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On "Enhancing Community Development"

For the Subcommittee on Housing and Community Opportunity
Committee on Financial Services
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Introduction and Overview

Thank you, Chairwoman Roukema, Representative Frank and members of the Subcommittee for this opportunity to discuss enhancing community development through strengthening community-based organizations.

The Enterprise Foundation is a national nonprofit organization founded in 1982 by Jim and Patty Rouse that mobilizes private capital to support such grassroots groups and a wide range of their neighborhood revitalization initiatives. We have invested nearly $4 billion in low-income communities. Our local partners have used these resources to leverage an additional $7.5 billion in private and public investment in their neighborhoods. These resources have produced more than 132,000 affordable homes, helped more than 36,000 hard-to-employ people qualify for work and retain employment and provided quality daycare to more than 9,000 low-income children.

Our origins are in a single community-based organization here in Washington, D.C. Jim and Patty Rouse were inspired to start Enterprise by three women from the Church of the Saviour in Adams Morgan. They asked Jim for help in turning two run-down, rat-infested buildings blighting their neighborhood into affordable apartments for low-income residents of the area. Through multiple sources of financing and thousands of hours of volunteer time, the women achieved their goal. The buildings still provide a decent affordable home to low-income people in that community today.

The Rouse's launched Enterprise to help more low-income people like those in Adams Morgan revitalize their neighborhoods through grassroots organizations. Today, Enterprise's network of local partners includes 2,200 community and faith-based groups, public housing authorities and Native American Tribes in more than 800 locations.

Our national scope enables us to achieve economies of scale and diversity of risk for our private and public sector partners in community development. Enterprise is the bridge between those partners. To the grassroots, we provide resources, expertise and access to additional capital. To philanthropic and corporate institutions, we offer assurance that their funds are invested to achieve maximum impact. To federal, state and local government, we make certain that taxpayer dollars are appropriately targeted, efficiently used and fully leveraged with private financing.

The Importance of Community-Based Development Groups

Enterprise believes that community-based development organizations are vitally important institutions that warrant continued and expanded private and public support. We commend Representatives Tubbs-Jones and Watts for recognizing the need for more support for grassroots groups in their "Community Economic Development Expertise Enhancement Act of 2002" (H.R. 3974). We urge members of the Subcommittee to support substantially higher funding for proven programs to strengthen the grassroots community development system. Our testimony focuses on one: the "Section 4 Capacity Building for Community Development and Affordable Housing" initiative.

Community-based developers are proven producers of affordable housing and generators of private investment and economic development in the toughest markets in the country. Recent research indicates that there are more than 3,600 community development corporations (CDCs), by far the most common, but by no means the only, type of community-based development group. CDCs have produced approximately 550,000 affordable homes and apartments. In addition, they have provided nearly $2 billion in financing to almost 60,000 businesses, developed 71 million square feet of commercial and industrial space and created nearly 250,000 jobs.[i] Virtually all of this has occurred in the most distressed neighborhoods in America.

Grassroots community developers combine the best of private and public sector approaches to do what neither can do alone. They bring business discipline and entrepreneurial innovation to carrying out a public purpose mission. Federal Reserve Board chairman Alan Greenspan recently noted, "These innovators have succeeded in developing new approaches for engaging disadvantaged participants in the economy in the same manner that any successful organization does—by assessing need, evaluating risks, managing costs and developing appropriate products."[ii]

Community-based developers are accountable to the neighborhoods they serve because they are based there. Local leaders staff the organizations and lead them on their boards of directors. Their neighborhoods can see firsthand whether the group is serving the community's needs—and whether its work merits their support. Grassroots development groups gain credibility only by showing results, often working one family, one building, one block at a time. Their neighborhood focus forces them to concentrate on concrete objectives, not the vague plans or promises that sometimes characterize government solutions. Their mission ensures their commitment to the community through thick and thin. If a project stumbles, they do not walk away, the way a private business might from a failing venture.

Community-based groups cannot do it alone, however. Smaller organizations need steady, sustained support from multiple private and public partners to succeed. And even the most sophisticated organizations need reliable resources and expert advice to maintain and expand their successes. While the huge majority of support for community-based developers comes from the private sector, the federal government plays an important role. One especially vital federal program—launched to augment a private sector initiative—is Section 4.

Growing the Grassroots Through Section 4 Capacity Building

Through Section 4, HUD channels federal funds through intermediaries like Enterprise to help community-based groups hire and retain staff, invest in technology, develop business plans, improve internal systems and pursue new opportunities.

Section 4 funds also enable Enterprise to provide intensive training and technical assistance to groups we assist with capacity buildings funds in all aspects of housing and economic development as well as organizational management.

Congress enacted Section 4 in 1993 to allow HUD to participate in a private sector-led collaborative called the National Community Development Initiative (NCDI). The NCDI, now known as Living Cities, had been formed two years earlier by a group of national foundations, corporate institutions, Enterprise and the Local Initiatives Support Corporation (LISC).[iii] The purpose of the initiative was to strengthen grassroots groups, attract additional resources to expand their work and institutionalize continuing local support for community-based revitalization. Under the Living Cities initiative, funders channel resources through Enterprise and LISC to community-based organizations in 23 cities.[iv]

Between 1991 and 2000, Living Cities funds directly helped community-based groups develop almost 20,000 affordable homes and 1.7 million square feet of commercial and community facilities. In an independent evaluation, the Urban Institute found that community group strength, production and local support systems have grown significantly thanks to Living Cities investment. As a result, community-based groups "in many cities are now the most productive developers of affordable housing, outstripping private developers and public housing agencies," according to the Institute.[v]

Based on Living Cities' early success, Congress in 1997 appropriated Section 4 funds to Enterprise and LISC to assist community-based groups outside the 23 Living Cities locations, including in rural areas and on Tribal lands. Enterprise has assisted more than 200 groups in nearly 100 locations with these funds. (Since 1997, Congress also has provided Section 4 funds to Habitat for Humanity International and Youthbuild USA.)

Independent evaluations have confirmed Enterprise and LISC's success in using Section 4 funds outside Living Cities locations. According to a report by Weinheimer & Associates for HUD, "by and large the Section 4 program met and exceeded the goal established by Congress to develop the capacity of community development corporations to undertake community development and affordable housing projects and programs."[vi]

Reasons for Section 4's Success

Several factors account for the Section 4 initiative's success, in the view of independent evaluators. According to Weinheimer & Associates:

- "Section 4 itself created a pool of money dedicated to building capacity of nonprofit organizations. That set-aside of money signaled that the task of capacity building is important and merits its own funding. It is not just a by-product of other activities. This suggested to other leaders that capacity building is worthwhile and important.

- "The Section 4 money is flexible. This allowed both Enterprise and LISC to meet local needs and opportunities in a variety of locations. They were not restricted to one national model of capacity building.

- "HUD used two strong national organizations with a great deal of specialized knowledge in community development to deliver the capacity building assistance. Both Enterprise and LISC brought new tools and techniques to local situations and neighborhoods that usually were not previously present.

- "The intermediaries demonstrated an ability to innovate with new tools and techniques for capacity building. Both organizations also are engaged in developing technology-based learning tools that show promise for helping isolated CDCs.

- "In most cities, the intermediaries built local systems of support for the CDCs. That is, they enlisted local funders and supporters who leveraged their own resources, and they helped to create more streamlined funding streams for CDCs."[vii]

Another strength of Section 4 is the leverage it achieves. Section 4 recipients must match every federal dollar with at least three additional dollars of private support. In practice, Enterprise and LISC far exceed that requirement. For example, between 1991 and 2000, the two intermediaries used $41 million in Section 4 funds for Living Cities to raise $218 million from private partners, a leverage of more than five to one.

In addition, Section 4 investment and assistance has even larger leverage in terms of total development cost. For example, the $65 million in private and public capacity building funds Enterprise invested through Living Cities' first decade supported $889 million in total housing and economic development in low-income communities, a leverage of more than 13:1.

Matching funds and additional financial leverage are hugely important to community group capacity building initiatives. They ensure that the federal government maximizes the return on its investment and provide additional accountability on the use of federal funds by increasing the number of stakeholders in an organization's success.

Finally, Section 4 works because Enterprise, like LISC, ensures a high level of accountability among the groups we assist. The vast majority of our community partners meets or exceeds our high standards. Some experience setbacks, as any small business operating in a tough market does.

The following measures help assure those occurrences are rare and correctable:

- Detailed work plans and regular reports. Groups that receive commitments of Enterprise grant funds must develop detailed plans for how they would use the money. The work plans set out specific measurable objectives. Groups must report at least semi-annually to Enterprise on their progress—and setbacks. Enterprise works with groups to fix problems as they develop.

- Audits and site visits. The audits enable Enterprise to verify that groups have sufficient management controls in place to ensure they use taxpayer dollars in accordance with the law and the purpose of the grant. Enterprise audits a random sample of grantees each month. Audits include "desk reviews" as well as site visits. If audits uncover improper use of finds, Enterprise—not the federal government—must pay the cost. *This virtually never happens.*

- Hands-on training and technical assistance in conjunction with funding. Enterprise actively assists the groups it funds, especially the least experienced, in all aspects of organizational management and project development. In cities where Enterprise has an office, local staff deliver these services and are in constant contact with Enterprise's grassroots partners. Where we do not have staff "on the ground," national staff keep close tabs on grantees, through regular communication, site visits and through other local partners in the community.

Conclusion: Section 4 Works Well and Needs More Resources

The Section 4 program has a 10-year track record of real results in hundreds of urban and rural low-income communities. This model for enabling grassroots groups to be more efficient, effective agents of change is sound. But the initiative is underfunded relative to the need.

Last year, Congress appropriated $25 million in Section 4 funds to Enterprise and LISC to split equally. Again we are profoundly grateful for this support. But we need more of it to help all the groups and communities that need it. Enterprise and LISC requested $40 million for fiscal year 2003. The Senate Appropriations Committee provided $31.5 million in its version of HUD's fiscal year 2003 funding bill (Senate Report 107-222). The full increase we are seeking, to $40 million, while substantial in percentage terms, would still be less than a penny on the dollar within HUD's budget.

As we hope our testimony has shown, this limited investment of federal resources would leverage large private sector support to achieve substantial, lasting impacts in low-income communities. It would help ensure that scarce federal funds for housing have the impact Congress intends. And it would empower grassroots groups around the country to continue their community revitalization and family renewal efforts.

[i]National Congress for Community Economic Development, 1999 Community Development Census, as excerpted in *2000 Advocate's Guide to Housing and Community Development Policy*, National Low Income Housing Coalition, p. 6 and p. 14.

[ii] "Remarks by Chairman Alan Greenspan at the Greenlining Institute's Ninth Annual Economic Development Summit, Oakland, CA, January 10, 2002," p.3, Federal Reserve Board website.

[iii]The funder participants in Living Cities are the AXA Community Investment Program, Bank of America, The Annie E. Casey Foundation, J.P. Morgan Chase & Co., Deutsche Bank, Fannie Mae Foundation, The Robert Wood Johnson Foundation, W.K. Kellogg Foundation, John S. and James L. Knight Foundation, John D. and Catherine T. MacArthur Foundation, The McKnight Foundation, Metropolitan Life Insurance Company, The Prudential Insurance Company of America, The Rockefeller Foundation, Surdna Foundation, HUD and the Office of Community Services of the U.S. Department of Health and Human Services.

[iv] The cities are Atlanta, Baltimore, Boston, Chicago, Cleveland, Columbus (OH), Dallas, Denver, Detroit, Indianapolis, Kansas City (MO), Los Angeles, Miami, Newark (NJ), New York, Philadelphia, Phoenix, Portland (OR), San Antonio, San Francisco Bay Area, Seattle, St. Paul (MN) and Washington, DC.

[v]Walker and Weinheimer, *Community Development in the 1990's*, Urban Institute, 1998, p. 1.

[vi] Weinheimer, Engdahl and Honor, *HUD Section 4—Building the Capacity of Community Development Corporations: Assessment Report For FY 1997 Funds*, Weinheimer &Associates, 2001, p.2.

[vii] Weinheimer, Engdahl and Honor, pp.3-4.