The organizations then worked with an NPI staff member to develop a list of services that they wanted the consultant to provide. This process appeared to work smoothly. Participants in the merger indicated that the involvement of an outside party was an important factor in the merger’s success.

CDCs need a financial transition period.

The commitment of funders to allow the merged groups to keep their premerger level of funding for the first year after the merger was viewed as extremely important. Immediately reducing funding would have felt unduly harsh and would have been problematic for the two groups. Instead, both NPI and the city agreed to keep funding levels for the merged organization stable for the first twelve months post-merger. This provided the needed time to readjust to the changed financial circumstances and to make plans for covering the shortfall.

Funding policies need to be consistent.

To some extent, NPI's effort to streamline the city's CDCs is working at cross-purposes with city hall, because virtually all the councillors expend a significant portion of their discretionary funds on the CDCs in their areas. Whether or not there is a logic to each councillor “having” a CDC, this appears to be the basic way in which the CDCs operate and grow in Cleveland. One person observed: “A lot of the newer groups seem to be the brainchild of the councillors. Some micro-managing of organizations seems to be going on. There is even the possibility that the 501(c)(3) status of some of the groups could be questioned, since they are really extensions of the councillors. Some of the budgets of these groups can be as much as 85 percent city money.” Ideally, the process of supporting and strengthening CDCs would be less turf based, and these
Appendix A

PEOPLE CONTACTED TO IDENTIFY FAILED, DOWNSIZED, OR MERGED COMMUNITY DEVELOPMENT CORPORATIONS
(Affiliations as of Summer 2000)

Michael Andrews, Enterprise Foundation, Portland, Oregon
John Atlas, National Housing Institute, New Jersey
Esmail Baku, Neighborhood Reinvestment Corporation, Washington, DC
Nancy Batala, Cleveland Housing Network
Efraim Ben-Zadok, Florida Atlantic University, Fort Lauderdale
Renee Berger, San Francisco
Sandra Bowie, Enterprise Foundation, Dallas
Jan Briedenbach, Southern California Association of Non Profit Housing
Pru Brown, New York
Joan Byron, Pratt Institute, New York
Daniel Carlson, University of Washington, Seattle
Theresa Cameron, Arizona State University, Phoenix
Joanne Campbell, Valley CDC, Northampton, MA
Blake Chambliss, Rural Community Assistance Corporation, Colorado
Rick Cohen, National Committee for Responsive Philanthropy, Washington, DC
Melvin Colon, Tufts University, Medford, MA
Charles Connerly, Florida State University, Tallahassee
Theresa Cordova, University of New Mexico, Albuquerque
Joyce Crosthwaite, Non Profit Federation for Housing, San Diego
Marc Draisen, Massachusetts Association of Community Development Corporations, Boston
Peter Dreier, Occidental College, Los Angeles
Kate Monter-Durban, Cleveland Housing Network
Mark Elliott, Public/Private Ventures, Philadelphia
Louise Elving, The Community Builders, Boston
Bob Engler, Stockard, Engler, and Brigham, Cambridge, MA
Denise Fairchild, Community Development Technology Center, Los Angeles
Reese Fayde, New York
Karen Flock, Cabrillo CDC, Ventura County, CA
Bill Frye, Enterprise Foundation, New York
Pat Getzel, San Diego, CA
John Gilderbloom, University of Louisville
Marilyn Gittell, City University of New York
Norman Glickman, Rutgers University, New Brunswick
Ingrid Gomez, Enterprise Foundation, Washington, DC
Michael Gondek, Community Economic Development Assistance Corporation, Boston
Diane Gordon, Neighborhood Reinvestment Corporation, Boston
Aaron Gornstein, Citizens’ Housing and Planning Association, Boston
Eugene Grigsby, University of California, Los Angeles
Michael Gover, Milwaukee
Jill Hamberg, Empire State College, New York
Allen Hays, University of Northern Iowa, Cedar Falls
Ben Hecht, Enterprise Foundation, Washington, DC
Dick Heitler, New York
Daniel Hernandez, Mission Housing Development Corporation, San Francisco
Alan Heskin, University of California, Los Angeles
Pam Jones, Metro Politan Boston Housing Partnership
Tess Jordan, Community Development Nework, Portland, Oregon
Dennis Keating, Cleveland State University
Margo Kelly, Neighborhood Reinvestment Corporation, Washington, DC
Rachel Garshick Kleit, University of Washington, Seattle
George Knight, Neighborhood Reinvestment Corporation, Washington, DC
Anne Kubisch, Aspen Institute Roundtable on Comprehensive Community Initiatives, New York
Mickey Lauria, University of New Orleans
Jackie Leavitt, University of California, Los Angeles
Mindy Leiterman, LISC, New York
Thomas Lenz, University of Illinois, Chicago
Mark Levine, Brookline, MA
Diana Lewis, New Orleans Network of CDCs
Ralph Lippman, California Community Economic Development Association
Diana Markel, Housing Preservation and Development, New York
Barbara McCormick, Project for Pride in Living, Minneapolis
Mark McDermott, Enterprise Foundation, Cleveland
Joe McNeely, Development Training Institute, Baltimore
Peter Meyer, University of Louisville
Anita Miller, Comprehensive Community Revitalization Program, New York
Andy Mott, Center for Community Change, Washington, DC
Susan Naimark, Development Leadership Network, Boston
Jeff Nugent, Development Training Institute, Baltimore
Nancy Nye, Taftsville, Vermont
Bill Peterman, Chicago State University
Jim Pickman, National Community Development Initiative, Washington, DC
Tony Proscio, New York
Michael Rohrbeck, Loyola University, Chicago
Amy Rowland, Bank of America, Salt Lake City, Utah
Mike Rubinger, LISC, Washington, DC
Susan Saegert, City University of New York
Sohini Sarkar, Fannie Mae Foundation, Washington, DC
Richard Schramm, Taftsville, Vermont
Alex Schwartz, New School University, New York
Lisa Servon, Rutgers University, New Brunswick
Ron Shiffman, Pratt Institute, New York
Anne Shlay, Temple University
Julia Shreve, Massachusetts Association of Community Development Corporations, Boston
Harold Simon, National Housing Institute, New Jersey
Carol Steinbach, Washington, DC
Brian Sullivan, Pratt Institute, New York
Carl Sussman, Sussman Associates, Boston
Mike Tierney, LISC, Washington, DC
Mary Tingersoll, National Equity Fund, Chicago
Bill Trailor, LISC, New York
William Traynor, Neighborhood Partners, Cambridge, MA
Avis Vidal, The Urban Institute, Washington, DC
Fred Wacker, Fannie Mae Foundation, Atlanta
John Wait, Greenfield, MA
Christopher Walker, The Urban Institute, Washington, DC
Dee Walsh, REACH CDC, Portland, Oregon
Judy Weber, The Community Builders, Boston
Mark Weinheimer, The Urban Institute, Washington, DC
Eleanor White, Housing Partners, Boston
Wim Wiewal, University of Illinois, Chicago
Robert O. Zdenek, United Way of Somerset County, Somerville, NJ
Yittayih Zelalem, University of Illinois, Chicago
Appendix B
INTERVIEWS CONDUCTED AT EACH SITE

Milwaukee

Mike Brever, Executive Director
South Community Organization

Paul Fons, Manager
Multifamily Asset Management
Wisconsin Housing and Economic
Development Authority

Paul Geib, Program Officer
Community Block Grant Administration

Mike Heidkemp, Director
Development Services
Wisconsin Partnership for Housing
Development

John Kaye, Rehabilitation Specialist
West End Community Association
(Former Community Development
Corporation of Wisconsin staff member)

Chris Litzau, Development Coordinator
Milwaukee Community Services
Corporation
(Former Community Development
Corporation of Wisconsin staff member)

Robert Nicole
M&I Bank
(Former Community Development
Corporation of Wisconsin board member)

Bill Perkins, Executive Director
Wisconsin Partnership for Housing
Development

Leo Ries
Milwaukee Local Initiatives Support
Corporation
Skip Seager, President
Neighborhood Improvement Development Corporation

Peter Skiba, Loan Officer
Neighborhood Improvement Development Corporation

Denise Wise, Executive Director
Walker’s Point Development Corporation

Two additional interviewees did not want to be listed.

Minneapolis

Angie Barnhardt, Staff Member
Family Housing Fund

Patricia Deinhart, Community Liaison
Northwest Area Foundation
(Former Whittier Housing Corporation
executive director)

Tom Fulton, President
Family Housing Fund

Jim Gabler, Consultant
Gabler Housing Solutions
(Former Whittier Housing Corporation
executive director)

Bill Gavzy, President
The Gavzy Group
(Provided asset management for Whittier Housing Corporation)

Ed Goetz, Professor
University of Minnesota

Cynthia Lee, Project Coordinator
Minneapolis Community Development Agency

Betty Moran, Organizer
7th Street/Fort Road Federation

Kris Nelson, Program Director
University of Minnesota
(Former Whittier Alliance director)
APPENDIX B

Patrick O’Hara, Development Assistant
7th Street/Fort Road Federation

Darrel Washington
Minneapolis Community Development Agency
(Former chairperson of both Whittier Alliance and Whittier Housing Corporation)

Mary Whittley, Community Organizer
(Former Whittier Housing Corporation organizer and executive director)

Paul Williams, Director
Twin Cities Local Initiatives Support Corporation

Dallas

Claude Allen
Department of Housing, City of Dallas

Sandra Bowie
Enterprise Foundation

Jonathan Edmonds, Executive Director
Foundation for Community Empowerment

Charles Gulley
Department of Housing, City of Dallas

Allen Hayes, Board Member
Oak Cliff Development Corporation

Lester Nevels, Executive Director
Oak Cliff Development Corporation

Chris Pauling, Assistant Vice President
Bank One
(Former City of Dallas employee)

Sherman Roberts
Executive Director, Operation Relief CDC
President, North Texas CDC Association (Former Oak Cliff Development Corporation staff member)

Linda Walker, Vice President
Guaranty Federal Bank
(Former Oak Cliff Development Corporation board member)

Evolving Challenges of Community Development Corporations
Philadelphia

Barbara Easley, Chairperson
Advocate Community Development Corporation Board of Directors

Jim Everett, Consultant
(Former Advocate Community Development Corporation project coordinator)

Joanne Jackson, Executive Director
Advocate Community Development Corporation

Stephen Kazanjian, Executive Director
Greater Germantown Housing Development Corporation

Bart Kligerman, Board Member
Advocate Community Development Corporation
(Former executive director)

John Kromer, Director of Housing
City of Philadelphia

David Robinson, Resident
(Former Advocate Community Development Corporation board chairperson)

John Taylor, Executive Director
Philadelphia Neighborhood Development Collaborative

Christine Washington
President Emeritus
Advocate Community Development Corporation

Lamar Wilson
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Portland

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Sabin Community Development Corporation
Michael Andrews, Director
Enterprise Portland

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Mark Jahr
Local Initiatives Support Corporation

Cliff Jones, Senior Associate
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Gretchen Kafoury
Portland State University
(Former city commissioner)

Joan Brown Klein, Organizational
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Martha McClennan
Housing Program Manager
City of Portland

Joan Miggins, Executive Director
Housing Our Families

Don Neureuther, Director
Neighborhood Partnership Fund

Sondra Price, Interim Executive Director
Northeast Community Development
Corporation

Steve Rudman, Director
Bureau of Housing and Community
Development

Karen Voiss, Former Executive Director
Franciscan Enterprise

Will White, Executive Director
Housing Development Center
Cleveland

Tony Brancatelli, Executive Director
Slavic Village Development

Rob Curry, Executive Director
Cleveland Housing Network

Kate Monter Durban
Cleveland Housing Network

Frank Ford
Neighborhood Progress, Inc.

Eric Hodderson
Neighborhood Progress, Inc.

Linda Hudecek, Director of Community Development
City of Cleveland

Dennis Keating, Professor
Cleveland State University

Marie Kittredge, Development Officer
Slavic Village Development

Norm Krumholz, Professor
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Phil Starr
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Marlane Wesleian, Deputy Director
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Appendix C
DETAILED METHODOLOGY

The project was carried out in four phases: literature review, selection of community development corporations (CDCs) to study, site visits, and preparation and review of the report.

Literature Review

The review of the literature relevant to the research study was aimed at providing as much background on our research questions as possible. In particular, we examined studies and anecdotal reports directly related to CDC failures, downsizings, and mergers, as well as studies on contextual and organizational factors associated with CDC successes and challenges. We also reviewed literature on factors related to the failure of nonprofits in general. Gaps in the existing literature were identified, with the most important being that, prior to the present study, there had been no systematic examination of the extent and causes of CDC failures, downsizings, and mergers.

Selection of CDCs to Study

In designing a process to select the six CDCs to be studied, we sought to achieve diversity on several dimensions. First, we wanted to select two organizations that failed, two organizations that downsized, and two organizations that resulted from mergers. Second, we wanted to select organizations in different regions of the country in order to have a more nationally representative sample and to achieve diversity in local economic conditions. Third, we wanted to select organizations in cities with varying levels of local support for CDCs in order to assess the importance of that support in the organizational changes under study. Fourth, we wanted to select organizations that had gone through failure, downsizing, or merger during the past three years to maximize the chances that the key actors in these organizational changes would still be available and that the events would be reasonably fresh in their minds. Finally, we wanted to select organizations that had varied reasons for the changes experienced. We did not, for example, want turnover in the position of executive director to be the primary reason for the change in all the sites chosen.

One of our selection criteria, the change having occurred within three years of the interviews, likely limited our ability to fully ascertain the impacts of the organizational changes. Indeed, in one of our merger cases, the actual change was supposed to occur exactly at the time of the interviews, although it did not, in fact, take place until a full year later.

With the above five criteria in mind, we began to identify candidate CDCs by conducting telephone interviews with key informants around the country. Considering universities and local, regional, and national nonprofit organizations, we generated a list of about 60 people reputed to be knowledgeable about CDCs. Sometimes these informants referred us to others and a total of over 100 telephone interviews were conducted. From these interviews we identified 103...
CDCs that appeared to meet our criteria. Among these, 46 had reportedly failed, 41 had downsized, and 16 were part of mergers. (See appendix A for a list of people contacted during this initial phase of the research.)

Once this list was generated, we polled three people with extensive knowledge of the level of support for CDCs in cities across the country: Rick Cohen, formerly with the Local Initiatives Support Corporation (LISC) and currently at the National Committee for Responsive Philanthropy; Margo Kelly, Neighborhood Reinvestment Corporation; and Robert Zdenek, United Way of Somerset County, Somerville, NJ. We asked them to rate the candidate organizations’ cities as having high, medium, or low levels of support for CDCs. Their ratings were generally consistent, and we used this information to stratify the sample and select organizations in high- and low-support environments.

Next, we narrowed our list of potential CDCs by considering only those that were in cities with populations of 100,000 or more, that had been in operation for at least four years, and that had actually produced or managed a significant number of affordable housing units. We found a number of CDCs that had failed before they were able to produce much in the way of affordable housing, and there did not seem to be as much to learn from these failures. We also explicitly omitted organizations that appeared to have encountered difficulty due to blatant incompetence or possibly illegal operations.

The candidate sites were then arrayed in a matrix by the major selection criteria. We further narrowed the list by selecting two to four cities with multiple candidate organizations in each of the four major regions of the country. We learned more about these organizations, such as their size and the circumstances that led to their organizational change, by contacting key government, intermediary, or foundation representatives in 11 cities. Based on those interviews and the candidate organizations’ willingness to participate in this study, we selected six organizations that met our basic criteria and had stories that seemed to offer valuable lessons for other CDCs.

Once the selection of failed and downsized organizations was finalized, we also talked with local informants about the selection of “comparison organizations”—organizations that are as similar as possible to the principal organizations under study but that have not experienced the same organizational changes. Based on the recommendations and telephone conversations with the executive directors of the candidate organizations, we selected a comparison organization in each of the four sites where groups had either gone out of business or downsized. Given that mergers involve at least two organizations and result in totally new organizations, we did not think comparing merged organizations to other organizations would be meaningful or useful.

Site Visits

Three-day site visits were made to each city to conduct interviews with key informants and to collect relevant documentation. Before making these visits, we had telephone conversations with a key contact person in each city, which helped us identify the people most knowledgeable about what factors led to the organizational change, how the organization reacted to these fac-
tors, and what impact the organizational change had on the community or communities served. Although the mix of people interviewed varied among the six cases, it typically included certain key participants:

1. Existing or past staff members of the CDC, including the executive director and other key staff
2. Present or past members of the board of directors
3. Representatives of key city and state public organizations
4. Representatives of local CDC associations or umbrella groups
5. Representatives of local chapters of national intermediaries, such as LISC and the Enterprise Foundation
6. Representatives of foundations and funders
7. Executive directors and staff members of the comparison CDCs

The complete list of interviewees at each site is provided in appendix C.

These interviews were guided by an interview schedule that included questions on local economic and demographic trends affecting CDCs in the city; the level of support for CDCs in the city; the history and characteristics of the organization under study; the events that led to the change in the organization under study; the contextual and organizational factors causing the change; how the organization responded once the challenges/problems were recognized; the consequences of the change on the services available in the community, on the housing stock, and on other CDCs in the city; and key lessons learned from this experience. A copy of the interview guide appears in appendix D.

During each site visit, we also collected available documentation, including correspondence, audits, annual reports, publicity material, minutes of meetings, and background information on the neighborhoods served.

**Preparation and Review of the Report**

The case studies were drafted, reviewed by researchers, and then sent to about six interviewees at each site, including either current or former executive directors. Comments were incorporated into the final drafts of the case studies. Upon completion of the cases, the research team met to discuss issues that appeared in more than one case. The most salient issues are discussed in chapters 4 and 5, which cover the contextual and organizational factors behind the changes we observed, as well as in chapter 6, on impacts. A full draft of the report was reviewed by staff at the Fannie Mae Foundation, as well as by two outside reviewers.
Appendix D
INTERVIEW GUIDE

Hi, I am ____________________ from ______________. We are working on a research project for the Fannie Mae Foundation, studying CDCs that have recently undergone major changes in their operations such as a significant reduction in staff size, a merger with another organization, or a total collapse. As part of this study we are particularly interested in (name of CDC) and we are hoping that you can help us understand why it (failed/downsized/merged) and what impacts that has had.

(Provide the prospective interviewee with a copy of “Description of the Research Project for Key Informants” and allow time to read it.)

Is it all right to continue?

General Background

1. First, can you tell me a little about your professional background and current position?
   1a. What are your primary duties in your current position?
   1b. How does your organization relate to CDCs?
   1c. How were you involved in, or how do you know about, (name of CDC)?

      (Probe for more details as needed.)

Now, I have some general questions about housing and community development in the city.

2. How have local demographic and economic trends impacted CDCs and their activities in this city?

   (Probe: Any other important trends?)
   2a. How have political events impacted CDCs in the city?

3. How would you characterize the general level of support for CDCs in the city?
   3a. Has this changed over time? (If yes) Why?
   3b. Who are the key players in the support network?
   3c. Have there been any major state or local initiatives in the last few years that have affected CDCs?
4. Over the past six years, about how many CDCs have gone out of business?

   (Probe: What were their names?)

5. Over the same time period, about how many have had to downsize?

   (Probe: What are their names?)

6. About how many have merged?

   (Probe: What are their names?)

**Background on the Organization** (Ask these questions as needed.)

7. Can you please give me a brief history of (name of CDC)?

   7a. What were/are the CDC’s mission and major activities?

   7b. When was it created?

   7c. What was/is the target area and the target population?

   7d. Can you give some information about the organization’s staff size and budget at its height?

      (Probe: When was that?)

   7e. What were the major staff positions?

   7f. How large was the board and what types of persons served on it?

   7g. What were the primary sources of funding for the CDC’s activities?

   7h. (If still in business) Can you tell me about the organization today?

      (Probe: What is the staff size? What is the budget? What are the major activities?)

   7i. Do you have any printed information on the organization, including publicity material, budgets, and audits?

**What Happened, and Why?**

8. As you are aware, (name of CDC) (failed/downsized/merged). What can you tell me about what happened and why it happened? Please tell me the story as you understand it.

   8a. How important were external factors such as the health of the economy, the
nature of the local housing market, the availability of local funding, or other factors?

8b. How important were internal factors such as management capacity, leadership, or other factors?

9. How did the organization respond to the problems once they were recognized?

9a. What role did the executive director play?

9b. What role did the board play?

10. Did any other organizations support the CDC during the changes that took place?

(If yes) How? (Financial support? Technical assistance? Advocacy and political support?)

10a. What role did the city play?

10b. What role did the local residents or community groups play?

10c. What role did funders play?

10d. What role did other nonprofits play?

10e. What role did local or national intermediaries (such as the Local Initiatives Support Corporation or the Enterprise Foundation) play?

11. In your opinion, could the CDC have responded to the challenge in some more effective manner?

(Probe: Do you know why these alternatives were not considered? Lack of funds? Poor management? Inexperience?)

11a. Could funders or support organizations have responded in some more effective manner?

12. As part of our study, we are looking at other CDCs in the city to understand why some organizations continue to do well while others fall on hard times. Are you familiar with (comparison CDC)?

12a. (If yes) What are some of the reasons you think that this CDC has been successful while (name of CDC under study) had problems?


APPENDIX D

Evolving Challenges of Community Development Corporations
What Were the Consequences?

13. Were the services that were discontinued or cut back picked up by other organizations, or are they no longer being offered to residents in the service area? (If other organizations picked up services, probe for details.)

13a. (If yes) Are the service levels similar to those before the CDC experienced its problems?

14. What happened to existing housing owned or managed by the CDC? What about housing projects under development?

14a. What happened to existing economic development projects?

14b. What happened to ongoing job training and self-sufficiency projects?

15. What impacts has the (downsizing, merger, collapse) had on the immediate community served?

   (Probe: What were the impacts on residents, neighborhood groups, etc.?)

15a. What about the impacts on the greater community?

   (Probe: How has it affected the political support for CDCs? The attitude of foundations and funders? State and federal agencies? The work of other CDCs in this city?)

16. Overall, what are the key lessons of this experience?

   (Probe for other lessons.)

16a. What should funders and other agencies do to ensure early detection of problems?

17. What else should I know about the challenges faced by CDCs in this city or about (name of CDC)?

Thank you very much for your time.
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