

A Decade of Development:

An Assessment of Neighborhood Progress, Inc.

Prepared for

**The Cleveland Foundation
The Gund Foundation
The Mandel Foundation**

By

The OMG Center for Collaborative Learning

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Foreword and Acknowledgments

OMG welcomes this second opportunity to assess the progress being made by Neighborhood Progress, Inc. (NPI) and its partners in strengthening Cleveland's community development system and revitalizing housing and physical conditions in its neighborhoods. OMG's earlier assessment of NPI provided the occasion to build our understanding of the broad public/private strategy being followed in Cleveland to support the neighborhood physical revitalization work of community development corporations (CDCs), and the central role that NPI has played in shaping and supporting that strategy. We came away from that engagement impressed with the soundness of the strategy and an expectation that it was likely to produce significant results over time. We recognize that this current assessment provides the all too rare chance to continue observing the implementation of a broad strategy and, more importantly, to measure its impacts after sufficient time has elapsed so that results should be evident among Cleveland's CDCs and neighborhoods.

We believe that the generally positive findings contained in this report provide very strong evidence of the soundness of the overall strategy and are hopeful that it will assist NPI and its funding partners to think through next steps needed to secure and build on the gains that have been made.

The assessment team would like to thank all of the NPI staff for their wholehearted cooperation with a process that added to their already significant burdens. In addition, we wish to mention Greg Sanders of Cleveland Housing Network (CHN) and Mark McDermott of the Enterprise Foundation who were deeply involved in the creation and debugging of the CDC production database so central to our analysis. We also want to highlight Charlie Post, Jim O'Connor, Mark Salling, and Bruce Melville. Charlie Post, of the Housing Policy Research Program at Cleveland State University spent significant time providing data and helping us understand its meaning and limitations. Jim O'Connor of Realty One helped us fill a key gap in our analysis with his detailed database of housing starts. Mark Salling of the Northern Ohio Data and Information Service at Cleveland State University provided mappable boundaries of CDC target and service areas, and of property parcels. Bruce Melville of Cuyahoga Metropolitan Housing Authority provided data, analysis, and expertise on the Cleveland rental market.

We also wish to thank the many funders, governmental leaders and managers, lenders and CDC staff who gave their time for our interviews and helped us with the gathering of data on which this assessment is based. Their willingness to share their time, experience, deep concerns about CDC capacity building, and ideas about NPI's future role in supporting CDC development, have contributed much to the assessment process and, we hope, to further thinking within Cleveland about these important concerns.

Tom Burns
Kennard Wing
Ben Butler
Mark Weinheimer

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Introduction

Over the ten years since NPI's inception this local community development intermediary has pursued a deliberate strategy intended to strengthen the capacity of community development corporations in Cleveland and increase their ability to undertake the physical revitalization of many of Cleveland's neighborhoods. In addition, in recent years, NPI has played a significant role in shaping and strengthening an integrated community development system that extends and supplements the activities and impact of local CDCs. Over the years, it has gained national recognition for its role in defining a distinctive approach to CDC capacity building and for its accomplishments in neighborhood revitalization. NPI and its funding partners are undertaking this independent assessment to assist in evaluating NPI's achievements and lay the foundation for further planning to guide NPI and its supporters in determining how the organization should evolve and the role it will play in the next stages of Cleveland's community development system.

A close read of this document will reveal some areas where the analysis is limited either by the type of data currently available or by the necessity to choose among competing assessment priorities. When relevant, we have indicated where findings are still limited by incomplete data. These limitations aside, we think the assessment provides unusually strong support for the findings we report, strong enough that the task of drawing conclusions and formulating recommendations was not nearly as difficult as in other assessments of this kind. The assessment reveals a clear story about progress relating to the strategy that has been followed, and lays the groundwork for another stage of program development to preserve, reinforce and build on the accomplishment of Cleveland's CDCs and neighborhoods and to further sustain the role of NPI in the system that has emerged.

We have organized this report into three parts. The first summarizes the assessment goals. The second draws upon our analysis of available data to review what has been accomplished by NPI and partners in recent years (since 1990 for some areas, since 1995 for others); this section closes with some broader conclusions based on the findings presented. The third section contains our recommendations and issues for discussion, including the results that have been achieved and focusing on the challenges of building on and sustaining the system now in place. The appendix that follows provides a description of the assessment approach.

1. Assessment Goals

This assessment was designed to accomplish several specific goals which have shaped both the overall approach and the workplan the evaluation team followed:

1. To review the soundness of the key ideas which have shaped NPI's strategy for neighborhood revitalization, including: (1) the assumption that a focus on physical revitalization activities and investments is an effective way of approaching the challenging task of turning around troubled neighborhoods; (2) the commitment to supporting CDCs as the principal vehicles for channeling new investments in physical development projects in neighborhoods; (3) the encouragement of CDCs to target revitalization resources on discrete areas within their neighborhoods; (4) the provision to CDCs of core operating support together with an array of other program resources to enable them to strengthen their organizations, their leadership, and their real estate development capacities; (5) the conviction that city neighborhoods can compete with the suburbs, attracting buyers who can choose where they live; and (6) the creation of mixed income neighborhoods through mixed income development.
2. To determine to what degree NPI has been successful in meeting several defined program and system-building goals, including: (1) beginning to turn around at least six "at risk" neighborhoods in measurable ways; (2) demonstrating significant and measurable improvement in the management and leadership of NPI-supported CDCs; (3) building sustainable systems and partnerships to increase the scale and pace of physical renewal efforts, and (4) creating ongoing funding systems for neighborhoods.
3. To assess NPI's development as an organization and more specifically its progress in integrating its various efforts within a coherent overall strategy and sound organizational structure.
4. To make use of the above analyses to offer some conclusions and recommendations intended to inform how NPI and its partners think about NPI's future and the further evolution of Cleveland's community development system.

Also guiding the assessment approach have been several broader assumptions about how the results of it might be used both by NPI and its funding partners. From the beginning we have assumed that the assessment should assist NPI and its funders in reappraising how NPI fits within a larger set of economic development and community change approaches and how the premises underlying its development fit within a broader civic improvement agenda. We have also assumed the assessment should produce useful results that can help support future-oriented thinking about Cleveland's neighborhood revitalization system. In addition to defining next steps for NPI in support of continuing system development, this process should also help identify additional interventions beyond NPI that may strengthen and build on NPI's efforts.

A description of the approach we followed to the assessment, and the questions that guided our work, can be found in the appendix.

2. Overview of Assessment Findings and Conclusions

In this overview we provide a summary of NPI's program activity and accomplishments and their effects on Cleveland's neighborhoods. At the end of the section we offer several broad conclusions about the strategy that has been followed and NPI's role in the community development system that is now in place.

2.1 Principal Findings

Drawing on the analysis completed to date, most of our assessment findings can be grouped under the following seven themes.

- 1. *The strategic neighborhood revitalization approach defined in the early 90's, and further refined in subsequent years, has been consistently followed by NPI and has been implemented at significant scale.***

Key elements of the strategy include a focus on the physical revitalization of neighborhoods in decline, working to strengthen CDCs and their leadership as neighborhood partners, an emphasis on the targeting of physical development within neighborhoods and on investment in significant projects with catalyzing effects, the development of mixed income housing, the attraction of moderate income homebuyers back to the city, and the attraction of private developers/builders to work within the city.

This strategy has resulted in a significant flow of neighborhood redevelopment activity, both residential and commercial. Over 3000 units of housing have been completed or are in construction since 1995. During NPI's previous funding cycle (1995-98), 1632 units were completed. In the current funding period (1999-2001), 1047 units have been completed, with an additional 725 units projected to be finished by mid 2001. This is 9% above the previous cycle but 77% of the goal set for the current cycle (we concur with the NPI staff view that the current cycle goal was too ambitious; it was based on NPI's assumed continued participation in the Homeownership Zone and would have meant a fourfold increase in for-sale housing production over the previous cycle). Almost 900,000 square feet of new or rehab commercial space has been completed or is construction since 1995. Most of this activity has been in the current program period, nearly doubling the program cycle goal of 450,000 square feet (*see Figures 1 and 2*). In addition, an estimated several thousand more homes have been painted, weatherized, or repaired over the same period. The significant deviation between the planned and actual mix between residential and commercial development raises the question whether there should be some relation between these two totals and, if so, how it should be set. In reality, these

aggregates are totaled from individual neighborhood plans, so there is no “magic formula” suggesting that so much residential development should imply a certain amount of commercial investment.

Figure 1: NPI Housing Production

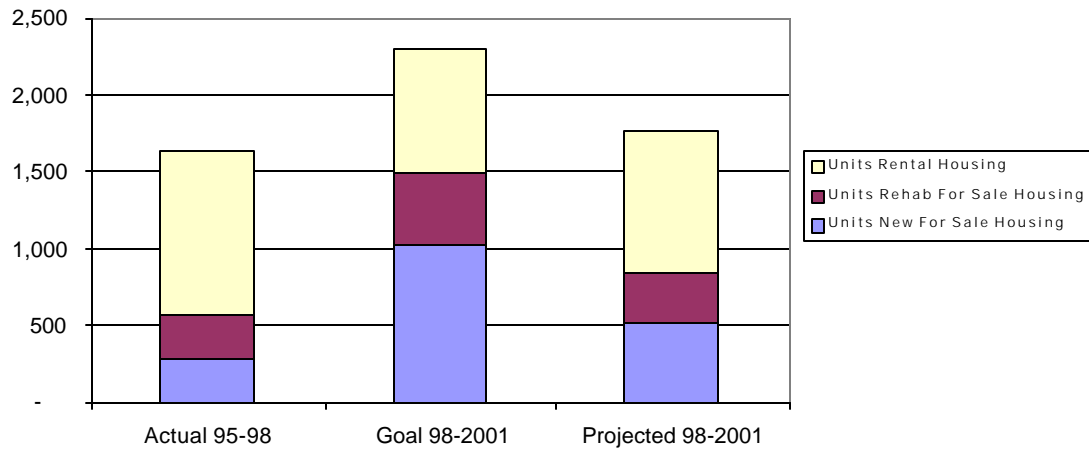
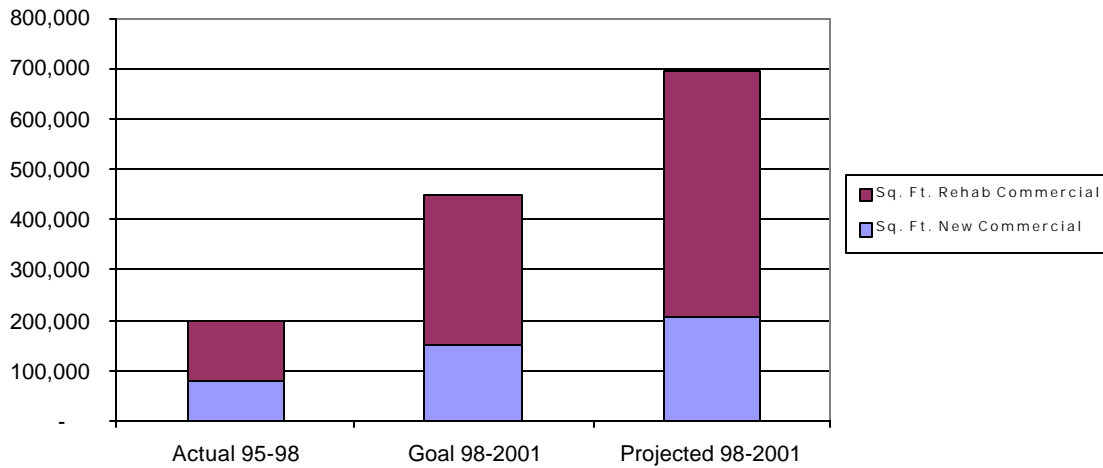
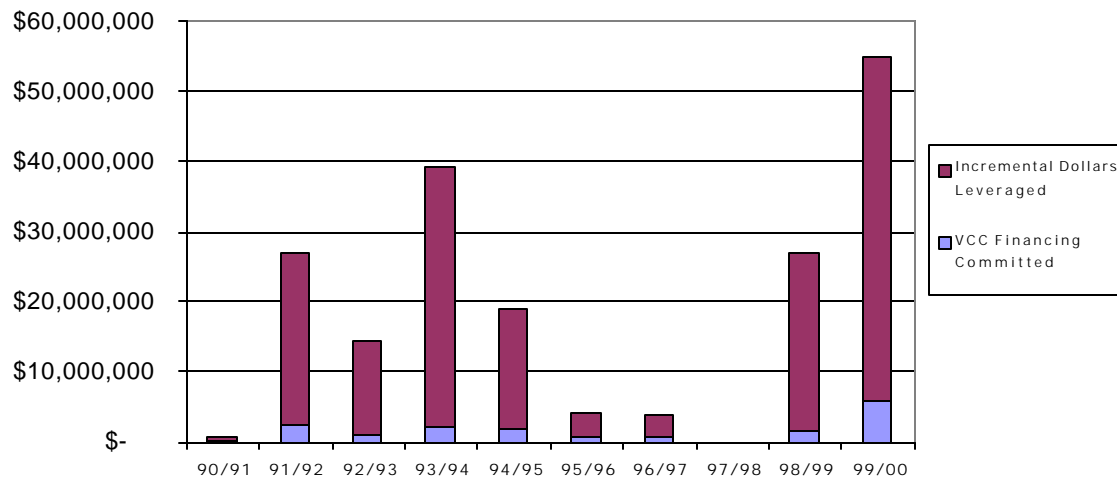


Figure 2: NPI Commercial Production



The strategy has resulted in a very significant financial investment in Cleveland’s neighborhoods. Through its Village Capital Corporation (VCC) subsidiary, NPI has made project loans and grants totaling \$16.5 million since the subsidiary was formed. In the current cycle, VCC has committed \$7.3 million, and appears on track to achieve its goal of \$12.2 million. In total these investments by VCC have leveraged an additional \$187 million in private and public investment. This leverage amounts to \$11.33 for every dollar of VCC capital, or a “leverage ratio” of 1:11.33. This degree of leverage exceeds VCC’s stated goal (*see Figure 3*).

Figure 3: VCC Financing and Leverage



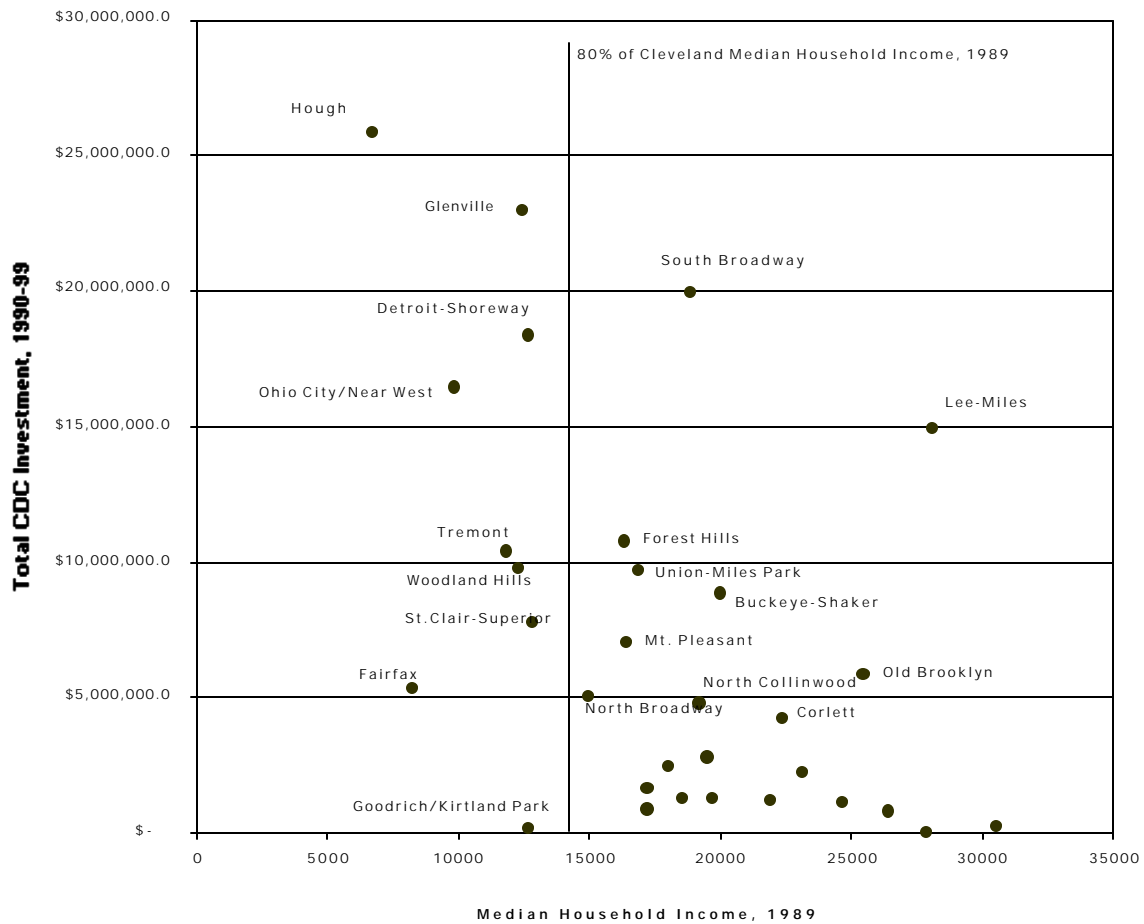
Our analysis of where these investments have occurred confirms that they have been well targeted to neighborhoods with the greatest need. Nearly all the investment has occurred in neighborhoods with low to moderate income residents. OMG’s analysis, contained in *Figure 4* on page 6, shows the relationship between median household income in 1990 and the amount of investment that has occurred since. Each point represent a SPA; unlabeled points represent SPAs of high income and low investment. Investment is generally higher in SPAs with lower income. Most of the NPI-sponsored development since targeting was introduced around 1995 has in fact occurred in the service areas that were defined. In addition, an increasing percentage of investment has been directed to the smaller target areas identified within each service area. (*see Figure 5 on page 7*).

2. NPI’s CDC capacity-building strategy has yielded measurable gains in the organizational and financial health of nine CDCs that have received the most resources.

Beyond its physical revitalization effects, the strategy has also resulted in measurable gains in

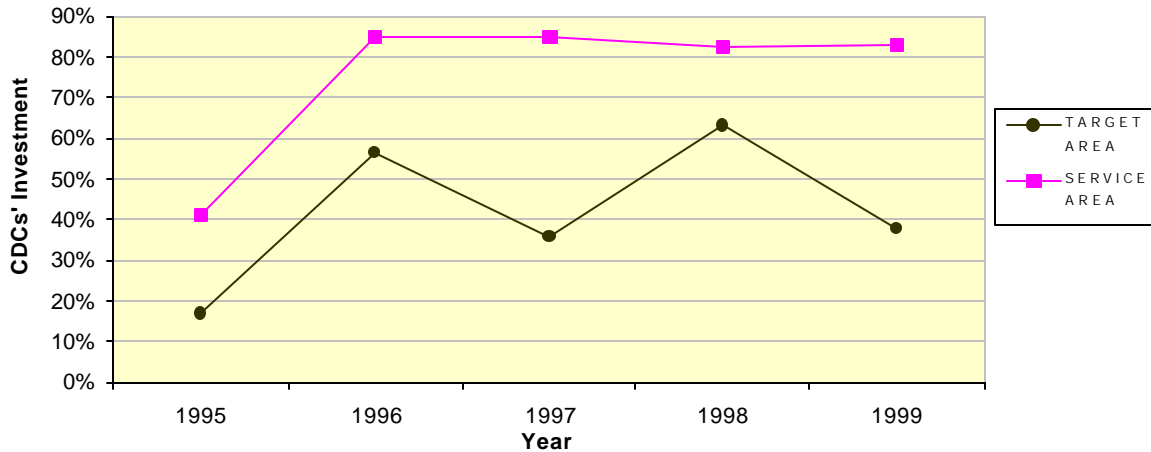
CDC organizational capacity, leadership, and financial stability. Our analysis of NPI’s progress in strengthening CDC capacity focused almost exclusively on nine CDCs that have received the largest share of NPI’s support and for whom the most specific performance goals were established.¹ These are the so-called “large grant” CDCs.

Figure 4: Larger CDC Investments Have Generally Been Made in Lower Income Neighborhoods



¹ One of NPI’s capacity-building programs is the Cleveland Neighborhood Partnership Program (CNPP), which provides significant grants of core operating support to nine CDCs. CNPP also provides smaller grants to six other CDCs that are more project focused. CDCs receiving support from CNPP commit to and report against a variety of performance standards that are intended to strengthen the CDCs.

Figure 5: Percentage of CDCs' Investment Going Into Their Target & Service Areas, Average of Nine CNPP-Large-Grant CDCs (Based on Completed Projects)



Our examination of improvements in the CDCs' leadership and management included interviews with a selection of the large grant CDCs to discuss their own views of the progress made (all were able to identify specific ways that NPI support had helped build capacity), and several different assessments of progress against predefined program guidelines. We enlisted NPI staff to assist us in making an assessment of the CDCs' progress in six areas (governance, resource management, human resources, planning, community involvement and networking, and program management) identified in the Cleveland Neighborhood Partnerships Program (CNPP) program operating guidelines. They reported that eight of the nine CDCs had made dramatic improvements in three or more of the six areas, while one had made strong improvements in two of the six areas. We also asked staff to make an overall assessment of CDC leadership using a set of predefined levels. Staff reported that three of the nine are now performing at the highest of the defined levels (leading redevelopment of their community with clear vision, sound strategy and committed and extensive resident engagement). The other six were reported to be performing at the next highest level (taking the initiative in redevelopment of their communities but constrained by the quality of their vision, strategy or connection to the community). Finally, for a cohort of four CDCs, we made use of results from a recent round of organizational assessments to determine these CDCs' progress on specific leadership and management issues raised in organizational assessments conducted in 1995; we found that three had essentially addressed all the issues raised, while the fourth had addressed at least half the issues raised. Clearly, the measurement of progress in CDC capacity presents some difficult challenges. Yet from several different perspectives, it appears that the CDCs receiving the most intensive support from CNPP have all shown clear and meaningful gains in capacity.

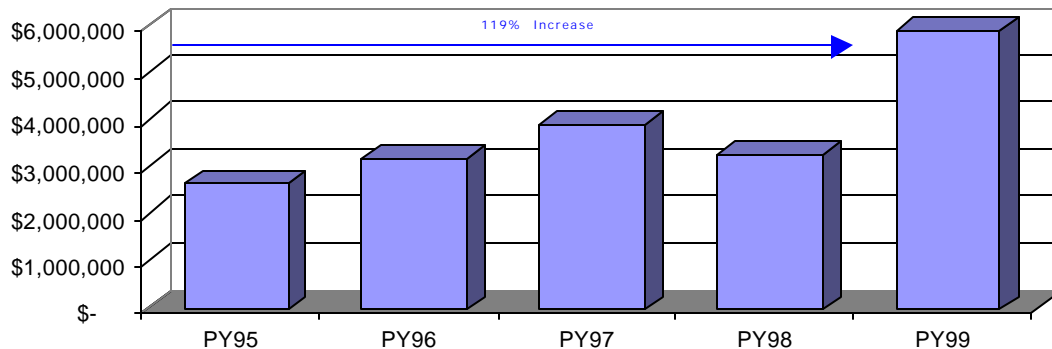
Our assessment of improvements in the large grant CDCs' financial health made use of data from an independent accounting firm's analysis of the financial statements for the years 1995-97 for seven of the nine CDCs.² That analysis showed that total revenue for the group of seven CDCs grew from \$5.0 million in 1995 to \$7.8 million in 1997, an increase of 55%. We also found that the CDCs have generally made an overall improvement in the availability of working capital (current assets grew much faster than current liabilities) and the cash needed to meet short term obligations. Our analysis of available data relating to changes in the sources of revenue revealed no significant trends other than a noticeable decline in the CDCs' reliance on support from city government, from 34% in 1995 to 21% in 1997. Finally, we saw an improvement in the aggregate surplus/debt ratio over the three years studied. While this very limited analysis of the financial health of the CDCs covers too short a period to enable us to draw strong conclusions, it does suggest that the overall trend is one of improvement in the financial health of the seven organizations studied.

3. Cleveland's system for supporting community development has become larger and stronger in recent years.

The system that has been constructed includes NPI, the two national intermediaries--the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation--the CDCs, private developers, lenders, and city government. NPI has also served as the common vehicle for Cleveland-based funders to coordinate their community development resources and agenda, including the Cleveland Foundation, Gund Foundation, Mandel Foundation, and the business community through Cleveland Tomorrow. Our quantitative analysis and the qualitative interviews both confirm that this system is now functioning much better than in the early 90's and that NPI and the CDCs it supports are playing a more central role in the system that has been created.

We have already noted the significant growth in the budgets of the NPI-supported CDCs and their increasing aggregate level of housing production. Like its CDC partners, NPI has grown

Figure 6: Total NPI Expenditures



² One of the seven CDCs, Union Miles, was a large grant CDC in the previous cycle but not in the current cycle.

and become a larger player in the system now in place. Its annual expenditures have more than doubled from \$2.7 million in program year 1995 to \$5.9 million in program year 1999 (See Figure 6). Its Village Capital subsidiary is now committing approximately \$5 million in financing per year, up from only \$1-2 million per year prior to 1995. Equally important, NPI has remained well connected to Cleveland's broader civic leadership structure through a strong and active board that has continued to attract the participation of senior decision-makers and civic leaders, through its working relationship with city government, and through its long-term relationship with Cleveland Tomorrow.

Our interviews helped to identify some specific ways in which various stakeholders see NPI as adding value and enabling the overall system to become stronger. Bankers regard NPI as playing the critical role of "guarantor" of the soundness of the CDC partners and the deals that are put together. Both the quantitative analysis and stakeholder interviews provide evidence that working relations have been strengthened between the CDCs and private developers, and that more private developers are now working within the city. Private developers and lenders acknowledge that with NPI's help the CDCs have generally learned how to do tax-credit deals effectively. And there is widespread recognition that relationships with city officials have continued to grow stronger—although we address in our recommendations below how these might be further improved. NPI's working relationships with the national intermediaries and with CHN in recent years are generally viewed as productive, enabling NPI and the national intermediaries to blend their resources to accomplish more. Of course, these relationships are not without occasional

tensions, primarily as a result of differing goals, objectives, and funding pressures. Our interviews suggest that efforts to maintain a consensus approach to furthering the CDC agenda need to be ongoing.

Other specific elements of the system have also been strengthened, new programs and activities have been added, and new resources have been attracted to the system in recent years. For example, lease-purchase (rent-to-own) units completed through CHN have increased. After a lengthy start-up period, a new home repair program has been established; some 200 loans have been completed involving nearly \$2 million in bank lending and the volume is increasing. NPI has successfully taken on a lead role in the development of larger retail commercial projects like Lee-Harvard and Shaker Square. With the awarding of a Community Development Financial Institution (CDFI) designation, NPI has significantly expanded Cleveland's potential to attract new Federal dollars (up to \$5 million per cycle) into the system.

4. *The community development system that NPI has helped to develop, strengthen and grow is responsible for much of the recent increase in residential development activity within Cleveland's neighborhoods.*

The majority of new residential housing construction that has occurred in the City of Cleveland in recent years has been undertaken by CDCs with support from NPI, city government, and other system partners. New single family home construction has increased dramatically. Building

permits for single family homes have grown from 10-20 per year throughout the early 1980s to 417 in 1999. Housing starts in Cleveland increased from 53 in 1990 to 415 in 1999, a change of some 700 percent (see *Figure 7 on page 10*). Based on a detailed analysis of housing starts from 1997 to 1999, the community development system (NPI, CDCs, CHN, Enterprise, and the Local Initiatives Support Corporation) accounts for over 80 percent of housing production citywide (see *Figure 8*)--totaling 325 housing starts out of 415 citywide in 1999.

Figure 7: Percent Growth in Housing Starts Since 1990

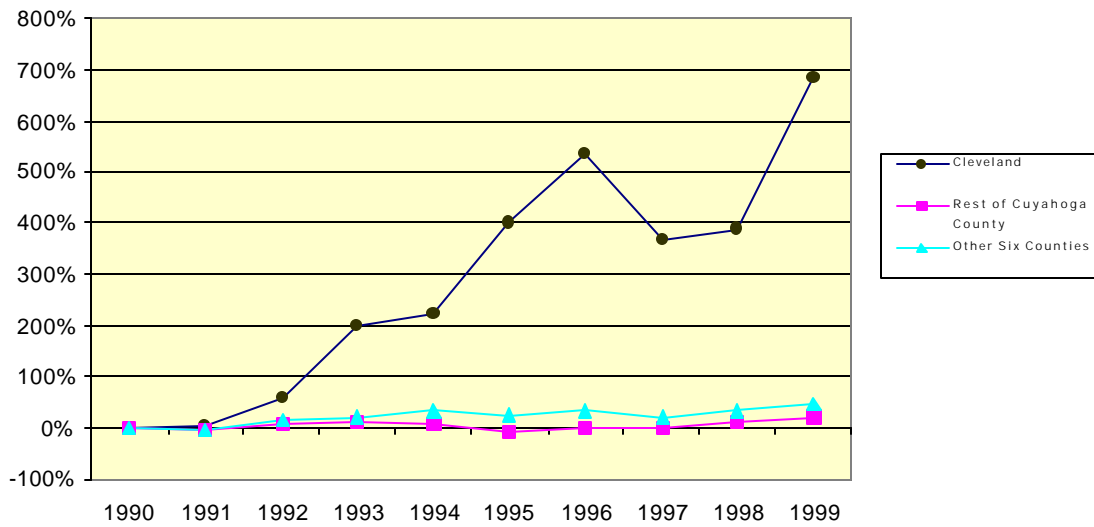
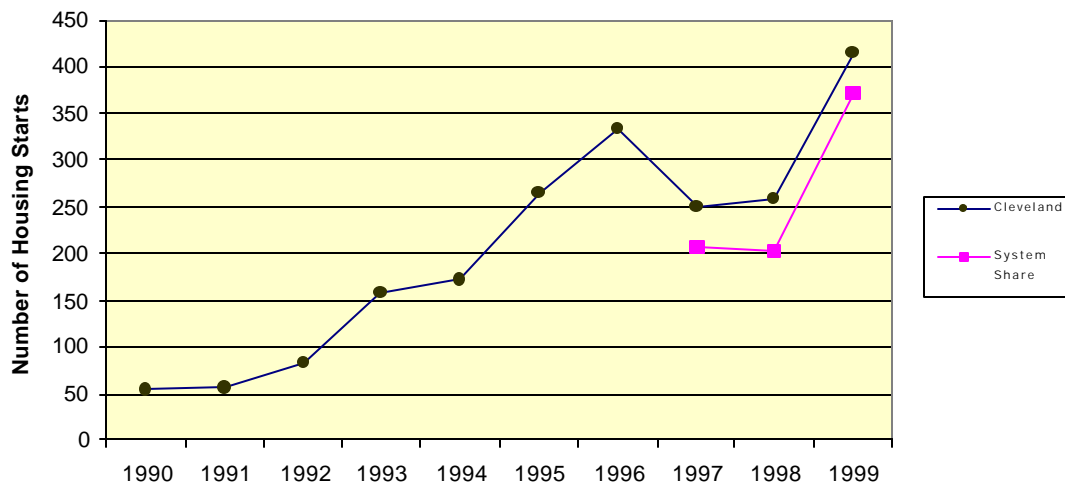


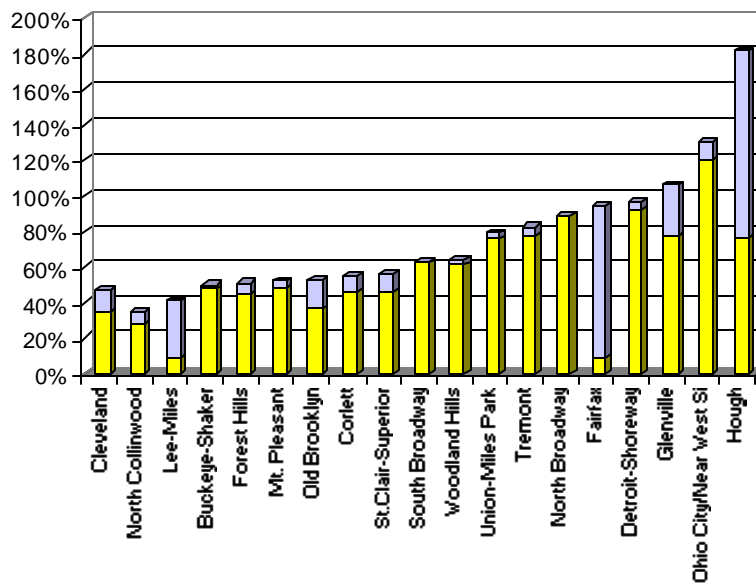
Figure 8: System Share of Citywide Single Family Housing Starts



In addition, NPI-supported CDCs account for the vast majority of all CDC production. *Figure 9* shows the proportion of CDC investment in each SPA undertaken by NPI-supported CDCs. On average, NPI-supported CDCs accounted for 72 percent of all CDC investment. In neighborhoods where NPI has been supporting the same CDC for many years, the percentage was even higher, exceeding 95 percent in Buckeye-Shaker, North and South Broadway, Woodland Hills, and Union-Miles Park.

Figure 9: Percent Increase in Average Home Sale Price, 1990-1999, SPAs with Over \$3.5M CDC Investment

(Yellow represents share of CDC investment supported by NPI)



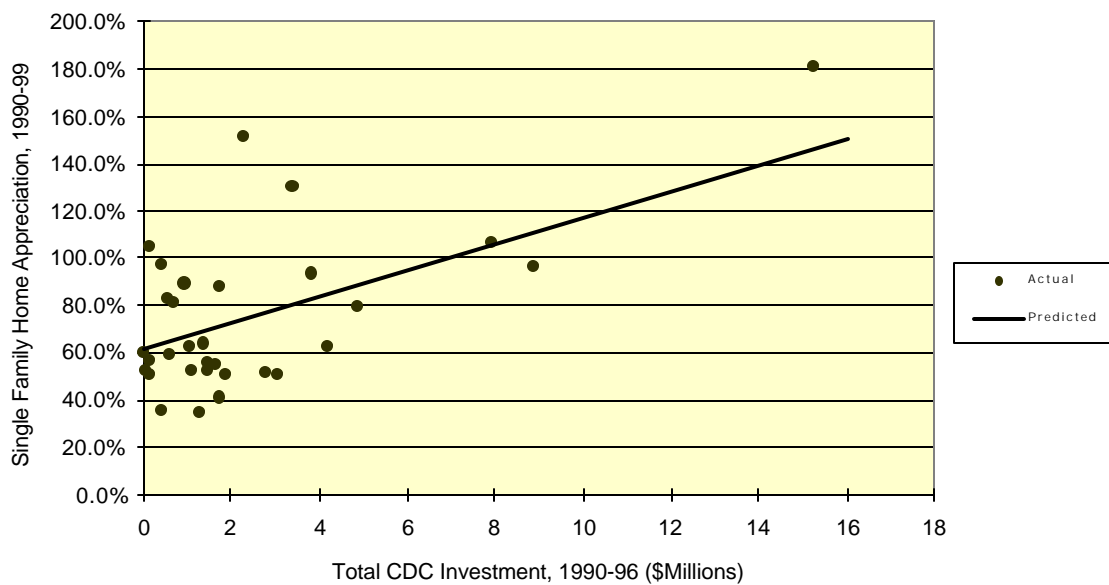
5. This surge of neighborhood residential development is largely responsible for improvements occurring in localized housing markets in many “at risk” neighborhoods where development activity has been most intense.

Although various factors have contributed to the rebounding of many of Cleveland’s neighborhoods, including generally supportive city policies and activities, and a generally strong economy, there is ample evidence of the positive role that NPI and NPI-supported CDCs have played in revitalizing residential housing markets in those neighborhoods that have been targeted.

The strongest evidence to support this comes from our analysis of the relationships between investments in CDC housing and appreciation in house prices in CNPP neighborhoods. Average appreciation of single family homes in Cleveland from 1990 to 1999 was 48 percent. Appreciation in most statistical planning areas (SPAs) in which significant CDC investment

occurred exceeded that average.³ For example, appreciation in Detroit-Shoreway was 96 percent, nearly double the city average, and appreciation in Ohio City/Near West was 130 percent, almost triple the city average (see *Figure 9*). More important, our analysis found that the greater the investment by NPI and its partners, the greater the appreciation in housing values. The analysis shows that each million dollars of CDC investment over the past decade has been associated with 5.5 percentage points of appreciation in the single family housing stock in the neighborhood over the same period. We also found that the more distress the neighborhood experienced in 1990 (as measured by low income, high poverty, high vacancy rate, and low homeownership rate), the higher the appreciation over the period. The results of these analyses were highly significant statistically, showing a very strong association between CDC investment and single-family home appreciation in Cleveland neighborhoods from 1990 to 1999 (see *Figure 10*).

Figure 10: On Average, Each \$1M in CDC Investment is Associated with 5.5 Percentage Points in Neighborhood Real Estate Appreciation



³ Recent local news articles have raised concerns about the effects on this rate of appreciation that can be attributed to “flipping.” Our analysis of the available data indicates that the magnitude of this effect is modest.

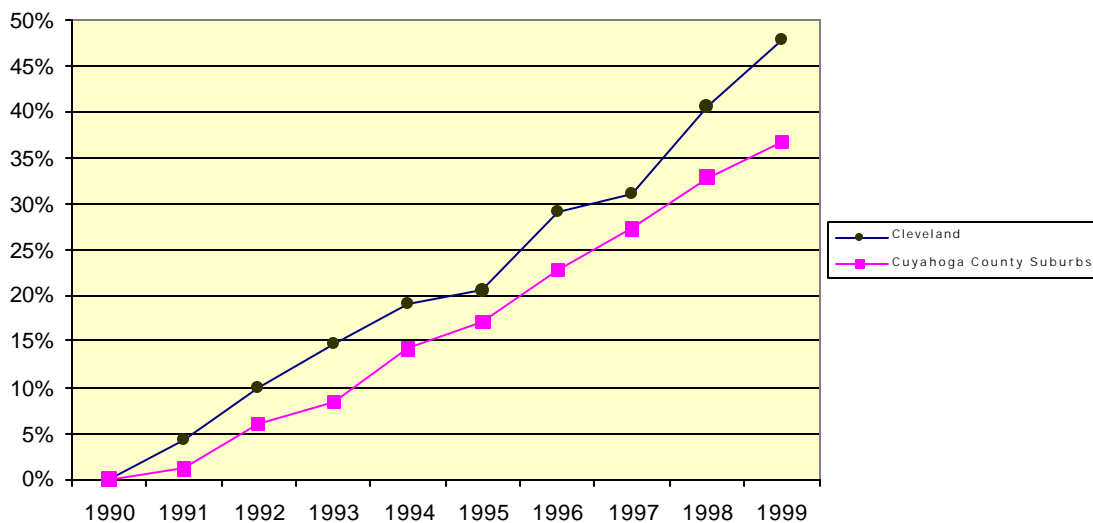
Given this level of appreciation in neighborhood housing values, it is reasonable to question whether there have been significant negative effects on the affordability of housing, particularly in areas where appreciation has been most dramatic. Using available data, we made a preliminary analysis of changes in affordability of both ownership and rental housing. Our analysis of affordability of ownership housing found no significant evidence that homes had become less affordable for families earning the median income; in fact, homes became more affordable in several of the eight subareas of the city defined for the analysis, including North and South Collinwood, Lee-Miles, Buckeye-Shaker, and Mt. Pleasant. Similarly, our analysis of rent affordability found little or no indication that rental affordability had been affected negatively during the period when real estate values were appreciating significantly.

6. Stronger housing markets in those neighborhoods most “at risk” have contributed greatly to Cleveland’s citywide turnaround relative to the surrounding suburbs.

The most recent tax assessment of residential properties in Cleveland shows a greater increase than in the suburbs. From 1997 to 2000, the assessed value of residential property in Cleveland grew faster than the rest of Cuyohoga County for the first time since the 1960s.

Further evidence of the turnaround in the City of Cleveland relative to the suburbs can be found by looking at available data showing the rate at which home sales prices are rising, the increase in the number of homes being sold, the increase in the number of building permits issued annually, and the increase in housing starts. Since 1990, the average single family home in Cleveland has appreciated 30% more than that in the rest of Cuyahoga County, based on home sale prices (see *Figure 11*).

Figure 11: Average Single Family Home Appreciation Since 1990



The annual number of single family home sales has grown 44% in Cleveland, but only 29% in the rest of Cuyahoga County. Since 1980, the number of building permits for single family homes has grown 1620% in Cleveland, but only 65% in the rest of Cuyahoga County, and 118% in the other six counties in the region. Since 1990, the increases have been 263% in Cleveland, compared with 6% in the rest of Cuyahoga County, and just over 35% in the other six counties in the region. Since 1990, housing starts in Cleveland have grown almost 700 percent, compared with only 20 percent in the rest of Cuyahoga County, and 44 percent in the other six counties of the region. As we saw above, Cleveland's performance was driven by CDC investment; these data show that these CDC investments have been sufficient not only to turn around the individual neighborhoods but also, in the aggregate, to reverse the trend for the city as a whole relative to the surrounding suburbs.

7. *The increased level of real estate development activity that has occurred in recent years could not have occurred without the availability to NPI of the administrative and program support provided by its core funding partners, and the need for such support will likely continue.*

The impressive results achieved in recent years are in large measure the result of the grant support and PRI financing made by NPI's principal funders. Not only did this support provide NPI with the means to develop and implement its CDC capacity-building and project financing and development activities, but it also enabled NPI-supported CDCs to receive core operating and technical assistance support. In addition, the CDCs could benefit from higher levels of fee income resulting from an increasing flow of development projects.

Our analysis of the sustainability of the system that has been constructed reveals significant but still modest gains made by both NPI and NPI-supported CDCs in broadening their support base, as well as an increase in private sector participation in real estate development projects. The two major funding sources for NPI, the Cleveland and Gund Foundations, accounted for about 50 percent of NPI revenue in three of the five years of our study period and averaged 40 percent over the five-year period. No other source of outside support was consistently over ten percent of NPI revenues, and only the Mandel Brothers Foundation, the Local Initiatives Support Corporation (LISC), and the National Community Development Initiative (NCDI) achieved even that level, and each did so in only a single year. NPI has shown some capacity to broaden its funding base in recent years (from sources including the Fannie Mae Foundation, Sisters of Charity, and the Raymond Wean Foundation). NPI has also pursued and achieved Community Development Financial Institution status for Village Capital Corporation (VCC), a designation allowing VCC to tap up to \$5 million in additional investment funds in each three-year cycle. Finally, NPI has dramatically improved its ability to generate earned income. In PY99, NPI earned over \$700,000 from interest and fee income, or 12 percent of its total, up from just over \$40,000 in PY95; this increase is significantly greater than the increase in NPI expenditures over the same period.

We also looked at trends in earned income at NPI subsidiaries VCC and New Village Corporation (NVC). VCC's earned income tripled to \$180,000 over the period, while NVC increased from almost nothing to almost \$150,000. While VCC can be expected to continue to increase its earned income as it grows in volume, the same cannot be said for NVC. As a catalyst organization, NVC has focused its efforts on projects that would not happen without its leadership and intervention. These are not projects whose economics leave room for high development fees. At the same time, NVC often brings little capital to a deal, contributing "sweat equity" instead, and there are pressures from development partners to leave the fees in the project so that all parties share financial risk. For NVC to deliver significant increases in earned income would require it to change the kind of projects it works on, or to develop new lines of business beyond the "developer of last resort." The first represents a shift of mission, while the second calls for adding new missions, perhaps incompatible with the existing one. These findings suggest there are real limits to the degree to which NPI activities, or at least NVC, can be self-funding.

As for the CDCs — although we do not have detailed data available — experience from other cities suggests that even with substantial growth, Cleveland's CDCs will remain dependent on a continuing flow of grant support to sustain much of their core operations. The data available — again from the analysis of the financials of seven CDCs from 1995 to 1997— shows that while total revenue for this group climbed dramatically, the ratio of fee income to total revenue was essentially flat, in the 14-18 percent range (the revenue breakdown we have did not enable us to identify whether the CDCs have been able to diversify their sources of grant income). Thus, while NPI is limited in the degree to which it can be self-funding, CDCs will continue to need grant support.

2.2 Broader Conclusions

These findings lead us to draw the following broader conclusions about the overall strategy that has been pursued, and about NPI's performance and accomplishments. We also discuss the actions that may be needed to ensure the continuing health of the system now in place, and to sustain and build on the gains that have been made in Cleveland's neighborhood real estate markets.

1. The NPI strategy that has been followed through the nineties is indeed sound and is producing results of a kind we have not seen in other cities. The strategic decision to focus on physical development of neighborhoods with an emphasis on providing a range of development products (e.g., multifamily, lease-purchase, for-sale, new construction, home improvement) has indeed enabled Cleveland to compete well with the suburbs. The decision to focus on strengthening the capacity of CDCs to participate in and lead the redevelopment process is yielding a group of larger and stronger CDCs that are setting the pace and providing a model for other CDCs in the city. The decision to target limited development resources on subareas within neighborhoods and to reinforce that targeted development with larger-scale, catalytic residential and commercial projects is also showing

signs of producing even more significant improvements in housing values in those neighborhoods where it has been implemented. Finally, the decision to create a strong local intermediary with the resources and expertise needed to work collaboratively with government, the private sector and national intermediaries, has further strengthened the effects that have been achieved. After ten years, the results speak for themselves and should draw the attention of other cities struggling with the challenges of revitalizing at-risk neighborhoods.

2. NPI's success, to a large measure, has benefitted from a remarkably broad and sustained commitment to a single, integrated strategy — focusing on physical revitalization of neighborhoods through CDCs as the centerpiece with other “softer” aspects of neighborhood improvement taking a more secondary role. The strategy has proceeded from a unique working consensus among key stakeholders, including city government, Cleveland, Gund, Mandel, and other foundations, Cleveland Tomorrow (representing the business/civic leadership), and intermediaries Enterprise and LISC. The strategy originally envisaged in the early 90's has not only been sustained but has also been strengthened with additional commitments of funding for new program elements.
3. NPI has been able to operate with the program flexibility needed to permit it to learn and adapt based on experience — flexibility that is due to a high level of input from a variety of sources including its board, CDCs, and public officials. Adjustments have continued to be made in the approach. Within the core strategy, specific programs have evolved with experience, as exemplified by the creation of VCC and NVC, refining the emphasis on targeting, creating multiple tiers of CDC support, and reinventing Quantum Leap.⁴ NPI's ability to refine the strategy has also benefitted from continuity of organizational and program leadership over a long period of time, in a field in which turnover and retention are often serious problems.
4. NPI and the system as a whole have also benefitted from city government's commitment to neighborhood revitalization and CDCs, and key actions it has taken in support of that commitment. City actions have complemented the strategy and NPI programs. These have included the tax abatement on new construction, early CRA challenges by the White administration to local banks, city investment of federal subsidy dollars in many NPI projects, and Council support for CDCs. In our experience, Cleveland's gains are the result of the combination of strong private sector leadership and commitment coupled with a public sector commitment and support to CDCs and neighborhoods that is unusual compared with other large cities. It is important to note here, too, that NPI has been able to focus and target its efforts in high impact ways partly because of the existence of alternative public funding for CDCs and neighborhoods in which NPI has been less centrally involved. The diversity and scale of funding available locally, while in some ways

⁴ Quantum Leap is the NPI program that provides a variety of training, organizational assessment, and organization development activities for 26 member CDCs.

“messy,” has made it easier politically for NPI to focus its resources and say no to CDCs and projects that have not conformed with its overall strategy and programs.

5. While the gains that have been made are significant, there is broad evidence that the work of neighborhood revitalization is unfinished. Targeting effects have not yet been fully realized; it has been implemented only recently and only in some neighborhoods. Private developers are now participating in development projects in the city as builders, but still do not operate as true developers, requiring strong interventions that NPI, the CDCs and city government provide. The 90% of the development activity occurring in neighborhoods that CDCs are accomplishing is too high a proportion. Private real estate sales markets have been reinvigorated, but the private real estate development market has not yet been reestablished. Looking to the future, meaningful indicators of a strengthening private real estate development market would be private developers taking the lead on significant amount of development activity in the city, the percentage of development activity accomplished by CDCs dropping, and a decline in the average percent of subsidy required by projects.

3. Recommendations and Issues for Discussion

The previous section has presented an array of findings that led to some straightforward conclusions about progress made toward the goals established for NPI in the mid-1990s. In this final section, we consider what these conclusions may imply for the future of NPI and the community development system now in place. This section is organized around five broad recommendations which we believe can be helpful in guiding further discussions locally about NPI’s future and the further development of the strategy that has been followed.

1. *NPI’s strategy over the past decade is working, and should be continued over the next ten years.*

This assessment has provided solid evidence that neighborhood housing markets in Cleveland are significantly stronger today than a decade ago, that they are improving faster than the surrounding suburbs, and that this turnaround is the result of the sustained strategy of real estate development by CDCs and the system that supports them and works to strengthen their leadership and capacity. While these strong positive findings are exciting, the work is not finished. City property values remain below suburban ones. The targeting approach adopted in 1995 is just beginning to show results. Private developers still do not operate in the city in the way they do in more market-driven areas elsewhere in the region. And the CDC system is responsible for too high a proportion of residential development in the city. One rather obvious implication seems to be: stay the course, while increasing efforts to attract private sector developers and traditional lending institutions. NPI’s core strategy of attracting the resident who has choice, focusing on physical development, and partnering with and building the leadership and capacity of CDCs has been validated, and should be continued.

2. *The City has been a key partner in the turnaround in Cleveland real estate markets, and NPI should work to deepen this partnership in the future.*

As indicated earlier in this report, city government has been working both in parallel and in partnership with NPI toward the goal of neighborhood revitalization throughout NPI's existence. It is neither desirable nor possible to separate the effects on neighborhoods of one actor or the other. The important point is that the actions have been complementary.

Our interviews revealed, however, that such partnership as has occurred has largely been at the level of individual real estate development projects. For example, city loans and grants are a key element in many projects funded by VCC, and thus in the leverage of public and private dollars that VCC has been able to achieve. There is, however, no broader agreement between the city and NPI to govern how the resources of each should be brought together. Each deal stands alone, though precedent and personal relationship increase the likelihood and efficiency of subsequent deals. We may call this model "transaction-level partnership."

We believe that further extending the success that has been achieved in recent years will require building upon the transaction-level-partnership model that has been followed to date toward what we might call "system-level partnership." Such a partnership would provide an integrated approach to planning a longer-term revitalization agenda, and look at ways of creating new funding resources for a larger-scale implementation. System-level partnership would help speed redevelopment by taking action as a matter of policy rather than treating each project as unique, increase the impact of redevelopment activity by increasing the degree to which city- and NPI-supported activities are mutually reinforcing, and provide a forum for surfacing and addressing bureaucratic and other barriers that impede redevelopment activity.

One way of implementing this new type of partnership would be to focus on a few neighborhoods where a foundation has been laid and there is potential for a significant improvement. Such a neighborhood-focused partnership could also be opened to other public entities, such as the school district or county human service agencies. This would permit a more comprehensive approach to neighborhood revitalization without diluting NPI's core mission and focus. Such neighborhood-focused partnerships would pose greater challenges to leadership at the neighborhood level, which suggests a need for additional programming targeted at developing and supporting neighborhood leadership.

In our view, the impetus for this new kind of partnership with the city and county should come from NPI, its Board and its funders. Although the process can start there, some form of city-wide planning process is needed that involves the various stakeholders. Such a process could serve to make the case for system-level partnership, generate and explore alternative approaches, and come to consensus on an approach that is right for Cleveland. Indianapolis experimented with an approach similar to this during the Goldsmith administration through a public/private housing task force. This is one model Cleveland could follow.

3. *Expand NPI's strategy and approach to include additional CDCs.*

From its beginning, NPI has believed in CDCs, partnered with CDCs, invested in CDCs. Within this core value, NPI has adapted its approach to CDCs in concert with its own learning and development, and depending on the stage of maturity of the CDCs involved. Over time NPI has evolved different levels of support for different tiers of CDCs, an outcome-oriented contract with CDCs for operating support, a comprehensive set of operating guidelines, and an in-house technical assistance resource for CDCs.

This assessment shows that NPI's approach to CDCs has resulted in an effective production system, and demonstrable improvements in CDC management and leadership. Capacity-building has worked where NPI has been at the center. The very success of capacity-building, however, calls into question simple continuation of the status quo. Where is NPI's value-added in closely monitoring a CDC whose management and overall strategy are judged to be sound? At the same time, a number of other CDCs could benefit tremendously from exactly what NPI has been offering to participants in CNPP.

Thus, the challenge seems to be to find a way to allow large-grant CDCs who have achieved a high level of performance to "graduate" from NPI, making room for other CDCs to move up to large-grant status, and a new cohort to enter the operating support program at the small-grant level. The difficulty is that CDCs, simply because they are capable, effective organizations, do not outgrow the need for operating support.

It remains for future planning to develop the best means of providing operating support to graduate CDCs. Possibilities to explore include a new kind of city funding as part of the newly defined partnership discussed in recommendation 2 above, the building of an endowment from philanthropic and private dollars, continuing to provide funds through NPI but without the whole CNPP/Quantum Leap package, or perhaps some combination. Regardless of the source of funds, this approach implies NPI would need an additional \$1.5 million over the next 3 years to move 3-6 CDCs into the new higher status, while expanding support to newer, less skilled CDCs.

The neighborhoods served by these graduate CDCs would be logical candidates for the more comprehensive approach to revitalization in a few neighborhoods, ideally as part of the new partnership with city government as discussed above.

4. *NPI's dependence on two large funders creates a risk to sustainability that NPI must begin to address over the next three years.*

Over the past ten years, NPI has benefitted from generous contributions from Cleveland's philanthropic and private sectors. Over the five most recent years analyzed for this report, two of these funders, the Cleveland and Gund Foundations have accounted for 40 percent of NPI's

annual revenues. As of May 31, 2000, the same two funders accounted for three-fourths of the capital available to VCC for loan activity.

Such significant support over the long term is both unusual and praiseworthy, and an important reason NPI has been able to focus on one core strategy, implement it on a significant scale, and continue to refine it based on experience. At the same time, no funding source is guaranteed, and having such a significant proportion of its support come from two funders should be considered a risk to the sustainability of NPI. We note that leadership transitions are anticipated at both these foundations in the medium term. Such transitions at other foundations have often resulted in major shifts in funding priorities.

While we hope the results reported here will encourage these funders to continue to support NPI at the same scale for many years to come, NPI should begin to develop a longer-term funding plan with the goal of reducing the proportion of its annual budget provided by any one funder. This planning should also be aimed at establishing VCC and NVC as more permanent community development institutions. Although efforts to increase earned income would likely be part of such a plan, it is unrealistic to expect that sustainability for NPI could ever mean self-sufficiency. Other approaches, such as a capital campaign to create an endowment, could mean a dramatic increase in the level of support from local funders in the short term.

The plan will likely include efforts to expand and diversify NPI's group of funders. Even before such planning is complete, NPI should expand its fundraising efforts. The substantial results this assessment shows are being achieved in Cleveland's neighborhoods may be persuasive to new local supporters as well as national funders. In our experience, existing funders can be very helpful in linking grantees to new funders. Additionally, national funders usually want to verify that an institution is valued locally before investing. Thus, the importance of current funders does not diminish along with their proportion of annual support.

Another possibility to explore would be to seek equity investors for VCC and NVC. Such an approach would likely imply greater independence of these two institutions from NPI. Finally, we note that this planning should involve discussions with Enterprise and LISC as important stakeholders in the Cleveland community development system.

5. *NPI should be encouraged to continue to develop its cutting-edge approach, the approach should be more fully researched and documented, and the results of that research should be shared nationally.*

Working nationally in the community development field, we see Cleveland as unique. In a field in which non-profits must constantly chase dollars, NPI has experienced stable funding. In a field in which turnover is rife, NPI has had long-term leadership stability, and many other players in the system have been around a long time. In a field which has embraced one fad after another, NPI has followed a single core strategy. In a field in which institutions are often competitive, Cleveland has established consensus and collaboration. In a field in which there is constant

pressure to declare that we have the solution, and now just need dollars to roll it out, NPI has continued to develop and refine its approach. In a field in which decisions are often made on ideology and instinct, Cleveland has developed rich databases, and has a well developed infrastructure to perform and support research.

In our view, Cleveland has created something that is potentially of great value nationally. It should be preserved, not as a finished work, but as an evolving approach to community development. That implies continuing to invest in developing the approach. Central to “research and development” in such a field are investments in developing the leaders of the organizations and institutions that make up the system. The new roles that “graduate” CDCs will be taking and inventing particularly call for leadership development at both board and staff levels. Also not to be lost sight of are investments related to recruiting tomorrow’s community development leaders, which may imply broader system-level considerations such as the availability of specialized professional training, the competitiveness of pay and benefits, the existence of appropriate career paths, and opportunities to immerse people in community development temporarily through internships or consultancies.

At the same time, the rest of the country needs to become more aware of what has been accomplished in Cleveland, and how. This assessment is a beginning in that direction, but a small one. More valuable than particular elements of program design will be the ability of the Cleveland experience to surface and call into question accepted practices within the field of community development nationally. The sharp contrast Cleveland offers should help highlight the progress that can be made in overcoming barriers often considered normal or unavoidable in the field.

The effort to begin a national conversation about how we approach community development dovetails nicely with the need to reach beyond Cleveland for fundraising that was identified in recommendation 4. The research that is needed to support that conversation will be facilitated by the databases and infrastructure present locally. Perhaps this assessment can also help those in Cleveland see that what is normal to them is in fact a unique national asset.

Appendix: Assessment Approach and Guiding Questions

The methodology and workplan developed for the assessment included two main components:

1. **A review of NPI's accomplishments and impacts in relation to four board-defined goals.** NPI's current program cycle, which is consistent with and builds on prior program cycles, was intended to accomplish the four broad programmatic and system building goals mentioned earlier. This component, which received the greatest attention, included several related data-gathering efforts to enable us to assess NPI's impacts on individual neighborhoods, the city as a whole, participating CDCs, and the physical development system that is now in place.
 - **Review of impacts on neighborhood housing markets.** Knowledgeable observers in Cleveland judge that a number of Cleveland neighborhoods are turning around, and in a number of cases, CDC activity is a key element of the turnaround. This part of workplan employed quantitative measurement techniques to examine the trends occurring within localized real estate markets within Cleveland, and in surrounding communities. Our goal was to determine to what extent the market improvements that have occurred can be associated with significant CDC activity, how important a role CDC development projects have played in city-wide in real estate markets improvements, and how real estate trends in CDC neighborhoods compare with trends in other parts of Cleveland and in surrounding communities. Because NPI's strategy has been focused on housing and physical revitalization, we chose to focus our analysis on measurable impacts on neighborhood real estate markets rather than broader neighborhood conditions. To do this, we made use of available real estate sale, CDC production, assessed value, housing start, and building permit data.
 - **Review of impacts on CDCs.** Building the capacity of CDCs to plan and execute physical development activities has been an essential aspect of NPI's overall strategy since its inception and substantial philanthropic and private resources have been expended to strengthen CDCs' operations and improve their ability to undertake development on their own and in partnership with private developers. During NPI's last two finding cycles, a significant share of NPI's program resources have been focused on CDCs participating in the large grant program; hence we chose to focus this analysis on improvements evident in this subgroup of CDCs receiving the largest share of the available resources. This part of the workplan aimed to gather quantitative and qualitative data to understand to what degree the nine large-grant CDCs meet the operating guidelines that have been established, to what degree they have improved in their management and leadership over the past five years, and to what extent the improvements noted in CDC management and leadership over the past five years can be attributed to NPI's CNPP and Quantum Leap programs.

- **Review of scale and scope of physical renewal investments, and related systems and partnerships.** One of NPI's key goals in its most recent funding cycle was to substantially increase the scale of development activity being undertaken. Therefore NPI committed to a very specific set of production goals to be achieved by the end of the current funding cycle in 2001. This part of the workplan made use of both quantitative and qualitative data to assess whether NPI is on track to achieve its investment goal of \$372 million in new neighborhood real estate projects. In addition we sought to compare the scale and pace of investment and production in the current funding cycle with earlier years. Finally, we were interested in determining what progress NPI has made toward the goal of building more sustainable systems and partnerships that will help ensure that the system now in place will continue to perform at current or improved production levels.
 - **Review of the sustainability of funding systems.** Not only have NPI and its funding partners sought to increase the scale of development underway but they have also recognized the need to move toward a more sustainable pattern of funding to ensure that the system that has been build can continue to produce results. Our review of progress toward greater sustainability used several different approaches: (1) we examined projects that have received NPI funding, to determine whether the amount and percentage of private market participation has grown; (2) we assessed whether the CDCs' capacity to raise funds from within and outside their communities has changed over time; (3) we looked at the principal sources of financial support on which NPI's programs now depend, assessing how stable these sources of support are likely to be over the longer term and changes in NPI's capacity to raise the revenues needed to support its programs; and (4) we made a preliminary assessment of the additional financial resources that may be needed to sustain NPI's programs and the options that may be available for expanding NPI's resource base and accessing additional investment capital to meet future program needs.
 - **Review of integration/synergy among NPI's programs.** NPI has grown in size and the complexity of its programs. With this growth has come the need to strengthen the organization's capacity for internal coordination. Therefore the assessment also sought feedback from staff and key outside stakeholders about how effectively NPI's programs are now working together to achieve the goals that have been established by NPI's board.
2. **Stakeholder interviews re: Cleveland's system and NPI's role in it.** The second component of the assessment workplan focused on understanding how leaders in Cleveland's community development, financial, corporate, and governmental sectors now view NPI and its role in the current community development system. The fieldwork to date has included over 30 interviews with NPI funders, customers, and other local partners and

system stakeholders. The interviews have sought to determine how fully representatives from Cleveland's community development, financial, corporate, and governmental sectors now understand NPI's role and its accomplishments to date, and what additional roles and goals are needed for future development of the system. In addition, several of the interviews explored the relationship of NPI's governance structure to the larger Cleveland civic community.