Expectations for NPOs in Urban Revitalization — Lessons from Community Development Organizations in the U.S.

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Introduction — After the Demise of the Urban Development Corporation

As the Koizumi administration solidifies plans for privatizing or abolishing special public corporations, specific measures will be rolled out in due time. With the end in sight for public corporations such as the Urban Development Corporation and Japan Regional Development Corporation, which have been responsible for housing projects and urban redevelopment programs in the postwar period, it is time for local public entities, residents as well as companies to seriously ponder the new roles for public and private sectors in community development.

This paper examines several examples from the U.S. of the progress being made in partnerships for community development between NPOs and local governments, and considers their implications for Japan.

1. The Need for Community Development NPOs

Despite their numerous accomplishments, public corporations have earned much scorn and disrespect in many ways: (1) by creating havens for retiring bureaucrats, they relinquished their independence while paying out excessive compensations, (2) they misused the Fiscal Investment and Loan Program, which was based on fixed interest rates, and were bewildered by declining interest rates and economic recession, which led to management problems due to mounting losses, (3) they required the infusion of tax money to cover unrealized losses associated with the bubble's collapse, and (4) they compete with the private sector primarily in the housing business.

However, in many countries such as the U.K., U.S., Germany and France, there exist numerous public organizations at the national, state, and local government levels that promote community development. This is because community development not only poses difficulties in coordinating interested parties, but is inseparable from infrastructure programs and housing programs for low income families, which are unprofitable to private companies and investors.

Many local governments in the U.S. have created public organizations responsible for urban (re)development, the total number of which exceeds 3,000 nationwide.[1] Some are well known in Japan, including the Boston Redevelopment Authority (BRA), Empire State Development (ESD), and the San Francisco Redevelopment Agency (SFRA).

The directors of these organizations are leading citizens chosen by the mayor, rather than havens for retiring bureaucrats. Since private investment funds are solicited and development subsidies are limited to the period until market returns are achieved, and since organizations generally do not own assets associated with development, the second and third problems mentioned above do not arise. And since subsidies are received by private companies and investors that actually execute the projects, and development projects are strictly limited to distressed neighborhoods or low-income housing, the fourth problem does not occur.

If similar safeguards had been adopted in Japan, the decision to abolish such public corporations would probably have not become an issue. However, behind the decision apparently lies the judgment that unless the whole system is reset first, creating new organizations that support community development will be difficult in practice.

Community development organizations in the U.S. still face many challenges. The main challenge is how to revive urban areas and form stable, sustainable communities at a low cost. Doing so requires plenty of funds, people with expertise, and undivided attention that is difficult for local public services to provide. To meet this challenge, NPOs are sprouting up across the U.S. in cooperation with local governments and communities, and playing a central role in community development.[2]

Below we examine two of the leading examples of community development organizations in the U.S.: San Diego CCDC, and the New York City Partnership. Both are NPOs in which the city is a main constituent, and both were established premised on a partnership with private companies, investors, and the community.

In Japan, where NPOs have not yet achieved a firm foothold, it may be difficult to introduce similar community development organizations. However, based on the premise of resetting the whole system, perhaps it would be meaningful to hypothesize possible roles for NPOs in community development.

2. Progress of Community Development NPOs in the U.S.

(1) San Diego CCDC

The Centre City Development Corporation of San Diego is an NPO established in 1975 by the mayor and city council for the development of Horton Plaza in downtown San Diego. The project became a catalyst for reviving the distressed downtown area, and paved the way for subsequent development.

Figure 1 Horton Plaza Today

Figure 2 Downtown San Diego

★ Horton Plaza

The city's redevelopment office has commissioned all community development operations pertaining to the downtown renewal to CCDC. Starting from the city's basic plan, CCDC drafts proposals for modifications or detailed plans as needed, and also engages in: coordination with landowners and the community, selection of developers, purchase of materials, examination of profitability to determine minimum subsidies needed to secure market-based returns (gap finance), examination of use of tax increment financing (TIF),[3] and examination of acquisition and disposal of land. All personnel expenses necessary to perform these functions (there are only 38 employees) are paid for by grants from the city.

TIF is a financing tool to facilitate urban revitalization based on California's Community Redevelopment Law. When a development project is adopted, TIF designation, which is restricted to urban areas in decline, establishes a base year value for land in the project area. Since property values later rise after development and create what is called a tax increment (assessed value after redevelopment minus base year value), the resulting increase in tax revenues is used to pay back funds used for development. Thus once an area has been designated for TIF, development can be funded by issuing bonds equivalent to the present value of the future tax revenue increase.

CCDC was organized as a nonprofit organization because a community development organization that is public and politically neutral was thought ensure greater efficiency and trust in targeted communities.

Since CCDC appoints companies and experts from the private sector, city employees do not serve concurrently in CCDC. While the mayor is head of CCDC, other city government officials, council members, and recently retired employees are not eligible for appointment. Project are initiated by project committees composed of community residents, reviewed by the board, and approved by the city's Redevelopment Agency.

According to the CCDC's financial statements, total assets amount to $6.7 million, and net assets to $6.08 million, of which $5.63 million belongs to the retirement pension fund for CCDC employees. The fact the retirement pension is independent of the city government is an interesting point. Excluding this, net assets amount to only $450,000.

Separate from this, the CCDC's operating budget is compiled by the city's Redevelopment Agency. In fiscal 2000, budget expenditures amounted to $7.19 million. The largest revenue source was TIF income, comprising 33.5% of the $7.1 million in total revenue.

Figure 3 CCDC Results for the Past 25 Years

Cumulative public investment	$ 374,500,000
Cumulative private investment	$ 2,040,000,000
Public/private investment ratio	5.5
Cumulative tax revenue	
Property tax	$ 262,000,000
Estimated sales tax	$ 15,000,000
Total tax revenue	$ 277,000,000
Single-year tax revenue	
Property tax	$ 23,100,000
Sales tax	$ 3,900,000
Business tax, etc.	$ 17,600,000
Total tax revenue	$ 44,600,000
Annual return on public investment	12%
Public infrastructure development	$ 70,400,000
Housing development: no. of units sponsored	4,741 units
(of which, low & moderate income housing)	1,887 units
Hotel rooms completed	4,377 rooms
Office/retail floor space	530,000 m^2
Jobs created	
Construction	15,820 jobs
Other steady jobs	6,000 jobs
Total jobs	21,820 jobs

Note: Above figures exclude economic benefits generated by local businesses and related operations.

Since 1975, the CCDC has undertaken projects with a cumulative investment value of over $2.4 billion, of which approximately $370 million consisted of public funds, and the rest private investment funds. The private investment has generated property tax and other tax revenues of almost $45 million annually, prompting the CCDC to claim that the return on cumulative public investment is an impressive 12%. The compact and efficient operation of this NPO has contributed greatly to the city's finances.

(2) New York City Partnership (NYCP)

The New York City Partnership is an NPO group created in 1982 with the objectives of (1) supplying affordable housing to New York City residents, and (2) stimulating private investment to promote redevelopment of communities in decline.

NYCP has undertaken numerous community development projects in cooperation with the city's Department of Housing Preservation and Development (HPD). Its housing projects supply affordable housing for moderate income households at a pace of 1,200 units per year.

Revitalization projects have been carried out in slums of Harlem, Queens, Brooklyn, and Bronx.

Below we present two representative case studies.[4]

1. Renaissance Plaza

Location: Central Harlem

Land ownership: Little-used and unused land owned by the city (land requisitioned due to nonpayment of property tax; produces no tax revenue if left unused)

Development plan: 11-story residential building with retail space on first floor

No. of housing units: 241 (cooperative housing)

Total housing floor space: 27,670 m^2

Total retail floor space: 8,000 m^2

Total development cost: $62 million

Figure 4 Renaissance Plaza (Feb. 2002)

The project carried a high risk for many reasons: it was the first mixed-use development project containing cooperative housing in Harlem, the land value was extremely low, bank financing was difficult to obtain, and the project was large-scale.

Thus a public/private partnership was formed with the public side consisting of HPD, New York City Housing Development Corporation, New York City Employee’s Retirement System, State of New York Mortgage Agency (SONYMA), Empire State Development Corporation, and federal government; and from the private sector, a syndicate of five banks led by Chase Bank, and developers. Coordinating the two sectors was the NYCP.

The public sector provided the following incentives: the city provided the project land, exemption from water and wastewater tax, a property tax reduction; the city and state provided low-interest loans (0-3%, 30-year loan for the retail space) and subsidies; the federal government provided low-interest loans (20-year loan for the retail space), and SONYMA provided debt guarantees for the housing and retail space.

Being a nonprofit organization, NYCP enjoys exemptions on federal and state corporate taxes, as well as exemption on the real estate transfer tax on land purchases, and sales tax on building materials.

NYCP not only makes investments to reduce the burden on developers, but coordinates and facilitates procedures for acquiring certifications and tax incentives. NYCP also represents developers when consulting with the community and local assembly members. These support measures are intended to facilitate the project's smooth implementation, and reduce the risk to developers.

2. Shabazz Gardens

Location: Area adjoining Central Harlem
Land ownership: Transferred from the city to NYCP
Development plan: 41 3-story units for collective housing, containing 123 dwellings in total. Each unit consists of one condominium and two rental apartments, so that unit owners can live in one dwelling while earning rental income to repay the loan (New Homes Program). NYCP provides owners with management advice, and trains them to become independent entrepreneurs who contribute to the community's stability.
Total development cost: $16.56 million

Figure 5 Shabazz Gardens (Feb. 2002)

NYCP is composed of several NPOs. In fiscal 2000, total assets of the housing and community development group within NYCP amounted to $14.4 million, net assets were approximately $5.8 million, and annual revenue totaled $9.7 million.

The group is actually an extensive partnership consisting of five NPOs: (1) Housing Partnership Development Corporation (HPDC), (2) NYC Partnership Housing Development Fund Company (HDFC), (3) Neighborhood Partnership Housing Development Fund Company (NPHDFC), (4) Global Resources for Affordable Neighborhood Development (GRAND), and (5) Residential Integrated Solutions Corporation (RISCO).

HPDC, a nonprofit organization formed in 1983, is responsible for raising operating funds, general administration, and oversight of the group. HPDC oversees the operations of HDFC, NPHDFC, and GRAND, and has the important role of providing technical guidance to local governments and attracting private investment to declining communities. Revenue sources consist of payments by developers for public services provided, and subsidies and contributions from public and private organizations.

HDFC is an NPO dedicated to promoting home ownership through programs such as the New Homes Program mentioned earlier. Programs are funded by low-interest loans from the state.

NPHDFC is an NPO established by the state that manages rental housing restored by the Neighborhood Entrepreneurs Program.

GRAND, an NPO formed in 1991, pools funds that are raised through domestic and foreign investment banks for the purpose of constructing affordable housing.

RISCO, an NPO formed in 1995, resolves problems related to partnership operations and complex financial transactions.

In addition, the Community Partnership Development Corporation (CPDC), formed in 1989 as a subsidiary of the NYCP Group and HPDC, is responsible for low and moderate income family housing and neighborhood environment improvement of the city’s declining neighborhoods.

Since 1997, CPDC has supplied NYCP with funds from the New York City Investment Fund for the purpose of creating jobs and economic growth in the five boroughs. This was an important source of funds for the Renaissance Plaza project. In fiscal 2000, CPDC received approximately $40 million from the Fund, which is being invested in various projects.

The New York City Investment Fund is a private sector investment fund set up by NYCP in 1996 to promote economic development and venture businesses. The Fund began operations after receiving $1 million contributions from each of 68 local companies and individuals, and currently has more than $100 million under management.

This amount would seem insufficient to cover the numerous development projects in New York City. However, as in the San Diego case, the funds are used for gap finance, which attracts private investment by ensuring an adequate return. Although NYCP has not disclosed any figures, the $100 million can probably leverage approximately $1 billion in private investment.

One reason that projects using NPOs have flourished in New York City can be traced to the city's fiscal problems. Budget shortages were severe in the 1970s and 1980s, and cutbacks in federal and state subsidies constrained restoration and redevelopment projects.

The solution to this problem came not from the public sector, but from the city's companies and individuals. Under their leadership, NYCP was established as a partnership between the city and private sector. Today, leading companies in New York City, including Japanese companies, participate in NYCP and the New York City Investment Fund.

Thus while NYCP has been mobilizing private funds and personnel for public projects, the city has been promoting the use of NPOs for various programs. As the examples show, the city has chosen to aggressively team up with the private sector and promote real estate development in declining urban areas, using a combination of tools such as subsidies, low-interest loans, guarantees, property tax exemptions, and land transfers at little cost.

Conclusion — Implications for Japan

As we have seen, by appointing persons from the private sector and ensuring management independence, the CCDC in San Diego has earned the public's confidence in carrying out downtown revitalization. The CCDC's work reconfirms the need for community development organizations to act as intermediaries, and the suitability of NPOs to perform this role.

The main tools used are gap finance and TIF. While gap finance relies on subsidies from city finances, TIF is a financing method that uses future property taxes as collateral. Having control of both methods, CCDC leads projects in a way that uses a minimum of public investment to leverage the maximum amount of private investment.

New York City's NYCP, which is actually a large organization composed of numerous NPOs, is noteworthy for the way it has supplanted public funding for community development with an investment fund formed by the private sector. NYCP is improving the city's environment by undertaking administrative functions that require close attention such as supplying affordable housing. The city is strengthening ties with its resourceful companies and individual investors, and creating synergies by carrying out a variety of support measures.

In Japan, the abolition of public corporations will complicate matters for municipalities that rely on them for personnel, experience, and funds. It will also directly affect local companies and communities.

If municipalities had sufficient planning, coordination and execution capabilities and the associated disclosure, there would be little need for public corporations or U.S.-style NPOs to support community development. Unfortunately, with the exception of Tokyo, municipalities appear not to possess adequate capabilities.

We would suggest that local companies and communities take the opportunity to reevaluate their municiapal agencies, and consider whether the private sector needs to create community development NPOs similar to the U.S. Now is an era in which community development is becoming a global trend, and the private sector is taking the initiative to form partnerships with the public sector.

Of course, municipalities also need to establish policies that efficiently enhance community development by taking full advantage of private initiatives and encouraging companies and communities to participate.

While omitted in this paper, community developments in San Diego and New York City also use Community Development Block Grants (CDBG) and low-income housing tax credits (LIHTC) from the federal government. Japan's government needs to study ways to support municipalities and community development NPOs so as to maximize their effectiveness as in the U.S.

The time has come for all sides engaged in community development to explore policies for creating cooperative and collaborative NPOs, and enhancing community development based on genuine partnership. Toward this end, the examples of community development NPOs in the U.S. provide important implications.

Figure 6 Comparison of CCDC and NYCP (Fiscal 2000)

Name	Centre City Development Corporation (CCDC)	New York City Partnership (NYCP) Housing & community development group
Address	225 Broadway, Suite 1100 San Diego CA 92101	One Battery Park Plaza New York, NY 10004
Establishment date	1975	1982
Organizer	Mayor and city council	New York City, corporate alliances, others
Events leading to establishment	Established by resolution of mayor and city council to improve decayed downtown area.	Established by city to provide affordable housing and revitalize communities in decline.
Activities	• Coordinate concerned parties regarding downtown revitalization • Implement policies as commissioned by city; provide gap finance and TIF for urban revitalization projects.	• Supply affordable housing for New Yorkers • Stimulate private investment for redevelopment.
No. of employees	38	43 (18 in housing & community development)
Asset size	Net assets: $6,087,525 ($5.63 million is in retirement pension fund)	Net assets: $5,821,368 (see note 1)
Annual income and expenditure	Income: $3,770,651 (see note 2) Expenditure: $3,770,651	Income: $9,669,549 Expenditure: $48,044,513 (see note 3)
Income sources	Grant from city: $3,762,663 Interest: $4,043 Other: $3,945	Contributions: $1,864,799 (direct govt. subsidy $36,640) Rent, compensation, etc.: $1,004,453 Subsidies and grants: $1,295,351 Federal loan program: $3,342,063 Investment income: $1,543,958 Interest: $472,762 Other: $146,163

Notes: (1) The balance sheet for NYCP shows the total for the Housing Programs of the NYCP and Chamber of Commerce, Inc., and the Community Partnership Development Corporation, Inc.
(2) Annual revenue and expenditure for CCDC do not include capital increases from retirement pension investment.
(3) Of NYCP expenditures, $40,347,497 is allocated to project investment. The corresponding revenues consist of funds from the New York City Investment Fund in fiscal 1999 for job creation and economic development in the five boroughs. This is an important funding source for projects.

Notes

1. In 1994, there were over 300 urban (re)development agencies in California alone.

2. In the U.S., 30% of community development NPOs are called Community Development Corporations (CDC). Their main function is to supply low-income housing. The two NPOs introduced in this paper are slightly different in that the extent of public involvement is greater.

3. Japan has a corresponding concept of refunding development gains. Outside of California, cities such as Chicago, IL also use TIF extensively.

4. These examples come from HPD's Alliance for Neighborhood Commerce, Homeownership, and Revitalization (ANCHOR), which aims to revitalize communities by constructing and supporting facilities that mix housing and commerce. Federal and state subsidies are used.