

# Capital for Inclusive Development in Small and Midsize Cities

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New Growth  
Innovation Network

POWERING INCLUSIVE ECONOMIES

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### About NGIN:

[New Growth Innovation Network](#) focuses on inclusive economic growth and closing structural opportunity gaps to ensure that people of color, women, and neglected geographies are a core part of regional economic growth and prosperity.

### Authors:

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### Project Approach and Partner Acknowledgement:

New Growth Innovation Network engaged 25 practitioners (identified in the appendix) and collaborated with five partners, listed below, to deliver this work. NGIN is grateful to the array of practitioners and project partners whose insights and contributions shaped this work.

Brett Theodos, Eric Hagen, Noah McDaniel, and Tanay Nunna at the [Urban Institute](#) provided analysis of capital flows to small and midsize cities.

Ross Baird, Maegan Moore, and Lindsey Sullivan of [Blueprint Local](#) provided case studies on innovative demand-side intermediaries that are delivering new models for inclusive development in small and midsize cities.

Vivienne Lee and Melonie Tharpe shared lessons from [Common Future](#)'s network of leading community-wealth building practitioners from around the country.

Keena Smith of [Catalyst Strategic Impact Advisors](#) delivered lessons learned and cases studies on participatory budgeting and community benefits agreements in small and midsize cities.

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# Executive Summary

Small and midsize cities (SMCs) in the United States – defined for the purposes of this research as cities with populations between 50,000 and 500,000 people – face a distinct set of challenges to advancing inclusive community and economic development. Key among those challenges is their ability to identify, arrange, and align capital with projects that advance economic inclusion objectives. To better understand the capital-related challenges and opportunities facing SMCs, New Growth Innovation Network (NGIN) undertook a practitioner-led exploration to identify what is holding back investments that advance inclusive growth in SMCs and recommend approaches to overcome these capital barriers.

This research, derived from insights from several partner organizations and 25 stakeholder interviews, focused on three primary categories of capital-oriented entities: demand-side and community development financial intermediaries, municipal and development finance authorities, and community wealth building organizations. These categories of entities, and the types of projects they tend to undertake, are described in greater detail beginning on page 6.

Five high-level findings emerge from this work:

- Quantitative analysis reveals that smaller cities receive lower levels of investment per household than large cities. These gaps are driven by disparities in investment related to real estate (residential and non-residential), community development, and federal programs. Small, post-industrial cities; cities with high rates of poverty; and cities with high Black and Latino populations see especially large investment gaps. Federal and mission-driven investments, while small relative to overall capital flows to SMCs, counter this trend with higher levels of investment in these communities.
- Community development entities and demand-side intermediaries such as development corporations and SMC-based investors are critical parts of the SMC finance ecosystem. These entities engage with community-based entities to understand community priorities and develop a pipeline of investment opportunities. However, capacity challenges throughout the investment ecosystem can hinder capital flows in several ways, including lack of meaningful community engagement, limited project pipeline development, insufficient identification of relevant subsidies, and inability to arrange and align complex “capital stacks” (i.e. the combinations of several separate sources and types of investment to fund or finance projects).
- Beyond capacity, additional capital is required to bolster balance sheets in SMCs and increase investments in inclusive development. This capital is needed to lower the cost of capital, de-risk investments, and catalyze additional capital. Capital investment terms and principles which prioritize community voice and racial equity is required.
- Community wealth building organizations represent an important, if nascent, model for advancing community and individual wealth. These models are best suited to SMCs which have supporting underlying economic conditions. The community wealth building field requires “first in but last to control” investment capital – investment sources that can move quickly but cede decision-making authority to community members. It also requires philanthropic support to build evidence and scale the models.
- Municipal finance instruments are an important component of SMC capital flows but are not always leveraged for equitable outcomes due to knowledge gaps and capacity constraints. New approaches to uplift community voice in decision-making regarding the use of public resources, such as participatory budgeting, remain in limited use in SMCs.

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NGIN also identified recommendations to address capital barriers in SMCs. These recommendations aim to spark investment that advances racially equitable economic opportunities, especially those that benefit low and moderate income (LMI) and Black, Indigenous, and people of color (BIPOC) residents. The recommendations include over-arching recommendations and targeted recommendations for various stakeholder groups. The three over-arching recommendations are:

- **Invest in SMC capital ecosystems to expand capacity for inclusive development** – engage a range of SMC practitioners, including finance professionals, municipal leaders, and trusted community-based organizations, to expand capacity, develop a pipeline of investable opportunities, and complete pre-deal work for projects that advance inclusive development objectives. Pair capacity building with pools of investment capital to make specific SMC investments which uplift community voice, prioritize racial equity, and galvanize SMC capital flows to strengthen the investment system.
- **Invest in community wealth models and systems to build evidence in SMCs** – invest in community wealth structures to build the evidence base on these models in SMCs. Grants could expand capacity of SMC-based or regional/national community wealth building support organizations, increase awareness of and familiarity with models, and support the capacity to implement community wealth building structures. Grants can be paired with additional capital sources to help scale community wealth building projects.
- **Invest to bolster SMC balance sheet capacity and catalyze capital** – provide loan guarantees, credit enhancements, subordinate positions, etc. to lower the cost of and catalyze additional capital for inclusive development projects. Investment could be made either directly in SMCs or via regional or national intermediaries.

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# Introduction

Small and midsize cities (SMCs) in the United States – defined for this research as cities with populations between 50,000 and 500,000 people – face a distinct set of challenges to advancing inclusive community and economic development objectives. New Growth Innovation Network’s (NGIN) [October 2021 report](#) on SMCs highlighted challenges with resource constraints, limited institutional capacity, departure of anchor firms, small pools of talent relative to larger cities, and limited public budgets, among others. These challenges put an overall strain on economic opportunity.

Regarding capital, NGIN identified underinvestment in community assets and infrastructure which serve as a bedrock to advance equitable health and wealth outcomes in SMCs. To better understand the capital-related challenges and opportunities facing SMCs as they look to advance economic inclusion, NGIN undertook this research to identify what holds back investments that facilitate inclusive growth in SMCs and recommend strategies to overcome these barriers. NGIN also investigated models and approaches for community voice to guide capital flows and financial decisions. These include community wealth building models as investment opportunities and approaches such as participatory budgeting for municipal finance and community benefits agreements (CBAs) related to large-scale economic development projects.

The recommendations in this report are for practitioners, philanthropy, mission-oriented investors, and anchor institutions, with calls to action to ameliorate capital barriers and spark investments that deliver healthier and more resilient SMCs and advance racially equitable economic opportunities, especially those that benefit low to moderate income (LMI) and Black, Indigenous, and people of color (BIPOC) residents.

**A note on language:** Throughout this report, NGIN refers to “inclusive development” or “equitable development,” by which we mean a model of economic development which delivers regional economic growth *and* greater community participation in that growth. An essential input to this model is community voice, especially for low to moderate income (LMI) residents, and an essential outcome of this model is greater economic inclusion for Black, Indigenous, and people of color (BIPOC) residents.

## Project Overview and Report Structure

This project draws from a mix of quantitative and qualitative analyses on capital for inclusive development in SMCs. The findings and recommendations are derived from existing research on SMCs, contributions from project partners (identified on page 2), and 25 stakeholder interviews.

After introductory and contextual remarks on SMCs, this report details research insights and findings. Insights and findings begin with a discussion of quantitative analyses of capital flows to SMCs performed by project partners at the Urban Institute. Next, the report discusses findings regarding three thematic areas of capital for inclusive development in SMCs (elaborated below): community development and demand-side intermediaries, municipal and public finance authorities, and community wealth building structures. These findings flow from project partners’ qualitative analyses and case studies and contributions from individual stakeholders. The report concludes with recommendations for a range of capital-related stakeholder groups to advance inclusive development objectives in SMCs.

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## Types of Capital Considered

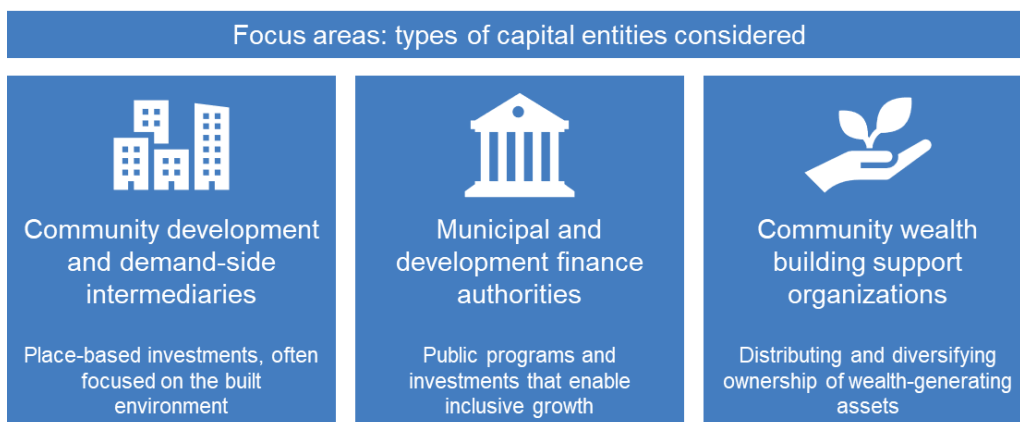
This report considers a range of capital types. The quantitative findings from the Urban Institute are derived from analysis of six capital types: single-family residential lending; multifamily residential lending; nonresidential real estate; small business lending; “mission lending” from community development financial institutions (CDFIs), mission-related investments in the CoreLogic database, and New Markets Tax Credits; and funding from major federal community development sources.

The remainder of the report is organized around three primary categories of capital-related organizations: community development and demand-side intermediaries, municipal finance, and community wealth building organizations. These organizational types, described below, were considered because of their importance to advancing equitable and inclusive development in SMCs.

Community development and demand-side intermediaries, such as CDFIs or development corporations (e.g. city or [community development corporations](#)), often implement projects focused on real estate and the built environment. These projects include commercial, residential, and retail real estate development; commercial corridor development; financing for community-based and nonprofit organizations; sector-specific investments, such as those for early childhood education; affordable housing investments; and entrepreneurship and small business support.

Municipal finance and development finance authorities (public or quasi-public) support government-led projects that serve as critical enablers for inclusive growth, including public programs and large-scale capital projects such as infrastructure development. For this type of capital, research considered both the tools available to practitioners and two approaches to allocating resources that aim to uplift community voice and priorities: participatory budgeting and community benefits agreements stemming from large-scale economic development investments.

Finally, community wealth building organizations deploy capital to distribute and diversify ownership of wealth-generating assets, including firms and real estate. Common models include community land trusts and worker cooperatives.



## Background on Small and Midsize Cities

For this research, small and midsize cities are defined as those with populations between 50,000 and 500,000 people. This range includes more than 700 cities representing [more than one-fourth of the U.S. population](#). SMCs have a wide range of economic conditions, demographic mixes, political orientations, trajectories, and histories, among many other factors. Some SMCs have seen significant population

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growth, economic dynamism, and prosperity, while others have experienced stagnant or declining populations, deindustrialization, and disinvestment. SMC typologies, such as that developed for the [City Health Dashboard](#), are a useful construct to consider the numerous types of cities within this range.

Given this broad range of places, contexts, and conditions, it is impossible to fully represent all small and midsize cities in a single report. Even so, there is good reason to believe that small and midsize cities face qualitatively different conditions than large cities and rural places. Accordingly, this research aims to address and consider how these conditions might affect flows of capital for inclusive development.

#### *Contextual capital challenges in small and midsize cities*

A body of research examines the challenges and opportunities facing SMCs. NGIN's [October 2021 report](#) on inclusive economic and community development in SMCs noted both supply and demand side capital challenges for SMCs. On the supply side, the research noted insufficient debt and equity flows for inclusive development projects, limited philanthropic support to bolster the capacity of trusted community-based organizations, restrictive capital product types, limited subsidy for inclusive development projects, and limited resources and patterns of disinvestment in the public sector. On the demand side, the work noted that limited core operating support for community-based organizations hinders their capacity to arrange pipelines of projects for investment.

NGIN's work also highlighted the interaction between capacity and capital and the challenges this interaction may present in the SMC context. The research noted that capital, in the form of grants or returns-seeking investments, flows to high-capacity places and organizations. It also noted that capital in the form of core operating support is required to build organizational or ecosystem capacity. Stakeholders noted that both forms of capital – returns-seeking investments in inclusive projects and programs as well as philanthropic capital – are scarce in SMCs. NGIN's work highlighted the need for more patient and concessionary capital to implement inclusive development projects in SMCs, support entrepreneurial ecosystems, ensure access to capital for historically excluded entrepreneurs, and diversify investment targets beyond small business and affordable housing.

In the community development finance sector, the [Urban Institute notes](#) that relative to larger cities, SMCs are likely to have less-developed capital ecosystems, limited public sector resources and capacity, and fewer institutions or individuals focused on specialized transaction types, among others. Together, these challenges can limit capital flow volume and raise the cost of capital for community development projects in SMCs.

The Center for Community Investment's (CCI) [Capital Absorption Framework](#) provides another useful lens through which to consider the context of small and midsize cities. Considering community investment as a system, the framework highlights the importance of three connected pillars to attract investment: shared priorities, a developed pipeline of investable deals, and the enabling environment, which includes availability of transaction subsidies, skills and capacity, and platforms for collaboration. Applying this framework to smaller ecosystems can reveal potential challenges: SMCs may face challenges due to the limited availability of subsidies specifically directed at small cities or due to limitations on capacity for specialized transactions.

#### *Contextual capital advantages in small and midsize cities*

While SMCs may have several disadvantages with respect to investment for inclusive development, their size and economic conditions can also present opportunities. Namely, their relatively small size may enable better collaboration among critical entities and many SMCs are perceived as more affordable than larger cities.

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Inclusive development requires significant collaboration. As highlighted in NGIN’s earlier work on SMCs and in CCI’s Capital Absorption Framework, collaboration among public, private, and nonprofit leaders is a critical element of inclusive growth. Collaboration is required to develop a shared perception of a city or region’s current condition, coalesce around a set of shared priorities, develop strategies to address those priorities, and identify the steps required to implement strategies for inclusive growth. Collaboration must occur both “horizontally” across organizations and sectors (e.g., businesses and government institutions) and “vertically” throughout organizations focused on different layers of the ecosystem (e.g. neighborhood based organizations and city or regionally focused organizations). Quite consistently, stakeholders and existing research note that the relatively small size of SMCs can ease this type of collaboration. Well-connected project facilitators may have easy access to government, financing, and development partners, potentially accelerating project timelines and lowering their cost.

SMCs may also be relatively more affordable than large cities. [Research from New York University’s Furman Center](#) finds that median growth rates in population and gross rent between 2000 and 2015-2019 was highest in large cities (with population greater than 500,000), as compared to small, small-mid, and midsize cities. Further, many SMCs have experienced low or negative population growth, reducing demand-side pressure on prices. The relative affordability of SMCs may mean large-scale or “transformational” inclusive development projects require less capital than in large cities.



# Insights and Findings

## Quantitative analysis of capital flows to small and midsize cities

NGIN engaged the Urban Institute to investigate the types and volume of capital flowing to SMCs. Urban analyzed investments from six categories, described in brief in the sidebar and in detail in the appendix. The analysis considered capital flows to SMCs by a range of factors, including population sizes, city types, and demographic factors. These analyses highlight the need for additional capital for inclusive development in SMCs.

Urban’s analysis demonstrates a clear relationship between city size and capital flow volumes. As seen in Table 1, the smallest SMCs – those with populations under 100,000 – receive the least per-household total investment from the sources included in the analysis, while large cities with populations of 500,000 or more receive the most. While the overall volume of capital flows is driven largely by loans

for single-family and multifamily residences, there are also clear differences within the mission and federal investment categories – mission and federal investments to large cities are more than ten times those to the smallest SMCs, suggesting that small cities are relatively underserved by these sources.

### Capital categories included: quantitative analysis

**Overall:** This category includes the sum of all the below types of investment, scaled by the number of households.

**Single-family:** This category includes purchase loans for owner-occupied single-family properties of one to four units, scaled by the number of owner-occupied households.

**Multifamily:** This category includes purchase loans for multifamily properties of five or more units, scaled by the number of renter-occupied households living in properties with five or more units.

**Nonresidential:** This category includes loans for nonresidential real estate (e.g., commercial, industrial, and agricultural properties), scaled by the number of employees working in the area.

**Small business:** This category includes small-business loans, scaled by the number of small-business employees.

**Mission:** This category includes “mission lending” reported by community development financial institutions (CDFIs) and other socially motivated lenders, scaled by the number of households.

**Federal:** This category includes federal community development funding, scaled by the number of households.

Table 1: Median Investment by Place Population. Large cities shaded gray.

Population Group	Overall	Single-family loans	Multifamily loans	Nonresidential	Small business	Mission	Federal	N
<b>All SMCs</b>	7,277	12,266	2,457	674	3,981	30	24	733
<b>50,000 to 99,999</b>	7,237	12,204	2,168	650	3,998	19	15	471
<b>100,000 to 249,999</b>	7,304	12,376	2,845	711	3,946	47	45	216
<b>250,000 to 499,999</b>	7,459	12,534	3,201	724	3,954	114	170	46
<b>500,000 to 999,999</b>	8,415	13,027	3,612	772	4,230	193	249	23
<b>1 million or more</b>	8,933	15,231	3,823	953	3,792	217	155	9

Source: Theodos, Brett, Eric Hangen, Noah McDaniel, and Tanay Nunna. 2022. “Capital Flows in Small and Mid-Sized Cities.” Washington, DC: Urban Institute

Urban’s analysis also considered whether a relationship exists between the size of the area in which an SMC is located – its metropolitan or micropolitan statistical area (collectively, core-based statistical areas or CBSAs) – and capital flows. While this analysis, in Table 2, shows that larger CBSAs (i.e., those with a population of 1 million or more) receive more investment per household than smaller ones, this difference is driven primarily by single-family loans and does not hold true across all categories.

Table 2: Median Investment by Core-Based Statistical Area Population, SMCs Only

Population Group	Overall	Single-family loans	Multifamily loans	Nonresidential	Small business	Mission	Federal	N
<b>50,000 to 249,999</b>	6,092	7,630	2,484	384	4,533	20	31	73
<b>250,000 to 999,999</b>	6,421	9,353	2,318	494	4,193	50	62	185
<b>1 million or more</b>	7,994	14,629	2,547	835	3,845	25	16	475

Source: Urban Institute

As noted previously, there is immense variability among the 700+ SMCs. Typologies are useful tools to consider the various types or groupings of SMCs. Urban also analyzed capital flows to [SMC types identified by researchers from NYU Langone Health](#). Those types are listed and described in Table 3.

Table 3: SMC Types

City Type	Description and Example Cities	City Type	Description and Example Cities
<b>Big Metro Exurbs</b>	Small, wealthy suburbs of the Big 3 metro areas (NYC, LA, and Chicago)  e.g., Santa Monica, CA; White Plains, NY	<b>Regional Hubs</b>	Midsize “micropolitan” cities that serve as a hub within smaller metro areas, with high inequality and large Black populations, where residents mostly work locally  e.g., Columbus, GA; St. Louis, MO
<b>College Cities</b>	Towns with large college populations, featuring all the benefits of productive anchor institutions and accompanying wealth disparities  e.g., Fayetteville, AR; Ann Arbor, MI	<b>Small Industrial-Legacy Cities</b>	Small post-industrial cities in medium population metro areas, with high poverty and large Black populations  e.g., Bridgeport, CT; Youngstown, OH
<b>Diverse Ring Cities</b>	Large minority population, particularly Latinos, and high-poverty cities around the Big 3 metro areas (NYC, LA, and Chicago)  e.g., Long Beach, CA; Newark, NJ	<b>Small Stable-Size Cities</b>	Small, wealthy suburban cities with stable population sizes  e.g., Palo Alto, CA; Alexandria, VA
<b>Emerging Cities</b>	Small but fast-growing suburban cities, where residents tend to be wealthier than surrounding metro area and also commute outside the city  e.g., Fishers, IN; McKinney, TX	<b>Smaller Commuter Suburbs</b>	Middle-income, smaller-population cities, where most residents commute to jobs in the larger metro area  e.g., Clearwater, FL; Tacoma, WA
<b>Latino-Predominant Enclaves</b>	Lower-income cities in smaller metro areas, with large Hispanic/Latino populations  e.g., Riverside, CA; Lawrence, MA	<b>Working Towns</b>	Middle-income communities in small metro areas, where residents mostly work locally  e.g., Bakersfield, CA; Tulsa, OK

Source: NYU Langone Health

As seen in Table 4, there are significant disparities in capital flows among city types. Big Metro Exurbs and Small Stable-Size Cities each receive more than three times as much total investment per household as Small Industrial-Legacy Cities. Two of the investment sources with social aims – mission and federal investments – display somewhat consistent patterns across city types. Regional Hubs receive the most from both sources, and Emerging Cities receive the least.

Table 4: Median Investment by SMC Type

City Type	Overall	Single-family loans	Multifamily loans	Nonresidential	Small business	Mission	Federal	N
<b>Big Metro Exurbs</b>	10,373	16,905	3,269	949	4,179	47	13	60
<b>Small Stable-Size Cities</b>	9,508	17,567	2,573	828	4,439	18	6	149
<b>Emerging Cities</b>	8,869	20,179	928	1,034	4,512	9	2	50
<b>College Cities</b>	7,775	11,675	3,519	485	4,727	44	37	40
<b>Diverse Ring Cities</b>	7,284	11,592	4,583	1,031	2,786	63	68	38
<b>Smaller Commuter Suburbs</b>	6,892	11,081	2,472	701	3,490	25	26	143
<b>Working Towns</b>	6,839	9,175	2,614	447	4,404	50	67	117
<b>Latino-Predominant Enclaves</b>	5,841	11,178	2,206	759	3,007	43	49	45
<b>Regional Hubs</b>	5,549	6,808	2,150	362	4,550	89	167	71
<b>Small Industrial-Legacy Cities</b>	2,929	3,526	888	507	2,325	49	132	13

Source: Urban Institute. Note: NYU researchers typologized 716 of the 733 SMCs that Urban identifies.

Table 5 displays median investment levels by SMC poverty rates. As one may expect, there is a negative relationship between poverty rates and overall investment levels, driven by residential investment. Importantly, however, mission and federal investments run counter to this trend.

Table 5: Median Investment by Poverty Rate, SMCs Only

Poverty Rate	Overall	Single-family loans	Multifamily loans	Nonresidential	Small business	Mission	Federal	N
<b>0-9.9%</b>	9,573	18,394	2,108	874	4,668	15	5	242
<b>10-19.9%</b>	7,447	12,028	2,759	698	3,621	30	27	332
<b>20-29.9%</b>	5,742	7,748	2,415	519	3,856	64	84	130
<b>30+%</b>	4,115	4,500	1,888	386	3,422	44	110	29

Source: Urban Institute

As Tables 6-9 demonstrate, relationships also exist between capital flows and SMCs' racial composition. SMCs with large Black and Latino populations tend to receive lower levels of overall investment than those with large white populations. Federal and mission investments act somewhat as counterweights to these trends, although both sources are quite small relative to overall capital flows. It is important to note that many factors influence capital flows, and that this analysis does not establish a causal relationship between an SMCs' racial composition and capital flows volume.

Table 6: Median Investment by Asian/Native Hawaiian/Other Pacific Islander Percent of Place Population, SMCs Only

Percent Asian	Overall	Single-family loans	Multifamily loans	Nonresidential	Small business	Mission	Federal	N
<b>Under 25%</b>	7,165	11,946	2,425	658	3,987	30	24	692
<b>25% or more</b>	10,328	18,635	3,532	948	3,859	35	14	41

Source: Urban Institute

Table 7: Median Investment by Black Percent of Place Population, SMCs Only

Percent Black	Overall	Single-family loans	Multifamily loans	Nonresidential	Small business	Mission	Federal	N
<b>Under 25%</b>	7,614	13,286	2,559	716	3,937	27	19	619
<b>25 to 49%</b>	6,088	8,840	2,032	470	4,152	49	104	86
<b>50% or more</b>	5,189	6,330	2,090	422	4,508	56	78	28

Source: Urban Institute

Table 8: Median Investment by Hispanic Percent of Place Population, SMCs Only

Percent Hispanic	Overall	Single-family loans	Multifamily loans	Nonresidential	Small business	Mission	Federal	N
<b>Under 25%</b>	7,540	11,935	2,312	589	4,432	27	23	463
<b>25 to 49%</b>	7,147	13,832	2,922	764	3,477	31	22	175
<b>50 to 74%</b>	6,562	13,014	2,829	940	2,841	44	41	62
<b>75% or more</b>	5,561	9,041	2,429	847	2,946	48	26	33

Source: Urban Institute

Table 9: Median Investment by White Percent of Place Population, SMCs Only

Percent White Non-Hispanic	Overall	Single-family loans	Multifamily loans	Nonresidential	Small business	Mission	Federal	N
<b>Under 25%</b>	6,192	11,064	2,815	902	2,955	44	38	119
<b>25 to 49%</b>	6,803	12,531	2,603	697	3,775	34	32	213
<b>50 to 74%</b>	7,717	13,345	2,446	656	4,249	27	20	283
<b>75% or more</b>	7,892	11,202	2,138	534	4,749	23	13	118

Source: Urban Institute

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## Demand-side and community development finance intermediaries: the link between capacity and capital is paramount

SMCs have a range of capital-related intermediaries focused on place-based investments that aim to foster inclusive development and growth. The community development finance sector (e.g., CDFIs) makes loans which often focus on the built environment, such as commercial or residential real estate, or which finance small businesses or nonprofit entities. These institutions aim to provide capital to worthwhile projects or organizations that may struggle to access mainstream capital sources. Demand-side intermediaries include entities such as non-governmental, place-based development corporations (e.g., city development corporations) that aim to identify priorities for development or redevelopment, manage projects that align with those priorities, and arrange or facilitate financing for projects. These entities, while often not formally designated as CDFIs by the U.S. Treasury Department, usually take the form of nonprofit entities and may have similar focus areas to the community development finance sector.

This section considers two primary factors affecting the community development finance sector and demand-side intermediaries: SMC ecosystem capacity and aligning capital to projects for inclusive development.

### SMC ecosystem capacity is a significant factor affecting capital flows

SMCs' capacity – both of individual institutions and of their investment ecosystems as a whole – can be a key enabler or deterrent of investment for inclusive development projects. Stakeholders note the importance of strategically pooling, layering, and leveraging resources as a key driver of inclusive investments in SMCs. Community development and demand-side institutions rely on other organizations, such as community-based organizations and public sector entities, as key ecosystem partners. The capacity of these partner institutions is similarly an important consideration for SMCs. Finally, capacity also considers the ability of intermediaries to collaborate, determine shared priorities, and match resources to project needs. Each of these elements is discussed in greater detail below.

#### *Technical and financial intermediary capacity*

Capital intermediaries play a key role in facilitating capital flow to SMCs. They source, underwrite, finance, and pool investments into projects. These institutions' technical and financial capacity is a critical factor for capital to flow to SMCs. This role is especially relevant in an SMC context. Inclusive development projects in SMCs can require combining a significant number of capital sources, including public, philanthropic, and private capital. Some stakeholders cite projects with upwards of 20 separate elements of the capital stack, often including complicated tax credit arrangements (the text box on page 15 on the Dayton Arcade provides one such example). Realizing place-based or community development projects requires intermediaries with the capacity to manage myriad capital sources.

Given the technical complexity of many development initiatives, project managers often rely on specialized intermediaries to advance projects. Specialized intermediaries may perform a range of functions, including project and financial analyses, facilitating community outreach, or coordinating tax credit financing arrangements, among others. SMCs may have relatively few such specialized intermediaries. Where larger ecosystems might have a wide range of institutions that can facilitate community outreach, gather input and community voice, pool investments from a wide range of actors, and develop project finance plans, SMC institutions may need to perform all of these functions internally. The combination of a wide range of functions within a single entity can mean that functions which are often specialized in larger regions are

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performed as one of many functions in SMCs, potentially increasing the time required to realize deals and hindering progress.

#### *Capacity of trusted, community-based organizations*

Financing intermediaries cannot make equitable investments without a range of community-based partners. These partners include community development corporations (CDCs), community-based organizations (CBOs), and

“neighborhood anchors,” such as churches or civic associations. Partners such as these play a critical role in convening stakeholders, building trust and establishing legitimacy, identifying priorities, and translating those priorities into actionable projects. When ecosystems are highly effective in this capacity, investors have access to a robust pipeline of investment-worthy projects.

Stakeholders note that SMC community-based intermediary organizations often lack the resources to effectively play this role.

Organizational staff face many demands for their time, largely focused on sustaining core daily operations of the institution, leaving little time to focus on longer-term, slow-to-develop projects. Further, these organizations often have small balance sheets, limiting their capacity to receive and facilitate investments.

#### *Public sector capacity*

Public sector partners, such as municipal economic development or community development agencies, are also critical enablers of investment in projects that aim to advance inclusive development priorities. These entities can be responsible for facilitating zoning and permitting, ensuring project alignment with administrative or legislative requirements, and facilitating public sources of capital to strengthen project balance sheets. Stakeholders note that these capacities are often limited in SMCs, especially those which have faced extended periods of budget decline or stagnation. Officials responsible for these functions may also have several other responsibilities, limiting their capacity to advance long-term projects for inclusive development.

In **Buffalo, NY**, the East Side Avenues initiative aims to build wealth and economic opportunity through community-driven revitalization activities in the East Side, where nearly all of the population lives in high-poverty neighborhoods. Facilitated by the University at Buffalo Regional Initiative, East Side Avenues has leveraged \$65 million from New York State’s Buffalo Billion strategy to secure an additional \$8 million from a consortium of funders. Importantly, funders have committed to providing five years of support, providing medium-term predictability and planning capacity. As part of its efforts, the initiative aims to bolster the capacity of community-based nonprofits and support neighborhood-based firms through the Community-Based Real Estate Development Training program to expand community ownership of real estate assets and grow community wealth.

In **Massachusetts**, the state development finance agency’s Transformative Development Initiative (TDI) aims to spark inclusive revitalization of the state’s Gateway Cities. Several Gateway Cities, which are midsize regional hubs, have seen decades of deindustrialization and disinvestment, leading to economic stagnation and limited opportunity. TDI aims to bolster the capacity of Gateway Cities to convene cross-sector groups, identify priorities, and implement revitalization projects in TDI districts, which are high-priority, mixed use neighborhoods within the cities’ urban cores. The initiative further aims to align state resources with district needs through the TDI Equity Investment program, which provides gap financing to near-term, catalytic projects in TDI districts.

## Capacity for collaboration between and among institutions

Beyond the capacity of individual institutions, it is also important to consider the capacity for collaboration between and among them. SMC stakeholders highlight the value of utilizing the full ecosystem of local institutions to advance inclusive development projects and attract the capital needed to deliver them. Collaboration is needed to establish a shared reality, arrive at a set of common priorities, build pipelines of projects that align with those priorities, and arrange the funding or financing to realize project plans. Stakeholders note that even if individual institutions are present and have high capacity in SMCs, they may lack the capacity to collaborate in this fashion. While in some cases, the relatively low number of SMC institutions may ease collaboration, distrust between leaders or institutions can also exist and hinder progress.

Together, these factors can result in a challenge that stakeholders consistently uplift: transactions which advance inclusive development priorities are rarely routine or easily replicable. Investment objectives, administrative requirements, capital stacks, and partnerships can vary significantly across projects, increasing the time and fixed costs associated with transactions. Where they exist, these transaction costs add an additional layer of complexity to the challenges that SMCs face.

### Matching capital sources with inclusive projects can be a challenge in SMCs

In addition to capacity constraints, stakeholders note that capital sources can also pose challenges for inclusive development in SMCs. A range of factors combine to contribute to high levels of perceived risks in SMCs. Financial intermediaries focused on inclusive development may have short track records and few completed projects. Relatedly, the lack of replicability of projects noted previously means that intermediaries may lack similar projects to cite as examples when seeking investment.

First, projects that aim to spur inclusive development or economic opportunity in SMCs often require significant subsidy. Subsidies may cover pre-development costs when a project is too early to have cash flows or cover financing gaps for socially worthwhile projects that may not generate significant cash flow. Subsidies may come in the form of pure grants or credit-enhancing investments such as subordinated

In 2019, **Dayton, Ohio** and a group of developers announced the first phase of a transformative rehabilitation of the [Dayton Arcade](#). The Arcade is a priority for the City of Dayton as it undertakes its ambitious nine-block redevelopment strategy—known as “The Nine”—which aims to transform existing underutilized assets to revitalize the downtown.

The Arcade is a collection of five buildings that had been largely unused since the 1990s. The revitalized Arcade will enrich the Dayton community by providing a space for people to live, work, connect, and innovate with a mix of retail, offices, event space, and housing. The anchor tenant is the Arcade Innovation Hub LLC, a joint venture between the University of Dayton and the Entrepreneurs Center, which offers resources for the region’s entrepreneurial community. The Arcade, via the [Greater West Dayton Incubator](#), will also provide an entry point to the region’s entrepreneurial resources for neighborhood entrepreneurs from West Dayton, a predominantly Black and historically marginalized community.

The restoration of the Dayton Arcade also provides a lesson in financing complexity. The \$90 million initial mixed-used project required more than 25 separate capital sources, including [\\$16 million in New Markets Tax Credits](#) via regional CDFI **Citywide Development Corporation**. The Arcade’s complex capital stack highlights the importance of SMC institutions’ capacity to source, assemble, and layer capital for inclusive development projects.

*Adapted from case study provided by Blueprint Local*

In **Birmingham**, [Opportunity Alabama](#) (OPAL) is a nonprofit dedicated to connecting investors with investable assets in Alabama's Opportunity Zones (OZs), including those in its small and midsize cities. While the OZ tax incentive in general has been subject to [calls for reform](#) in a range of areas (including investment uses, reporting requirements, and incentive design, among others), OPAL aims to ensure that investment in OZs aligns with community needs and locally-identified development priorities. Aiming to build a full ecosystem of community investment, OPAL combines capacity-supporting services with capital in the form of the OPAL Fund. Through its Community Growth Accelerator, it helps communities and project sponsors develop pipelines of investable opportunities, complete pre-development analyses, and connect promising ideas to capital sources, addressing awareness and familiarity gaps between communities and capital sources.

OPAL's approach centers around building an ecosystem of partners: lenders, local philanthropy, economic development organizations, small business and entrepreneurship support organizations, anchors, and service providers. OPAL's engagement with a network of partners instills confidence among investors, lowering perceived risks associated with investing in SMCs.

OPAL also provides an informative example on the potential to expand roles for anchor institutions in SMCs. **Alabama Power**, the local electric utility, first provided a \$100,000 operations seed grant to OPAL, then invested program-related investment (PRI) dollars for the infrastructure for its OPAL Fund, and ultimately invested directly in the OPAL Fund once established. This graduated approach allowed the utility to de-risk potential future investments and eventually help catalyze outside, market rate investment.

*Adapted from case study provided by Blueprint Local*

capital or first-loss capital. These capital types, typically from public or philanthropic sources, contribute to a "blended" capital stack when paired with market-rate or near-market-rate capital.

Subsidized capital is "friendly" to project managers, by requiring no or limited returns or by coming with a longer term than traditional sources of market-rate capital. Stakeholders note that local philanthropic or civically minded investors are an ideal source of this type of capital, but that the supply of "friendly" capital in SMCs may be limited. Local philanthropic sources may not exist at all in SMCs or exist only in a limited capacity, and public entities may face significant resource constraints. These limitations can hinder the potential of inclusive economic and community development projects.

Several SMC practitioners note further that beyond philanthropic or subsidized capital, local investment sources can also be difficult to find in smaller ecosystems. Many SMCs have faced the departure of financial and corporate entities amid consolidation and pre-pandemic [movement of firms to larger or "superstar" cities](#). The departure of these entities may leave SMCs hollowed out of traditional sources of capital.

Banks seeking to comply with the Community Reinvestment Act (CRA), which requires financial institutions to deploy capital in communities where they have operations, are often significant sources of capital for community development or economic development projects. While this type of capital can come with more lenient terms than purely market-rate capital, smaller cities may face difficulties tapping into capital flows from CRA-related investments. First,

stakeholders note that CRA compliance requirements may [disfavor smaller cities](#), as banks' CRA full-scope assessment areas are often in larger cities compared to smaller ones. Further, in many cases, capital intermediaries or CDFIs in SMCs might be relatively new or small. The relative youth and small size of these institutions can mean that they lack track records of successful capital deployment and sufficiently strong balance sheets to be attractive, credit-worthy investees for banks.



## Integrating capital & capacity: how SMC practitioners are addressing these challenges

Despite the challenges facing SMCs, capital practitioners have identified new approaches and models to overcome capital barriers for inclusive development. These include engaging anchors in new and creative ways, forging partnerships with outside entities, leveraging technology, and tapping into state resources.

### *Engaging new anchors in new ways*

Given capital limitations in SMCs, stakeholders may need to find new ways to engage potential sources of capital for inclusive development project. Anchor institutions – long-standing, financially robust entities with deep ties to their home locations – have long been regarded as key stakeholders for community and economic development. Anchor institutions are major employers and purchasers in their communities. For that reason, inclusive economic development stakeholders frequently advocate for anchors to develop strategies to ensure the benefits of their purchasing and payroll are equitably shared within the community.

For small and midsize cities, it is important to find a range of ways to engage anchors in their communities beyond hiring and procurement. Stakeholders identify critical roles that anchors can play, from supporting financial and community-based intermediaries with philanthropic operating support to being core investors in inclusive SMC development projects. Moreover, anchors have also supported SMC capital intermediaries with human capital, “loaning” mid-level or senior-level personnel to intermediaries to augment their technical or financial capacity. While anchors are traditionally thought of as nonprofit entities such as universities or hospitals, they can also come from other sectors, such as utilities or deeply committed for-profit firms.

### *New capital partnerships*

Entrepreneurial SMC financial intermediaries have also identified ways to form partnerships with entities outside the region to bring in capital and expertise, as highlighted in the sidebar. In this way, local SMC practitioners may source and underwrite investment opportunities, but fund or finance the investment with capital from a large entity with a regional or national presence and a strong balance sheet.

While many SMC-based community development and demand-side intermediaries face capacity challenges due to their relatively small balance sheets, SMC practitioners have forged creative partnerships to expand capacity and facilitate capital flows to SMCs. **IFF**, a large regional CDFI focused on the Midwestern United States, has found opportunities to leverage its balance sheet strength in collaboration with SMC-based entities. In **Cincinnati**, IFF partnered with the Cincinnati Development Fund to expand access to capital for nonprofit facilities as part of [JP Morgan Chase's 2016 PRO Neighborhoods](#) program. In **Akron**, the regional development finance authority's community development fund worked with IFF to secure matching funds and expand the strength of its own balance sheet while being overlooked for financing by large banks or philanthropic program-related investments.

At the onset of the COVID-19 pandemic, small businesses and nonprofits in **New York State** and across the United States faced significant challenges and uncertainty from the pandemic and the policy measures intended to slow its spread. Small and micro-businesses without banking relationships faced special hardship, as federal aid was distributed via financial institutions. The [New York Forward Loan Fund](#), a partnership among the state, CDFIs, and impact investors, made \$100 million in small business relief available to these entities. **Community Reinvestment Fund USA's** [Connect2Capital](#) platform served as the technological infrastructure for the initiative. The tech platform, paired with state-led outreach and capital from investor partners, expanded the program's reach to geographies traditionally underserved by mainstream financial institutions, including small and midsize cities.

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### *Technology to connect supply and demand*

Technology can also help address capital supply constraints in SMCs. Tech-driven platforms which connect sources and uses of capital can help to mitigate some of the environmental or contextual challenges in SMCs. Even if a capital provider lacks a physical presence in an SMC, technology can serve as a platform to facilitate capital flows to worthwhile projects (see sidebar on previous page).

### *States as partners*

States can also serve as effective capital partners for SMCs. To address capital challenges in SMCs, innovative state entities have found ways to align funding sources with needs in smaller, often disinvested cities. During the onset of the COVID-19 pandemic, for example, New York State supported small and micro-businesses via a collaboration among CDFIs to ensure capital access. This capital helped small and micro-businesses to mitigate, adapt, and recover from the initial impact of COVID-19 and the economic fallout that ensued. States may also find opportunities to align capital with capacity to advance inclusive development priorities (see sidebar and text box on Massachusetts' Transformative Development Initiative on page 14).

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## Municipal and development finance: deep commitment to equity and full deployment of tools are needed

Public and quasi-public institutions also play a key role in advancing inclusive development objectives in SMCs. These entities provide financing for government-led initiatives, programs, or projects, including large-scale infrastructure development. In addition to municipal governments themselves, they include entities such as development authorities, port authorities, and housing finance agencies, among others.

This section, delivered in partnership with the Council of Development Finance Agencies (CDFA) and Keena Smith of Catalyst Strategic Impact Advisors, considers (a) how SMCs can leverage the development finance tools at their disposal, and (b) approaches that aim to uplift community voice and influence decisions impacting specific neighborhoods in the use of those tools.

### SMCs can face fiscal constraints

Cities [face a range of limitations](#) on their ability to raise and deploy public resources in general. While research on this topic is generally not specific to SMCs, it underscores the challenges cities must overcome to make inclusive, long-term investments:

- Direct federal assistance is a small share of municipal budgets, with most federal budget assistance targeted to large cities. Direct relief funds from the CARES Act for local governments, for example, were limited to cities above 500,000 residents.
- State governments play a significant role in cities' fiscal capacity. States impose a range of limitations on municipal governments related to raising and spending funds. Restrictions on taxing authority, tax and expenditure limitations (TEs), and state aid to municipalities are three primary factors in the state-local fiscal relationship. Even when SMC leaders are fully committed to deploying public resources to foster equitable and inclusive development, limitations imposed by states may hinder their capacity to do so. Cities in Oklahoma, Nevada, Texas, California, and Colorado – collectively home to more than 250 SMCs – face some of the most strict constraints from states, per Brookings' analysis.

**SMC definition:** municipal finance researchers note the difficulty of viewing SMCs as a discrete group. Various thresholds exist for defining “large” cities in municipal finance literature and research. Certain federal programs target “metropolitan cities,” defined as those with a population above 50,000. The U.S. Census Bureau’s Survey of State and Local Government Finances collects annual data on cities with populations above 200,000. Other experts cite 300,000 population as the threshold for “large” cities in research. These competing definitions make it challenging to identify SMC-specific topics or research within the broader field of municipal finance.

In addition to statutory and structural fiscal constraints, city leaders cite a range of challenges with respect to budgetary resources, which have been especially impacted during the COVID-19 pandemic. Commercial property values and vacancy affecting tax bases, broadband access, and infrastructure funding are all cited as top capital-related challenges for cities in the National League of Cities' [State of the Cities](#) analysis. Regarding funding levels, prior to the enactment of the Infrastructure Investment and Jobs Act, most cities stated that funding for infrastructure decreased in 2020; 91% city officials responded that insufficient funding was a primary factor impacting decisions made on infrastructure.

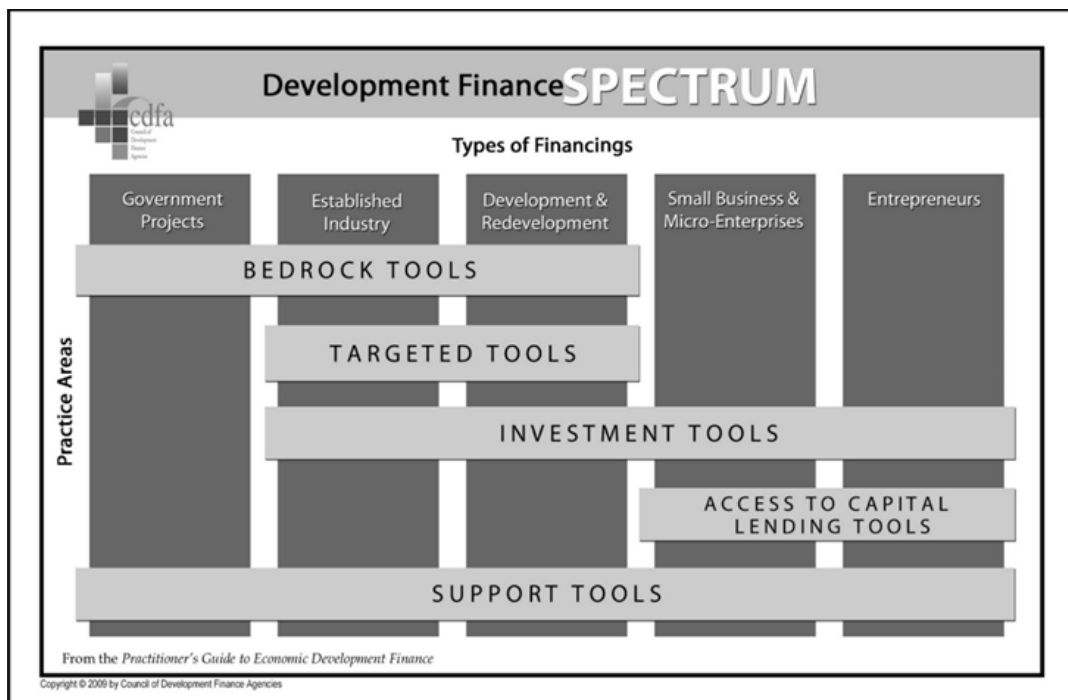
These challenges exist against a backdrop of significant variability and unpredictability for many cities; prior to passage of the American Rescue Plan Act (ARPA), cities faced an [expected \\$90 billion fiscal year shortfall](#). Now, with the deployment of federal relief under ARPA, there is concern among practitioners that cities are ill-prepared to absorb the influx of funds, ensure compliance with federal requirements, and effectively deploy funds.

### Advancing inclusive priorities requires deep commitment and full use of toolbox

Even when constrained by state or federal statutes, SMCs can leverage the power of municipal and development finance tools at their disposal to advance inclusive development agendas locally. Doing so requires a deep commitment to equitable development objectives among SMC leaders and leveraging the full capacity of tools at their disposal.

CDFA's graphic and [detailed resources](#) provide a snapshot of various development finance tools. In complex development projects, it is highly likely that multiple sources are "stacked" to adequately finance the deal. Accordingly, CDFA's research recommends taking a "development finance toolbox approach" by combining multiple tools to support equitable outcomes and projects in the community. Among tools which may be at the disposal of SMC leaders are:

- **Bedrock Tools** – General Obligation Bonds and Private Activity Bonds
- **Targeted Tools** – Tax Increment Finance, Special Assessment, Tax Abatement
- **Investment Tools** – Federal and State Tax Credits, Opportunity Zones
- **Access to Capital Lending Tools** – Revolving Loan Funds, Loan Guarantees, Seed and Venture Capital
- **Federal Support Tools** – Federal Loans, Guarantees, and Grants



The Development Finance Authority of Summit County (DFA) in Akron, Ohio is a powerful driver of equitable economic development in Northeast Ohio. Their mission is to foster social and racial justice and promote equitable opportunities for all in local communities through economic development financing initiatives.

DFA utilizes the toolbox approach effectively, focusing not just on their commitment to equity but also providing resources necessary to implement solutions. It is creating an ecosystem of development finance institutions to promote equitable development, ranging from issuing taxable and non-taxable bonds themselves, to establishing other entities that can expand the types of capital available in the community. Examples include providing New Markets Tax Credits through the Development Fund of the Western Reserve (DFWR), providing technical assistance and affordable flexible financing for small businesses and nonprofits in distressed census tracts through the Western Reserve Community Fund (WRCF), and establishing the Summit County Affordable Housing Trust Fund in partnership with WRCF and Summit County to support affordable housing, among others.

*Adapted from case study provided by the Council of Development Finance Agencies*

All municipal finance tools can be utilized for equitable development in SMCs if there is a deep commitment to equity, the tool is structured in a way to advance equity, and all stakeholders are provided the capacity and resources that they need – and held accountable – for implementation. The main barriers to effectively using many development finance tools are lack of understanding of how they work, risk aversion among community leaders, lack of capacity to evaluate which tools will work best for different projects or goals, and failure to structure the tool effectively for equitable purposes. When not structured or implemented properly, the tools might fail to achieve equitable outcomes in the community even when they are seemingly in place for the community's benefit.

It is important to expand awareness of and capacity to use various municipal finance tools among SMC leaders and align tools to deliver desired outcomes. Unfortunately for SMCs which may face capacity constraints, these tools can be complex, and few resources exist that can help community leaders or residents easily assess different tools for different types of projects. Moreover, many municipalities may require highly paid advisors who match tools to projects and structure deals. Capacity-constrained SMCs and SMC-based entities may struggle to access such expert guidance. Where they exist, local financial intermediaries like CDFIs, CDCs, and development finance agencies can help improve understanding among local leaders, while also helping to engage local stakeholders – especially those that would be significantly impacted by a project – in project design and implementation.

*Developing partnerships and sharing risk are helpful for capital providers and capital users*

SMC development initiatives, like any major investment, can be associated with a high level of risk. Very few entities, be they philanthropy or local community groups, are willing to absorb all the risks associated with large projects or cover all their operating costs. Partnerships help spread risk and costs and create a strong foundation for delivery of equitable development goals. Strong partnerships build on the unique expertise of each partner at the local, regional, state, and national level. Given the high potential for collaboration in SMCs, they may be well positioned to facilitate partnerships to advance inclusive development projects.

### Approaches to uplift community voice in municipal finance decisions

Absent an intentional commitment to and focus on equitable and inclusive processes and resource uses, municipal finance tools, on their own, do not adequately uplift community voice, especially from underinvested communities and BIPOC. Advocates highlight two approaches to uplift community voice –

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participatory budgeting and community benefits agreements (CBAs). Both have mixed outcomes and are highly dependent on the resources and support that are provided to the community to build local capacity.

*Participatory budget processes aim to uplift community voice*

Participatory budgeting delivers municipal capital to communities through a community-centered process that empowers residents by engaging them in the ideation and selection of projects they think will make a difference in their neighborhoods and their lives. While proponents uplift participatory budgeting as a key approach to improve inclusivity in allocating resources, there is little evidence of its deployment at scale, even in communities that have utilized it over multiple years. Further, the amount of budget allocated through participatory budgeting remains small.

Capital projects are usually the focus of participatory budget processes because of clearly determinable life-cycle costs, but some cities are expanding its use beyond capital projects by using technology and social programs (see sidebar).

While communities have turned to technology as a means to expand accessibility of participatory budgeting processes, digital equity issues can constrain community voice and community power in marginalized communities. Due to the high-touch nature of participatory budgeting, communities are turning to technology during the COVID-19 pandemic, but lack of widespread broadband access, particularly in BIPOC and LMI communities, can hinder inclusivity and exacerbate inequities.

*Community benefits agreements aim to bring opportunities to neighborhoods*

Community benefits agreements are legally-binding, measurable agreements negotiated between private real estate developers and community-based stakeholder coalition groups that facilitate the delivery of capital, most often for large economic development projects, in exchange for “community benefits.” [CBAs give community groups leverage](#) to address a multitude of community impacts and equitable community wealth building opportunities that the host municipality may not have legal authority and/or the political will to discuss otherwise.

When the impacted area is home to a marginalized community, equity opportunities have included first source procurement opportunities and local hiring, living and prevailing wages as well as local minority and women-owned business utilization. Negotiated benefits may also include resources intended to mitigate harmful long-term project impacts. For example, CBAs have included funding to increase affordable housing to minimize resident displacement resulting from gentrification due to rising property values.

**Jackson, Mississippi** used gamification of the participatory budgeting process to gather resident input on the city’s prioritization of the general fund, enterprise fund, and restricted funds. City leaders felt that the traditional participatory budgeting process of providing a small amount from the budget for community input was ‘tokenism’ and instead decided to build a process for resident input for the entire city budget. This necessitated a great deal of education on how the city’s budget was organized and principles of government accounting, both of which were achieved through the development of a board game that used the events of the prior year as fiscal emergencies to build expenses and revenues for the annual budget. The residents then ranked fiscal priorities, provided funding amounts, or suggested new priorities. The board games were used in community meetings and even as lessons in the public schools.

The city received nearly 100 budget priority recommendations, which were used to develop the new city budget. The process brought a shared commitment and understanding of the possibilities and limitations of the city budget.

*Adapted from case study provided by Catalyst Strategic Impact Advisors*

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Complex and complicated negotiations are a key feature of CBAs. Community outcomes can vary widely based on the sophistication of the negotiating parties, particularly those representing the community's concerns. The Cincinnati case study highlights that insufficient time and resources to hire subject matter experts to negotiate on behalf of the residents (and the city) can lead to suboptimal outcomes for BIPOC and LMI residents even though a CBA was signed for the stadium development project.

When the City of **Cincinnati**, Cincinnati City Council, and the soccer club FC Cincinnati selected the city's West End neighborhood for the construction of the new soccer stadium, West End residents pushed for a Community Benefits Agreement to ensure residents benefited from the \$250 million capital infusion and the ensuing economic activity and to ensure a voice in deciding what those benefits would be.

The West End Community Council (WECC), representing the residents, lacked sufficient expertise, time, and support from city government entities to effectively negotiate with the developers. The resulting CBA has been criticized for not sufficiently pushing for equity gains in the neighborhood. Its enforceability has been questioned since the city is not a party to the agreement and cannot help WECC in holding the developer accountable in case of under-delivering on promises.

*Adapted from case study provided by Catalyst Strategic Impact Advisors*

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## Community wealth building: diversifying and distributing ownership

Massive wealth gaps, especially across racial lines, highlight the importance of building and growing models that advance economic inclusion. Community wealth building is one such model. Community wealth building structures exist to expand ownership of productive and profitable assets and ensure that the benefits of economic growth are shared in a broad and inclusive manner. They also aim to expand power and agency by installing democratic governance principles. This section, derived in part from a collaborative workshop with Common Future, addresses key considerations for advancing community wealth building models in SMCs.

Community wealth building models can be applied to a range of assets. In an Employee Stock Ownership Plan (ESOP) or worker co-op model, workers purchase equity shares in their employing firm to become worker/owners. In a worker co-op model, worker/owners, via a democratic governance structure, have a say in determining a firm's strategy and operations with an aim of ensuring equitable processes and distribution of value generated by the firm.

Land can also be a democratically controlled asset under community wealth building models. Community Land Trusts (CLTs), for example, allow community members to own a share of a property's equity. Housing-oriented CLTs aim to balance accessibility (in the form of permanent affordability) with wealth creation by allowing members' equity stakes to appreciate in value to a limited extent, thus ensuring affordability for future members. Commercial real estate can also be a community wealth building asset. In this model, community members purchase an equity stake in a commercial property or portfolio of properties and then benefit from the cash flows and any increased value of their equity stakes over time.

Establishing community wealth building models in SMCs can bring significant benefits, but it requires capacity from a range of stakeholders and capital that is properly aligned to the needs of the model and its community.

### Benefits of community wealth building models in SMCs

Community wealth building models can bring important benefits to SMCs and their residents, including both economic and equity benefits. These benefits are especially important to uplift SMC residents who have been historically excluded from economic opportunity.

Economic benefits of these models include the opportunity to build income and wealth by owning a productive asset. These benefits are especially relevant when the community wealth building model is well aligned to the SMCs' underlying economic structure. A worker-owned manufacturing business, for instance, may be well suited to an SMC with a strong manufacturing sector and supporting ecosystem. These models also bring collective benefits to cities. Advocates uplift the importance of community wealth building models to retain jobs, especially in places or sectors that are vulnerable to offshoring or consolidation. Moreover, wealth and income generated from these structures is retained locally, creating opportunities to invest locally. For SMCs with large investment gaps, this benefit can be important.

Community wealth building models also provide a critical source of social equity, empowerment, and agency. These benefits are critical, especially for those who have historically been excluded from power and economic decision-making. These models' democratic governance processes, in which all members have some role in shaping the direction of the underlying entity, are key drivers of empowerment. By putting community voice at the center of decisions via the governance process, these models may also be more likely to address community needs than traditional ownership structures. Centering community voice



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in decisions and grounding activities in community-expressed priorities may enable these models to avoid shortcomings of processes which merely consider community needs as an input. Finally, with their empowering nature, these models can strengthen SMCs' overall civic infrastructure, a key element of advancing economic inclusion.

### Capacity for community wealth building models in SMCs

Community wealth building models are promising for their potential to broaden ownership of valuable assets, especially within historically excluded communities. Establishing community wealth building structures at scale requires robust capacity within SMCs, but lack of familiarity with these models can pose a capacity barrier. Relatively few examples of long-term community wealth building models exist in SMCs. Stakeholders note that limited understanding of these models, especially in SMCs, can limit their uptake, and that building awareness and technical knowledge about the models is needed.

Speed of activity can be a significant factor affecting the viability of community wealth building models in SMCs. These models, importantly and necessarily, move at “the speed of trust.” Given the breadth of stakeholders associated with community wealth building projects, a deliberately inclusive and adaptive process is required to facilitate community input, prioritize ideas, and align project details with community-identified needs. A vast range of decisions and priorities must be made, including business and ownership model, minimum buy-in amounts, and governance structures, to name a few. The time required to make these decisions in an equitable and democratic process may be significantly greater than the time needed in traditional economic structures. Trusted intermediaries, be they SMC-based (see text box on Co-Op Dayton) or regional/national in scope, can help augment community capacity and facilitate critical processes associated with establishing community wealth structures.

There can also be tradeoffs between the accessibility of community ownership (i.e., affordability) and their potential to create wealth for individuals. While community land trusts, for example, aim to maintain long-term affordability to broaden accessibility of ownership, that affordability also limits the wealth creation potential for existing owners when they exit their position in the trust. Achieving the appropriate balance between affordability and wealth creation is a key factor to ensuring the long-term viability of these models.

Legal or administrative barriers can also present challenges to scaling community wealth building models. Establishing community wealth building structures can require complex legal, administrative, and financial arrangements. The relative scarcity and cost of legal and administrative services can present barriers to increasing uptake of community wealth building models, especially for marginalized or historically excluded groups in SMCs.

Place-based community wealth building intermediaries such as **Co-Op Dayton** aim to expand knowledge of community wealth models, build capacity of local community wealth organizations, and establish a critical mass of entities dedicated to diversifying and distributing ownership of productive assets.

Recognizing the need for an interconnected network of cooperatives in Greater Dayton, Co-Op Dayton incubates new community wealth building entities and advises existing firms on succession planning for potential conversion to worker ownership models. By providing project management support, augmenting capacity of community wealth building entities, assisting with community organizing, and recommending capitalization strategies, Co-Op Dayton intends to simplify the community wealth building formation process. Through membership in **Seed Commons**, a national network of community wealth funds, Co-Op Dayton also encourages capital to flow to wealth building structures in its region.

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Finally, it is important to note that SMCs' economic structures are critical contextual factors in determining the viability of community wealth building projects. In economies with declining real asset (i.e., land or real estate) values, for example, a community land trust may not be ideal. In such a case, expanding ownership of an asset with declining value would hinder, rather than advance, wealth creation. Organizations with experience in establishing community wealth building models can provide valuable guidance on aligning structures with underlying economic conditions.

## Capital for community wealth building

SMCs with significant manufacturing employment could be facing a “silver tsunami” as owners of manufacturing firms near retirement age and seek to exit their businesses. Such firms are often the target of takeover bids that can ultimately result in closure, consolidation, or lost jobs. To retain these jobs and the economic stability they provide, the worker co-op conversion model may be a promising approach for SMCs. Entities such as **Concerned Capital** aim to help facilitate conversion transactions via approaches such as stock financing plans or charitable remainder trusts.

The worker co-op conversion model uplifts the need for creative approaches and financing models. Significant organizational infrastructure is required to source and assemble transactions. Further, up-front cash requirements to purchase a business for co-op conversion via a stock financing plan or charitable remainder trust may not be affordable to many potential worker-owners, and existing community development finance tools may be insufficiently flexible to address these financing gaps. There is a clear need for patient capital that is willing to experiment and develop proof points before such transactions can be turned into a standalone asset class and attract large sums of capital.

*Derived from workshop with Common Future*

Community wealth building models require sizeable up-front commitments: fixed costs and the time required to identify community priorities, arrive at consensus, establish legal structures, and arrange financing are all significant. Often, however, capital moves at a faster speed than community wealth models allow. This can mean that community wealth timelines are misaligned to market timelines, or that traditional private sources of capital can move more quickly to purchase an asset coming for sale and maintain it in private ownership than a community wealth structure permits.

Community wealth building models can also be highly localized. Land ownership models might target residents of a specific neighborhood, and worker co-op conversions focus on existing employees at a firm. Given the high degree of localization of these projects, outside sources of capital needed to finance community wealth building structures may not be aware of or sufficiently knowledgeable about them to provide the required capital.

Where capital providers are interested in investing in or supporting community wealth models, risk aversion or a lack of familiarity with community wealth models might hinder investment. For traditional financing sources, the distributed ownership model of community wealth entities can present challenges for underwriting or collateral requirements. Investment amounts required for community wealth building models might also be too small to attract interest from these sources. Fixed transaction and due diligence costs of investing in community wealth models are likely similar to those for larger-dollar investments, which can make the

transaction costs of community wealth investments prohibitively high relative to the size of their investment.

Stakeholders note that, given the complexity of and general lack of familiarity with community wealth building models, any single type of capital is likely inadequate to fund or finance these structures. The returns profile and time commitment preferences of market rate capital, such as bank loans, along with risk aversion and sensitivity to high transaction costs, often limit its ability to participate in capital stacks. Traditional community development finance providers, while potentially a piece of financing community

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wealth building models, may be unable to do so because of capitalization or compliance restrictions. Philanthropic capital is a key element of blended capital stacks, but foundations may be disconnected from potential sources of community wealth building investment opportunities and amounts of philanthropic support available for community wealth building structures may be small in many SMCs. The process of assembling a blended capital stack can require significant time, deal structuring, and relationships, all of which can position community wealth organizations at a disadvantage relative to traditional ownership models.

Further, there may be a disconnect between the amount of outside capital needed to invest in assets for community wealth structures and the need for local/community control of community wealth organizations. Participating community members in a community wealth structure aim to maintain a controlling stake of the entity or asset they operate but may struggle to raise a controlling stake's worth of capital. This may put potential capital sources and community wealth structure participants at odds.

Capital is a key consideration not only for community wealth building entities themselves, but also for the intermediary organizations that support them. These intermediaries, which support community wealth building structures through knowledge building, transaction support, and financing, rely on philanthropic support for their core operations. The amount of philanthropic capital available for these purposes from local sources may be limited in SMCs. Where local philanthropy is interested in advancing community wealth building models in SMCs, robust support for these intermediaries may be a key factor.





#### *Capital to make community wealth building models succeed in SMCs*

For community wealth building models to succeed in SMCs, stakeholders note the importance of patient and flexible capital that is "first in and last to control." That means that capital should be available to move quickly, but also be patient in seeking a return and leave control and decision-making to trusted community organizations.

As previously noted, stakeholders highlight the importance of blended capital stacks for community wealth building, especially with philanthropic dollars. Unrestricted philanthropic dollars enable community wealth building support organizations to build out the organizational and interpersonal infrastructure to allow models to take shape. Further, philanthropic support can serve as credit enhancement and crowd in additional outside capital in the form of debt or equity.

# Recommendations

Advancing inclusive development and unlocking capital flows in SMCs require an array of strategies and partners. Accordingly, this section identifies three over-arching recommendations and recommendations for four groups of stakeholders: SMC community, economic, and municipal practitioners; philanthropy; impact-driven investors; and anchor institutions.

Snapshot of recommendations	
Overarching Recommendations	<p><b>Invest in SMC capital ecosystems to expand capacity for inclusive development</b></p> <p>Work with a range of SMC partners to expand capacity to establish priorities, develop investment pipelines, and complete pre-development for inclusive investment projects. Pair with capital to strengthen capital ecosystem.</p>
	<p><b>Invest in community wealth models and systems to build evidence in SMCs</b></p> <p>Employ inclusive capital principles to expand capacity of community wealth building organizations and scale select models. Partner with SMC-based or regional/national intermediaries.</p>
	<p><b>Invest to bolster SMC balance sheet capacity and catalyze capital</b></p> <p>Provide loan guarantees, credit enhancements, subordinate positions; invest directly in SMCs or via regional/national intermediaries. Aim to de-risk and catalyze additional capital.</p>
Stakeholders	 <p>SMC Practitioners</p>
	 <p>Philanthropic Institutions</p>
	 <p>Impact-driven Investors</p>
	 <p>Anchor Institutions</p>

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## Overarching recommendations

1. **Invest in SMC capital ecosystems to expand capacity for inclusive development** – support partnerships and collaboration among a range of SMC institutions, including financing entities, municipal leaders, and trusted community-based organizations, to expand SMCs' collective capacity to establish investment priorities, develop a pipeline of investable opportunities that align with those priorities, and complete necessary pre-investment work. Grant-funded efforts could support technical or financial intermediaries with the aim of facilitating partnerships between SMC-based entities and larger regional or national ones. They could also provide long-term (i.e., 5-year) support for trusted, community-based organizations who play a key role in establishing investment pipelines. Capacity building tied to pools of investment capital could enable SMC investments which uplift community voice, prioritize racial equity, and galvanize capital flows that strengthen the investment system as a whole.
2. **Invest in community wealth models and systems to build evidence in SMCs** – invest in community wealth structures to build the evidence base on these models in SMCs. Grants could expand capacity of SMC-based or regional/national community wealth building support organizations, help increase awareness of and familiarity with models, and support the capacity to implement community wealth building structures. Grants can be paired with additional capital sources to help scale community wealth building projects. This capital could target community wealth building models focused on high-growth or “next economy” sectors and aim to crowd-in additional capital by matching small-dollar community investment in SMC projects.
3. **Invest to bolster SMC balance sheet capacity and catalyze capital** – provide loan guarantees, credit enhancements, subordinate positions, etc. to lower the cost of capital. Capital can either flow directly to SMCs or via regional or national intermediaries, to de-risk and catalyze additional capital for inclusive development projects. This could include direct participation in SMC-focused vehicles or participation in secondary markets. Capital can take the form of low-cost and long-term loans to CDFIs to expand their reach into historically excluded SMC communities, blended capital with SMC anchor and philanthropic institutions, or investment in national intermediaries with strong balance sheets targeted at increasing capital flows to SMCs.

Each of these recommendations requires capital that is non-extractive, participatory, and patient.

[Nwamaka Agbo's Restorative Economics](#) framework offers a valuable lens through which to evaluate capital objectives, uses, and structures. Investments in SMCs should prioritize accessibility, flexibility, and community voice, allowing communities most impacted by actions to shape them. Investments should also aim to catalyze additional capital for inclusive development in SMCs.

## Recommendations by practitioner group

Advancing the overarching recommendations identified above requires the full capacity and capital of a range of committed partners. Recommendations for various stakeholder groups – practitioners, philanthropy, impact-driven investors, and anchor institutions – are detailed below.

### **SMC Practitioners (municipal, community, and economic leaders)**

To expand capital flows, SMC practitioners should develop their capacity to understand, source, and apply the full range of financial tools available to them. For community development and demand-side intermediaries, this can include the capacity to layer numerous financial sources and pair them with relevant subsidies to realize investments in projects that advance inclusive development objectives. For

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municipal finance practitioners, understanding and applying the full suite of municipal finance tools can foster stronger and more equitable SMCs. Practitioners should also identify opportunities for “whole community” investments – those that address a range of needs, such as housing and access to critical supports like childcare and transportation – to achieve a critical mass of capital flows. Working at such scale can signal optimism and catalyze additional capital flows while making significant progress on inclusive development objectives. Practitioners should also seek opportunities for collaboration. Collaboration with trusted, community-based organizations can strengthen the pipeline of investable opportunities in SMCs; collaboration with local anchor institutions and regional or national capital intermediaries can expand the pool of capital for inclusive development projects.

## **Philanthropy**

Philanthropic capital is a critical enabler of inclusive development. Philanthropic institutions, both national and local in mission, can expand knowledge and awareness of inclusive development projects, provide support for implementation and technical capacity among SMC-based entities, and address factors in the enabling environment.

### *Knowledge and awareness:*

Make investment more replicable and routine with knowledge supports. For community development and related investments, philanthropic programming could expand awareness of sources of subsidy and offer knowledge tools on using the full range of tools available to practitioners. Regarding community wealth building models, programming could seek to codify and expand awareness of investments that are relevant to SMCs. For municipal finance, philanthropic programming could expand awareness of and facility with the suite of municipal finance tools to enable increased activity supporting inclusive development in SMCs.

### *Implementation and technical capacity supports*

Philanthropy can support the capacity of SMC institutions to build an inclusive capital ecosystem. This includes providing long term and low-cost operating support for financial intermediaries, as well as programming to build intermediaries’ capacity to apply financial and technical tools for inclusive development objectives. For local philanthropic entities, supporting trusted, community-based organizations with long-term operating support can strengthen pipelines of investable opportunities and increase the likelihood of ensuring that community voice is a valued input to decision-making processes. Philanthropic programming should focus on applied capacity, supporting practitioners taking actionable steps to build investment systems in SMCs and advancing community-identified objectives.

### *Enabling environment*

Philanthropic investments in the enabling environment could include advocacy to expand public subsidies and capital sources for inclusive development projects, such as tax credit programs. Enabling investments could also include identifying opportunities to work with states to support SMC-based practitioners advancing investments for inclusive development. Finally, enabling environment investments could aim to increase capital flows to community wealth building models by expanding access to core supports such as legal guidance and financial analysis.

## **Impact-driven Investors**

Returns-seeking capital from mission-oriented investors should provide patient, long-term capital that is “first in and last to control.” These capital sources can invest in SMC-based built environment projects, either directly in SMCs or via regional or national intermediaries, to mitigate risk and catalyze additional capital. This could include direct participation in SMC-focused investment vehicles or participation in secondary markets. There are also opportunities for returns-seeking capital to invest in community wealth

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organizations. This capital could help scale community wealth building support organizations or provide matches for small-dollar community investment projects in SMCs.

### **Anchor Institutions**

A wider range of institutions beyond traditional “eds and meds” university and hospital anchors can serve as anchor institutions in SMCs. Utilities and SMC-based firms with a long-term commitment to place and inclusion can also serve as anchors, especially in places which may lack traditional anchor institutions. Anchors should seek to become committed partners in inclusive community and economic development work in SMCs. These institutions can provide both financial and human capital to support projects. Anchors can provide a full range of capital support – from operating support for investment platforms or intermediaries to investment in funds and core deals – to expand capital access for projects that spur inclusive growth. Given the importance of collaboration to realize such projects, anchors should also leverage their institutional leadership positions and utilize their convening power for inclusive development projects in SMCs.

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# Appendices

## Appendix 1: List of Interviewees

NGIN would like to acknowledge the contributions of the following experts, practitioners, and stakeholders who were interviewed for the project. Their time and insights were greatly appreciated.

<b>Name</b>	<b>Affiliation</b>
Robert Blaine	National League of Cities
Tia Brown	Seven Hills Neighborhood Houses
Lomax Campbell	Third Eye Network
Shari Davis	Participatory Budgeting Project
Donovan Duncan	Urban Strategies, Inc.
Elvis Fraser	Sankofa Consulting
Stephanie Geller	Community Wealth Builders
Lourdes Germán	Boston College
Jeanne Golliver	Cincinnati Development Fund
Darrene Hackler	Independent
Brian Heitkamp	Citywide Development Corporation
John Juech	City of Cincinnati, OH
Karen Kixmiller	City of Greensboro, NC
Lela Klein	Co-Op Dayton
Katie Kramer	Council of Development Finance Agencies
Marcos Marrero	Mass Development
Christiana McFarland	National League of Cities
Loriane Ngarambe	Independent Sector
Farhad Omeyr	National League of Cities
John Persinger	Erie Downtown Development Corporation
Laura Quebral	University at Buffalo Regional Institute
Keith Rachev	Community Reinvestment Fund, USA
Matt Stitt	PFM Center for Budget Equity and Innovation
Mildred Warner	Cornell University
Stephen Westbrook	IFF



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## Appendix 2: Data Sources for Quantitative Analysis

The quantitative findings from the Urban Institute are derived from analysis of six capital types: single-family residential lending; multifamily residential lending; nonresidential real estate; small business lending; “mission” investments; and funding from major federal community development sources. Sources of each are described below:

**Overall:** This category includes the sum of all the below types of investment, scaled by the number of households.

**Single-family:** This category includes purchase loans for owner-occupied single-family properties of one to four units, as reported by Home Mortgage Disclosure Act data for 2005–20. Single-family investment is scaled by the number of owner-occupied households in a place.

**Multifamily:** This category includes purchase loans for multifamily properties of five or more units, as reported by Home Mortgage Disclosure Act data for 2005–20. Multifamily investment is scaled by the number of renter-occupied households living in properties with five or more units.

**Nonresidential:** This category includes loans for nonresidential real estate (e.g., commercial, industrial, and agricultural properties), as tracked by CoreLogic for 2005–20. Nonresidential investment is scaled by the number of employees working in the area.

**Small business:** This category includes small-business loans, as measured by loans to businesses with revenues below \$1 million, reported by bank lenders pursuant to Community Reinvestment Act requirements for 2005–20 and as measured by Small Business Administration guaranteed lending through the 7(a) and 504 programs. Small business investment is scaled by the number of small-business employees in a place.

**Mission:** This category includes “mission lending” reported by community development financial institutions (CDFIs) and other socially motivated lenders, compiled from various data sources, including transaction-level reports from the CDFI Fund, data reported to the Opportunity Finance Network, mission loans identified in CoreLogic datasets, and investments under the New Markets Tax Credit program; data are for 2005–20. Mission investment is scaled by the number of households.

**Federal:** This category includes federal community development funding, including the US Department of Housing and Urban Development HOME Investment Partnerships Program, Community Development Block Grant Program, Section 108, Choice Neighborhoods, and HOPE VI Public and Indian Housing and Main Street grants; Low-Income Housing Tax Credit investments; and US Environmental Protection Agency brownfields and brownfields redevelopment grants for 2005–20, depending on the sources’ most recent data availability. Federal investment is scaled by the number of households.



# New Growth Innovation Network

POWERING INCLUSIVE ECONOMIES

New Growth Innovation Network focuses on inclusive economic growth and closing structural opportunity gaps to ensure that people of color, women, and neglected geographies are a core part of regional economic growth and prosperity.

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