The Use of Federal Housing and Economic Development Funds in St. Louis: From Team 4 Into the Future

Tom Zuniga,
Managing Director
DSG Community Marketing Services LLC
Key Biscayne, Florida

Written Testimony before the House Committee on Financial Services Subcommittee on Housing and Community Opportunity

March 8, 2008
St. Louis, Missouri

Madam Chair and distinguished members of the Subcommittee on Housing and Community Opportunity, thank you for the invitation to offer testimony about innovative strategies and programs that are needed to bring about important changes in community development. I would like at the outset to acknowledge the leadership in Community Economic Development of this Subcommittee's Chairperson, Congresswoman Maxine Waters—and her commitment to improving the well-being of low-income and minority communities.

In my remarks today, I hope to encourage local communities to adopt economic development policies that engage in public-private partnerships that rely on market information to drive investment in low and moderate income communities. In that regard, I hope to identify strategies and approaches that seek to rectify the mistakes and programs of the past.

I am grateful for the relationship with John Talmage and the staff of Social Compact who have provided us new possibilities through information for understanding the incredible market potential and untapped purchasing power of inner city residents. Social Compact has truly been a catalyst in infusing new energy and significant investment to communities. As a former resident of Washington, DC, I am very familiar with what has been accomplished in the Columbia Heights neighborhood of Washington.

Let me also acknowledge that some of the past practices, some of the legislative and regulatory actions that precede us, that may appear wrongheaded were not "willful mistakes". Many of our predecessors in community development were "problem solvers" in search of solutions and answers to problems in much the same way we are doing today. The older I get, the more willing I am to acknowledge that economic development is more art than science and that smart, well-meaning people in search of answers arrived at solutions that may have solved some immediate short term problem but resulted in unintended consequences in the long term. The value of a forum like this is that it enables us to think about what's gone before us and to reflect on what has worked, what has not worked and why.

The Good Old Days of Slum and Blight

In the past, we placed much emphasis on physical development. We remember "slum clearance", "urban renewal", "model cities"---solutions aimed at reversing declines in urban neighborhoods. The solution to the problem of blight was to remove it. We adopted "community redevelopment strategies" that relied on a top down, massive infusion of federal dollars. The unintended consequence—although some would argue otherwise—was the displacement of families as their homes were destroyed to make way for commercial redevelopment. In trying to signal community renewal, most of these commercial revitalization efforts were not enough to create the new vibrant neighborhoods that their creators envisioned, nor did they stem the flight of businesses and families from the inner city—

Community Building as the New Strategy

The new paradigm shift in community development suggests that real revitalization is driven from bottom up—by local government working with the private developers, involving residents, and nonprofits, local entrepreneurs in the revitalization process. We have examples of investors supporting local entrepreneurs and providing private equity to inner city businesses. We have non profit organizations and community development financial institutions (CDFIs) helping to incubate new businesses by providing technical assistance and small business loans to low income and minority entrepreneurs. Equally notable are local efforts to ensure that residents benefit from these investments. We have models of "Community Benefits Agreements" for how local government, private developers and community organizations can work together to promote equitable development---to ensure that new housing units in a redevelopment area will be affordable to low income households, that workforce housing will be made available, that the jobs within any new establishments will pay a living wage; that preferential hiring will be provided to local and displaced residents.

The financing of community development has changed over the last 30 years. Where early efforts at urban renewal were funded by centralized federal grants, today's successful community development projects are more likely to be financed by a combination of public and private dollars. Instead of providing funds directly to a neighborhood, we have created tax incentives—like the New Markets Tax Credit Program—that encourage private investment by offsetting risk through tax incentives. The change in how deals are financed reflects a paradigm shift in the federal government's role in community development. Community development finance has become extremely innovative in the way it secures both equity and debt financing. It has brought a much broader range of investors, lenders and players to the table. It is not unusual today to have government investing in partnership with banks, pension funds, venture capital funds—all now looking at ways to develop the assets that are present but underutilized in low income neighborhoods.

Another significant change in community development is a new emphasis on "opportunity". Our language is changing from "distressed communities" to "underserved neighborhoods" to "communities of opportunity". Language is an important signal of change. Community development strategies are evolving to focus on community assets rather than on community needs. In other words, instead of describing a neighborhood by its problems, we've begun to emphasize the hidden assets, the market potential, the historic architecture, etc. In a speech last year, Fed Chairman Ben Bernanke said: "…quantifying these assets and helping investors become aware of the opportunities in underserved neighborhoods can help to enlist market forces in the service of community development…"

Growing Indigenous Community Leadership

The shift to "development by the numbers" requires a concurrent change in the attitudes of indigenous community leaders who in the absence of market information have depended for a long time on ideology and a "government grant-driven" focus which emphasizes neighborhood deficiencies and weaknesses rather than assets and market opportunities as a way to attract capital for their various projects.

A culture of poverty has become associated with people of color—particularly, African-Americans. Inner city residents are not only surrounded by crime, drugs, homelessness and poverty; they are blamed for it. Residents have come to believe that unless an initiative comes with a "low income" tag—it is not intended for their community betterment.

There is also an underlying assumption that residents of underserved neighborhoods are unwilling to or do not ---even if given the chance-- want to —participate in the rebuilding and revitalization of their communities. During a recent consulting assignment—I had arranged for a supermarket to locate in an inner city neighborhood—I described how our consulting team had assembled the capital to build the supermarket—all outside capital of course. Thankfully, I was reprimanded by a long time resident of the area that I had not presented residents of the community a chance to invest in the supermarket, which without a doubt promised to be a catalyst for further revitalization. We need to challenge ourselves to create investment vehicles that enable investment by residents---stakeholders who may have only $100 or $1,000 of their savings to invest but would like to be and need to be a part of the community development fabric as investors.

There is a danger even as we quantify opportunity that indigenous leadership will not be able to interpret and use the data generated by Social Compact to formulate effective community revitalization strategies to include investment opportunities for area residents. These are the challenges to be addressed.

Central to the paradigm shifts in community development is a changed role for the community developer—a changed role for indigenous leadership. The traditional way of "doing" community development was to focus on mobilizing local resources to address community needs, with a community developer bringing the technical skills needed to execute the plans. He or she formed "grassroots organizations" mediated community conflicts, built infrastructure, attracted firms into the community and wrote grants to fund services.

The new role of the "catalytic community developer" in contrast, requires many individuals to work together in coalition. The role of the community developer is not to do the work or control the system but to help all participants take part in the process. Like a chemical catalyst that stimulates reaction without itself being consumed, the community developer or leader must focus more on organizing the involvement and direction of community members and less on being the person who does the actual tasks.

Leaders still need knowledge and organizational skills but they must act within a much broader network of individuals and resources. To be effective, community capacity building requires participation by a more diverse set of residents. Mere attendance at meetings is not enough; giving citizens an authentic voice in the decision making and the means to achieve goals is imperative. It also requires "collaboration"—among local organizations that moves beyond merely communicating about activities and interests to forming networks and cooperative relationships. It involves the conscious attempt to create links between actions and actors with different interests.

What can be done to support the changes in community development and to support the development of effective indigenous leadership?

- **Create partnerships with academic institutions to facilitate access to information, leadership education and the creation of leadership networks**. Encourage Universities to support and certify Community Development through their Continuing Ed programs
    - Design and teach community real estate development process so that community leaders are comfortable with partnering with developers on catalytic projects—whether affordable housing, workforce housing or neighborhood commercial developments
    - Support the professionalization of community development through coherent training offerings

- **Create new community investment vehicles and models**
    - Support research to identify investment vehicles that will enable community residents to benefit by pooling their dollars for investment in catalytic projects aimed at revitalizing their communities. Currently, the only available vehicle is the Community Development Credit Union—which requires onerous front end planning to effect investment.

- **Expand the role of Community Development Financial Institutions to create a capital system for social entrepreneurs**
    - Need to shift our focus from short term grants for specific projects to "earned income" driven activities that enable local entrepreneurship. Such a shift will lead to sustainable community investment. Sustainability is best achieved when it is community-based and community driven, based

on market information, based on community knowledge and skills and a realistic, collaborative process of assessment and planning.

- **Eliminate categorical funding**
  - Development activities must be comprehensive, not categorical. Much of our spending is focused on one category, for example, housing. Needs are interrelated and this reality must be acknowledged. Comprehensive community development might involve coalitions assembling flexible categorical programs within one collaborative structure so that the service provided is seamless.
    Silos of funding dilute funds rather than effectively leveraging other assets to produce the desired results

In closing, I want to thank the Subcommittee for inviting me to offer testimony about strategies and programs to strengthen community building through collaboration, leadership, and public-private investment.

Thank you.