

May 14, 2009

Tina Brooks, Undersecretary  
Massachusetts Department of Housing and Community Development  
100 Cambridge Street, Suite 300  
Boston, MA 02114

Dear Tina:

We are writing to share with you information about some of the efforts that we are taking collectively to help community based non-profit development organizations (CDCs, CHDOs and other CBOs) to manage this economic storm and prepare for the important work that needs to be done now and in the coming years. We also want to thank you for the important actions already taken by your Department to help these organizations and to suggest additional policy and programmatic efforts that we think would be appropriate. One key recommendation that we discuss below is our request that DHCD enhance its strong support for community-based nonprofits by using 5% of its annual HOME allocation to provide grants to CHDOs, as allowed by HUD.

As you know, last year a number of community development leaders established the Community Development Innovation Forum as a sector-wide effort to critically examine what was working and not working in our field and identify innovation approaches to making the entire field more effective. The Forum established several working groups, including one charged with developing recommendations for how the Real Estate Finance system could be improved and how CDCs and other non profits could operate real estate development programs that were financially more viable and sustainable. This working group, which was chaired by Joe Flatley and Jeanne Pinado worked diligently through the fall and winter to develop recommendations for reform. These include (1) building reasonable cash flow into deals and sustaining nonprofits more from recurring revenue than one-time fees, (2) ensuring that nonprofit development fees are adequate, (3) changing state/local policies that make nonprofit housing development uneconomic (cash flow recapture, limitations on refinancing, etc.), (4) exploring the development of shared reserve pools, and (5) providing operating grant funding to CHDOs with state HOME money. Taken together, we believe these changes will create a more stable and viable non profit housing sector over the long term.

In January 2009, MACDC and LISC convened the first of several meetings for Community Development Stakeholders to discuss the *immediate* challenges facing CDCs and CHDOs and to determine whether and how we could work together to support these organizations and to help the field as a whole. This Stakeholders Group served as an adjunct to the Real Estate Working Group and included representatives from DHCD, MHP, CEDAC, DND, the Boston Foundation, the Hyams Foundation, and Neighborhwoks America. All the participants believe that CDCs are needed more than ever to deal with the vast impacts of the current economic crisis.<sup>1</sup> CDCs not only create

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<sup>1</sup> We want to acknowledge up front that all CDCs are not the same and the term CDC does not have a single definition (hence our desire to modernize Chapter 40F.) In this memo we are referring to groups that have traditionally been called CDCs or CHDOs, as well as other local and regional non profits engaged in affordable housing and community

and preserve homes, jobs and businesses, but they also provide a local, accessible vehicle for neighborhood residents to engage in community improvement efforts directly, thereby creating the civic infrastructure essential to long term, sustainable growth. Equally important, CDCs have the ability and mission to link together the many different elements of a successful community revitalization strategy by engaging local residents, undertaking community planning efforts, leveraging resources and facilitating cross-sector partnerships. At a time when the connections between housing, transportation, civic engagement, the environment, energy, economic growth, public health and education are becoming increasingly important, we need local groups who see those connections and work to build them.

Second, members of the group also recognize that CDCs, like everyone else, are caught in today's economic crisis. While each organization is different, many are facing some sort of financial challenge that is requiring a reduction in staff, programming, and/or housing production. Many CDCs appear able to manage the crisis through a combination of budget cuts and new innovative partnerships and strategies. For some, however, the challenge is prompting discussions about fundamentally changing their organization, merging or even closing. Overall, at a time when the field should be stepping up its efforts to rebuild neighborhoods given challenges such as the foreclosure crisis, we fear that there could be a significant diminution of capacity across the state. New opportunities abound and we want to help local organizations seize those opportunities effectively.

Third, the community development field as a whole – CDCs, MACDC, LISC, foundations, public agencies, scholars and consultants – are working together to shape a collective response to this crisis. Through the Community Development Innovation Forum and our ad-hoc group of stakeholders, we are exploring every opportunity for both short term and long term innovations that will make the field more durable, effective, and responsive. The willingness to ask critical questions, challenge old orthodoxies and explore new innovations is extraordinarily exciting and should be encouraged and expanded.

Therefore, as supporters and stakeholders of the community development movement we have come together to work collaboratively to support the sector during this critical period time. Our efforts are focused on supporting the field in three areas:

1. Help CDCs increase their earned revenue so they can implement a sustainable business model for their organization by working for the adoption of the recommendations made by the Community Development Innovation Forum working group.
2. Invest new working capital and operating funds into CDCs so they can both weather the current economic storm and respond flexibly and creatively to the challenges and opportunities they face.

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development. This is a diverse group of organizations with different levels of capacity, offering different programs, and serving different communities. Indeed, by design, each CDC evolves differently so that it can respond to the unique combination of opportunities and needs in their particular community. Therefore, it is difficult to make any generalizations about what CDCs can/should do or how they are responding to the crisis. However, in this memo we try to talk about what most CDCs can and should do and how most CDCs can help solve neighborhood challenges. We recognize that implementing any new policy or program requires specific analysis about a particular organization.

3. Provide technical assistance to CDCs to help them devise appropriate strategies for their future and/or to pursue mergers and strategic collaborations that are more sustainable.

Toward this end, we offer the following recommendations for how DHCD could help this effort.

1. Adopt an explicit policy decision that DHCD will use its tools and resources to help sustain a diverse network of effective, locally accountable community development organizations across the state. This does not mean protect the status quo or save every organization – it means helping the field evolve toward this vision.
2. Continue the excellent work being done by the Private Housing Division to help CDCs and other nonprofits with troubled housing deals – LIHTC projects, other affordable rental projects, and homeownership projects. DHCD's efforts to date in this regard have been outstanding, and with the new federal resources we are hopeful that at least the LIHTC projects can begin to move forward in ways that will also strengthen (rather than weaken) the nonprofit sponsors.
3. Collaborate with members of the Innovation Forum working group to implement their recommendations as quickly and fully as possible.
4. We also encourage DHCD to look for additional opportunities to use resources from the Federal Stimulus bill, in particular the CDBG, NSP, Weatherization, and Energy Efficiency programs, to support CDC programs and initiatives that both meet the needs of local communities and help strengthen the financial position of the organizations. This means not only allocating funds to CDCs, but doing so in a way that builds and enhances organizational financial strength rather than depletes it.
5. Invest new working capital and operating funds into CDCs in order to sustain important organizations through these difficult times and to enhance their strength over time. A number of public and private entities are stepping up to do that right now:
  - a. MHP has invested \$4 million in the Production Support Program – a creative and flexible program that is playing a critical role in sustaining organizations who might otherwise be facing even more dire circumstances;
  - b. CEDAC has recently found a creative way to provide small grants of \$10,000 to 12 CHDOs through its HOME CHDO program.
  - c. The Boston Foundation and the Hyams Foundation are adjusting their policies to provide more flexible funding and capacity building support to CDCs.
  - d. Neighborworks America has allowed its affiliates to convert Capital Funds to Operating Funds as a way to sustain operations during this period.
  - e. LISC is using its Section 4 funding from HUD to help organizations make the strategic adjustments necessary to respond to their financial challenges.
  - f. The City of Boston is going to be providing additional grant funding to CHDOs through its CHDO operating support program.

We believe that DHCD is a critical partner in these efforts and that the current challenges require additional investment to preserve the housing capacity represented by these important organizations. Specifically, we recommend that DHCD use 5% of its annual HOME allocation to provide grants to CHDOs. This would represent a total investment of

about \$750,000/yr which could make a significant difference for 10-15 CHDOs across the state that are not able to access CHDO grants from their local jurisdictions. While this would reduce the money available for housing deals, the reduction of \$750,000 is relatively small compared to the total funding available to the state, especially in light of the \$59 million in new TCAP funding. Indeed, at current subsidy rates, \$750,000 would produce just 8 units of housing. Given the extraordinary times we face, we think it is a better use these limited dollars to directly support nonprofit housing development organizations that are critical to the state's long term housing strategy.

Despite today's very real challenges, we remain confident about the future of our sector. CDCs and their many partners are a tenacious, optimistic and creative group of people and we know that this sector will contribute significantly to the economic recovery in Massachusetts. We believe that the comprehensive approach outlined in this letter would address the need for both short term action and long term change so that we can sustain an effective, stable and financially viable community based housing and development sector in Massachusetts over the long term. We would be interested in sitting down to discuss these ideas and to share with you more details about our efforts. Please let us know if such a meeting is possible in the near future.

Thank you for your outstanding efforts to support the community development sector during these challenging times.

Sincerely,

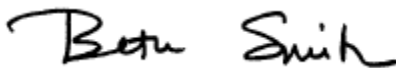
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