

EXPANDING OPPORTUNITY: Job Creation and the Community Economic Development Program

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Executive Summary

The Community Economic Development (CED) program is the only federal economic development program with a principal purpose of job creation for low-income residents in underserved communities. It invests in community development corporations (CDCs) that create and expand businesses and job opportunities. The program requires that at least 75% of the jobs go to low-income residents. The average cost of jobs has to be less than \$20,000 per job, whereas the federal government’s average job creation cost exceeds \$40,000 per individual.

To qualify, a Community Development Corporation (CDC) must:

- be a private nonprofit with 501(c)(3) status;
- have articles of incorporation or bylaws demonstrating that the CDC has a principal purpose of planning, developing, or managing low-income housing or community development projects;
- have a Board of Directors with representation from community residents, business leaders, and civic leaders.

As outlined in Section 680(a)(2) of the Community Services Block Grant (CSBG) Act of 1981, as amended by the Community 8 of 99 Opportunities, as amended, 42 U.S.C. § 9921(a)(2).

History

For 40 years, the CED program has consistently exceeded its objectives in terms of job creation for low-income individuals in disadvantaged communities and cost of jobs — and it has leveraged an enormous amount of private and public funds. The CED program has received appropriation of approximately \$20 million per year starting with \$19.9 million in 1982 to \$20.4 million in 2022.

The Federal Government started funding community development corporations in the late 1960s through the Office of Economic Opportunity and the Office of Economic Development



Title VII CDC program to create jobs and support business development in low-income communities. The Bedford Stuyvesant Restoration Corporation in Central Brooklyn became the prototype community development corporation involved in job creation, small business development, commercial revitalization, affordable housing, and arts and culture.

The Community Services Administration replaced Office of Economic Opportunity in 1974 and continued to

fund community development corporations until 1981 when it was eliminated by the Reagan Administration. The community economic development function and support was replaced by the Community Services Block Grant (CSBG) and the Community Economic Development Program at the Office of Community Services at the Department of Health & Human Services. The Community Services Block Grant Act of 1981 under the larger Budget Reconciliation Act (Public Law 97-35) provided the authorization. The CED Program was established under Section 680 (a) (2) and Section 680 (a) (3) (B) of the CSBG Act of 1981.

The CED Program started awarding competitive grants in 1982 and has continued to award competitive grants on an annual basis for 40 years.

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This report used information from these sources:

- *Navigating Community Development: Harnessing Comparative Advantages to Create Strategic Partnerships*, Robert Zdenek and Dee Walsh, Palgrave Macmillan 2017
- *The Grounding Values Study: Exploring the Community Development Sector's Challenges and Accomplishments to Shape Its Future*, Urban Institute, 2022

Establishing & Administering the CED Program



The Office of Community Services (OCS) was established in 1982 to administer the Community Services Block Grant (CSBG) and other specialized funds, including the CED program. A small full-time staff manages the CED program at OCS. CED program dollars come out of the Secretary's Discretionary Fund, which is up to 9% of the CSBG appropriations. OCS publishes a notice annually in the Federal Register and has awarded grants on a competitive basis since 1982 for the program.

According to OCS, the purpose of the CED program is “to improve the economic self-sufficiency of individuals with low-incomes in communities with high unemployment and poverty rates through sustainable business development and new employment opportunities that create resilient communities and residents.”

Expanding Opportunity in Low-Income Communities

Consistent with the program's history, the primary outcomes of the CED Program are:

- businesses created and expanded;
- job creation for low-income individuals and workers;
- OCS funds leverage private and public resources.

A survey conducted by Rapoza Associates in 2018 focused on 17 CDCs that received 21 grants in 2016 and 2017, which was about 59% of the total funding. The study found that:

- 21 projects resulted in 1,057 jobs with 969 of the jobs being new.
- Nearly 84% of the jobs went to low-income individuals.
- The average cost of the jobs was \$14,713.
- The grantees leveraged over \$220 million of private and public dollars for a rate of 14 to 1.
- The poverty rate was 28.9% and the income was 67% of area median income.
- 73% of the projects were in distressed communities.
- Over 1/3 of the businesses were manufacturing and the most common source was working capital.

Responding to Presidential Priorities

The CED program has been able to respond to important new policy priorities of various presidential administrations. The George W. Bush administration (2001-2008) had a focus on faith-based programs and the CED Program was connected to the Compassion Capital Program. The Obama Administration had a Healthy Food Financing Initiative, reflecting the First Lady's commitment to healthy foods, especially for young people. The Trump administration put an emphasis on social enterprises. One of the strengths of the CED program is its flexibility, which can meet emerging policy priorities of presidential administrations.



Recently, President Biden issued Executive Order 14008 to tackle the climate crisis, which “empowers workers through revitalizing energy communities.” These communities have experienced employment loss and/or economic dislocation events because of declines in the fossil fuel industry – which are disproportionately in low-income communities. In 2021, OCS funded 14 energy communities projects totaling \$10 million dollars. These projects have already created 407 new jobs, replacing jobs lost from declining coal and fossil fuel industries.

Impact

The CED program is focused on addressing job creation and economic activity in underserved communities. Community development corporations (CDCs) are able to target resources to business and economic activity in distressed communities and leverage substantial private dollars. The CED program is a unique public-private partnership program that focuses on the competencies and strengths of CDCs and similar type organizations to foster the growth of businesses and commercial activity in low-income communities. This activity results in significant job creation for local residents with a focus on low-income individuals.



Transforming Local Places & Economies

Community development corporations revitalize commercial and industrial districts, strengthen and finance small businesses, foster arts and cultural engagement, create community facilities, and engage in many other development activities. These unique and complex non-profit organizations marshal an array of development resources and strategies that lead to stronger markets and economic activity in disinvested communities with high unemployment and poverty rates. CDCs provide financing, technical assistance, planning, and development and management services resulting in new and expanded business activity that leads to permanent, local job creation.

The CED program has a unique niche in terms of federal and state economic development programs in low-income communities. Some of the key criteria and outcomes for the CED program are:

- **Job Creation** — The grants finance construction and permanent jobs in underserved urban and rural communities. Job creation in low-income communities is challenging and the CED Program has been an effective source of new job creation and retention.
- **Location** — The vast majority of CED-funded projects are in communities of color. The fund provides job opportunities for local low-income residents. The average poverty level for CED projects is 28.9% which is nearly double the national poverty rate.
- **Ecosystem** — CED projects help build an ecosystem of diverse businesses and services that strengthens local economies. By financing business incubators and commercial centers, they improve the business environment at the local level.
- **Leverage** — CED projects leverage significant private capital and other innovative sources of state and local funds that contribute to significant job creation. The Rapoza Associates survey of grantees in 2016 and 2017 found they leveraged at a rate of 14 to 1 in the CED program.
- **Entrepreneurs of Color** — The CED program provides financial and technical resources that strengthen local entrepreneurs of color. Local entrepreneurs are a major source of job creation.
- **Targeting** — The CED program funds are targeted to important business opportunities. Between 2016 and 2021, CED program grantees have financed 1,952 businesses that have created 8,627 jobs for low-income participants.

Case Profile

Coastal Enterprises, Inc.

Brunswick, Maine

Coastal Enterprises, Inc. (CEI) works to build a just, vibrant and climate-resilient future for people and communities in Maine and rural regions by integrating finance, business expertise and policy solutions in ways that make the economy work more equitably. For the last 45 years, CEI has worked closely with over 68,000 individuals and businesses to build good jobs and livelihoods and increase diverse small businesses ownership, enabling individuals to thrive, particularly in underserved communities. CEI knows that the right kind of capital is key to business success and has placed over \$1.49 billion in loans, equity, and tax credit financing to 3,110 businesses since 1977.

Funding from the Office of Community Services (OCS), in particular funding through the CED program, has been vital to CEI's work in building good jobs and livelihoods, particularly in Maine's rural communities. CED funding has allowed CEI to finance the startup and growth of businesses creating good jobs, support direct job training, and implement CEI's Good Jobs Framework with companies to improve job quality.



CEI used CED funds to provide equipment financing to the Maine Crisp Company in 2021. The company recently moved to a 17,000-square-foot industrial building in Winslow, Maine that positions them to expand 10-fold and triple their current staff of 14.

Case Profile

The Lakota Fund

Kyle, South Dakota

The Lakota Fund was founded in 1986 to finance economic opportunities on the Lakota Reservation in South Dakota. The Lakota Reservation is the eighth largest reservation by land mass and is the poorest reservation in the U.S. with unemployment in excess of 80% and a poverty rate of 49%. Shannon County, which includes most of the reservation, is the third poorest county in the U.S. The Lakota Fund was designed to provide financing to local businesses.

The CED program awarded the Lakota Fund a grant of \$765,828 towards the goal of creating 45 jobs. The program invested the CED dollars in a local grocery store, a restaurant which is still operating, several construction businesses, and a driver's education program to create transportation jobs for Lakota residents. Seventy five jobs have been created as a result of the Lakota Fund investments, demonstrating that CED

funds can make a difference in areas of high economic distress.



Two loans from Lakota Funds made it possible for the Native American owners of Lafferty Family LLC to expand their operation to 200 head of cattle on the Rosebud Reservation in South Dakota.

Case Profile

Jamaica Plain Neighborhood Development Corporation

Boston, Massachusetts

The Haffenreffer Brewery closed in 1965, creating an economic vacuum for Boston's diverse Jamaica Plain community, which had a 22% poverty rate. In 1983, the Jamaica Plain Neighborhood Development Corporation (JPNDC) acquired the five-acre property with 16 buildings. Two years later they landed their anchor tenant, the Boston Beer Company, maker of Samuel Adams beer. In the 1980s and 1990s, JPNDC raised over \$25 million to redevelop the site in phases, including five CED grants which helped pay for the renovation of 150,000 square feet.

JPNDC created a small business complex known as The Brewery with 50 commercial tenants including restaurants, a health club, and childcare facilities. Over 50% of The Brewery's businesses are owned by women and people of color. Income is reinvested in JPNDC's community programming, allowing them to provide free services to the community. All told there are 1,500 jobs in the complex, which has significantly helped the community.



CED program funding helped turn a vacant, fire-damaged brewery in a distressed Boston neighborhood into the city's largest small business complex with 1,500 jobs.

Conclusion

Over the past 40 years, the Community Economic Development program has achieved significant impact in supporting job creation and business activities in low-income communities throughout the United States. With increased funding, the CED program could support even more community development corporations in their ability to invest in businesses and commercial buildings that lead to significant job creation in low-income rural and urban communities nationwide.

Since the CED program began, the number of community development corporations has grown from approximately 1,000 in 1982 to 5,720 community-based development organizations with \$27.7 billion in annual revenue and assets of \$54 billion, according to a 2022 report by the Urban Institute. The combination of increased CDC capacity and numbers and an effective federal program demonstrates that this program should be expanded.