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FACT SHEET NEIGHBORHOOD DEVELOPMENT DEMONSTRATION ACT

I. INTRODUCTION

Senator John Heinz (R-PA), and Congressman Joel Pritchard (R-WA) have introduced the Neighborhood Development Demonstration Act (S. 3019 and H.R. 7189) as a means of demonstrating the feasibility of assisting private, nonprofit neighborhood organizations to undertake housing, job training, service delivery, new enterprise development, and similar activities. The Act provides for small amounts of direct, general support funding to community-based groups involved in neighborhood improvement activities. The bills were introduced the week before Congress recessed until after the November elections, and no action is expected on the bills until the convening of the 98th Congress. This issue brief describes the provisions of both bills, and notes the differences between the two bills.

II. PROVISIONS

A. Program Concept

The Act would establish federal support for community-based neighborhood development organizations by providing matching grants to such organizations. Organizations would receive funds only if they were successful in first obtaining voluntary contributions from local individuals, businesses, or religious organizations. The amount of each grant would be based on a matching formula which takes into account the size and economic conditions of the area in which a neighborhood organization operates.

The Act specifies that a maximum of 50 organizations could be funded in the first year of the program, with maximums of 100 and 150 organizations funded in the second and third years, respectively. The program would be administered by the Department of Housing and Urban Development (HUD).

B. Eligibility

In order to be eligible to participate in the program, an organization must:

- Be a private, voluntary, nonprofit corporation;
- Have a governing body (Board of Directors), not less than 51% of whom are residents of the area served by the organization;
- Have conducted business for at least three years prior to the date of an application for assistance;

- Be located in an area that has been determined to be eligible for Urban Development Action Grant Program (UDAG) participation; and
- Conduct one or more eligible activities that benefit low and moderate income persons. Eligible activities are broadly defined as job creation, housing development or rehabilitation, small business development, essential service delivery, or voluntary neighborhood improvement efforts.

C. Application Process and Funding Amounts

Under the Act, organizations seeking assistance would apply to the Department of Housing and Urban Development for designation as participating organizations. The applications would first be reviewed by a Neighborhood Development Advisory Council, composed of 15 representatives from eligible neighborhood organizations. The Council would make recommendations to the Secretary of HUD regarding which organizations should participate in the program. The Secretary would then select the organizations that would participate in the program.

Once selected, an organization would have a period of one year to raise funds from individuals, firms, and religious organizations. The amount raised would be reported to HUD quarterly, and HUD would make a matching payment to the participating organization.

The amount of the matching payment to each organization would be based on a formula, called a "matching ratio," of federal funds to private funds. The ratio would be based on local economic conditions and the number of households in the neighborhood involved. The minimum matching ratio would be three federal dollars for every local dollar; the maximum ratio allowed in the bill would be ten-to-one. The highest ratios would apply to neighborhoods having the smallest number of households and the poorest economic conditions.

The Act would allow an organization to be funded more than once, provided that it submitted a new application and successfully competed for designation in each year. In other words, no multi-year awards would be allowed. The bill authorizes funding amounts of:

- \$ 2.5 million for fiscal year 1983;
- \$ 5.0 million for fiscal year 1984; and
- \$ 7.5 million for fiscal year 1985.

III. ANALYSIS

A. Comparison of House and Senate Versions

The Senate version of the Act (S. 3019) is virtually identical to the House version (H.R. 7189), with three exceptions. First, the Senate version would require that the unit of local government with jurisdiction over the neighborhood in which an applicant organization was located certify that federal assistance is "consistent with, and supportive of, the

specific objectives of that unit of government." This provision is somewhat similar to the "A-95" review process, which, in effect, gives a local government veto power over an application from a neighborhood group in its jurisdiction. This certification provision is taken from the old HUD Neighborhood Self-Help Program legislation. The second difference involves maximum grant size; the Senate bill would allow grants of up to \$55,000, while the House bill would allow a maximum of \$50,000. However, the authorized funding level is the same in both versions. Finally, the Senate bill would require that participating organizations be IRS-certified under Section 501(c)(3) of the Internal Revenue Code, while the House version would require only that the group be formally incorporated.

B. Comparison With Neighborhood Self-Help Program

Although the Neighborhood Development Demonstration Act (NDDA) bears some similarity to the defunct National Neighborhood Self-Help Program previously administered by HUD, there are several striking differences between the two approaches. First, unlike the Self-Help program, the NDDA would provide assistance in the form of general support funding which is not tied to a specific project. Second, whereas the Self-Help Program required a non-binding commitment of either public or private dollars, the NDDA would require a cash commitment "up-front." Finally, the bills clearly state that NDDA is to be a demonstration program, rather than an on-going or "routine" federal grant program.

IV. PROSPECTS FOR PASSAGE

The outlook for the proposed legislation is unclear. The NDDA is the first legislation introduced on behalf of neighborhood groups during the Reagan Administration. However, the effectiveness of neighborhood organizations in undertaking development activities has been recognized by the Administration in supporting documents attached to its proposed enterprise zone legislation and through the President's emphasis on decentralized approaches to the problems of poverty. Given the relatively small amount of funding involved, and given the Act's requirement for matching private sector support, the proposed program seems consistent with the Administration's philosophy of reduced federal involvement in development activities. It is expected that the bills will be re-introduced in the 98th Congress, which will convene in January 1983.

For further information on the Neighborhood Development Demonstration Act, contact Mr. Bud Kanitz of the National Neighborhood Coalition or Mr. Charles Kamasaki of the National Council of La Raza, at 1725 Eye St., N.W., Second Floor, Washington, D.C., 20006; (202) 293-4680.