NATIONAL ALLIANCE OF COMMUNITY ECONOMIC DEVELOPMENT ASSOCIATIONS

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TRACING COMMUNITY ECONOMIC DEVELOPMENT FUNDING FLOWS

MONEY MEETS COMMUNITY

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This research brief is part of the 2023 Money Meets Community Series — five briefs exploring the lines of business and financial resources of community economic development organizations across the United States. The National Alliance of Community Economic Development Associations (NACEDA) is authoring and commissioning these briefs as part of its Grounding Values in Research program, The Money Meets Community Series arrives in 2023 at a critical juncture for our country's low- and moderate-income people and places and the local organizations dedicated to serving them.

SUMMARY

THE NONPROFIT COMMUNITY ECONOMIC DEVELOPMENT (CED) SECTOR CONSISTS OF A VARIETY OF GROUPS:

- **Real Estate Developers and Managers**
- **Planning and Organizing Groups**
- **Lenders**
- **Social Services Agencies**

Each carries out multiple types of CED activities, paid for by revenues from public and private contributions, earned income, and other sources. Based on analysis of tax information and organizations' website descriptions, this brief finds that:

- Of the $23 Billion in revenues generated by the CED sector in 2018, about half flowed to groups that primarily provide social services (along with real estate development and other activities).
- Social services agencies rely heavily on government funding, compared to real estate developers, planning and organizing groups, and lenders, which generate most of their revenue from earned income.
- Groups that carry out multiple types of activities, such as those that both develop and manage real estate, are substantially larger than single-purpose groups. The same is true of groups that include social services in their activity mix.

BACKGROUND

Since the mid-1960s, community-based nonprofit groups throughout the United States have worked hard to advance the economic and social well-being of low-income communities. They have done this by harnessing local self-help efforts and financial support from public sector housing and community development agencies, private foundations, financial intermediaries and banks, technical assistance providers, and others.

Policy discussions on financial flows to the sector have mainly focused on Federal sources of funding, such as Community Development Block grants, the HOME Investment Partnerships Program, and the Low-Income Housing Tax Credit program. These sources are critical, but groups also raise money from philanthropic sources, earn income from their own program activity (such as developer fees), and obtain funding from other sources. Unfortunately, very little is known about these flows of revenue. This problem is compounded by the fact that the organizations that make up the sector vary widely in their business lines. We expect that their revenue profiles are diverse, as well.

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This NACEDA research brief is the second in a series that explores special topics in the CED sector. The first brief described the variety of groups that form the CED sector and the various activities they carry out. This second brief examines the funding flows into these groups. Upcoming briefs will explore how the types of CED groups or where they work influence their overall financial health.

RESEARCH QUESTIONS

To analyze the financial health of CED groups and recommend public policies that expand and strengthen them, we must understand the basic financial flow of funds to these organizations. This brief answers two basic questions:

- **How much revenue flowed into each of the five types of CED groups?**
- **Do different types of groups draw their support from different sources?**

Answers to these questions are important to creating policies that increase, stabilize, and tailor funding to different types of groups. This brief draws on analysis of financial data from annual tax returns received by the IRS, coupled with a scan of groups' websites, to record the kinds of activities they carry out.[1] These data pertain to a large subset of some 5,700 organizations culled from lists of CED program participants and advocacy organization members.

RESULTS

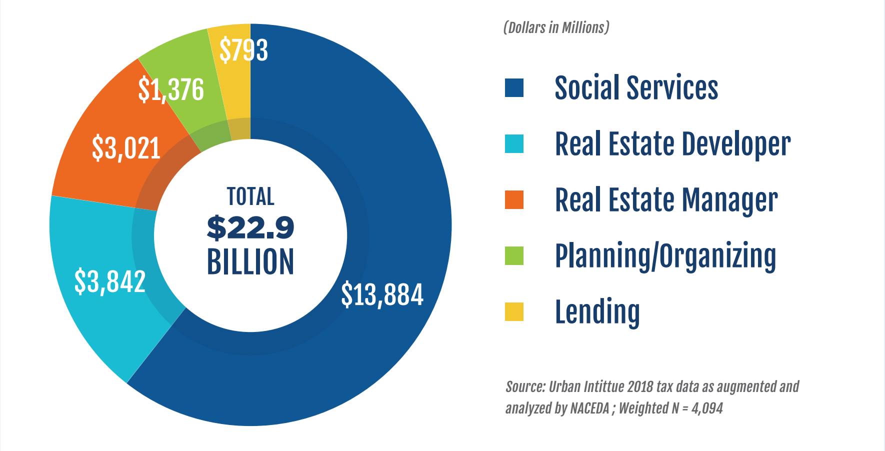
FINDING 1:

$23 Billion flowed into the CED sector in 2018

In 2018, the last year of tax data available to this analysis, $23 billion in total revenue flowed to the CED sector nationwide.[2] This is a surprisingly large figure, given stereotypes of the sector as composed only of small "grassroots" organizations. This is especially true because the total excludes much of the funding that flows into real estate projects themselves, which are often structured as subsidiaries and not reported on an agency's tax filing.

One reason why this figure is so large is the presence of multi-purpose social services agencies – many of them community action agencies – that typically employ counselors and other staff to provide direct services to individual clients.[3] Far fewer staff are needed to develop real estate projects. Social services groups account for a large share of all revenues – $14 billion of the $23 billion total. **(FIGURE 1)** Real estate developers – the traditional heart of the CED sector – accounted for $4 billion in revenues. Agencies that are primarily managers of real estate, including special needs housing, received some $3 billion – followed by groups that primarily do planning and organizing or lending.

FIGURE 1 National CED Sector Revenue by Agency Type, 2018



Source: Urban Intittue 2018 tax data as augmented and analyzed by NACEDA ; Weighted N = 4,094

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1 The Urban Institute database can be found at https://datacatalog.urban.org/dataset/community-based-development-organization-sector-and-financial-datasets The Methodological Note at the end of this brief describes NACEDA's supplemental survey of group websites to record their activities.

2 This figure is somewhat less than the $26 billion [please verify] identified by the Urban Institute in their report [add link] due to slight differences in methodology. See Methodological Appendix.

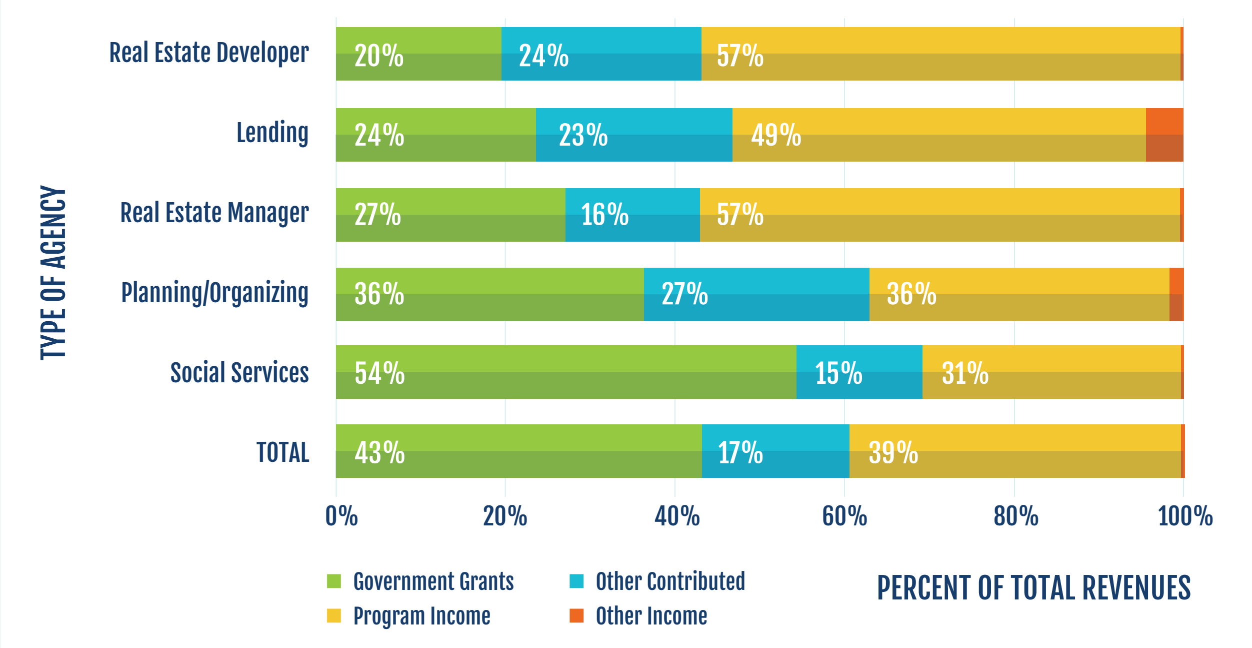
3 CED organizations are defined by the activity researchers judged to be "primary" based on review of their websites. Activities include social services, real estate development, property management, lending, and planning and organizing.

FINDING 2:

Government grants account for thesingle largest source of funding

Government grants account for the largest single source of funding for the sector as a whole – 43 percent, or $9.4 billion. Earned income accounts for 39 percent of revenues, or $8.6 billion. But groups' revenue profiles are quite different depending on whether they are social services agencies or organizations that primarily engage in real estate activities or lending. **(FIGURE 2)**

FIGURE 2 Sources of Revenue by Agency Type, 2018



Source: Urban Intittue 2018 tax data as augmented and analyzed by NACEDA ; Weighted N = 4,094

Services groups derive over half of their revenues from government contributions, and nearly 70 percent from contributed revenues more broadly. In fact, social services agencies take in nearly 80 percent of total government funding to the CED sector. In sharp contrast, real estate developers generated 57 percent of their revenues from earned income, a pattern closely approximated by lenders and planning and organizing agencies. Earned income may come in the form of developer fees, management fees, loan origination and servicing fees, and other sources. Government revenues to real estate groups, lenders, and real estate managers range from 20 to 27 percent of total revenues, meaning that, at most, they are only half as dependent on government grants as social services agencies.

FINDING 3:

Groups that primarily provide social services are twice the size of other groups.

This reflects the substantially larger cost of providing direct services, as well as the large geographic coverage of many social services groups. Given the sizable revenues of social services agencies as a group, including their large share of total government revenue flowing into the sector, it should not be surprising that, at the median, social services agencies are twice the size of the overall sector median **(FIGURE 3)**.

FIGURE 3 Median Revenue of CED Groups by Type of Agency, 2018

Source: Urban Intittue 2018 tax data as augmented and analyzed by NACEDA ; Weighted N = 4,094

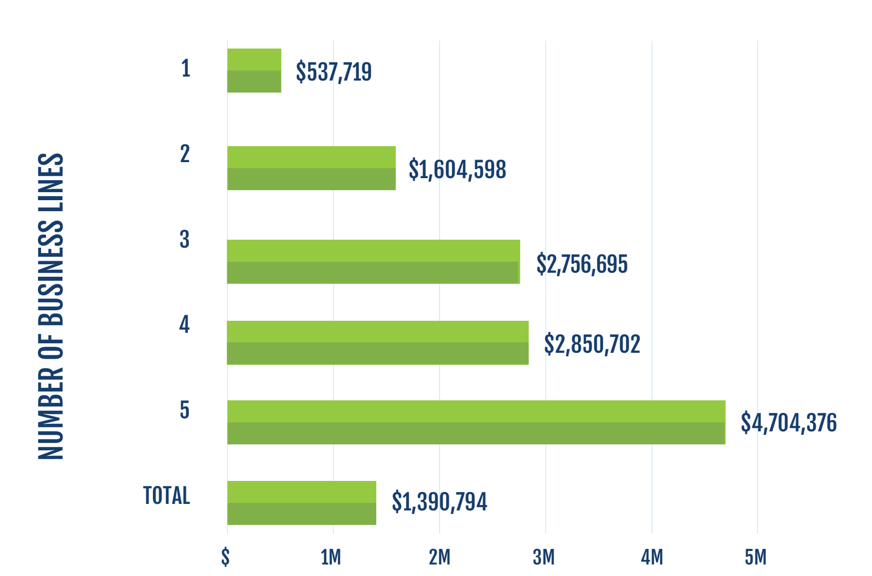
FINDING 4:

Groups that carry out more types of activities tend to be larger and generate more revenue.

Community economic development groups add business lines in response to the complex needs of the communities they serve. The number of activities, or business lines, that groups carry out drives differences in the amount of revenue that groups generate. Unsurprisingly, we find that when groups take on more kinds of activities, they require more money to power their work **(FIGURE 4)**. This topic was covered in the first brief in this series.

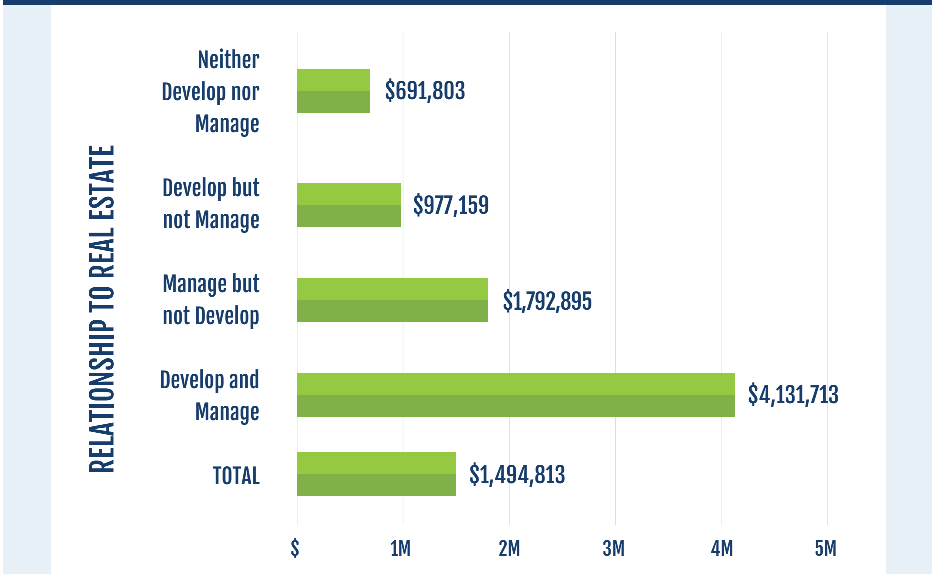
Most of the groups available to this analysis (57 percent) carry out multiple business lines. Groups that carry out multiple business lines tend to be much larger than those that do not, and this is true regardless of their primary activity. At the extreme, agencies with all five business lines have median revenues of $3 million – more than twice the CED median of $1.4 million. On the assumption that groups add lines of business in response to diverse community needs, meeting these needs will require corresponding increases in support.

FIGURE 4 Median Revenues by Number of Agency Business Lines, 2018



Source: Urban Intittue 2018 tax data as augmented and analyzed by NACEDA ; Weighted N = 4,066

FIGURE 5 Median Revenues by Agency Relationship to Real Estate, 2018



Source: Urban Intittue 2018 tax data as augmented and analyzed by NACEDA ; Weighted N = 3,733

FINDING 5:

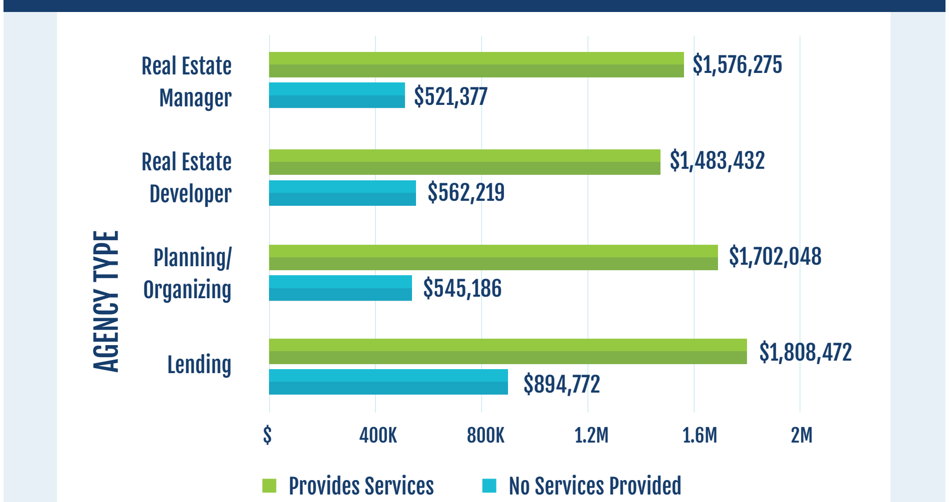
Groups that both develop and manage real estate are substantially larger than other groups.

Another factor influencing group size is whether they combine development and management of real estate. **FIGURE 5** shows that the median revenues of groups that both develop and manage real estate (two business lines) tend to be quite large relative to the others. The median such group generated $4.1 million in 2018, compared to a much leaner $977 thousand for groups that only do development (and compared to the $1.6 million median for all groups that carry out two business lines).

FINDING 6:

Regardless of their primary activity, groups that provide social services are larger than groups that do not.

FIGURE 6 Median Agency Revenue by Agency Type and Social Servcies Provision, 2018



Source: Urban Intittue 2018 tax data as augmented and analyzed by NACEDA ; Weighted N = 3,975

One surprising finding from the first brief in this series is that 77 percent of all CED groups do some kind of social services provision. We have already seen that social services agencies are generally larger than other groups. **FIGURE 6** shows that groups that provide social services tend to be much larger than groups that do not, *regardless of whether this is their primary activity*. For example, real estate developers that provide social services have median revenues of $1.5 million compared to $562 thousand for those that did not. What's more, their revenue structures are very different. Those that provide services have significantly higher levels of contributed support, including from the government. This suggests, though certainly doesn't prove, that much of government and philanthropic funding flows to the sector are in part driven by social services spending.

THREE FACTORS, IN ADDITION TO AGENCY TYPE, THAT DRIVE DIFFERENCES IN THE AMOUNTS OF REVENUE THAT GROUPS GENERATE.

1. **The number of activities, or business lines, that groups carry out**
2. **Whether they combine development and management of real estate**
3. **Whether they provide social services**

CONCLUSION

Real estate development and management groups are dependent, to an unusual degree, on income generated from their own programmatic activity. Groups that primarily deliver social services are largely supported by government funding. Although CED developers rely on government support to fund the housing, commercial, and community facilities projects they build (not usually shown on the Form 990), these projects are mostly supported by private capital.

This reliance on earned income means that CED groups doing development or lending as their primary line of business are dependent upon the amount and predictability of project fees that episodically emerge from their development pipeline. Even under the best of circumstances, sustaining financial health through uneven flows of earned income poses a challenging internal management task.

Additionally, financial pipelines for development and lending are vulnerable to shifting public policies and uneven administrative performance, which can restrict access to funds and slow down project approvals. External help for organizing and advocacy can help stabilize local funding and regulatory systems and turn them in more supportive directions. Community development associations often provide this type of external assistance.

We also find that groups that undertake multiple activities – and over three-quarters of them do – require greater funding to support their work. That support often comes in the form of government-supported services. We will explore the full meaning and import of these patterns in a future brief of the Money Meets Community Series. Suffice it to note that government support tends to be more predictable than many types of earned income; therefore, there may be a stabilizing effect on otherwise uncertain funding flows when development groups add social services activities.

APPENDIX NOTE ON RESEARCH METHOD

To construct a roster of organizations for this research, NACEDA compiled lists of CED groups. The lists consist primarily of CED groups that are members of state associations that advocate for community and economic development. The lists also include CED groups that have received community development funding from prominent national community development intermediaries or the Federal government.[4] The Urban Institute, under contract to NACEDA, combined these lists and removed the duplicates.[5]

Some 80 percent of groups appeared on multiple sources, giving us a great deal of confidence that our method produced a combined list of groups that fairly represent the CED sector's most active members. The Urban Institute merged this list with financial information on each group, drawn from the IRS Form 990s, which are the tax returns filed by most nonprofit organizations. This information consists of detailed breakdowns of groups' revenues, expenditures, assets, and liabilities. (Note that this information is not as detailed as that contained on audited financial statements.)

As we considered ways to further analyze the data, our advisory group of industry practitioners made clear that financial characteristics of groups – and therefore the indicators of their financial health – are influenced by the types of activities they undertake. But the lists used to construct the CED cohort contained very little information on the organizations themselves beyond name, location, and contact information. The IRS files contain detailed financial information, but not much information on groups' activities.

To find out more about these groups, NACEDA paid graduate students to review websites for a large sample of groups and record their activities. Coders also recorded groups' *primary* activities, enabling us to segment our analysis of the CED sector according to agency types (developers, managers, lenders, planning and organizing agencies, and social services agencies).

The original cohort includes 5,702 groups. The new segmentation file contains data on 2,225 groups – roughly a 50 percent sample of the 4,206 groups with websites. (The figures in this brief, therefore, are weighted to represent all 4,206 groups, excepting those where information is missing or not applicable.) Because groups without websites tend to be very small, this analysis necessarily ignores the least active groups in the sector.

6 As noted above, the research team did not make special efforts to include lenders, such as certified Community Development Financial Institutions, but if these types of groups were found on the lists we assembled, they were not excluded from analysis.

7 A very detailed description of our list construction method appears in the Urban Institute's Technical Appendix to their study of financial characteristics of these groups. https://www.urban.org/research/publication/financial-health-community-based-development-organizations

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