NEW STUDY PROBES HOW CIVIC INFRASTRUCTURE FOSTERS COMMUNITY DEVELOPMENT

A new study by William Bogart examines the link between community development organizations - public, private, and non-profit - and the vitality of community development itself. Using case studies from three major cities, Bogart's work indicates that those with the strongest and most diverse network of non-profit community development organizations realize greater private sector participation. The result is fewer subsidies per project, leading to more community development activity.

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Civic Infrastructure and the Financing of Community Development

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Executive Summary

The strength and diversity of non-profit community development organizations heavily influence how community development projects are funded and to what extent private sector financial institutions participate.

Variations in the number and geographic reach of lenders and intermediaries for capital, such as community development corporations (CDCs) and development-focused foundations, can significantly tailor national policy, such as the Low Income Housing Tax Credit, to local circumstance.

This paper examines how relationships between public, for-profit, and non-profit community development entities affect the capacity for financing urban neighborhood projects by examining networks among such groups in three cities—Cleveland, Indianapolis, and St. Louis.

To illustrate the impact of these relationships, the paper analyzes representative housing projects in each city, quantifying the net amount of subsidy that public agencies and non-profit organizations provide to urban development.

Taken together, these case studies reveal that while the financial instruments for urban development—first mortgages, subordinated debt, grants, tax abatements, and tax credits—remain the same in all three cities, the varying structure and strength of their respective community building institutions directly influence what gets built and how it's financed.

On a city-by-city basis, the case studies find that:

- **In Cleveland, a multifaceted and overlapping network of CDCs, urban development funds, and foundations fosters a vibrant marketplace for community development projects.** Overall, about $2.4 billion flows annually to urban development activities—more than in the other cities. Cleveland is the only city in the country, other

than New York, where both the Local Initiative Support Corporation (LISC) and the Enterprise Foundation coexist in the same market. It is also the city with the highest amount of private sector participation among the three, resulting in a lower level of subsidy in its representative project. City support for urban development, including a tax abatement program and aggressive enforcement of the Community Reinvestment Act, also exceeds that of the other three. Over time it appears that the level of subsidy in Cleveland has declined, resulting in more bang for the community development buck.

- **In contrast, a single non-profit group—the Lilly Foundation, which provides 75 percent of non-profit sector funding in its region—dominates community development activity in Indianapolis, where a somewhat smaller pool of development money and community groups exist.** Each year, a total of $1.1 billion is available for community development, but the city has a limited network of only 16 CDCs (compared to over 100 in Cleveland). Moreover, the activities of the CDCs, coordinated by the city, are limited to defined neighborhoods so they don't overlap. However, the near failure of one of the CDCs caused commercial banks to become hesitant about participating in Indianapolis projects, harming the entire city. For its part, the Lilly Foundation works both independently and in conjunction with LISC and the Indianapolis Housing Partnership. Lilly's weight is such that a perceived foundation preference for housing renovation rather than new construction is said to dampen commercial lending interest in new projects.

- **In St. Louis the public sector is the dominant player, because the city has an overall weak community development infrastructure.** Only about $850 million can be applied to urban development each year. Government largely plays the role CDCs do in other cities by providing secondary financing. Beside city efforts, the state of Missouri matches the federal Low Income Housing Tax Credit Program. There are few CDCs, but there is a large amount of non-profit participation—more than twice that of Cleveland or Indianapolis—in the form of pass through money from firms and banks. This spending, however, is not well coordinated in the absence of a robust network of CDCs.

To be sure, more information is needed from all parties to better understand the relative efficacy of different institutional networks and financial models.

In the interim, however, it does seem that a more layered and diverse universe of public and non-profit community development efforts leads to more opportunities for risk mitigation and hence more private sector participation. Further, with a robust institutional network in place, private sector participation in community development appears to increase over time as banks and other financial institutions grow more comfortable with such projects.