Doing Development Differently

Soul City was a bold experiment in rural North Carolina that collided with the economic and social realities of the 1970s

BY CHARLES GERENA

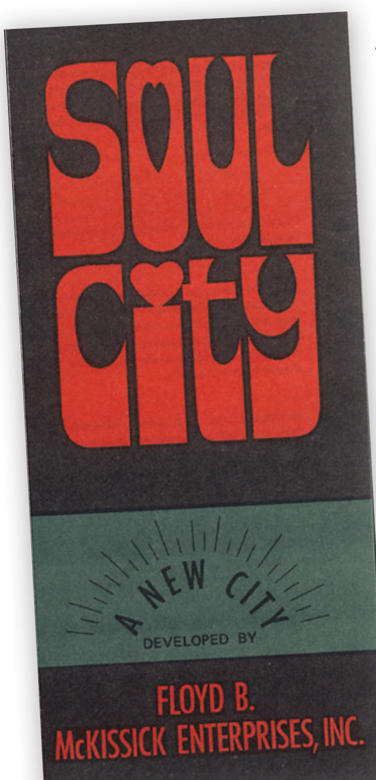
Packed into a Dodge compact with five children and her husband, Jane Ball-Groom arrived at the Manson, N.C., post office one morning in January 1970. They had driven more than 400 miles from New York City to work onsite at a community under development by her employer, McKissick Enterprises.

After asking for directions, the family drove a bit farther. "We crossed the railroad tracks and saw this little cardboard sign on a wooden post. There was a barbed wire fence with cows behind it. That was Soul City."

Ball-Groom had traded her family's apartment in a public housing project for one of the single-wide trailers plunked in the middle of 1,810 acres of farmland in Warren County, N.C. To her, it was paradise. She was among the pioneers who wanted to build a place where people of all races and classes could have a second chance.

Soul City was the brainchild of lawyer and civil rights activist Floyd McKissick. In his late 40s, the Asheville, N.C., native left the Congress of Racial Equality to form McKissick Enterprises as an instrument of black economic empowerment.

Soul City, the firm's biggest endeavor, was unveiled at a press conference in January 1969. It would be the first of several planned communities in the South to reverse "the migratory pattern of rural people seeking to leave areas of economic and racial oppression," as McKissick described it, especially blacks who had fled north during the "Great Migration" that had begun in the early 20th century.



Soul City was marketed as an integrated community that would provide a "fresh start" for people and businesses.

IMAGE: FLOYD B. MCKISSICK PAPERS #4930, 1940S-1980S IN FOLDER 1754: PRESS KIT MATERIALS, 1970-1979 AND UPDATED SCAN 13, J.E. SHEPARD MEMORIAL LIBRARY UNIVERSITY ARCHIVES, RECORDS AND HISTORY CENTER, NORTH CAROLINA CENTRAL UNIVERSITY

Using a combination of public support and private capital, McKissick and his team of mostly young and idealistic black professionals completed the first phases of Soul City's residential and industrial development. They also laid the groundwork for future growth, including a regional water system that taps into a nearby lake and serves the residents of three counties today.

What Soul City couldn't do was generate enough jobs to satisfy the Department of Housing and Urban Development (HUD). The agency withdrew its support of the project in June 1979, exactly seven years after it announced the award of a $14 million loan guarantee.

In hindsight, Soul City was an ambitious experiment that ran out of time. McKissick and his team couldn't overcome the challenges of spurring economic activity in a relatively rural part of North Carolina that lacked the essential ingredients for growth. Nor could they overcome the skepticism that arose after years of slow progress caused, in part, by a bureaucratic tangle that was as bad as kudzu.

"Was Soul City too bold, given the racial tension, the economic conditions, or the lack of infrastructure in the county? It probably was," notes Eva Clayton, a former congresswoman who worked on the Soul City project. "But I don't think it was a mistake to try a bold idea. There is a need for new ideas in rural areas."

Starting from Scratch

Like other civil rights leaders, McKissick saw economic progress and independence as the next logical step for blacks after making major gains for their legal rights in the 1960s. Soul City would be a vehicle for what he and others called "black capitalism."

In another century, black entrepreneurship had emerged in the antebellum era and surged in response to racial segregation in the post-Civil War South. But times changed. Communities like Jackson Ward in Richmond and Hayti in Durham, where blacks had formed their own base of enterprise, were shattered in the name of urban renewal in the 1960s. New opportunities were needed.

Like other proponents of the "new town" movement, McKissick wanted to create an alternative to decaying urban communities. "The black man has been searching for his identity and destiny in the cities," McKissick told the *New York Times* in January 1969. "He should be able to find it on the plains of Warren County."

What McKissick imagined on those plains was a new town, like the ones that emerged from the ashes of European cities destroyed during World War II. He aided in this rebuilding in France as an Army sergeant and visited other sites in France and England. In a 1983 interview, McKissick recalled telling his relatives and Army buddies after the war, "If we can spend all this time over in Europe building, we can sure go back down South and build."

In 1971, McKissick applied for a loan guarantee under HUD's New Communities program, established in 1968 and expanded under Title VII of the Housing and Urban Development Act of 1970. The program was intended to support innovative solutions to suburban sprawl, urban blight, and underutilization of rural communities. Like the private developments that were built as part of the new town movement, New Communities projects were intended to be more self-sufficient than traditional suburbs, providing the economic opportunities lacking in cities but avoiding the haphazard growth that characterized suburbia.

McKissick got HUD's final blessing in 1974, adding to the financial backing he had from several lenders and his general partners in the project — the National Housing Partnership, a private entity created by Congress to stimulate the development of low- and moderate-income housing, and MMI Inc., the Cleveland-based development arm of a minority-owned architectural firm.

With financing in hand, McKissick was ready to deliver on a dream he had envisioned since his Army days. His initial goal was to have an integrated community of 40,000 to 50,000 people and an industrial park teeming with activity within 20 to 30 years.

But which should come first, the jobs or the people? This is the classic chicken-and-egg question of developing a self-sufficient community, particularly one like Soul City that wasn't within commuting distance of an urban hub. If residential construction happens first, then the new residents need a place to work, unless they are retired or independently wealthy. If commercial development comes first, then the new laborers need roofs over their heads.

Soul City's developers were told to focus on industrial recruitment, according to Devin Fergus, a professor of history and black studies at the University of Missouri. In a 2010 article in the *Journal of Political History*, he wrote, "Over the opposition of McKissick and other town founders, Washington required that industry and commercial contracts be secured first before new residential subdivisions were built."

So they completed a 73,000-square-foot building dubbed Soul Tech I as the first phase of an industrial park. To support future industrial activity, they also constructed a regional water system, upgraded and expanded a wastewater treatment facility, and built a fire station.

Despite this progress and initial interest from several companies, McKissick and his team couldn't bring large employers to Soul City. A New York-based manufacturer produced backpacks and duffel bags for the U.S. military at the Soul Tech I building for a year before the company filed for bankruptcy in 1979. After that, a chicken hatchery, a small textile firm, a packaging company, and a janitorial supplies producer occupied part of the building at various times.

Several key players expected growth to spread to Warren County from the Research Triangle region. But that never happened.

Generating Jobs is Hard Work ...

There wasn't much happening in Warren County. As of 1969, per capita income in the county was only two-thirds of the per capita income for North Carolina. More than 40 percent of families lived in substandard housing.

Agriculture had brought prosperity to Warren County before the Civil War. After the war and the collapse of the plantation system, however, the local economy struggled. The county was among the rural communities in the South where millions of slaves had toiled on plantations and had limited options beyond sharecropping or working on someone else's farm, communities that missed the prosperity of regions like the Research Triangle.

While Warren County had an ample supply of low-cost labor and land in its favor, it had plenty of competition for new industry. Two towns in nearby counties — Henderson in Vance County and Oxford in Granville County — as well as many others in rural North Carolina were also eager to replace lost agricultural jobs.

Also, the county's labor pool was older and unskilled, and the educational system was ill equipped to prepare residents for new careers. Soul City's developers tried to address this shortcoming by helping to secure funds for a high school. In the meantime, the community was too far away from population centers to provide additional labor options for potential employers.

In general, Warren County's relatively isolated location in North Carolina was a handicap. Soul City was next to a rail line and minutes away from Interstate 85 and U.S. 1. But it was more than 50 miles, or an hour's drive, from Durham or Raleigh, too far from the amenities that prospective employees and employers look for. To meet these needs, the developers built a recreational center with basketball and tennis courts, a bath house, and pool.

Soul City was the only project in the New Communities program that was neither a satellite community that benefited from the amenities of a nearby city nor within an urban area in need of revitalization. Most of the privately funded new towns were satellites — Columbia, Md., was less than 25 miles from Baltimore, while Reston, Va., was a similar distance from the nation's capital.

The proximity of Columbia and Reston to major cities offered them another benefit, says David Godschalk, a former professor of city and regional planning at the University of North Carolina at Chapel Hill. These new towns saw migration from Baltimore and Washington. "Near Soul City, there was no such metropolitan source of families that wanted to move out. You weren't going to move from Raleigh [and] the little towns [in Warren County] didn't have the population supply."

Godschalk knows this firsthand. He served on the board of directors of the Warren Regional Planning Corporation, a nonprofit formed to develop a general land-use plan for Soul City and provide technical assistance to Soul City's developers as well as minority and disadvantaged business owners in neighboring communities.

… Especially For a "New Community"

The economic challenges of developing Soul City were exacerbated by the complexities of navigating HUD's New Communities program.

While McKissick and the developers of 12 other projects received loan guarantees from HUD and other federal support, their initial investment was steep. There were the upfront expenses of acquiring land and installing infrastructure in addition to the usual carrying costs of paying property taxes on undeveloped land and interest on loans. According to a 1975 report on the New Communities program, "All other nations engaged in [new town] development employ public mechanisms for land assembly and the provision of infrastructure. We are the only country attempting to do this through private developers."

In the case of Soul City, the developers had $10 million of HUD's $14 million loan guarantee and were awarded more than $5 million in grants from HUD and millions more from other federal agencies. But it took years before the money started to flow.

McKissick applied for the loan guarantee in February 1971, almost two years after submitting a preliminary application. HUD signed a letter of commitment in June 1972, more than a year later, and didn't spell out the terms and conditions for the guarantee until it signed a formal agreement in February 1974.

"Months went by, along with delays in financing and land acquisition, as the project stumbled into a 'turf war' between political operatives inside the White House and more fiscally minded conservatives operating largely out of the Office of Management and Budget," noted Devin Fergus in his 2010 journal article. "While the federal officials bickered among themselves, commercial real estate prices rose."

The developers finally sold their first $5 million in bonds in March 1974. But they held title to only part of the proposed 5,000-plus acres that were targeted for development. The rest of the loan guarantee was needed to pay for the upfront expenses and carrying costs of the rest of the project.

Before the developers could issue additional bonds, however, they had to meet several conditions that HUD did not impose on other New Communities projects. Soul City had to generate at least 300 jobs and meet other requirements pertaining to land sales and infrastructure development.

These restrictions weren't lifted until December 1976. McKissick and his team sold another $5 million in bonds, which was enough to complete several projects and support the development of 32 houses between 1977 and 1979. But the last $4 million in guaranteed bonds were never issued, and numerous lots purchased for development remain fallow today.

On top of these unique challenges, all of the developers in the New Communities program leaned into the same headwinds faced by the rest of the country in the 1970s. The OPEC embargo of 1973 caused oil prices to nearly quadruple between October 1973 and January 1974. Double-digit inflation hit. Interest rates and unemployment soared, undermining the demand for new housing.

"In calculating our loan guarantee commitment, we had to do financial projections that assumed a 6 percent compounded rate of inflation for 30 years," recalls Floyd McKissick Jr., who worked for his father on the Soul City project and studied regional planning and law before being elected to the North Carolina legislature. "That sounded good in 1971, but they didn't anticipate the oil embargo" raising the cost of petroleum-based products like asphalt for roads and PVC pipes for plumbing in houses. "You were stuck with that model, when we really needed to go back and recalculate the numbers."

Among the 13 projects funded through the New Communities program, most faced financial difficulties. The program was re-examined several times and closed down in 1983 after awarding $590 million in guarantees and grants. Only The Woodlands in Texas was able to achieve viability over the program's 15-year span. In the private sector, the new town movement took decades to yield any successes, including Columbia and Reston.

All Eyes on McKissick

Soul City had been under the microscope for years before HUD ended the New Communities program. The *Raleigh News & Observer* ran an investigative series on the project in March 1975, a year after money started flowing from the first bond issue. The articles questioned whether the project benefited only the bank accounts of McKissick and his colleagues. They also criticized the complex web of organizations involved with Soul City's development and the multiple roles that people had in these groups as potential conflicts of interest.

Shortly after the series ran, Sen. Jesse Helms, R-N.C., and Rep. L.H. Fountain, D-N.C., called for an audit of Soul City. Helms had opposed the project from the very beginning. After being elected to Congress in 1972, he received a note of congratulations from McKissick and soundly rejected the overture, promising "to request a careful independent examination of expenditures" into Soul City. On the floor of the U.S. Senate three years later, Helms called Soul City a "gross waste" that exemplified the pitfalls of government intervention in private development.

The General Accounting Office (GAO) released its audit of Soul City in December 1975 and found no significant malfeasance. But the damage was done — the project had come to a standstill. When work resumed, the negative publicity from the *News & Observer* exposé and the GAO audit gave the project a taint of scandal and corruption that would haunt it until the end.

Some people believed McKissick was held to a different standard. He was a businessman as well as an activist, yet any hint of him, his family, or his associates making a profit from Soul City was viewed suspiciously. An April 1979 article in the *Wall Street Journal* article zeroed in on the cars that McKissick's family drove and the "big microwave oven" in their kitchen.

It didn't help that the overlapping organizations formed to tackle the myriad community development efforts at Soul City made the whole project much harder for outsiders to understand. "Had this project been next to Raleigh or Charlotte, you could have probably pulled in some of the business leaders from those communities for volunteer boards," notes David Godschalk. "This was a remote, rural location in North Carolina ... that didn't have many human resources."

Providing social services like a health clinic and securing state and federal funding for projects like the regional water system helped overcome the initial suspicions of public officials in Warren County and surrounding communities. "They saw the water and sewer lines going into the ground," recalls McKissick Jr. "They saw the positive impacts."

At the same time, political leaders with entrenched interests wanted to protect the status quo. It had been less than a decade since the Civil Rights Act passed in 1964. "I think more of the skepticism [about Soul City] came from people who held prejudices and were not open to the idea of encouraging black entrepreneurship," adds McKissick Jr. "They were skeptical of what changes it might bring."

Ultimately, McKissick and his team remained outsiders, even in the eyes of much of the county's black population, despite their best efforts to reach out. "They had been in this ditch so long that they'd given up hope," recalls Eva Clayton. "They couldn't bring themselves to believe that outsiders could come and do something that hadn't happened in years."

A Dream Deferred

Floyd McKissick had the drive of a social entrepreneur to face these challenges. He believed passionately that capitalism could produce innovative solutions to the world's social problems. Other developers like Robert E. Simon Jr. and James Rouse, the creative forces behind Reston and Columbia, respectively, also touted the social benefits of the new town movement.

Where McKissick might have fallen short is being what the Schwab Foundation for Social Entrepreneurship describes as someone who "continuously refines and adapts [his/her] approach in response to feedback." In other words, he was stubborn.

For example, many people didn't like the name "Soul City" and advised McKissick to change it in order to dispel perceptions of the project being for blacks only. He refused.

Other lessons can be derived from the experiences of Floyd McKissick and Soul City. His son points to the 30-year time horizon and all-at-once development approach championed by the New Communities program. Instead, a developer should look ahead only 10 years and be willing to respond to changes in market conditions. "You have to be nimble," explains McKissick Jr.

Even with a shorter timeline, a developer also needs deep pockets to build an entire community from scratch. "Columbia ran in the red for years and years," says Godschalk. "Rouse put a lot of his money into it, and he had a lot of good connections with banks that helped to keep it afloat," plus the financial support of Connecticut General Life Insurance Co. Reston also lost "a considerable amount of money" before it was completed, but it had the backing of Gulf Oil.

Most importantly, a development needs to have something that creates demand for housing and drives up property values, advises McKissick Jr. The problem was Soul City never got a chance to offer those amenities. The developers had expended their financial and political capital on building infrastructure. Nor was that infrastructure enough to lure the businesses that would create job opportunities for future residents.

There are certainly examples of cities that developed in the middle of nowhere. But many of them followed the path of progress — a railroad or a canal or a mountain pass through a valley. Would McKissick have succeeded in finding fertile ground on a former plantation?

David Godschalk believes that efforts to fight the economic tide to develop a community can succeed ... under the right circumstances. "It is a very complicated effort, but it's not impossible." **EF**

Readings

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