

Approved: 2/8/94
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on February 7, 1994 in Room 123-S of the Capitol.

Members present: Senators Burke, Downey, Feleciano, Gooch, Harris, Hensley, Kerr, Petty, Ranson, Reynolds, Salisbury, Steffes and Vidricksen

Committee staff present: Lynne Holt, Legislative Research Department
Bob Nugent, Revisor of Statutes
Mary Jane Holt, Committee Secretary

Conferees appearing before the committee:

Others attending: See attached list

Senator Reynolds moved and Senator Steffes seconded to adopt the minutes of February 3, 1994. The motion carried on a voice vote.

Committee discussion on SB 183-Community Development Corporations in Wichita

Lynne Holt, Kansas Legislative Research Department, distributed a handout furnished by Keith Morton, President of a CDC in Wichita, see attachment 1.

Ms. Holt reported on the information Mr. Morton had given her on January 26, 1994. The title of Mr. Morton's CDC is Community Development Coalition and has been in existence for 15 months. The Board of the CDC has 13 members and employs one paid staff. The area served is roughly that designated in SB 183. There are 459 lots of which 270 are vacant. The median income is a little over \$8,000. Last year the CDC received \$17,333. This paid for one staff, office supplies and for research to do a needs assessment in the neighbor. He also made a \$7,000 down payment on the Wheatland Building and obtained 7 houses for rehab. Besides serving census tract 42 they ultimately hope to serve census tract 8, 10 and 11. The CDC is working with the black nurses' association to establish health substations and they are also working with two banks and the city of Wichita to develop financing to build a \$49,000 house for a low income family. Mr. Morton feels SB 183 is too restrictive. SB 183 should provide a vehicle to leverage non state money from the city, county and businesses. The money would then be used to fund projects identified by the CDC.

The Chairman informed the Committee the Department of Housing and Commerce estimates that the act would require adding two full time positions.

Bob Nugent, Revisor of Statutes, presented a proposed substitute for SB 183, see attachment 2.

Dr. Charles Warren, President of Kansas Inc. reviewed briefly the Community Strategic Planning and Action Grants program for non-metropolitan communities. The Committee discussed the possibility of amending this existing program to allow grants to be available to metropolitan communities. Dr. Warren agreed to work with legislative staff to develop this alternative proposal.

A Committee member requested a list of grants that are available to communities.

The Chairman adjourned the meeting at 9:00 a.m.

The next meeting is scheduled for February 8, 1994.

GUEST LIST

COMMITTEE: SENATE COMMERCE COMMITTEE

DATE: 2/7/94

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This section begins a discussion of what CDC's do, how they are philosophically and structurally tied to the communities where they originate, and what is their national significance. Community economic development, the activity of the CDC, is explained. There is an article describing some of the achievements of CDCs on a national level. The areas of activity of a CDC can be very far reaching and have permanent impacts on communities.

COMMUNITY DEVELOPMENT CORPORATIONS

Community development corporations (CDCs) are a uniquely American force for neighborhood renewal. They represent the best of this country's pioneering spirit in that they are a mechanism for self-help. Through CDCs, individuals in both urban and rural areas, aided by governments, businesses and philanthropy, band together to economically revive their neighborhoods.

CDCs are a relatively new phenomenon -- their emergence dates back for little more than two decades. They are an outgrowth of 1960's movements in which interested and concerned groups and individuals joined together to combat such issues as neighborhood deterioration, poverty and discrimination.

These movements emphasized self-determination and self-help. They worked with low income people to address critical needs in the areas of education, training, health and human services. As grassroots organizations, these movements demonstrated that there were human resources within poor communities which could be mobilized to solve problems and affect change.

Today, CDCs with ongoing, direct involvement in development, and which have completed at least one development project, are estimated to number about 2,000. They exist in all 50 states, the District of Colombia, Puerto Rico and the Virgin Islands and serve both urban and rural areas. They are known by a variety of names, including Community Development Corporations, Neighborhood Development Organizations and Neighborhood Housing Services.

CDCs still emphasize the concepts of self-help and self-determination, allowing individuals with otherwise limited opportunities to develop leadership skills. Through tangible projects, CDCs build momentum, hope and pride and demonstrate that distressed communities can support economic activity. They serve as an agency for the drawing together of diverse members of a community and thereby stimulate widespread involvement in community issues.

CDCs can be effective in confronting seemingly insurmountable problems for a variety of reasons.



Attachment 1-1

1. As a component of their communities, CDCs know their neighborhoods, the residents, the needs and concerns. Therefore, they can devise the most effective means of resolving these individual community issues.
2. CDCs operate with a clear mission and a comprehensive, strategic approach based on a long-term plan for addressing community economic needs.
3. By their very nature, CDCs are a mechanism for the forging of public and private sector partnerships in which diverse community members can work together for the improvement of their communities.
4. CDCs are able to undertake projects too small or too risky for conventional developers to do alone, but which are vitally important to the economic health of a community.

from the National Economic and Development Law Center

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COMMUNITY ECONOMIC DEVELOPMENT

The most general basic idea that energizes a CDC is of course "community-based economic development" or, more simply worded, "community economic development." Depending on their interests and experience, people may differ somewhat on what that means exactly. It means building organizations in the economic sector. Trying to define it carefully, one would say that community economic development is the creation or strengthening of economic organizations (or, more technically, economic institutions) that are controlled or owned by the residents of the area in which they are located or in which they will exert primary influence. The institutions that are owned or controlled locally can include such forms as business firms, industrial development parks, housing development corporations, banks, credit unions, and the cooperatives and CDCs themselves as the most broadly generalized, guiding institutions. They might also include organizations (or services) that upgrade the human and social environment in such a way as to increase the economic value and energy of the community.

The process of economic development at the community level means that the community, through its leaders, builds a variety of economic organizations that will:

- (1) attract outside capital into the area on terms that the community approves;
- (2) improve the physical environment either directly or through, again, outside resources, such as municipal or state or federal investments in streets, schools, housing, and so forth;
- (3) increase the job and entrepreneurial opportunities for area residents, either indirectly by providing training, or directly by the creation of businesses open to and controlled by the residents;
- (4) provide or encourage others to provide services and goods on a more accessible basis for area residents (for example, local taxi service or convenience shopping centers); and
- (5) generally, in these and other ways, create the conditions under which the community can participate in the economic advantages and growth of the rest of the society.

From this it should be clear that community economic development is not merely starting new local businesses. It is also not merely locating new resources in that community (as in urban displacement through urban renewal) but creating them under the guidance of the local resident. One such instrument for guiding economic development is the community development corporation.

Central Goal

Local control by residents enhances the power and the influence of the low income community to obtain what it needs to end the poverty area cycle. The central and immediate goal of community economic development is to increase that power and influence by providing economic muscle for a representative community organization. That organization would thereby be able to promote the satisfaction of neighborhood needs -- for example, for new and improved services, (welfare, health, education, garbage collection, police, street lighting, or whatever) as well as for their share of the employment and business opportunities that are ordinarily denied them.

Note that the immediate aim of community economic development is not to end poverty. That is, the new firms and banks, and so on, will not ensure a job for every able-bodied person in the neighborhood; the new firms never will, never could. And they will never produce enough profits to make a meaningful income supplement for all residents. For example, realistically, there will never be enough money in the Special Impact Program to start enough new job-creating businesses, locally owned and controlled, where local residents can be employed or receive substantial dividends from profits.

There are several reasons for this. For one, to grant that much investment money to local groups would upset the established wealth and power relationships in the country. From the Yankee, Indian, or French poverty areas of Northern Maine to the ghettos and barrios of Southern California, poor people meet establishments that will not permit such swift, massive change. Furthermore, it is not economically sensible to expect that the rural or urban slums can, even with assistance and by new businesses, retrieve and support all the poor people of this country. Community economic development by low income people cannot be expected to correct all the problems caused by the economic system of our society. A CDC must have the more limited objective of increasing the degree of local influence by building local institutions.

* It is true that community economic development will and should provide a certain political muscle for more support for the guaranteed annual income, which would end individual poverty immediately. It is also true that the political muscle of CDCs can increasingly demand and receive for their communities a more and more equitable share of the productivity and wealth of the country. But that share will not come primarily from the businesses, jobs, and profits provided directly by the CDCs. It will come indirectly through the social, political, and economic strength of the communities and neighborhoods invigorated by CDC projects.



For example, to rehabilitate the economic and social disaster areas of the inner city, massive federal, state, and local investments in what economists call infrastructure (the basic foundation of physical and other resources that a community uses) will have to be made. And they will be made in poor neighborhoods only if groups like CDCs insist on them and guide those investments whenever they may be available. In an area like Bedford-Stuyvesant, for instance, that entire investment process, encouraged by the CDC and participated in by CDC projects, could take as much as 30 years, according to local CDC leaders. That will be the all too slow but most important way that the CDCs can contribute to the ending of poverty in America. But if this is true, then the poor people who support their CDCs as members, as residents, need to be clear about it. The CDCs are not the full answer to their plight, even though CDCs can be the most important tool to work with.

Someone might ask, "If the main aim of the CDC in community economic development is to establish economic power and influence for the community, why not simply create a political organization instead of getting all involved in technical problems of business development, housing, and so on?" Indeed, that is a reasonable question. For one thing, a single purpose political organization can do a lot more politically than an organization that spends time on other problems. The hitch is that politics by itself is not the game. The problems of the low income area are not just political, any more than they are merely poor housing, or lack of local businesses, or ethnic discrimination. Yet all of these are involved with one another and the CDC must be concerned with all of them.

✓ This is not to say that there is no room for single purpose organizations in an area that has a successfully functioning CDC.—In the best organized communities that have a CDC, different organizations exist, each having specialized tasks; where there is no CDC, any effective organization is important, even if it is doing only one small part of the job. However, the special task of the CDC is to see all of the problems together -- the whole picture of poverty in the neighborhood -- and how the activities of the entire neighborhood, its organizations, and its individuals can fit together in an overall comprehensive development approach. The reason that the CDC can perform this task is because it is not just a planning agency. It can do things. That is the crucial reason why it must, in fact, be involved in an actual program and not be merely an impotent think tank. In addition, of course, the programs run by the CDC provide experience in real problems, opportunities for training for leadership, opportunities for jobs -- all of these can strengthen an organization. Nevertheless, it is true that the very variety of activities and tasks can also impose extra stresses upon the organization.

Corporation as a Tool

The special role of the CDC, then, is to be a multipurpose community tool to carry out the development programs and policies that the community wants -- or to get other organizations to do necessary parts of the job. If resident groups have adequate operating money and investment funds, they will create their own tools to carry out the comprehensive community economic development job. The tool is ordinarily a community development corporation, but it may be a cooperative, as it often is in some rural areas. In this country, corporations are the usual organizational and legal tools by which things get done, projects created, and resources managed, and even the low income community cooperatives will usually need to be organized as corporations.

Community Control by Whom?

The first issue in the use of a community corporation is, Who controls it? A neighborhood is never totally united in its goals and policies, and the CDC will reflect those disagreements if it is truly representative of the community. So the control over the tool will be shared by a coalition of different groups, and the question will always be, How effectively can these groups compose their differences? Only if the different groups can work together can the CDC be a strong spokesman for the whole community, for the things that the whole community wants. In this sense, the CDC is and will always remain an essentially political institution, even though its programs are usually economic in nature.

The CAPs, too, were and still are political institutions. They were designed to mobilize a community for the benefit of the poor, but "community" meant the whole city or country area, the rich and the middle class, and not just the residents of the low income areas. The idea behind the CAP was that all groups had to work for the poor (which in a sense is true), but the tool to accomplish this aim (the CAP itself) was politically controlled by people who were not low income residents and who ultimately could not have the same view of what the poor needed. For example, ordinarily two-thirds of the CAP boards were made up of nonresidents of the target areas -- city officials and business, welfare agency, church, and other representatives.

Politically, then, the CDC was and is a quite different tool for the poor community, because it is intended to reflect only *that* community, not the establishment as well. It is true that sometimes nonpoor, nonresidents are CDC board members, by selection of the low income residents, and, though a minority of the board, may be quite influential. Also, of course, not all residents of a low income area are poor, and these nonpoor residents are often board members too, elected because they are expected to be good advocates for their poorer neighbors. Yet residents



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within the area does not make a person, poor or nonpoor, a good advocate for the needs of the whole area. The problem of who controls the CDC is indeed a complicated one, even if the CDC is clearly controlled by residents of the low income community.

What Will the CDC Do?

The second issue in the role of the CDC as a tool for the poor is, What exactly will it do? How will it act to carry out the aim of community economic development? That question is answered initially by the policy decision on strategy that the CDC board makes and then operationally by the activities of its staff and subsidiaries.

Each CDC, no matter what its situation, will have to face two fundamental tasks: (1) how to coordinate and mobilize all the possible resources (human, financial, organizational, political, social, economic) that can possibly be used in the community -- much of which (like the federal grant itself) must come from outside the community, but some of which must come from inside, and (2) how to develop comprehensive plans and create strategies that will not get stuck on a single project (like one housing development or one supermarket) or even one type of activity (like business development) but will be concerned broadly with the basic needs of the community in *all* sectors, including the human, financial, organizational, political, social, economic, and so on.

The CDC, then, is a tool that turns out more tools. It turns out the ideas, the businesses, the services, and the organizations for influencing people outside the area, in favor of the needs of the area. In fact, the CDC is probably going to be effective only if its managers and its board and staff look at it as a tool. A CDC cannot totally revitalize a slum neighborhood or a depressed rural area, but it can be the tool by which a whole set of resources can be created to revitalize the low income area. In a sense, one can think of the CDC as a machine tool, the kind of machine in industry that turns out other tools, the most important, complex, expensive, and powerful machine in manufacturing, without which an industry or a country is backward, undeveloped.

The specific answer to what the CDC will do in its neighborhood or region depends of course on the individual situation. It is important, however, to recognize that there are stages in development of the organization and of its community which mean that the CDC and the community will have different possibilities and needs. One CDC can learn from another, but mainly it will learn most from a CDC that is in something close to the same stage of development and in something like the same region. The tool that the CDC represents must be used differently under different circumstances.

Maintaining the CDC Energy

What powers this machine tool, the CDC? People. In a low income community "the only resource we have is ourselves," as a CDC board chairman once said. A CDC will not work without community organizing, without community support, without constant back and forth communication between the people of the community and CDC staff, board, employees, director. That constant flow of talk, action, ideas, newsletters, personal communication, and even advertising is absolutely necessary to maintain the CDC's energy. The energy comes from community support, and every tiniest bit of participation from a resident makes the CDC belong to that resident, joins the CDC with him or her, and connects the CDC with the energy that the residents have to put into the things they believe in.

A CDC that runs on its own energy is a contradiction. It does not get its energy from a grant, even though the grant and other outside resources will be essential. A CDC runs only with a lot of community participation (even community "interference," as it may seem to staff members trying to get their technical jobs done). If a CDC seems to run by itself, it has probably been taken over by a small group, and that group is providing the power itself. The CDC will last as long as the small group has energy to propel the machine; yet the group members are not going to devote the time and energy unless there is something special in it for them -- and that eventually spells corruption, taking over the machine for their own benefit, not for the benefit of the community.

Division of Labor

There is a third major issue; it comes from the necessary splitting up of different CDC jobs. There is the division of labor within the CDC, and between the CDC and other organizations. Within the CDC, there are four broad categories of jobs; board members, director, staff, and corporation members or stockholders. Members select leaders to serve as board members, and these select a chairman and an executive staff director. The chairman in turn appoints committees of board members (and sometimes others) for special jobs, and the staff director hires specialists for the different staff positions. This chain of selection defines who is responsible to whom, and from whom the authority of each is derived.

That at least is the formal or legal chain of responsibility, but of course in each instance the actuality may be somewhat different. For example, the general principle of dividing up organizational jobs would require that the director have the freedom to hire his own staff, but some boards select all personnel or at least approve the hiring or firing of any staff member. In that case, the division of labor is quite different, and it tells a different story about the relationship between director and board. Similarly, the most general organizational practice for assuring



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democratic control is for the basic policy decisions (such as major investments) to be made by the board, yet in some CDCs boards sometimes do little more than rubber stamp what the director presents as staff recommendations. Again, this tells a different story about the division of labor and the relationship of board and director.

In each instance, the question of leadership is involved, and certainly leadership is critical to an organization. But the fact is that leadership is not something exercised only by one person, whether he is a board chairman or an executive staff director. It is a job of many parts that in practice gets split up to be done by different people at different times and for different purposes. At one point, it may in fact be stockholders who have to take the leadership and pressure board members to perform better. At another point, it will be a board member who resists pressures to hire someone who will not do a good job. And at still another point, it will be a low level staff member who is able to articulate a critical issue for the board to act upon.

It should be clear that leadership itself is part of the broader issue of the division of labor. And of course, there are a lot of other problems in splitting up the jobs to be done in a community economic development program. Some people or organizations may be better than others for a particular job, but political considerations may intervene and sometimes must take precedence. Also, some jobs are of course paid, and when paying jobs are scarce, this can pit people against one another for real stakes in income and self-respect.

Most of these problems are inescapable in any organization. However, the problems for a CDC are especially difficult because it is an organization that includes such a wide variety of activities. It is not merely a technical business development group; it is not just a community political pressure group; it is not just a housing development corporation; it is all of these things and many others. Therefore, the problems of the division of labor are more complicated, and the guiding board of directors has a much more complicated responsibility for assigning people and making them accountable to the community.

Directing the Technical Specialists

The division of labor means that technical specialists will have to be given the responsibility for specialized jobs, but the direction or guidance of those specialists will remain a challenging job for unspecialized community residents. How can untrained, low income people really guide these specialists? That may be the most difficult problem of all. The very ambitiousness of a program of revitalizing the area with all kinds of new resources requires a tremendous range of skilled people, some so specialized that they can scarcely talk to anyone but each other. Board

members, elected from the low income community, must set the policy for these specialists and must check on their work to make sure that it is done properly. How can they manage to do that? This is the question that is always raised by those who doubt that community control works, but it is also a question that board members *themselves* worry about.

The answer to this question goes to the heart of the idea of community economic development. But there is an answer, made up of many parts. First, outsiders tend to overestimate the technical qualifications needed to guide the process and underestimate the human resources available for it in low income communities, and these doubts sometimes make low income communities doubt their own capacities. But when community leaders have joined their skills together in a CDC and have been given the financial resources to work with, experience tells us that the human resources for handling the complex leadership tasks are far beyond conventional expectations.

Second, there is a learning process that all "generalists," whatever their education and training, go through to gain the knowledge and sophistication to guide a specialist employee. If you assume that specialists begin with the intent (at least ordinarily) to take direction from a community board and will let the board in on what they are doing, then board members do have an opportunity to gain enough familiarity with the technician's problems to guide him appropriately.

It is true that specialists will in time, if not restrained, tend to become more and more independent of the generalists. Partly that is just a psychologically natural process of each getting better acquainted with the other, so that the generalist comes to feel so confident of the specialist that he relaxes too much, and the specialist forgets that he may not see the big picture the way a board member has to. But before that point is reached, board members ordinarily have a chance to learn enough to keep the specialist on his toes; and the specialist, for his part, will ordinarily have developed enough identification with the community to want to do his job in the best way for the community as its representatives, the board, may direct. In short, they can work together, because they learn together, and vice versa.

Community Knowledge

A third fact that makes community control, even of the specialists that a community needs, not only possible but important is the fact that the residents actually have more knowledge about some things than the most highly trained specialists. For example, bank loan officials may be very skilled in interviewing familiar loan applicants, but will be handicapped in recognizing and understanding as well as the applicant's neighbors can, the opportunities or dangers of a particular loan.



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applicant from a different community and style. As a matter of fact, because they often know their own handicaps (as well as because of pure and simple race prejudice), white loan officers have had a history of just not bothering to make loans to Blacks or other minority group members. Again, the limitations of outside specialists is part of the reason why all sorts of outside attempts to revitalize the slum areas have failed. For example, the Department of Labor Special Impact Program failed because outsiders chose outside firms that either went bankrupt or could not offer the necessary jobs to area residents. Indeed, the knowledge of the insiders, the residents, is crucial.

Because community control brings in the kind of resources that are needed (that is, local resources, including specialized knowledge, skills and information), community control is necessary. And because community control is possible, it is a reasonable basis for an economic development program. Both possible and necessary, community control remains the basic idea behind any development program that aims to revitalize a low income area.

Community economic development, in fact, is no different in this respect from any other attempt at economic development. Even the federal programs for overseas aid for economic development have recognized the essential requirement of wide participation in the actual process of development. For instance, a congressional report on amendments to the Foreign Assistance Act spells it out:

Over the years, in exercising legislative oversight with respect to the administration of the foreign assistance program, (the House Foreign Affairs Committee) has observed that there is a close relationship between popular participation in the process of development, and the effectiveness of the process.

And with this report, the Congress passed a new part of the foreign aid law to encourage "reliance upon nongovernmental organizations with a demonstrated competence to enlist popular participation in the development process." Precisely the same advantages for an effective program of economic development at home can be found in the CDC that retains the support of its neighborhood or area.

from the National Economic Development and Law Center

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PROPOSED SUBSTITUTE FOR SENATE BILL NO. 183

By

AN ACT

Be it enacted by the Legislature of the State of Kansas:

Section 1. Subject to appropriations acts and in accordance with the provisions of this act, the department of commerce and housing shall provide grants to eligible community development corporations. The grants shall be made on a matching basis. Any eligible community development corporation seeking such grants shall secure \$2 from non-state sources for each grant dollar sought.

Sec. 2. A community development corporation shall be eligible to receive grants if it fulfills the following conditions:

(a) The corporation must submit to the Wichita city council a plan describing the urban revitalization activities which would be funded by the grant. The plan shall specify the intended outcomes of the plan and a means to evaluate the outcomes.

(b) After submittal of the plan, the Wichita city council must, by resolution, declare the corporation eligible to receive grants. The council may establish eligibility criteria as deemed appropriate. However, before final approval of any corporation, the council shall consult with the community development advisory panel pursuant to section 3.

(c) The grants shall be in any amount, subject to the availability of funds, as the council shall deem appropriate.

Sec. 3. There is hereby established the community development advisory panel. The panel shall consist of the following members:

(a) Two state senators from Sedgwick county, affiliated with different political parties;

(b) two state representatives from Sedgwick county,

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Commerce

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affiliated with different political parties.

Sec. 4. The secretary shall report annually to the house committee on economic development and the senate committee on commerce describing how grant monies were spent and evaluating whether intended outcomes were realized.

Sec. 5. This act shall take effect and be in force from and after its publication in the statute book.