October 30, 2009

Dear Friend:

The Innovation Forum organized by Local Initiatives Support Corporation (LISC) and Massachusetts Association of Community Development Corporations (MACDC) in 2008 launched a serious conversation about the future of community development in greater Boston and across the state. Since then the national financial crisis has made development even more difficult at a time when resources are scarce – making it even more important that we take steps to ensure the long-term effectiveness of neighborhood-based nonprofits.

A number of nonprofit leaders began to ask, as did other stakeholders, whether a shared development model might be more effective. To help advance this dialogue, the Massachusetts Housing Partnership (MHP), with financial assistance from The Boston Foundation, engaged VIVA Consulting earlier this year to answer a basic question: would it be viable to create a more centralized structure for real estate development and asset management to operate in partnership with local nonprofits in such a way that it strengthens the collective impact. A steering committee was formed that represented a broad base of interest in and commitment to the nonprofit developed affordable housing. Based on a review of best practices in other parts of the U.S., this effort became focused on the concept of creating a “unified development corporation” or UDC.

The basic premise is that a viable UDC would better enable community based nonprofits in Greater Boston to support their mission and get real estate projects done more successfully and more often, than happens in current practice. The proposal does not presume that all nonprofits developing affordable housing would or should give up doing real estate development on their own. At the same time, the proposal raises legitimate and important questions about whether an alternative path for nonprofit development would provide sufficient net benefits to the delivery system and to the community development industry as a whole. It also highlights some of the many challenges and questions that still need to be addressed.

We are sharing this paper as the first step to foster discussion and debate. It will raise practical questions about the viability of the business model and philosophical questions about whether this approach is a good idea. LISC, MACDC, MHP nor the individuals on the steering committee are endorsing a particular course of action. This is meant as a starting place for a more specific and thorough discussion and analysis.

We would greatly appreciate your feedback on the enclosed needs assessment and UDC business plan that was prepared by VIVA with extensive input from the steering committee and other stakeholders. We hope you are able to attend one of the initial discussion sessions listed below (additional opportunities will be scheduled and advertised through MACDC, LISC and MHP), and if you are unable to attend please feel free to contact any one of us to provide your feedback.
Sincerely,

The UDC Steering Committee

Kristin Blum
Senior Program Officer, LISC

Jen Faigel
Real Estate Consultant

Joe Kriesberg
President, MACDC

Charleen Regan
Real Estate Consultant

Clark Ziegler
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Susan Connelly
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Chrystal Kornegay
Chief Executive Officer, Urban Edge

Geeta Pradhan
Director of Programs, The Boston Foundation

Bob Van Meter
Executive Director, LISC

Initial UDC Discussion Sessions
Thursday, November 5       Noon to 1:30 (brown bag lunch) at MHP
Friday, November 6          3:00 to 4:30 at MHP

Please RSVP for one of these dates with Dina Vargo at dvargo@mhp.net or 617-330-9944 x260
Unified Development Corporation Business Plan

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UDC Business Plan prepared by VIVA Consulting
The recession brings a long-standing problem into sharp relief: it reveals the precarious state of a sector that is continually asked to do more with less…The talent, resources, and passion that people in the sector bring to the goal of addressing society’s most pressing issues must be protected and nurtured. This recession is forcing the issue of how to better invest in what works for the benefit of society. Nonprofit Finance Fund, Summary Report: Nonprofit Survey Results, March 26, 2009

The Boston area has long been a national leader in the skill and depth of its nonprofit housing community. The city of Boston alone is home to twenty-four community development corporations (CDCs). Between 2003 and 2006, all nonprofits in Eastern Massachusetts — CDCs and others — were responsible for developing over 3,500 units of housing. The accomplishments of the sector range from small developments supporting some of the Commonwealth’s most vulnerable citizens — men and women with mental illness, homeless teens parenting children — to multi-phase projects providing a range of housing types to a mix of income groups. Organizations have also sponsored commercial redevelopment, both neighborhood retail and large-scale multi-use facilities. These projects and the other efforts housing nonprofits undertake in job training, community organizing and economic development have left their mark on every part of Boston, a city which only thirty years ago suffered from widespread neighborhood abandonment and disinvestment.

Nevertheless, as of the fall of 2009, the affordable housing industry is confronting perhaps the most unsettling period since its inception. Alarmed by the housing market downturn, prolonged development timelines and a lack of financing, Boston-area community development organizations and funders have begun to examine the question of “how to better invest in what works” focusing on whether pooling development and asset management capacity would yield the same or even greater impact despite fewer and more precarious resources.

Massachusetts Housing Partnership convened a Steering Committee ¹ and contracted with VIVA Consulting to formulate a business plan for such an undertaking, now called the Unified Development Corporation (UDC). At the outset, the UDC was conceptualized as a strong development entity which would work in partnership with nonprofit organizations with the sole purpose of supporting and advancing their real estate and asset management goals. The assumption was that it would work initially in the Greater Boston area, but this would not preclude later working in Central or Western Massachusetts.

¹ Members of the Steering Committee included Clark Zeigler and Susan Connelly (MHP), Jen Faigel, Chrystal Kornegay (Urban Edge), Kristin Blum and Bob van Meter (LISC), Charleen Regan, Joe Kriesberg (MACDC), and Geeta Pradhan (Boston Foundation).
This resulting business plan for the UDC has two parts. Part One is an Environmental Scan and Market Study. Part One describes a precarious existence for many in the affordable housing development industry: reduced subsidy from the diminution of the tax credit market as well as state subsidy, overall real estate market turmoil and inadequate capitalization/operating support to weather extended development timeframes. Best practice advice gleaned from five nationally-recognized organizations informs the success factors for the UDC and specific organizational recommendations in Part Two.

Part Two describes the business framework for a UDC, including the resources it would require, risks and opportunities, financial projections, and next steps. In summary, it describes a new 501(c)(3) organization with highly skilled development and asset management staff and a high-level, engaged board drawn from the range of stakeholders in affordable housing (user organizations, funders, foundations, community members, housing advocates and government). Members, who are user organizations and institutional supporters, would approve the board. The UDC would work in partnership with nonprofits who identify and propose projects. The UDC will offer business terms comparable to or better than other potential co-developers for new projects: 50% fee sharing and a strong balance sheet to support lender and investor underwriting. Based on the assumptions in the financial model, it will require $1.75 million in start-up funds plus $3-4 million in capitalization to support development guarantees. The success of the UDC does not depend on all existing groups “outsourcing” development and asset management capacity. Rather, the UDC should offer an attractive business proposition, top-level expertise, a mindset which values community partnership and financial resources such that groups will consider it an attractive option for furthering their missions and expanding their production.
Like the rest of the real estate industry, Boston-area housing organizations are weathering a perfect storm of threats to their pipelines and finances. These challenges endanger the health of individual organizations. On a broader scale these challenges also imperil the Boston area’s ability to sustain existing nonprofit-owned housing or create new nonprofit-owned units in a regional housing market which, despite the downturn, remains among the most expensive in the country. The most significant stressors include:

- The condominium and single family home markets have weakened; the foreclosure crisis has flooded some local markets with excess inventory.
- Credit markets are increasingly conservative, and some key lenders have withdrawn products from the market, making borrowing difficult.
- While the Boston residential rental market remains relatively strong, there is a lack of confidence leading to much more conservative underwriting terms. The commercial market—especially at the neighborhood level—is extremely soft.
- The tax credit market ground to a halt for some types of projects and sponsors in 2008. Many significant investors are out of the market, potentially for years. TCAP funds may be a temporary solution for some projects, and investors are starting to reappear. However, it is not clear pricing and investor interest will return to the level that previously supported 40%–50% of the cost of a typical affordable housing project in Massachusetts. Further, due to the state’s fiscal constraints, it is likely that bond-funded affordable housing programs will be significantly curtailed for the near future.
- Foundation and public sources for organizational operating fund are constrained; funders are already starting to limit resources to fewer groups.

These stressors have worrisome implications for the fiscal and organizational health of Boston-area housing groups. Many rely heavily on developer fees not just to fund development activities but also to fund other community development activities and programs. Already, Boston-area CDCs have laid off staff or left vacant positions unfilled. Many CDCs predict an even more challenging 2010; some are actively seeking mergers or other opportunities for strategic restructuring.

Boston housing nonprofits are not alone. A survey of 1,000 nonprofit leaders nationally by the Nonprofit Finance Fund (Nonprofit Survey, March, 2009) found financial vulnerability among the nation’s nonprofit sector. Only 12% of all respondents expected to operate above break-even in 2009 while just 16% anticipated being able to cover their operating expenses in both
2009 and 2010. Thirty-one percent of respondents had less than 30 days cash on hand and an additional 31% had less than three months.

The community development industry shows similar signs of stress. A June, 2009 report by Paul Brophy and Mark Weinheimer entitled “The Community Development Industry Today” surveyed 35 leaders nationally including large, medium and small housing organizations. The survey found hardship among all organizations with the most severe among small housing organizations (those with portfolios of fewer than 400 rental units).

Close to home, a LISC/NFF/New Sector survey of Massachusetts CDCs has identified similar themes. A preliminary analysis prepared by an MIT Sloan School team working under New Sector’s guidance found that responding CDCs have an average of only 35.4 days’ working capital available; that 40% have already implemented layoffs; and that 95% of those surveyed considered the industry’s financial health to be “fair” or “poor.” More detailed results of a more extensive study conducted by the Nonprofit Finance Fund will be available later in the fall of 2009.

MARKET RESEARCH, ANALYSIS AND COMPETITIVE ADVANTAGE

During the summer of 2009, VIVA Consulting employed a variety of methods to examine questions central to defining the UDC’s potential users, potential market size and potential competitive advantage. These methods included:

- Statistical analysis of the subsidy provided to and affordable housing created by the nonprofit and for-profit affordable housing industry in Eastern Massachusetts
- A online survey completed by 18 Greater Boston housing organizations as well as input from CDC staff who participated in the Steering Committee
- Two focus groups with development consultants and attorneys who regularly work with Boston-area housing organizations (12 attendees)
- Two focus groups with funding agencies and intermediaries (8 attendees)
- Best practices interviews with five organizations around the country
- Individual interviews with subject matter experts and key stakeholders including representatives of MHIC, Housing Partnership Network, the Massachusetts Association of CDCs and the Massachusetts Department of Housing and Community Development
- Two meetings of the UDC Steering Committee

Market Research

What is the universe of potential projects for the UDC? In what ways would its services have the greatest impact? In order to understand historic production volume and patterns, VIVA
conducted extensive analysis of the properties developed in the past, throughout Eastern Massachusetts, and by nonprofits. While the market continues to evolve, historic data on production provides the best available guidance as to the type and scope of developments that are likely to be available to CDCs in coming years. While the decline in tax credit prices has eroded the value of development subsidies available to the state, significant resources continue to flow to the production of affordable housing:

- The state’s 2009 capital plan dedicated over $83,000,000 in bond-funded resources to privately-owned affordable housing development and rehabilitation.

- Tens of millions of federal dollars flow into the state annually for affordable housing development through the HOME program. Millions more are made available by municipalities from the CDBG funds and from local sources such as Community Preservation funds.

- Federal legislation over the past year and a half has created a substantial, one-time boost in the amount of 9% tax credits available, as well as supplementary funding from the TCAP and Exchange programs. Even once these resources are rolled back, the tax credit program will still generate significant (if grossly insufficient) capital for development of new housing. At the “old” 2.00/capita rate, Massachusetts would get an allocation of approximately $13 million in 9% credits per year. At $.68/tax credit dollar, these credits would generate another $88,400,000 in equity to develop housing.

Even with the constriction in the tax credit market and the likelihood of cuts in state bond-funded programs, hundreds of millions of dollars will continue to be available for affordable housing development in Massachusetts.

As shown below, the number of DHCD-supported development units in Eastern Massachusetts totaled 5,575 between 2003 and 2006. There was a range of development types including assisted living, multifamily and homeownership. While this analysis does not include every affordable unit produced in the region during this period—HUD-financed 202s, projects relying solely on tax-exempt bonds and 4% credits, and units created under Chapter 40B being large exclusions—it does help define the universe of housing projects the UDC is most likely to pursue particularly in its early years.

Nonprofits are sponsors of the overwhelming majority of projects and receive the majority of funding awards. In Eastern Massachusetts, between 2003 and 2006, 82% of the funding awards

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2 Analysis of the DHCD awards is based on a report prepared by DHCD for the new state administration in 2007. It contained a comprehensive list of funding awards made from 2003-2006, categorized by region, funds awarded, target population (special needs, family housing, etc.) and other project data. VIVA was able to obtain additional data from DHCD about funding awards made in 2007 and 2008, but this additional data was missing some information from the previous report (such as target population). Finally, MACDC provided VIVA with historical data about production from CDCs in the Boston area and throughout the state, including these organizations’ entire production history. VIVA drew on all three of these data sets to conduct different analyses contained in this business plan.
made by DHCD went to nonprofit organizations (a percentage higher than in any other region of the state). This statistic indicates a healthy range of nonprofit-sponsored production in which the UDC might participate.

However, among the results uncovered by this analysis is that historically, the nonprofit sector has sponsored projects which are much smaller in size than the private sector. While nonprofits received 82% of the funding awards made in Eastern Massachusetts between 2003 and 2006, they produced only 64% of the units. The following table shows the types of projects and sponsors funded 2003-2006 by DHCD in Eastern Massachusetts (incorporating those regions defined by DHCD as Greater Metropolitan Boston and Northeast Massachusetts):

**DHCD-Supported Development in Eastern Massachusetts, 2003–2006**

<table>
<thead>
<tr>
<th>Development Type</th>
<th>Joint Venture</th>
<th>Nonprofit</th>
<th>Private</th>
<th>Un-known</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assisted Living</td>
<td>Number of Projects</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Units</td>
<td>161</td>
<td></td>
<td></td>
<td>161</td>
</tr>
<tr>
<td></td>
<td>Average Units</td>
<td>81</td>
<td></td>
<td></td>
<td>81</td>
</tr>
<tr>
<td>Elderly</td>
<td>Number of Projects</td>
<td>11</td>
<td>3</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Total Units</td>
<td>327</td>
<td>193</td>
<td></td>
<td>520</td>
</tr>
<tr>
<td></td>
<td>Average Units</td>
<td>30</td>
<td>64</td>
<td></td>
<td>37</td>
</tr>
<tr>
<td>Family Rental</td>
<td>Number of Projects</td>
<td>1</td>
<td>38</td>
<td>12</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td>Total Units</td>
<td>51</td>
<td>1,818</td>
<td>1,322</td>
<td>3,191</td>
</tr>
<tr>
<td></td>
<td>Average Units</td>
<td>51</td>
<td>48</td>
<td>110</td>
<td>63</td>
</tr>
<tr>
<td>Home-ownership</td>
<td>Number of Projects</td>
<td>16</td>
<td>402</td>
<td>236</td>
<td>664</td>
</tr>
<tr>
<td></td>
<td>Total Units</td>
<td>16</td>
<td>18</td>
<td>26</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Average Units</td>
<td>16</td>
<td>18</td>
<td>26</td>
<td>10</td>
</tr>
<tr>
<td>Rental</td>
<td>Number of Projects</td>
<td>1</td>
<td>22</td>
<td>9</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Total Units</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average Units</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Needs</td>
<td>Number of Projects</td>
<td>54</td>
<td>1</td>
<td>1</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>Total Units</td>
<td>54</td>
<td>1</td>
<td>1</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>Average Units</td>
<td>54</td>
<td>1</td>
<td>1</td>
<td>56</td>
</tr>
<tr>
<td>SRO</td>
<td>Number of Projects</td>
<td>9</td>
<td></td>
<td></td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Total Units</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average Units</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data from the MA DHCD Housing Development Progress Report, 2003–2006. Includes projects from Metro Boston and Northeast MA areas only.

The comparison, illustrated visually in Graph 1, between nonprofit-sponsored versus privately sponsored deals between 2003 and 2008 is instructive. The nonprofit sector routinely does development projects that are significantly smaller than their private sector counterparts.
(overall 26 versus 71 units on average). Many nonprofits make it their mission to undertake development transactions of community importance that may be too small or too difficult to attract private sector players. Further, many of the nonprofit-sponsored projects are designed to serve special needs populations: 56% of the Eastern Massachusetts projects with 20 or fewer units fall into this category, and all but one of these developments were sponsored by nonprofits. Special needs developments are generally smaller for programmatic as well as financial reasons. Finally, the small organizational scale and balance sheet of many nonprofits places large projects out of reach financially.

Additional analysis showed that most of the smallest deals were special needs or small homeownership programs. Still, there were almost no nonprofit projects over 100 units as shown in the graph. Out of 196 nonprofit-sponsored projects supported by DHCD between 2003 and 2008, only four had more than 100 units. (Please note that projects financed with 4% credits that did not receive any DHCD assistance were not included in this analysis.)

These findings might not be significant but for the well-understood economies of scale in real estate development, ownership and management: the smaller deals are significantly less profitable. The long-term financial future of the UDC is dependent on its being able to pursue and complete a broad range of projects including a greater reliance on larger projects than CDCs have traditionally been able to pursue. This does not mean avoiding small projects, particularly those which serve needs the private sector is not equipped to address. To the contrary, as noted with groups in the best practices section, the size and diversification of the
UDC should allow it to better balance the risks of large and small projects than any single CDC operating in a limited neighborhood.

**Survey Responses**

With input from the project Steering Committee, VIVA Consulting designed and circulated a Web-based survey to organizational leaders, development and asset management staff at more than 25 Boston-area nonprofits involved in housing production. The pool of respondents was not limited to CDCs but also included other nonprofits engaged in housing development as a significant part of their mission.

The survey garnered 26 responses from 18 organizations. (Four organizations had more than one staff member responding and results have been weighted to reflect that.) Executive Directors responded from 17 of the organizations. The survey asked a focused series of questions about the challenges organizations perceived they were facing as well as what UDC services they might use. The most frequently cited challenges were an uneven flow of development projects and a lack of staff with specialized expertise.

![Survey Results Chart]

- The flow of real estate development work is too uneven for us to employ full-time development staff.
- We have not yet developed a strong asset management function to oversee our role as owner of our real estate portfolio.
- We have opportunities but lack staff with specialized expertise.
- There are many opportunities for development in our area, but we are prevented from pursuing them by a lack of capital or a relatively weak balance sheet.
- Opportunities for new real estate development projects are extremely limited in our service area.
When asked which UDC services they would use, organizations most often cited high level technical expertise (12 yes votes) followed by asset management services (9), acting as a co-developer (8) and hands-on project management (7).³

![Bar Chart: Services Considered](chart.png)

Generally, the results indicate solid interest in the services of the UDC, with almost 2/3 of the groups polled indicating that they might use the UDC for at least some services.

Members of the Steering Committee who are housing organization staff or represent CDCs offered additional insights into the environment for their organizations. Specifically, members pointed to the advantages community-based organizations offer such as strong neighborhood credibility and engagement, connections to local organizations for resident services and a pipeline of existing projects for refinancing and asset management. They also provided detail as to why accessing the technical and financial resources of the UDC could be an attractive alternative to the way many organizations now operate. Among the most significant issues identified were 1) the ever-increasing complexity of transactions, 2) the increased emphasis on strong balance sheets from funders at odds with an funding environment which offers limited operating support and forces very long development timeframes and 3) a neighborhood focus that, while commendable from a mission perspective, may lead to small projects and an inability to replicate successes because each deal is unique.

³ It is worth noting that responses did not vary by organization size, that is, for example, smaller organizations were not more likely to say they lacked expert staff for projects than larger organizations.
Focus Groups

VIVA Consulting conducted four focus groups: two with development consultants and attorneys working with Boston-area nonprofit developers and two with funders. The four focus groups discussed a similar list of questions:

- What could the UDC provide that is not well-delivered or available now?
- What does the entity need to be successful?
- What are its challenges?

Funders were additionally asked about whether they could enact policy changes or other specific measures that could support the UDC’s success. The highlights of these discussions are summarized below.

**What UDC could deliver that is not available/well-delivered currently:**

- There is a need for a strong balance sheet to back developer guarantees. Could a foundation or some other funding entity provide these funds to support Boston-area nonprofit development on a pooled basis through the UDC?
- Lenders and investors would see a strong balance sheet as offering true recourse and security.
- The UDC could provide services over a geographic range, in communities throughout Greater Boston. This would both provide the benefits of diversification to the UDC’s own development portfolio, and also provide development capacity to communities where there is not a consistent stream of projects.
- The UDC could potentially offer a career path to up-and-coming development staff retaining talent in the nonprofit development sector.
- Skills, seniority, continuity, gravitas of staff as well as size might give the UDC negotiating leverage with contractors, funders, city government.
- Asset management could be better delivered through the UDC by affording greater scale.
- Would have capacity to take on development using the NMTC in partnership with other neighborhood nonprofits/institutions.
- The complexities of development demand skilled financial leadership, but it is usually impossible for smaller community-based organizations to pay for a full-time CFO with the full range of required skills. The UDC could provide contract CFO services, or at least financial strategy services, to community-based housing organizations.

**What does the UDC need to succeed?**
Strong executive leadership

Experienced, sophisticated development staff and CFO

Support and confidence of the lender and investor community

Up-front capitalization (approximately $5 million)

Buy-in and participation from member groups

Reasonable decision-making authority; the ability to move projects forward without an overly cumbersome check-in process with nonprofit sponsors/partners

What are the potential challenges to the UDC’s success?

How would this interact with neighborhood politics both in terms of attracting users and fostering community input? Even the weaker neighborhood-based organizations have a strength in serving as a sounding board for their communities.

What does this provide that groups can’t get from partnering with smaller private developers?

How might fee-sharing work? Partnership is hard with any set of players and issues around fees, risk, decision-making.

Who will willingly participate? What are the carrots? Are there any sticks?

Best Practices

As a final research step, VIVA conducted best practice interviews with five groups outside the Boston area. Chosen in consultation with the Steering Committee, these organizations reflect the range of existing organizations similar to the various business models the UDC might adopt. A list of these organizations with a short description follows:

- Champlain Housing Trust—This large regional CDC is the result of a merger three years ago of two strong Burlington, VT area housing organizations.

- Cleveland Housing Network—Founded in 1981, CHN develops housing on its own and in partnership with CDCs in Cleveland as well as providing other community services such as weatherization.

- Housing Vermont—Operating throughout Vermont, this organization has acted as co-developer and syndicator of over 180 housing developments since 1989.

- Charlotte-Mecklenburg Housing Partnership—A successful regional housing developer in Charlotte Mecklenburg County, North Carolina which consistently engages in both 100+ unit developments and in small infill development.

- REACH—Serving the Portland, Oregon area, this regional housing organization has remained fiscally sound as smaller housing organizations are threatened by the local market.
These hour-long phone interviews explored key issues in the founding and evolution of each organization, the business model of each, oversight and staffing and how each interacts with its major stakeholders. Finally, each interviewee was asked for any general reaction to a two-page description of the UDC provided in advance of the interviews. VIVA also interviewed two other organizations, Housing Partnership Network and the Women’s Institute for Housing and Economic Development, about, respectively, their experience in launching new housing nonprofits and their work in partnership with other nonprofits. Major findings which influenced aspects of the business plan include:

**Viability.** All the best practice groups reported success in weathering the current economic tumult. This could result from a number of features common to these organizations but often lacking with smaller, neighborhood-specific CDCs: they are each significant ‘players’ in their markets and thus continue to attract opportunities and funding; they are diversified regionally and can work across communities, housing types and populations; they draw on a variety of funding streams. One interesting result is that several of the organizations intentionally operate to serve both large and small-scale projects balancing risks and using their institutional gravitas to aggregate subsidy and other resources to make smaller projects possible. For example, both Cleveland and Charlotte continue to make rehabilitating single-family homes and duplexes for rental or ownership part of their development portfolio.

**Capitalization.** Most of the organizations serving a function like that imagined for the UDC were initially capitalized with government as well as private resources in the range of several million dollars. These organizations continue to receive stable and reliable income for either specific and recurring development endeavors or for general operations. While the source of funds and their precise use varies by organization, these predictable streams of funding provide a critical foundation for financial health.

**Long-term leadership.** All of these organizations have reaped the benefits of long-term staff and leadership, a state of affairs that reinforces itself. The Executive Director of the merged Vermont CDCs noted in particular that one of the most positive results of the merger had been her organization’s much improved ability to provide the necessary salaries, administrative supports and challenges to attract the “best and brightest” staff.

**Governance/Interaction with stakeholders.** Boards are generally diverse and representative of the many stakeholders in community development: community residents, government, partner organizations, local civic leaders, etc. Interviewees reported difficulty when organizational structures created conflicts of interest between the members and the organization itself, yielding too much power to the former. For example, Cleveland Housing Network had to abandon a previous practice where member organizations shared in its revenues without a standard for distribution based on production or contribution to CHN. Its current practice, where groups are compensated per development in their neighborhood, is an improvement but still poses challenges.
**Relationship between UDC and community-based nonprofits.** Finally, perhaps the strongest set of recommendations to emerge from these interviews involved the relationship between the UDC and its members/participating nonprofits. Concerns centered on two issues:

- First, for the UDC to make a meaningful contribution to the future of nonprofit development, it needs to replace and expand or deepen, rather than duplicate, some existing capacity. The sector’s efficiency will only increase if some existing organizations are able to outsource all or a portion of their development activity and reduce or eliminate their current development staff capacity. If not, then creating the UDC will just add another organizational “mouth to feed” from an insufficient plate of resources.

- Second, while valuing shared decisionmaking and local collaboration, the UDC needs to maintain meaningful control over projects when it has long-term risk. Ultimately, the UDC will need to further the interests of its nonprofit partners, but not at the expense of its own organizational health, nor at the expense of the feasibility and strength of its real estate portfolio.

The second of these concerns was exemplified by an experience in Vermont and New Hampshire where three nonprofits collaborated to purchase a housing management company. Their shared goals were 1) to provide high-quality property management for their respective portfolios; and 2) to earn profits for their respective organizations. The organizations were co-owners of the company, and the board consisted of the three executive directors. While all three organizations were strong and successful and all three executive directors smart and skilled, the enterprise was a failure. It was impossible for the owners to act in the interests of the management company itself. They continued to pursue their home organization’s objectives with the result that the management company itself never had a proper steward. Consequently, this plan does not propose a shared-ownership model—rather, it proposes fee-sharing on projects and stewardship by a board that reflects a variety of stakeholders with limited board terms. The proposed governance structure for the UDC is discussed further in Part Two.

Regarding the first concern around duplication of capacity, some interviewees suggested the UDC have more attractive carrots at its disposal, pointing to the role of similar organizations as a “collaborative gatekeeper to resources” which could offer additional financing streams, funding priority or its balance sheet. In fact, a number of the best practice interviewees were able to offer some unique financial resources that turned out to be key to their success: equity on very favorable terms in one case, access to a dedicated stream of tax credits for a certain type of projects in another. Other interviewees suggested a better alternative to creating the UDC would be augmenting the capacity of the strongest, most financially stable existing organizations. The concept would not sanction merging groups already in financial turmoil; that alternative would only create more risk and be less attractive for funders. Rather, the goal would be to support the healthiest organizations to expand beyond their geographic boundaries and bring capacity to weaker organizations or communities without capacity.
SUCCESS FACTORS FOR THE UDC

Drawing on the above as well as previous work with housing organizations nationally, VIVA developed a list of key success factors for the UDC. These became touchstones in developing the specifics of Part Two.

Success Factors

The UDC will be successful if:

1. It completes development projects maintaining a double bottom line of mission and financial viability with a corporate culture which values partnership;

2. Its operation is more efficient than the current dispersed model of development capacity scattered among many smaller nonprofits;

3. The business proposition offered to potential nonprofit participants of using the UDC is sufficiently attractive—financially and in terms of control—to allow them to outsource their own development activities to the UDC;

4. Development fees and other revenues generated are sufficient not only to support the UDC’s own operations but also to feed some fee revenue back to nonprofit project sponsors; and

5. The funder and investor community regards the UDC as a reliable, capable and long-term fixture in the development community, and funders are prepared to offer the UDC their financial and organizational support.

In order to achieve these goals, the UDC will need these critical resources:

Highly skilled and stable staff. To provide an effective and attractive option for outsourcing development work, the UDC must engage highly skilled development staff who value work with local partners. CDCs and other nonprofits often have difficulty recruiting and retaining such staff for development work, particularly for more senior, supervisory positions. The comparatively low salaries and comparatively difficult working conditions at many nonprofits often drive the best development staff to seek other opportunities after a relatively short tenure. The UDC could solve this problem for CDCs by offering an attractive long-term career option for talented project managers.

Adequate capitalization. The UDC would need to be adequately capitalized to support a robust portfolio of development projects. This capitalization would need to be sufficient for a number of purposes:

- To provide equity to support borrowing for acquisition and predevelopment costs;
To cover several years of start-up operations before a relatively reliable flow of fees from development operations becomes available; and

To provide sufficient backing for guarantees and contingent liabilities to satisfy tax credit investors.

**Sufficient buy-in to achieve organizational scale.** The purpose of launching the UDC is to establish a nonprofit of sufficient scale to operate efficiently and attract capital. There is no point in launching such an entity unless it can establish enough heft and gravitas to attract the capital and business necessary to its success. There is also no point without community participation and accountability. Thus, there must be buy-in from both sides: A sufficient number of CDCs and other community organizations must want to “play” — including some of the area’s more substantial nonprofits — while a number of funders must support its capitalization and, potentially, control of specific resources. As shown in the financial model, the UDC would at maturity close three to four projects per year and refinance two. Thus, it in no way needs to absorb all the nonprofit development activity in the area to be viable. Groups may continue with their own projects or partner only on occasion. The UDC does need to take on a significant number of projects, however, particularly those of larger scale. Based on Part One, these are the very projects nonprofits currently have the most difficulty securing on their own.

**A focus on development of large projects.** Scale offers significant economic advantages in both development and operation of real estate. Private developers’ affordable projects have historically been roughly twice the size of nonprofits’. The UDC must maintain a healthy pipeline of larger projects.

**A role as a resource aggregator.** Based on survey response in particular, it is not clear that the UDC will add value unless it does more than offer to be a co-developer. As a first step as mentioned above, it must have a balance sheet that will assure funders and investors of its staying power. This will also attract some housing organizations currently unable to complete projects due to their own limited financial resources. However, broad scale participation would seem to be dependent on it delivering resources organizations cannot currently access or affording some priority for existing resources. These resources might be organizational/operating funding as well as the many pooled supports which have been discussed in the Boston housing community: pooled development guarantees, pooled operating subsidy guarantee for Section 8 projects, a larger acquisition line of credit than CEDAC can underwrite, etc.

**A participatory form of governance for all stakeholders.** The UDC must have governance which ensures good long-range decisionmaking for its health while being transparent and accountable to user organizations.
PART TWO

UDC BUSINESS LINES, ECONOMICS AND GOVERNANCE

This remainder of this plan will present a business model for the UDC, incorporating the insights from the research presented in Part One.

UDC Business Lines/Services Provided

The UDC will pursue revenues from a number of business lines: development, asset management and, at least initially, consulting.

Development

Working in partnership with nonprofit sponsors, the UDC will provide project management and financial backing for development projects. As envisioned by the Steering Committee, the UDC will take on only development projects identified and championed by community-based nonprofits. However, the UDC, with the guidance of its board, will need to retain its authority to pursue only those projects that its staff and leadership believe to be viable and financially sound. Further, the UDC will need to retain decision-making throughout the development process consistent with its financial role. Striking the balance between the UDC’s need to marry authority with accountability, and the community sponsors’ desire to retain community control, will be one of the chief operating challenges of the organization.

For the sake of simplicity, the financial model presented with this business plan anticipates that UDC will pursue exclusively rental projects, with an average size of 40 units (consistent with multifamily and senior projects sponsored by nonprofits in Eastern Massachusetts in recent years). The UDC will also work to refinance and rehabilitate projects in the asset management portfolio (see following section on Asset Management). Homeownership and retail/commercial development have been a small but significant part of the production history of Boston-area CDCs. While these types of development are excluded from the financial model for the sake of simplicity, it is anticipated that the UDC would eventually have the capacity to engage in these activities as well.

The UDC will share both overhead and developer fee with the sponsoring community-based nonprofits. While the precise split is a matter for future negotiations, the financial model presented here assumes the following:
Asset Management

The UDC will provide asset management services for existing nonprofit portfolios for a flat per-development fee (set at $5,000 per year, increasing with inflation, in the attached projections).

Asset management services should be one of the most financially attractive propositions that the UDC could offer to nonprofit partners. Asset management is a highly-skilled position, requiring knowledge of real estate finance, property management, and regulatory issues, as well as strong interpersonal skills. Asset managers at bigger organizations typically handle loads of roughly 25 properties. Few nonprofits have portfolios large enough to justify a full-time asset manager; fewer still are able to attract individuals with the skills and experience to fully realize each property’s value for the owner and community. Asset management, done well, can help nonprofit owners to release “captured value” from their assets, recognizing opportunities to refinance and take cash out for the owners, pay off long-deferred fees, or perhaps generate cashflow.

A review of real estate production by Eastern Massachusetts CDCs shows 147 developments of 20 units or more produced as of the end of 2007. The attached model shows the UDC taking on a portfolio of 20 developments by the end of the first year, working up to 60 developments from the existing portfolio within four years. All new developments completed by the UDC are also added to the UDC asset management program. Finally, the financial model shows a certain percentage of developments in the existing portfolio yielding refinancing opportunities that feed the development portfolio. These are potentially among the most profitable development opportunities for sponsors and the UDC alike. The deals are larger, and therefore more profitable. For projects of 20 units or more developed by Eastern Massachusetts CDCs between 1981 and 2000 (likely candidates for redevelopment in the UDC’s first 10 years), the average project size is 75 units (compared to an average of 59 units for projects completed 2001–2005). Further, since these projects are already owned and operating, they are much less risky than new development projects.

Consulting

Most interviewees and survey respondents described a well-functioning network of development consultants serving the greater Boston area. While we are not endorsing a UDC model that relies heavily on development consulting as a business line, a significant number of survey respondents agreed that they might engage high-level, subject-specific consulting
services from a UDC. Further, many interviewees identified gaps in services in the nonprofit community development world in several areas: consulting for non-housing institutional nonprofits, construction management and CFO-level analytics and financial planning. Finally, a number of groups launching their development capacity have used consulting as way to bring in cash and relatively risk-free business in their early years.

The attached financial model includes consulting as a business line:

- The Executive Director and Project Managers are shown carrying a limited range of development consulting work in the entity’s early years, phasing out after year 3 or 4.
- Construction managers are shown carrying a moderate consulting caseload for a longer period.
- The CFO is shown carrying a larger consulting caseload, over a longer period of time. Particularly in the early years, when this organization is quite small, the kind of skilled, entrepreneurial CFO described by the Planning Committee and interviewees should have time to spare after tending to the UDC’s own finances to consult for other organizations. This kind of contract CFO work has been identified as a real need for community development nonprofits. The UDC could offer organizations access to a CFO at a skill level well beyond what any of these organizations could afford to pay individually.

**Staffing and Compensation**

Skilled staff, retained over the long term, is an essential element of the UDC’s success. The ideal leadership team is described as business-oriented and disciplined; funders describe the capacity and experience of the leadership team as a major underwriting issue when they assess potential investments. Key staff members include:

- **Executive Director.** Because this will be a relatively small, entirely development-focused organization, this individual should have extremely strong project management skills as well as managerial skills. The Executive Director will also need the ability to raise funds in the early years of the organization, before development activities are sufficient to ensure adequate cashflow to cover operations. Suggested level of compensation: $135,000 plus closing bonuses ($10,000 per project closed)

- **Project Managers.** The UDC will need experienced, capable project managers with interpersonal skills strong enough to communicate effectively with nonprofit sponsors. For this organization to be successful, it will need to retain these staff members over a relatively long term. Suggested level of compensation: $90,000 plus closing bonuses ($10,000 per project closed)

- **Construction Managers.** A clear priority of the funders interviewed for this project was that the UDC should have the capacity to see projects successfully through construction completion. An additional benefit of having these staff people in-house is that the
construction management function offers a good potential source of consulting revenue without a large time-lag from the time that services are provided to the time that payment is made. Suggested level of compensation: $95,000

- **Chief Financial Officer.** This entity will itself be too small in its early years to justify the hiring of a highly-skilled CFO for its internal needs alone. However, the need for CFO-type skills was a theme that emerged repeatedly in the focus groups conducted for this business plan. The presence of a skilled CFO will offer consulting capacity that might be extremely valuable to area nonprofits. Suggested level of compensation: $120,000

- **Asset Managers.** Well-qualified asset managers need to have skills in finance and financial analysis as well as a solid understanding of property management, operations and marketing. Suggested level of compensation: $70,000

The salaries quoted above merit further testing in the marketplace while this plan undergoes further vetting and revision with stakeholders.

### ASSUMPTIONS IN FINANCIAL MODEL

#### Project size

The attached financial model assumes that the average size of new developments is 40 units, roughly average for nonprofit developers of elderly and family projects since 2003. It assumes that the average rehab/refinance of the legacy projects in the portfolio will be bigger (average size of these developments, from the 1970s through 2000, was 75 units). These rehab/refinance projects could be an important source of steady development fee income, with relatively low risk compared to new construction or new acquisition. Managing project size, establishing a minimum number of units and working to generate a pipeline of projects that are as large as possible will be both challenging for the UDC and also critical to its business success.

#### Capitalization

Because the development cycle is often as long as 3-4 years for an affordable housing project, this organization will need roughly 3 years of operating subsidy before it reaches sustainability. In this model, that operating subsidy amounts to approximately $1.75 million, in addition to equity capitalization of $3–4 million to support development guarantee obligations. Whether any of this up-front operating subsidy could ultimately be repaid would depend in large part on the UDC’s split of fee-sharing arrangements—the more generous the UDC’s share, the better the chance that the UDC could ultimately repay the start-up capital without undermining its own future financial health. Similar efforts have draw on foundation support, state government funds, soft loans from financial intermediaries such as LISC and Enterprise and lines of credit for acquisition costs.
Timing on Hiring of Staff

The attached financial model incorporates the following assumptions about the phasing in of staff:

- Initial staffing would include, in Year 1, a full-time Executive Director, one full-time Project Manager, one full-time Asset Manager and an Administrative Director/Office Manager.
- In the second year, the model assumes adding both a CFO and a Construction Manager mid-way through the year.
- The number of Project Managers and Construction Managers is projected to gradually ramp up to include 3 FTE Project Managers and 2 FTE Construction Managers by Year 4.
- The model calculates the number of Asset Managers automatically, to include 1 FTE for each 20 developments. Given assumptions about the growth of the Asset Management portfolio, this involves starting with 1 FTE Asset Manager in Year 1, growing to 4 FTE Asset Managers by Year 5 in response to the growing portfolio. This pattern—stable number of development staff and growing management/asset management staff—is typical of real estate organizations that have a significant volume of development work.

If the pipeline were to grow either faster or slower than modeled, staffing and hiring timing would, of course, be adjusted.

CHOICE OF ENTITY/GOVERNANCE

For a variety of reasons, the UDC should be a 501(c)(3) organization capable of receiving charitable and foundation support. It will, of course, use affiliate organizations to carry out its individual projects. It has been suggested that the overarching 501(c)(3) could be an existing organization or that an existing organization might at least play an administrative role during the start-up stage. This might be explored in later stages of developing the UDC concept.

Governance is key to making the UDC responsive to both the organizations which will use its services and the funders who will capitalize it and underwrite its projects. Thus, we recommend a form which allows both accountability to member organizations and the opportunity for diverse organizational overseers. The recommended form of governance is that the UDC be a membership organization with members comprised of the organizations which use its services as well as its institutional supporters. Criteria for membership should be developed as part of the next stage of the planning process. Members would have the right to approve the Board. Board membership should represent the broad range of stakeholders in the UDC: its member/user organizations, funding agencies, foundations, community representation, financial community, housing advocates, etc.
Board members, particularly for the first years of the UDC’s existence, must be strong, skilled in real estate, able to commit significant time to the Board and knowledgeable about the communities in which the UDC will operate. It is not recommended that any one sector—member organizations, funders, government, financial community, etc.—have more than a quarter of the seats. That said, it is likely that any of the major initial funders will want a seat on the board. The organization’s bylaws should further spell out the mix of desirable board members ensuring that the Board is representative of the range of interests it serves. Board membership should also be dynamic; board terms should be limited to not more than three years with the expiration of terms staggered such that there is always a mix of newer and more experienced board members.

Finally, the organization should work via Board committees which include non-Board members in order to focus the time of Board members and nurture future leadership candidates. Initially, recommended committees include 1) Real Estate/Asset Management (the latter growing to a separate committee over time), 2) External Relations/Fundraising and 3) Internal Affairs, Finance and Audit.

**CRITICAL RISKS, PROBLEMS, AND ASSUMPTIONS**

**Dual Participation**

As noted above, it is not likely that the UDC can succeed if it offers development expertise alone. Even development expertise coupled with healthy capitalization may not be sufficiently attractive to bring the organization to a scale which assures its long term success and ability to deliver housing units more efficiently than the current system. For the UDC to succeed in delivering development services for nonprofit projects more effectively, efficiently and reliably than the current system, two things need to occur:

- A significant number of Boston-area nonprofits—including some with sizeable development pipelines—need to embrace the concept and effectively outsource their development work to this new entity.
- The UDC needs to attract the capital required to fund its start-up costs, to fund acquisition and predevelopment activities, and to provide the balance sheet strength necessary to carry a robust development pipeline moving forward.

The UDC needs both money and participation to succeed—if both are not in place, it will fail. Assessing the breadth and depth of interest from both the user and funder side must be a first step for further development of this concept.
Scope of Plan/Alternatives

From the outset, the UDC has been conceived of as an entity which assists in development and asset management. There is another role which might be valuable in the current environment, that of acquirer of or receiver for the assets of housing organizations which wish to wind down. While there are opportunities for synergy in a UDC formulated to take on this role as well, the numerous issues would need to be addressed separately.

Additionally, it has been suggested that an alternative to setting up the UDC would be shoring up and expanding organizations which are already healthy, significant participants in the nonprofit housing sector and encouraging others to merge into them. This is already occurring organically to some extent and does seem an attractive route. Some of the supports suggested for the UDC such as start-up capitalization would be the same for these ventures. However, some issues would be quite different, and it would be a thorny road choosing which groups would be those “shored up” and which “consolidated”. (A steering committee member noted that given the complex, local nature of development and the substantial unmet needs, an industry-wide strategy that both continues to strengthen existing local organizations and simultaneously creates a new development entity to augment the capacity for all may ultimately be optimal.)

Again, while an option worth noting, investigating and potentially pursuing, full evaluation of this option was outside the scope of this effort.

Market Assumptions

The past two years have seen an unprecedented level of turmoil in the world of housing and housing finance. This business plan is predicated on the assumption that the Massachusetts housing market returns to some level of stability, and that the main vehicle that has funded affordable housing projects of size, the Low-Income Housing Tax Credit, continues to be a viable development tool. As of this writing, in early fall of 2009, the LIHTC market is showing initial signs of recovery, but the market remains shaky and pricing remains low compared to pre-recession levels. It is not clear how the federal government will support affordable housing in the next 3–5 years and state bond funded programs appear vulnerable due to the state’s fiscal difficulties. The UDC can only succeed if the capital necessary for affordable housing development—public subsidy, private debt and equity—continues to be available, and if the tax credit market returns to some degree of stability.

Balancing Member Participation and Control

A central challenge for the UDC will be to offer community-based project sponsors a chance for meaningful input and control, while retaining the control over development decisions that are appropriate for a partner who is effectively providing both capital backing and development experience and judgment. A further challenge will be striking a fee-sharing arrangement that is of sufficient benefit to both the UDC and to its partners. The greater the share of fee that the
UDC gives to its partners, the more it will be constrained in its ability to build its own balance sheet strength and thus support future development projects. Yet clearly, for the UDC to be an attractive option for nonprofit sponsors, there needs to be a significant enough fee-sharing arrangement that there is a net benefit to the sponsors.

Balancing these issues so that the needs of both the UDC and the nonprofits to sustain their organizations and meet their missions will be perhaps the most challenging element of the UDC’s development.

During the creation of this plan, there was discussion whether CDCs might participate financially in the UDC as a sort of ‘equity investor’ perhaps helping to capitalize the organization upfront and then sharing in revenue from all projects. This business plan focuses on a model where fee-sharing is on a per-project basis; however, it does not foreclose groups from also participating as initial investors. As noted above, it is anticipated that the UDC needs significant upfront capitalization from many sources and considerably more than CDCs would likely be able to aggregate in the current environment. Thus, the financial remuneration to any investor housing organization should be examined more completely at a later point in the context of all initial funders and their expectations.

NEXT STEPS

To further explore the implementation of a UDC concept, the Steering Committee and potential organizational sponsors will need to meet with the essential stakeholders:

- Potential nonprofit participants/members of the UDC; and
- Potential sources of funding/capital.

These meetings will facilitate further refinement of the business plan. In order to launch the UDC, the project will require key commitments from these players: 1) commitments of participation from a sufficient number of nonprofit developers including potential projects for which they might use the UDC and 2) commitments of capital from funders. Additionally some of these interviews might be used to assess whether there is a way to use existing organizational infrastructure to launch or support the UDC longer term. Finally, if it is about to become a working group for further exploring the feasibility of the UDC, the Steering Committee may want to take the opportunity to consider whether additional members may be advantageous in overseeing the project’s next phase.

Additionally, three topics arose during this initial exploration and may merit further research:

- examining the alternative of better supporting existing financially stable organizations for mergers and collaborations;
- examining how the UDC might acquire assets from organizations which wish to wind down or divest of their real estate portfolio; and
examining use of the existing organizational infrastructure. Like any start-up, the UDC would benefit from early stage administrative support (e.g., billing, office space or inclusion in a large group health insurance plan) from an existing organization. A more extreme option, an existing organization expanding to take on the work of UDC, raises more issues around liabilities, fit with mission, etc. In either case, based on best practice research, the existing organization would need to be financially strong and skilled in real estate development.

More research would delineate the pros and cons of these options.
APPENDIX

Financial projections
## Unified Development Concept

### Business Lines

### Development

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| Percentage of overhead to UDC: | 75% | 75% |
| Percentage of fee to UDC:      | 50% | 25% |
| Cashflow/unit/year:            | 500 | 500 |
| Percentage of cashflow to UUL: | 50% | 50% |
| Equity as percent of TDC:      | 45% | 36% |

Equity as percent of TDC: 45% - 36%  
Acquisition and predevelopment debt capacity: 80% - LTV acquisition plus capitalized development expense

**Contingent liabilities:**
- **Construction:** 80% of non-acquisition development cost  
- **1 year**  
- **Operating:** $500,000 per project  
- **5 years of occupancy**  
- **Tax credit:** 7% decrease per year

### Asset Management

CDC portfolio in Eastern MA, developed through 2007: 147 projects of 20 units or more

Annual fee per project: $5,000  
2010 dollars

Projects per asset manager: 20

1 refi project per 25 in the portfolio of existing projects

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### Fee and Overhead Payment (Note: DNO guidelines)

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<td>Perm loan conversion</td>
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**Timing - Rounded to the nearest full year**

- From acquisition to construction closing: 1 year
- From construction closing to completion: 1 year
- From completion to break-even: 1 year
Appendix

UDC Business Plan prepared by VIVA Consulting
### Production and Profitability

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Appendix – Page 26
UDC Business Plan prepared by VIVA Consulting
## Balance Sheet and Contingent Liabilities

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Appendix – Page 27
UDC Business Plan prepared by VIVA Consulting