WHY DON’T WE BUILD IT OURSELVES?

The Story of the Humboldt Construction Company, a CDC-Owned Business

By Bob Brehm
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Imagine a nonprofit starting a construction company. Imagine they want to strike a deal with the local carpenters union, hire locally, produce high quality affordable housing, and operate as a for-profit business, competitively.

Now pay attention to the worried feeling that’s likely poking its head up somewhere in the back of your mind, the one that probably takes the identity of a “realist.” Are all those goals really compatible? Are we going to have to hide our eyes while it all inevitably falls apart in a few years?

Or maybe you are thinking, Wow, that’s brilliant! Why doesn’t everyone do that? Either way, or if you are feeling some of both, this story is for you.

It’s about Humboldt Construction Company, a community enterprise created and owned by Chicago’s nonprofit Bickerdike Redevelopment Corporation. Humboldt has survived for over 30 years—far longer than most such nonprofit-owned community enterprises, and even many community development corporations themselves.

Humboldt started with two goals—to provide local residents with employment opportunities in the construction trades, and to support Bickerdike’s housing development with quality construction. It’s succeeding in both.

But it wasn’t a short route to get there. From management to marketing, cash flow to community-labor relations, the challenges of growth to the challenges of not growing, Humboldt’s path has not been simple.

The story of Humboldt and Bickerdike contains many lessons for community development nonprofits that might want to follow in their footsteps: Lessons about who to hire, and how important it is. Lessons about working capital, building partnerships, and how you understand success—financial and employment wise. And much more.

I think you’ll find the story of Humboldt to be by turns inspiring and sobering, but all the way through very worth your while.
What Are Social Enterprises?

According to the Social Enterprise Alliance, a social enterprise is a business whose primary purpose is the common good and that uses the “methods and disciplines of business and the power of the marketplace” to advance its social or environmental agenda.

Three things make social enterprises different from government agencies, nonprofits, and other types of businesses:

1. A social enterprise *directly* addresses an intractable social need and serves the common good, either through its products and services or through the number of disadvantaged people it employs.

2. A social enterprise gets its revenue from earned sources—sales, fees, and other commercial activity, not from grants or donations. This is true whether it is part of a nonprofit or is a for-profit enterprise.

3. The common good is the *primary* purpose of a social enterprise, “baked into” the organization's DNA, and trumping all others. This is different from a traditional business enterprise that merely philanthropically donates a certain amount of profits. A social enterprise is focused on economic and social value creation. It treats profits as a by-product of an innovative solution to a social problem.

Social enterprises operate in a wide-ranging number of industries: retail, service, and manufacturing; social and human services; fee-based consulting and research; social investment and financing; food service and catering; arts; and technology. They can be structured legally as for-profits or nonprofits. They can be independent, or related to a parent nonprofit.

When nonprofits start social enterprises they are usually directly pursuing the organization’s social mission. However, some nonprofits undertake income-generating businesses that are not necessarily part of their core social mission, but are structured as a means of earning income to support those core activities (“non-mission-related social enterprise”).
Social Enterprises and the Community Development Field

CDCs and other nonprofit developers of affordable housing throughout the United States are an active part of the social enterprise sector. One of the most common social objectives of CDCs’ social enterprises is employment of people who face barriers to work or are residents in an area with high unemployment and low employment opportunity.

Such social enterprises often create transitional positions that increase the long-term employability of local residents. Frequently, these ventures are associated with job training programs offered through the sponsoring CDC or an affiliated stakeholder. By linking employment opportunities with the job training activities, the CDC creates greater potential for career ladders and reduces the need for direct availability of jobs from a certain employer base in the neighborhood. Launching a social enterprise means the CDC can control the access to and quality of the employment environment. Ultimately, the key metric for success is the number of people in jobs, and then possibly job retentions after one year or more.

New York City’s Housing Works runs perhaps the most famous CDC-based social enterprises; in fact, its objective is to end AIDS and homelessness using social enterprise. Housing Works serves a community of people living with and affected by HIV/AIDS, and has been a pioneer in creating businesses that fund the mission of a parent nonprofit. Its acclaimed Housing Works Thrift Shops, Housing Works Bookstore Café, and The Works Catering, all separately incorporated 501(c)3 nonprofit enterprises, account for approximately 25 percent of the organization’s $43 million annual operating budget, and they employ people in the Housing Works community.

The types of businesses CDCs start are often more directly related to typical CDC programs and activities than Housing Works' businesses. For example, one of the oldest and largest CDCs in the country, Los Angeles’s TELACU, owns and operates several social enterprises in real estate development, financial services, construction, and construction management. Much of TELACU’s benefits for the community—new homes, new jobs, revitalized neighborhoods, access to capital, restored infrastructure, and new community assets—are delivered through these profitable businesses.

Community Housing Partnership (CHP) in San Francisco is another example. CHP provides permanent, supportive housing to formerly homeless individuals and families. Established in 1990, it currently owns or manages eleven buildings with over 900 units. In 2007, CHP created a for-profit business—Solutions SF—that employs its residents in building management, security, and maintenance. Drawing from CHP’s extensive property management experience, Solutions SF offers outsourced lobby staffing, maintenance, and bed bug remediation to housing supervisors and property managers all across San Francisco.

Taller San Jose moved in the other direction, starting with the employment goal and developing construction and rehab expertise to meet it. Taller San Jose was founded in 1995 to help young people in Orange County, Calif., move out of poverty through job training and life skills development. In 2011, it created
a social enterprise, Hope Builders, with the goal of expanding employment for some of its most at-risk youth and increasing its mission impact through business-generated revenue. Hope Builders is a licensed, full-service general contracting company specializing in distressed properties throughout Southern California. It serves the general contracting needs of developers, private investors, nonprofit housing organizations, and homeowners, including new construction, renovation, and rehabilitation. Hope Builders tries to respond to unique needs of the foreclosed property market and, wherever feasible, incorporates green products and practices that create energy efficiency–related cost savings for homeowners, all while adhering to its original goal of employing its constituency.

Most CDCs starting a social enterprise want it to make a profit or at least achieve a high level of financial self-sufficiency, reducing the need for grants and other donations. But few ventures achieve the level of financial sustainability of their parent organization, and there is usually some dependency on a stream of public support, foundation grants, or other external subsidy sources.

In fact, it is often the case that the nonprofit sponsor ends up having to subsidize the social enterprise for a long period of time. One example is Mountain-Made, a wholly-owned subsidiary of Mountain BizWorks, a nonprofit community development financial institution that provides loans, consulting, and training to emerging and established small businesses in Western North Carolina. In 2002, Mountain BizWorks launched a retail store to sell locally produced crafts to tourists. From its inception, this social enterprise faced major obstacles. The store was too modestly sized for the market, its original financial projections were too optimistic, and it didn’t receive an appropriate amount of start-up capital. Moreover, Mountain BizWorks’ clients only made about 15 percent of the products sold, so the business wasn’t achieving its social objectives. Instead of continuing to subsidize its operations, the parent organization decided in 2011 to sell the store to a local entrepreneur, and took some financial losses. Today, the store is thriving.

The community development sector is currently facing pressures from all sides: cuts to federal funding, increased need in the neighborhoods it serves, and philanthropic calls to become more efficient, self-sufficient, and high impact. Under these conditions, more CDCs will seek to diversify their funding by pursuing earned income in the form of social enterprises; learning from those already in place will help those enterprises have a greater chance of thriving.
Humboldt’s Story

In the 1960s, the West Town/Humboldt Park area of Chicago was suffering from arson, abandonment, redlining, and the loss of manufacturing jobs. It was also home to the Northwest Community Organization (NCO), one of several Chicago groups started by legendary community organizer Saul Alinsky and his followers. NCO had been formed to give the residents of the neighborhood a voice on concerns ranging from housing to city services, crime, and education. It had been pushing the city for years to tear down vacant decrepit housing (with some success), and to encourage the development of new affordable housing to take its place (with less success).

Frustrated by its inability to get others to develop in the neighborhood, in 1967 NCO created the Bickerdike Redevelopment Corporation, named after an 1800s developer in the area, as “The Housing Arm of NCO.” The prevailing spirit was “No one else is doing right by this community—so let’s redevelop it for ourselves!”

Pictures from that time show a group of people, presumably the board and staff members, standing proudly in front of a vacant lot with a sign trumpeting the soon-to-be-developed housing. They are all white, with at least two Catholic priests in the mix. Other pictures show a similar proud group in front of a newly completed one-story ranch bungalow—totally out of place in the neighborhood of decades-old two- and three-story buildings. These “after” shots usually include the proud new homeowner, often the only person of color in the frame.

Bickerdike was organized as its own 501(c)3 tax-exempt corporation, with a volunteer board of directors appointed by NCO initially and later elected by a membership base. Like its parent group, it existed on very limited funding, with staff provided by programs such as VISTA and volunteers from various national church organizations. Its current mission is “to redevelop the West Town, Humboldt Park, Logan Square, Hermosa, and Avondale communities for the benefit of and control by low- and moderate-income residents of these areas.” (Its original focus was West Town/Humboldt Park. The other communities were added over time.)

Bickerdike’s early work consisted of seeking out, screening, and selecting home builders to develop affordable homes for sale on the vacant lots in the area. Bickerdike worked closely with block clubs and church groups to identify the sites, helped acquire the lots from the city, found and prepared families to purchase the homes, and provided ongoing support and post-purchase counseling. Bickerdike built 70 homes in this way, using mortgage funding under the HUD Section 235 program. They had a default rate under 10 percent. Nationally, however, the Section 235 program default rate exceeded 80 percent, and President Nixon froze its funding.

People ask if we couldn’t just do the housing development work and leave the contracting to others. The answer is no.

Getting Into the Construction Business

Buoyed by its early success with infill housing, Bickerdike moved on to rehabbing vacant properties, typically one- to four-unit buildings. It purchased some for a very low cost out of foreclosure and got banks to donate others. Over a five year period in the mid-'70s, it developed about 30 units, all of which were sold to area residents.

The renovations were organized and supervised by VISTA staff with a background in architecture. While acting as staff of the community organization, these young activists doubled as designers, carpenters, and crew leaders. For a two-year period in the mid-'70s the executive director role was split between two people: an architect who led the construction crew and someone with a background in community work. This reflected the value the organization attached to doing construction work itself; this attitude was already central to the group’s culture.

Bickerdike formed a small crew of local workers to do general labor and carpentry and hired subcontractors to do all of the mechanical and other specialty work. It created a revolving fund to pay for labor, subcontractors, and materials, funded through foundation grants. The size of that fund limited the group to doing no more than one or two buildings at a time. Over the course of these rehab projects, Bickerdike gained experience and skills in construction management: estimating the cost of rehab, working with subcontractors, hiring for skilled and laborer positions, meeting payroll and other obligations while waiting for progress payments, managing delivery schedules, and dealing with unexpected changes to the scope of work and cost overruns.

I joined Bickerdike as a young director in 1978 with only general knowledge of housing rehabilitation and construction. As the person responsible for overseeing all efforts of what was then a very small organization, I was rapidly exposed to all of the management issues in residential construction, along with those related to affordable housing. As the organization grew in terms of the scope of housing projects it took on, so too did the knowledge and skills of people like myself and the managers I hired and supervised. The confidence we gained through that learning process prepared Bickerdike for the eventual creation of its own construction company. Had we never actually managed rehab projects ourselves first, the group’s leadership would have been unlikely to even consider creating a construction company.

During the 1970s, the cost to rehabilitate dilapidated housing was rising, while the amount that area residents most in need of that housing were able to pay was not; in many cases it was dropping. By the end of the decade, Bickerdike could no longer expect to be able pay for an entire rehabilitation and sell it to a low- to moderate-income family for close to the total investment, even if acquisition had been discounted or donated.

To cover that gap, in the late 1970s Bickerdike began contracting with the city to provide on-the-job training in basic construction skills to a crew of local workers. The workers were paid a minimal stipend through the federal Comprehensive Employment Training Act (CETA), and Bickerdike was awarded funds to help offset the costs of supervision, materials, and subcontracting. The idea was to reduce the cost of the housing by reducing the cost of labor, while at the same
time providing training opportunities for unemployed area residents. The crew rehabbed vacant one- to four-unit buildings for sale to owner occupants and also performed minor repairs for senior citizens and handicapped people under a city-funded program.

Bickerdike continued to experience the challenges and benefits of performing its own construction work. The work was slow, and the crews were inefficient, but for several years about one to two buildings and dozens of minor repairs were completed each year. We experienced first-hand the level of effort involved in producing a good product while employing mostly unskilled workers.

Since we were one of few such programs operating in the Latino community, the contracting agency typically sent us all of their applicants whose first language was Spanish and who listed “construction” as a skill or interest area. With a crew of mostly Spanish-speaking workers, we had to be sure to hire experienced carpentry supervisors who were bilingual—much harder then than it would be now—and the Spanish- and English-speaking workers could not easily communicate.

At the time, other CDCs around the country tended to rely on private contractors to do the actual work on their housing developments, but despite the challenges, Bickerdike was biased toward continuing to hire local people and do the work itself. That way it had more control over the quality, the price, and the delivery schedule. Independent contractors, it had learned from its early experiences with the 235 program, had to be watched carefully, lest they take advantage of a small community group, low-income buyers, and/or government programs.

A Time of Rapid Change

The late ’70s and early ’80s were a time of continued rapid change in the demographics of the neighborhoods Bickerdike serves. Always an immigrant community, the area saw its racial and ethnic composition change from mostly white residents of Polish, Ukrainian, and Italian extraction to predominantly Hispanic and black residents. The white residents continued to be a presence, both in their churches and businesses and as an important minority, but the feel and character of the area was clearly reflecting the influx of newer residents, who were mostly from Puerto Rico, but also Mexico and Central America. Both Bickerdike and NCO strived to reflect these changes in their membership, leadership, and staff.

The transition was not always easy. Italian street gangs reputedly warned Puerto Rican families not to buy on “our block” when Bickerdike built or rehabbed homes. There were incidents of violence and clear patterns of racism that frustrated the community leaders. White community leaders had for years expressed a sense of being underprivileged and ignored by banks, developers, and the city. They felt that tensions with other disadvantaged groups sapped energy from the broader goals of organizing the whole neighborhood.

Bickerdike and NCO were relatively successful in their transitions, maintaining a commitment to long-time residents through a balance
in programming, membership, and hiring. For decades the majority of recipients of Bickerdike’s minor home repairs were white, even as the composition of the staff, board, and families who bought rehabbed homes became increasingly Hispanic and black.

Both Bickerdike and NCO went through changes in leadership in the late ’70s. NCO went through a series of reductions in funding and staffing, and eventually closed its doors in the late ’80s. Though Bickerdike was originally committed to community empowerment through real estate development strategies, and left more activist strategies to NCO, after NCO closed, Bickerdike became more and more active in organizing strategies, first related to its developments and the people who lived in them, and over time addressing the broader issues in the community in alliance with other local groups. Bickerdike is one of a handful of groups nationwide that to this day that has retained this strong commitment to both activist organizing and development within one organization.

The West Town/Humboldt Park community was experiencing not only demographic change in the late 1970s and 1980s, but also a mix of continuing disinvestment coupled with new investments designed to bring in wealthier residents. What started as just a smattering of “urban pioneers” buying old buildings on the cheap and rehabbing them for their own use soon became a more concerted effort among real estate interests and political leaders to attract wealthier white residents to the area. It would be another decade before high-priced housing was built for sale in the neighborhood, but many of the changes during that early period were what have come to be known nationally as harbingers of socio-economic change in modern U.S. cities: the closure of manufacturing businesses that provided good jobs, due to not only to the global economy but also efforts locally to permit residential use of properties in what were previously industrial zones; the campaign for local and federal historic designation for a central neighborhood in the broader Bickerdike area, which helped make that neighborhood “trendy” and “hot” in real estate circles; and the aggressive enforcement of building codes in cases where the owners were too poor to comply, which forced them to sell their buildings to speculators. Community leaders saw this emerging “gentrification” as a threat to community stability.

**The Trouble With Local Hiring Agreements**

Facing these new dynamics, in the early 1980s, Bickerdike continued to build housing to meet the needs of the area’s poorer residents, while at the same time joining in political/activist battles to stave off displacement, such as those aimed at preventing the conversion of affordable apartments to condos and places of employment to loft living spaces. To address the most pressing housing needs as costs went up, Bickerdike moved from a strictly single-family homeownership approach to developing affordable multifamily housing. Over the past 30 years the group has developed over 1,100 units of affordable rental housing and cooperatives. Its first rental project was 140 units of subsidized rental housing scattered in 30 buildings around the entire area. This matched Bickerdike’s entire housing production up until that point.
At the same time, the group’s leadership came to understand the significance of employment and poverty in the affordable housing crisis. It wasn’t just about the lack of affordable housing, after all. It was also about the limited incomes of people in the community. Self-evident today, perhaps, but at the time it was a progressive approach for those involved in nonprofit housing development, who often tended to be more conservative and respectful of market forces than activists directly engaged in addressing poverty and unemployment.

“Anyone with a decent construction job doesn’t need a subsidized apartment,” was a saying heard frequently in meetings and strategic planning sessions at Bickerdike during that period. We knew we would never be able to meet the ever-growing need for affordable apartments by building them ourselves, given the dearth of subsidy programs and the sheer difficulty in putting projects together. But Bickerdike was always committed to doing what it could, not only for the units it produced but for the empowerment organizing value of people coming together around successful community improvement efforts. The same held for creating jobs. If affordable housing development was part unit production and part empowerment organizing, so too could employment initiatives be about both the number of jobs created and the demonstration value of a community taking the reins on such a critical issue.

The larger developments presented obvious local job-creation potential. At the time, however, Bickerdike’s construction operations were too small to take on a major project. So it hired private contractors, but required them to hire a portion of their workers from the community. This was moderately successful, creating over 50 short-term construction jobs on the first large project alone.

But it was hard to do. Contractors resisted the hiring requirements and often completed jobs without adding to their crews, therefore not creating any “new” jobs that local residents could fill. Some small subcontractors were resistant to adding anyone to their crew, preferring to maintain a consistent workforce even when they got behind in their commitments. In other cases, race was apparently a factor—historically if not directly: passing by a job site on a Bickerdike development you would often see dozens of workers, and the only people of color on those crews would be the local residents referred by Bickerdike. General contractors would sometimes sign a “local employment agreement” with Bickerdike in order to get the contract, and then fail to pass that obligation on to their subcontractors, rendering the agreement almost completely unenforceable. In other cases the contractor would hire a Latino worker, or transfer one already on its payroll to the Bickerdike job, assuming that was what Bickerdike was looking for, regardless of where the person lived.

In spite of these hurdles, there were projects where the contractor would screen and hire some of the unemployed local residents referred by Bickerdike. To the best of our knowledge at the time, however, only a handful were kept on by the contractor after their work on the Bickerdike project was finished.

And local employment was not the only frustration. General contractors would at times make commitments on the work schedule and then fail to meet them, tried to charge the owners for cost overruns that were not caused by changes in the scope of work, and were often slow to respond to call-backs for repairs to work that had not been done well.
Becoming a Business

Bickerdike decided it could do better. Its approach to managing its housing development projects was consistent with all its other work over the years: hands-on, committed to getting it done well, and ensuring the community is proud of the finished product. That approach meant close management of the project during the development period, including direct oversight of the construction process. Through that work Bickerdike had gained knowledge and experience in the management of large construction projects, even as it took none of the direct responsibility and risk of that role.

As it continued to plan more large multifamily housing developments, it began expanding its own construction operations.

In 1979 Bickerdike won a two-year grant to increase the capacity and effectiveness of its construction operations from the Carter administration’s competitive “Neighborhood Self-Help Development” program, which provided substantial grants to community groups for innovative approaches to engaging community residents in neighborhood revitalization. The grant allowed Bickerdike to add a bookkeeper and a construction manager who was not responsible for supervising the work crew, as well as purchase a used truck and new tools and equipment. The award—totaling $116,372—was a huge grant for a group of Bickerdike’s size, and enabled it to break away from what was then a near total dependence on program-specific city funding.

The expansion brought new questions with it. Should the construction operations continue as a function of Bickerdike itself, or separate into a distinct corporate entity? If it separated, should it be wholly owned and controlled by Bickerdike, or bring in other investors and broader governance? Should it be structured as for-profit or nonprofit, taxable or tax-exempt? Bickerdike sought out technical assistance from the University of Illinois Center for Urban Economic Development (UICUED), which helped Bickerdike decide on a wholly-owned subsidiary corporation that would be for-profit and taxable. There was some concern about whether or not grant funds could be used to create a for-profit subsidiary; Reagan’s election in 1980 effectively answered that concern.

Before even taking office the new administration announced plans to substantially cut or eliminate much of the funding for programming like affordable housing and neighborhood development. Bickerdike knew there would be no renewal of an initiative like the “Self-Help” grant. At the same time, it saw an opportunity to take advantage of the incoming “free market” ideologues’ commitment to “business” solutions over “social programs.” Bickerdike proposed to HUD, the agency source of the initial funding, a grant amendment that would allow the second year’s budget of about $34,000 to be converted to stock in a construction subsidiary. As expected, the new administration loved the idea. When Humboldt Construction Company was incorporated in 1981, Bickerdike used the balance of the grant funds to provide the capital for all the shares. Humboldt has been in continuous operation since that time, with a crew size averaging 15 carpenters.
Legal Structure

Bickerdike considered several factors in ultimately deciding on a for-profit, taxable subsidiary, wholly-owned and controlled by the parent organization:

1. **Taxable or tax-exempt?** The guiding principle in this consideration is whether or not the enterprise functions substantially like any other private, taxable business would. Is it essentially a “training program” or is it a “construction company”? If the latter, Bickerdike learned that it would not qualify for tax-exempt status.

2. **Part of Bickerdike or a separate corporation?** Bickerdike could have kept the construction activity in house and paid Unrelated Business Income Tax on the net revenues. However, the IRS frowns on exempt organizations earning substantial revenues from UBIT activities. Having separate corporations also would provide better protection from liability and creditors.

3. **For-profit or nonprofit?** At the time little was known of the option to create a taxable nonprofit corporation. Such a hybrid is organized in the same fashion as a group like Bickerdike, with no private ownership or benefit and all revenue committed to the charitable mission of the organization, but it declines to seek an exemption and pays income tax on all net proceeds. Bickerdike and CDCs around the country now typically use that structure for affiliates that sponsor housing development projects. Being unaware of that option, Bickerdike chose to organize Humboldt as a for-profit, taxable corporation. Bickerdike made a point of establishing that the officers of Humboldt would not be compensated for their role in governance and oversight of the enterprise and that no individuals would own shares. This decision was certainly easier to explain. Few people outside of those responsible for organizing such enterprises can make a clear distinction between “tax-exempt” and “nonprofit,” so the “nonprofit taxable” structure might well have led to confusion.

4. **How to avoid the perception of “unfair competition”?** Exempt organizations are prohibited from using their tax-free status to unfairly undercut the pricing of private businesses. Bickerdike determined that setting up Humboldt as a separate, for-profit, taxable corporation that derived no special benefit from its parent’s exempt status should address the unfair competition concern. Still, it surfaced from time to time as Bickerdike grew and began to use Humboldt exclusively on most of its development work, and so the group remained sensitive to the underlying principle. For example, Bickerdike got a federal Economic Development Administration grant for its public market project. The grant required open competitive bidding. Bickerdike chose not to seek a waiver that would have allowed it to contract with Humboldt in order to avoid raising the unfair competition concern.

The chosen structure was appropriate, but not without its problems. When opponents of Bickerdike’s housing work looked for criticisms that might damage...
its image as an ethical group, they at times raised the notion that Bickerdike wasn’t truly “nonprofit” since it owned and operated a “for-profit” subsidiary. That same criticism was sometimes raised by city officials tired of Bickerdike’s relentless advocacy for appropriate subsidies for its housing development efforts. The criticisms never stuck, however, because the group was transparent and had such a good track record of doing what it said it would do and getting it done ethically.

**Mixing Up the Crew: Unions and Integration**

The building trade unions in Chicago were for decades predominantly composed of white men. This meant that many community-based organizations, though supportive of worker protections and good wages, were ambivalent about having their construction work done by union companies.

Progressive activists within the Carpenters Union sought to alter that dynamic. When Harold Washington was elected Chicago’s first black mayor in 1983 on a platform that included community development and fairness in hiring, with overwhelming support of black, Latino, and progressive white voters, those union activists saw an opportunity to open up their membership.

They approached Bickerdike and other housing groups with a proposal: if the CDCs would agree to join the union, the union in turn would agree to modifications to the basic agreement they require for unionized construction contractors that would open up access to new union members from the CDCs’ constituencies.

There were three main modifications:

1. **Journeyman/Apprentice Ratio:** Under the usual agreement, the standard ratio for a carpentry crew on a construction worksite is three journeymen to one apprentice. The CDCs were offered an opportunity to run crews instead at a ratio of one journeyman to three apprentices. Apprentices are paid a percentage of journeymen wages, ranging from 40 percent in the first year to 80 percent in the fourth, so a crew with a modified ratio would cost the employer less overall. But at the same time apprentices are typically less productive and need more supervision than journeymen, which offsets the savings in wages. The greater advantage to the ratio modification was having more opportunities to bring local residents into the union through the apprentice program.

2. **Route to Apprenticeship:** Entry into the apprenticeship program usually came only after waiting on a very long list. The CDCs were offered the chance to identify qualified candidates who would be screened for admittance to the apprenticeship program without waiting on the list. This enabled the groups to hire locally and to create openings at the entry level for motivated residents. Those workers could continue in the four-year apprenticeship program and eventually become journeymen, and all along they would be eligible for employment on any union carpentry site.
3. **Pay Scale:** The CDCs were allowed to pay journeymen 75 percent of scale for year-round work on small projects benefitting low-income people and paid for by public subsidies. The justification for this modification was that carpenters in Chicago working “outside” on construction sites typically work about nine months each year, due to winter weather. Those employed at “inside” shops, such as cabinetmaking factories, typically worked year-round and were also paid at 75 percent of the scale for their “outside” counterparts. If a CDC could commit to employing carpenters 12 months a year, the union would agree to them being compensated at the “inside” rate.

This approach was seen by activists at the union and community groups as beneficial for all: the union would be able to diversify its ranks, consistent with the stated goals of the new city administration, and the community groups could join the union and offer local workers a chance at participation in the apprenticeship program, union benefit plans, and access to union carpentry work anywhere in the area.

The modification agreement has remained in effect since then, automatically renewing each year. Two other groups signed it at the time: Eighteenth Street Development Corp., where one of the union activists who engineered the agreement had been a long time carpentry trainer, and Shorebank Neighborhood Institute, a nonprofit CDC connected to Shorebank. Neither organization still exists.

Humboldt has over time dropped its use of the 75 percent of pay scale modification because as it grew to take on larger projects that were not covered by the “inside” rate, it became untenable to have some employees paid the full rate and others the lower rate. The flip in apprentice to journeymen ratio has remained in effect, however, and Humboldt continues to identify local workers who then go through the apprenticeship program and reach journeymen status.

Humboldt has typically found these local candidates through word of mouth or walk-in applications for work. The screening is basic, with background and reference checks. Humboldt typically hires likely candidates for a brief trial period before sending them to apply for union membership. During that time they are paid at a rate equivalent to union scale with benefits. Only when Humboldt is convinced they have someone who is dependable, responsible, and reasonably likely to succeed in the apprenticeship program does it refer the person to the union.

In recent years, the union has resisted the part where Humboldt recruits new apprentices, since so many of its members are out of work due to the recession. The union prefers instead to find unemployed existing union members—journeymen, apprentices and apprentice candidates—who live in Bickerdike’s area and refer them to Humboldt. Humboldt still has full control over hiring and firing, the only difference is the initial source for finding applicants.

Over its 30 years, Humboldt has employed an average of 15 carpenters at a time. Most of them were either hired at the journeyman level or successfully completed the four-year apprenticeship program to achieve that level. Assuming carpenters stay with the company for an average of three years, we can conservatively estimate that about 150 people have been employed at
Humboldt in these skilled positions. From 1981 to 1990, Humboldt maintained a crew size of about 8 carpenters. That grew to 11 in the 1990s as the workload increased, with Humboldt serving as the general contractor on close to 200 residential units and acting as a carpentry subcontractor on two other large projects. Since 2000, Humboldt has maintained an average crew size of about 21 carpenters, completing over 650 units of housing as a general contractor.

Who are the people working for Humboldt? Overwhelmingly they are neighborhood residents, as Humboldt tries to adhere to a strict policy of hiring from the local community. About 3 percent have been white, 74 percent Hispanic, and 23 percent African-American. Humboldt has been deliberate in its attempts to craft a workforce that reflects the population of the community, and has largely achieved that. And each of the predominant ethnic groups—Hispanics and African Americans—have been represented at all levels, including supervisory.

There have been tensions and issues with integrated crews. Hispanics and blacks from communities like West Town, which suffers from rampant poverty, gangs, and unemployment, have traditionally been at odds. It has taken time, and the good work of management and supervisors who are sensitive to the issue and committed to the value of having a multiethnic crew, to make it work. New positions at the supervisory level are almost always filled from within. By all accounts, Humboldt workers get opportunities for personal growth and advancement that are rare among minorities in the construction trades. Pete Landon, an architect on many Bickerdike projects, has commented on the unusually positive atmosphere, camaraderie, and mutual support he encounters on Humboldt job sites.

Ironically, male construction workers of all ethnicities and races seem to agree on one thing: that there is little room for women on a construction crew. Still, even there Humboldt has persevered, and continued to set a tone of acceptance for women as equals and intolerance of workplace discrimination. Over the years an average of just under 7 percent of the employees have been women, including one of the recent managers. Humboldt has struggled with finding women to apply for work on the crew, and with helping them succeed in what is one of the most male-dominated sectors of the work force in modern America. According to various sources, women make up 2–3 percent of the skilled tradespeople in the construction field.

### What Makes Humboldt Valuable to Bickerdike?

- It enables Bickerdike to exercise control over construction work on its own development projects.
- It collaborates internally with property management to support better security and neighbor relations.
- It promotes its economic development mission through guaranteed local hiring and use of local and minority-owned subcontractors.
- Its consistent local hiring increases sense of community “ownership” of Bickerdike’s developments.
- It is a major community development initiative that requires no ongoing grant support.
Who Owns Humboldt? Minority Business Enterprise Status

A common strategy used by public agencies to encourage the granting of business opportunities to racial minority- and women-owned firms (or “business enterprises”) is to set aside a portion of all contracting dollars to go to such businesses. Commonly referred to as “MBE/WBE set-asides,” these apply to each winning bidder on a publicly funded contract. Policies and procedures vary from one jurisdiction to another, but most include specific, distinct goals for MBE and WBE contracting, and a process for certifying qualified businesses as MBE/WBE. A general contractor on a publicly funded project must use certified MBE/WBE subcontractors or suppliers to count toward the goal.

To count as an MBE, the rules generally say that a member of a racial minority must have majority ownership of the business, and further that the business must be run by that minority owner. This rule is in place to enable the public agency to exclude from the program those businesses that are really white-owned, but who put up a “person of color” as the nominal “owner” in order to gain work under the set-aside. Humboldt has had no difficulty establishing that it is operated by minorities and women, but ownership is a different story. Humboldt is owned in its entirety by Bickerdike, which as a nonprofit has no individuals as owners. So how should it be assessed as to the percentage of minority ownership? By the percentage of Bickerdike’s members who are minority?

It’s not a simple question. The city has an interest in making sure that the certifications only go to those companies that further the goal of the set-aside, which some argue is to enable minority individuals who own businesses to expand their participation in publicly funded contracting. Other MBEs on the city’s list are protective of their status. On the other hand, HCC would say from its experience that there is a dearth of MBEs who do good work; are able to handle the paperwork; are well capitalized, local, and willing to hire local people; and are able to meet job commitments.

Humboldt did seek and obtain MBE status from the city of Chicago in the late 1990s after a long struggle, but then it lost its certification upon a re-review by the city about 10 years later. This is a significant hardship for the company. Most general contractors who are not MBE/WBE certified meet the program goals through subcontracting and materials purchasing. If the general contractor itself is a MBE/WBE, then the portion of the contracted work performed by that company directly counts toward the goal. In Humboldt’s case that would be the carpentry portion of each contract, which is often greater than the set-aside goal for the entire project. Without MBE/WBE status for itself, Humboldt too must subcontract and purchase supplies from certified MBE/WBE businesses to meet the goal.

This is a challenge; the number of certified MBE/WBE construction subcontractors is limited, and they are often busy helping large general contractors meet the goal on major projects. Others are small, and some lack the capacity to do well as
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a subcontractor for Humboldt. Further, Humboldt tries to hire minority-owned businesses from its own community wherever possible. Those businesses are often not certified MBE/WBE however, even if they are minority-owned, and so their contracts do not count toward the goal. Those local subs may lack the capacity themselves to pursue and obtain certification, and they may also be under-capitalized and have no experience with government compliance procedures. Humboldt tries to assist such local businesses where possible, but it has had to be careful not to take on management responsibilities for its subs in the interest of promoting local economic development.

The difficulty in finding qualified, adequately capitalized, local MBE subs also leads to a challenge with the construction unions. Humboldt as a union contractor is expected to hire union subcontractors. However, for some trades it has been unable to find qualified local subs who meet all the criteria and also employ union labor. There have been at least two instances where members from another construction trade union picketed a Humboldt job site to pressure it to use only union subs. Humboldt defended itself successfully in each case, arguing that it had tried to find union subs who met the criteria, and offering to entertain bids from any such subcontractors who were referred.

Slowly, Slowly Scaling Up

The creation of Humboldt Construction Company was a natural, organic evolution. After all, the new enterprise’s work was essentially a continuation of the construction work already being done in-house by Bickerdike. In fact, soon after the enterprise’s start-up, the incoming federal administration cut the program supporting Bickerdike’s employment training activities, so from 1981 onward, the only construction jobs created directly by Bickerdike were as employees of Humboldt Construction.

Bickerdike started off hiring Humboldt for jobs in its minor repair program and the rehab of small buildings, and Humboldt secured a couple of small private jobs. Having an “in-house” construction operation gave Bickerdike control over cost, quality, and scheduling, while using crews made up of all local residents. Right from the start the local employment benefit was realized: 100 percent of Humboldt’s carpentry crew lived in the community; no other qualified independent contractor would have created more than a handful of jobs for local residents.

The benefits in job quality and control were clear from the start, but also difficult to quantify. One problem many owners encounter with private contractors is scheduling: the contractors are either over-booked or weak managers of their own workload, resulting in delays and missed deadlines that cause frustration and often financial losses for the owner. At the very least, if Humboldt was going to be late on a schedule commitment, Bickerdike knew about it in advance and could plan accordingly.

Not long after Bickerdike proudly celebrated the completion of Phase I of its new rental housing in 1983, which had been built by a private general contractor, the property manager was distraught when residents of the apartments began calling with complaints of toilet roll holders that would fall off and closet doors that didn’t function properly. Small things, but the kind that give the new
residents the impression that the people responsible for the work were sloppy, or just didn’t care about quality. In the end, the contractor on that project failed to make the necessary repairs or replacements on several items. Landon, the architect on that project and many Bickerdike projects since, says Bickerdike could never have produced so much affordable housing over the years if it had been dependent on contractors like that.

Bickerdike and its joint venture partner decided to hire Humboldt to do all the repairs with funds withheld from the contractor’s final payout. Based on that relatively small contract cleaning up and completing a private contractor’s work, it was clear to Bickerdike—and its partners and funding agencies—that it had created a construction company that had as a core value getting the work done right and standing behind the quality of its finished product.

Nevertheless, Humboldt’s early growth was slow and it was almost a decade before it became the primary contractor for Bickerdike’s larger projects.

One of the things that kept its growth slow in the early years was the challenge of hiring a manager. Bickerdike was committed to hiring an individual from the community who was bilingual and demonstrated a shared interest in the group’s mission. And at the same time it wanted to hire someone with good construction management skills. As is often the case when community groups seek to hire management personnel, it is hard to find all of those qualities in a single individual. Humboldt’s first manager lasted only a year, and for a couple of years the group returned to its earlier approach of having the lead carpenter serve as a sort of “superintendent,” with responsibilities that included running the work crews and managing the subcontractors, material deliveries, and overall job progress. This was less expensive than having a distinct manager who did not work on-site, but it also limited the enterprise’s growth, as a working superintendent has limited time to look at and bid on prospective work. After a few years Bickerdike again hired a manager to oversee Humboldt’s operations, but that person also lasted just a short time.

The weaknesses and turnover in the manager position in the mid 1980s had a significant impact on Humboldt’s early growth and capacity. First, as Bickerdike’s director, I was unable to pull back from active involvement in the management of Humboldt as long as we did not have full confidence in the abilities of its manager or his commitment to our core goals and principles. The first manager took on a project for a Bickerdike board member—a mistake from the start. When there were cost overruns that were clearly the fault of the construction company, the manager tried to pass those costs along. When I argued against taking the job in the first place, and then against charging the homeowner for the overruns, the manager fought back, saying that I was inhibiting Humboldt’s growth, and that “this is how the construction business works.” That helped convince me that we could not abide having Humboldt run by someone whose approach was business as usual, where that often meant profit over quality, integrity, and fair dealing.

Given our lack of confidence in how Humboldt was being run, we were reluctant to let it take on larger projects. Each of the people who held the manager position during that early period were weak on estimating new jobs. Beyond management weaknesses, Bickerdike had also initially been timid about having Humboldt take on the general contracting role on its large developments for
reasons of risk exposure: when a private general contractor signs a contract, it is assuming some of the risk for on-time delivery and cost; if Bickerdike were the developer and Humboldt the contractor, together they would be exposed to all of that risk. That reality never went away, but as Humboldt expanded its capacity and added experience, frustration with private contractors grew, and Bickerdike built up its cash reserves, the balance tipped toward taking that risk.

Humboldt expanded gradually. After the project completing the undone work of the private contractor on Bickerdike’s first large rental development, Humboldt worked on a commercial building Bickerdike purchased for office space. In the mid-1980s, a local bank donated a vacant six-unit apartment building to Bickerdike and the group decided this was a good opportunity for Humboldt to expand its operations into general contracting. The project was successful and came in within budget. Humboldt established itself as not only a competent carpentry contractor, but also as a general contractor, with the capacity to assemble and manage subcontractors to perform all of the mechanical and other trades outside the scope of its carpentry crews. It looked good from the outside, but the weak management was still an issue. This job was small enough that the carpentry foreman could really run the job site himself, but that wouldn’t be possible on a larger job. And even so, Efrain Vargas, Bickerdike’s long time project manager for housing development, and I put in a lot of time and effort covering for Humboldt’s manager.

Variations on a Theme: Employment as the Goal

Soteria is a CDC in Greenville, South Carolina. Its basic mission is to get housing for people getting out of prison, but as its executive director, Jerry Blassingame, describes, “When the economy tanked, nobody would hire a guy getting out of prison.” So Soteria began to look into starting a business that would hire some of its clients.

It settled on a recycling business, called GreenStart, and started with getting the trash, separating the recyclables, and doing it for free. “We got a contract with the school districts. We didn’t charge for picking up, but we made money selling the material,” says Blassingame.

“We were able to hire three or four guys, we got a grant from the state association of CDCs for $15,000 and bought containers, uniforms and all the supplies we needed. Somebody donated two trucks and it grew from there,” he explains. “We now do get recyclables from other businesses in the area.”

Soteria was thinking of GreenStart as a funding stream as well as a job creator, but as of now, the business is just making enough money to pay salaries and maintain the trucks. “We don’t have a lot of profit. Our goal is to have profit come back into Soteria eventually. We’re pretty sure we can do it, but as the price of fuel goes up, it’s been tough,” says Blassingame. “There are times when we had to take money out of Soteria’s budget.”

Growth and expansion are challenges for GreenStart just as they are for Humboldt. “When we started to venture out we just started picking up anyone for free and started getting paid just on recyclables. Now we’re trying to get people to pay $50 a month because of the fuel,” says Blassingame.

GreenStart is just getting into bidding for competitive contracts, and competing with waste management companies with bigger and better equipment is a challenge. With the last grant it bought containers that will help it grow; next it needs bigger trucks.

GreenStart has been an indirect benefit to Soteria in the form of publicity. With the truck circulating, it has increased awareness of what the group does. “We’ve gotten a little funding from it; people think it’s great and love to give to a type of organization like this,” says Blassingame.
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So when Bickerdike placed a bid in the late 1980s to rehabilitate the 30-unit eponymous Humboldt Building (both the apartment building and the enterprise are named for the boulevard that runs through the community), it saw this as a good opportunity for Humboldt to grow. At the same time Bickerdike realized that to take on the general contracting responsibilities for a project of this size, Humboldt would need new management, and that that manager had to be someone trusted by the organization.

Rather than risk another disappointing hire, Vargas assumed the additional role of Humboldt manager to meet that need. For the next two decades he served as director of housing development and of Humboldt Construction.

It was a complex project. The Humboldt Building was occupied when HUD foreclosed on the previous owners and put it up for sale. An occupied building presents challenges for both the developer and contractor. We had to temporarily relocate some residents in order to clear one tier of apartments, perform the substantial rehab on that tier, and relocate the residents of the next tier even as we moved people permanently into the first. This process continued for all four tiers of the building.

Arranging for temporary relocation on a timely basis so as to maintain the flow of construction work and working on a partially occupied building were tremendously difficult. When a plumbing subcontractor had to cut off water service to the entire building for several hours to work on the supply lines to a particular tier, that affected all the residents, however briefly. When he then failed to complete the repairs before calling off work for the weekend, the residents of the occupied building suffered through three days without water. We also found it nearly impossible to reasonably limit the inconvenience to the residents of noise, dust, and debris.

The entire rehab took about a year, and at the end we threw a party for the tenants and construction workers where everyone got a free T-shirt with a likeness of the building and the slogan “I Survived the Rehab of Humboldt Building.” It had been a success. The work was completed on time and within budget, and local people did all of the work on Humboldt’s crews. The quality was complimented by city officials and residents alike. As hard as it had been, that job succeeded because of the close coordination among housing development, property management, and construction.

This contract—for about $1 million—was a major step up for Humboldt, and set the stage for it to take on all of Bickerdike’s future projects. Clearly, having the housing development and construction management roles combined—with property management also under Bickerdike—had worked well. It wasn’t until 2011, when Vargas retired after 30 years at Bickerdike, that the organization once again hired someone to be exclusively the Humboldt manager.

Bickerdike’s housing development production grew dramatically in the 1980s—the 140-unit new construction development was followed by two combination new and rehab housing developments of 178 and 107 units. And as its production grew, so too did its frustration with working with private general contractors on those large projects. The quality of work was mixed, but even more importantly, housing development staff were constantly dealing with problems related to
changes in the work, scheduling issues, and the resistance of the contractors to hiring locally.

Bickerdike earned considerable development fees from these larger development projects, so it used some of them to finance working capital that allowed Humboldt to grow in capacity until it could itself take on the contracts for projects like those.

Since the mid-1990s Bickerdike has hired Humboldt Construction as the general contractor on all of its new construction and rehabilitation projects.

Humboldt has employed a crew size ranging from 5 to 30 carpenters and apprentices since it was started, averaging about 15. It now also employs three people in the office: construction manager, project manager, and senior bookkeeper. The average crew size, however, does not reflect all of the employment created by Humboldt. Over the years many Humboldt carpenters have gone on to take jobs with other union contractors. And some have taken jobs in more stable occupations, such as head of maintenance for a large property management operation (Bickerdike), and government building inspector. The organization believes that many of those people got their career start and chance for continued, well-paying employment during their time working for Humboldt. While no tracking data exists for these people, the group estimates that there are dozens of former Humboldt employees who are now regularly employed in construction and related trades.

Independence and Interdependence

Humboldt’s capacity is built on a foundation of support from Bickerdike: they share office space, business relationships, and key systems; all office and administrative functions are performed by Bickerdike; and Bickerdike and its board conduct strategic management and oversight. (The Bickerdike executive director is an in-house director of Humboldt with the title of vice-president of operations.)

This relationship has benefited Bickerdike in two significant ways. First, it provides Bickerdike with the capacity to guide Humboldt in directions that benefit both the construction company and its parent. And second, it enables the two organizations to achieve efficiencies in cost and workload by collaborating on administrative functions and outside services. This cost sharing is another, unmeasured way in which the operation of Humboldt Construction contributes to Bickerdike’s overall financial stability.

Working Capital

When the original federal grant ran out in 1981, Humboldt was not yet earning revenues sufficient to support either overhead expenses or a manager’s salary, so Bickerdike continued providing support from its own funds. Those injections of cash were treated as working capital loans to the subsidiary. Bickerdike made
sure there was cash to meet payroll, and was constantly looking for opportunities for Humboldt to contract for rehab work.

Development fees realized on the large rental housing projects were restricted by board action to use as working capital for Bickerdike’s various initiatives, including working capital for Humboldt and starting up housing development projects. Had that money not been available, the pace of growth in both housing development and construction contracting would have been much slower.

We did not, however, have a clear long term plan for Humboldt growing in revenues to the point where it could pay down its working capital advances from Bickerdike. This has led to tensions at times, when members of the Bickerdike board would ask “Why are we still supporting them? If they are a separate company, can’t they fund their own working capital?” Over time that became a stated goal, and by the mid 2000s, there were guidelines for the release and repayment of working capital advances.

Joy Aruguete, Bickerdike’s director since 1995, pushed for these changes and sees them now as benefiting Humboldt as well: “Now Humboldt knows it can’t just rely on cash from Bickerdike to pay its bills if a progress payout is delayed on a job. That pressure forces Humboldt to aggressively manage that payout process, just as other construction companies are forced to do when their working capital runs low.”

**Internal Capacity**

Both interviewees and planning documents mention frequently two areas where Humboldt needs to build its capacity. The first is business management and efficiencies. Humboldt has hired managers with a background in private construction business, bringing to the enterprise a fresh look at systems and policies as they relate to operations and profitability. Humboldt is about two years into implementation of new software systems to aid management in controlling finances, job progress, and estimating. Already it reports improvements in these areas. For example, the tracking systems have helped to build an experiential database which in turn informs the estimating on future projects. Estimating well is a key to getting more work: overestimate and you lose out to other companies; underestimate and you lose money on the job. Other tactics underway include addressing such things as: inventory control and procurement, safety procedures, internal communications, professional development, and critical path and operational planning.

The second capacity building area of focus concerns financial management and working capital. Humboldt is using its new systems to improve its financial analysis and projections, and thereby enhancing both job cost analysis and cash flow management. Clearly, cash flow is a critical issue, with both Bickerdike and Humboldt expressing a desire to decrease the enterprise’s reliance on its parent for working capital. There is a commonly-held belief that Humboldt relies on Bickerdike not only for much of its work but also for a lot of financial “support.” However, that support is primarily in the form of cash flow loans and deferred accounts payable, which have in general been repaid over time. Providing working capital is not uncommon in the relationship between a company and its owners and

“We know our niche. If you expand into new kinds of work you risk screwing up.”
**Variations on a Theme: Nonprofit Developers and Construction Companies**

Bickerdike is not alone in having decided that running a construction company was a reasonable extension of its activities as a nonprofit housing developer. But there’s great variation in how that decision takes shape on the ground.

Manna, Inc., a nonprofit developer in the Washington, D.C., metro area, owns Providence Construction. Chicanos Por La Causa, one of the largest nonprofit housing developers in the Southwest, runs La Causa Construction. Both have clear similarities, and also key differences from the Bickerdike/Humboldt story.

The relationship between Manna, which started out as a construction company and still retains its own construction capacity, and Providence, is very different from Bickerdike/Humboldt. While Humboldt’s jobs are overwhelmingly Bickerdike’s developments, and it struggles to expand to outside clients, Manna continues to do all of its own construction on its own developments, which dwarf Providence’s work load; Providence, which has no directly stated social mission of its own, only takes on jobs for outside clients. Providence actually contracts with Manna, its nonprofit parent, for construction management and carpentry.

Though business dried up in the recession, in the mid-2000s Providence was returning a profit to Manna of about $100,000–$200,000 a year.

La Causa, on the other hand, is focused on serving CPLC’s development needs, evolving from single-family construction to rehab work under the federal Neighborhood Stabilization Program. CPLC is a multistate developer rather than a neighborhood-based group. It owns almost 3,000 multifamily units, 4,000 square feet of commercial and office space, and 34 communities across Arizona.

La Causa has been around for 15 years, and like Providence, it had done well prior to the collapse, generating on average six figures back to CPLC, according to VP John Ramirez. It started from a desire to have better control over its developments and costs. Unlike Humboldt, which has carpenters on staff, La Causa subs out 100 percent. This allows it to maintain a much lower level of direct costs.

Since neither Manna nor CPLC are as place-bounded as Bickerdike, the concept of “local hiring” does not carry the same kind of weight for them. CPLC is, however, intentional about La Causa’s choice of subcontractors and operates job training and a temp agency to assist in job placement, including in the construction field.

investors. Bickerdike provides no grant support to Humboldt, and in fact over the years has earned significant fees for administrative services and rent. While Bickerdike sees itself as breaking even at best on those fees when factoring in the time senior management spends on Humboldt issues, it is still clear that Humboldt provides “earned revenue” for Bickerdike, thereby reducing the parent’s dependence on grants.

One possible approach to providing working capital is for Humboldt to seek loans from outside sources, such as a bank or CDFI. Given the uncertainties of future revenues, however, along with its relatively insubstantial balance sheet, it is hard to imagine this being a viable alternative in the short run. It may, however, be something for Humboldt to pursue just to get a sense of what the lenders would require, and what sorts of growth they would want to see before making an unsecured loan to the enterprise. Another approach is for Humboldt to build up cash reserves of its own with net revenues earned on its construction jobs. Of course for that to happen Humboldt would need to do more work, and be more profitable overall.
A similar challenge is the bonding requirement on large construction projects. The better capitalized the business, the less bonding companies charge to insure their payment and performance obligations. And a common alternative to purchasing a bond is to obtain a bank letter of credit—but those are underwritten on much the same basis as unsecured loans and would therefore be difficult for Humboldt to obtain at this point. To date Bickerdike has secured the letters of credit required of Humboldt to take on large contracts. Bickerdike can assist Humboldt in eventually gaining access to credit directly in part by helping it grow in capacity, and by offering guarantees which would grow smaller over time as the lender becomes more comfortable with Humboldt as the sole borrower.

Those involved with Humboldt now say that it seems clear that in the near term in order for Humboldt to continue to thrive and possibly grow it will need to continue relying on Bickerdike for working capital, but they continue to consider these other approaches and keep on the lookout for others.

Does It Make Money?

There are two ways to measure financial success for a social enterprise—Does it further the mission without requiring grant support? And does it generate income for the parent organization?

Bickerdike never set out to earn profits from Humboldt, but it did expect to be able to sustain the construction operations from the revenues on jobs. This has been achieved. Humboldt has performed over $99,000,000 in construction work, mostly for Bickerdike, helping the parent effectively and efficiently manage its housing development efforts. And it has employed an average of 15 carpenters annually for over 30 years—all without relying on grant support.

Humboldt has technically lost money over the years, but the a cumulative running total is about $155,000, a paltry 0.16% of gross revenues. And Bickerdike has invested in Humboldt beyond its original $34,000 stock purchase, providing much needed working capital. As of the end of 2011, Bickerdike’s total investment was about $970,000, including advances and covering Humboldt’s losses.

However, Humboldt has been paying Bickerdike for its share of administrative personnel and other expenses, and rent on its offices. The total paid to Bickerdike is almost $3.5 million; so after factoring in Bickerdike’s investments in Humboldt, it has earned some $2.5 million from the venture over the 30 years it has been operating. While these are not “profits,” per se, they represent earned income to Bickerdike, which helps support Bickerdike’s operating budget.

Bickerdike has three other “revenue centers” that earn income:

- Housing development, which earns development fees on many of the larger projects, and which in turn provides the funds Bickerdike uses to capitalize Humboldt and its housing development activities, with a portion going to the operating budget; this revenue is
sporadic and unpredictable, but over the years has been a major source of capital for the organization.

- Property management, which employs 45 people all paid by rental income, and pays Bickerdike an administrative fee.
- Commercial property rents, which go directly to Bickerdike and require relatively little staff time to manage.

These centers help diversify the organization's funding stream, and achieve considerable employment and community development gains without putting any strain on Bickerdike's fundraising efforts. Each receives a varied level of support from Bickerdike's top management, and Bickerdike's working capital investment in each also varies. Bickerdike's total annual operating budget—not including the gross income of these revenue centers—is about $1.8 million. The revenue centers combined contribute about 50 percent of that total.

Humboldt has been a significant contributor to Bickerdike's budget, and at the same time it has relied more on working capital support than the other revenue centers. Still, it is a remarkable achievement for a nonprofit CDC to create the jobs and keep construction in-house without any public or private grant support, while at the same time helping sustain itself with fee income from the subsidiary.

How much revenue is needed to sustain Humboldt? That number is hard to determine. Ideally Humboldt would like to earn enough revenues to achieve these financial goals:

- Sustainability—Humboldt continues in operation, meeting the goals of local employment and economic development and helping Bickerdike and others develop affordable housing.
- Working capital—Humboldt earns sufficient profits to create a working capital reserve that over time can reduce the enterprise's reliance on cash flow loans from Bickerdike.
- Earned income to Bickerdike—Humboldt pays for all of the leadership and administrative services provided by Bickerdike at a level that helps support the parent organization's overall financial stability.

Humboldt is different in a crucial way from Bickerdike's property management operations, the other revenue center at Bickerdike that most closely resembles a stand-alone enterprise. Humboldt must constantly seek and obtain new business to sustain itself and to continue to provide revenues to its parent. If it has a slow year, gross revenues drop and profits and the ability to pay fees to Bickerdike disappear. Rental housing property management, on the other
hand, need only maintain its current level of operations to sustain itself and provide revenues for Bickerdike. So long as the rental housing developments remain viable, there will be income to cover the staff and overhead of the property management operation, and to pay Bickerdike its administrative fee. Construction is by its nature a more volatile type of business, especially in the current climate. To be successful with a construction subsidiary the CDC parent has to be able to invest “patient” capital to enable the venture to ride out the leaner periods. This is where Bickerdike’s ability to capitalize Humboldt over the years has really helped it succeed in the construction business.

How to Not Lay Off Carpenters

Bickerdike’s projects come on line infrequently, and unpredictably. For example, as of November 2012 it had enough work lined up to keep HCC busy for about nine months. If during those nine months no more Bickerdike projects get started and Humboldt wins no outside contracts, then workers would have to be laid off.

It is typical in the construction industry for payroll to fluctuate throughout the year and for there to be frequent layoffs, depending on workload and weather. Though Humboldt has done well at scheduling around anticipated winter weather, layoffs and re-hires due to fluctuations in the workload are common. While many of the carpenters return to Humboldt after a temporary lay-off, preferring to work locally for a contractor they can trust to pay on time, some find work elsewhere or leave the area and do not return. This disrupts the development of the crews as efficient units, and if a key person such as a foreman or job site superintendent is lost then Humboldt has to work to replace that person and re-establish the operational benefits realized under their leadership.

The cycle of layoffs and re-hiring is also inconsistent with Bickerdike’s practices and its goal of meaningful, well-paying employment opportunities for local residents. Many Humboldt employees have been underemployed for years, and to break out of the cycle of poverty takes more than seasonal work, no matter how good that job is.

Marketing, bidding, and contracting plans and decisions are made with that goal in mind, and this is yet another way Humboldt distinguishes itself from some for-profit construction companies: Humboldt may decide to take on a contract for a job that lasts only a couple of months and that will earn the company little in net revenue, if that job can keep its carpenters working in between larger jobs with more profit potential.

Going forward, Humboldt intends to sustain employment levels equal to or above those averaged in the first 30 years, and to employ people for as much of each calendar year as possible. Aruguete clearly sees improving the consistency of the workforce as an important strategic goal for Humboldt. To achieve this goal means getting more work and growing the company, which brings up a number of philosophical and practical questions. Since Humboldt’s inception there have been internal discussions about whether or not to seek work that might be profitable for Humboldt, even if the construction projects themselves were either not connected to or even in opposition to Bickerdike’s
mission. A dramatic example of the latter would be for Humboldt to sign on as the general contractor for a factory loft conversion in the neighborhood that was contributing to job loss on the one hand and residential gentrification on the other. Bickerdike has been engaged in bitter battles against this kind of displacement, and faced some strident opposition to its own affordable housing development efforts as a result. There have been lawsuits, arson (three subsidized housing buildings were burned during construction), and even threats against people associated with Bickerdike. The political opposition was enough to stymie progress on two projects during the 1980s. It wasn’t until the elections of Harold Washington as Mayor in 1983 and an independent alderman supportive of Bickerdike in 1986 that it was able to proceed with those projects. This was no friendly disagreement, and the struggles have continued ever since over issues of displacement and affordable housing preservation.

The question of whether or not to work for owners or on projects that are opposed to Bickerdike’s community development work, therefore, has always been considered in the context of that ongoing struggle. Though it might have been profitable, and otherwise the jobs would go to non-locals, Humboldt never actively considered such work.

The question of whether or not to work for our opponents or in furtherance of gentrification was rendered moot, however, as Humboldt grew. Most of the work done by those seeking to gentrify the community is financed with private money, which does not carry the requirement for paying union scale wages on construction. Once Humboldt joined the union and committed itself to that pay scale—which it had to do in order to be eligible for work on Bickerdike’s housing developments—it priced itself out of the market for the relatively small, privately funded projects targeted to new, upper income buyers.

Humboldt has a niche—housing rehab and new construction that is financed with government subsidies. This describes most of Bickerdike’s community development projects, and little else that is built in the area. The only work on which Humboldt can be competitive are those jobs where the source of financing requires contractors to pay union scale wages and benefits—and those are government-funded projects. Since Humboldt has acquired the skills to manage compliance, it is an attractive general contractor choice for an affordable housing developer that also wants to encourage local and minority hiring. Humboldt respects and values the expertise it has gained, even as it respects contractors who are successful in other markets. As Aruguete says, “We know our niche. If you expand into new kinds of work you risk screwing up.”

Projects with government funding are problematic, though, due to delays and postponements in starting work and compliance requirements. Humboldt must document the wages it pays, as must each of its subcontractors. Any flaw in the documentation can mean a lengthy delay in processing periodic progress payments during a job, which in turn hinders the business’s ability to meet its payroll and purchasing obligations. So it is still exploring ideas of how to expand.

Humboldt has explored subcontracting as an avenue for expansion, but it is not an attractive option. The one time it took on a carpentry subcontract for a major general contractor working on a new Home Depot in the community, the project proved problematic; Humboldt barely broke even and the large general contractor was very slow to make payments for the work. Not every general
contractor that might be willing to hire Humboldt as a carpentry subcontractor shares its values of integrity and providing excellent quality work for the client. Meanwhile, as a general contractor Humboldt is able to control the pace of a job, efficiently plan for its hiring and working capital needs, and schedule work to keep crews busy and minimize the frequent layoffs so common in the construction industry. As a subcontractor all of those controls are ceded to the general contractor, which does not further the goal of more consistent employment.

There have been internal debates over whether or not Humboldt should limit itself to taking on jobs within Bickerdike’s service area. On the one hand, staying local maximizes the potential for Humboldt to contribute to the development of the area even when it works for other clients. And the work crews prefer jobs in the area, as their commute times are kept to a minimum. On the other hand Humboldt has a niche market, and has found it needs to take on projects outside the community if it is to grow beyond the workload generated by Bickerdike. There is a balancing act that management must perform, growing Humboldt’s overall revenues while not spreading itself so thin it puts itself at risk of failure or is unable to meet the needs of its parent’s housing development work.

Along with exploring these options, Humboldt is doing more marketing, both online and through printed materials; working at improving estimating in order to win more competitive bids; and trying to turn its skills at design consultation into a fee-earning activity. It’s also pushing to obtain MBE certification once again, which would greatly increase its flexibility and ability to get work.

The Expensive Perception

One obstacle to getting more outside work is that Humboldt now has a reputation for being expensive. It is not clear if this is a misperception or if was earned by experience, but either way it limits the number of jobs it is asked to consider.

With respect to its work for Bickerdike, Aruguete says that using Humboldt doesn’t necessarily save them money on their construction budgets, especially because the relationship means they can’t say “‘Too bad, you signed a contract’ like we might be able to do with a private contractor.” Bickerdike is likely saving, though, on the overall cost of development projects through Humboldt’s role in the pre-development design phase (Humboldt often spots things that are missing, or not covered well in the early documents), and its control over costs and scheduling once the job is underway.

Humboldt is not cheap, but that is different from being overpriced. Factors in its pricing have included:

- It plays by the rules. Many others in the construction business cut costs by cutting corners, thereby sacrificing quality, or by working around rather than complying with every regulation applied to their work. Some contractors do this to improve their profitability, some to save the owner money on a job, and others to do both. Humboldt is seen as a business that will not bend the rules or sacrifice quality work to reduce prices.
• *It bids honestly.* Some construction companies offer low estimates to win contracts, and then seek to avoid losses on the job by being aggressive with change orders and charges for extra work. Those charges are often the main source of conflict among owners and contractors, and Humboldt has never wanted to intentionally obtain work on the basis of a bid it knows is too low. Still, owners will likely choose a lower bid unless they know that one of the contractors has a history of low-balling estimates or that the other truly does deliver with minimal extra charges. Several years ago Humboldt did a job for a CDC in another part of the city, and all went well. When it came time to bid on the group’s next project, Humboldt lost out to another contractor who underbid it by about $1 million. That lower bidder’s performance was fraught with changes and extra charges, and the CDC ended up spending more on construction than Humboldt’s original bid, exceeding the funding available in the project budget.

• *It’s risk averse.* According to Vargas, the former manager, “Sometimes we lack confidence in our subs’ bids, because we know them and think they may be underbidding, so we make sure we have a cushion, and that puts our overall bid too high.”

• *Union scale wages make more sense on big projects.* Some work just does not make sense for a mid-sized construction company that pays union scale wages to its workers and is maintaining systems that give it the capacity to do larger jobs and meet all government compliance requirements. Private rehab jobs in the city are typically done by contractors paying far less than union scale to their workers, at times using unlicensed mechanical subcontractors. Ironically, Bickerdike’s property management office hired a private carpentry contractor to rebuild several back porch systems on its multifamily buildings, because Humboldt’s bid was more than the budget allowed. Humboldt would rather not price itself out of consideration for work like that project, which was not large but could have kept a carpentry crew busy for a couple of months during slow times on its other work. It may turn out, however, that such work is not likely to be the kind of job Humboldt can do.

• *It cares about relationships.* In at least one instance Humboldt declined to take an aggressive approach to charging for changes in the scope of work on a job sponsored by another area CDC, causing Humboldt to lose money on the job. Bickerdike eventually decided to reimburse Humboldt for that loss and another on a job for Bickerdike which had an insufficient construction budget. On the individual level, Aruguete says that at times Humboldt may have been too soft on underperforming workers, though that’s something they are working on.

Landon, the architect, wonders if Humboldt did too much contracting for Bickerdike during its growth years, limiting its experience and exposure to the broader business world of general contracting. At the same time, he wonders how to get other developers to understand the value of having a contractor like Humboldt.
Lessons

There are many lessons from the Humboldt story for CDCs looking into starting construction-related social enterprises.

1. **Know the landscape, and your market.**

   Who is getting the kind of work you want to be doing now? What are the public policies and regulations and union agreements and goals covering it? What is the compliance burden (especially for government-funded work) and can you meet it? On what kinds of projects could you be competitive? Will the parent organization or a network of groups in the field be able to provide a steady level of guaranteed business on which to build?

2. **Identify others’ goals you can support while pursuing your mission.**

   The union agreement worked because there were other advocates, as well as union members themselves, who realized that the union needed to diversify by bringing in new members from minority communities. Humboldt was able to get a long-lasting agreement that allowed it to pursue its own goals of local hiring by helping the union address its goals as well.

3. **Have sufficient working capital, and a source to get more.**

   Working capital was and is one of Humboldt’s greatest challenges; not having it can really limit the amount and types of work you can get. Working capital can mean the difference between being able to scale up when you are ready and not being able to take advantage of those opportunities that come along. Humboldt’s relationship with Bickerdike was crucial on this front, and yet Humboldt still struggled at times with insufficient working capital. Parent organizations that are committed to their subsidiary social enterprise’s growth should think about their policies for working capital loans and repayment, and social enterprises should identify multiple sources.

4. **Scale matters.**

   Once Bickerdike was able to develop its first project with over 100 units it was able to pursue its vision of one day growing the construction capacity to the point where Bickerdike could serve as its own general contractor on such large projects, responsible for most of the hiring decisions and exercising better control over the project. This scale also enabled Humboldt to grow in capacity, while providing fee income for Bickerdike.

5. **Don’t expect to turn a huge profit, if any. But don’t necessarily consider this a failure.**

   Humboldt does not bring in a lot of profit. Sometimes it has even needed help from Bickerdike to cover gaps. But that does not make it a failure as a social enterprise. Humboldt has supported Bickerdike with rent and fees, entirely paying its own way even
after working capital infusions from Bickerdike are factored in, not to mention that Humboldt renders Bickerdike a better service than other construction vendors. And of course it has achieved a mission goal—local job creation—without need of any additional grant money.

6. **A close relationship with the parent organization is a good thing...**

   Shared administration and common leadership kept Humboldt’s mission front and center, and kept its growth closely related to what Bickerdike was ready to support. Bickerdike and Humboldt share and often express an explicit joint commitment to mission and values, while finding acceptable differences in approach and program. When a subsidiary strays from the parent’s values—whether related to social outcomes or operating principles—the enterprise can cause serious internal conflicts and damage the parent’s reputation in the community and among funders.

7. **But remember business requires different skills and approaches also.**

   One of Humboldt’s big struggles was with hiring people who were a good match for the parent, but lacked construction management skills. Business and mission don’t have to be in conflict; the skills and attitudes of both are needed. This makes hiring management a critical—and really challenging—part of the process.

8. **Be prepared to challenge clients’ perceptions of value and price.**

   Bickerdike knows that Humboldt can save them money with pre-development help and high quality work with few change orders. But that’s unusual enough that they appear “expensive” to others. Be prepared to have to make a serious marketing push that highlights your value; don’t expect your mission to earn you clients by itself.

9. **It’s tricky to measure construction job creation, but do it anyway.**

   Construction pays well, but it’s inconsistent, often seasonal work. Think up front about how you will measure the employment you create—quality and quantity. How do you value helping someone step into a different union job, as compared to providing long-term year-round employment? If you have a steady and consistent measure, it will be easier to gauge progress on your employment goals. And if steady, year-round employment is one of your goals, you are likely going to have to aim for a fairly large enterprise.
WHY DON’T WE BUILD IT OURSELVES?
Resources


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