

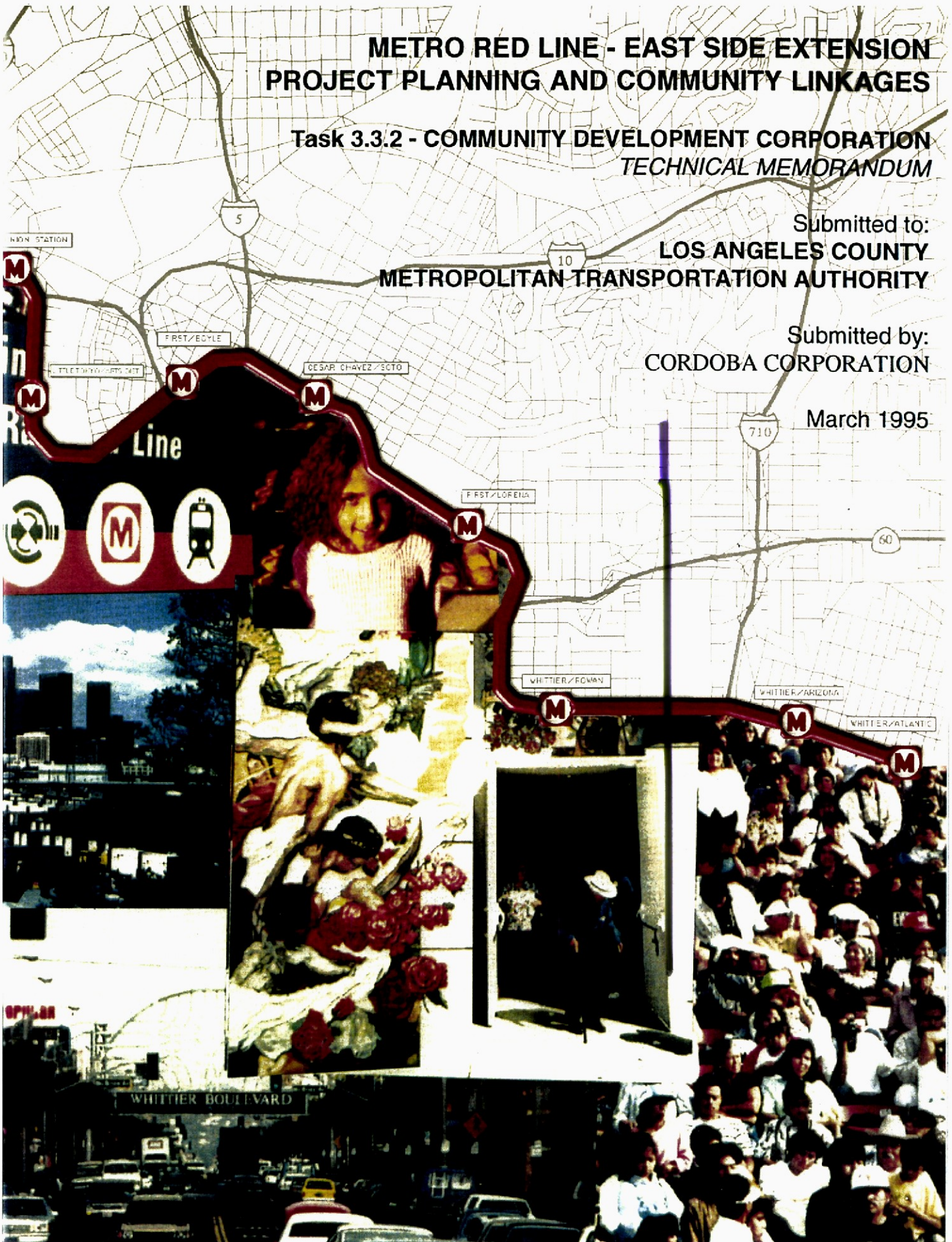
METRO RED LINE - EAST SIDE EXTENSION PROJECT PLANNING AND COMMUNITY LINKAGES

Task 3.3.2 - COMMUNITY DEVELOPMENT CORPORATION TECHNICAL MEMORANDUM

Submitted to:
**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY**

Submitted by:
CORDOBA CORPORATION

March 1995



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PROJECT PLANNING AND COMMUNITY LINKAGES**

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Community Development Corporation

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Prepared for:

**Los Angeles County
Metropolitan Transportation Authority**

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INTRODUCTION

Community Development Corporations (CDCs) are one of the most practical mechanisms used for stimulating economic activity in communities. CDCs have been particularly successful in increasing the job base in ethnically diverse communities. In general, CDCs are primarily involved in housing, social services, and/or the following economic activities: commercial development, industrial development, and financing.

The CDC concept became prevalent in the 1960's as a resourceful way to practice community economic development. The first CDCs focused on economically revitalizing neighborhoods through starting and owning business establishments ranging from manufacturing to service companies. The major goal behind the CDCs was the development of new jobs.

CDCs are grass roots organizations, since their formation is the responsibility of local residents. In most cases, CDCs are controlled through a board of directors which include local residents, as well as community and business leaders. Usually, the majority of the board of directors is chosen from CDC membership and/or other local organizations. These persons usually select professional representatives to fill the remaining seats. The board establishes policy, hires the president of the organization, and monitors progress. The board of directors has the responsibility to represent the broad interests of the community. Also, the board guarantees that the focus of the organization is to invest in and strengthen the local community.

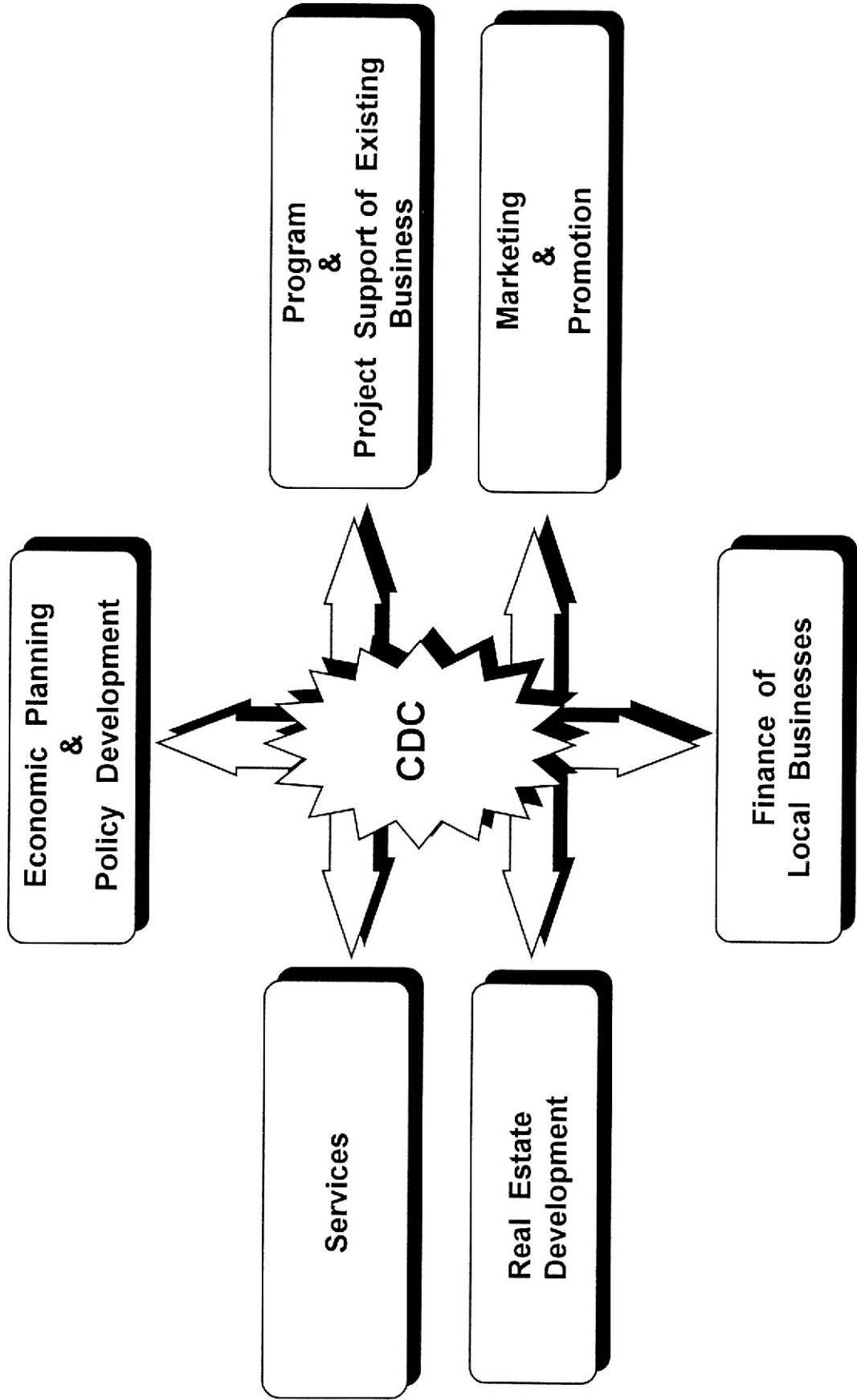
I. COMMUNITY DEVELOPMENT CORPORATION MAIN FUNCTIONAL AREAS

CDCs are formed primarily to stimulate the attraction, formation, retention and expansion of businesses, and/or the creation of housing. These activities result in additional jobs, a larger tax base, and a stronger, more diversified local economy (Figure I). Depending on the mission or goal of the organization, a CDC could be involved in one or more of the following six functional areas:

- 1) Economic Planning and Policy Development:
 - a) Conduct assessments/special studies to determine local needs
 - b) Goal setting/strategy development
 - c) Advocacy
- 2) Program and Project Support of Existing Businesses:
 - a) Information and education services
 - b) Technical assistance
 - c) Fundraising/special project support
 - d) Coordination and liaison with public agencies and community
- 3) Marketing and Promotion:
 - a) Promotion (media, direct mail, etc.)
 - b) Market research
 - c) Recruitment/prospecting of businesses into the local area
- 4) Development Finance of Local Businesses:
 - a) Facilitate financing
 - b) Financial packaging
 - c) Provide debt and equity
- 5) Real Estate Development:
 - a) Acquire, assemble and sell property
 - b) Physical development of residential and commercial properties
 - c) Ancillary physical/public improvements
 - d) Property management and leasing
- 6) Services:
 - a) Involvement in the direct provision of services such as transit, parking, security and maintenance.

Figure 1

**COMMUNITY DEVELOPMENT CORPORATION
MAIN FUNCTIONAL AREAS**



The CDC concept was examined to specifically address economic and housing development issues identified during the public process conducted by the MTA to complete the Alternatives Analysis/Draft Environmental Impact Statement/Draft Environmental Impact Report (AA/DEIS/DEIR). A summary of the suggestions, comments and questions conveyed during the public process are presented in Section 2.0 of this report. A CDC may be the instrument used to implement the community's economic and/or housing strategy or vision. Therefore, communities may be able to actively guide or assist in the economic development of an area, taking into account the best interests of the affected neighborhoods.

II. EAST SIDE COMMUNITY SUGGESTIONS AND COMMENTS

MTA held four public meetings during the completion of the AA/DEIS/DEIR. Three of the meetings were located in the East Side community and one at the MTA offices for interested public agencies. There was an open house and a formal scoping process was held at each public meeting. In total, approximately 100 individuals attended the public meetings.

During each meeting, the public was encouraged to provide comments and/or opinions, regarding the East Side Extension project and proposed scope of work required to complete the alignment. Many of the issues, comments and questions expressed at the meetings dealt with economic, property and other community related concerns. A summary of the range of issues discussed at the respective scoping meetings is presented in Table 1. Some of the key comments, questions, and issues expressed by members of the community regarding the East Side Extension are summarized below.

- The project will cause economic and social stress.
- The proposed project will cause economic loss in the area.
- What effect will the system have on private properties (homeowners)?
- Will the area be beautified as a result of the system?
- What are the benefits to the community?
- How would our system compare to other cities?
- All job creation must remain within the area.
- The proposed project is essential for the area (110 percent support).
- A station should be developed at the old Sears complex.

The MTA will continue, through significant effort, to address the issues clearly identified in the scoping meetings. A specific institutional strategy, such as one undertaken by the proposed CDC, may be the most appropriate concept to introduce for public consideration. The proposed CDC could be one of the mechanisms used to implement the recommendations of the affected community, such as developing replacement housing for the housing units that would be acquired by the MTA for the alignment.

**TABLE 1
EAST SIDE CORRIDOR AA/DEIS/DEIR SCOPING MEETINGS
ISSUES SUMMARY**

Issue	Boyle Heights Sr. Citizens Center Sept. 24, 1991	Belvedere Park Sept. 26, 1991	MTA Sept. 27, 1991	Resurrection Church Oct. 9, 1991
Economic Development			X	X
Private Property	X	X		
Route Alignment	X	X	X	X
Station Locations	X			X
Long-term Direction	X	X	X	X
Preferred Technology	X	X	X	X
Safety/Security/ Crime		X		
Environmental/ Traffic Impacts	X	X		X
Geological Considerations	X			
Construction Impacts		X		X
Project Cost/ Financing		X	X	
Community-Related Concerns	X	X	X	X
Technical Operating System		X		X

Source: Cordoba Corporation, 1992

In addition to the comments provided by the affected community, various measures have also been proposed to the MTA in order to allay repercussions of the planned rail alignment. A well organized and community based CDC could be created for the purpose of maximizing economic opportunities along the alignment and also be instrumental in implementing some of the recommendations listed below.

- Review community plan designations and zoning to permit additional residential development around station area(s), consistent with urban design considerations and community concerns. Focus residential growth around station(s).
- Develop station area planning and urban design analysis to: 1) promote mobility, 2) coordinate with other economic/revitalization efforts, 3) aid in achieving economic revitalization goals, 4) work with local jurisdictions to ensure proper densities and land uses.
- Relocate businesses within the local jurisdiction, if feasible.
- Project-induced growth may enhance city, county and state tax revenues.
- MTA will work with the community, elected officials and local housing agencies to identify potential mitigation measures for the projected loss of housing.
- Design facilities to be visually integrated into community.

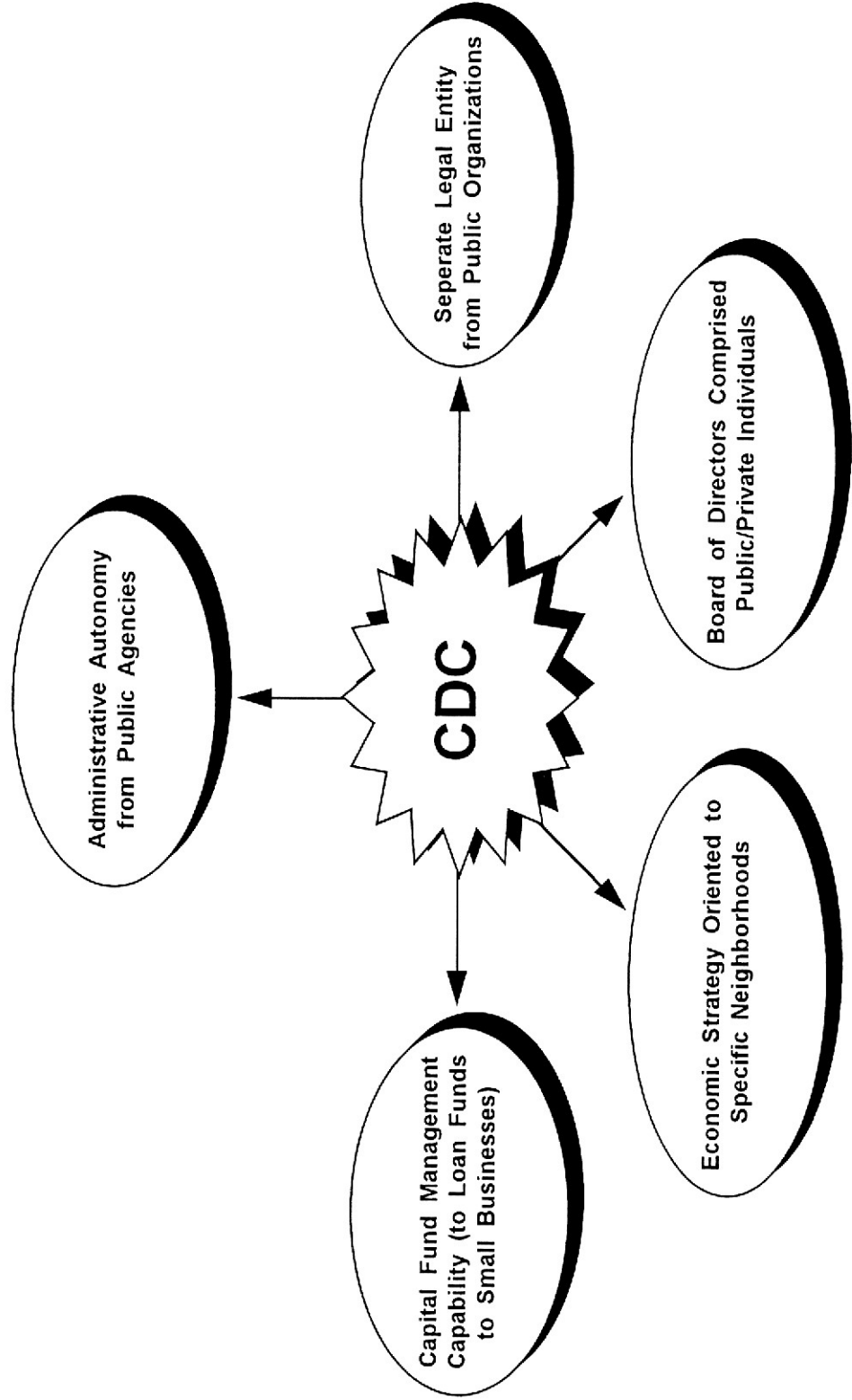
III. COMMUNITY DEVELOPMENT CORPORATION ORGANIZATIONAL CHARACTERISTICS

An analysis was completed of typical CDC characteristics (Figure II). Many CDCs are located in areas that require economic revitalization. This is in part due to the private sector that has been unable or unwilling to invest in these inner-city or other low-income areas. Quasi-public organizations, such as CDCs, have been able to ease the level of effort required by private organizations to invest in low-income communities. CDCs have played a vital role in bringing together the public and private sector by providing a link and helping to stimulate important economic development programs. The major advantage they provide is the flexibility that a public organization can not offer. A summary of these characteristics is listed below.

- Administrative Autonomy - CDCs generally employ full-time professional staffs that are usually not on public payrolls. However, they are responsible indirectly to local policy makers via an appointed governing board and annual contract reviewers.
- Legal Status - CDCs are considered legally to be private, non-profit corporations that differ from municipal corporations, or government agencies. CDCs may utilize development powers that are prohibited otherwise to municipalities under the state's constitution.
- Mixed Boards - Most CDC boards are composed of business, labor and civic group representatives, as well as elected officials. CDCs usually have both private and public sector representation, and for this reason, CDCs have wider access to capital than solely public and private agencies. The boards provide a useful institutional setting for improving coordination between public and private sectors.
- Economic Strategy - CDCs are generally oriented to specific neighborhoods, geographical areas, or special groups in their communities, rather than maximizing economic benefits throughout society. Economic development requires the local capacity to plan realistically, improve critical area infrastructure, and attract private investment to job-creating enterprises.
- Capital Fund Management - CDCs are prohibited from disbursing funds as grants, as opposed to loans and investments.

Figure II

**COMMUNITY DEVELOPMENT CORPORATION
ORGANIZATIONAL CHARACTERISTICS**

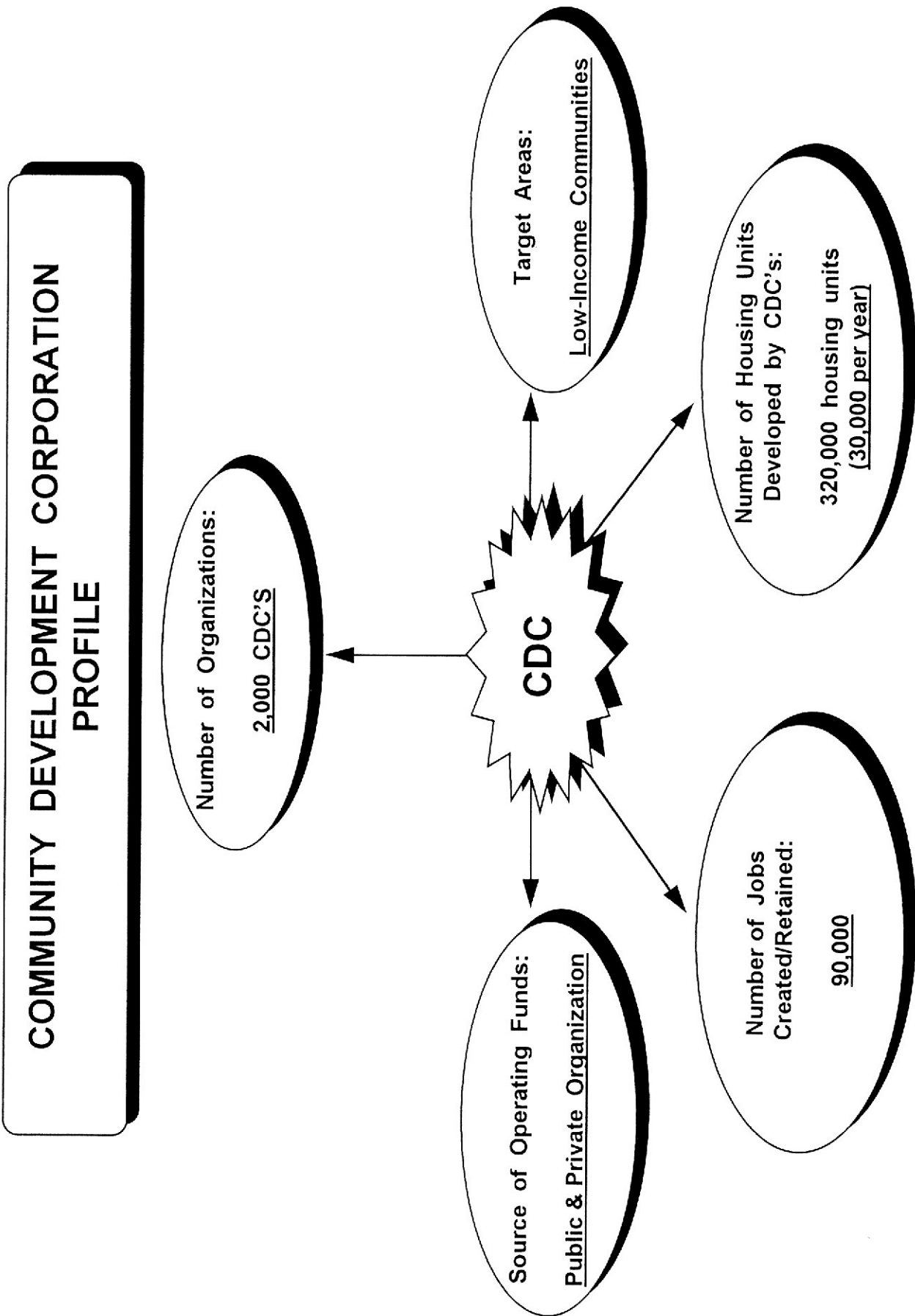


IV. COMMUNITY DEVELOPMENT CORPORATION PROFILE

An analysis of existing CDCs was completed by the National Congress for Community Economic Development in 1993 (Figure III). A summary of their findings are listed below:

- 2,000 CDCs nationwide (85% are involved in housing).
- Serving urban and rural areas.
- Targeting services to low-income people and communities.
- Developing almost 320,000 units of affordable housing, with an average of 30,000 housing units developed per year.
- Creating and retaining almost 90,000 jobs.
- Providing financial support for micro-enterprises.
- Implementing comprehensive social and economic approaches to community renewal; and
- Drawing financing from a variety of public and private sources.

Figure III



V. COMMUNITY DEVELOPMENT CORPORATION STRUCTURE

CDCs are usually structured as non-profit organizations because the tax status may affect the level of funding available. CDCs generally qualify for exemption from federal corporate income taxes and most other types of taxation under on of the IRS's provisions for tax-exempt status. It is desirable to obtain tax-exempt status because the revenues of the organization are not taxed, and certain contributions to the CDC are tax deductible. Therefore, fundraising efforts by the CDC would be easier. Under IRS guidelines, CDCs may establish either profit or non-profit subsidiaries, in order to facilitate particular types of projects or activities. The three main tax-exempt type organizations are listed below:

- 501 (c) (3) - Must be organized for certain specific purpose. This status enhances an organization's ability to attract public monies and charitable contributions. Contributions are tax deductible by the donor. The 501 (c) (3) type of organization is the most common type of non-profit. A CDC established for the purpose of promoting economic goals around the proposed stations would qualify for this tax status. The IRS states that this tax status is applicable to an organization aiding a community or geographical area by attracting new industry to the community or area, or by encouraging the development or retention of an industry in the community or area.
- 501 (c) (4) - Organizations established for the promotion of social welfare could have this tax status. However, contributions are not tax deductible to the donor.
- 501 (c) (6) - Organizations in this IRS category are usually business leagues, such as chambers of commerce, that are formed by associations or persons having common business interests. Contributions are also not tax deductible to the donor.

According to the EDC Resource Kit, published by the National Council for Urban Economic Development (June 1993), one of the key elements for a successful CDC is a competent and active board of directors. The CDCs board of directors is responsible for both representing the varied interests of the local community and establishing and reviewing policy for the organization. Many board members bring tremendous skill and time commitment to the job, but there is limited training opportunities for board members. As the CDCs become more involved in development projects, there is a tendency for board members to become self-perpetuating, with not many members being added. A CDC's board of directors needs to bring experience as well as new insights. Another concern is that conflict can arise between a board of directors and its staff over lack of role definition. Some boards get involved in "micro-management" while staff can take over the policy making role of the organization.

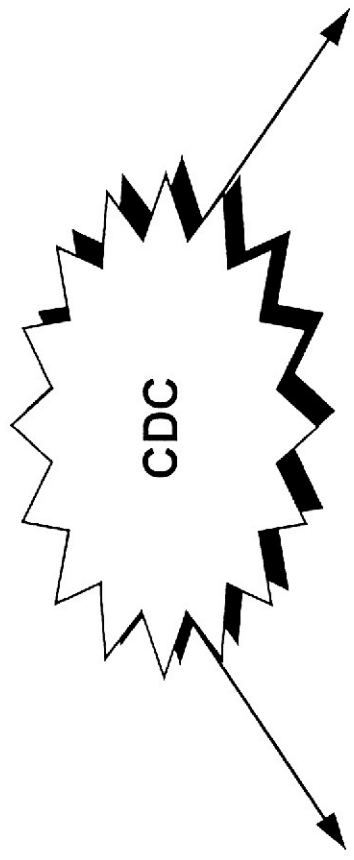
VI. COMMUNITY DEVELOPMENT CORPORATION SOURCES OF FUNDS

In terms of financing, CDCs function differently than public agencies. When an agency is under the aegis of a city or county jurisdiction, the size of its budget is often dictated by the prevailing political sentiment. However, CDCs qualify for both public and private funding (Figure IV). According to the National Congress for Community Economic Development, CDC's primary funding sources were identified as one or more of the following sources:

- Community Development Block Grants (CDBG)
- State Government Programs
- Private Foundations
- Banks
- Local Government Programs
- Intermediaries
- Corporations

Figure IV

**COMMUNITY DEVELOPMENT CORPORATION
SOURCES OF FUNDS**



- Public
- Community Development Block Grants
 - State Government Programs
 - Local Government Programs

- Private
- Private Foundations
 - Banks
 - Corporations
 - Individuals
 - Others CDC's

VII. INSTITUTIONAL ADVANTAGES AND DISADVANTAGES OF A COMMUNITY DEVELOPMENT CORPORATION

CDCs have inherent advantages and disadvantages, when compared to exclusively private or public organizations. The following advantages are typically offered by CDCs:

- Insulate individual investors from risk under corporate forms.
- Serve as intermediary through which non-government (private) individuals can deal with the government (private) client.
- Define goals concisely since it does not have to answer to a broad constituency.
- Use its own decision making process, since it is independent from the government and can act quickly.
- Use resources of for-profit and non-profit subsidiaries for project development purposes and as a vehicle for receiving SBA and EDA funds.
- Perform functions and activities that may be in the public interest but are not necessarily allowable "government activities" for a municipal entity (i.e., real estate development and business financing).
- Qualify for 501 (c) (3) IRS Code tax exempt status.
- Use government resources as well as private resources.

The main CDC disadvantages are listed below.

- Lacks power of eminent domain and other land management powers that may stymie effectiveness.
- May lack government support and commitment, making it unprofitable and inefficient for non-government organizations to assume the responsibility for economic development without government cooperation.
- Can not use profits for private gain.