

How to Start a Community Development Corporation in Philadelphia

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Introduction: What is a Community Development Corporation?

This manual provides instructions and background information on how to start a community development corporation in Philadelphia. This manual is a work in progress, much like community development itself, so don't get frustrated if the information included is somehow slightly wrong, just keep plugging away until you find the right contact person. The most important thing to remember if you are starting in community development is that you have the power to change your community. In community development there are limited resources, enormous hurdles, limitless frustrations, but with a determined group of community residents and eventually a dedicated staff who are willing to fight for your community or neighborhood all things are possible.

The community development corporations of Philadelphia define Community Development as a process whereby residents of neighborhoods and communities, with varying degrees of assistance from the public and private sectors, plan and implement programs to revitalize their neighborhoods. A Community Development Corporation (CDC) is a non-profit community based development organization engaged in the process of revitalization of its neighborhood or community. A CDC is an incorporated 501 (c) (3) organization. (501 (c) (3) is the code used by the Internal Revenue Service to exempt non-profit organization from paying corporate taxes. A CDC has representatives of its community on its Board of Directors. CDCs undertake projects of housing, economic, and commercial development in coordination with human services, community organizing, community planning and a variety of other activities.

CDCs undertake the rehabilitation of properties, the construction of new housing, the development of small businesses, and/or the development of commercial shopping districts in particularly difficult neighborhoods, because they are dedicated to the survival and revitalization of their neighborhoods. CDCs include local employment in construction, support services for community residents, community organizing and planning in almost every aspect of their development efforts. Further, CDCs invest tremendous time in the process of community consensus building, community understanding and community control of all their development efforts. Finally, any net benefit to CDCs derived from their development projects is invested back into the neighborhood through expanded development and service activities.

Community Development Corporations represent a truly integrated approach to neighborhood revitalization. We blend public and private resources to re-weave the physical and social fabric of our neighborhoods. Our efforts represent unique, comprehensive solutions for each of our different neighborhoods. Our projects are greater than "units built" or "clients served," because of the amount of synergy we create with our efforts. Our neighborhoods are stronger not just for the physical improvements we add, but for the empowerment of the residents who control our work.

The Philadelphia Association of Community Development Corporations (PACDC) is a group of 45 community development corporations in Philadelphia which exists to promote and assist non-profit community based development organizations in their efforts to create jobs, improve

housing and otherwise address the needs of low and moderate income residents of disadvantaged, poor and minority communities in Philadelphia. PACDC accomplishes its mission through effective public policy advocacy; networking and sharing resources; stimulating public private partnerships; increasing awareness of the general public about the effective work of CDCs through public education programs and, most importantly, increasing the size and diversity of resources available to support community based development.

PACDC has undertaken this manual under contract with the Office of Housing and Community Development of the City of Philadelphia, in order to provide a written road map for CDCs. See Appendix 1 for an organizational chart for a CDC and Appendix 2 for a Table of financial growth for a Prototypical CDC in Philadelphia. The table of the Prototypical CDC development is simply our best estimation of how long it takes to develop a successful CDC and what resources are needed. If you have an questions about the manual please feel free to call PACDC at (215) 922-7371.

I. Starting a CDC

Starting a CDC is relatively easy. A CDC starts with a vision. Usually an individual or group of individuals develops a vision for the revitalization of their neighborhood or community. This can involve the development or rehabilitation of housing, the development or rehabilitation of a commercial strip or the development of new businesses, but almost always has a neighborhood and/or a special needs community (single women, homeless people, etc.) at its core. The initial small group of people with a vision gathers additional people (hopefully some people with real estate development experience) around them to form a new organization, the community development corporation. CDCs usually start at a kitchen table. There is no magic to starting a CDC. The magic comes in proving to funders that you have the capacity to do real estate or business development. Here are the steps to form a CDC:

- Get together group of 5 to 15 concerned, interested folks for a meeting to discuss ideas, plans, reason for forming , etc.
- Hold several community meetings. Invite everyone in the community using flyers and word of mouth. Get input from the community on the ideas that the interested folks have come up with. (pick a central, easily accessible location for your meeting). (Sample Flyer in Appendix 3)
- After a few meetings, start with those people who are committed to your concepts. Begin to undertake the process of forming a community development corporation. (A core group of people is usually anywhere from 3 to 8 people). Define goals and purposes of the organization, decide on a name for the organization. Define reason for being and develop a "mission statement". (See Organizational Goal Setting Chart in Appendix 4)
- Fill out Incorporation forms and file with the State. It costs \$100.00 to file these forms with the Department of State. (See sample Articles of Incorporation in Appendix 5 and Blank forms in Appendix 6). You will need to fill in the "Docketing Statement" and send three (3) copies along with your Incorporation forms.
- Put together By-laws, your organizational constitution. (See sample By-laws in Appendix 7)
- Form Board of Directors (Usually an odd number of people: 5,7,11) (You want to make sure that at least 51% of the Board of Directors is composed of community representatives i.e. low-income residents of the neighborhood you are revitalizing, homeless people, low-income women). (See Role of Board of Directors in Appendix 8)
- Select officers: Chairperson, Vice-Chairperson, Secretary, Treasurer
- Publish notice of incorporation in the Daily News (or a local general circulation newspaper) and the Legal Intelligencer (Legal Advertising Dept.)

- Decide on regular meeting times and places, choose specific projects to address needs in the community, and set up committees
- If the group wants to seek funding from foundations, corporations, or government institutions, then it should file for tax-exempt status with the Internal Revenue Service (See sample filled in 501 (c) (3) form in Appendix 9 and blank form in Appendix 10). The cost for filing for 501 (C) (3) is currently \$465.00.
- To purchase a corporate seal, call M. Burkheim (215) 563-8113 or take a copy of Articles of Incorporation to legal stationary store (John C. Clark Co at 1326 Walnut St., 545-5522).

II. Preliminary Neighborhood Strategic Plan

After finding interested people, defining your mission, forming the organization, incorporating and filing for 501 (c) (3) status, the primary task for the community development corporation is the development a community needs assessment and an initial neighborhood strategic plan. (See sample neighborhood strategic plan in Appendix 11). A Neighborhood Strategic Plan is the basis for development in Philadelphia. It is a plan for your community that you develop which spells out how you will go about revitalizing your neighborhood or community over a three to five year period of time. The initial plan does not need to be a long and complete document, but it does involve research on your part to determine the needs of the community.

The three sources for information for your neighborhood strategic plan are a community needs survey, a windshield survey and census data. We recommend the use of a community needs survey taken door to door in your community (see sample neighborhood survey in Appendix 12). The community needs survey gives you some idea of the people in your community and provides direct input into the plan by community residents. In addition, you will want to document the physical and economic status of your neighborhood. You may want to do a "windshield" survey of the housing and commercial development in your neighborhood. A "windshield" survey is where you drive through the neighborhood and mark down every single property address, what kind of building or lot is at the address (i.e. whether it is residential, commercial, industrial, a park, a church, a school, etc.) and whether it is vacant or occupied. It is best to use a map of your neighborhood and mark off which blocks you have done as you do them. Finally, you will need census data for your neighborhood. This is available in block groups and according to census tracts at your local library. It is also available at PACDC. After conducting research, you will write it up into a needs assessment which will inform you plan. The research you have conducted will provide that basis for a written narrative of the needs of your community.

The plans that you have developed to meet the needs of the community will then be written up in a systematic way. We recommend that you break out your plans into housing strategies, economic development strategies, and other strategies for neighborhood revitalization. We also recommend being realistic about the projects you undertake. Each project undertaken by a community development corporation has to be funded from somewhere. There are extremely limited resources for development in Philadelphia. It is best to be extremely conservative in estimations of development projects over the first five years of your CDC.

III. Fund-raising and Resources

Financial resources to assist you in the early stages of development of a CDC are scarce. Community Development, though a charitable activity is a competitive process, due to the lack of resources. For this reason, most funders will not fund a start-up CDC until it is two years old and has some track record of development. Based on the experiences of PACDC, we have developed the chart in Appendix 2 to show the growth of a CDC over the first 9 years of its life. As can see it is slow going for the first two years and usually longer.

The funders for start-up or emerging CDCs are the Philadelphia Development Partnership (Jeremiah White, Director - 545-3100) and the Non-profit Unit at the Office of Housing and Community Development (Belinda Mayo - 686-9753). Both Jerry and Belinda have limited technical assistance dollars to assist small start-up groups. Additionally, local branches of commercial banks (if you are lucky enough to still have one) can provide small grants (\$100-500) for community groups. Finally, and most importantly, if you are serious about starting a group, you must develop your own resources through bake sales, chicken dinners, block parties, etc. The only way to revitalize Philadelphia is with a lot of self-initiative.

After the CDC has some experience, i.e. is over three years old and has done 2-3 projects, it starts the work of qualifying for funding from a local corporation or foundation. Currently the programs for funding an emerging CDC (two years old) are found at Philadelphia Development Partnership, a two year \$40,000 per year program for 4 groups (Jeremiah White - Director 545-3100) and PNC Bank, a three year, \$45,000 (total) program for 4 groups (Partners in Community Change, Don Kelly). Philadelphia Foundation and other foundations provide some funding for CDCs (Contact Carole Fair perry at the Philadelphia Foundation). All of the funding possibilities are listed in Appendix 13.

IV. Initial Project

Now you are ready to undertake your initial project. Most CDCs start with a privately financed homeownership project of between 1 to 3 units. Each house is purchased on the private market, using CDC or grant funds. A construction loan is secured from a Bank or from the Delaware Valley Community Reinvestment Fund. The CDC hires a construction firm to rehabilitate the house. The house is then sold by the CDC to a qualified homebuyer. It seems very simple, but it is a lot of work.

The current source of City financing for homeownership development is called the Homeownership Rehabilitation Program (See Appendix 14 for the Program Description and Appendix 15 for Step-by-Step Instructions for how to apply for the program) and is available at the Redevelopment Authority. Through the HRP, CDCs can receive up to a \$25,000 subsidy to rehabilitate a vacant house in their neighborhood. In addition, the CDC can qualify for up to \$8,000 in Developer's fees and can receive \$2,000 for housing counseling, if they are agency that has been certified by the Office of Housing and Community Development. The HRP is a moderate rehabilitation program which means that the repairs on the vacant house do not cost more than the appraised value of the house plus \$25,000. Please see Appendix 16 for a chart of standard costs to rehabilitate a house in Philadelphia.

There are five main components to a homeownership project: Acquisition, Construction Write-up and Design, Financing, Rehabilitation, and Sale.

A. Acquisition

Real estate is the raw material of community development. Acquisition of real estate is a costly and time-consuming process. For CDCs, acquisition is the most frustrating and time-consuming part of development. On average it takes 10 to 24 months to acquire real estate in Philadelphia through the public mechanisms available to CDCs. For this reason, we recommend that CDCs acquire real estate on the private market (through a real estate agent).

1. Identification of Land

Using the neighborhood strategic plan as a guide, the CDC identifies properties in its neighborhood which are vacant but not too deteriorated for rehabilitation. The best sources of land are the private market and HUD. We have enclosed a copy of a HUD property listing at Appendix 17. The list is published every week. The easiest method to track down owners of a property is through the use of Realist, a computer database of properties. We have included a sample Realist print out in Appendix 18. Realist can be used through a computer modem. For information about Realist call 925-5400.

2. Standard Agreement of Sale

An Agreement of Sale is the document you will use to prove to your funders that you have "site control." A standard Agreement of Sale is included in Appendix 19. You will want to make any Agreement of Sale, contingent upon financing being committed by whatever sources will be funding your project. For instance, you would write a line into the Agreement which says, "This Agreement is contingent upon a commitment of funding by the Redevelopment Authority by a particular date. If funding is not committed by the RDA, or if it is not received by the particular date, this Agreement will be considered null and void."

3. The Processes for Acquisition of Land In Philadelphia

There are six methods to acquire land in Philadelphia. The best way to acquire land is to purchase it from a current land or home owner. The other methods all require significant interaction with government, usually the Redevelopment Authority. The average amount of time it takes to acquire land using a public process is 10 to 24 months. See Appendix 20 for a chart of the acquisition processes.

a. **Act 94 Condemnation** - Act 94 is a public acquisition process which allows the city to take land that is vacant and tax delinquent. The process requires certifications from the Revenue Department regarding Tax Delinquency and the City Planning Commission & the Department of Licenses and Inspections regarding vacancy. The process takes six to nine months to acquire land into the city inventory and four to six months to dispose of it from the city inventory to you. Act 94 is best used in acquisition of scattered sites throughout a neighborhood. You cannot take a property that is occupied or paid up on taxes. See Appendix 21 for a Chart of the Act 94 Process.

b. **Urban Renewal** - Urban renewal is a public acquisition process which allows the City to condemn land and/or houses as part of an overall Urban Renewal Plan in a

neighborhood. It is a comprehensive tool which takes land for a "public purpose," if the neighborhood has been certified as "blighted" using certain common economic and physical factors. The Urban Renewal plan must be developed in conjunction with the City Planning Commission, the RDA and the community through the Community Development Corporation (CDC). A budget is developed for implementation of the plan. The City Planning Commission passes the plan and certifies that the neighborhood is blighted. The Plan then goes to city counsel for ratification. Once ratified by city counsel, the plan can be ammended on an annual basis to condemn sites, tracts, or individual houses throughout a neighborhood. It is a very powerful tool that has been well tested in the courts as a method to take private land for a public purpose. See Appendix 22 for a Chart of the Urban Renewal Process.

c. **Sheriff Sale** - It costs \$800 to put a property up for sheriff sale. The property must be vacant and tax delinquent. The Revenue Department certifies that the property is tax delinquent and deteriorated. Sheriff sale takes about two years. There is no guarantee that you are going to get the properties in the end. Someone can out bid you for the property and acquire it from underneath you. Accordingly, this process is risky. See Appendix 23 for a Chart of the Sheriff's Sale Process.

d. **Donor/Taker** - If you have a current owner who wants to donate the property to your CDC, you should use the Donor Taker program. This program takes nine to eighteen months to transfer the property. It is the most popular program right now because it allows the city to wipe all municipal debts. The current owner can donate his or her property to an individual. No dollars can exchange hands under the Donor Taker program. It is for donation, free of charge. See Appendix 24 for a Chart of the Donor/Taker Process.

e. **Public Property** - This process allows the transfer of Public Property to a CDC or Homeowner through the actions of the Vacant Property Review Committee. The Vacant Property Review Committee is an arm of City Counsel which decides about disposal of public properties. Public Property can be requested either at the RDA through Paul Bernard or directly at the office of Vernon Marks the Chairman of the Vacant Property Review Committee. If a property is owned by the City of Philadelphia, it must first be declared "surplus" by the Department of Public Property. The Vacant Property Review Committee then decides whether to transfer it or not. This process can take from one to twenty four months. See Appendix 25 for a Chart of the Public Property process.

f. **Private Sale** - The easiest and quickest method for a CDC to acquire land is to purchase it from a private owner. This takes capital or grant funds which most CDCs do not have. So on average, CDCs are forced to go through much more lengthy public processes to get land.

B. Construction Write-up and Design

The construction write-up is the most important phase of homeownership development. It is recommended that you hire a construction professional or at least have someone who is familiar with construction of residential housing and construction materials pricing with you to write-up the house. The write-up is accomplished by walking through the house and using the RDA form or a similar form of your own design, list all of the things that need to be changed in the house. You will want to measure each aspect in feet, because construction materials are sold by the square foot. Please see Appendix 25 for the RDA Construction Write-up Instructions and Forms.

C. Financing

Financing for Homeownership usually comes from 2 main sources, banks and the Redevelopment Authority. The banks provide a first mortgage to the homebuyer. The RDA provides a second mortgage through the HRP. In order to receive financing, you will have to fill in a "pro forma" or budget for your project. See Appendix 26 for the current Pro formas being used for the HRP by the RDA.

D. Rehabilitation

The Rehabilitation process requires you to seek a minimum of three qualified bidders from the contractors who you want to rehabilitate your houses. If you receive funding from Community Development Block Grant Funds, you are required to select the lowest responsible bidder. After receiving the bids from the contractors you must decide which one you want to use. You then negotiate over the price and sign a contract. See Appendix 27 for a Standard form of contract between you and a contractor. After you have successfully negotiated and signed a contract, you can proceed to construction. The Rehabilitation process is one of construction oversight by you and the RDA Inspectors. You want to make sure that the contractor does his or her job properly.

E. Sale

In some ways this is the end of the process. It actually is something that you will have started back when you were acquiring the land. In order to be successful in community development, you want to make sure that the person or family that is receiving your house is qualified and will maintain the house you have rehabilitated properly. In other ways, you will want to serve community residents who may or may not be very low income people. This is usually a direct conflict for the community development corporation. The answer of course is to get every single prospective homebuyer you are considering for sale of your house into housing counseling. (This is a requirement of the Homeownership Rehabilitation Program.) the Housing Counseling will help the homebuyer qualify for a mortgage. It will also help them learn or refresh their memories about how to budget and maintain a house.