

# CONFRONTING SUBURBAN POVERTY IN AMERICA

## IFF: BUILDING CAPACITY THROUGH SCALE AND INTEGRATION

Joe Neri and Trinita Logue<sup>1</sup>

IFF, a community development financial institution (CDFI) formerly known as Illinois Facilities Fund, started 26 years ago as a \$2.7 million loan fund that provided financing for the renovation, expansion, and new construction of facilities for nonprofit organizations serving low-income and special needs populations. Today, IFF is a \$305 million organization that offers an array of financial, real estate consulting and development, and research and policy services to nonprofit organizations, government entities, and other clients throughout the Midwest.

IFF has intentionally evolved to embody two related elements we believe are critical to the success of the community development and human services fields: scale and integrated services. IFF employs these principles to help municipalities, nonprofits, and communities build capacity in a number of areas, including early childhood care and education, K-12 education, affordable housing, and primary health care. IFF's geographic and financial scale and the integrated continuum of services we provide have proved particularly effective in tackling capacity issues in low-income suburbs, where lack of both capital and development infrastructure greatly limit progress toward meeting the needs of a growing low-income and increasingly diverse population.

This brief details how IFF's model has evolved, as well as the key lessons we have learned through our efforts to use our scale and integrated capacity to successfully advance community development goals in the suburban context.

### BACKGROUND

IFF has always believed that strong nonprofits are integral to strong neighborhoods. Although IFF's primary business is to help nonprofits overcome capital barriers, we quickly recognized the range of interconnected challenges and structural issues beyond access to capital that prevent nonprofits from growing and responding to the shifting geography of need. Many organizations had the human resources capacity to expand services and the revenue to repay debt, but they lacked the skills or capacity to identify emerging high-need neighborhoods or conceive, develop, and open new facilities.

In addition, other barriers complicated effective responses to rising need, particularly in many suburban communities that were experiencing rapid increases in poverty. For instance, Chicago's suburbs saw their poor population more than double between 1990 and 2010, outstripping the number of poor in the city for the first time in 2010. However, many of these suburbs faced a range of challenges that slowed or stymied efforts to respond to these shifts, including a lack of municipal infrastructure and capacity, limited political will, and few established champions for low-income families. Moreover, there were few nonprofits in many of these communities. If they existed, they were often working in silos, such as delivering only programs for teens or only English as a Second Language programs and job training, or they were small organizations with little experience combining fragmented government and philanthropic resources to expand capacity and increase their scale. Even with larger organizations such as Federally Qualified Health Centers, leaders were not authorized, and often did not have the skills, to tackle other demands such as housing or afterschool programs.

Clearly, providing capital alone was not enough. We could see that technical and development challenges were just as serious barriers to capacity growth and effective implementation, and that comprehensive thinking was needed.

# CONFRONTING SUBURBAN POVERTY IN AMERICA

## THE MODEL

In its early years, IFF was able to provide the financing for facilities projects, but to address real-estate decisions and project and construction management, we entered into contracts with commercial developers. Eventually, as our own internal capacity grew, we were able to bring those operations in-house.

In 1997, IFF officially created a real estate development consulting business to help nonprofits make and implement better real estate decisions. From its earliest years IFF conducted demographic research to inform those decisions. As nonprofits considered expanding or moving locations and as foundations and government agencies considered where to target services and resources, they increasingly turned to IFF to understand how demographic and economic changes were reshaping communities and shifting the map of need. In 2003, IFF formalized its commitment to data and research by launching a research department.

As IFF's continuum of services evolved, our geographic scale expanded to five midwestern states. With our increased scale and integrated services, IFF was positioned not only to help see a project through from start to finish—from research phase to financing to construction—but to help organizations and communities overcome other barriers they faced. IFF increasingly played the role of “quarterback,” providing leadership and the skills to integrate disparate government, private, and philanthropic resources as well as to help communities and providers plan collectively and collaborate to build capacity. In 2011, IFF created its Community Strategies team to be more intentional about identifying need in certain communities and committing to taking on the financial risk associated with development projects in these communities, providing capital, or acting as coordinator depending on the needs of the project or community.

The field of early childhood care and education is a good example of how IFF evolved to fill capacity gaps and refine its model. Some of IFF's earliest borrowers were child care centers. Not only did IFF build knowledge early on about the operating structure and needs of child care providers, but we also began working with state, municipal, and foundation leaders in the 1990s to develop models to more effectively and efficiently increase the supply of early childhood care and education services for low-income working families. In its work with the State of Illinois, the City of Chicago, and the Grand Victoria Foundation (headquartered in the Chicago suburb of Elgin), among others, IFF was able to develop a data-driven approach to expanding the supply and quality of early childhood care and education services. We did this by first determining where the highest need for services was based on unmet demand; the right ages to target for expanded services based on need; and what other needs existed in the community that might be served by co-locating other programs in the same facility.

In 2001, IFF received funding from the John D. and Catherine T. MacArthur Foundation and the State of Illinois to carry out a statewide, comprehensive early childhood care and education needs assessment. The assessment analyzed the supply and demand of early childhood care and education services in every county and in each municipality with a population of at least 30,000. The resulting report, “Moving Towards a System,” was published in 2003. In the report, IFF created a “top ten” list to direct government and funder attention to filling the most pressing capacity gaps. Chicago suburbs occupied nine of the top ten neediest communities in the state with unmet demand for subsidized early child care and education options (Chicago was number 10). IFF has subsequently built early childhood centers that offer additional programs for families in seven of the ten.

Based on the findings of the study, the Grand Victoria Foundation worked with IFF to create the Building Blocks program to carry out deeper assessments in 18 high-need suburban communities and to expand early childhood care and education capacity. Grand Victoria knew that IFF could undertake all components needed to implement the program. We could provide the integrated capacity to understand child care business economics and program

# CONFRONTING SUBURBAN POVERTY IN AMERICA

models. We could analyze and present the right demographic indicators to determine need. We could facilitate local discussions about the data and the economic and program benefits of collaborating to create a more integrated and scaled service delivery model. We could provide the affordable capital to support growth. Finally, we could carry out the facilities planning and facility expansion where appropriate.

The Building Blocks program also made us realize that, through our role as quarterback, we could help local leaders translate data and working templates for best practices into local solutions that take into account local conditions and relationships. This flexibility became essential to working successfully in so many different suburbs.

IFF drew on its quarterback experience when it stepped into the role of coordinator for a collaborative created by five West Cook County, inner-ring Chicago suburbs in the wake of the housing crisis. IFF is helping those communities plan, coordinate, and implement affordable housing initiatives to ameliorate the worst effects of the foreclosure crisis. In its role as coordinator, IFF is again using its flexible implementation approach. Where local capacity exists, IFF is a facilitator and compliance regulator. For example, IFF manages a transit-oriented foreclosure rehabilitation program for local developers, acts as a fiscal agent for the government resources the collaborative has attracted, and provides strategic planning and advice to the local municipalities on how to best implement those funds. Where local capacity is absent—as when the collaborative lacked the ability to quickly get a failed, vacant, foreclosed condo project rehabilitated—IFF used its development capacity to implement the project and then transferred ownership to a local nonprofit housing manager.

## LESSONS LEARNED

IFF's scale and integrated capacity have proved essential to the successful work we have been able to do in low-income suburbs. As IFF's model has evolved, we have learned several lessons, including:

### 1. Data are the admission ticket.

IFF's successful work in the suburbs would not have been possible without insightful and actionable data. IFF established a research division to obtain, analyze, and present data in support of better decisions with three goals in mind: 1) to document the local challenge (Where is the greatest need? Where do low-income residents live and work?); 2) to describe local assets (What is the existing infrastructure for addressing challenges?); and 3) to provide context for the challenges and assets (How does the local challenge compare with neighboring and peer communities?).

For example, in the "Moving Towards a System" needs assessment, IFF used easy-to-understand rankings of local towns to embolden grassroots leadership to demand changes to the implementation of Pre-K funding. As a result, several school districts determined it was better for children and families if the district placed state-funded Pre-K teachers in local child care centers rather than return the funding when they lacked space for a program in a school.

### 2. You can't build a house with only a hammer.

Data without the ability to act is a study on a shelf. Capital without either data or development capacity is just an incomplete loan application. Sometimes a nonprofit organization only needs one element of IFF's continuum of services. But in many suburbs, IFF uses all of its tools—research, real estate development, financing, facilitation—to build the house.

# CONFRONTING SUBURBAN POVERTY IN AMERICA

While IFF has created its own internal continuum of services to bring about transformative change on an aggressive timeline, this is not the only way to achieve results. It is possible for others to create integrated capacity and implement community development and human services solutions by forming true collaborations among CDFIs, real estate developers, research entities, and providers.

### **3. Scale matters.**

Suburban regions are by definition multijurisdictional and often replete with small, undercapitalized entities. As a result, they are automatically complex. Moreover, suburbs with a high degree of poverty rarely have the back-office infrastructure or staff capacity to apply for, manage, and report on government and foundation support. Although an organization like IFF can play the facilitator or enhanced quarterback role, scale is required to successfully implement or coordinate solutions in communities that have little to no capacity.

When thinking about CDFI scale, what usually comes to mind is total asset size. Although a CDFI's ability to generate enough revenue to cover its own expenses is key to expanding the scale of the organization, it took more than increased revenue to fuel IFF's successful expansion. IFF also had to invest in staff capacity to not only expand the services offered and communities reached, but to manage growing compliance requirements as we received more government, philanthropic, and private funding to finance IFF's expansion. We also had to invest in learning about the new jurisdictions being served, and embrace the fact that IFF's financial risk profile and cost per project or loan could change as we moved into new, high-need, low-capacity communities.

In short, we consider an organization to have sufficient scale when it has the financial and human resources to move into new geographies, knowing that doing so will bring complexities that require more staff resources. Most important, we consider scale present when an organization assumes an approach to risk and flexibility that reflects a deep commitment to working on and then implementing community development solutions.

### **4. Every community or project needs a champion.**

Scale and an integrated approach can bring enormous resources to a community, but without a local champion or leader, meaningful outcomes are nearly impossible. Beware of moving forward with a project if there is no true leadership, or at least local support for leadership from an outside partner.

Often champions are local government or elected officials, but they can also be a nonprofit agency, foundation, or municipal staff. IFF uses data as much as it can to get local officials or other potential champions to understand pressing issues and engage in and advocate for concrete strategies to address those issues.

### **5. Almost nothing is possible without money.**

IFF benefitted in the early years from millions of dollars of multi-year operating support, and used these funds for everything from research to marketing to computers. The support of local, well-known foundations such as the Chicago Community Trust and the Grand Victoria Foundation carried weight and helped IFF establish itself and demonstrate early successes.

In the case of the Building Blocks program, without the Grand Victoria Foundation, the vision of its leaders, its commitment to the suburbs, and its willingness to make a multi-year grant to IFF that provided flexibility, dozens of the projects undertaken by or led by IFF would not have happened.

In today's funding environment, many smaller, local entities receive little or no unrestricted support and lack the capacity to apply for or accept large multi-year foundation awards or government grants, let alone commercial debt.

# CONFRONTING SUBURBAN POVERTY IN AMERICA

Although there may be good opportunities for a CDFI loan, the result is often an important but isolated project. These are some of the factors that drove IFF to create its Community Strategies division to act on behalf of certain areas and play the proactive role of assembling, or stepping up to provide, both leadership and capital.

## **6. Risk as defined by others does not define us.**

IFF launched its loan fund to help fill a gap in the market. Standard financial risk assessments were not designed with the needs of nonprofits in mind, and, as a result, many projects were not getting done because of a lack of financing. Our job—and a requirement for any organization that wants to help build organizational and community capacity in low-income communities—is to redefine risk and respond to it differently, with a commitment to and deeper understanding of the work and operating conditions of nonprofits. On the other hand, assessing risk differently does not mean allowing or supporting bad governance or management in community-based partners.

## **7. Sharing knowledge and solutions requires the right context.**

There can be significant resistance to “big city” ideas even when they are the right ones. Working in the suburbs requires sharing knowledge and solutions, but it also requires building the capacity of local stakeholders to understand how to apply successful models from other places to local conditions. It also requires the correct contextual comparisons. For instance, we have found that for local suburban officials, visiting a high-quality early childhood care and education center for working families in Chicago is less effective than visiting one in another suburb. We need more suburban success stories to use as models for future solutions.

## **8. Beware the local hero.**

Few challenges to suburban community change are greater than dealing with a local agency that has been serving a community for years but with little impact or growth. Their limitations are often overlooked despite growing demand. These agencies are almost always undercapitalized and are stuck using old models and tools to address new challenges. It is very easy for national funders to back the wrong organization locally, and it happens with regularity, delaying projects and wasting resources. Many of these agencies can evolve when given new resources and opportunities to collaborate. But many will not change, and their revered status can create resistance to new ideas. The use of data makes the stakes higher. Consistently documenting real needs and demands with data, and identifying opportunities for greater effectiveness can help push local groups to change.

## **9. Choose the right partner for the right reason.**

In Building Blocks, when the time came to work directly with families and children, IFF proposed a shift in the leadership from IFF to Action for Children. Action is a statewide advocacy agency that also operates dozens of early childhood care and education programs and has launched many models of home-based outreach in some of the poorest neighborhoods in Illinois, helping build parents' confidence as their child's first teacher. Also expert in Head Start, Pre-K, and full-day child care center contracts, Action was very experienced in early childhood education community meetings and goal setting with municipal governments. Rather than subcontract with Action, IFF changed roles. Action became the project lead and IFF was subcontracted to handle space planning, capital planning, or financing as needed.

## **10. Silver bullets are for the lone ranger.**

There is no one solution, program, or product that will address every community need, or even a range of needs within a given community. Suburban poverty solutions are complex and require flexibility. There may be many similarities

# CONFRONTING SUBURBAN POVERTY IN AMERICA

across communities, but the solutions must be tailored to local conditions and based on data and existing infrastructure. IFF takes a toolbox approach to problem-solving. Some communities have minimal human services infrastructure, others have poor transportation. In these cases, solutions require far more tools. Other communities have solid human services and other assets but lack facilities development and knowledge. They need a different set of tools.

For example, when IFF worked with the Grand Victoria Foundation to expand child care in Elgin, the need for full-day quality child care was so great that IFF pushed for a large, new early childhood education center to serve many purposes and become a focal point for meeting the needs of young children. The limited nonprofit infrastructure required IFF to recruit a high-quality, outside agency to move to Elgin to operate the center. However, we also required that they hire teachers from the community. In other suburbs, IFF worked within the fragmented infrastructure to propose smaller strategic solutions as appropriate.

## LOOKING AHEAD

**Community development leadership may miss important opportunities if they fail to change with the times.**

IFF's work during the past 26 years has convinced us that the divisions between traditional community development and human services activities must be erased if we are to see the kind of transformative community change that can meet the scale of today's need. We know of community development leaders who have never met with neighboring human services agencies that serve thousands of individuals, maintain hundreds of jobs, and have an economic impact of millions of dollars in a community annually. They have not met because they don't think human services qualify as community development. The time is over for a narrow definition of community development. Real change will only happen when leaders commit to more integrated solutions.

**Philanthropy's role is critical, but it should allow for more flexibility.**

IFF has often benefitted from strong partnerships with foundations. The Grand Victoria Foundation funding for the Building Blocks program was very specific, but their staff was open to adapting and they were committed to fully funding all needed components to ensure that lack of funding would never be a reason for not meeting goals. The multiyear, general operating support from the Chicago Community Trust helped to foster stability and long-term planning and implementation. That type of flexible support has been critical to IFF's development and success.

However, too often funders want comprehensive solutions from project-specific grants, despite the silos and lack of innovation or responsiveness to changing situations these narrow grants inspire. Many funders seek "connectors," collaborations, and partnerships without a deep understanding of the true cost that accompany those strategies.

We can change this picture by working together to define the terms and allow for flexibility.

To adapt to local needs, scaled and integrated solutions and innovation require flexibility, which may sometimes mean making mistakes and changing course. Too often philanthropy makes advance decisions that foreclose on funding what works before the print is dry on the new program design. Our environment is dynamic; planning must also be dynamic, and philanthropy should be flexible.

**Government has a central role to play, but the rules must change.**

In community development finance, community development, affordable housing, and human services, government

# CONFRONTING SUBURBAN POVERTY IN AMERICA

funding often penalizes success and scale. Just when an organization reaches a point at which it can move the needle on a problem, it reaches an official or unofficial “cap” on funding. This happens on the federal, state, and local level. “We have to spread the money out...” “You can’t come back so soon...” “You will have to pick one community; you can’t be funded for both...” These unwritten rules ignore the efficiencies gained by working through proven, high-performing organizations that can deliver results precisely because of their scale and integrated continuum of services. The result is avoidable inefficiencies in an era when resources are increasingly scarce.

In our work with the West Cook County Housing Collaborative, we have also seen how government funding can hinder collaboration across jurisdictions and policy areas. We are closer than ever to seeing suburban municipal governments collaborate on a broader scale, ask for help, and work more effectively with the private sector. But to support those efforts, government funders at the federal, state, and local levels must understand that the old rules just won’t work. They can be partners and trusting, responsive regulators, or just plain old regulators that stand in the way of innovation. The geography of poverty has shifted, and the scale of today’s need is greater than ever. We cannot expect to improve outcomes for low-income families and communities if we keep using the same outdated playbook.

## **The nonprofit sector must continue to evolve, learn, and grow.**

Local knowledge is an essential element of success, but it is only one of many necessary factors. Local leaders should look out for the interests of their agencies, but they must be honest about their capacity. At some point, all successful nonprofit agencies are under pressure to grow, and in a time of rapidly growing, and concentrating, poverty in suburban communities—communities often cut off from programs and resources focused on the urban core of a region—nonprofit leadership is critical. It is time for many of these leaders to step up and shoulder the responsibility of taking their organizations to a meaningful scale, whether through growth or collaboration, and expand to suburban communities.

---

<sup>1</sup>Joe Neri is Chief Executive Officer and Trinita Logue is President of IFF.