# Putting Dollars to Work in the Community

## 9 Things Local Government Can Do to Harness Private Capital for Public Good

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INITIATIVE FOR RESPONSIBLE INVESTMENT

LIVING CITIES
INNOVATE ▸ INVEST ▸ LEAD

**Our nation's cities should be engines of prosperity and opportunity – places where people thrive, innovative ideas flourish, and a robust infrastructure leads to economic and social benefits for all residents. Yet this promise of shared opportunity remains unrealized.**

Cities across the nation are under financial pressure. They lack the public funds to create more opportunity by investing in economic development, human capital and physical infrastructure. Private capital could go a long way towards meeting these investment needs. Too often, available private capital cannot be put to work in our cities because the mechanisms to attract and deploy capital are not in place. It's as though private capital is an airplane, circling overhead, without the landing strip or the air traffic control needed to touch down safely.

Even in a time of scarce public sector resources, there are things that city leaders can do to help put capital to work in their communities.

## WHAT IS THE PUBLIC SECTOR'S ROLE?

Our recent paper, The Capital Absorption Capacity of Places: A Research Agenda and Framework[1], considered how communities successfully and efficiently take investment capital and apply it to community development purposes. We are convinced that leadership from the public sector can make an enormous difference in creating the conditions that attract private capital and ensure it is utilized effectively to build sustainable and equitable communities. This paper outlines some key steps for public sector officials to consider and provides examples of places that have implemented these steps. A resource list at the end of the paper suggests where to find more information.

## 9 THINGS LOCAL GOVERNMENT CAN DO TO PROMOTE COMMUNITY INVESTMENT

1. Assess the capacity of your place to absorb capital
2. Engage a wide range of civic leaders
3. Enable and support a clear vision
4. Make data transparent and accessible
5. Simplify and streamline government procedures
6. Develop a supportive policy environment
7. Be strategic with public funding
8. Consider the potential of transformative initiatives
9. Reach beyond city limits

[1] The paper is available at www.livingcities.org/knowledge/media/?action=download&id=74

This paper is the work of David Wood and Katie Grace of the Initiative for Responsible Investment at the Harvard Kennedy School and Robin Hacke of Living Cities. We appreciate the feedback of numerous colleagues and leaders in the community development field who have participated in our research, reviewed drafts of the paper and contributed their expertise to advance our thinking. We view this working paper as the basis for continuing dialogue and invite your reactions and comments.

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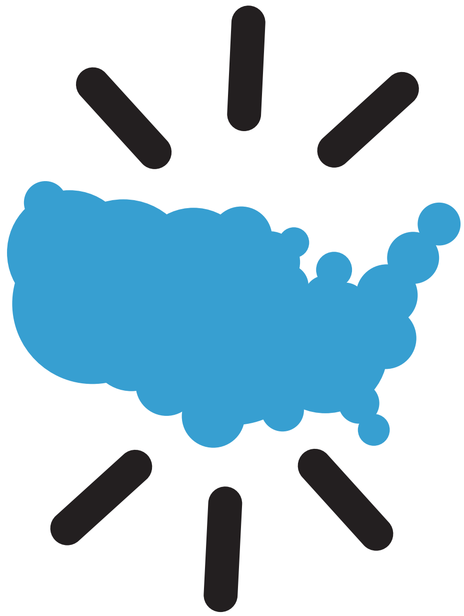
## INVESTMENTS THAT CREATE OPPORTUNITY

City government can help mobilize private sector investment and channel it to important public purposes. Increasing the flow of capital to build sustainable cities that offer opportunities to all residents —also known as community investment—has the potential to support economic development, augment the local tax base, revitalize neighborhoods and improve quality of life for all residents.



Community investment operates across a range of sectors, tied together by a common focus on underserved markets. Investors seeking to achieve social and economic impact may invest in affordable housing, energy efficiency retrofits, or neighborhood stabilization through foreclosure prevention. They may focus on investments in important facilities, such as community health clinics, childcare centers or grocery stores. They may invest in large scale economic development projects or lend to small businesses. Whatever the specific area, community investment creates both financial and social returns (a "double bottom line") and is a form of impact investing.

Capital to achieve public purposes such as those described above can come from diverse sources. Financial institutions—ranging from local, regional and national banks and insurance companies to special purpose Community Development Financial Institutions[2] are important sources of community investment, as are foundations. Investors from individuals to pension funds look for community investments that offer stable returns and social impact. In addition, real estate developers and institutions such as universities and hospitals often make significant investments in the community, and their resources can be mobilized to achieve a variety of worthwhile public purposes.

A number of critical conditions must exist to mobilize investments that benefit all residents of a city. There must be a coherent vision and set of goals that have been articulated and embraced by a broad array of public, private, and non-profit leaders. Cities need to create a supportive policy environment and use available public resources as strategically as possible. Data about community needs should be collected and made widely accessible. Ongoing platforms for collaboration across sectors should be developed. Community stakeholders should be deeply engaged. Financial intermediaries able to assemble and deploy capital from a variety of sources should be identified and supported. Although the work of community investment requires the participation of many stakeholders, local government has a particularly important role to play.

What follows are nine ways local government can promote effective community investment. They focus on the functions we believe are most suited to local government: convening stakeholders, providing information, setting policy and investing public dollars. Not every suggestion will apply to every place, but taken together, they offer a set of actions that the public sector can take to build capacity, expand resources and achieve vital public goals more effectively.

[2] Community Development Financial Institutions (CDFIs) are specialized financial institutions that work in low-income and minority communities underserved by traditional financial institutions. CDFIs are certified by the CDFI Fund, an agency of the Department of the Treasury. For more information, and for a list of CDFIs in your area, visit the CDFI Fund online: **http://www.cdfifund.gov/**.

# 9 Things Local Government Can Do To Promote Community Investment

1. ASSESS THE CAPACITY OF YOUR PLACE TO ABSORB CAPITAL
2. ENGAGE A WIDE RANGE OF CIVIC LEADERS
3. ENABLE AND SUPPORT A CLEAR VISION
4. MAKE DATA TRANSPARENT AND ACCESSIBLE
5. SIMPLIFY AND STREAMLINE GOVERNMENT PROCEDURES
6. DEVELOP A SUPPORTIVE POLICY ENVIRONMENT
7. BE STRATEGIC WITH PUBLIC FUNDING
8. CONSIDER THE POTENTIAL OF TRANSFORMATIVE INITIATIVES
9. REACH BEYOND CITY LIMITS

## 1. Assess the capacity of your place to absorb capital

Capital absorption—the ability of a place to attract and deploy capital—depends upon many factors:

- the existence of clear priorities;
- the involvement of community stakeholders;
- a policy and regulatory environment that is supportive of community investment;
- the availability of good data;
- careful targeting of public resources;
- the presence of organizations that can spot opportunities, assemble capital and structure deals; and
- strong, cooperative relationships among private, public and nonprofit sector leaders that can accelerate decisions and overcome obstacles.

Improving the flow of capital depends upon understanding how the factors listed above play out in a particular place. Cities vary dramatically in their community investment capacity, influenced by their history, culture, civic leadership and engagement structures, donor priorities, and so on. Different types of institutions may take the lead, and every city will have strength in some areas and weaknesses in others.

We have designed a Capital Absorption Framework and Assessment Tool (**http://www.livingcities.org/knowledge/media/?id=82**) to help cities and local stakeholders map the people, institutions and processes involved in community investment. Using the framework, local governments can develop a clearer picture of which community investment functions are working relatively well, and which need to be strengthened. This analysis can help identify those stakeholders best suited for particular projects, and guide efforts to develop policies and practices that would increase community investment capacity.

Local officials can convene a cross-sector group of leaders for a day-long workshop or a series of meetings and use this tool as the basis for discussion. Alternatively, cities or their philanthropic partners can retain a consultant to perform a more in-depth study. In either case, the results of this diagnostic process can help inform an agenda for taking actions, such as streamlining regulations or identifying investment priorities, that improve the flow of private capital to community needs.

# 2. Engage a wide range of civic leaders

Community investment is not the exclusive province of any one type of institution, be it Community Development Corporations or banks. Rather, attracting and deploying private capital successfully requires collaboration among community groups, financial institutions, developers, the local business community, the public sector, anchor institutions, and so on. Local governments can play an important role in convening these potential partners around specific topics or opportunities, and developing ongoing relationships that build capacity for community investment beyond any particular project. Community investment practitioners often point to the importance of 'table-setting" in building local capacity. Local governments can set the table, and help keep all parties engaged.

In particular, local governments can bring to the table business leaders and anchor institutions that traditionally have not been involved in community investment. These place-based leaders have much to offer. They can invest staff and financial resources, modify procurement practices, boost local hiring, or develop growth strategies that intentionally create opportunity and benefit for local communities. Local officials can help introduce community investment to unfamiliar actors, and link existing financial resources to new opportunities. Engaging community groups and other leaders in the community is also crucial to ensuring public buy-in and support for local projects and initiatives.

As part of the Living Cities Integration Initiative, the City of Newark worked together with the Prudential Foundation to convene the **Strong Healthy Communities Initiative**, a cross-sector effort to increase healthy options for targeted neighborhoods in the city. Leaders from local foundations, New Jersey Community Capital, the Jewish Renaissance Medical Center, as well as Brick City Development Corporation participated in setting priorities, which included construction of school-based health clinics, rehabilitation of vacant homes and an effort to attract a supermarket offering produce and other fresh foods. This effort will direct new local and national capital to investments in Newark, and strengthen the partnership with a strong statewide financial intermediary.

# 3. Enable and support a clear vision

Community investment flows most readily when a broad coalition coalesces around a shared understanding of priorities. Local government can play a critical role in aligning stakeholders around a common vision. By helping to crystallize a shared vision and translating that vision into a small number of core goals or metrics, local government helps set the investment agenda—determining economic development and land use strategies, identifying key areas of focus, and articulating priorities for public funding and support. This concentrates attention and resources of the public, private and nonprofit sectors and lays the groundwork for success. It is important to remember that in most cases, achieving significant progress will require patience, sustained engagement and a time horizon that transcends the limits of a particular administration.

Whether the goal is reuse of vacant land, improved access to transit or the reduction of childhood obesity, a vision that offers a place for investment helps mobilize capital and invites cooperation by a variety of stakeholders.

Portland's **Climate Action Plan** (www.portlandoregon.gov/bps/49989) is an ambitious strategy to put Portland and Multnomah County on a path to achieve a 40% reduction in carbon emissions by 2030 and an 80% reduction by 2050, compared to 1990 levels. A cross-sector steering committee developed the plan, which calls for increased energy efficiency, creation of walkable, bike-friendly neighborhoods, significant reductions in solid waste, and a variety of other measures that together have begun to yield impressive results.

# 4. Make data transparent and accessible

Attracting capital to places where market forces have failed to spark investment is a critical part of revitalizing neighborhoods and creating opportunity. Sometimes, overcoming these market failures can be catalyzed by providing accurate information about investment opportunities in places that may otherwise be overlooked. For example, supermarket operators may overlook dense , low income urban neighborhoods because they lack good information about how much income is actually available to consumers in those neighborhoods.

Local governments can play an important role in aggregating and providing access to up-to-date, reliable, actionable data to support market studies and feasibility analyses and to help identify both where there are gaps in services and where there is effective demand for investment. Community investors can use this information to determine where to deploy their resources. Community leaders – advocates, philanthropists, and the public sector itself – can draw on this information to promote more effective platforms for community investment.

**Vacants to Value (V2V)** is an initiative of the Housing Authority of Baltimore City that provides an online, searchable database of all the city-owned vacant properties in Baltimore with information on how to develop, buy, and rehabilitate vacant properties. This data makes it easier for prospective investors and community stakeholders to find and develop projects that stabilize and rejuvenate depressed neighborhoods. (http://www.baltimorehousing.org/vacants_to_value.aspx)

The **Detroit Works Project Neighborhood Analysis** provides an overview of the existing physical and market conditions in neighborhoods across the city of Detroit, and was developed through a combination of two studies. The first, a Residential Physical Condition analysis, reviewed city blocks and looked at indicators such as vacant land, vacant housing, housing condition, and household growth, stability or decline over the last decade. The second, a Market Value Analysis conducted by TRF PolicyMap, examined a variety of indicators related to housing stock and price in differing neighborhoods. Together, these analyses helped Detroit identify distressed, transitional, and steady markets on a neighborhood level to better craft and target market-oriented development strategies. Publication of these analyses and neighborhood data allow investors and stakeholders to better understand environments and develop projects. (http://www.detroitmi.gov/Portals/0/docs/mayor/Short%20Term%20Action/8_29_11_DWPShortTermPresentation.pdf; http://detroitworksproject.com/)

# 5. Simplify and streamline government procedures

Developing community investment strategies and projects often requires engaging with multiple municipal agencies and blending a variety of local, state, and federal funding sources. Local governments can help reduce the costs and "brain damage" of dealing with this complexity by creating streamlined processes for developers, investors and businesses to engage multiple agencies, by harmonizing overlapping and conflicting requirements, and by creating clear and predictable timelines for reaching decisions on specific projects or requests. Transaction efficiency and predictability encourage private sector investment.

Local governments can also foster investment by providing clear and well-organized information about the various subsidies and other benefits available to community investors – from expedited permitting or local support for small business to access to loan guarantees and tax credits. While every deal may be unique, making it easier for practitioners to understand the full range of their options can help move projects from good ideas to investment opportunities. Additionally, creating transparency and predictability can help induce investors and businesses to take risks, by building confidence in the stability of the regulatory and political environment.

The **City of Detroit** has focused on making it easier to start and run businesses by identifying "pain points" in the interactions that businesses have with local government and systematically seeking to eliminate them. The city has designated a business advocate and, on designated days, brings together multiple city departments to provide "one stop" service to businesses.

In the **Twin Cities**, multiple funders of predevelopment—including city, county and state entities as well as not-for-profit intermediaries—have created a forum where developers can present their real estate projects and get feedback early in the development process. This forum provides useful information to the developers, reducing uncertainty, and helps multiple funders align resources and understand what projects are in the pipeline. In addition, the Minnesota Housing Finance Agency runs a "Super RFP" that allows applicants to request funds from numerous statewide sources at once. Two competitive funding rounds are conducted each year.

## 6. Develop a supportive policy environment

Community investments from the private sector are often supported by policies that direct resources towards specified social or environmental outcomes. Well-crafted and implemented policies can be powerful stimulants of investment and can channel those investments to achieve specified outcomes.

For example, local governments can:

- orient their public procurement policies to favor small, local and/or women- and minority-owned businesses
- develop inclusionary zoning policies to promote affordable or green housing development
- offer density bonuses and other land use provisions that favor access to transit; and
- fast-track permitting for projects that meet specified goals or are targeted to underserved areas.

To be most effective, policies should be designed to encourage socially beneficial private sector investment that would not otherwise occur. Careful use of subsidies can reduce risk, lower the cost of capital and spur development. Intervention at the earliest stages of market evolution—in revitalizing a distressed neighborhood or building a new industry—can spur private sector investment by laying the foundation for success.

In thinking about building a supportive policy framework for community investment, it is important to consider policy design as well as policy implementation and enforcement. As many cities have learned, it is only through enforcement of building codes that vacancy and abandonment can be managed. Thoughtful use of public policy levers can powerfully shape the environment for community investment.

**New York City** supports the development of affordable housing by offering density bonuses of up to 20% to developers who include affordable housing units in projects in designated areas. The additional units allowed by the bonus help developers meet inclusionary zoning regulations mandated by the city. (http://www.nyc.gov/html/dcp/html/zone/zh_inclu_housing.shtml).

The **City of Cleveland** enacted a Local and Sustainable Purchasing Ordinance, which provides a 2-4% bid preference for companies that source products locally and/or are certified as a sustainable business (portal.cleveland-oh.gov/clnd_images/sustainability/brochure.pdf).

## 7. Be strategic with public funding

Strategic use of precious public funds means three things: leverage, target and align. Local governments can leverage their subsidy dollars and public investments to foster private investment that achieves public purposes. For example, rather than spending precious public funds directly on projects, local governments can catalyze larger sums of private investment by using public funds as "first loss" or subordinated funds, thereby making private investments less risky. In return for such support, local government can require that explicit social benefits such as local hiring, public amenities, or affordability provisions be included in publicly supported projects.

Careful targeting can amplify the effect of public investment by generating momentum and signaling to the private sector the importance of a particular objective. At a time when resources are scarce, spreading them like peanut butter may dissipate impact and result in waste. On the other hand, tipping particular markets can ignite investment and reduce the need for additional subsidy. Finally, local governments can magnify the effect of their own investments by aligning funding streams from different departments and coordinating them with investments from state government, philanthropy and Community Development Financial Institutions. These strategies help ensure that money flows more effectively to high impact investments.

By making $10 million of public funds available as "first loss" money in the Bay Area, the Metropolitan Transportation Commission enabled the Low Income Investment Fund, a Community Development Financial Institution, to raise $40 million in private capital for investment in transit-oriented development. The resulting **Bay Area Transit-Oriented Affordable Housing Fund** will support equitable communities – including housing and important community services – close to Bay Area transit stations. (http://bayareatod.com/partners/)

## 8. Consider the potential of transformative initiatives

Creating a vision and positive policy environment for community investment and engaging multiple stakeholders are important steps in mobilizing community investment. Sometimes local governments can boost investment still further through carefully conceived transformative initiatives. By catalyzing high profile, high impact projects, local governments can accelerate private investment activity and interest, attracting new players and creating new relationships and capacity. These concentrated efforts may focus on a particular region, sector or large scale redevelopment project where a visible success changes the rules of the game. Signature projects not only can attract significant local investment of resources and expertise, but can also generate interest from regional and national investors, helping to build local capacity and national partnerships. These benefits should extend beyond the projects themselves, ideally creating ongoing relationships and enriching the experience base of local players.

Transformative projects run the risks of triggering gentrification or diverting resources from areas of need. For these projects to succeed in generating opportunity for all, they should be carefully tailored to support equity and access.

Local governments need to ensure they have policies and structures in place that connect low-income communities to the benefits, such as jobs, created by these transformative efforts. Targeted impacts should be clearly conceived and explained. Projects also must be designed to last through political cycles and pursued patiently in order to achieve long-term goals.

Many cities have identified core areas for transformational redevelopment, concentrating public resources and catalyzing significant private investment. For example, in **Pittsburgh**, large scale public-private partnerships resulted in the revitalization of a brownfield site that was formerly home to US Steel and the restoration of blighted riverfronts to attractive amenities.

**Philadelphia's Neighborhood Transformation Initiative** (http://www.plannersnetwork.org/publications/2007_winter/vitiello.htm) revitalized blighted areas and stabilized neighborhoods through a combination of demolition, reclamation and investment.

**Hope SF** (hope-sf.org) is the nation's first large-scale public housing revitalization project to prioritize current residents while investing in high quality, sustainable housing and broad community development. Starting with Hunters View, the city and private developers have begun a $450 million investment program that will create new infrastructure, mixed income housing, schools and parks.

## 9. Reach beyond city limits

No city is likely to be fully developed across the range of community investment functions, and not every place will be able to engage all the stakeholders necessary to effectively address every community investment sector and issue that may need attention. Fortunately, not all functions need to be served locally. Local government officials can benefit their city by calling upon investment, expertise and resources from other regions. When approaching a new or difficult community investment topic, cities do well to learn from analogues in other places.

Joining forces with regional or national partners that have specific community investment experience or capacity can complement the strengths of local partners. Inviting visits and involvement from developers, specialized financial institutions, philanthropy and technical assistance providers can help tap knowledge and funding that would otherwise be inaccessible. Local government can actively participate in community investment networks, conferences and visits to track developments in the field.

As part of the **Living Cities Integration Initiative**, leading Community Development Financial Institutions are partnering with local non-profit organizations to deploy significant commercial and philanthropic capital. For example, NCB Capital Impact is working with Midtown Detroit to finance mixed income, mixed use development in the Woodward Corridor (www.ncbcapitalimpact.org/default.aspx?id=2272). Living Cities shares the lessons of its five-city effort on an ongoing basis through the Living Cities blog and the Integration Initiative e-magazine, "At the Table" (www.livingcities.org/blog/?id=33).

**City to City** (www.city2cityspringfield.org) is an initiative linking metropolitan leaders to their counterparts in other areas to share lessons learned. The effort, which arose from the participation of Springfield, MA in the Federal Reserve Bank's resurgent cities research, has led delegations to visit cities grappling with similar issues and share best practices.

# Resources

There are a variety of organizations devoted to community investment, and numerous conferences and meetings that can help introduce public sector officials to the field, and build personal and institutional connections. Below is an abbreviated list of websites that provide useful orientation to the field.

**Living Cities** is a funding collaborative of foundations and financial institutions that invests in cities across the country and shares lessons with other practitioners. For information on this work see: **http://www.livingcities.org/catalytic-capital/**.

**The Federal Reserve Bank of San Francisco** publishes a wide range of article on community investment, covering best practices, specific investment sectors, and innovations in the field. This work is online at: **http://www.frbsf.org/community/**.

**Shelterforce**, a journal on affordable housing and community building, similarly offers articles on community investment especially from the perspective of housing: see **http://www.shelterforce.org/**.

**The Carsey Institute** at University of New Hampshire publishes useful research on community investment, including information from a joint project with the Federal Reserve Bank of Boston known as the Financial Innovations Roundtable. See **http://www.carseyinstitute.unh.edu/policy/cdf.html.**

Capable intermediaries are fundamental to successful community investment. **The Opportunity Finance Network**, a network of Community Development Financial Institutions, is an excellent source for information on these intermediaries and the role they play in community investment. See **http://www.opportunityfinance.net/**.

**USSIF: The Forum for Sustainable and Responsible Investment** recently published an overview of community investing that maps out participants and opportunities in the field. See **http://ussif.org/resources/pubs/**.

The **CDFI Fund** in the US Department of Treasury is a vital source of funding and data for community investment: see **www.cdfifund.gov**.

The Department of Housing and Urban Development, the Environmental Protection Agency, and the Department of Transportation have collaborated to explore the federal role in promoting **sustainable communities** in ways that have significant implications for community investment – for information on this initiative see **www.sustainablecommunities.gov**.

One key element in community investment as currently practiced is the **New Markets Tax Credit**. To better understand this program see the information collected at **http://nmtccoalition.org/**.