

TACDC Policy Priorities

Issue: Capacity Building for CDCs

Recommendations

1. *Reinstate Capacity Building Program administered by TDHCA.*
2. *Educate policymakers on the importance of capacity building for CDCs and other nonprofits.*
3. *Increase funding for nonprofit capacity building in Texas.*
4. *Improve the accountability and transparency of TDHCA's Capacity Building Program..*

Background

The goal of capacity building programs is to increase the expertise of nonprofits so they are capable of providing goods and services that otherwise might not be provided in their communities. Partly addressing this concern, Senate Bill 546 of the 72nd Texas Legislature established the Texas Housing Trust Fund. From 2000 to 2005, the Housing Trust Fund allocated about ten percent of its endowment to capacity building and technical assistance for nonprofits. Furthermore, the HTF is used to acquire, rehabilitate, and construct new units of housing. The HTF is administered by TDHCA and has awarded almost \$12 million in awards and loans, leveraging \$28.5 million, to fund more than 2,600 low and very-low income housing units. However, funding specifically devoted to nonprofit capacity building was not made available in the 2006 HTF funding cycle.

As the amount of federal and state funds devoted to community economic development and social services declines, it is increasingly difficult for nonprofits, and more specifically CDCs, to fulfill their missions. The reduction in governmental funding has resulted in a competition between all developers for the small amount of available public assistance. Some developers contend that more state funding should be allocated to development subsidies, rather than to nonprofit capacity building. Because private developers already have the capacity to build affordable housing units, they argue they should receive state funding for their projects.

Attempting to answer the question, does TDHCA's Capacity Building Program lead to stronger nonprofit affordable housing providers; TACDC analyzed the use of funds and the impact of the program on participating organizations from 2001 to 2003. TACDC used TDHCA documents and surveyed participating nonprofits. TACDC's findings conclude that the TDHCA Capacity Building Program positively impacts the ability of

participating CDCs to increase housing production, diversify their funding base, and effectively provide social services to their local communities.

Key Findings in TACDC's Capacity Building Study

In 2001, TDHCA awarded 13 organizations \$572,000, with a maximum of \$50,000 per organization. The average amount of funding each organization received that year was approximately \$44,000. The funds were to assist the organizations in hiring technical assistance experts or to aid in creating units of affordable housing for low, very low, and extremely low income individuals and families. The expert could either be hired onto staff or placed under contract to provide technical assistance. In 2002, the department allocated \$555,642 for capacity building with a maximum of \$35,000 per award. Seventeen organizations were awarded that year, the majority receiving the maximum amount. In 2003, TDHCA made available \$567,729 through its NOFA, with a limit of \$43,671 per organization.

The Capacity Building Program participants who completed TACDC's survey benefited from the program. Overall, the CDCs that participated in the program increased housing production, diversified funding sources, and increased the number of services offered to clients. Many of the award recipients also used the funding to improve internal structures and functions allowing them to be more efficient. In addition, TDHCA's Capacity Building Award helped these CDCs leverage at least \$11,669,653 in additional funding and develop at least 1,147 units of affordable housing. The Capacity Building Award impacted not just the CDCs, but also the residents of low-income communities.

Additional findings:

- The average pre-award budget was \$905,661, while the average post-award budget for survey respondents was \$1,407,369.
- Capacity Building awardees increased their production of new rental units by approximately 67 percent and acquired units by approximately 18 percent.
- 62 percent of survey respondents serve a greater number of clients than before receiving the award.
- 85 percent of respondents formed additional partnerships with other nonprofit, private, and governmental organizations.

Recommendations

1. *Reinstate the Capacity Building Program Administered By TDHCA.*

The Capacity Building Program administered by TDHCA proved very effective in directing resources to non-profit organizations for development activities. As shown in TACDC's evaluation of the program, the state's \$1.2 million investment in the program resulted in over 1,000 units of affordable housing, leveraged over \$25 million in both operations and development funding, and helped the participating organizations become

more self sustaining by diversifying their sources of income, building application and programmatic experience, and furthering their missions to serve low-income communities. Because of these benefits, TACDC calls on the Board of Directors at the agency to reinstate the Capacity Building Program.

2. *Educate policymakers on the importance of capacity building for CDCs and other nonprofits.*

Policymakers need to be made aware of the impact that capacity building programs have on CDCs and other nonprofits. TACDC's report on the program in Texas finds that capacity building has a positive effect on the ability of CDCs to provide services in their communities, acquire and develop units of affordable housing, and to increase their fiscal and managerial strengths. It is imperative that policymakers continue to support the efforts of CDCs as they are based in the communities they serve, understand local needs, and promote economic development.

3. *Increase funding for nonprofit capacity building in Texas.*

One of the most common comments regarding TDHCA's Capacity Building Program from survey respondents was that there is a need for increased award money. In addition to calling on TDHCA to reinstate the Capacity Building Program, additional resources need to be leveraged from the state legislature, philanthropic foundations, and intermediaries to fund adequate capacity building support in Texas.

4. *Improve the accountability and transparency of TDHCA's Capacity Building Program.*

In addition to funding the capacity building program, TACDC calls on the TDHCA to improve monitoring and evaluation of the capacity building program to ensure the program is delivering affordable housing to the taxpayers of Texas. Without sound program oversight, it is easy for detractors to claim the program is a handout to nonprofits, not a hand up in support to become self-sustainable. By increasing reporting requirements and monitoring program deliverables, we hope the program becomes a model for other states that lack a viable non-profit development sector.

