Chapter 6.
The Community Development Corporation Model

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**Overview**

Community development corporations (CDCs) are citizen-driven nonprofit organizations that revitalize neighborhoods through public and private investment. While most CDCs are primarily concerned with creating affordable housing through construction and rehabilitation, some have a broader focus, engaging in a range of activities as diverse as property management, commercial and industrial development, transportation, employment assistance, health clinics, daycares, organizing and advocacy, small business assistance, and housing counseling (Vidal, 1995). It is difficult to find an exact number of CDCs active across the United States due to differing definitions of what constitutes a CDC. Harvard University’s Center for Public Leadership puts the number of CDCs as high as 3,600, while the clearinghouse for CDCs, the Local Initiatives Support Corporation (LISC), counts some 2,800 members (Vidal, 1995). Community development corporations can be found in communities of every size in both urban and rural areas throughout the United States. More than 85 percent of CDCs are engaged in housing development projects (*Downtown and Mid City*, n.d.).

**History**

Throughout the 1960s, “organizing” became a buzzword, with citizens uniting around political, social, and religious causes, particularly the fight against poverty. President Lyndon Johnson’s War on Poverty offered financial support to cities affected by rampant joblessness, homelessness, and hunger. Community development became popular in larger cities. In 1966, Senator Robert Kennedy toured the Bedford-Stuyvesant neighborhood in Brooklyn and came away convinced that communities were in a better position than the federal government to determine the best way to rehabilitate downtrodden areas. Later that year, Kennedy sought an amendment to the Economic Opportunities Act, a cornerstone of the War on Poverty, to provide government support to a relatively new invention, community development corporations (Medoff, 1994). By the end of the 1960s, some 100 community development corporations (CDC) were in operation. The goals of these early CDCs were twofold: improved neighborhood quality and increased investments by outsiders (Walker, 2002).

The following decade saw a dramatic increase in the number of CDCs and the amount of federal funds designated for them. As communities sought to organize against urban renewal and displacement projects, budgets for federal low-income housing programs were increased (Gittell & Wilder, 1999). By the end of the 1970s, over 1,000 CDCs were in operation, and their activities were no longer limited to the nation’s largest cities (Gittell & Wilder, 1999). With the increased funds available for local housing initiatives, however, came a Presidential Commission that would ultimately determine that federal funds should be dedicated to national economic growth (Pagano & Bowman, 1995). The underlying theory behind President Carter’s *Commission for a National Agenda for the Eighties* was that cities would benefit more from a strong national economy than from funding for small projects.

The loss of funding for local housing programs and, in turn CDCs, continued throughout the 1980s. President Reagan’s *National Urban Policy Report* agreed with Carter’s earlier report, and community economic development funding sunk to its lowest levels in decades. During the Reagan Administration, general revenue sharing came to an end, as did the urban development action grant program. Additional spending cutbacks, prompted by the need for federal deficit
reduction, were approved by Congress (Pagano & Bowman, 1995). Responsibility for housing programs fell on local governments, which were already cash-strapped due to unfunded federal mandates.

Local governments proved themselves ineffective at administering what funds were still available for development projects. Responsibility for local programs was often splintered, with several different local agencies administering different aspects of the same program. Typically, a city’s public works department would be responsible for a neighborhood’s infrastructure, a housing agency would oversee housing development projects, and social service agencies would tend to the neighborhood’s health and welfare concerns (Walker, 2002). A lack of coordination among these agencies prevented many projects from being completed, and many projects were never even started. Further, the division of responsibilities prevented citizens from being effective participants in the planning and implementation process (Walker, 2002).

In spite of funding cuts and disorganization at the state and local levels, CDCs continued to thrive throughout the 1980s and 1990s. By the end of the century, the Local Initiatives Support Coalition (LISC) listed more than 2,600 CDCs that were active in cities and towns of every size throughout the United States. Finding that private foundations and for-profit corporations were often willing to fund development projects, CDCs began campaigning to diversify their funding bases while increasing their range of services (Walker, 2002).

**Focus**

Most community development corporations address local housing concerns at the outset, focusing on housing development and rehabilitation. Local and state governments often entrust CDCs to utilize federal grant allotments to address neighborhood-level housing problems. The primary federal funds available to CDCs come from the U.S. Department of Housing and Urban Development (HUD) in the form of HOME grants and Community Development Block Grants (CDBG).

The federal government allocates at least $335,000 annually to larger cities and towns through the HOME program. States are allocated at least $3 million annually each, and smaller jurisdictions that do not get HOME funding directly from the federal government can request funds from the state. Though HOME funds do not go directly to CDCs, local and state governments typically work with CDCs to support building, purchasing, and rehabilitation projects. The Department of Housing and Urban Development specifies that HOME funds may be used to fund rental projects as long as at least 90 percent of the units constructed or rehabilitated are designated for families whose income is at or below 60 percent of the area’s median family income (*Home Ownership*, n.d.). This formula leaves little room for funding mixed-income housing.

The Department of Housing and Urban Development also supports the construction and rehabilitation of homes through its CDBG program. Like the HOME program, CDBG funds are not directly allocated to CDCs. Rather, funds are directed to cities and states. In order for a city to qualify for *entitlement community* status, the city must be the principal city of a Metropolitan Statistical Area, have a population of 50,000 or more, or be located in a county of 200,000 or more. Entitlement communities must allocate 70 percent of their CDBG funds for activities that benefit low and moderate income families. For smaller towns that do not have *entitlement community* status, CDBG funds are available through the state (*Community Development*, n.d.).

Community development corporations must address a number of housing concerns in order to be effective. Throughout the 1990s, the number of renter households with at or below poverty level incomes increased significantly, while the number of low-rent unsubsidized housing being created annually decreased. The average renter’s gross rent burden increased, as well. Rent costs, rather
than the unsoundness of housing structures, became the primary housing problem confronting most communities (Vidal, 1995).

The response to housing deficiencies from CDCs has been an increase in housing production. From 1960 to 1990, CDCs accounted for one out of every seven houses produced with federal funds by building 736,000 housing units. Since 1990, CDCs have further increased their housing production, averaging 30,000 to 40,000 units annually (Cowan, Rohe, & Baku, 1999). Using HOME and CDBG funds, CDCs continue to be a powerful housing development force.

Many CDCs begin with housing as their primary mission, then find that their communities need additional services. Neighborhoods that have experienced demographic changes, crime increases, and property value losses often find that commercial developers bypass them when seeking locations for new commercial ventures. Residents of distressed neighborhoods with abandoned buildings often must travel long distances for conveniences taken for granted by those who live near the newest strip malls and supercenters. Further, low-income residents are often unable to obtain the social and medical services they need. In many cities, CDCs have worked with other neighborhood organizations to address these problems. Some CDCs administer loan funds to lure new businesses to their neighborhoods and to help keep existing ones in business (Vidal, 1995). Currently, 60 percent of capable CDCs (those with budgets that can support the building of at least ten housing units per year) are actively engaged in commercial and business development. Further, 45 percent of capable CDCs report being actively engaged in building, funding, or partnering in community facilities such as health clinics and community centers. Planning and organizing, homeownership programs, and workforce and youth programs are also gaining in popularity among CDCs nationwide (Walker, 2002).

Increased program diversity has led most CDCs to increase their budgets. From 1991 to 1997, average CDC operating expenses grew by 150 percent; the budgets of smaller CDCs grew at a more rapid rate than those of larger CDCs. The median CDC budget in 1999 was $676,000, and the average staff size was 11.5 employees (Walker, 2002). The 1990s saw increases in CDC funding from local governments, as well as private funding sources. Though federal allocations have bounced back in favor of local governments and CDCs, most CDCs have stopped relying solely on federal funds. National nonprofit organizations such as The Enterprise Foundation and LISC have increased their funds for local CDC projects. Local nonprofits have also increased their support of CDCs; Boston’s highly successful Dudley Street Neighborhood Initiative and its subsidiary CDC, Dudley Neighbors Inc., relied heavily on start-up funding from Boston’s Riley Foundation, a partnership that continues today (Medoff & Sklar, 1994). Churches, other CDCs, and private corporations are necessary partners for most active CDCs.

**Efficiency**

Much of the literature that attempts to analyze CDCs does so by measuring CDC efficiency. Since CDCs usually arise as a response to some sort of neighborhood crisis, studies often use the initiating crisis and the CDC’s response as the basis for determining whether the CDC is efficient and successful or not. A 1999 study by Gittell and Wilder attempted to find the determinants of successful CDCs by evaluating CDCs based on five criteria: financial resources, physical resources, human resources, economic opportunities, and political power and influence. The study revealed four factors that are common to successful CDCs.

First, successful CDCs create organizational mission statements that inspire neighborhoods, funding sources, and other organizations to commit to the CDC’s cause. Thus, the CDC’s mission is a determinant of success. A successful CDC has a mission that is both specific and broad. Being specific in mission identifies a problem and inspires residents to want to fix it; being broad in mission takes the crisis beyond the neighborhood level, making it more appealing to funding
sources and support organizations (Gittell & Wilder, 1999).

Second, successful CDCs organize residents in order to gain political capital. These CDCs also network with other institutions to increase their clout. By mobilizing residents and making citizen input essential to the decision-making process, CDCs increase their visibility and get the attention of lawmakers, bureaucrats, and potential investors (Gittell & Wilder, 1999).

Third, successful CDCs place significant emphasis on organizational competency. Staff members and volunteers are given education and training to make them more effective at fundraising, handling neighborhood demands, and working with politicians and bureaucrats to solve problems. Well-trained staff members and volunteers are less likely to face burnout, thus reducing turnover and making the CDC more stable. Organizational competency also involves knowing when to seek assistance from other organizations and individuals (Gittell & Wilder, 1999).

Finally, successful CDCs seek funding from diverse sources, including government, private foundations, and corporations. By doing so, the CDCs become less vulnerable to federal policy and budget shifts (Gittell & Wilder, 1999).

Gittell and Wilder (1999) note that increased political clout and increased neighborhood leadership are two important qualities of successful CDCs that cannot be measured quantitatively, though their effects can be inferred through funding changes. Further, the authors point out that local factors figure heavily in the strategy of successful CDCs. In areas with long histories of decline, CDCs must be less aggressive and start by listing modest objectives; successful CDCs from areas in decline typically focus on building partnerships from the outset.

A study by Cowan, Rohe, and Baku (1999), sought to determine whether CDCs are efficient or not by examining the relationship between compensation and investment. The study compared the staff compensations of CDCs with the investments made by CDCs and their funding partners in development activities. The study made adjustments based on his presuppositions: larger CDCs benefit from economies of scale; a CDC’s age has a negative correlation with its efficiency; leadership stability has a positive correlation with efficiency; the size of a CDC’s staff may impact efficiency either positively or negatively; staff and volunteer training improves efficiency until the point at which it makes the staff more marketable to competing CDCs; and investment has a positive correlation with efficiency (Cowan et.al., 1999).

The results of the study revealed several factors of CDC efficiency. Community development corporations that serve areas with older housing stock and a higher median income tend to be more efficient. Staff tenure, compensation, and training also positively impacted efficiency. Larger CDCs tended to be more efficient. Finally, the study showed that CDCs that directly invest at least $1.25 million annually into development projects tend to be the most efficient (Cowan et.al., 1999).

CRITICISM

Community development corporations are not without critics. Randy Stoecker, a professor of Social Work at the University of Toledo, is a leading critic of the community development corporation approach to development and revitalization. Peter Medoff and Holly Sklar, who chronicled the rise of the Dudley Street Neighborhood Initiative in Streets of Hope are also critical of how most current CDCs function. The arguments against CDCs are generally threefold: CDCs have failed to reverse neighborhood decline; CDCs often act as nothing more than landlords; and CDCs attempt to serve incompatible masters.

Medoff and Sklar (1994) argue that most CDCs focus too much attention on buildings while ignoring
the underlying causes of neighborhood decay. With a primary focus on constructing and rehabilitating housing, CDCs often miss the opportunity to provide neighborhood residents the jobs and services they need. Thus, the neighborhood’s decline continues, albeit with nicer houses (Medoff & Sklar, 1994). Smaller CDCs are also often criticized for being too small to have any positive effect on the neighborhoods they serve. Stoecker promotes consolidating smaller CDCs into larger umbrella organizations, thus increasing the CDCs’ budgets and political clout (Stoecker, 1996). In their evaluation of CDC efficiency, Cowan et.al. offered both affirmation and dissent to Stoecker’s idea of CDC consolidation. Cowan et.al. (1999) noted that the higher efficiency scores of larger CDCs supports consolidation; because of lower budgets and less political clout, smaller CDCs are simply unable to offer the range of services that larger CDCs can offer. On the other hand, Cowan et.al. (1999) inferred that the umbrella CDCs promoted by Stoecker could be harmful because they would be less responsive to the demands of constituent neighborhoods; by retaining a singular focus, CDCs are better able to obtain neighborhood input.

Stoecker (1996) faults CDCs for going beyond the noble cause of building new housing and rehabilitating rundown housing. In an effort to raise funds, CDCs often act as property managers or landlords, becoming inept disciplinarians rather than partners to the residents the CDCs claim to serve. Stoecker (1996) notes that there are inherent problems with rental housing, as well. Renters are more apt to move around in search of better priced housing, thus affecting the stability and property values of a neighborhood. Stoecker (1996) points out that often renters’ desires are at direct odds with homeowners’ desires. Community development corporations should be more concerned with homeownership than with rental housing, the critics assert.

Stoecker (1996) is also critical of the dual role CDCs typically find themselves playing: advocate for the neighborhood and partner with governments and corporations. Because CDCs must be fundraisers first, funders are able to direct CDC activities. Like most CDC proponents, Stoecker (1996) envisions CDCs as advocates for the vision of the residents they serve, even if that vision is not popular with politicians, bureaucrats, and for-profit corporations. A CDC’s first priority should be the needs of the community it serves, these proponents argue. Yet, Stoecker (1996) argues, CDCs must act according to the wishes of the funders if the CDCs want to continue to obtain funding, and most funding sources do not share common values and visions with the residents in the communities being funded. Those who argue against this dual role played by CDCs point to the CDCs’ associations with local Chambers of Commerce and previous relationships with the National Association of Manufacturers as evidence that CDCs’ first loyalties rest with funders rather than residents (Stoecker, 1996). Many community activists blame the for-profit corporations that constitute these groups as the primary causes of neighborhood decline.

Ultimately, most critics of the community development corporation model argue that the primary problem with CDCs is that they do not give the citizens affected by CDC decisions enough control over the CDCs and the decision-making process. Though the Boards of most CDCs are made up of a citizen majority, critics argue that is not sufficient. Rather, critics such as Stoecker (1996) promote the complete separation of neighborhood advocacy from construction and fundraising. Stoecker (1996) proposes that CDCs take on the task of physical redevelopment, while leaving advocacy strictly to residents. Notably, this separation of interests has been an integral part of the success of Boston’s Dudley Street Neighborhood Initiative (DSNI). Based on the belief that organizing should lead the physical development agenda, the DSNI created a CDC called Dudley Neighbors, Inc. While DSNI is concerned with the political and advocacy aspects of neighborhood development, Dudley Neighbors’ duty is to acquire, develop, and rehabilitate land and buildings in the neighborhood. The DSNI retains control over Dudley Neighbors, thus ensuring that no physical displacement occurs and that other neighborhood concerns are addressed in the physical development of the neighborhood (Medoff & Sklar, 1994).

A CDC Case Study: Argenta CDC

Chapter 6
The Argenta Community Development Corporation, a typical CDC located in downtown North Little Rock, Arkansas, arose in the early 1990s as a citizen-led response to rampant crime, deteriorating housing, and empty storefronts. In 1994, the North Little Rock Police Department reported that the twelve-block Argenta area was responsible for 1,660 police calls that year alone (Argenta Community, n.d.). Disturbing the peace and public intoxication were among the less significant crimes that reached peak numbers. However, the 166 burglaries, 48 robberies, and two homicides were serious enough to prompt citizens to organize and form the Argenta CDC (Argenta Community, n.d.). While officials in downtown Little Rock, directly across the Arkansas River from Argenta, were talking of revitalizing their riverfront area, Argenta seemed headed for nowhere. From the outset, the residents who organized the Argenta CDC were concerned that the rising crime rate was directly related to the decay of the homes, businesses, and historic sites in the neighborhood. Like most other CDCs, the Argenta CDC began with the goal of renovating rundown houses and drawing new residents to the area (Downtown and Mid City, n.d.).

The Argenta CDC relied heavily on federal funding from the outset. The City of North Little Rock, recognizing that it had to clean up its riverfront to attract visitors from neighboring Little Rock, allocated portions of its HOME and CDBG funds to the newly formed Argenta CDC for housing development. The CDC’s partnership with the North Little Rock Police Department prompted interest from other organizations and corporations within the community who wanted to benefit from the growth and popularity of downtown Little Rock. The proximity of Argenta from Little Rock’s central business district, combined with the easy access to the neighborhood from Interstates 30 and 40, made Argenta a prime target for redevelopment efforts.

Joining the Argenta CDC to reverse the neighborhood’s blight were churches, banks, local government agencies, state agencies, and corporate partners. The CDC sought and received recognition by the National Register of Historic Places, thus improving its marketability. A local church, Gardner United Methodist Church, began offering down payment grants of $1,000 to anyone willing to buy a home and relocate to Argenta (Downtown and Mid City, n.d.). Soon, the Argenta CDC decided that its focus should be expanded beyond crime prevention and housing construction and rehabilitation. The CDC began offering homeownership counseling and assistance to residents throughout Pulaski County (Argenta Community, n.d.). Working with the NeighborWorks network, the Argenta CDC now offers financial counseling, grants and loans for down payments and closing costs, low-interest home repair loans, and homebuyer education courses (Downtown and Mid City, n.d.).

Based on Gittell and Wilder’s efficiency criteria, Argenta CDC would be categorized a small CDC. Though it is engaged in multiple activities, the CDC has a staff of only six (Argenta Community, n.d.). Further, its annual budget does not rise to the $1.25 million threshold suggested by Cowan. Nevertheless, it does not appear that the improvements made in Argenta would have been made without the guidance of the Argenta CDC. Since 1991, more than $12 million has been invested in Argenta, resulting in 65 housing units being rehabilitated. Perhaps the crowning achievement is the 87-unit Argenta Square apartment complex, which opened in 2002 to families of low and moderate incomes; Argenta Square is the first significant new residential development built in Argenta in half a century (Downtown and Mid City, n.d.). The Argenta CDC has been an integral part of bringing the Little Rock trolley line to the neighborhood’s edge and the new Dickey-Stephens minor league baseball park to the North Little Rock riverside. New restaurants and bars have opened along Argenta’s east side. Additionally, a private developer has announced plans to build an upscale new urbanist housing development called the Enclave on Argenta’s south side. Thus, the neighborhood is becoming more mixed-income, while offering improved amenities (Argenta Community, n.d.).

The Argenta CDC does not seem to be affected by the criticism that CDCs fail to reverse neighborhood decline. The primary complaints of Argenta residents were crime and rundown
housing. Through its partnership with the North Little Rock Police Department, the Argenta CDC notes that police calls have declined from a high of 1,660 in 1994 to 754 in 2002, a decrease of more than 50 percent (Argenta Community, n.d.). In fact, Argenta, which was previously the highest crime area in the City of North Little Rock, reported a 17.3 percent decrease in total crimes in 2001, while the City of North Little Rock as a whole reported a 3.7 percent increase (Argenta Community, n.d.). A 1999 economic benefit analysis by the Neighborhood Reinvestment Corporation indicated that the 25 homes rehabilitated by the CDC that year would generate $6.6 million in economic benefits for the City over the next ten years (Argenta Community, n.d.). Additionally, the new amenities planned for the neighborhood should increase the area’s quality of life.

Stoecker (1996) heavily criticizes CDCs for taking on the role of landlords over CDC-owned rental property. The Argenta CDC retains ownership of the Argenta Square apartment complex, which is located in the heart of the neighborhood (Argenta Community, n.d.). The rental property produces a steady flow of income, which the Argenta CDC uses to reinvest in the neighborhood through new development projects. Undoubtedly, the typical landlord-tenant problems have occurred at Argenta Square with the CDC having to enforce rules and, when necessary, evict tenants who break their contracts. The CDC, however, points to its record of crime reduction in the Argenta area, which most Argenta Square tenants would not want to trade; the CDC also pledges to be evenhanded in its dealings with tenants (Argenta Community, n.d.). Whether the CDC acting as a landlord inhibits the residents’ ability to organize is not yet known.

The Argenta CDC acts as both neighborhood advocate and fundraiser, in spite of charges by CDC critics that such a dual role is impossible to manage effectively. The CDC points out that 60 percent of the members of the Argenta CDC Board of Directors are residents of downtown North Little Rock (Downtown and Mid City, n.d.). Further, the CDC works with Habitat for Humanity to encourage residents to take active roles in shaping Argenta’s future; in fact, the CDC has one full-time staff member whose position is dedicated to organizing residents and developing leaders among the residents (Downtown and Mid City, n.d.). The Argenta CDC’s commitment to neighborhood advocacy accompanies its fundraising efforts. The CDC has gained considerable political clout, which it has used to gain funding for its housing and homeowner counseling programs. The CDC has also been able to persuade private developers and government authorities to consider Argenta for additional private and public developments; the Little Rock trolley line running to Argenta and the location of the new minor league baseball stadium in the neighborhood are results of the efforts of the CDC, Argenta’s residents, and North Little Rock officials. The Argenta CDC’s funding base is diverse; it partners with nonprofit organizations such as Habitat for Humanity, YouthBuild, and Gardner Memorial United Methodist Church, as well as for-profit corporations including several local banks and Coulson Oil Company (Argenta Community, n.d.).

Though the Argenta CDC has not grown to the level of Dudley Neighbors or any of the CDCs found in larger cities, it has been effective at filling a gap in the downtown housing market; it has created new housing opportunities while reducing crime, thus fulfilling its organizational mission. The CDC has demonstrated its organizational competency by training its staff and volunteers and keeping its staff turnover rate low. By luring private and public investment to the neighborhood, including landing projects for which other areas of the MSA competed, the CDC has demonstrated that it has gained, and is willing to use, at least some political capital. Finally, the CDC has proven itself a good fundraiser by creating a diverse range of funders, thus reducing its reliance on federal government grants.

**Conclusion**

Community development corporations trace their history back to the political activism of the 1960s, though the strongest gains in the number of CDCs occurred in the 1980s and 1990s. In spite
of federal budget cuts, many CDCs found themselves succeeding due to increases in funding and program diversity. Though CDCs usually begin with a sole focus on housing development, most have either expanded into other areas or intend to do so. Many CDCs fill social service, transportation, and healthcare needs in their service areas. Using HOME, CDBG, Low-Income Housing Tax Credits, and other public and private funds, most CDCs continue to be involved in housing construction and rehabilitation. The success of CDCs is typically measured in terms of efficiency. Efficient CDCs have four elements in common: mission, organizational competency, political capital, and funding. Larger CDCs, especially those with annual budgets of more than $1.25 million, are typically more efficient than smaller ones (Cowan et.al., 1999). Critics of CDCs argue that CDCs are ineffective at stopping neighborhood decline, are inept landlords, and cannot serve the dual roles of satisfying the demands of both residents and funders. Community development corporations generally disagree with these criticisms and point to their successes in housing and other development projects as evidence that the criticisms are misguided.

REFERENCES


