Comments on The Federal Reserve System's Third Community Affairs Research Conference March 27-28, 2003: “Sustainable Community Development: What Works, What Doesn't, and Why” papers drafted for the “Partnerships” panel, moderated by Ken Wade, Neighborhood Reinvestment Corp. with contributions from other Neighborhood Reinvestment staff: Charles Tansey, Senior Advisor for Innovations; Michael Collins, Campaign for Homeownership Performance Analyst; and Melvyn Colon, Director of Resident Leadership.

I would like to thank the Federal Reserve System for inviting me to participate in this conference as a discussant, and I would also like to acknowledge the unique role that the Fed plays in support of community development.

I would like to offer the following comments on the papers presented at the Conference.

Community Partnerships: A Sustainable Resource for Nongovernmental Organizations
Mark Tranel and Kay Gasen

This paper looks at two neighborhoods in the city of St. Louis that formed partnerships with institutions, local government, and organizations to revitalize their neighborhoods. There are interesting similarities between the two neighborhoods — Forest Park Southeast and Old North St. Louis — and their efforts to sustain partnerships. There are also stark contrasts in terms of results. The similarities include the fact that both neighborhoods had a population of over 10,000 at their height in 1940 and subsequently lost a great deal of their real estate stock and population (to less than 5,000). Both are named for adjacent geographic features, Forest Park in one and downtown St. Louis in the other. Both partnered with a university.

The outcomes of the partnership-based redevelopment efforts have been different. In the case of Forest Park, redevelopment has been significant, but the neighborhood organizational infrastructure has not benefited. The organization that represents the neighborhood in the partnership, the Forest Park Southeast Housing Corporation, has not grown in capacity. Neighborhood residents do not feel they are well represented in the process. The article implies that the residents are not happy with the development taking place. In the case of Old North St. Louis, redevelopment has been more modest but the key neighborhood partner, the Old North St. Louis Restoration Group, has been at least an equal partner in the development and has grown in capacity throughout the process.

The authors use a variety of analytical frameworks, including social capital. This gives rise to an interesting observation. Both neighborhoods have relatively rich associational life. The Forest Park Southeast neighborhood has five neighborhood associations and a community council in addition to the housing corporation. The Old North St. Louis neighborhood, which is much smaller in terms of population, has one strong organization. It is the strength of this one organization that accounts for the different outcomes in the two neighborhoods. This organization was able to create and exert some control over the partnerships and thus direct the redevelopment of the neighborhood. In social capital terms, the argument would be that quality of the associational life of a neighborhood is more important than the sheer number of associations.

Two conclusions emerge from this study that echoes some of our experience with neighborhood revitalization at the Neighborhood Reinvestment Corporation. The first has to do with outcomes. The experience of the Franklin Park Southeast neighborhood suggests that a partnership must not represent the aggregate sum of all of the individual organizational interests and desired outcomes but, in fact, must define one set of outcomes for the effort as a whole. In this instance, the university medical establishment and the city effort each had different agendas and ultimately imposed their desired outcomes on the process, thus overwhelming the neighborhood. All partners must be equal in defining desired outcomes of the partnership. Although the FPSE partnership was largely a planning effort, it started from an unequal position. The university medical establishment already had a plan it was pursuing. The resulting planning effort was less indicative of partnership than what Sherry Arnstein might have called "co-optation" or therapy over 20 years ago. (**Sherry R. Arnstein,** ***A Ladder of Citizen Participation,*** *AIP Journal,* July 1969.) In contrast, the Old St. Louis Restoration Group was able to play a much more significant role in defining outcomes for the redevelopment effort in that area and in working toward a common set of outcomes.

The second conclusion is obvious. Capacity building for the community organization should be an important focus of the revitalization work. Neighborhood Reinvestment has made a decision to dedicate the bulk of its resources in capacity building for its network organizations and other community-based development organizations. For organizations to be effective representatives, they must have strong staff capacity.

The authors' conclusions are provocative and deserve comment. Within their framework, the desired outcome is achieved by neither organization. That is, neither achieves substantial development of both, the "physical community" and the "resident community." This suggests that they feel development in Old North St. Louis has not proceeded at an adequate pace. They are careful to note that the stakeholders feel frustrated that the pace of development has been slow. An alternative conclusion might be that the Old St. Louis Restoration Group has achieved success in directing the redevelopment process and that what the organization and the other stakeholders really need is a more realistic sense of a time horizon for redevelopment. Further I would challenge the assertion in the paper that community organizing is not sustainable or no longer an appropriate model for making change. On the sustainability question, community organizing, as with any endeavor, needs resources to be sustainable and often very strong partnerships are preceded by a period of adversarial community-organizing efforts.

Neighborhood Revitalization in New York City in the 1990s
Jason Bram, Jesse Edgerton, Yigal Gelb, Andrew Haughwout, David Lagakos, Margaret McConnell, and James Orr.

The authors take advantage of excellent data available for New York City from the Housing Vacancy Survey (HVS) and data collected by the city's Department of Housing Preservation and Development (HPD) to analyze 55 sub-boroughs for changes in housing quality and resident perceptions over the 1990s. The analysis generally shows that neighborhoods in New York City have experienced marked improvements in housing and neighborhood quality, and lower-income areas have experienced more significant gains than other areas. The authors attempt to model the causes of these improvements, isolating city investments in the housing stock through new construction and rehabilitation of existing units (40 percent of subsidized units are privately owned and occupied-units, another 40 percent are occupied or vacant units the city acquired through tax foreclosures in the 1980s, and the balance of assistance is for new construction).

The findings that New York City neighborhoods improved in the 1990s and lower-income areas experienced significant gains are consistent with recent reports released by the Brookings Institution, the Urban Institute and others (Paul Jargowsky, Tom Kingsley, 2003). The authors were able to add to the analysis of Census data completed in these other studies with additional data on crime, resident satisfaction, and deficient housing units. Using an expanded array of measures, the authors find more robust evidence of revitalization.

The authors' attempt to create an empirical model for revitalization, using housing conditions and resident satisfaction as metrics, to distill the impact of housing subsidies from general economic growth is interesting, although perhaps too simplistic. The role of immigration, the availability of financial and human capital, and investments in public infrastructure are likely unevenly distributed across neighborhoods and also very likely to affect the revitalization metrics analyzed. It also seems likely that the dependent and independent variables used in the model are all closely correlated. The discussion of the regression model does not suggest the authors tried any interactions between variables, but tests for endogenous conditions would be appropriate.

The type of housing unit also seems to be important. It is unclear how a property with multiple units is being assessed based on the paper's findings. Clearly, renovating a vacant 100-unit corner apartment building will have some spillover effects; 100 units scattered among 50 multifamily buildings across several blocks is much less likely to have much impact.

It is disappointing that the measures of CDC involvement and HMDA mortgage loan applications were discarded by the authors. In the case of CDC-led projects, it seems likely these are highly correlated with the use of city HPD subsidies for construction or rehabilitation. While CDCs' capital resources are limited relative to the scale of HPD's resources, it would be interesting to examine the value-added by CDCs to HPD subsidy—value in terms of resident satisfaction, spillover effects and crime. One hypothesis is that CDCs are conduits to civic engagement and empowerment that might leverage capital investments for increased revitalization impact. This approach might partially monetize the value-added by CDCs. The authors' choice not to use HMDA data on mortgage applications and originations is unclear. These data are available at the Census tract level and contain robust, although less than complete, information on loan applications by race and income of households, as well as whether the loan was originated and for what amount. Simple changes in denial rates, loan amounts, loan and lender types, and applicant characteristics would certainly add to the revitalization model the authors developed.

Perhaps further analysis of these data could examine the marginal level of subsidy required to maximize gains in various revitalization measures. A key question for policymakers and housing developers is not whether more subsidies would be positive, but how much more subsidy is needed to create optimal outcomes for a given level of resources.

However, the overall findings of this paper are consistent with the experiences of practitioners: proximity to the central business district is positive; increasing levels of capital investment result in increasing improvements; vacant units have a negative impact on neighborhoods; and owner-occupied housing has a positive impact on neighborhoods. The paper affirms the importance of investing in community development and offers encouragement for policymakers to expand efforts to improve housing units in urban areas.

This paper also looks at NYC during a period of unprecedented sustained economic expansion that was occurring at the national level and in the NYC metro area. Would these same effects have occurred during different times? It would have been an interesting contrast to compare the findings from this study with those of other metro areas that have not experienced the dramatic economic expansion of NYC.

Corporate Civic Investment Funds: New Models for Community Development Finance?
Amy L.W. Hosier of ICF Consulting, Fairfax, Va.

This is an impressively detailed description of community development investment structures and models. The paper begins with a thorough description of the evolution of CDCs and investment vehicles created by the low income tax credit and CDFI programs. The author neglects to mention, however, the development of revolving loan funds by neighborhood housing services organizations nationally in the mid 1970s to 1990s and the role of Neighborhood Reinvestment Corp. as a national intermediary, as well as its secondary market for NHS loans, NHSA—Neighborhood Housing Services of America.

Eight case studies are presented on models for attracting and leveraging capital for investment in housing, real estate, small businesses, and other programs seeking to foster community and economic development. Perhaps as is indicative of economic conditions, six of the eight are in the manufacturing region of the central Midwest and Northeast.

The lessons learned and implications are the shortest portion of the paper, but they suggest some important, if preliminary, findings. The first finding — that investment funds must balance being viable businesses with the goals of community development — is a very important point going forward for all CDCs. A mismatch of expectations between investors, administrators, and beneficiaries is the undoing of any community development partnership. The second finding — that securing private and public funds for investments is a growing challenge, particularly in the current economic environment — is also consistent with general community development practice nationally. The investment fund models described need to provide added efficiency and value in ways that are better than current subsidy mechanisms or the private market. The paper should attempt to demonstrate that these models are better than alternatives, however. The last finding — that attracting and retaining qualified fund staff is difficult — is also an issue across community development. The CDC field is facing an increasing human capital shortage.

This analysis might be improved if the author reflected on changes in the broader capital markets, and if the direction of community development capital structures is consistent with the future of the broader, increasingly fluid and globalized marketplace. The CCIF and CDVC models studied in this paper seek to provide what is generally needed the most – but hardest to find — in the community development industry: long-term, low-cost higher risk capital. The models, using different methodologies, seek to provide this in as efficient a manner as possible, leveraging private-sector funds to the greatest extent possible.

Several features stand out as valuable conclusions for our industry:

1. Corporate, banking, and government officials as well as community interests collectively recognize that they share a common interest in filling the gaps in the local economy. They also collectively identify gaps in critical areas.
2. The best and most efficient use of money – as in Cincinnati – is in a gap function that leverages private dollars.
3. Where available, as in NYC, financial and management expertise of the investors is a critical adjunct to the provision of capital.
4. Diversification is a signpost of success: real estate, economic development and small business loans, long- and short-term loans, early and later stage transactions, and transactions limited to a manageable portfolio size. These all add up to a safer and sounder portfolio, but they also demonstrate the complexity of providing this type of financing.

5. The recognition that revitalization and development require a wide range of interconnected solution — KHIC being perhaps the best example.
6. Funds that offer set financial returns, as in NY and the Bay Area, appear to have an easier time raising money – and raising it from a wider range of sources.
7. Setting up a variety of funds within a fund enables these entities to specialize along diversified lines of activity and attract a greater range of investors.

Sustainability is clearly an issue with these entities, but as the paper aptly points out, it is too early to tell what the optimal configuration of funds and fund investments should be. We may have to wait and watch for some three to five years more and gather more precise data before we can suggest general guidelines. This process will be made more difficult because a) the needs are likely to vary from one region to the next, and b) as gap funding mechanisms, the gaps are likely to be in constant motion. Moreover, we may have to monitor these kinds of efforts on a much larger volume of activity before we arrive at some levels of certitude.

The fragmented nature of the social impact measurements also is an impediment. Clearly, the ability to run cost-benefits on this kind of activity will be a crucial component of attracting more funding from corporate, banking, foundation, and government sources.

One area that should also bear more scrutiny as we go forward is the mix of talent required to properly run a fund or group of funds of this sort. The manner in which principals, staffs, and boards are selected is a crucial one, particularly if we are to move to the next stage of regional or national replication. Moreover, we will want to drill down and see what the best procedures for underwriting and monitoring portfolio investments are. What, for example, would preclude other funds from experiencing what Cleveland experienced with its $28mm investment in a ballpark?

The major challenges with these funds include the following:

1. Do they provide the mainstream system of finance with an excuse to not learn underserved markets?
2. Do some of these funds outlive their usefulness and continue to stay in place when the market has responded to the niche they were created to fill?
3. Can they create better business models that ensure more sustainability and which include scaling up?
4. Can they attract and keep adequate staff capacity?

One way or another, the efforts of the CDVCs and the CCIFs represent an important vanguard in the community development field. These funds have demonstrated that they can mitigate risk, provide access to mainstream markets, aggregate capital, fill gaps, and serve as models that the mainstream system of finance can replicate. This report validates the work that has been done to date, and many communities, particularly those that have experienced economic dislocation as a number of these communities have, would do well to investigate the feasibility of following down this path.

Making Business a Partner in Redeveloping Abandoned Central City Property: Is Profit a Realistic Possibility?
Elise Bright of the University of Texas, Arlington, Tex.

This is a comprehensive paper examining the potential of "TOADs" – temporarily obsolete, abandoned, derelict sites. The author presents a detailed review of the topic, including a literature review and short illustrations of successful TOAD-related projects. The author also presents findings from a survey of city administrators. The author examines the costs and benefits for cities and corporate partners of turning TOADs into more desirable properties. Overall the author finds investments in TOADS are cost effective and positive for communities, especially when indirect effects are included.

The author suggests a number of findings, including the need for long-term, patient public subsidy with low expected fiscal returns. The role of land-banking to forestall land speculation is also an interesting finding. The impediments presented by the layers of regulations regarding tax laws and environmental regulations are also significant and seem worthy of attention by policymakers. In addition, in many cities the most significant barrier to addressing TOADS is the lack of sufficient subsidy to make the parcels usable. Most of these sites have negative value, and the amount of subsidy it would take just to get the site cleaned up and ready for development is significant. The author estimates that half a million residential single-family housing units are potentially locked up in TOADs. These units could be a potentially lucrative investment for communities, as well as a way to produce housing opportunities in tight markets, expanding affordable homeownership for America's working families.

In summary, partnerships are powerful tools for achieving successful community development; however, they are not the solution to all problems. To varying degrees the authors of these papers have demonstrated the success of partnerships; however, if the interests of each of the sectors aren't clear and mutual, partnerships can fail. In addition, community organizations must be clear about the power dynamic in the context of a partnership when, in many cases, the resources reside with either the business sector or the public sector. This fact can distort the partnership if the community organizations aren't clear about what their strength is in the context of the partnership.