

**TESTIMONY OF
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BEFORE THE
PENNSYLVANIA HOUSE COMMERCE AND
ECONOMIC DEVELOPMENT COMMITTEE**

**HEARING ON SENATE BILL 10
SEPTEMBER 17, 1997**

It is a particular pleasure for me to appear before this committee today to offer praise to the Governor for proposing the Community Development Bank embodied in Senate Bill 10 and to encourage this Committee to move the proposal with haste.

I hope it would not be too controversial for me to start by saying that, for all intents and purposes, Pennsylvania has no community development policy. Prior to the merging of the Departments of Commerce and Community Affairs, we had an economic development policy and we had welfare but a huge gulf existed between the two. Many of us viewed the merger of these two departments as an historic opportunity to create a community development policy for Pennsylvania's increasingly desperate low-income neighborhoods.

Over my 17 years with the Community Action Committee of the Lehigh Valley, I have watched as our economic development policy attempted to create economic opportunities in the vast open spaces of our suburban and even rural municipalities, often at the expense of our urban communities. To be sure, creating private wealth and even jobs for average Pennsylvanians is an important goal. However, it does not necessarily result in decent schools, tree-lined streets, green spaces, decent affordable housing, safe streets, or any other opportunities in the neighborhoods. Precious are the very limited resources available to do these things and yet most of even those efforts have been conducted on behalf of, and almost never with the inclusion of, the people who live in those desperate neighborhoods.

Community economic development, which engages the residents of those neighborhoods who are ostensibly the target of those community development efforts, is the new and increasingly

effective strategy for tackling the stubborn forces of blight in low-income neighborhoods. Pennsylvania is way behind the curve in developing a community economic development strategy, a strategy I consider to be the most sophisticated form of fighting poverty.

The Governor's Project for Community Building and its centerpiece, the Community Development Bank, is an exciting initiative that I take great pleasure in endorsing before this Committee today. I take great pride that the work of the Community Action Committee of the Lehigh Valley has often been cited by the Governor, his policy staff, and the Department of Community and Economic Development as an example of the local initiative this proposal is designed to support. Indeed, I had the honor of representing Pennsylvania as one of the Governor's appointees at the Presidents' Summit on America's Future in April because of the complementary nature of the work we do. Allow me to offer an explanation of that work as context for the few cautionary comments I will offer later in my testimony.

CACLV operates a community development corporation (CDC) in the poorest neighborhoods of Allentown. This community development corporation has been in place for almost three years. It operates out of a storefront location, with less than five full-time equivalent staff. We are also planning to open a similar project in South Bethlehem's low-income neighborhoods in January.

Most of the funding for these two projects comes from private sources. The fundamental premise of these projects is that people who live in these neighborhoods should have a role in their development. The key word here is ownership, not just of capital but in the problem-solving process.

Community economic development, then, combines community organizing with community development. Community organizing once was a threatening notion to those in power. However, I believe most of us have come to recognize that our society is threatened far more by the desperation that breeds dependence and apathy than the desperation that breeds anger and activism.

Hopefully, that activism will lead to the creation of what I call "a home-grown economy." While traditional economic development organizations attempt to attract businesses or expand existing ones in the hope that the benefits accrue in some small way to those who live in the neighborhood, our goal is to identify the economic engines that exist in low-income communities and develop those assets in such a way that creates opportunities for those who live there.

As capital has fled inner-city neighborhoods, chasing those who have moved to the suburbs,

there are very few ways for the residents left behind to spend their money in the neighborhood. We are simply trying to find ways to regenerate the significant amount of money left behind in such a way that it creates opportunities right there. Whether those economic engines are the hospitals, colleges, city and county government, or the collective purchasing power of the residents, we are looking for ways to keep money in the neighborhoods, creating businesses run by and employing exclusively those who live there.

The tools in our toolbox are several: mentors recruited from existing successful entrepreneurs throughout the Lehigh Valley; entrepreneurial training and assistance with the development of business plans; micro-loans (typically not exceeding \$15,000). Our most innovative approach, one we conceived and are pioneering, is that our CDC will actually play the role of entrepreneur, creating, owning, and operating a business with the intention of transitioning the “lead employee,” who is otherwise unbankable on his or her own, into an ownership position through profit-sharing and sweat equity. In this case, we obtain a conventional loan from a local bank, secure that loan with a 20 percent deposit in the lending institution, using our privately funded collateral reserve fund, and securing the remaining 80 percent through the assets of CACLV, the CDC’s parent organization. As I noted earlier, all of this is pieced together with, almost exclusively, private funds.

One thing I have learned over my many years at CACLV is that the Community Reinvestment Act has been fairly effective at making credit available for low-income home buyers and businesses, start-up or otherwise. We do not have so much of a credit crunch as an applicant crunch. Filling that void requires resources for community-based organizations to develop bankable applicants out of depressed inner-city neighborhoods. There are very few public funds available for such use.

Therefore, I am particularly excited by the \$5 million in capacity-building grants proposed by the Governor. If our staff sat at their desks, waiting for the phone to ring, nothing would happen. Community economic development, then, can only happen if community-based organizations have the resources to actively develop the home-grown economy I discussed above.

Having said all of this, let me offer a few specific comments about the Governor’s proposed Project for Community Building.

First, the capacity-building grants are essential. However, I am concerned about and puzzled by the insistence that these organizations seek federal certification as “community development

financial institutions" (CDFI's). The only real reason I can see applying for certification is because funds are available at the federal level. However, only \$50 million is available nationwide and we will all grow much older waiting for that money to penetrate the many communities in need in Pennsylvania. Furthermore, certification requires two things: that the applicant be community based and that it conduct community development lending as a primary organizational function. In the Lehigh Valley, there may never be an eligible organization.

CACLV's CDCs will be the capacity-building organizations and we expect to partner with traditional economic development organizations for the lending. In the Lehigh Valley, all of our organizations respect each other's turf and that respect leads to effective partnerships. Such a partnership should be eligible for DCED support.

Secondly, I urge caution on the creation of the Community Development Bank. Community development lending is very specialized and difficult and requires enormous flexibility to respond to the particular needs of each prospective borrower and the community in which it is borrowing. There are many examples of overly rigid lending programs with bureaucracies too difficult to navigate. I would encourage the Committee to carefully consider the testimony of the Pennsylvania Low-Income Housing Coalition in this regard.

In closing, my cautionary comments are only intended to suppress, in the mildest form, my enthusiasm, if not giddiness, that the Commonwealth of Pennsylvania is finally moving in the right direction in bridging the huge gulf between traditional economic development and welfare.

Thanks so much for the opportunity to appear before you today.

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09/15/97