



TOOLKIT

STARTER GUIDE



**Community
Economic
Development
Toolkit**

Disclaimer

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COMMUNITY ECONOMIC DEVELOPMENT STARTER GUIDE

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What Is Community Economic Development?

Community economic development (CED) is the process of addressing community economic problems – such as unemployment, lack of affordable housing, or the lack of sufficient retail and other services – through projects that are planned and implemented by institutions that are governed by boards with community involvement. The projects are designed to help address these community needs and also to retain the earnings in the community and to catalyze additional, future projects.

Most often, CED projects fall into one of three categories: real estate, business development or financial services.

- The **real estate** category includes affordable housing, as well as retail, commercial, industrial, community service or mixed use projects. Their commonality is that they use land and buildings to create a community asset that helps fill a need. Many people equate “real estate” only with “affordable housing” projects – those projects that result in housing that is developed at prices affordable to lower-income people. And while nonprofit housing developers produce a great deal of affordable housing – one national study¹ suggests that nonprofits produce about 100,000 units of housing annually, or a total of over 1.6 million units in the last dozen years – they also develop a significant amount of other real estate. That same national study indicates that nonprofits developed over 21-million square feet of commercial and industrial space in the years 2005 to 2008.
- The **business development** category includes creating small businesses, or providing assistance to entrepreneurs – through technical help, lending or investing – to form or expand their business. These businesses often provide a good or service in the community, and also offer employment opportunities for residents. Of course there can be overlap between this category and the real estate category – such as the creation of business incubators that provide space and assistance to small businesses within the community.
- **Financial services** is a diverse category. It can include providing loans and investments to various community projects, or to individuals (for such uses as home improvement or purchase). It can also include providing financially-oriented services to community residents, including financial literacy and asset building programs.

CED work is accomplished through a variety of agencies and entities. For example, about 4,000 community development corporations (CDCs) work around the country, and have been active CED practitioners in their communities. Community development financial institutions (CDFIs) have been active providers of CED-oriented financial services for a number of years – and have become more numerous and active over the last dozen years with the help of the federal CDFI Fund. Independent social enterprises operate a variety of businesses in lower-income community settings.

Increasingly, CAAs are active CED practitioners as well, often setting up subsidiaries to do the work. Their work is the focus of this site.

What Makes an Organization Ready to Get Involved in CED?

Looking across the hundreds of organizations that are successful in undertaking CED work, we can see several common characteristics.

¹ Rising Above: Community Economic Development in a Changing Landscape. National Alliance of Community Economic Development Associations; Washington, DC. May 2010.

- The organizations are able to understand and take on risk. One of the main things about CED is that its success is not guaranteed. It is possible that a project could be built and no one comes. Or project financing may take longer to come together than planned (especially now, when banks are more conservative than in the past), leaving you at loose ends until it arrives. A lot could go wrong – but of course, so much could go right. And so the most successful CAAs that undertake CED understand the risks of the projects they undertake and insulate their core functions from that risk. EXAMPLE
- They study the community conditions, needs, and opportunities. One of the best ways of understanding the risks of a project is to study the market in which your project will compete. That means understanding your organization and its skills, the community in which you work, including its assets and limitations, and the business and housing climate in which you work. Studying these factors will enable you to take the steps needed to lower the risk profile of your organization and project. You will understand what the competition is, where funding may come from, and what niches are available to help you succeed. This website has a section on ways of looking at your organization and the community.
- They have the skills needed to accomplish the tasks. Whether you are building a business or building housing, your organization will need some specialized skills. These include the ability to find and negotiate with contractors, property owners, and funding sources; an understanding of diverse public and private funding streams and the demands of funders; construction supervision (if it is a building project), and financial management. Depending on the staff you currently have and on your resources, you may choose to partner with an experienced business or developer, or to contract for consulting help. The important point to recognize is that expensive projects are not the best place to learn on the job.
- They have connections to resources. Most likely – depending on the size of the project you are planning – you will need outside funding and approvals. (Remember: smart developers are building largely with other peoples’ money in order to minimize the risks they take.) So, it is important to have connections with people, agencies and institutions that can grant or loan you funds, and that can provide you the approvals you need. Of course – assuming you have successfully carried out programs for which you have built partnerships in the past – you have probably had the chance to build up a store of goodwill with the very people you may need to tap for these new funds and approvals.
- They have assets to use. The track record of success, and the networks you have created through your ongoing work are important assets you can use in the new project. But, depending on the project you are planning, it can also be important to have some of your own funds to invest in the deal. Some lenders, for example, may require you to have your own funds at risk in the project before they lend (to cushion them somewhat against loss if the project were to fail). Also, having some of your own money in a project gives you a bigger voice over what happens – as opposed to allowing the outside investors to choose a project’s direction. EXAMPLE

QUESTIONS YOU SHOULD ASK YOURSELF:

1. What type of CED project are you anticipating undertaking?
2. Have you examined the market to make sure the project will meet a community need and succeed?
3. Have you figured out what specialized skills may be needed for this project? Does your organization already have those skills on-hand? If not, have you determined how you will get those skills on your side?
4. Have you spoken with the board about taking on risk for the organization? Have you thought of

ways to mitigate the risks?

5. Will you take on this project by yourself – or in partnership with a more experienced organization?
6. Have you spoken with your existing partners and funders about your plans?

Who Benefits from CED?

One of the hallmarks of CED is that it has a “double bottom line.” That is, it makes sense financially (it doesn’t lose money) and it benefits the community. Those community benefits can include new or retained jobs, affordable housing for lower-income people, new retail and other services to meet community needs, assets built for lower-income residents, and places to start and grow new businesses.

There are a number of ways to assure you get the best benefits for your community’s lower-income people from the project you create.

- You can price the product – such as housing units you develop – for the low-income customer. But, this also often requires you to find enough money to subsidize the development in order to charge less rent (or lower sales prices). This can be done by finding a subsidy source (see the section of this website on housing to examine the various potential sources and how they work) or by raising sweat equity or making extensive use of donated land, buildings and materials (groups like habitat for Humanity or Rebuilding Together have become expert at such work).
- You can make sure that some of the jobs in the new business or development go to people in need within the community. A number of businesses have been started to give jobs (or job training) for youth, homeless people, or people leaving the judicial system. These businesses – such as restaurant or food services, landscaping and office/home cleaning, and recycling businesses – often incorporate some form of job training for the new staff, some of it quite extensive, depending on the employees’ needs. For example, in Indianapolis, Work Force, Inc., is a new business employing some 50 formerly incarcerated individuals to help recycle business machines, such as computers, that are no longer useful. The employees extract all parts and materials that can be resold, providing a “green” business model that helps pay a decent wage and provides job training and experience for the employees. Work Force has an extensive human service component, that is paid for through the group’s connections with the courts and judicial system.
- Even when you don’t directly own or operate the business or development, you can help influence jobs and prices for the community. This can be accomplished by agreement with the partners you work with, or through agreements you sign with the businesses you lend to or invest in. These agreements can indicate a minimum percentage of jobs to be targeted for community residents, or what types of jobs that must be offered to residents.

QUESTIONS YOU SHOULD ASK YOURSELF:

1. Who should benefit from the business or development you are planning?
 2. What steps are you preparing to undertake to make sure those benefits can be delivered?
 3. Will you track those benefits, or will you rely on others to track?
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Getting Your Organization Ready to Undertake CED Work

To make sure your organization is ready to embark on new community economic development work, you should consider the following six steps before you begin. None of these steps is hard – many groups have done this before – but all are important to assure that your organization can succeed.

1. Take a look at CED and whether it is appropriate for your organization. The important thing to consider is whether your organization is prepared to embark on CED projects. Is there a good opportunity your organization can build on – such as having a solid base of capital and human assets to utilize – and skills, solid community standing, and opportunity – such as in the form of land to use for a new construction project, or a business model you can expand? Is your board in agreement with moving into new, uncharted areas? Are your funders okay with you expanding your work? In short, are you willing to take on the risk of expanding into a new arena? A small study group of staff and board can look at the pros and cons, and help make a recommendation.
2. Be sure of what type of CED project you want to undertake. Once you have decided that CED is appropriate for your organization, then you can drill down on what type of project you want to undertake. Do you want to be a developer of affordable housing? Turn an existing office building you own into a community facility with rental office space? Expand your Head Start catering program into a broader catering business? Help employ youth in a landscaping business? Start up a loan fund to support small businesses in your community? There are so many opportunities, have you honed in on your top priority? And, importantly, have you selected a type of project that reflects your overall organizational mission, so that your CED work reinforces what you are doing everyday, such as providing employment opportunities, serving the low-income community, or bringing new services and partners to your activities?
3. Once you have decided on the type of project you want to start-up, then make sure you know the skills that are needed to succeed in that arena. If you are going to develop affordable housing, for example, you would do well to have financial packaging ability and construction supervision on hand. If you are going to start a small business line, employee supervision, ordering and management would be very useful skills. If you are going to start up a small business loan fund, then you will need staff capable of understanding loans, collateral and risk issues. Do you have them on staff? Do you need to hire people – and at what cost? Or might you have a partner with the right skills and eagerness to work with you?
4. You also have to be certain that you understand the market you are entering. If you want to start a computer-parts recycling business, you will need to know how to understand where used machines are available and how to access them, as well as where and how to sell the material you will cull from them. If you want to turn excess office space in a building you own into productive and paying space, what other office space – of comparable quality – is available in your community, and at what rents. Same with housing: what properties already exist, and what is their vacancy rate, rental and sales prices, and who are the owners. Some lenders will require you to develop a full business plan, that describes the risks and your plans to mitigate them; however, to start off, an outline of a business plan may be enough for you. This website will have material on developing a business plan, under Tab ___.
5. As indicated, understanding the market and its risks to you is important. But so too is learning how to mitigate the risks. This means that you would be wise to think of the ways to make project pivots if the initial plans don't pan out. For example, if your office development cannot attract other social service agencies to it (your prime target for tenants), are there other businesses who you might attract at the same rental – businesses like small accounting offices, lawyers, small

business start-ups, or public agencies? If your CED enterprise involves lending to small, start-up businesses, you should consider establishing a loan-loss reserve to compensate for slow- or non-payers. One example of making business pivots involves a landscaping and home-cleaning business we recently saw. Initially, it was targeting customers among the numerous retired families in its community; but the national recession meant that these families were not able to spend as much for landscaping services, and so the business managers began – successfully – to get business from public and private small agencies and businesses.

6. Finally, once you have reviewed what you are planning and where you stand on these issues, you should talk over the ideas with your board and closest funders and supporters. Their support will be important – especially when projects move slowly or barriers emerge. And so, make sure they understand what you plan to do, why, in what ways the CED work will enhance your organization, and how well you know the market and risks.

QUESTIONS YOU SHOULD ASK YOURSELF:

1. Are you sure what types of CED projects you will undertake, what the costs and the financial returns will be?
2. What skills does my organization need to accomplish the tasks – and who possesses those skills on staff, or among my partners?
3. What are the three major market risks my project may face? The three major financial risks?
4. What steps will we take to mitigate and reduce the risks cited above?
5. Do I have the support of my board and major funders for this work?

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