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Neighborhood Assistance Programs

By Carol Wayman

In the late 1960s, the management of Tasty Baking Company was concerned that if the North Philadelphia neighborhood surrounding its plant continued to deteriorate, the corporation's real estate and six-story plant would be worthless. Moving to a new site would be expensive. To remain at the plant and do nothing would also be costly; employees would be harder to recruit and maintain, and security costs and anti-vandalism costs would rise. Instead, Tasty Baking Company decided to start a community development initiative in the joint self-interest of area businesses and the community. It encouraged other companies to join the initiative. They founded a community development organization and provided general operating funds, free office space, accounting services, and office supplies and equipment for a variety of community development activities. A recently-created state program, the Neighborhood Assistance Program, underwrote the company's investment in the nonprofit group. Now, thanks partly to that program, the company has made a long-term commitment to its nearby neighbors and the community, and Tasty Baking Company's real estate and plant are strong and stable.

Now in use by 11 states – Connecticut, Delaware, Florida, Indiana, Kansas, Maryland, Missouri, Nebraska, Pennsylvania, Virginia, and West Virginia – with legislation pending in at least two others, neighborhood assistance programs (NAPs) provide tax credits to businesses that contribute (cash, materials, staff) to community-based non-profit organizations, often targeting low-income people and communities. NAPs often provide operating support and give state-certified nonprofits a "license to hunt" to, for example, acquire new appliances for affordable housing units under construction; lease vans to transport residents to work, school, or the doctor; post volunteer recruitment or advocacy messages on billboards; operate an emergency energy fund to pay for high fuel bills; call on plumbers and mechanics to maintain and repair homes; access a high profile law firm to a neighborhood; and take children to theater performances. In 1991, NAPs generated well over $63 million in private sector contributions to nonprofit organizations, including 21 part-time and 9 full-time staff members, revenue foregone of $33 million, and direct outlays of $650,000 (including staff salaries).

Spirit of Partnership

NAPs reflect the spirit of one of the main buzzwords of 1990s community development – "partnership." At a time when nonprofits are repeatedly reminded that the role of government is decreasing even as demands on the nonprofit sector continue to grow, and those in the for-profit sector are urged to be "good corporate citizens" by contributing skills and resources to groups in their community, state governments are using NAPs to bring businesses and nonprofits together to meet the demands of the citizenry. With tax credits as high as 70 percent, NAPs engage the self-interest of the corporate sector in issues of community development while providing nonprofits with a reliable source of operating support – one of the hardest expenses to fund. NAPs also work well with existing federal and state programs and entities such as Community Development Block Grants, Enterprise Zones, McKinney grants, community action programs, community development corporations, and housing programs. In many communities, NAPs have created solid and unprecedented partnerships between the corporate and nonprofit sectors.

One of the largest NAP initiatives is the "The Philadelphia Plan," a corporate initiative to create long-term public/private partnerships for community development. Ten businesses joined with established community development corporations (CDCs) to revitalize Philadelphia's inner-city neighborhoods. Businesses participating in the plan must work with a CDC to formulate a budget and development plan for the fiscal year and submit the proposal to Pennsylvania's Department of Community Affairs. When the proposal is approved, the corporation donates to the CDC up to $250,000 a year in cash and in-kind contributions, and receives a 70 percent tax credit for eligible donations. After the state tax credit and charitable tax deduction, a $10,000 contribution has an after-tax cost of about $1,200. In order to achieve maximum affect, Philadelphia Plan partnerships are long-term: 10 years is the minimum commitment.

To make this a true three-pronged effort, Philadelphia's mayor pledged greater availability to city agency services for designated neighborhoods. For example, in the spring of 1995, the executive director of each CDC met with the City's Director of Housing and Community Development to resolve common problems and institute ways for improved communication and city service.

Practices Critical to the Efficacy of NAPs

Unlike the typical economist's caveat of "all things being equal," state economies and political environments differ significantly. It may be impossible to create a generic, model NAP that would be replaceable in all states. The original Pennsylvania legislative "theme" has only been a starting point for Missouri and Virginia. Even Pennsylvania has made changes to its legislation as the NAP developed. However, states might take a few items into account in organizing support and designing legislation for a Neighborhood Assistance Program. Preliminary research on NAPs has found seven elements that seem to make a difference between dormancy and success:

- Administrative funds – An effective NAP must have the resources it needs to hire staff and to advertise. After these costs are covered, the program generally runs itself.
- Adequate staff – Assuming it has sufficient administrative funds, an effective NAP will have enough full-time and part-time staff to manage the base operations: proposal review, assistance to applicants, promotion of the program, paperwork, and program monitoring.
- Limited paperwork – Nonprofits and businesses are more likely to participate in a NAP that does not demand excessive forms. Nonprofits in particular are unwilling to jump through too many state government hoops simply to earn the privilege of soliciting money from corporations.

- Aggressive promotion – Advertising in the mainstream media, nonprofit newsletters, or trade journals and conducting "how-to" workshops have been successful methods for expanding the knowledge and accessibility of NAPs, especially for smaller and more remote nonprofits and businesses.
- Cooperation – Nonprofits, businesses, and the state NAP office all have a stake in the NAP's policies and practices. A successful program permits regular "conversations" among these participants to ensure a smooth-running operation. Maintaining a good rural-urban dialogue is also important.
- A strong political constituency – Active and vocal support from state government (both executive and legislative) and the private sector seem to protect NAPs from shifts in the political winds, especially when state budget cuts are being contemplated.
- Flexible and rational legislation – Legislation that is vague on administrative procedures but creates a tax credit that is well targeted and easily monitored avoids potential pitfalls in program administration that can lead to unused or abused programs. Tax credits, as opposed to tax deductions, tend to provide the better incentive.

As an administrative matter, states should seek linkages between the NAP and the Community Reinvestment Act, linked deposit programs through state treasuries, and other community development efforts. These linkages, such as in two states that partially merged NAPs with Enterprise Zones, might reduce inefficiency. In some states, however, poor communication between agencies leads to monitoring difficulties. States should be prepared to address any tension between the charges of the department of revenue and the department that oversees the NAP.

State legislation for NAPs should encourage involvement of as much of the community as possible. The legislation should also target those nonprofits primarily or exclusively serving/controlled by low-income people. The range of services permitted should be relatively general. For example, eligible projects could produce affordable housing, develop asset accounts, and provide child care or health care services. In addition, to encourage the participation of small businesses and self-employed persons in NAPs, legislation should set a low minimum contribution, while making it enough to cover the cost of processing the paperwork. (Most states report a $50 to $100 processing cost.) The state government should recognize and eagerly accept its role as a broker between the private and nonprofit sectors, especially on behalf of the smaller, more remote or marginalized entities. The broader the base of political support for the NAP, the better.

Implications for a Federal Neighborhood Assistance Act

Congress is increasingly interested in tax incentives as a means to fund the nonprofit sector. In the early 1990s, members of Congress and community advocates discussed efforts to propose such legislation. Although some congressional representatives strongly support this legislation, to date no legislation has been introduced. Although tax credit legislation was introduced in the 104th Congress, it doesn't build on the NAP model. However, many options for a federal NAP program could be considered, including:

- Making minor adjustment in the federal tax code to exempt the state tax credit, which the federal government currently treats as part of taxable income, from the calculation of gross receipts for federal tax purposes. Under such a federal law, a business in a state with a 50 percent tax credit, for example, would be able to exempt the full 50 percent state tax credit. It is anticipated that such provisions would make participation in state NAPs even more attractive to businesses. This could allow states to lower the percentage and therefore expand the tax credit cap without additional loss of revenue.

- Providing matching grants to state offices. With matching cash grants from the federal government, states with NAPs could afford more of the administrative and staff resources necessary to promote, operate, and monitor an effective program. A proposed formula for the matching grants would be based on the amount of contributions made by businesses during the previous year and on the state's poverty, population, and unemployment rates.

- Designating a federal agency to administer and provide oversight for a full-fledged federal Neighborhood Assistance Program. This would require several tasks, including, but not limited to, conducting further research on the cost-effectiveness of state NAPs, developing a consensus on the eligible activities and participants, coordinating and consulting with state NAP directors to ensure compatibility, designating one or more federal agencies to oversee the federal NAP, and securing budget appropriations or shifting current resources to this new effort.

A federal version of the NAP that included all three of these options is estimated to cost the U.S. Treasury as little as $55 million a year in tax loss and program support, while potentially raising $309 million for nonprofit community programs. This estimate assumes that all 50 states have NAPs, that businesses use only 60 percent of the tax credits available in each state (creating a Treasury loss of $52 million), and that federal expenditures do not exceed $3 million for matching grants and administration. In this scenario, state NAPs would be required to comply with federal rules and regulations, in addition to implementing federal program priorities. There is concern that such federal intervention could undermine the locally-controlled nature of these programs.

While national advocacy groups and the federal government have shown growing interest in NAPs, it is advisable for the government to carefully examine the economic and political weaknesses of the Low-Income Housing Tax Credit, Enterprise Zones, and the Community Development Corporation Tax Credit before structuring a federal NAP. State programs also require further analysis. Unless NAPS are deliberately and discernably providing low-income people and communities with more private resources, services, and jobs – without sacrificing public education, health, and other goods and services paid for from revenues and primarily serving the poor – a federal NAP could be a "shell game" that shifts money around but leaves communities with the same amount or less than they have now.

Carol Wayman is the associate director of programs for the National Congress for Community Economic Development (NCCED). This article is based on information contained in a recent report, Neighbors Building Community: A Report on The Neighborhood Assistance Act Project, *which lists current operating procedures for 11 programs, provides model legislation, and discusses points for states considering undertaking such an effort. For more information, contact Carol Wayman at the NCCED, (202) 234-5009,* www.ncced.org

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