Housing Assistance Council

HAC

THE BORDER COLONIAS REGION: CHALLENGES AND INNOVATIVE APPROACHES TO EFFECTIVE COMMUNITY DEVELOPMENT

The Border Colonias Region: Challenges and Innovative Approaches to Effective Community Development

Housing Assistance Council

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HAC, founded in 1971, is a nonprofit corporation which supports the development of rural low-income housing nationwide. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services.

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EXECUTIVE SUMMARY

The U.S.-Mexico border is dotted by hundreds of rural, unincorporated, subdivisions that are home to approximately 1.5 million people. These communities, known as colonias, are characterized by substandard housing, dirt roads, lack of access to potable drinking water and inadequate sewage disposal and drainage systems. These living conditions are exacerbated by the related problems of poor education and health services, limited job opportunities and high unemployment rates. Colonia communities are often concentrated pockets of poverty, physically and jurisdictionally isolated from neighboring cities. Efforts to address the problems in these communities have faced significant additional barriers, including insufficient resources, the absence of consensus on appropriate development approaches, and widespread neglect by government and related entities.

Despite the numerous challenges presented by the colonias, many community-based, nonprofit organizations have taken on the formidable task of addressing the problems faced by these communities. These groups have devised creative ways to work in partnership with the public and private sectors to develop innovative colonia assistance projects. This report focuses on documenting some of the different approaches to improving housing and infrastructure conditions in the colonias. Three detailed case studies highlight the stories behind successful ventures to create alternatives for colonia residents. They discuss the obstacles overcome by local nonprofit groups, and include lessons for other organizations interested in replicating these successes. In addition, each case study represents a unique approach to addressing problems in the colonias.

For instance, Tierra Del Sol's (TDS) project in the colonia of Anthony illustrates how a nonprofit group can get involved with infrastructure development. This group began with creating a water and sanitation district in the colonia and later proceeded to the development of single-family housing. TDS's experiences demonstrate the complexities of affordable housing development in the colonias, including putting together a variety of financing sources, and negotiating with unlikely sources, such as private banks for grants.

The El Azteca Low Income Housing Tax Credit project depicts how nonprofit housing developers can create a supply of good quality multifamily housing within border cities. The premise behind this approach is to provide affordable housing within the city where infrastructure already exists, so that low-income residents will not be forced into adjoining colonias. The El Azteca project is an example of how support from a range of partners and layered financing can be creatively put together to create affordable housing alternatives for colonia residents.

Lastly, Proyecto Azteca's self-help program demonstrates how colonia residents can contribute sweat equity and build their own affordable, single-family homes. This project shows how the sharing of tools, distribution of bulk materials, and group construction of homes on a common site can build cooperation and a sense of community between participating families. It also helps empower low-income families in the colonias through homeownership. In addition, Proyecto

Azteca's program illustrates how the question of land title in the colonias can be addressed in conjunction with the provision of new, decent housing units.

Each of these cases represents a collaboration between a variety of key players in the colonias, illustrating different ways in which projects can succeed through the creation of partnerships. The case studies also highlight the critical needs of local nonprofit groups working in the colonias, such as the need for flexible financing sources and capacity building efforts.

In conclusion, some broad policy recommendations are proposed, based on the experiences of local groups in the colonias. These recommendations are intended to provide a framework for designing a comprehensive approach to addressing the needs in the colonias. While it is possible to develop strategies for targeted assistance in the colonias, no initiative aimed at tackling the problems only on the U.S. side will be truly successful. Colonia communities exist on both sides of the border and the colonia phenomenon is tied to the intertwined border economy between the two sovereign nations of Mexico and the United States. The Housing Assistance Council joins several local stakeholders in recommending the creation of a bi-national, regional commission in order to effectively address the problems of the border colonias.

INTRODUCTION

The United States-Mexico border region is marked by the presence of hundreds of rural subdivisions, characterized by extreme poverty and severely substandard living conditions. These communities, known as *colonias*, are home to over 1.5 million people. While some of these communities are newly formed, many have been in existence for over 40 years. During this time, numerous community-led efforts have sought to address the problems in the colonias. The federal government, along with local and state governments, have been spurred by colonia advocates to implement policies and regulations to address the colonia phenomenon and restrict their further growth. Yet these communities continue to exist. In recent years, the passage of the North American Free Trade Agreement (NAFTA) and the burgeoning debate on immigration issues has focussed increased public attention on the border region. There is renewed commitment on the part of local nonprofits, and the public and private sectors, to jointly tackle the problems along the border.

This report highlights some of the innovative approaches for addressing the needs of colonia residents. Each case study represents a unique effort at improving conditions in the colonias, and is intended to encourage additional such projects in the colonias. A brief background on the colonias provides a context for examining the different initiatives. In addition, a summary of the conditions prevalent in the colonias outlines the challenges to solving the problems in these communities. Finally, a series of broad recommendations is also discussed. These recommendations draw upon the experiences of organizations currently working in the colonias. They are intended to provide a framework for building upon existing opportunities in the colonias, and designing strategic interventions for immediate assistance to the residents of these communities.

What are Colonias?

Colonias are rural, mostly unincorporated communities located along the U.S.-Mexico international border, as mentioned above. While the term *colonia* has its origins in the Spanish word for "neighborhood," it has come to refer to a residential development characterized by substandard living conditions. In fact, colonias are defined primarily by what they lack, such as potable drinking water, water and wastewater systems, paved streets, and standard mortgage financing. Colonia communities are often concentrated pockets of poverty, physically and jurisdictionally isolated from neighboring cities.[1] Communities with these characteristics exist in all four states which border Mexico. However, Arizona and California have lagged behind Texas

[1] Housing Assistance Council, *Taking Stock of Rural Housing and Poverty for the 1990s*, Washington, D.C., 1994.

and New Mexico in acknowledging the presence of colonias within their jurisdictions.[1]

Although numerous colonias developed in the 1950s, they remained relatively unnoticed until the 1980s. Eventually, the 1990 National Affordable Housing Act (NAHA) created a federal definition for the colonias. A colonia under NAHA is an "identifiable community" in Arizona, California, New Mexico or Texas within 150 miles of the U.S.-Mexico border, lacking decent water and sewage systems and decent housing, and in existence as a colonia before November 28, 1989. Access to federal housing and infrastructure programs, particularly those administered by the U.S. Department of Housing and Urban Development, is often tied to this definition of colonias. Prior to this, a 1983 Border Environmental Agreement between Mexico and the United States defined the "border region" as a zone within 100 kilometers, or 62 miles, on either side of the political boundary. The Environmental Protection Agency (EPA) began to address environmental issues of common concern through this agreement on cooperation between the two nations. To this day, access to EPA programs, including infrastructure funding, remains contingent upon colonias falling within this 62-mile zone. Similarly, individual states and counties often follow a definition of colonias based on the requirements of the assistance programs they administer. [Refer to figure 1 for map depicting different boundaries for colonias programs in New Mexico.][2] Consequently, definitional issues of what exactly constitutes a colonia continue to pose a challenge.

The need to create a precise definition is tied to determining program and funding eligibility for these communities. Local colonia activists are opposed to the NAHA cut-off date of 1989, since in many border counties the proliferation of colonias has occurred since that date. While the date was established to facilitate holding unscrupulous developers of colonias accountable for provision of basic services to residents of communities, in reality it has merely rendered unfortunate colonia residents ineligible for federal assistance.[3] Other colonia advocates feel that the 150-mile boundary is too liberal. While communities with high poverty rates and substandard living conditions exist throughout rural America, the colonia phenomenon is really a unique problem tied to the intertwined border economy between the two sovereign nations of

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[1] California and Arizona have both begun to officially recognize the presence of colonias within their jurisdictions in recent years as illustrated by the Community Development Block Grant (CDBG) set aside funds each has budgeted for use in the colonias in the fiscal years since 1995. California has budgeted 5 percent of its CDBG funds for the colonias, while Arizona has set aside a full 10 percent.

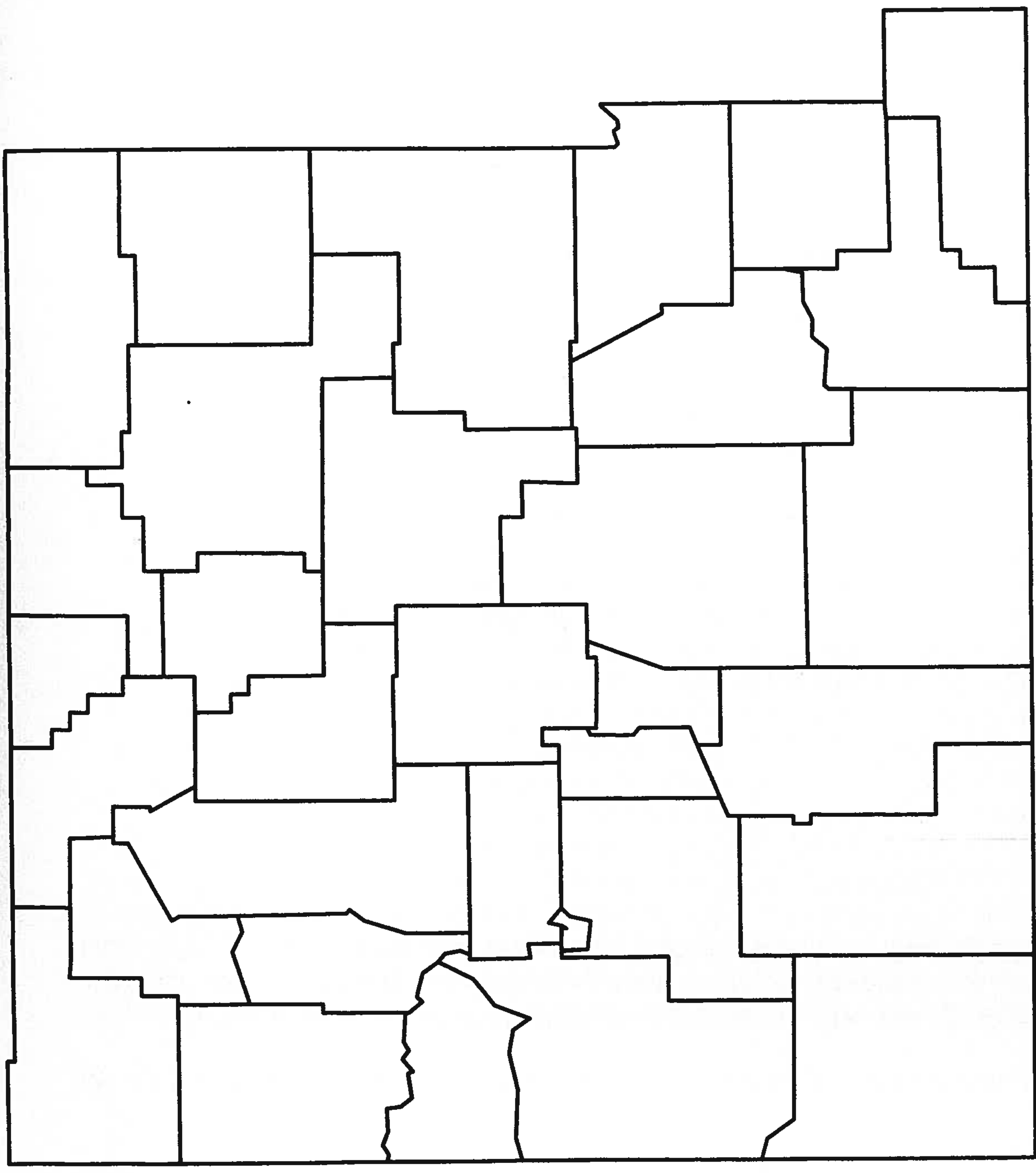
[2] This map is attached as an example of how different definitions impact colonia communities' access to available programs. Clearly, devising assistance programs in the colonias utilizing these programs requires skillful negotiation by local groups. A combination of appropriate governmental funds and private resources is usually required to implement effective projects in these communities.

[3] Comments by Rose Garcia at a Colonias Meeting convened by Ford Foundation and Bank of America, Dallas, Texas, June 6-7, 1996.

Mexico and the United States.[1]

Despite the desire to create a standard definition for the colonias, the more pressing need is to expend resources to actually address the conditions prevalent in the colonias. No definition can adequately capture the human dimensions of the problems faced by residents of colonia communities.

[1] Comments by Moises Loza, Executive Director, Housing Assistance Council, at Dallas meeting.



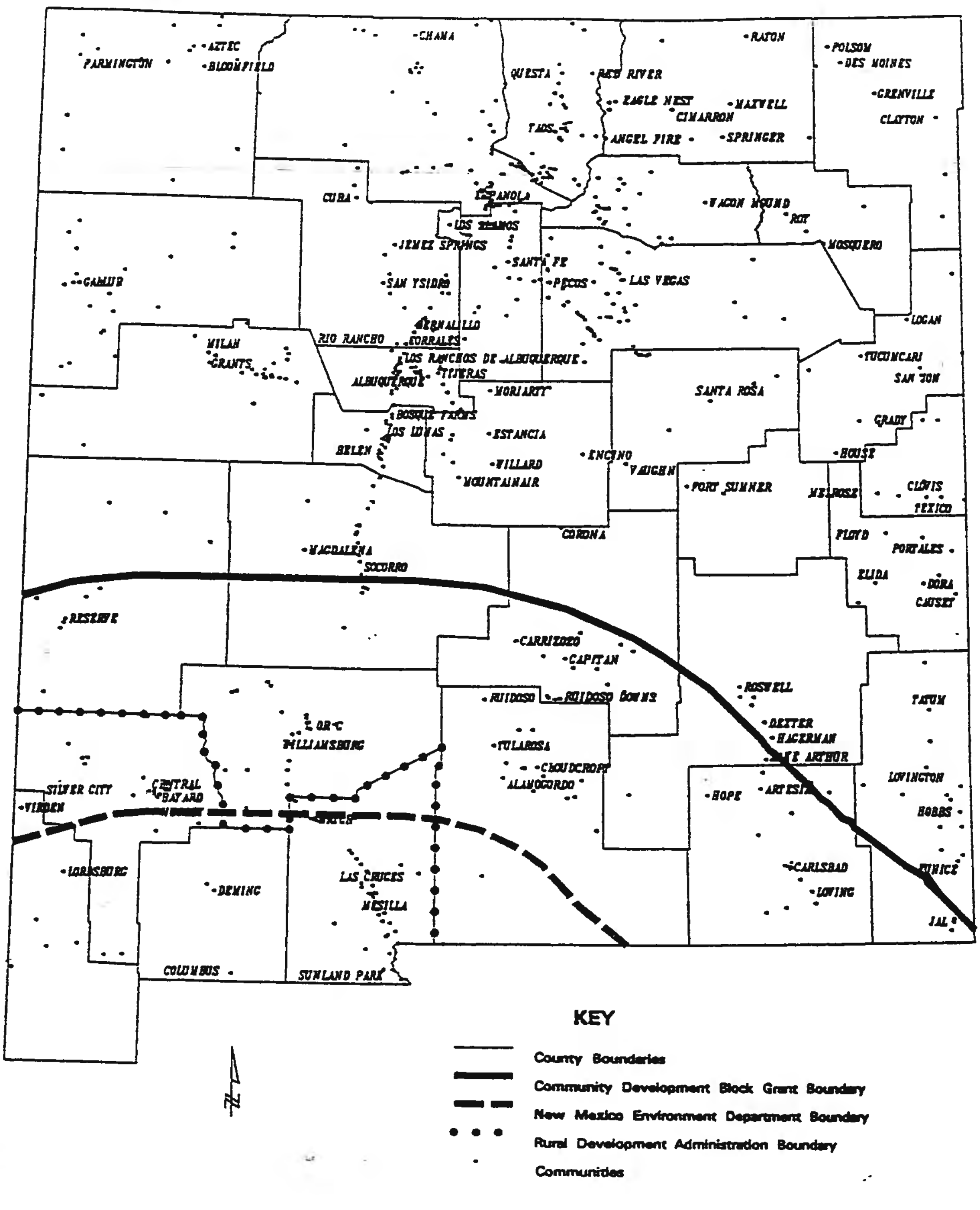


Figure 1: Map Depicting Different Boundaries of Colonias Programs in New Mexico

Historical Background

Some colonia developments began as small communities of farm laborers employed by a single rancher or farmer. Others originated as town sites established by realtors in the early 1900s. A number of colonias emerged in the 1950s as unscrupulous developers discovered a large market of aspiring homebuyers who could not afford homes in cities or access conventional financing mechanisms.[1]

For the past several decades the U.S.-Mexico border region has experienced severe developmental pressures due to industrialization, immigration, and population growth. Infrastructure to meet environmental, health, housing, transportation and other needs has not kept pace with this development. As a result, colonia developments have continued to proliferate.[2] Lax land use and zoning regulations, and the lack of enforceable subdivision laws and building codes, have allowed the continued growth of new colonia developments.

While some colonia experts argue that development of colonias is really a land use phenomenon, most agree that broader social and economic forces are responsible for their continued existence. To a large extent, the colonia phenomenon has been driven by the complexities of the domestic and international agricultural labor markets. A significant number of colonia residents are farmworkers, or otherwise employed by agriculture related businesses. For instance, the Lower Rio Grande Valley in Texas serves as the principal home base for the Texas migrant stream of farmworkers. Hidalgo County, in the Lower Rio Grande Valley, houses the greatest number -- nearly 75 percent -- of all colonias communities in Texas.[3] Similarly colonia communities in the Imperial and Salinas Valleys, California, are home to farmworkers who constitute part of the California migrant stream. Farmworkers suffer from inadequate coverage by labor laws. In addition, National Council of La Raza advocates assert that the traditional practice of reliance on immigrant agricultural labor from Mexico adds to the stresses on available housing and infrastructure systems, forcing greater numbers into colonia communities.

Over the years, increasing advocacy by colonia activists, among other causes, has focussed greater attention on the border colonias. The North American Free Trade Agreement (NAFTA) has contributed to additional debate on the colonia situation, leading the federal and state governments and others to devise strategies for solving the problems faced by colonia residents. Texas has been the most proactive in addressing this situation. The state legislature has formed a Senate Committee on International Relations, Trade and Technology. The Committee has convened several hearings on the colonias and has worked to pass enabling legislation to address

[1] Zixta Q. Martinez and Charles Kamasaki, *Colonias: A Policy Framework*, paper presented at Fannie Mae Research roundtable series, Washington, D.C., October 1995.

[2] El Paso Community Foundation, *The Border/La Frontera*, El Paso, TX, May 1996.

[3] Testimony by Dr. Jorge Chapa, University of Texas, at a Colonias Hearing organized by the Texas Senate Committee on International Relations, Trade and Technology, Laredo, January 30, 1996.

some of the problems. The legislation provides basic consumer protections to people purchasing land in border region counties under a contract for deed under the “fair land sales act”; directs the Texas Department of Housing and Community Affairs (TDHCA) to set up five self-help housing centers in border counties and sets aside funds for colonia-related purposes; reserves $40 million in tax exempt mortgage bonds for the colonias; and halts land sales in the colonias where lots lack water and sewer facilities that meet state standards, under the “Economically Distressed Areas Program (EDAP) subdivision regulation.”

Other border states have not shown a matching degree of concern or interest. Despite this, local advocacy groups have continued to devise ways to mitigate problems in the colonias. In fact, there is broad consensus among local and national groups interested in solving the problems in the colonias that there is very little they can do to address the larger international economic realities responsible for continued proliferation of colonia communities. However, the groups do agree that they can begin to tackle the physical problems prevalent in colonia communities. The groups also agree that the most effective way to address these problems is by working collaboratively with the public and private sectors.[1]

In order to provide a context for examining effective intervention strategies for addressing the problems in the colonias, it is necessary to examine the key challenges to community development posed by conditions in the border colonias.

Key Challenges to Effective Community Development

Poverty

Colonia communities persist in part because of weak land use regulations and lack of enforcement by local authorities. However, most colonia developments are a direct outcome of the extreme poverty along the entire U.S.-Mexico border region. People choose to live in colonias primarily because they cannot afford to live elsewhere. An estimated 43 percent of all colonia residents live in poverty. The average yearly income for a colonia household in Texas is $6,784. Lack of affordable housing and high land costs (starting at $10,000-$20,000 in Laredo) and equally prohibitive living costs in cities near the border force low-income families to seek housing within colonia developments.[2]

Texas is a home base for many migrant farmworkers. As a result, employment and income are seasonal for many colonia residents. Typically, colonia residents possess a strong ethic of homeownership, while traditional homeownership financing methods are inaccessible to them.

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[1] Discussions at Colonias Meeting convened by Ford Foundation and Bank of America, Dallas, TX, June 6-7, 1996.

[2] University of Texas, LBJ School of Public Affairs, *Colonia Housing and Infrastructure: Current Population and Housing Characteristics, Future Growth, and Housing, Water and Wastewater Needs,* Preliminary Report, January 1996. (Most of the data cited in this section is from this report.)

Consequently, colonia residents tend to purchase small lots and construct their own dwellings, adding to them when possible. Unscrupulous developers are willing to exploit this situation, while the government looks the other way. This results in the "contract for deed" arrangements with developer financing on small (60 by 100 feet), remote lots, small down payments and low monthly payments. With this type of financing, property ownership is not transferred until the final payment is made. High interest rates, steep late payment fees and compounding interest penalties make land ownership impossible. This situation is exacerbated by the related problems of poor education and health services, limited job opportunities and high unemployment rates of over 40 percent. All of these problems are symptomatic of the overall poverty and economic disparity prevalent in the border region.[1]

Similarly, since the poor tend to be politically disenfranchised, the lack of political will on the part of the government to deal with problems facing colonia residents can also be attributed to the same basic problem of poverty. For the same reason, local governments have been unwilling either to extend their services to, or annex, adjacent colonias. The potentially low tax base from annexed colonias is seen as a burden on the other residents. Also, colonia residents generally make up only a small fraction of the overall county population, which is concentrated in the cities, and find it difficult to compete with other constituencies for scarce resources. This situation has led to the political and legal isolation of colonias.

Population and Geography

Because colonia residents tend to be politically disenfranchised, and are concentrated along the border region, they remain largely unheard in national policy discourse. However, colonia residents represent a significantly large population. In Texas alone, nearly 1.7 million people live along the border region according to the 1990 Census. In 1992, the Texas Water Development Board (TWDB) estimated that 279,863 residents lived in 1,193 Texas colonias. In 1995, TWDB updated this figure to 340,000 estimated residents in 1,436 colonias. Nearly 60 percent of these residents are concentrated in the Lower Rio Grande Valley, in the four counties of Hidalgo, Cameron, Willacy and Starr. Seventeen percent are located in El Paso County. The rest are scattered throughout the border region.

It is difficult to count the exact number of colonias located in a county. Some colonia communities may have been absorbed by the growth of a nearby incorporated town or city, while others may have colonia-like conditions, but may not be classified as colonias. As discussed earlier, this has in the past been of particular concern with the rural communities located along the border in California and Arizona. Finally, colonia communities located near each other may consolidate to form a single colonia, or subdivide to create more colonias, and new colonias may also come into existence. Given this constantly altering baseline, it is almost impossible to document definitive statistics on the colonias. Despite this, the LBJ School of Public Affairs at the University of Texas, Austin, has been working in 1996 on developing a database and

[1] Comments by Moises Loza at the Dallas meeting.

computerized maps of all the colonias in Texas, and correlating these with census information at the block group level. This effort is funded by a grant from the U.S. Department of Housing and Urban Development, and will provide further details on the Texas colonias.

New Mexico reports an overwhelming concentration of colonias in Dona Ana County. Nearly 35 communities have been designated as colonias in New Mexico, and are home to over 16,651 residents.[1] Arizona has identified the existence of colonias in Yuma, Cochise, and Douglas counties and has funded over 11 community projects with CDBG set aside funds in these counties. Similarly, California has identified the presence of colonias in Imperial County and has funded several community projects with CDBG set aside funds in this county.[2]

Rural location, physical isolation and the scattered nature of colonia developments has led to problems on numerous fronts. For the residents, geographical dispersion has made it difficult to organize and present a comprehensive picture of the needs and problems of colonia residents. This has made it easier for the government and others to ignore the problem, and local groups have generally succeeded only in a fragmented approach to tackling problems in the colonias. Although the scattered projects undertaken by community organizations have improved living conditions for many colonia residents, they do not have the same impact that a border-wide comprehensive approach would.

The absence of platting, an expensive process that includes the delineation of property lines, access roads and curbing, is a major obstacle to infrastructure improvements in the colonias and is also an inhibiting factor in their annexation by adjacent incorporated communities.
The scattered nature and remote location of a number of colonias also make it difficult and expensive to deliver services and resources comprehensively, especially to those that are not located adjacent to cities. There are inherent diseconomies of scale associated with small community size. Construction of wastewater treatment plants for such small communities is generally not economically feasible. Similarly the extension of water distribution and wastewater collection lines from existing treatment facilities to remote geographical locations tends to be prohibitively expensive.

Colonias fall outside the jurisdiction of cities. In Texas, counties have limited legal power to incur debt needed to finance infrastructure improvements. Cities are unwilling to annex adjacent colonias or extend services to them. As a result, both city and county governments have ignored the problems of colonia residents.

States have also historically followed the same pattern of neglect until about 1994. For example, Arizona's and California's reluctance to formally recognize colonias has prevented the provision

[1] New Mexico Environment Department, *Water and Wastewater Disposal Needs of Colonias in New Mexico*, Santa Fe, NM, May 1992.

[2] At the time this research was undertaken, information on the colonias in California and Arizona was rather limited.

of badly needed grant funds in these states prior to 1995. However, as mentioned earlier, both states have since begun to utilize federally mandated CDBG set asides for the colonias within their jurisdictions. (Arizona has set aside a full 10 percent of its CDBG funds for use in the colonias since FY 1994, and California has set aside at least between 2 and 5 percent of its CDBG funds for the colonias since FY 1992.)

In addition, political will to tackle these issues at a federal level has also been lacking, because colonias are located in a few counties in only four border states. Furthermore, there is a widespread misconception that most colonia residents are illegal immigrants (according to Dr. Chapa's study, 85 percent are U.S. citizens), precluding national level efforts at mitigating the problems in the colonias, especially given the current anti-immigrant fervor. All of this is compounded by the fact that federal programs are often not designed to account for the special conditions prevalent in the colonias.

Housing and Infrastructure Conditions[1]

Anecdotal evidence and local studies from the border region, particularly the colonias, suggest that significant housing quality problems plague communities along the border. Census data, while weakened by its failure to include physical dilapidation, strongly supports this conclusion. Information reported in *Taking Stock of Rural Poverty and Housing for the 1990s,* a publication of the Housing Assistance Council, confirms that all the states along the border have a much higher incidence of substandard housing than either rural or urban parts of the country in general. According to 1990 census data analyzed in *Taking Stock*, housing quality was worst in Texas, and residents of Texas' border counties were more than three times more likely to live in substandard housing than households in either rural or urban areas nationwide.

Colonia areas also generally lack basic infrastructure. According to assessments conducted by the Texas Water Development Board (TWDB), 24 percent of households in the colonias are not connected to treated water and use untreated water for drinking and cooking. (TWDB has estimated a cost of $147.9 million to provide water services to these households.) Forty-four percent of the homes in the colonias have outhouses or cesspools. (TWDB has estimated a cost of $80 million to provide indoor plumbing improvements and a cost of $467.3 million to provide wastewater service to the colonias.) In addition, TWDB asserts that approximately 44 percent of the homes in the colonias experience flooding problems due to lack of paved streets and drainage problems. The *Colonias Factbook* adds that one of five homes in the colonias also lack adequate heating and cooling.

Border region households tend to be larger than households nationwide. According to data reported in *Taking Stock*, more than twice as many border households consisted of seven or more persons as in the United States as a whole. Over 16 percent of the border region's population

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[1] Information reported in this section is abstracted from an unpublished literature review conducted by HAC under a contract with the U.S. Department of Agriculture.

lived in households of five or more persons. The border's larger than average households are a contributing factor to the inadequate size of many border residents' homes, and result in overcrowded living conditions.

1990 Census data reveals that homeownership rates were much lower along the border than in rural areas nationally. Local studies indicate that owner-occupied housing in the colonias was valued far lower than housing in other parts of counties with colonias. In addition, mobile homes were a significant and growing part of the housing stock in the border region. The New Mexico border had a particularly high proportion of mobile homes, more than one in five.

Physical deficiencies in occupied housing units have also been identified by several local studies. For example, in 1991, more than half of 310 farmworkers surveyed in the Eagle Pass (Maverick County) Texas area, stated that their home required "a lot of repairs" and almost a third described the condition of their homes as "poor." Sixteen percent of the residents surveyed had no indoor toilets, 14 percent no tubs or showers, 6 percent no cook stoves, and 37 percent had no heaters. In addition, 21 percent indicated bad electrical wiring in their home, 38 percent bad foundation, and 32 percent a leaky roof. The majority, 57 percent, said their homes were overcrowded and their financial information indicated that they paid more than 39 percent of income for housing. A 1987 survey of 214 farmworkers in the El Paso area reported similar conditions. Texas studies have noted that a large portion of the state's farmworker population lives in the border region. This population finds it particularly difficult to improve their housing conditions due to low and sporadic incomes. However, the low-income colonia residents suffer from substandard housing conditions even if they are not farmworkers. A study conducted by the Texas Office of the Attorney General of Hidalgo County, which is being replicated for Cameron and El Paso counties, confirms this. Despite the limitations of these studies, the information presented can be used to generalize about conditions in the colonias. While individual percentages may vary, the grim conditions outlined are often reflected to varying degrees in the other colonia counties as well.

Lack of Resources

Limited resources have resulted in dividing even those groups that seek to mitigate the problems in the colonias. Scarce funding resources have caused tension among colonia advocates as they struggle to establish priorities among needs which are all equally critical, such as housing, infrastructure (particularly water), and economic development. This fragmentation has precluded the creation of a comprehensive, region-wide approach.

There is a related lack of sufficient local capacity to solve the problems in the colonias. Capacity needs include access to funding, organizational development, technical assistance, and the creation of new local groups to undertake the task of improving conditions in the colonias.

Conventional lending mechanisms do not take into account the seasonal nature of income and employment of many colonia residents. In addition, the target population's income level, and the levels of risk perceived in serving this population, have prevented private lending institutions from financing housing and community development activities in the colonias. Clearly, any mechanisms serving colonia residents would have to be creatively designed. Private sector institutions are generally driven by profit margins, precluding their intensive involvement in the colonias.

Regional Impact

Colonia communities do not exist only on the U.S. side of the border. The bi-national, regional nature of this problem needs to be recognized. Maquiladoras[1] located on both sides of the border, and the complexities of the domestic and international agricultural markets are also responsible for the colonias phenomenon. In addition, NAFTA has had significant impact on the continued proliferation of colonias on both sides of the border. Unfortunately, until about 1995, there have been no organizations actually dealing with the colonias problems on a regional, bi-national scale. NADBank and BECC are incipient organizations, and are just beginning to address the border problems. [See Appendix A for a brief description of these organizations.] However, whether these are the ideal organizations to address the problems in the colonias remains debatable. It is also extremely difficult to get the governments of two different countries to agree upon an approach to tackle the problems in the colonias. It is equally impossible to make them jointly commit needed resources to this venture.

Finally, it is important to remember that it is possible that for some families, escaping even worse poverty in Mexico, the situation in the colonias could actually be a step up. Any long-term, effective approach to tackling the colonias phenomenon will have to take this reality into account.

Despite the numerous challenges presented by the colonias, a number of organizations have taken on the formidable task of addressing the problems faced by these communities. Local nonprofit groups, with strong grassroots support from the community, have developed and implemented a number of innovative approaches to address the conditions in the colonias. Indeed, many colonia experts and advocates argue that local community-based institutions are the only appropriate vehicle for accomplishing the fundamental goal of empowering colonia residents to solve their own problems. The following case studies are testimony to the inventiveness and determination of local nonprofits in the face of extreme adversity. The documentation of their stories is intended as encouragement and inspiration to other groups aspiring to effect change in the colonias.

[1] Maquiladoras are essentially twin plants, with the parent company located on the U.S. side and its manufacturing subsidiary located on the Mexican side of the international border. A number of colonia residents are employed by maquilas. Occasionally, colonia residents from the U.S. side even cross over to the Mexican side for work.

METHODOLOGY

This report focuses on documenting some of the different approaches to improving housing and infrastructure conditions in the colonias. Rather than chronicle every initiative undertaken in the colonias, this study highlights those with innovative approaches and possibilities for replication. The research for this study was completed in summer 1996. Information gathered and data reported are reflective of this date. We acknowledge that several new reports and information sources have probably become available since then.

In order to identify suitable initiatives for the purposes of this study, HAC conducted extensive background research. A review of existing literature on the colonias was combined with informal preliminary interviews of a number of local and national level colonia experts. This enabled HAC to obtain information on a broad range of initiatives underway in the colonias, while focussing on projects that address housing and infrastructure problems. An information gathering visit to the Lower Rio Grande Valley and Laredo facilitated this task and helped establish contact with some of the key players in the area. HAC also attended a hearing on the colonias convened by the Texas Senate Committee on International Relations, Trade and Technology on January 30, 1996, in order to develop an understanding of the current political context along the U.S.-Mexico border, as well as of the issues that profoundly impact colonia communities.[1] Consequently, HAC was able to ascertain the relevance of the study content and ensure that the report would be useful to the groups that seek to ameliorate conditions in the colonias.

For the purposes of this report, HAC concentrated on examining approaches in the states of Texas and New Mexico since these states have been more active in addressing the colonias problems. Special effort was also made to consult other researchers in Texas and New Mexico, particularly HUD-funded researchers, to avoid duplication of effort.

At the national level, HAC sought information from:

- The Department of Housing and Urban Development (HUD).
- Other federal agencies (in particular the membership of the Inter-Agency Task Force on the Colonias).
- Representatives of the North American Development Bank (NAD-Bank) and the Border Environmental Cooperation Commission (BECC).
- Government Sponsored Enterprises (Fannie Mae’s Border Initiative Office).
- Nonprofit organizations such as the National Council of La Raza, Neighborhood Reinvestment Corporation, and Habitat for Humanity.

At the state level, HAC sought information from:

[1] The Texas Senate Committee hearings and information gathering visit to the Lower Rio Grande Valley were funded under a separate contract between HAC and the United States Department of Agriculture (USDA).

- State agencies funding colonias improvement initiatives, such as the Texas Department of Housing and Community Affairs.
- Texas Office of the Attorney General.
- State Rural Development and HUD offices.
- Other state-wide organizations such as the Texas Water Development Board (TWDB).
- Educational institutions such as Texas A&M University, University of Texas and Pan American University.

At the local level, HAC sought information from a number of housing and community development organizations, and advocacy groups active in the colonias. These groups included members of the Border Low Income Housing Coalition, Valley Interfaith, the El Paso Community Foundation, Texas Rural Legal Aid, and nonprofit housing developers such as Proyecto Azteca and Azteca Economic Development and Preservation Corporation in Texas and Tierra Del Sol in New Mexico. [For a list of local resources and contacts, see Appendix B.]

Information on different approaches to addressing the problems in the colonias was collected under the following categories:
- Land title reform.
- Infrastructure development and provision.
- Creative financing schemes.
- Housing rehabilitation and reform.
- Policy, regulatory and legislative issues.

These categories were selected because they are particularly germane to types of problems affecting colonia communities.

Based on the background research conducted, HAC identified three initiatives for further study. These initiatives were selected primarily for their innovative approaches in addressing the needs of colonia residents and their potential for replication. In addition, each of these cases represents a collaboration between a variety of key players in the colonias, illustrating different ways in which projects can succeed through the creation of new partnerships. No specific case study was identified under the category "Policy, regulatory and legislative issues." However, these issues, when pertinent, are discussed in each of the other case studies. They are also addressed in the concluding section.

These case studies were selected based on criteria which would facilitate the development of similar projects along the U.S.-Mexico border. Each project has been successfully implemented and has produced concrete results that afford valuable lessons to other groups/communities seeking to improve conditions within the colonias. The projects are geographically dispersed, highlighting both the differences inherent in their location, and the commonalities based on their adopted strategies. (Two are located in Texas, while one is located in New Mexico.)

The case studies are presented largely from the perspective of the nonprofit groups involved in implementing the strategies described, so that other nonprofit groups could adapt all or some aspect of the initiatives described to their particular target area. Often there is some overlap in the types of activities undertaken in different colonias. For instance, each of the projects described may address the development of housing for colonia residents. This overlap is in part a function of the similarity in the needs of colonia residents all along the border. It should be noted that the initiative described under a particular category, such as creative financing arrangements, is intended to highlight an innovative approach in that category, though the case study may include other aspects as well. Finally, it should also be noted that HUD has played a significant facilitative/financial role in all the cases described.

Based on the criteria outlined above, the following projects were selected for conducting detailed case studies:

- Infrastructure development and provision: Tierra Del Sol's Anthony project.
- Creative financing schemes: El Azteca, a Low Income Housing Tax Credit, multifamily housing development project.
- Housing rehabilitation and development : Proyecto Azteca's self-help, single-family homeownership project.

Once selected, each project was visited by a HAC researcher in order to collect on-site information about the initiative. During the site visit, HAC collected details on the quantitative and qualitative benefits of the project, both to the colonia communities served, and to the local nonprofits involved. HAC researchers conducted interviews with a cross-section of participants involved in the project. Where possible, these interviews were conducted in person. In other instances, telephone interviews supplemented the information collected on site. HAC researchers also collected maps, plans and other documents relevant to the project, and photographed each of the projects. (Photographs are appended to each of the case studies.)

In addition to collecting information specific to each of the projects visited, HAC sought responses to the following general questions:

- How was this particular project conceived? What were the specific needs this project was attempting to address?
- What sorts of financing arrangements enabled the project to be implemented? Is the project now self-sustaining?
- How were any difficulties or obstacles overcome?
- What were the roles of the different players involved in the project? Did the project foster new partnerships or coalitions?

- What lessons does this project have for other groups working in the colonias?
- What role did HUD play in this project?
- What were the results and benefits of the project? Can these be replicated on other sites?

This research about innovative strategies is intended to share stories about the positive experiences local groups have had in tackling the problems in the colonias, in particular with other groups struggling to implement solutions in colonia communities along the border. These case studies form the first step toward identifying successful models that can perhaps be replicated in some form in other colonias with similar needs.

INFRASTRUCTURE DEVELOPMENT AND PROVISION: TIERRA DEL SOL'S ANTHONY PROJECT

Tierra Del Sol (TDS) is a private, nonprofit community-based organization located in Las Cruces, New Mexico. TDS was organized by volunteers, an interfaith reverend, a county commissioner, a group of farmworkers and rural families approximately 20 years ago. The purpose of the corporation is to provide a community housing delivery system to help low-income families. Housing assistance is provided through technical assistance, training, and the development of safe, sanitary, and affordable homes for persons of very low to moderate income. In addition, TDS has become an instrument of change for many low-income communities through its advocacy and community organizing activities.

In all, TDS has successfully developed over 700 single-family housing units by the self-help method. The corporation has also undertaken significant housing rehabilitation over the years. Current activity involves the rehabilitation of 300 single-family housing units in five New Mexico local government jurisdictions. TDS has also sponsored and developed over 470 multifamily housing units in several scattered locations in New Mexico and Texas.

TDS began work in the colonia community of Anthony, New Mexico in 1984. In order to proceed with housing development for colonia residents, TDS realized that they first needed to tackle the lack of infrastructure within the community. Without water and sewer services, TDS would not be able to access the rural housing programs operated by the Farmers Home Administration (now known as Rural Development). Consequently, TDS began by assisting in the formation of a Water and Sanitation District, and initiating the development of community water and sewer facilities. This involved extensive community organizing efforts. Simultaneously, TDS undertook the rehabilitation of housing units throughout the community. As the Anthony Water and Sanitation District formed and expanded, TDS ensured that it included the capacity to serve TDS's future housing developments. TDS then proceeded to develop multifamily housing units, farmworker housing, and single-family ownership housing through the self-help method. In all, TDS has provided approximately 400 units of decent, affordable housing in Anthony. This has been achieved by putting together a variety of financing sources, developing strong relationships and partnerships with a network of service providers, public and private entities, and building both the physical and political infrastructure within the community of Anthony.

General Overview of Dona Ana County and the Anthony Colonia

The community of Anthony is located in Dona Ana County in the state of New Mexico [see Figure 2a]. In order to provide a context for the problems faced by the residents of Anthony, it is necessary to provide some background on the county in general. Dona Ana County, one of the poorest and fastest growing counties in New Mexico, shares its border with Chihuahua, Mexico and El Paso, Texas and has a current population of 144,800. It is located less than 15 miles away from Juarez -- a city of a million and a half in Mexico. Dona Ana is the ninth poorest county in New Mexico and the fifth poorest metropolitan statistical area in the nation. About 22 percent of

New Mexico and the fifth poorest metropolitan statistical area in the nation. About 22 percent of the county's population lives in colonias.

A large majority of the colonias in Dona Ana County have sprung up since 1986. In 1989, a survey conducted by the General Accounting Office (GAO) reported the existence of 15 colonias in New Mexico, with a total population of 14,600 residents. All 15 were located in Dona Ana County. Colonia communities in the county have proliferated since then. Currently Dona Ana houses 35 designated colonias. Most of these were designated as recently as 1993. Available data, based on a door to door survey conducted by the Diocese of Las Cruces, indicates that colonia residents are mostly Mexican-Americans. Many work as seasonal farm laborers or are otherwise employed by the agricultural related industry. The average household consists of five persons and has a median annual income of under $7,500. This represents less than 59 percent of the state's median income. A significant proportion of the residents are recent immigrants, granted citizenship under the 1986 Immigration Reform and Control Act. The survey also found that the colonias are likely to remain as permanent communities. Almost all the respondents expressed a desire to remain as permanent residents of their respective communities.

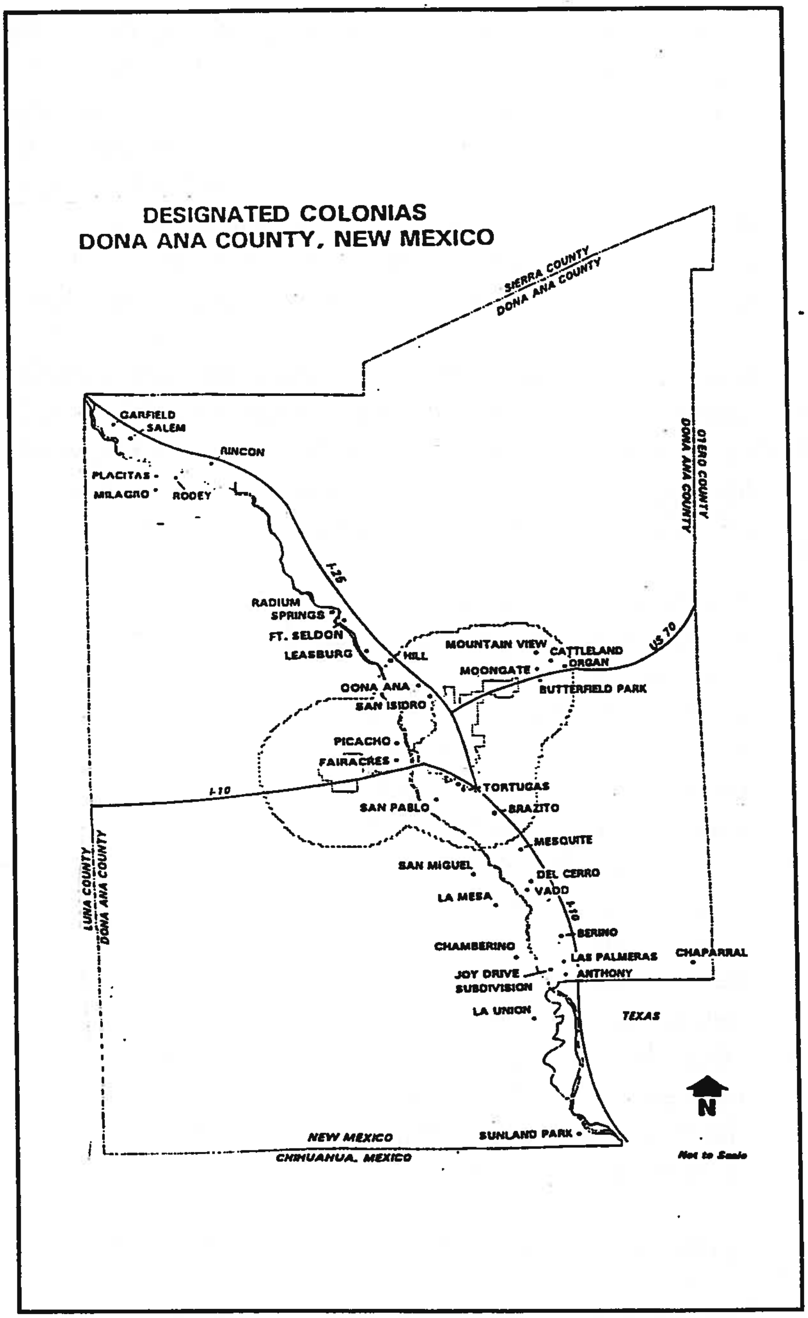

Figure 2a: Designated Colonias in Dona Ana County

Most Dona Ana County colonias originated when subdividers began creating unimproved subdivisions within the county by taking advantage of the numerous loopholes in New Mexico's antiquated

Subdivision Act. Based on this Act, a parcel of land could be legally divided into four parts.[1] Each of these four lots could then be divided another four times. Subdividers have used this four-lot-split provision in numerous instances, which have resulted in large tracts of land being divided into as many as 200 residential lots which are created without adequate roads, drainage or other infrastructure improvements. The County Planning Department reports that these plots are then sold on unrecorded real estate contracts to low-income people at low monthly payments ($100-300) and high interest rates (up to 18 percent). As with most other colonias, Dona Ana colonias are characterized by dirt roads without drainage control structures, which become flooded and impassable when it rains. Entire colonias are often located in flood plains, leading to saturation of septic tanks, cesspools and the surrounding soil. This results directly in the spread of communicable diseases and in contamination of groundwater. In addition to being a nuisance and health hazard to the residents, this creates a public safety hazard owing to impeded access for fire trucks and ambulances. School buses too have access problems, forcing children to walk large distances in the mud in order to catch the bus to school. Dirt from unpaved roads and illegal trash burning contributes to air pollution in colonia areas. While 75 percent of Dona Ana county's colonias have water supply, fewer than 20 percent of colonia residents are connected to wastewater facilities. The vast majority of households use illegal cess pools and septic tanks or dispose effluent directly into open trenches, causing groundwater contamination as groundwater is quite shallow throughout most of the county. Within the colonias that have water systems, many problems exist with the adequacy of the systems and many need significant upgrading to bring them up to standard. In colonias without water systems, residents typically use wells that present a potential contamination hazard. In some cases, residents use outside spigots to access water, as houses often do not have indoor plumbing. Contamination of public water systems is a frequent occurrence due to overburdened systems and obsolescence.

The demand for low priced housing in colonia areas of Dona Ana County far outweighs the supply. High land costs in Juarez and land use controls in El Paso force many residents to buy land in New Mexico. It should be noted that land is at least four times cheaper in the U.S. than in Juarez. A University of New Mexico study found that an acre of low cost land in Juarez costs between $43,000 and $83,000 without infrastructure. In Dona Ana County, an acre in colonia areas costs between $6,000 and $12,000. Mobile homes and trailers are the most common type of housing found in the colonias.[2] They are often extremely run down, and do not meet any standards. Housing is also constructed out of scrap cardboard stuccoed with mud. It is also not uncommon to find people living in abandoned buses, tar paper shacks or combinations thereof. The majority of colonia residents use Mexican butane tanks for heating and cooking. Butane tanks are purchased in Mexico, just across the border, and are very dangerous due to the lack of regulators and the use of plastic tubing for connection. Owing to a traditionally large family

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[1] This practice has been curbed since 1995 with the passage of legislation by the state to tighten existing loopholes.

[2] HAC site visit to New Mexico, July 9, 1996. The use of trailer homes in New Mexico colonias is far more extensive than in the colonias in Texas. In fact, the colonias of Dona Ana County often look like giant, chaotic mobile home parks.

size, and the existing housing being too small, overcrowding is common. None of the statistics reported about substandard living conditions in the colonias adequately portrays the dismal reality of ramshackle trailers dotting dusty expanses of undeveloped land in the shadow of the Cristo Rey mountains on both sides of the border.

The community of Anthony is a small rural unincorporated area, located right on the Texas-New Mexico border. It adjoins the incorporated city of Anthony, Texas. In Anthony, New Mexico, 85 percent of the population is Hispanic, and over 75 percent is low-income. This means on average families earn about $9,000 annually. The community of Anthony developed in the 1880s around the railroad. Most of the community was platted by the 1950s. All subsequent growth has occurred in the platted subdivision, with individuals purchasing lots and locating mobile homes on them. In this respect, Anthony has differed from the traditional “contract for deed” colonia developments. However, according to TDS staff, Anthony has always suffered from substandard housing, inadequate infrastructure, unpaved roads, and other problems that characterize all colonia communities. The State of New Mexico eventually designated Anthony as a colonia in 1989, making it eligible to receive federal and state colonia funds. Most of the colonia growth has occurred on the New Mexico side.

When TDS began work in Anthony the population totaled only 2,000 to 3,000. Most of these residents had no access to water or sewer services. Residents were also politically unorganized and disenfranchised. The current population of Anthony exceeds 5,000, based on data reported by the New Mexico Environment Department. Anthony now houses a large food processing facility and a federal penitentiary, in addition to a few other businesses. Residents are employed by these and other agricultural related concerns located nearby. Some even commute to the cities of Las Cruces, New Mexico and El Paso, Texas, since Anthony is located approximately midway between these two major cities. A significant proportion of farmworkers also reside in Anthony. Local experts report that historically this community has resisted efforts at incorporation. The weak tax base prevalent in the area has been viewed as incapable of supporting local government. In addition, any movement by local activists to incorporate Anthony has faced strong opposition from local farmers. Reasons for this opposition range from a traditional distrust of municipal government to an unwillingness to be assessed greater taxes on farmland owned. Today Anthony is one of the fastest growing areas of the county.

Creation of the Water and Sanitation District

Approximately 20 years ago, when TDS began working in Anthony, the community was a typical colonia without any water or sewer infrastructure. TDS formed a network with a group of committed local activists and set about acquiring infrastructure services for Anthony. Just across the border, the city of Anthony, Texas had a well functioning sewer system in place with excess capacity. With help from the Dona Ana County government, the group of local activists managed to negotiate an agreement with Anthony, Texas to share their system and use their excess capacity effectively. With critical support from the Department of Housing and Urban Development, the colonia of Anthony utilized Community Development Block Grant (CDBG) funds to build infrastructure for the core community and hooked it up with the system operated by Anthony, Texas. This was strictly a wastewater operation.[1] This was an ideal arrangement for both sides. Anthony, New Mexico got its infrastructure, and Anthony, Texas gained revenues by effectively using its excess capacity. Unfortunately, owing to the prevalence of larger water-related political conflicts between El Paso, Texas and the state of New Mexico, this arrangement did not survive for very long and an alternative had to be found. This situation was what ultimately led to the creation of the Anthony Water and Sanitation District, the details of which are explained later.

Simultaneously, in the early 1970s, the community of Anthony also began to notice the effects of entrenched water pollution in the area. Numerous dairy farms located at a higher gradient than Anthony caused the leaching of large quantities of nitrates into the groundwater supply, causing numerous chronic health problems among residents, especially children. With the passage of the Clean Water Act and the federal buy-out of dairies for stabilizing milk prices, some control was established on continued contamination of groundwater. At this time, most of the community depended on wells for their water needs. However, since Anthony is located at a distance from the river valley, accumulated solids in well water continued to be a serious problem. Something needed to be done.

TDS and the group of local activists came together and formed a nonprofit water association. The association lobbied the state to pass legislation authorizing the creation of an independent infrastructure system for the community of Anthony. The local activists had crucial support from the county government in this venture. Together, this network of the water association, the county and the local community formed the Anthony Water and Sanitation District. This was a bold move, as not many such districts existed in the state at that time. The District started by formulating its boundaries. This was not an easy task owing to resistance by farm owners and the weak local tax base. They succeeded despite the odds, after agreeing to exclude farmland. In fact, at the time this research was conducted, farmland adjoining Anthony was still not included within the Water and Sanitation District. The District then worked with the county to acquire $250-300,000 in HUD CDBG funds and designed a wastewater system for Anthony. Special state appropriations and other federal funds from the National Demonstration Water Project supplemented the CDBG funds. Securing state support was a major achievement, since historically the state government focussed on the northern part of New Mexico. The core community, comprising of that portion of the colonia that initially organized to create the Water and Sanitation district, was designated as the immediate growth area and was to be served first. The rest of the community was to be served in phases, using five and ten year growth projections.

Under state statute, a special Water and Sanitation District has many powers. It has bonding capacity and can levy taxes. It has the right of eminent domain and can condemn properties as

[1] At this time water services to the core community of Anthony were provided by a private water system. The rest of the colonia did not have any water system in place. Many residents depended on wells for their water supply.

well as designate easements and rights of way. It can establish boundaries, and has the power to expand as well as to provide services to its residents. In addition to water and sewer services, the District can participate in funding other public services such as parks, recreation, streets, and street lighting. In fact, the Water and Sanitation District serves as a transition between an unorganized, unincorporated area and a functioning incorporated city.

Once formed, Anthony's District managed to leverage funding from a variety of federal and state sources. With help from grants and loans from HUD CDBG, EPA, Rural Development (formerly Rural Economic and Community Development), EDA and state monies, the District was able to bring in an investment of approximately $10.6 million to Anthony for infrastructure development. This took tireless efforts over an extended period of time. For the first 10 years, after its inception in 1977, the District was able to provide service to the core community alone. After solidifying this service, the District proceeded to build the first phase of a treatment plant, providing an additional 150 connections. A private water system continued to serve part of the community. The District was finally able to buy out the private provider in 1993 and extend service to the rest of the community. Today, the District provides over 1,500 sewer connections and 2,200 water hookups, serving nearly all of the community. Nearly 75 percent of the community served was provided with grant funds through the state to hook up to the system. The District has also created a number of programs to assist families with water and sewer hookups. For instance, the District uses a network of Community Action Agencies to deliver the hook-up funds to the families. When combined with self-help labor for digging trenches, each hook-up costs only $200, enabling the District to stretch its dollars to serve the maximum number of families.

During the course of establishing infrastructure for the community of Anthony, HUD mandated a set aside of CDBG funds for the colonias in 1991. The District hoped to use these funds to expand its infrastructure system. According to local experts interviewed, the state opposed this set-aside provision vehemently. Federal regulations required an assessment of the local population in order to establish the numbers of low-income residents. The District would then be required to provide matching funds to pay for service to residents who were not low-income. Local activists claim that the state seized upon this regulation and interpreted it in a harsher way that the federal agency intended. The state wanted a detailed survey conducted. This would have cost the District over $15,000 -- which it could not afford. TDS staff report that they stepped in and helped the District bring this to the attention of HUD's national office. HUD subsequently dropped both the survey requirement and the requisite matching funds. In this instance, HUD was more responsive to local needs than the state of New Mexico, according to local activists.

Unfortunately, since this initial use of the colonias set-aside, there has been limited success in utilizing these funds in Dona Ana County. County residents interviewed insist that the state has tended to scatter the funds available based on political considerations. They also concur that the state government has historically favored the northern part of the state over the south. The dollars provided to Dona Ana County have been inadequate to fund projects in their entirety, and the county has found it necessary to leverage funds from other sources, causing delays in implementation. Owing to the complexities of executing colonia projects, and the resulting delays, the county has been unable to meet its annual threshold of projects as of 1995 as required by HUD. Once this threshold is not met, the county cannot access further funding without completing pending projects and gets caught in a vicious cycle. As a result, Dona Ana County colonias have received negligible funds from the colonias set-aside dollars between 1992 and 1995. Local experts interviewed strongly emphasize the need for an alternative mechanism to deliver this funding.

In all, it took the concerted efforts of the Anthony Water and Sanitation District, TDS, and other local advocates, and over 20 years of political negotiation, creative fundraising and hard work to develop the requisite infrastructure capable of supporting new housing development. Sufficient capacity for housing development was ensured through the participation of TDS in the formation of the District from the very beginning. Today the District has also put together a policies manual with the help of TDS. These policies are the culmination of 20 years of problem solving and serve as a model for other districts being formed in the state and for small communities elsewhere.

Housing Development in Anthony

As mentioned earlier, Tierra Del Sol initially began working in Anthony in the early 1970s. Their housing activities in Anthony have spanned over 20 years, with each project representing myriad collaborations with different funding sources and partners. Describing each of these in detail would be extremely complex. Consequently, this study presents highlights of the different projects undertaken in Anthony, with a view to providing other nonprofit housing developers with useful insights. The development undertaken by Tierra Del Sol in 1994 is described in greater detail, and is illustrative of the negotiations involved in each of the prior projects.

While collaborating on the formation of the Anthony Water and Sanitation District, TDS simultaneously began rehabilitation work on housing units scattered throughout the colonia. Through rehab work, TDS was able to assist a number of very low-income homeowners bring their substandard homes into safe and sanitary compliance, through grants and loans. In particular, housing rehabilitation helped keep some of the elderly in Anthony living independently in safe and decent homes. The primary source for funding for rehabilitation work came from HUD’s Community Development Block Grant (CDBG) program. Additional funds came from RHS (formerly FmHA), state Weatherization program, foundations and private lenders. While TDS believes rehab work on substandard units is a “Band-Aid” approach and not a cure, there was no alternative available to them at this juncture. They could not proceed with developing self-help housing through the RHS (formerly FmHA) program without the availability of infrastructure. In addition, funding for rehab work was more readily available than financing for new homes at that time. Pragmatic concerns dictated proceeding with housing rehabilitation, while working to lay the groundwork for new housing development in the future.

Subsequently, TDS moved on to develop 109 units of self-help homes in a subdivision called Mercure Estates. This subdivision did not use Anthony Water and Sanitation District’s water or sewer services since their system was not extended to this subdivision at the time. TDS actually worked with the residents of Mercure Estates to develop their own wastewater treatment plant. TDS also managed to procure extra funds, as part of their self-help application, for providing increased water tank capacity for these units. Later, once the District was formed and had adequate capacity, Mercure Estates hooked up their own system with that of the District. This was the first self-help project undertaken by TDS in Anthony.

TDS then proceeded to develop 16 units of self-help housing in a subdivision called Las Familias. This was followed by 91 units (45 self-help and 46-contractor built) in the O'Hara subdivision. This subdivision provided a new challenge. According to FEMA flood maps the land TDS wanted to locate the O'Hara subdivision on was designated a flood plain. TDS engineers disagreed with this designation and, after several years, convinced FEMA the area was not, infact, a floodplain.

In addition, TDS developed 24 units of farm labor housing for the farmworkers of Anthony, undertook some scattered site infill housing development, and completed 30 units of HUD 202 elderly housing across the border in Anthony, Texas. TDS is currently working to complete Phase II of a subdivision called Tierra Linda. Phase I of Tierra Linda was comprised of 45 units of housing and was completed in 1993. When complete, Phase II will add another 40 units to this subdivision. In all, TDS will have contributed over 400 units of good quality, affordable housing to the colonia of Anthony. The process of bringing the Tierra Linda subdivision to fruition is described here, as an example of the types of financing and negotiations undertaken by TDS in order to successfully develop affordable housing in the colonias.

Constructing the Tierra Linda Subdivision

TDS began Phase I of the Tierra Linda subdivision by selecting a site and purchasing an option to buy the land. They chose the site with a view to expanding the development into Phase II, providing they could later secure the needed finances. This is one of TDS's primary strategies: planning for the future while working on a current project, so that they can always move to the next phase of implementation immediately upon completing the development in hand. Since TDS had been intricately involved in the creation of the Water and Sanitation District, they were able to locate this development near the District in order to facilitate the extension of infrastructure services. The close ties TDS developed with the District over the years also facilitated access to infrastructure for housing developments sponsored by TDS. This is indicative of the extent of forethought required by nonprofit groups interested in changing conditions in the colonias. Effective community development takes many years of hard work, and requires involvement in addressing every aspect of the community's needs. It also requires the building of key relationships with other players in the community.

TDS decided to approach the Federal Home Loan Bank (FHLB) for Affordable Housing Program (AHP) funds to assist with financing the acquisition and construction of the building lots, which would then be purchased by eligible families with financing from RHS (then FmHA). They succeeded in negotiating a $380,000 loan at 5 percent interest for two years and a $90,000 grant from the FHLB through the First Federal Bank of Las Cruces as the local lender. The

$90,000 grant was pivotal to the success of this venture. It facilitated the extension of water and sewer services to the subdivision, and effectively reduced the cost of each lot by $2,000. Once developed, the lots were sold to families. This sale was financed by RHS, and mortgaged at approximately $3.2 million, which was set aside by RHS for 100 percent of the construction and permanent financing. RHS also committed a grant of $249,000 for technical assistance, including construction management of the homes.

This project also involved the integral working partnership of two nonprofit organizations, Tierra Del Sol (TDS) and Housing and Economic Rural Opportunities (HERO). TDS, with its experience as a nonprofit developer of self-help housing, was the project sponsor and developer, while its partner, HERO, was responsible for purchase of the land and site development. TDS and HERO share a special working relationship that proves extremely advantageous when developing affordable housing projects. HERO was created by TDS in the mid 1980s as a response to an obstacle TDS encountered while trying to develop self-help housing projects. HUD was responsible for executing subdivision approvals prior to the developers receiving federal funds. FmHA (now RHS) had a reciprocity agreement with HUD to accept their approval process and requirements. TDS staff claim that HUD's requirements were based on their experience in urban areas, and placed an unreasonable burden on housing developers working in rural areas. In addition, TDS developed an adversarial relationship with the local HUD staff in charge of the approval process. Consequently, local HUD staff proceeded to stall approvals for TDS subdivisions. TDS began lobbying to get HUD and RHS out of the subdivision approval process, and recommended that local regulations for subdivisions be considered sufficient. In the meantime, TDS created a separate nonprofit, HERO, for carrying out land development activities and seeking subdivision approvals. TDS staff assert that this structure enabled them to circumvent the roadblocks placed in their path by local HUD officials. Finally, in 1993, Congress mandated that HUD and FmHA (now RHS) would no longer be responsible for subdivision approvals. However, TDS continued to function with HERO as an integral part of its organizational structure, owing to other advantages this partnership had to offer. TDS is able to divide liability on a project with HERO, so that the assets of both groups are better protected. In addition, TDS is able to charge for certain work, such as house plans, through HERO. It would otherwise not be able to charge for these services, owing to quirks in RHS regulations.

TDS worked in partnership with a number of other organizations in order to successfully develop the Tierra Linda subdivision. The Dona Ana County Planning and Zoning Commission reviewed and approved the 20-acre subdivision located in the heart of the colonia community of Anthony. In addition, they assisted TDS with offsite road improvement planning. The Anthony Water and Sanitation District provided infrastructure planning, construction financing and assistance for off-site sewer lines with $600,000 in grant funds from HUD CDBG colonias set-aside funding. The Anthony Water Works, a private water system, assisted with the planning and construction of offsite water lines. The state legislature provided $25,000 of grant funds through their Safe Water Program for water and sewer connection costs for low-income families. Skyline Engineering, a private engineering consulting firm, designed and inspected the construction of subdivision lots. The Housing Assistance Council was also a partner in this venture, and assisted by providing a $190,000 guarantee of the loan from the commercial lender under the FHLB program, in order to meet the requirements of the Office of Thrift Supervision.

Actual construction of the homes was carried out by the mutual self-help method by the owners themselves, in groups of eight families. The RHS mutual self-help program is modeled on the old “barn raising” concept, which involves neighbors helping each other to build their homes. Each family work group includes eight or ten families that perform volunteer, unskilled labor, coupled with licensed subcontractors and supervision by TDS to complete the home. This process truly serves to empower the poor through homeownership. The benefiting families contribute a fair amount of sweat equity to the project and receive home loans from RHS, the lender of last resort, since they are not able to access traditional financing. Some of the homes in the subdivision were built by local, licensed subcontractors, then sold to low-income families financed by RHS. This arrangement works well for families who are unable to participate in the construction of their homes. The Tierra Linda units are standard wood-frame units with a brick and stucco facade, and are nearly 1,100 square feet in area.[1] [See Figure 2b for a sample house elevation and floor plan.]

The typical new, single-family, three-bedroom self-help house in Tierra Linda costs $37,000. The contractor built units cost about $48,000. These housing costs are best appreciated when placed in the context of the prevalent local housing market. Local realtors report that the lowest priced home of comparable quality sold in a comparable location typically costs $60,000 to $70,000. At conventional rates of about 11 percent interest, plus down payment and financing fees, the buyer must pay about $660 to $760 per month, not including taxes and insurance. Clearly, families with annual incomes between $8,000 and $12,000 that TDS hoped to serve could not afford these payments. It should be noted that the county Public Housing Authority reported that its waiting list included more than 300 people and was no longer open. Private rental units are almost nonexistent. Consequently, participating in the self-help construction program with TDS offers low-income families in Anthony a unique opportunity to own their homes.

As part of the project, TDS combined administration of the self-help program with family credit counseling, preconstruction training, and homeownership counseling. The training and counseling efforts are a crucial ingredient of the success of the housing developments completed by TDS. Counseling ensures that the families participating in the program are truly committed and ready for the hard labor they are required to contribute. Counseling also helps prevent families from becoming delinquent and losing their homes. In addition, the construction training provides families with necessary skills to maintain their homes in good condition. The total package offered by TDS promotes real self-sufficiency for low-income families that is beyond

[1] The construction of three-bedroom units serves the needs of the traditionally large families that reside along the border in New Mexico. The homes built by TDS are typical of RHS-funded self-help housing units constructed anywhere in the country. Interestingly, their design differs from that adopted by Proyecto Azteca, another nonprofit group that builds homes for colonia residents. The Proyecto Azteca homes are described later in this report.

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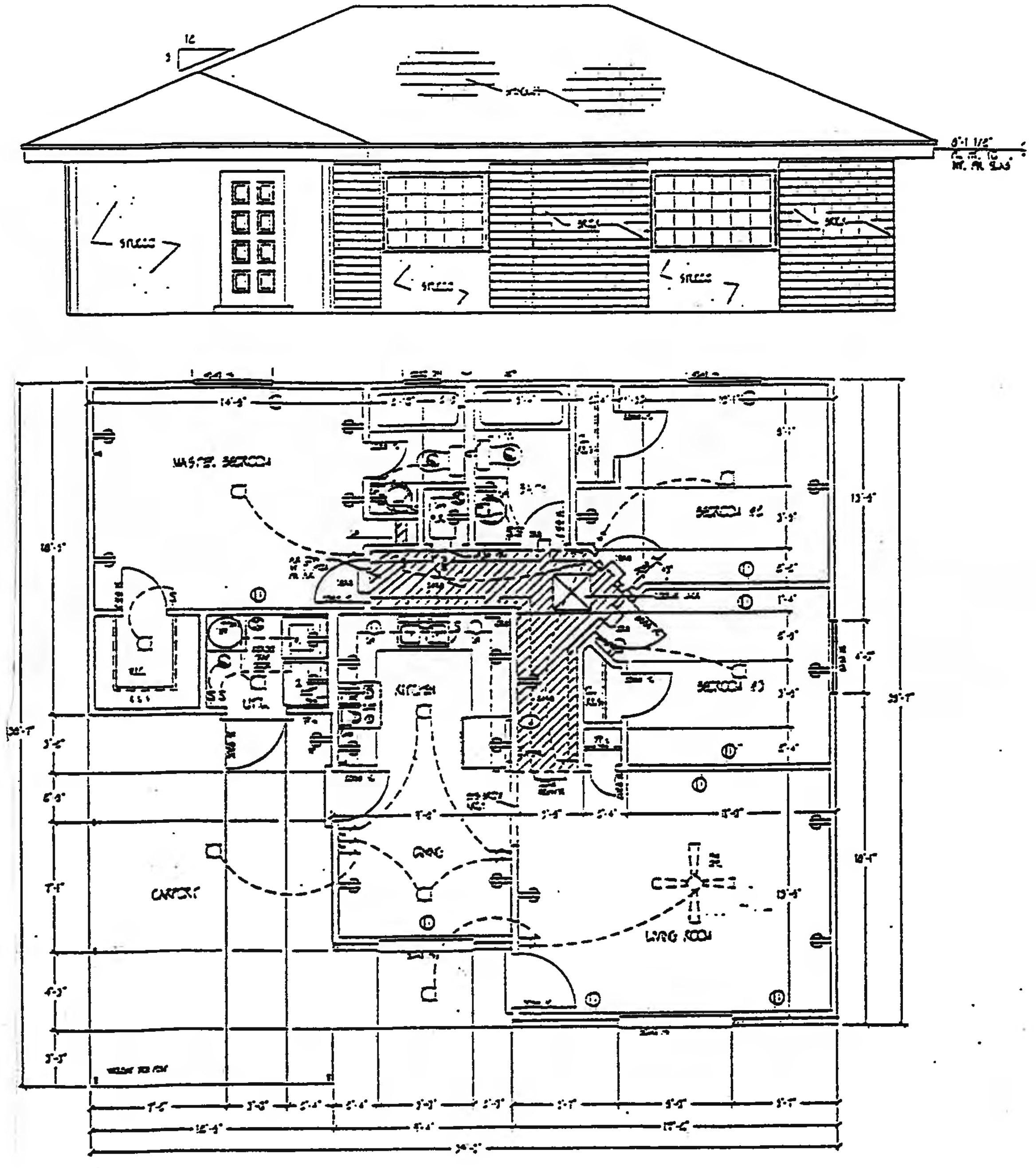
Figure 2b: Floor Plan and Elevation of Self-Help Home in Tierra Linda Subdivision



After completing Phase I of the Tierra Linda subdivision, TDS proceeded with construction of Phase II. HAC and Bank of America were financial partners in this stage of the project, along with RHS. TDS will complete construction of the 40 homes in this phase by the end of 1996. They had hoped to complete construction of these units at least a couple years earlier. TDS staff attributes this delay in part to the difficulty of obtaining $5 million in funding for sewer expansion from federal agencies in a timely fashion. TDS claims this obstruction is a classic example of problems arising from the bureaucratic handling of funding requests by federal EPA and state environment departments administering the colonias water and sewer grant funds. It cost the County three years of unmet thresholds and a consequent loss of CDBG grant funds. Anthony also lost a huge economic development project. A discount store mall that was planning to locate in Anthony withdrew. In addition, this delay cost TDS $20,000 of accrued interest on construction loans.[1] Eventually Congressional action, and the intervention of the new Rural Development State Director, achieved the release of the final obstruction.

Figure 2c: Construction of Tierra Linda Phase I

[1] TDS had construction and other loans from a variety of sources for completing Tierra Linda Phase II. These lenders included HAC, Bank of America, Neighborhood Reinvestment Corporation and First Federal Bank, among others. Eventually, the interest owed by TDS was rolled into the lot costs. Unfortunately, as a result of this delay, the families had to pay more for their lots.

Despite their travails, at the time of this research TDS staff said that they were pleased that they would be able to successfully complete work on the Tierra Linda subdivision, providing 85 needy families with new homes. The Anthony Water and Sanitation District reports that TDS's focussed efforts in Anthony have changed the overall character of the colonia. Today Anthony is on the threshold of taking the next step in community development. It has begun to attract economic development opportunities for its residents, and is even considering incorporating.

Lessons Learned and Replicability

With over 20 years of experience in successfully developing affordable housing in the colonias, TDS has a number of lessons to offer other groups interested in undertaking similar projects.

TDS attributes its success to strong community-based support for its mission, and the close relationships it has worked to develop over the years with key players in the field. The Director of the Anthony Water and Sanitation District concurs with this assessment. Having a committed group of people working with focussed attention in a target area is key to effecting positive change in the community. For instance, TDS's relationship with the Water and Sewer District helped ensure that TDS would be able to acquire needed infrastructure for future housing subdivisions. TDS recommends building partnerships and relationships with a broad range of players. At the same time, it urges other local groups to get involved with lobbying and advocating for their interests. A strong network of local interests can effectively impact policies and legislation, as well as counter delaying actions by local-level civil servants. For instance, TDS demonstrated this through removing HUD and RHS from the subdivision approval process.

Often the art of nonprofit housing development involves juggling several funding sources and their reporting requirements. TDS recommends obtaining clarity on these reporting requirements in advance in order to avoid confusion in the midst of developing a housing project. TDS learned this when problems occurred while working with FHLB's AHP program. The process of clarifying the necessary reporting requirements while the project was underway had the unfortunate side effect of making the local lender extremely nervous. This experience destroyed TDS's relationship with this particular local lender, since it affected the local lender's confidence in TDS. It is important to maintain a good relationship with local lenders in order to obtain their continued participation in affordable housing development.

Land purchase and development, and careful timing of different stages of housing development, are crucial aspects of a successful project. TDS cautions against purchasing land without having all the rest of the financing pieces in place. Interest on loans for land purchase and development can accrue rapidly. TDS recommends locking in desirable land with an option, while pursuing the rest of the financing. It is equally important to carefully coordinate utility provision, homebuyer financing, and actual construction. Sometimes it is necessary to commence construction before the entire site is developed and all the infrastructure is in place in order to get this timing right. In order to proceed, it is often necessary to obtain a guarantee of credit for the lender's comfort that the entire site will eventually be developed. Intermediary groups such as HAC are able to provide this service, and should be utilized.

TDS also recommends instituting an organizational structure that reduces liability. The relationship between HERO and TDS is an example of such a structure. In addition, each project/apartment complex developed by TDS is an independent nonprofit corporation under TDS, which TDS has an agreement to manage. In all, TDS manages a dozen such nonprofit corporations. Each of these nonprofits even has its own board. This facilitates a greater local community voice in the management of the housing projects, in addition to reducing TDS's liability. In this way, no one housing project can bring down the entire organization. Similarly, each project is also protected from any mistakes TDS might make.

Another lesson TDS has to offer is that effecting change in the colonias requires long term commitment. It has taken over 20 years of targeted work in Anthony to achieve the results that can be seen today. Other groups need to accept this reality, and not be disheartened when they do not see immediate results, or are faced with obstructions and delays.

Finally, TDS's approach with beginning with organizing the community around infrastructure development, and finally proceeding to single-family housing, is undeniably replicable. In fact, at the time of this study, TDS had already begun replicating this approach in the colonia of Sunland Park, NM.

CREATIVE FINANCING SCHEMES: AZTECA ECONOMIC DEVELOPMENT AND PRESERVATION CORPORATION'S LOW INCOME HOUSING TAX CREDIT PROJECT

Introduction

Azteca Economic Development and Preservation Corporation (AED&PC) is a small nonprofit organized in 1982 to promote the revitalization of the Azteca neighborhood, one of the oldest residential neighborhoods in Laredo, Texas. AED&PC has been intensely involved in grassroots community organizing work along the border since 1986. In fact, Rafael Torres, the Executive Director, is Co-Chair of the Border Low Income Housing Coalition.[1] While the city of Laredo had one of the highest growth rates of any city in the nation from 1990 to 1994, there has been a critical shortage of affordable housing for low-income residents. In addition, land is extremely expensive, making the production of affordable housing very difficult. For example, in Laredo, lot costs start between $10,000 and $20,000. One of the primary reasons that people choose to live in the colonias is this desperate lack of affordable housing within the cities.[2] Consequently, much of Laredo's low-income work force lives in colonias and commutes to the city for employment. AED&PC has put together a project in this climate, in order to create a supply of affordable housing within the city of Laredo. This project creates 50 units of housing within the city, with 100 percent Section 8 project-based assistance for 15 years. The El Azteca project is located in the historically important Azteca neighborhood, near the Rio Grande River. AED&PC expects this project to serve as a catalyst to encourage the private and public sectors to participate in the physical and economic revitalization of this neighborhood.

This project is an example of how a small local nonprofit can garner support from a range of public and private partners and creatively put together multiple layers of financing to create affordable housing options for colonia residents within the city. The El Azteca project has received support from the City of Laredo, the county, and the state. It has brought together several layers of financing including Low Income Housing Tax Credits, HUD HOME and CDBG funds, and project-based Section 8 subsidy, equity investment from the Texas Housing Finance Corporation and Fannie Mae, construction financing through Bank of America, and permanent mortgage financing through AFL-CIO pension funds. Additional partners in this venture include the National Rural Development and Finance Corporation (now known as the

[1] The Border Low Income Housing Coalition (BLIHC) is an ad hoc group of more than 50 government policy makers, local officials, low-income residents of border colonias, and representatives of nonprofit organizations such as housing authorities, community action agencies, and housing and community development advocacy organizations. The BLIHC developed a work plan for addressing the extreme poverty conditions in the border colonias in 1993, and at the time of this study was in the process of updating their recommendations. The Coalition has broad-based grassroots support along the Texas-Mexico border.

[2] Testimony of Rafael Torres before the Texas Senate Committee on International Relations, Trade and Technology, Laredo, January 30, 1996.

Rural Development and Finance Corporation) and Intrust, an investment banking firm, who have both provided pro bono consulting services to AED&PC in order to assist it in putting together this complex project.

Overview of Housing Needs in the Laredo Region

Laredo, located in Webb County, is separated from its Mexican counterpart, Nuevo Laredo, by the winding Rio Grande River, which is the main source of water for thousands of people living on both sides of it. Population growth on both sides of the border has put mounting pressure on this water supply. In fact, the World Environment Center reports that the population of Webb County has increased more than 30 percent since 1980.[1] The growth in population has meant that demand for housing and utilities has outpaced housing supply and the provision of utility services. A study by students and faculty at Colegio de la Frontera Norte of maquiladora workers in Nuevo Laredo found housing to be in extremely short supply with many homes occupied by two or more families.[2] Nearly 67 percent of the workers surveyed indicated the need and desire to buy housing of their own, while only 11 percent of these stated they had access to any sort of land within the city.

Across the river, conditions do not differ much in Laredo. High cost of land and housing has resulted in a critical shortage of affordable housing within the city. In Webb County, approximately 10,000 people live in dozens of colonias. All but six colonias lack water, and all but one lack sewer service. Of the six colonias with water, four have had problems complying with Texas Department of Health (TDH) standards. One colonia had such elevated levels of arsenic in the water that TDH ordered the residents to unhook from the private water system.

Also threatening the drinking water quality is the increasing contamination of the river by municipal and industrial sources. According to the World Environment Center, approximately 30 million gallons of raw municipal and industrial sewage pours into the Rio Grande each day from more than two dozen discharge points in Nuevo Laredo, some of them clandestine. Residents of the colonias without water service obtain water from spigots in Laredo and haul it home in barrels and jugs, some of which were previously used to store chemicals. Some residents even travel up to 30 miles to get water. This is illustrative of the relationship Laredo has to the residents of the surrounding colonias situated in Webb County. As indicated, the housing situation in Laredo is profoundly impacted by both development pressures in Nuevo Laredo and the conditions prevalent in the colonia communities of Webb County. This makes the creation of affordable housing within Laredo an even greater challenge.

The Idea

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[1] World Environment Center, *Environmental, Health, and Housing Needs and Nonprofit Groups in the U.S.-Mexico Border Area*, Arlington, VA, 1992.

[2] Eduardo Cantu and Jose Carlos Lozano, *Necesidades de vivienda en los trabajadores de la industria maquiladora de Nuevo Laredo,* Cuadernos de la Facultad, Numero 7, 1991.

The Azteca Economic Development and Preservation Corporation had been working in the Azteca neighborhood since 1982, trying to revitalize this community of over 750 working class families. El Azteca, the oldest residential neighborhood in Laredo, was suffering from many of the same problems as any inner-city neighborhood in the country. Economic disinvestment, substandard housing and the prevalence of low-income residents dominated the neighborhood. In addition, with a rapid growth in the population, an increasing number of families were being forced to turn to the colonias in search of affordable housing.

AED&PC decided to tackle both these problems simultaneously. AED&PC was determined to create a modest supply of affordable housing for residents of the community, and provide them with an option other than moving to the colonias. At the same time, it would use this creation of affordable housing as a catalyst to spur revitalization of the aging neighborhood. Armed with not much more than grim determination, AED&PC acquired two city blocks of land on the banks of the Rio Grande River. One of the blocks would be developed into affordable housing units to serve a range of residents from the elderly, to single mothers with children, to the typically large families in the area. The other block would later be developed into commercial space to meet the day-to-day needs of the neighborhood. It would include a laundromat, day care facilities, a youth center and a restaurant. Once the land was purchased, the commitment was made. AED&PC set about weaving together a complex tapestry of public and private partners, and financing sources that would help make its dreams a reality.

Finding the Dollars

The El Azteca project was one of three projects selected along the border for funding through a combined AFL-CIO/HUD Section 8 competition. AFL-CIO provided permanent financing, and encouraged its applicants to acquire tax credits. Several additional financial partners also participated in this venture by contributing construction and other funding.

The AFL-CIO Housing Investment Trust Fund has a long history of using workers' pension funds to invest in affordable housing development. Founded in 1965, the AFL-CIO Housing Investment Program is the first labor-sponsored vehicle for pension fund investment in real estate. The AFL-CIO Investment Trusts (Housing and Building) hold pension fund assets valued at over $1.5 billion according to staff interviewed.[1] This program has provided retirement security for union members through the prudent investment of union pension funds in housing and commercial real estate. In an effort to expand this mission, the AFL-CIO Housing Investment Trust began to search for new partners to join it in creating affordable housing along the border. In 1993, the Trust created a new initiative called the National Partnership for Community Investment. Through this National Partnership for Community Investment, the Housing Investment Trust worked in conjunction with HUD, Fannie Mae, Freddie Mac, and numerous local and state governments and organizations to facilitate the creation of affordable housing. One of the regions targeted was the Texas-Mexico border area.

[1] All the interviews for this case study were conducted in July 1996.

Simultaneously, the U.S. Department of Housing and Urban Development (HUD) was searching for new ways to leverage public dollars with private investments to create affordable housing in America's distressed areas. Secretary Cisneros committed $100 million in project-based Section 8 subsidies to this effort, inviting private partners to join HUD in spurring the development of affordable housing by utilizing Low Income Housing Tax Credits. Subsequently, $50 million of the subsidy was awarded to projects supported by the AFL-CIO Housing Investment Trust, while the rest was divided among other private lenders that expressed an interest in partnering in this venture with HUD. The AFL-CIO Housing Trust Fund was given the authority to allocate the Section 8 subsidies as needed to the different projects they were funding.

Equipped with the Section 8 budget authority, AFL-CIO organized a competition in 1994, inviting proposals for developing affordable housing from local nonprofit groups throughout the country. Of all the responses received, three were for projects along the Texas-Mexico border. AFL-CIO determined that it would fund all three. The El Azteca project in Laredo was one of the projects selected. The AFL-CIO Trust also encouraged each of these applicants to acquire tax credits. The Section 8 subsidy it could provide would help make the tax credit project feasible. (The Laredo project was initially slated to receive a 50 percent allocation of Section 8 subsidies. It soon became apparent that the Laredo population earned extremely low incomes, and could not afford to rent units in the new development. The El Azteca project would need a 100 percent Section 8 subsidy in order to serve the housing needs of the city’s low-income population.)

Independently of these activities, a group of corporate investors came together to pool their resources and create a mechanism for developing affordable housing along the Texas-Mexico border. Intrust USA, Ltd., an investment banking firm headquartered in Delaware, set up a nonprofit called the Texas Housing Finance Corporation. It then raised the capital to create a fund called the Texas Housing Opportunity Fund II (THOF II).[1] The five corporate investors in THOF II are Bank of America FSB, Banc One Community Development Corporation, Freddie Mac, Fannie Mae, and Comerica Community Development Corporation. The pooled investments of these corporate investors total $10,250,000. These funds could now be used as an integral link in financing the development of affordable housing projects located in the various regions of Texas.

The nonprofit Texas Housing Finance Corporation manages the THOF II fund and serves as the

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[1] Intrust, Inc. was founded in 1985 by James F. Mingey, who serves as its president. Intrust helps finance and develop affordable multifamily rental housing in several marketplaces around the country, and handles about $25 million a year in corporate investments in affordable housing projects. Most of Intrust’s activities focus on structuring transactions that utilize the Low Income Housing Tax Credit program, and providing consulting assistance to for-profit and nonprofit housing developers. Its subsidiaries include Intrust Technologies and Intrust, USA, Ltd., a NASD securities dealer. Intrust’s first Texas Housing Opportunity Fund (THOF I) raised capital to finance six separate projects with over 750 affordable housing units in Texas. These projects have all been placed in service. Intrust modeled THOF II on the structure of THOF I, inspired by its success with the earlier fund.

fund's general partner, while the corporate investors constitute limited partners. One of Intrust's subsidiaries, Intrust of Texas, Inc., serves as a special limited partner. In this capacity, Intrust reviews all due diligence work with respect to properties considered for funding, and oversees the asset management and acquisition process. These activities are supported by a team of housing professionals and consultants.[1] This structure enables the fund, THOF II, to invest as a limited partner in multifamily rental housing projects that qualify for Low Income Housing Tax Credits. Participation in this fund enables corporate investors to earn a competitive rate of return while providing needed capital for the development of affordable housing.

The investment partnership structure offers investors the advantages associated with pooling their capital while dividing their risks. In return for their investment, the limited partners are provided Low Income Housing Tax Credits that they may use to offset their federal income tax liability. In addition, the general partner allocates any losses to qualifying business partners to offset business income, and preserves and protects the partnership's investment for 15 years. The investor limited partners in the THOF II partnership are projected to achieve an after-tax internal rate of return of 17 percent, with a minimum expected return of 15 percent.[2] The partnership clearly demonstrates how investing in affordable housing can be a profitable business venture for corporate investors.

Spurred by the success of its initial tax credit equity fund, the Texas Housing Finance Corporation made a seed loan to AED&PC to assist it with preliminary design activities, and putting together its tax credit application and other loan applications. In addition, Intrust, USA, offered to provide pro bono investment banking services and technical assistance to AED&PC, to help the group negotiate the complex requirements of putting together a tax credit project.

Putting the Pieces Together

As mentioned earlier, AED&PC has a history of commitment to the revitalization of the El Azteca neighborhood in Laredo. It is also a qualified Community Housing Development

[1] In this instance, the general partner has engaged the following consultants to assist it with the due diligence review of properties in which it may acquire an interest, and with the acquisition of these properties: Barnes Investments, Inc.; Housing Development Partners; The Shenandoah Group, Inc.; Small Business Advisors; Walter J. Moreau. In addition, operating this partnership requires the expertise of numerous legal consultants. These include counsel to the partnership, special tax counsel to the partnership, and counsel to the placement agent.

[2] The THOF II has also been structured to allow the corporate institutional investor to match capital payments to expected annual tax benefits. The investor can do this by borrowing from an outside source to fund its capital contribution and then repaying it over a period of eight years. The cumulative after-tax benefit can exceed the investor's payment stream. On an annual basis, it is anticipated that after the first full year of project operations, an investor may be able to fund its capital commitment through the annual tax savings. The forecasted benefits to all limited partners in THOF II are explained in the Fund's investment summary brochure, obtainable through the Texas Housing Finance Corporation.

Organization (CHDO) and has prior experience in rehabilitating primarily single-family rental housing. It has no prior experience with multifamily housing development or tax credits. Supported by seed money from the Texas Housing Finance Corporation, AED&PC moved to simultaneously secure permanent mortgage, tax credit equity, and local grant sources in order to develop the El Azteca multifamily housing project.

AED&PC was one of the first groups to secure HUD Section 8 support via competition in the AFL-CIO Housing Trust Fund Program. This initial success was the result of the combined efforts of a number of concerned parties. AED&PC was assisted in putting together this application by the Rural Development and Finance Corporation (RDFC) at no charge. Rafael Torres, Executive Director of AED&PC, asserts that this assistance proved extremely valuable in meeting all the requirements set forth by AFL-CIO. With critical support from NRDFC, the El Azteca project was eventually awarded 100 percent Section 8 subsidy.

Another prerequisite for participating in the AFL-CIO program was that the developer had to use unionized labor for construction of the project. This posed a major obstacle, since there were no union contractors available in the area. AED&PC negotiated a special arrangement with AFL-CIO to meet this requirement. Together they selected a local contractor that would be willing to work on the project under stipulated terms and conditions for labor. AED&PC helped negotiate a relationship between the local contractor and the San Antonio Building Trades Union in order to meet AFL-CIO requirements. The local contractor agreed to provide salaries and benefits commensurate with standard union practice. This was the first time that this contractor would provide fringe benefits to the employees, perhaps setting a precedent for the future.

With the HUD Section 8 award in hand, AED&PC was able to secure a $1,110,000 first mortgage at a favorable rate through the Fannie Mae Mortgage Backed Securities (MBS) program. PW Funding Inc.(PWF), a full service mortgage firm specializing in originating, funding and servicing mortgage loans for multifamily housing properties, also participated in this venture. PWF is one of the nation's largest mortgage bankers in the Delegated Underwriting and Servicing Program (DUS) sponsored by Fannie Mae.[1] PWF made a forward commitment to provide the permanent financing on the El Azteca housing development project. When funded, the loan will be sold to Fannie Mae under the DUS program. Fannie Mae will, in turn, issue a Mortgage Backed Security. Fannie Mae's loan is a $1,078,000, 9.1 percent interest, fifteen year fully amortizing loan. The Fannie Mae MBS will then be purchased by the AFL-CIO Housing Investment Trust. This transaction brings down the interest rate for AED&PC. The nonprofit developer has this permanent financing at an interest rate of approximately 8.75 percent.

In addition to securing permanent financing, the nonprofit developer, AED&PC, needed to raise equity for the project. AED&PC decided to compete for tax credits, as recommended by the

[1] PWF was one of the first mortgage lenders approved under the DUS Program in 1988 and at the time of this study had a servicing portfolio of over 200 loans with an outstanding principal balance of approximately $1 billion. This portfolio consists of over 35,000 apartment units in more than 20 states.

AFL-CIO Housing Investment Trust program stipulations. AED&PC received the highest score in Texas in the 1994 tax credit application, and was approved by the Texas Department of Housing and Community Affairs for $2,710,000 million (9 percent) tax credits in the 1994 state competition. These tax credits were sold to the Texas Housing Opportunity Fund II (THOF II) for $1,640,000. In other words, each tax credit dollar was purchased for about 60 cents.

AED&PC was assisted by Intrust in its efforts at preparing a successful tax credit application. In fact, Intrust's involvement in the Azteca project began at the conceptual stage and at the time of this research was expected to span the entire development process, according to both Rafael Torres and Jim Mingey. In addition to providing critical support in preparing what proved to be the highest ranking tax credit application of the cycle, Intrust has provided ongoing financial advice and development consulting to AED&PC. The major obstacle Intrust faces is the inordinate amount of attention to detail that this business requires, combined with the geographic distance between Intrust and the nonprofit client. Putting together a tax credit deal requires timely advice and daily consultation. Intrust and AED&PC overcame this hurdle through the use of leading edge communication technology. For instance, they installed video conferencing capabilities at AED&PC to facilitate Intrust's development consultant role in the El Azteca project. This enabled AED&PC and Intrust to work on and simultaneously view the same financial spreadsheets.

In order to meet tax credit application requirements, AED&PC created a limited partnership called the Riverfront Housing Limited Partnership and sold the land for the El Azteca project to this partnership. This Partnership will be the ownership entity of the El Azteca project. In addition, the El Azteca project is governed by a two-tiered limited partnership. The Riverfront Housing Limited Partnership forms the lower tier of this partnership. The upper tier partnership involves the Texas Housing Finance Corporation as the general partner and the five corporate investors in THOF II as the limited partners, with Intrust as a special limited partner, as described earlier. The lower tier partnership involves AED&PC as the general partner and THOF II as the limited partner. The limited partner, THOF II, contributes equity to the project by purchasing the $2.7 million tax credits for $1.6 million. In return, it obtains 99 percent of the ownership in the project in addition to the benefits obtained through the tax credits. The general partner, AED&PC, applies for tax credits and is awarded credits based on the estimated construction cost of the project. It is then responsible for the actual development of the project from construction to lease-up, and for ensuring compliance with IRS requirements for tax credit projects. In return, the general partner gets a developer's fee and retains a mere 1 percent ownership in the project. In this instance, AED&PC has also contributed $171,050 of equity in the project. The developer's fee has been calculated at $175,000, which is approximately 5 percent of the total cost. This would have served to pay back the equity invested in the project by AED&PC. However, this fee is already obligated to be put back in the project. In addition, the cash flow from operating the multifamily rental property is expected to be utilized towards the mortgage from AFL-CIO and the State of Texas.

Through Intrust's assistance, AED&PC was able to keep syndication costs down to $15,000. This low syndication cost was achieved through careful negotiation, driven by the fact that the nonprofit did not have open-ended funding available for this purpose. AED&PC stresses the importance of having competent technical counsel at this juncture. There are additional expenses involved in putting together this deal. For instance, some money has to be put aside to account for contingencies. In this instance, AED&PC has set aside approximately 3.2 percent of total costs as reserves. In addition, the developer has to pay lawyer's fees. In this instance, THOF II required a tax opinion prior to investing in the El Azteca project. The law firm of Peabody and Brown provided this opinion at a cost of approximately $16,000. AED&PC had to cover this cost, though it will be reimbursed to the group at closing through the construction budget. The tax credit application itself requires that the nonprofit show site control for the proposed project. It also requires that the nonprofit prepare a development plan supplemented by an architectural study, a market study and an environmental audit. AED&PC was able to meet this requirement with the assistance of the seed money loan from the Texas Housing Finance Corporation.

In addition to setting up a partnership in order to implement the tax credit project, AED&PC had to seek and obtain other pieces of financing and support as well. Finding construction financing for the project was one of the most crucial elements of this deal. AED&PC secured two loans from the City of Laredo for $367,750 (1992 HOME loan and 1994 HOME loan) to support construction costs. These loans will bear an interest rate of 10 percent and will be repaid utilizing 50 percent of the cash flow from the property. Bank of America, FSB agreed to provide interim financing in the amount of $2,120,000 during the construction period. This loan is provided at an interest rate of one point above prime, which is between 8 and 9 percent. AED&PC is also approved to receive a $225,000 loan from the State of Texas through their Border Housing Initiative Program. This loan has a 15-year term, is fully amortizing and bears an interest rate of 3 percent. Finally, the County of Webb agreed to provide a 20-year tax abatement to the multifamily property and improvements upon completion of construction. This means the property is fully protected from taxes for the time period of tax credit compliance.

Putting the finances together for the El Azteca project required careful negotiation and organization. However, more pieces needed to be in place to complete the puzzle. Since AED&PC was awarded 1994 tax credits, it needed to expend approximately 10 percent of the dollars by the end of the first year in order to maintain compliance with tax credit regulations. The nonprofit was able to make this carry over.

Finally, at the time of this research the project was required to be completed by the end of 1996 in order to remain eligible for 1994 tax credits. AED&PC was working hard to meet this deadline.

According to conversations with Rafael Torres while conducting this study, meeting the construction deadline was not the last hurdle AED&PC had to jump. The project has to remain in compliance for a period of 15 years in order to continue receiving tax credits. The credits themselves are paid out over this time period in four installments, with $656,000 being paid out at closing. Maintaining compliance over 15 years requires the careful management of the multifamily project by an experienced property manager, who is able to meet all of the IRS's reporting requirements to their satisfaction. For instance, the IRS sets requirements for determining income levels of residents that are eligible to rent units in the tax credit multifamily property. The property manager has to maintain tax forms that certify that all renters are income-eligible, as well as backup documentation for each unit throughout the compliance period. AED&PC has retained ADV Housing Management Services Corporation as the property manager for the El Azteca project. This company is a for-profit subsidiary of Amigos Del Valle (ADV), a nonprofit with many years of experience working in the colonias, in particular with housing for seniors. ADV currently manages about 519 affordable housing units in 10 different projects throughout the Rio Grande Valley including Harlingen, Brownsville and McAllen. However, this is the first tax credit project ADV will manage. Once again, Intrusts involvement with the project will prove valuable. It will provide training and consulting support to the property manager, and help the manager meet IRS reporting and compliance requirements.

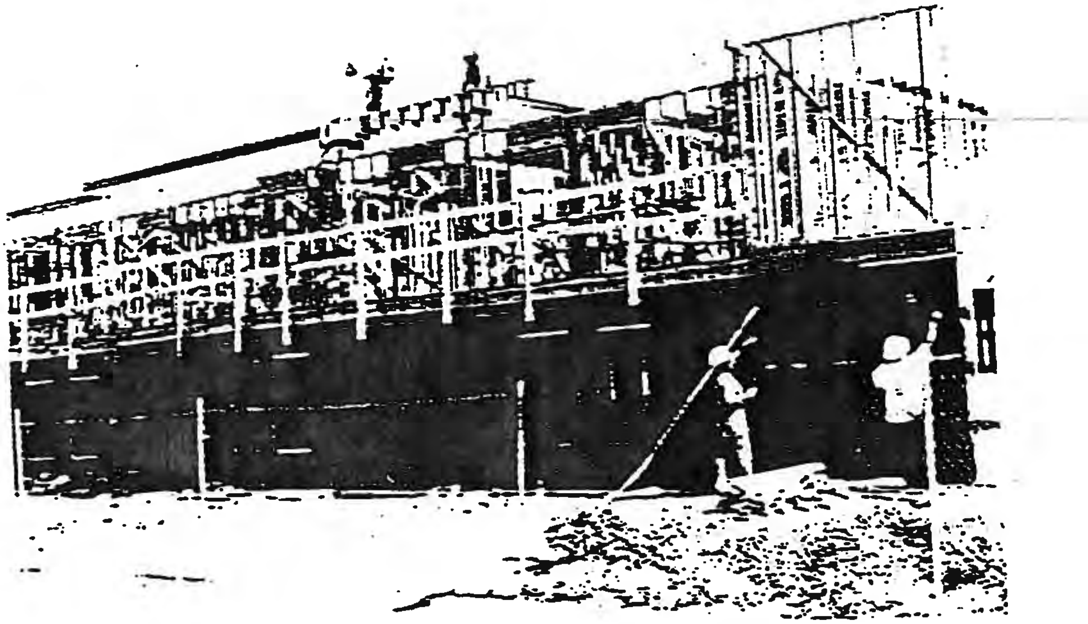
Building the Housing

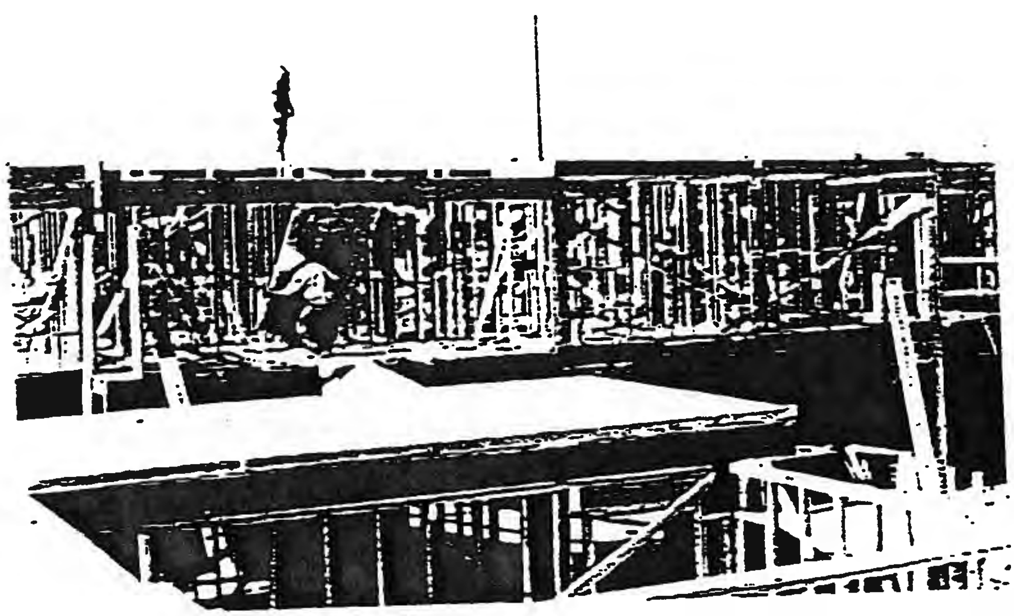
At the time of this study, AED&PC was working with Andrew Perez-Frank Associates as the architect responsible for designing the development. The development was to be constructed by Modern Construction of Laredo. Modern did not have the capacity to bond its construction. However, Modern was able to overcome this obstacle by putting up a letter of credit to guarantee a portion of its work. The other obstacle faced with respect to the contractor was the lack of unionized labor. The resolution of this has already been discussed.

The development site is located in the south-central sector of the city, where the Rio Grande River/Mexican border serves as the neighborhood's southern boundary, within easy walking distance of the downtown area. At the time of this study, most of the apartments were to be two-story, townhome style units with the exception of a few one-bedroom units and five accessible units. These unit types would range in size from 518 square feet to 1,202 square feet. The development would consist of four separate apartment buildings, a large courtyard/playground area, and concrete and asphalt paved parking spaces. Also included in the development is an office space/laundry facility. The development's gross building area is approximately 50,150 square feet, with 41,264 square feet of rentable area. The actual construction would feature concrete slab foundations, wood frame wall construction with stucco on the exterior walls, and standing seam roof panels. Entries at the second and third floor areas would have balconies with metal balcony railings. All the units would have wall to wall carpeting, with vinyl floor coverings in the kitchen and bath areas. The development was designed with consideration to its location in the historic neighborhood. In summary, the El Azteca development can be characterized as good quality subsidized multifamily housing development. [Refer to Figure 3a and 3b for photographs of the project under construction and elevation renderings.]

Figure 3a: The El Azteca Project Under Construction

Figure 3a: The El Azteca Project Under Construction





Lessons Learned and Replicability

This project has a number of lessons to offer other groups interested in putting together similar housing deals. Each of the players involved in this project has its own perspective to offer on the key ingredients responsible for its success.

According to Jim Mingey, President of Intrust, the strength of the nonprofit developer is its integrity, commitment to the cause and the support it has in its community. Without this commitment, the El Azteca project would have not been a success. The reputation of the nonprofit developer within the community facilitated the project obtaining critical financial support at the state and local level. For instance, the project was able to obtain a 20-year tax abatement from the county. This will help the project maintain tax credit compliance over the required 15-year period. In addition, Eric Price, AFL-CIO, and the other members involved in this project, all concur that Rafael Torres' personal history of community organizing work along the border and grassroots support he commands contributed to the investors' level of confidence in the feasibility of this project. Other groups interested in pursuing tax credit projects should bear in mind that they bring this valuable benefit to the table. The relationships they develop with local government through ongoing community development activities can facilitate the receipt of critically needed support. In addition, community support for the nonprofit's affordable housing project circumvents problems that may arise as a result of the NIMBY (Not In My Backyard) syndrome. Corporate investors cannot succeed without the nonprofit's assistance in this regard.

The benefits of putting together a successful tax credit project accrue in varying proportions to the different players involved. In this instance, the project description enumerates the benefits to the corporate investors. For example, by providing pro bono consulting support to the nonprofit, and compromising on the extent of profit collected, the equity fund is building a base for future deals.[1] In some ways, this is an investment in the future for the fund. It builds credibility and creates the potential for other successful investments. It also generates more business. For instance, Fannie Mae has already committed $10 million to creating a Border Housing Opportunity Fund, which will be managed by the Texas Housing Finance Corporation.
The various government sources also benefit from partnering in this project. They are able to leverage private dollars to add to the effectiveness of their program funds.

Unfortunately, in this instance, the nonprofit developer does not benefit monetarily by obtaining the appropriate developer's fee. The nonprofit does, however, benefit by developing the capacity and skills necessary to pursue future projects. It also benefits from the relationship developed with the various corporate investors, who have all expressed an interest in partnering with AED&PC on future projects.

[1] The debt ratio is 1.08 to 1 on hard debt payments and the yield on THOF's investment is 12.5 percent. These are typically below the investment guidelines for the fund. However, the Fund did decide to invest in this project for the reasons stated.

Rafael Torres argues that the ultimate, and most important, beneficiary of this complex deal-making and financial circus is the community. The community gets the affordable housing and, if AED&PC proceeds equally successfully with the rest of its plans, the community will finally begin to reap the benefits of overall revitalization.

Figure 3b: Elevation Renderings of the El Azteca Multifamily Housing Development

It is extremely difficult to assess the replicability of this project. El Azteca has many unique

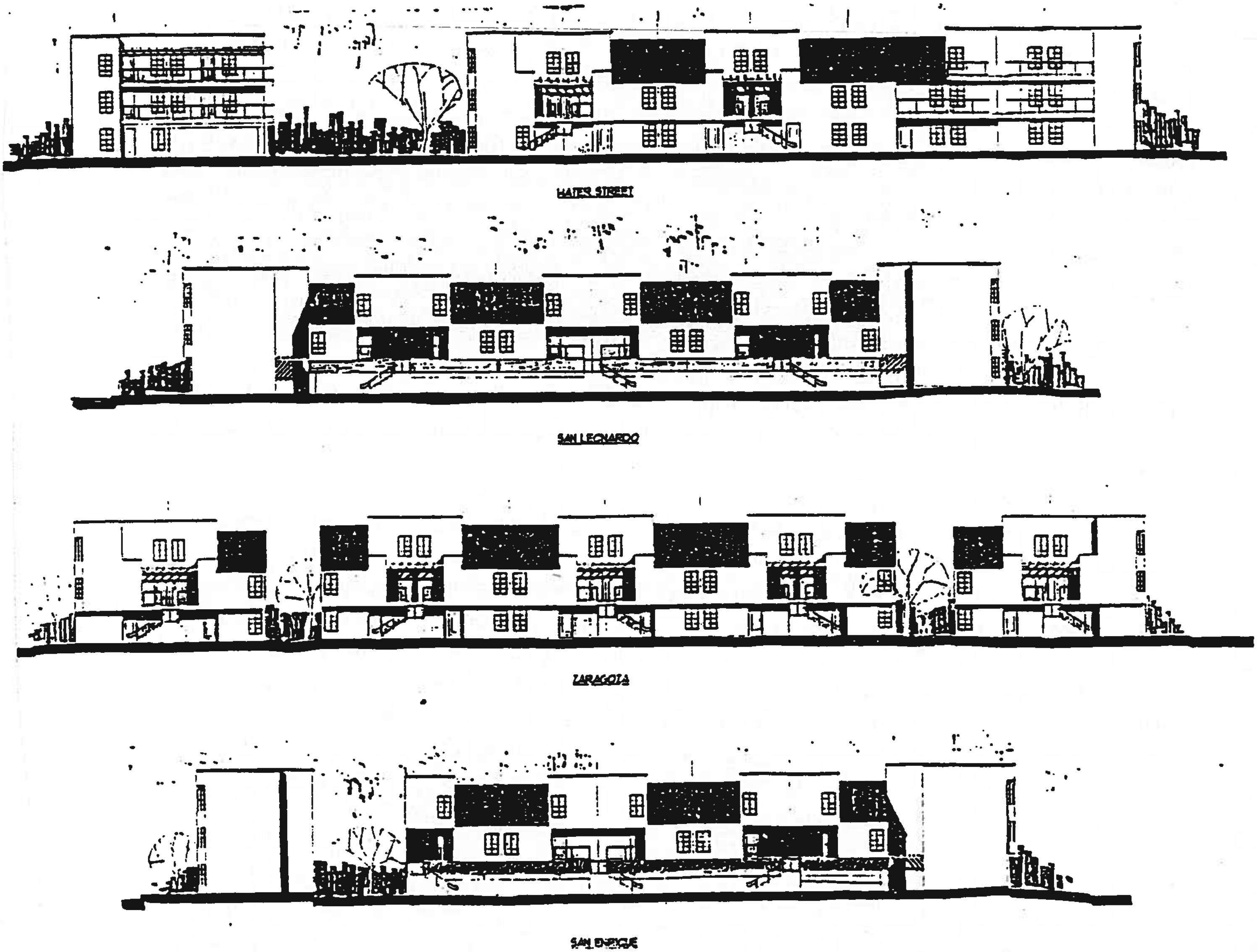


Figure 3b: Elevation Renderings of the El Azteca Multifamily Housing Development

advantages that contribute to its success. The 100 percent project-based Section 8 subsidy, HOME and CDBG dollars, and a 20-year tax abatement head this list of distinctive ingredients. Most developers of affordable housing stress the need for governmental subsidies to buy down the cost of a project, especially in expensive housing markets. Soft money is crucial for actually making the housing affordable to low-income renters, owing to the mismatch between construction costs and what the renters can pay. However, the lesson here for other groups is to recognize the opportunities offered by a lot of parties staking their reputations on being able to do something positive along the U.S.-Mexico border. The players involved in the El Azteca project urge local groups to take the plunge, and capitalize on this environment.

HOUSING REHABILITATION AND DEVELOPMENT: PROYECTO AZTECA'S SELF-HELP HOUSING PROGRAM

Introduction

Proyecto Azteca is a small, rural nonprofit housing development organization located in the Lower Rio Grande Valley, Texas. Created in 1991 by the United Farm Workers (UFW) and Texas Rural Legal Aid (TRLA) to improve conditions for low-income people in the Valley, Proyecto Azteca's mission is to build decent, affordable housing for colonia residents in Hidalgo County, especially farmworkers. It provides the materials, tools, training and financing to help low-income families build their own safe, affordable homes. Participation in Proyecto Azteca's self-help housing program has the added benefit of empowering colonia residents and providing them with skills to access new employment opportunities.

As of 1996 Proyecto Azteca has successfully built approximately 70 homes through its own self-help housing program. Its 1997 target is to build 36 single-family homes a year. These homes are all constructed by crews of participating families under the supervision of experienced trainers at the Proyecto Azteca office site. The homes are then transported and secured to the participating families' lots in scattered locations in the numerous colonias of Hidalgo County. The centerpiece of this program is the financial assistance that Proyecto Azteca secures for the families. After paying off any remaining balance on families' colonia lots, the organization arranges for a single low-interest standard mortgage to cover the cost of construction of a new house and the balance paid on the colonia lot. Each family obtains a warranty deed to the property in their name, with the opportunity to build equity in the property previously unavailable under the original contract for deed. The majority of this work has been funded through HUD's HOME program, which is administered at the county level, and the Texas Department of Housing and Community Affairs' Single-Family and Housing Trust Fund programs. More recently, in 1996, the organization has searched for and found additional sources of funding to continue producing affordable homes for colonia residents in Hidalgo County.

Proyecto Azteca's self-help housing program capitalizes on the resourcefulness, determination, and willingness of colonia residents to help themselves in building their homes. At the same time, the program provides important assistance that individual families often lack in building their own homes, which can make the difference between a "shanty" and a safe, decent house.

Overview of Hidalgo County and Proyecto Azteca's Target Area

Hidalgo County borders the Rio Grande near the southern tip of Texas and is located in what is known as the Lower Rio Grande Valley region. According to 1990 Census data, nearly 42 percent of Hidalgo County residents live below the poverty line. Only two other metropolitan counties in the nation have higher poverty levels. Hidalgo is also the seventh poorest county in the state of Texas. It historically has the highest unemployment rate -- over 20 percent -- in the nation among all metropolitan statistical areas.[1]

The demand for affordable housing in Hidalgo County is high and far outweighs its supply. Economic speculation since the early 1990s has driven up the cost of land. Inflated land prices have long been a barrier to the availability of affordable homes in the county, making the colonia lots attractive to low-income residents. The short term cost of a low ($100) down payment on a $7,000 lot satisfies the buyers' immediate needs. However, the families often have very little money left over to actually construct their units, resulting in many of them living in severely inadequate housing units. In fact, the 1990 Census reports that nearly a third of the housing units in the county are substandard: 36.8 percent of the homes lack adequate heating; 28.7 percent lack cooling or ventilation; 21.2 percent do not have access to treated water; and 31 percent use unauthorized sewage disposal systems. Many of the homes residents build are made from plywood or particle board and often incorporate "found" materials. These homes also tend to be overcrowded. It is not uncommon to find a family of six living in a single room house with dirt floors. None of this data adequately describes the squalid living conditions colonia residents endure.

Hidalgo County contains over 55 percent of all existing colonias in the state of Texas. In fact, 798 distinct colonias were identified in Hidalgo County in 1996 by the Texas Water Development Board (TWDB), which tracks colonias statistics. In all, 135,770 people, 35.4 percent of the county's population, live in colonia communities in Hidalgo County. As discussed earlier, Texas has taken a proactive stance in ending the proliferation of new colonia communities by curtailing the sale of unimproved lots. Although laws like the Economically Distressed Areas Program (EDAP) prevent developers from selling lots that lack water and sewer facilities, no laws address the appalling conditions in already existing colonias. Also, no laws prevent the purchasers of colonia lots from building and living in substandard or inadequate homes. In addition, the enforcement of existing laws continues to present difficulties, and new colonia communities do form occasionally.

The provision of basic water and sewer services to the colonias of Hidalgo County has long posed a challenge to the authorities and nonprofit advocacy groups working to improve conditions for residents along the border. According to a survey conducted by the Texas Water Development Board in 1992, Hidalgo County needs $162.9 million to meet current and future water and wastewater needs, and $117.3 million to fund projects for existing colonia homes throughout the Valley. Valley Interfaith, an organization of parishes and congregations, affiliated with the Texas Industrial Areas Foundation, has organized residents and advocated for the provision of water and sewer services for the colonias in the Valley for several years. It has taken the lead in conceiving, writing, and pushing the passage of legislation to finance the building of water and sewer services for the colonias. As a result of its efforts, Texas voters have approved over $150 million in state bond funds for the creation of colonia water and sewer

[1] Office of the Texas Attorney General. (Figures based on three year averages, 1993-1995, from the Texas Employment Commission and Bureau of Labor Statistics, July 1996.)

systems. Of this, the Texas Water Development Board expects to spend up to $50 million in the Rio Grande Valley. Despite this, many residents of Hidalgo County colonias will not have access to water and sewer facilities. Numerous other nonprofit and advocacy organizations are also active in the Lower Rio Grande Valley and focus on a variety of other issues affecting colonia residents such as education, health, and housing.

Agriculture has long been part of the economic engine in Hidalgo County. Many farmworkers and migrant farmworkers make their home in the colonias of Hidalgo County. In fact, the Lower Rio Grande Valley is home base for significant numbers of migrant farmworkers. According to the 1990 National Agricultural Workers Survey (NAWS), authorized farmworkers have a median annual income of $5,000-$7,000. The 1990 Census reports the median household income as $16,703 in Hidalgo County. The United Farm Workers' union (UFW) is actively involved in organizing the farmworkers and addressing some of their needs. Proyecto Azteca was born out of UFW's concern for the housing conditions of many of its members, and the belief that tackling farmworkers' housing needs would help begin to solve many of the other problems its members faced including health, child care, and empowerment issues.

Creating a Homeownership Program for Colonia Residents

The United Farm Workers union in the Lower Rio Grande Valley had a history of organizing farmworkers to participate in the union. Their close relationship with the farmworkers drew the union organizers' attention to the substandard living conditions of the workers and their families. UFW decided to begin dealing with the housing needs of its constituency and, together with Texas Rural Legal Aid (TRLA), developed the concept of a self-help housing program.

In order to be successful, the leadership of UFW felt that their colonia housing program needed to incorporate true community participation and empowerment ideals. The housing program also needed to address the basic land tenure issue facing colonia residents, who purchase their lots under a contract for deed. In addition, the housing program needed to be affordable to the very low-income colonia population, in particular UFW's farmworker constituency. A creative merging of these directives resulted in the creation of Proyecto Azteca, a nonprofit housing development organization, focused on meeting the housing needs of colonia residents in Hidalgo County.

UFW and TRLA initially sought direct community involvement in Proyecto Azteca by appointing colonia residents to the organization's board of directors. The initial board of directors was comprised entirely of colonia residents who were UFW members, ensuring that farmworker concerns were appropriately addressed. In fact, farmworker applicants to Proyecto Azteca's housing program receive priority consideration. In addition, the design for a Proyecto Azteca home was developed by community residents with assistance from a housing consultant. Adopting a single design also results in lower costs because it takes less time to familiarize participating families with the floor plan. Participants themselves construct their own houses, with supervision and assistance by trained construction supervisors. Participating in the construction of their own home is an empowering experience for colonia residents.

Financing the Program

The centerpiece of Proyecto Azteca's housing program involves addressing the complex land tenure issues that plague most colonia residents. The purchase of lots under contracts for deed forces colonia residents to struggle to better their living situation within the framework of an exploitative system that is designed to maintain their powerlessness and poverty. Since the developer legally owns the lot sold under a contract for deed, any improvements on the lot actually benefit the developer, not the colonia resident. In addition, a single missed payment can result in the loss of the resident's home altogether. The developer can also capitalize on any minor infraction to compel the resident to pay large penalties or commence making lot payments from the very beginning by rescinding any previously made payments.

Proyecto Azteca steps in to break this cycle by offering to refinance colonia lots and convert the contract for deed into a more standard warranty deed. The organization selects colonia residents who owe no more than $5,000 or $6,000 on their lots and are interested in participating in Proyecto Azteca's self-help housing program. Once the family has gone through the process of constructing their own home, Proyecto Azteca combines the lot payment with the cost of the new home and provides the participating family with a single, low-interest mortgage payment. The single mortgage usually totals approximately $22,000. The house itself costs the participating family $16,000, including the cost of materials and the construction trainer's fees. Each family is required to contribute 100 percent of the labor towards constructing the house. This contribution of sweat equity significantly lowers the cost of the unit. The other $6,000 (or less) goes toward refinancing the colonia lot and converting the contract for deed into a warranty deed. Ultimately, the participating family makes payments on a single mortgage of $22,000 (or slightly less) with 3 percent interest over a 20-year term. The maximum monthly payment rarely exceeds $125. Ideally, Proyecto Azteca would like to offer colonia residents the same mortgage at zero interest, as they have done in the past, but limited funding and their own operational expenses do not permit this.

Proyecto Azteca built its first home[1] with $15,000 in philanthropic grants and a team of seven people, led by Jesus Limon (now Proyecto's Executive Director) as the construction specialist paid for by Motivational Education and Training (MET). Subsequently, McAuley Institute (a national nonprofit intermediary organization) loaned the group $30,000 to begin construction of four more houses. Today, Proyecto Azteca raises funds primarily through HUD's HOME program (through Hidalgo County as well as directly from the state) and the state's Housing Trust Fund, administered by the Texas Department of Housing and Community Affairs (TDHCA). Since Proyecto Azteca is a designated Community Housing Development Organization (CHDO), some of the HOME funds have been pass-through funds provided by the Housing Assistance Council under a CHDO Technical Assistance contract. Proyecto Azteca

[1] Until recently, Proyecto Azteca used this demonstration house as its office. A few months ago, in early 1996, the organization raffled the unit to a colonia resident and moved to a larger office space owing to a growth in staff.

also successfully obtained an Affordable Housing Program (AHP) grant from the Federal Home Loan Bank of Dallas in 1996. In addition, the Rural Housing Service of the U.S. Department of Agriculture has awarded Proyecto Azteca a Section 523 Technical Assistance grant for planning self-help housing projects.

More recently, the organization has also been funded by the State of Texas to operate a self-help center.[1] These multiple sources of funding contribute to the overall stability of the organization and allow Proyecto Azteca to explore the development of new and innovative approaches for addressing the needs of colonia residents in the Rio Grande Valley.

Constructing the Homes

The most important part of the program, from the perspective of the participants, is building the houses. According to Proyecto Azteca staff, the three critical ingredients responsible for the success of the construction program are: an efficient, well designed, modest house plan; construction training and professional supervision of organized groups of families working on building the units; and the sharing of resources and team work of participating families. In addition, the provision of adequate tools to construct houses properly, and the provision of funds to purchase quality materials, ensure that the homes built are decent and well constructed.

The house plan currently utilized by Proyecto Azteca was developed by colonia residents themselves with assistance from a qualified architect. The Proyecto house is a wood-frame unit occupying about 816 square feet with three bedrooms and one bathroom. The house is designed in increments of 2 feet for ease of construction. The simple, standardized floor plan makes it easy for participants to familiarize themselves with the design and leads to efficiency during construction. The unit is equipped with energy efficient devices like ceiling fans to help homeowners reduce heating and cooling costs. Participants customize their dwellings by picking the colors for the internal and external paint and choosing their own fixtures.

Proyecto Azteca has devised a set of eligibility criteria to select participating families:[2]

[1] The State of Texas has created a special self-help center program in 1996 to assist colonia residents. The state has funded five organizations (or consortia of organizations) to operate self-help centers along the Texas border. Each center serves approximately five colonias in its vicinity and provides a variety of services including housing a construction tool lending library and providing construction training to colonia families to enable them to construct their own homes. The program is modeled after Proyecto Azteca's regular operations, and has enabled the organization to access much needed administrative funding as well as to expand its self-help housing program.

[2] The following list of criteria has been taken directly from Proyecto Azteca's own materials describing their program to interested participants. Proyecto has the ability to be somewhat flexible with eligibility criteria when selecting families for funding through the county's HOME program. State

- Eligible families must have a household size of 4-7 persons.
- Household income should be a minimum of $4,500 per year and should not exceed a maximum of $13,500 per year.
- An adult member of the household must participate in the construction of homes for at least the three-month period required to complete a set of units.
- The applicant family must be living in substandard or overcrowded housing. (This is evaluated by making a home visit and inspecting living conditions.)
- The applicant family must be able to afford a house payment of $100 per month.
- The family should constitute a good credit risk. (This is principally defined as the family being current on their existing house or lot payments.)
- Unless the existing house or lot is located in a colonia within a "qualified census tract" as defined by the Department of Treasury for the mortgage revenue bond program, the applicant must certify that his or her family has not resided on the property longer than five years, and that the housing structure was not intended as a permanent residence but merely as a temporary shelter.

Once the families are selected, they are organized into groups of three with a construction trainer and supervisor. (The trainers employed by Proyecto are often graduates of the organization's program and have previously constructed their own homes through Proyecto Azteca. This brings a certain level of comfort to new participating families. The trainers are able to relate their own experiences to participating families and supply encouragement and counseling when needed.) One member from each family is provided with preliminary training in all aspects of construction work, including plumbing and electrical wiring. Each group then works on constructing three units together. They work in cycles, completing all the frames first, followed by the skin, and then the rest of the unit, under the supervision of Proyecto's construction trainers.

Proyecto Azteca provides all the tools required to construct the homes and purchases all the materials together for all the units under construction, which proves economical for the families. All homes are constructed on the site next to Proyecto Azteca's office, minimizing loss of materials. While the homes are being built, families develop a relationship with each other and with Proyecto staff. They are also provided with counseling on maintaining their homes and on managing finances to ensure timely payments to Proyecto Azteca.

The houses take approximately three months to complete. Completed homes are then transported to the participants' lots and anchored onto piers.[1] The final water, sewer, and electrical connections are completed on site by professionals. The occasion of transporting a completed unit lends itself to a fiesta celebration, reinforcing the sense of accomplishment felt by participating families. Then the cycle begins again.

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funding requires stricter adherence to established guidelines.

[1] It should be noted that Proyecto Azteca's houses blend in very well with the surrounding homes. Resting units on piers is common practice throughout Hidalgo County.

At the time of this study, Proyecto Azteca was working with two groups of three families simultaneously. It hopes to expand to working with three or four such groups. Proyecto has succeeded in constructing about 30 homes a year. Despite not having a special outreach program, Proyecto Azteca's reputation has been responsible for its waiting list swelling to over 300 applicants. Completed units and participating families have proved to be adequate advertising. The "factory site" approach enables Proyecto to provide homes to families in any colonia within Hidalgo County. In addition, this scattered site development approach has allowed Proyecto to steer clear of subdivision-type developments and their accompanying costs and risks.

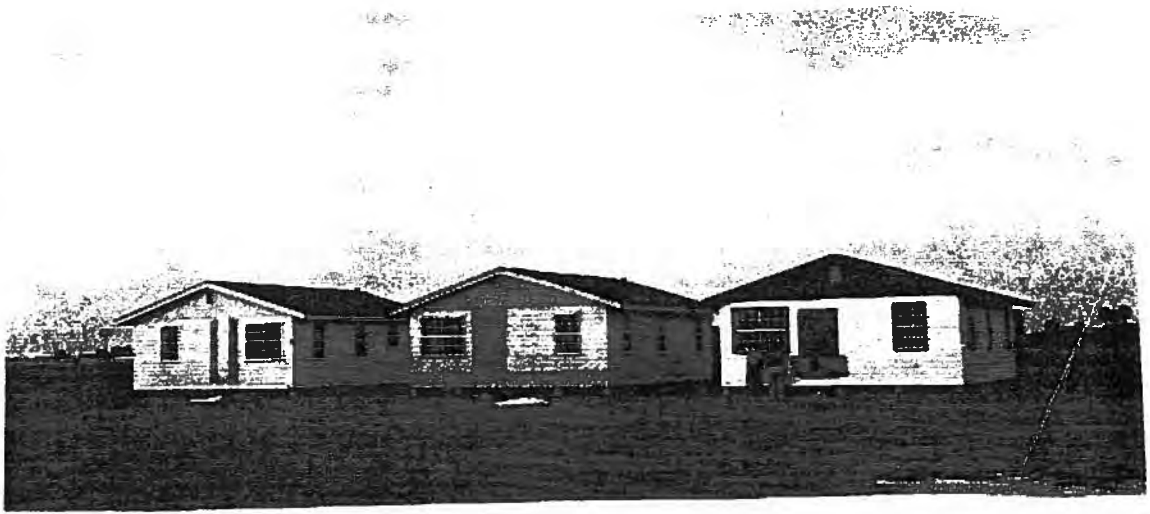
Firgure 4a: Proyecto Azteca Homes Under Construction

Lessons Learned and Replicability

Since its beginning in 1991 through 1996 Proyecto Azteca has successfully developed over 70 homes. It has succeeded in overcoming the land tenure problems faced by colonia residents and providing very low-income families the opportunity to acquire decent housing. Its self-help housing program has a number of lessons to offer other groups interested in serving colonia residents.

Proyecto Azteca attributes its success to strong community-based support for its mission and its close relationship with program participants. Directed and controlled by a thirteen-member Board of Directors comprised of farmworkers and colonia residents, the organization ensures that the priorities of the people it exists to serve are always at the forefront of its agenda. In addition, Proyecto Azteca's self-help program works primarily because of the determination and resourcefulness of colonia residents who are committed to improving conditions for themselves and their families. Selected families often work tirelessly to complete their units ahead of

Firgure 4a: Proyecto Azteca Homes Under Construction



schedule. They are also Proyecto's best emissaries within the colonia communities, recruiting other colonia residents who may qualify for the program, and exerting pressure on their peers to comply with Proyecto's loan repayment schedule.

Much of the success is also dependent upon the personal relationships cultivated by Proyecto staff and construction trainers with participating families. Careful counseling prevents delinquencies and helps families maintain their houses in good condition. Personal relationships help families trust Proyecto staff and facilitate early intervention in the event of a crisis. As mentioned earlier, the construction trainers are often former participants, and are able to relate their own experiences to the families and provide needed encouragement.

Another key lesson Proyecto offers is seen in its approach of solving the existing problems of land tenure in order to provide decent housing units. Assisting families to convert their lots from contracts for deed to actual ownership enables families to escape the exploitative system instituted by private developers, and begin to build equity in their homes. In addition, by starting small and staying focussed on its goal of providing decent housing, and then expanding the scale of production of units, Proyecto was able to avoid the possible pitfalls of overextending itself or its resources.

In the process of developing a self-help housing program for colonia residents, Proyecto Azteca identified the critical gaps that prevent families constructing their own units from ensuring their homes are of good quality. While colonia residents often undertake the construction of their own units, they lack the resources to purchase the appropriate tools and materials required for standard construction. Proyecto provides these resources. In fact, the success of this approach has resulted in Proyecto Azteca being chosen as one of the five self-help centers designated by the Texas Department of Housing and Community Affairs. As a state-designated self-help center, Proyecto has plans to create a tool lending library by the end of 1996, and provide homeownership and construction classes to colonia residents. It also plans to expand its activities to the development of a model subdivision located in the Rio Grande Valley Empowerment Zone prior to completing its state self-help center contract in 1997.

Proyecto Azteca's approach is clearly replicable. In fact, other nonprofit organizations working in the border colonias, particularly those designated as self-help centers, have visited Proyecto Azteca to study its program for possible replication in their own areas.

RECOMMENDATIONS

Each of the case studies described in this report highlights a unique approach to addressing the problems faced by residents of colonia communities along the U.S.-Mexico border. While each case study represents a response to very specific socio-political conditions prevalent in a particular geographical area, several common themes emerge.

The experiences of the players involved offer valuable lessons and insights to others interested in devising successful interventions along the border. Specific advice for local nonprofit groups working to ameliorate conditions in the colonias is included at the conclusion of each of the case studies.

Similarly, each case study indicates that several critical ingredients are necessary for putting together a successful project to serve the needs in the colonias. Nonprofit organizations are always in search of operating support, flexible funding sources, and training and technical assistance. Almost all of the local groups interviewed confirm this. While these needs are echoed by groups everywhere in the country, in the colonias they are complicated by the magnitude of the problems and a long history of neglect. Clearly, greater attention has to be paid to sustaining local, nonprofit organizations.

Most local experts and colonia advocates, including HAC and the Border Low Income Housing Coalition (BLIHC), contend that local, self-sufficient, community-based institutions are a crucial vehicle for accomplishing the fundamental goal of empowering local residents to undertake development activity and solve their own problems. With this as the guiding principle behind development efforts in the colonias, national organizations and other players should provide funding and technical assistance to local groups to assist their implementation of development projects, rather than approaching them with preconceived solutions. Such a relationship could represent an opportunity for change in the colonias.

In addition, local capacity needs to developed. This will facilitate collaborative partnerships between local groups, the government and private sectors in order to improve conditions in the colonias. This includes the creation of new groups to undertake development in the colonias. The BLIHC recommends the creation of two new institutions: a Border Community Development Bank and a Border Low Income Community Development Commission, in order to expedite the creation of 50 new community-based organizations in the colonias where none currently exist. The Community Development Bank could be operated as a nonprofit organization by the Texas Department of Housing and Community Affairs until it gained the experience to be an independent entity, perhaps overseen by a consortium of stakeholders from each of the four affected states. The Bank would be able to create a secondary market for loans to nonprofit organizations and individuals through the use of TDHCA’s tax exempt bond authority, through securing direct grants from the state and federal government, and will be able to provide reduced interest and credit enhanced loans by using CDBG, residual value bond funds, Fannie Mae, tax credits, and other funds. Most importantly, low-income colonia residents would be able to borrow directly from this bank. The Border Community Development

Commission will be a policy coordinating body composed of representatives of federal and state agencies. The Commission will be able to provide comprehensive planning and analysis for the housing and community development needs of the border, and resolve policy coordination problems among the agencies seeking to address those needs.[1] Also, the creation and ongoing functioning of self-help centers, modeled after Proyecto Azteca's initiative, needs to be supported. Development of local capacity will have long-term and enduring benefits for the border region.

Based on prior experience and intimate knowledge of the colonias, a number of public and private agencies and coalitions active along the border have developed detailed program and policy recommendations for addressing problems in the border colonias. While these recommendations may vary in their suggested approaches to implementing solutions, most agree that any colonia assistance efforts must be comprehensive and community-based in order to be effective. Most groups also concur that a coordinated public and private effort by local, state, and national organizations is key to improving conditions in the colonias. In other words, in order to be successful, a colonia assistance plan must involve the broadest range of participants and resources. The experiences and needs highlighted by these case studies in many ways support and endorse these claims.

HAC believes that a comprehensive assistance effort would provide a unique opportunity for the development and strengthening of community-based social service, development, and advocacy infrastructure. This infrastructure would not only participate in the implementation of a colonia assistance effort itself, but would also be available as a resource for related parallel efforts.

Based on prior HAC experience in the colonias, an analysis of recommendations highlighted by other border organizations and coalitions, and insights gained from the case studies described in this report, HAC proposes some additional recommendations for addressing the needs in the border colonias. These recommendations are intended to support existing initiatives in the colonias and suggest a broad framework for designing a comprehensive assistance strategy for the border.

Implement Appropriate Legislation at the Federal and State Level

As mentioned earlier, federal legislation directly addressing the problems in the colonias was passed in 1990. Referred to as the colonias set-aside, Section 916 of NAHA requires that the four border states use a percentage of their state CDBG funds to assist colonias. (The Secretary of HUD is to determine an appropriate percentage for the set aside, not to exceed 10 percent, to be instituted by each of the four states after consultation with colonia representatives and interest groups from each state.) This legislation was a definite step in the right direction. Unfortunately, this provision was previously in effect only for fiscal years 1991 to 1994. It has been extended

[1] This Bank and Commission would play a different role than NADBank and BECC. Refer to Appendix A for a brief description of NADBank and BECC.

permanently under the 1997 Appropriations Act. In addition, HUD submitted language in the 1997 appropriations legislation to provide permanent extension of CDBG help to the colonias. Similarly, USDA also set aside a portion of its program funds for use in the colonias. It is important that these funding sources be permanently available to the colonias. If possible, they should be expanded in order to create a more lasting solution to the funding needs along the border region.

HUD has also sought to set aside specific funds for special needs areas. This initiative, entitled the "Developing Communities Initiative," represents a collaboration between HUD and USDA. It is designed to provide financial support to nonprofit organizations for projects assisting severely impoverished communities, especially in the colonias, farmworker communities, Hawaiian homelands, and Native American communities. One of the goals of this initiative is to leverage significant private and other public funds for projects in these communities. Unfortunately, funds for this initiative were not appropriated in the federal budget in fiscal 1997, 1998, or 1999. This type of public-private partnership, if instituted, represents a tremendous opportunity for addressing the problems in the colonias, and should be supported.

Providing access to governmental resources is only half the solution. Various regulations and eligibility requirements associated with federal programs need to be carefully examined for their relevance to conditions prevalent in the colonias. Where possible, requirements identified as impediments should be relaxed to facilitate maximum use of these funds at the local level. For example, an agency serving the colonias may make exceptions to its definitional requirements.

In addition to federal efforts, enabling legislative action at the state level also represents a positive opportunity for the colonias. For instance, the recent legislation enacted by the states of Texas and New Mexico to prevent further proliferation of undeveloped colonias should provide impetus to the other states to follow suit.

Design Flexible and Creative Financing Mechanisms

In designing any colonia assistance effort, especially one that targets housing and infrastructure development, it is important and necessary to understand the culture of the market that is being served. While many colonia residents suffer from low incomes, high rates of poverty, and seasonal employment, they possess a very strong desire for ownership. They also have a deeply rooted ethic of sweat equity, adding to and improving their homes as their savings and income permit. Generally, they or their children tend to move out of colonias as they stabilize their lives and incomes.

HAC believes it is possible to develop financing mechanisms that take into account the patterns of employment and income of colonia residents, and simultaneously facilitate their upward mobility. These financing mechanisms would have to be creative and flexible. For example, they might incorporate ideas from USDA programs where families initially get deep subsidies, then "graduate" and move on. Another approach might be to combine low interest loans with critically needed grants to fill the gaps in the financing needed to implement a project.

Some international non-governmental organizations (NGOs), such as the Cooperative Housing Foundation (CHF), have been experimenting with alternative housing structures and financing mechanisms in the colonias on the Mexican side of the border. For instance, CHF makes multiple, three-year term, home improvement loans to families in the colonias. This enables families to improve and add to their dwellings as their savings and income permit. In addition, CHF has been focussing on involving maquilas in a community housing partnership venture, urging them to contribute financially towards improving the housing conditions of their employees. These efforts by CHF and others should be examined for their relevance and replicability on the U.S. side.

Similarly, the feasibility of establishing community-based credit systems, such as credit unions or community development banks, could be explored. These would encourage savings by residents and provide loans that are less restrictive than government loans and are more responsive to the needs of the community. Such mechanisms have been implemented in informal settlements in many developing countries, and may offer possibilities for replication in the colonias.

As mentioned earlier, the BLIHC recommends the creation of a Border Community Development Bank in order to provide funds to local nonprofits involved with community development work in the colonias. This effort should be encouraged and supported. Similarly, the involvement of private lenders should also be encouraged as a means for delivering capital to the colonias. Perhaps a housing guaranty fund could be created to provide security to lenders willing to commit to the colonias. Private lenders may then be persuaded to relax their loan guidelines, and adopt special criteria designed to fit the characteristics of the colonia population.

Finally, improving access to funding in the colonias also requires flexibility in implementing regulations and reporting requirements. Each of the projects studied for this report reveals that local groups utilize multiple funding sources and struggle to meet conflicting requirements set forth by each of these sources. With the current emphasis on leveraging, no single funder wants to be responsible for the entire financing of any project. Given this situation, public and private lenders need to make greater efforts at working together in ways that enable local groups to combine these financial resources.

Encourage a Bi-National Regional Effort

HAC urges that the bi-national, regional nature of this problem be recognized. No initiative aimed at addressing the problems only on the U.S. side will be truly successful. Ideally a regional commission should be created in order to comprehensively address the problems of the border region. Precedent for this approach exists in the prior regional bodies created to tackle similarly intractable problems with regional impact. The Tennessee Valley Authority and the Appalachian Regional Commission are examples of such regional initiatives. A border commission would be able to coordinate a series of bi-national deliberations focussing on the action steps needed to improve living conditions along the border. This type of bi-national cooperation would present an opportunity for beginning collaborations between groups active on either side of the border.

Similarly, NAD-Bank and BECC, though incipient organizations, are important players in this arena, and represent the first step towards recognizing that this problem exists on both of the border. Unfortunately, at the time this research was conducted, they had not been able to devise effective methods for meeting the needs of border residents. Consequently, both these institutions were facing severe criticism from local advocacy groups and the media. (Since the Bank was created by the U.S. and Mexico, it had not made a single loan until 1996. In addition, its interest rates were set too high to be affordable to the communities with greatest need.) Although this censure is justified, these organizations also need constructive advice on how to re-focus their priorities, and structure their programs to address the problems in the colonias more effectively. The governments of the United States and Mexico need to provide leadership in re-directing these organizations.

In conclusion, HAC strongly supports the creation of a bi-national, regional commission, and other bi-national efforts to tackle the problems along the U.S.-Mexico border in a comprehensive manner.

APPENDICES

APPENDIX A

Border Environment Cooperation Commission

Headquartered in Ciudad Juarez, Mexico, the Border Environment Cooperation Commission (BECC) is an autonomous, bi-national organization created to support environmental infrastructure projects in the 100 kilometers region on either side of the U.S.-Mexico border. The BECC was established in November 1993. It was intended to further the goals of the North American Free Trade Agreement NAFTA) and the North American Agreement on Environmental Cooperation. BECC is charged with the responsibility of addressing the environmental infrastructure needs that have resulted from rapid growth on both sides of the border. In this capacity, BECC addresses the needs of border residents in the protection of health and the environment, implementing wastewater treatment projects, and preventing water pollution. As such, the Commission identifies, assists, and certifies projects for funding from NADBank. BECC received 41 project proposals in 1995, costing an estimated total of $577 million. The majority of these requests were submitted by communities on the Mexican side of the border.

North American Development Bank

The North American Development Bank (NADBank) is a complementary institution to the BECC and is located in San Antonio, Texas. It was established to provide loans and loan guarantees to projects certified by BECC. NADBank was created by the same bi-national agreement which established the BECC. It is also charged with the responsibility of improving environmental conditions along the U.S.-Mexico border. At the end of 1995, NADBank had approximately $750 million in lending capacity, comprised of cash contributions made equally by the United States and Mexico.

APPENDIX B

Resource List[1]

<u>*El Azteca Low Income Housing Tax Credit project*</u>

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[1] This resource list was compiled in 1996 at the time the research for this report was conducted. Some of the contact persons may have left their organizations since that time.

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