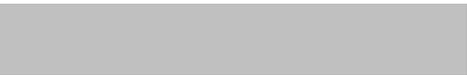
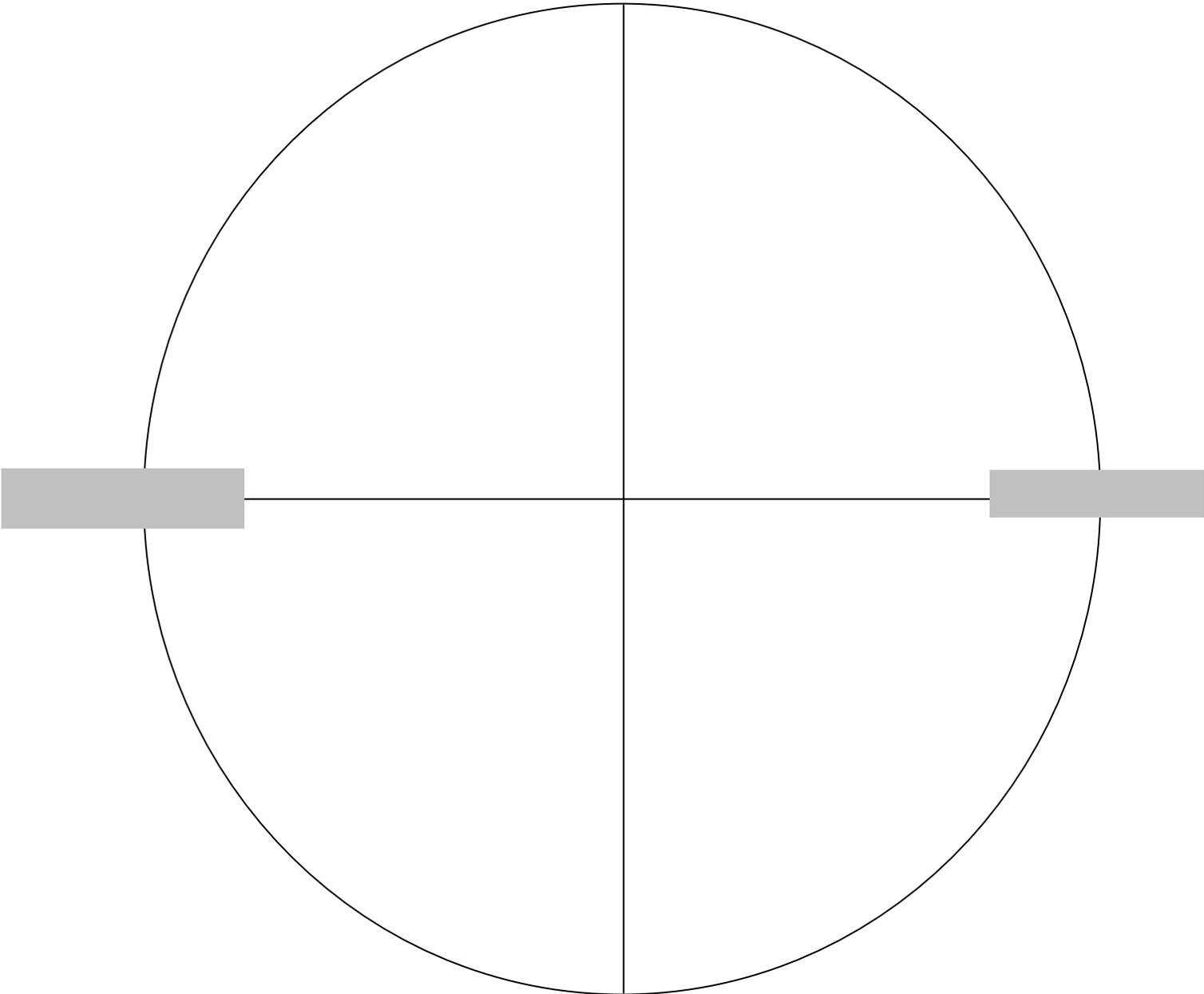


Community Development Corporation Training Manual

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Community Development Process



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Definition of a CDC

I. Community Development Corporation

Community Development Corporations (CDCs) are non-profit development corporations that involve local residents in redirecting financing for community improvement into lower income communities.

There are several thousand CDCs throughout the U.S., including on Indian reservations and in urban Indian communities, promoting economic opportunities and insuring that development is carried out on terms acceptable to community residents.

CDCs have been effective in:

- Developing a community economic development plan and/or becoming involved in the local government planning process for both affordable housing and economic development.
- Housing development and job creation activities create financial assets within local income communities
- Developing partnerships with both the public and private sectors which generate income back into low income communities.
- Creation of both housing and economic development projects for low income residents with related social services opportunities.
- Developing office buildings, culture centers, business incubators, child care centers, affordable housing and for-profit businesses.
- Creating credit unions, loan funds and community development banks.

Organizational Structure of a CDC

II. Subsidiary CDC

It is not uncommon for non-profit social service organizations to establish a subsidiary community development corporation. The reasons for parent corporations to develop a subsidiary development corporation include:

- Preserve and protect the social service role of the parent corporation
- Separate the real estate and business development activities from social service demands but maintain mutual support.
- Establishment of a board of directors with both community and real estate expertise focused on development
- Protect the assets of the parent corporation from any instability of the subsidiary and vice versa.

Other Factors to Consider in Forming a Subsidiary Corporation

A subsidiary corporation will be treated for tax, liability, and other purposes as a separate legal entity, despite the parent non-profit corporation's control over the composition of the subsidiary's board of directors. However, certain precautions must be taken to ensure that the proper balance of separation and control are maintained. The advice of an attorney should be sought during the planning for the subsidiary corporation.

The most common cause of a loss of liability protection, however, is due to the failure to observe the corporate formalities required of the two separate corporations. If a claimant can prove that the parent non-profit corporation and its subsidiary are not two separate entities, the parent may be liable for the claims brought against the subsidiary. If simple procedures are followed rigorously, liability protection is preserved.

Board of Directors

To maintain its separate legal status, the subsidiary must have its own board of directors with separate meetings and minutes; separate books, records, and financial accounts; and must use separate stationary. The subsidiary can contract with the parent corporation for staff, space, and other needs, and the parent corporation can lend money to the subsidiary, without loss of liability protection, as long as the transactions are reasonable and fair to both corporations at the time they are entered into.

Board overlap is possible. Generally, subsidiary board members should be chosen for their expertise, time availability, and sensitivity to the goals of the parent corporation and the subsidiary's business. It is advisable to have some subsidiary directors who are also not parent

corporation directors, especially to approve contracts between the corporations. A board of directors of five to seven members is reasonable for subsidiary corporations.

The minutes of the two boards of directors should reflect that the subsidiary corporation board made the decisions concerning the day-to-day operations of the subsidiary and its business. The parent corporation can request reports and explanations as to the activities of the subsidiary and any deviance from its annual plan, conditions imposed in a loan or other agreement between the corporations, or in meeting the goals established by the parent corporation for the subsidiary. The parent corporation can recommend that certain actions be taken or not taken. However, it should not substitute itself for the subsidiary board and directly take those actions.

The parent corporation must be content with its indirect control over the subsidiary through its power to: select the board, remove board members and fill vacancies, approve the initial articles of incorporation and by-laws and make recommendations on subsequent amendments, and approve any action that would adversely affect its rights. It can also have its auditor perform the subsidiary's audit, and its attorney serve the subsidiary in a similar capacity.

Staffing

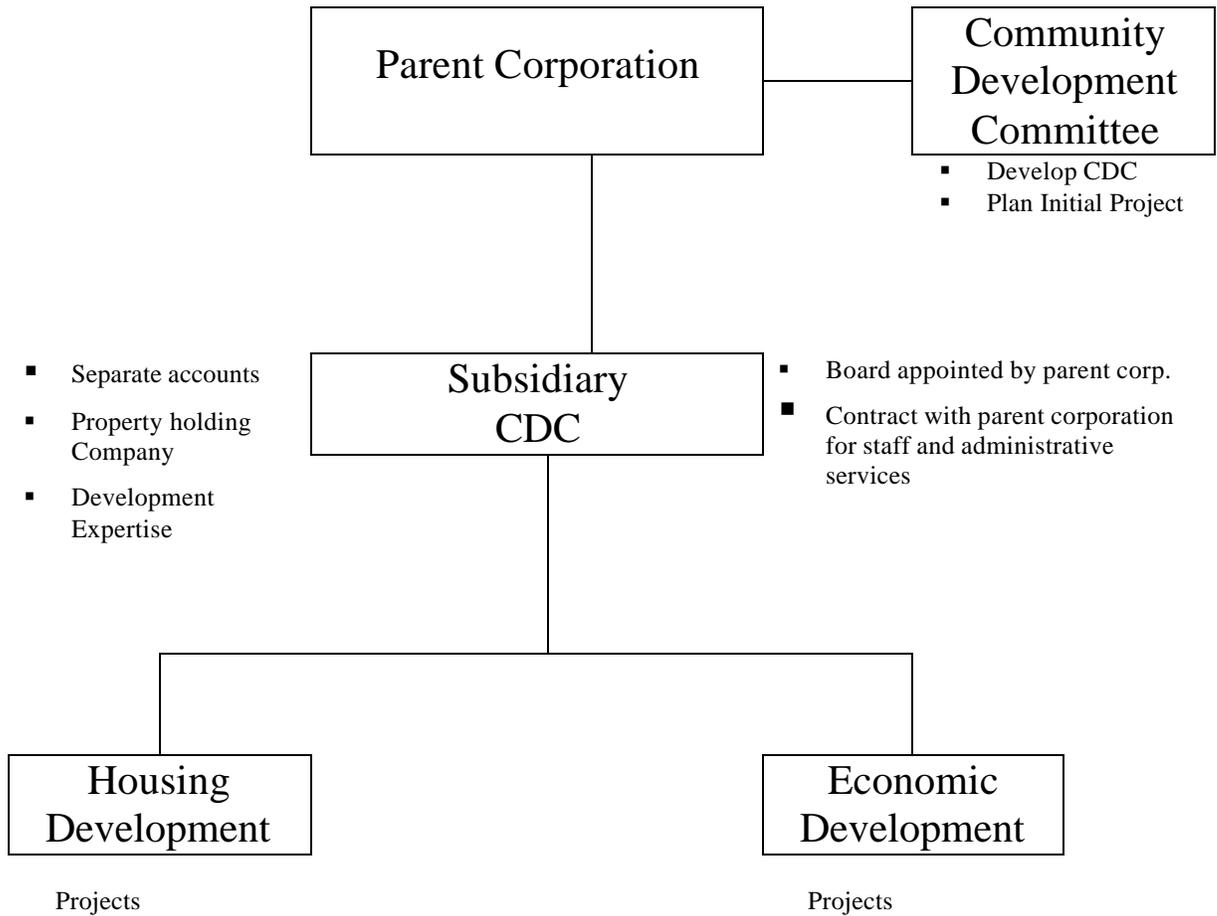
If a subsidiary is formed, usually some staff of the parent non-profit corporation will devote a portion of their time to the subsidiary. It is better for staff to be employed by one corporation, rather than two, so that extra employment taxes and bookkeeping expenses are not incurred. Staff should be employed by the corporation which uses the greater percentage of their time. The other corporation should pay the full cost of purchasing the remaining time from the employing corporation.

Funding and Financing

A subsidiary corporation might be able to attract funds not available to the parent non-profit corporation. Some funders prefer to fund a subsidiary devoted to a single business purpose. Accounting for the expenditure of their funds is easier, and it is clearer that their funds are being devoted to the business.

In the short run, a subsidiary will incur incorporation expenses such as legal fees, government filing fees. In the long run, the added cost of the time necessary to maintain a proper corporate separation, including separate tax returns.

COMMUNITY DEVELOPMENT
CORPORATION
SUBSIDIARY STRUCTURE



Agreement Between Parent Corporation and Subsidiary Corporation

Background and Intent

Statement of Purpose of parent corporation and subsidiary corporation with acknowledgement that subsidiary is organized by and operated exclusively for the benefit of the parent corporation.

The relationship between the parent and subsidiary corporation is enumerated in the subsidiary By-laws and Articles of Incorporation.

The intent of this agreement is to articulate the terms of a administrative, financial and staffing relationship between the parent and subsidiary corporations.

The parent will provide the subsidiary with staff, administrative and financial services until the subsidiary obtains the financial support necessary to finance its own operations.

Roles and Responsibilities

A. Parent Corporation

The parent corporation will provide the subsidiary with the following:

1. the parent corporation's Executive Director will serve as the Acting Executive Director of the subsidiary corporation at _____% time.
2. the parent corporation will provide the subsidiary corporation with project development and project management staffing.
3. the parent corporation will provide the subsidiary corporation with administrative support and financial service.

B. Subsidiary Corporation

1. the subsidiary corporation board of directors will comply with the personnel and financial policies of the parent corporation under the terms of this agreement.
2. the subsidiary corporation budgets and proposals will be submitted for review by the parent corporation administrative and finance offices prior to submittal to funding agencies to assure fundraising coordination.
3. the subsidiary corporation will make all board minutes and staff reports available to the parent corporation.

General Terms

Duration: The duration of this agreement will be _____.

Amendments: This agreement may be amended in writing upon authorization of both parties.

Good Faith: The parent corporation and subsidiary corporation shall operate in utmost good faith in carry out this agreement.

Signed: _____
Chair, parent corp.

Date: _____

Signed: _____
Chair, subsidiary corp.

Date: _____

Stages in the Development Process
And Board of Director Decision-Making

<p>STAGES IN THE DEVELOPMENT PROCESS A Tasks and Products Checklist</p>

STAGE ONE	Development Concept / Pre-Feasibility
STAGE TWO	Feasibility Study
STAGE THREE	Dealmaking / Predevelopment
STAGE FOUR	Construction
STAGE FIVE	Operation / Sale

STAGE ONE: Development Concept / Pre-Feasibility

You have identified a project idea/dream, a type of project site, or an actual project site or opportunity.

TASKS

1. MARKET/RESIDENTS. Identify the market and needs which will be met.
2. SITE. Identify a site, research its market value, and do a very preliminary evaluation of its feasibility.
3. FINANCING
 - Identify potential resources, and roughly estimate development and operating budgets.
 - Identify the needed predevelopment resources, and sources.
4. ORGANIZATION
 - Identify how project fits with organizational strategy.
 - Make a preliminary identification of ownership and development team.
 - Decide on a community and/or tenant communication strategy.

PRODUCTS

_____ Overall: One to two page project concept description, summarizing the above.

_____ Financing: Enough predevelopment money to complete next steps.

_____ Site: Preliminary title report/ comparables / site information.

_____ Overall: Other more detailed research into a major project threshold issue.

_____ Board Decisions: Make an offer purchase/obtain an option; possibly contract with some development team members or apply for predevelopment financing.

STAGE TWO: Feasibility Study

You now have preliminary site control - an option or purchase / sale agreement

TASKS

1. MARKET/RESIDENTS. Research / test your market.
2. SITE
 - Complete site feasibility evaluation
 - Obtain preliminary design information/cost estimates.
 - Initiate any critically important public approval processes.
3. FINANCING
 - Research sources and amounts of development and operating costs.
 - Identify a plan for obtaining resources in the amounts and at the times needed.
4. ORGANIZATION
 - Identify/contract with attorney, architect / rehab estimator, and possibly other development team members.
 - Implement community / tenant information plan.

PRODUCTS

____ MARKET: Information on market or in place residents.

____ SITE: Preliminary site plan; preliminary design / schematics or preliminary rehab scope of work.

____ SITE: Refined list of public approvals.

____ FINANCING: Preliminary development and operating budget, sources and uses, and resource plan.

____ ORGANIZATION: Project schedule / workplan.

____ ORGANIZATION: A list of development team members.

____ BOARD DECISIONS: Accept preliminary feasibility analysis and continue process; contract with some development team members; apply for financing; delegate appropriate decisions to staff.

STAGE THREE: Dealmaking / Predevelopment

You've completed preliminary feasibility assessment on your site.

TASKS

1. MARKET/RESIDENTS. Plan marketing / sales strategy, and develop tenant occupancy and management plan.
2. SITE
 - Complete schematics and work and select contractor.
 - Bid out construction work and select contractor.
 - Complete any approval processes, and apply for building permit.
 - Close property purchase.
2. FINANCING
 - Refine budget estimates.
 - Secure financing commitments.
 - Obtain appraisal / appraisal review for lenders.
 - Close construction financing.
4. ORGANIZATION
 - Identify/contract with attorney, architect / rehab estimator, and possibly other development team members.
 - Implement community / tenant information plan.

PRODUCTS

_____ MARKET: Tenant occupancy and management plan; (possibly) contract with management company; marketing plan.

_____ SITE: Working drawings / rehab scope of work; refined estimates; contractor bid package; approvals and building permit.

_____ FINANCING: Financing commitment letters; construction loan.

_____ ORGANIZATION: Team management.

_____ BOARD DECISIONS: Select contractor / other development team members; approve final financing package and rent structure; approve marketing plan, management plan, and tenant selection criteria.

STAGE FOUR: Construction

TASKS

1. MARKET/RESIDENTS. Implement marketing / sales plan.
2. SITE
 - Close on site purchase
 - Construct/rehab units and monitor construction.
 - Supervise completion of punch list items.
3. FINANCING: Complete information for permanent financing.
4. ORGANIZATION
 - Implement community / tenant information plan.
 - Manage development team.

PRODUCTS

_____MARKET: Waitlist; leases or sales agreements.

_____SITE: Construction schedule and progress reports; local code approvals; punch list; warranties and guaranties.

_____FINANCING: Permanent financing documents.

STAGE FIVE: Operation / Sale

TASKS

1. MARKET / RESIDENTS. Implement marketing / sales plan.
 - Complete rent up, supervise move in(s).
 - Adapt tenant selection criteria and other aspects of management plan as needed.

2. SITE
 - "Break-in" building, and bring back contractors for warranty items.
 - Maintain and repair building.

4. FINANCING:
 - Close on permanent financing and (possibly) receive equity pay-ins.
 - Monitor financial performance and make changes as needed; invest reserves.

5. ORGANIZATION
 - Complete periodic reports to financing sources / partners.
 - Assess management - maintain compliance with applicable laws and regulations.

PRODUCTS

Quality Housing, Satisfied and Involved Residents, a Financially Sound Project, and a Supportive Community.

____BOARD DECISIONS: Major changes in tenant or management plans; refinancing; periodic reviews and annual budgets / rent adjustments; selection of management company or contractors for major repairs; personnel and tenant relations problems.

BOARD SUPERVISION OF NONPROFIT HOUSING

DEVELOPMENT DECISIONS

Decisions which should be made or strongly supervised by the board.

Initiating a project. A formal board decision is usually made either when the purchase agreement is signed, or when the purchase agreement deposit becomes non-refundable. (Many boards are consulted earlier as well.) The decision should include board approval of project concept, and answers to Board Responsibility questions.

Team. Approval of Major Development Team Members - at minimum: limited partner/ joint venture partner, development consultant, contractor, lawyer, management company; sometimes architect.

Participation. Approval of approach to tenant and community participation / involvement.

Design. Review and approval of project design and exterior aesthetics.

Revisions. Major revisions to initial project concept (rents, incomes, etc.)

Applications. Applications for loans and public funds.

Funds. Spending or advancing organizational funds for a project.

Closing. Authorize closing documents for loans and limited partnerships (board action usually delegates final approvals to Executive Director, but board should understand and approve overall restrictions and risks.)

Initial Management. Approval of compliance checklist and initial management plan (plan includes waitlist and tenant selection policy, eviction policy).

Development Team

Role of Development Team Members in Preliminary Project Planning

<u>Team Member</u>	<u>Estimated Cost</u>	<u>Roles</u>
Architect	\$2500	Based on proposed uses and tenant types, prepares a site plan showing building footprint, parking areas, property lines, and site dimensions. If appropriate, prepares a rendering of the proposed building façade.
Real Estate Broker / Site Negotiator	No Charge (fee earned later in the project)	Assists in determining offering and ceiling acquisition prices for target properties, option terms, and most appropriate negotiating strategy. Negotiates acquisition. (In many instances, the CDC may be the most appropriate negotiator.)
Appraiser	No charge (fee earned later in project)	Working through the lender, should be able to provide an estimate of current market rents in the area, as well as current cap rates from comparable market sales. May also share the current operating expenses being reported in comparable market properties.
Property Manager	No charge (fee earned later in project)	Serves as a reality check on current supply and demand in the proposed tenant population. Can also provide valuable input on the durability and practicality of the project's design and finish specifications. If managing similar affordable housing projects, can provide data on actual operating expenses.
Cost Estimator / Contractor	No charge (fee earned later in project)	Estimates the costs of demolition, site work, and building construction or renovation based on the proposed uses and design.
Financial Consultant	\$2500	Prepares detailed development and operating pro forma for the project including an analysis of syndication proceeds (tax benefits and return on investment) if appropriate. Also, formulates a financing strategy for the project for both conventional and gap financing.

Role of Development Team Members in Preliminary Project Planning (con't.)

<u>Team Member</u>	<u>Estimated Cost</u>	<u>Roles</u>
Lender	No charge (fee earned later in project)	Advises on overall concept and requirements and expectations that lenders will have prior to a commitment of financing.
Attorney	\$3,000-\$10,000	Advises on legal structure of a joint venture, if appropriate. May incorporate a development subsidiary of the non-profit to assume financial risk for the deal. May prepare agreements. Should perform necessary legal tasks for property closing, including review of regulatory agreements related to subsidies, and review of loan documents.
Development Consultant	Varies	Assists in managing the development agenda and work plan. May prepare detailed pro forma financial projections and assist in preparation of the overall plan. Also, may assist in presentations to potential lenders and funders. This individual may be the same person serving as the financial consultant.

CDC Financing

Real Estate Development Financing Elements

Five basic elements:

- Equity
- Land or property acquisition
- Land Development financing
- Construction financing
- Permanent “take-out” financing

Equity is what the developer puts into the deal. For the conventional developer, a lender may require equity ranging from 0 to as much as 15% of total costs.

Sources of equity for non-profits

- Capital grants from foundations
- Joint venture where partner provides the cash and you provide management
- Get property donated and use that as your equity
- Syndicate tax credits to investors

Land acquisition is financing for the purchase of the property. This may be advanced by the lender all at once, or in stages as part of the project is completed and new sectors of the land or building are acquired.

Land development financing allows the developer to prepare land for construction, including engineering costs, permit fees, clearing, grading, soil boring, storm drains, roads, utility stakeouts, water and sewage lines. Land acquisition and land development loans are frequently combined in stages as land is purchased and work progresses.

Construction loan is a short-term loan that allows the construction or rehabilitation of the project. It, too, is advanced in stages according to a predetermined draw schedule. Certain fees are also included in the construction loan, including: architect fees, insurance, attorney fees, survey, permits, and taxes during the construction period. Construction period interest can also be rolled into the loans. When the developer intends to maintain ownership of the project and construction loan can be combined with permanent financing in a construction/permanent loan.

Permanent “take-out” loan is the final long-term loan on the project. If the developer of a rental project has secured permanent financing from a different lender, the take-out loan is used to pay off the construction lender. The developer or owner of the project then begins making payments on the long-term perhaps 30-year loan.

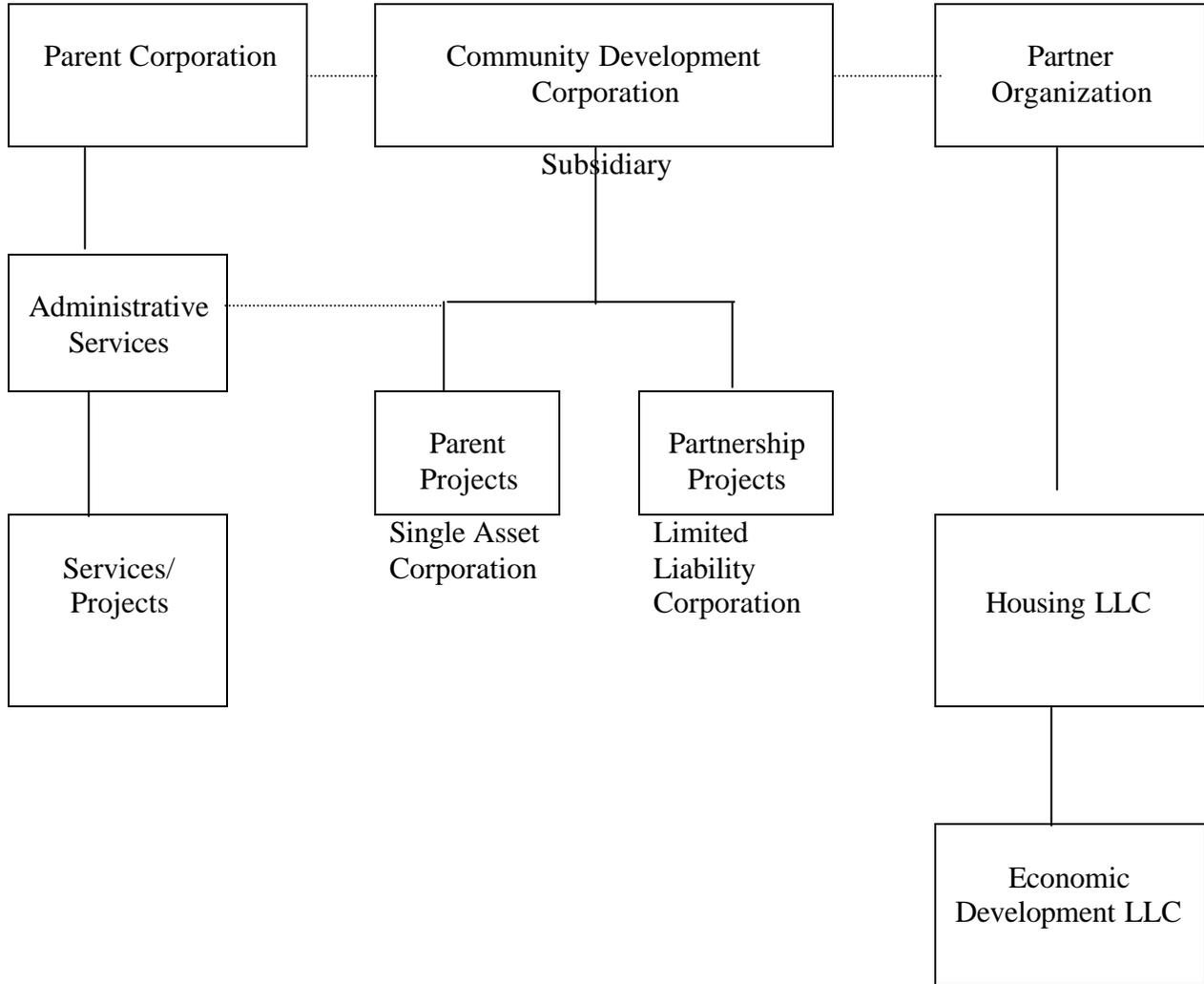
On a project of for-sale housing, the developer typically lines up a source of permanent mortgage financing for the future buyers. As each house is sold, the new buyers get their mortgage from the permanent lender; the developer takes the proceeds of the sale and pays off the corresponding portion of the construction loan.

Community Development Corporation

Model

Community Development Model

Community Board



Project Manager Job Description

The Project Manager serves under the Executive Director with day-to-day management responsibility for affordable housing and economic development projects as assigned.

Duties and Responsibilities

- Conduct feasibility studies and develop pro-forma
- Responsible for negotiation purchase agreements and related contracts
- Assist in obtaining financing for projects
- Responsible for the coordination, selection and monitoring of the performance of architects, contracts and consultants
- Prepare applications and reports to funding sources for projects
- Assist in representing the organization before government agencies and other community organizations
- Perform preliminary land use applications, attending hearings, community meetings and fostering a team approach to obtaining community acceptance
- Responsible for assigned administration and asset management

Qualifications

- Masters degree preferred in either Urban Planning, Architecture, Business Administration or related field
- Knowledge and experience in real estate development, with additional experience in policy or land use planning
- Strong oral and written skills, with experience in budget pro-forma development
- Minimum of two years experience in planning, housing development or related field
- Experience with Native American community development

CDC Timeline

