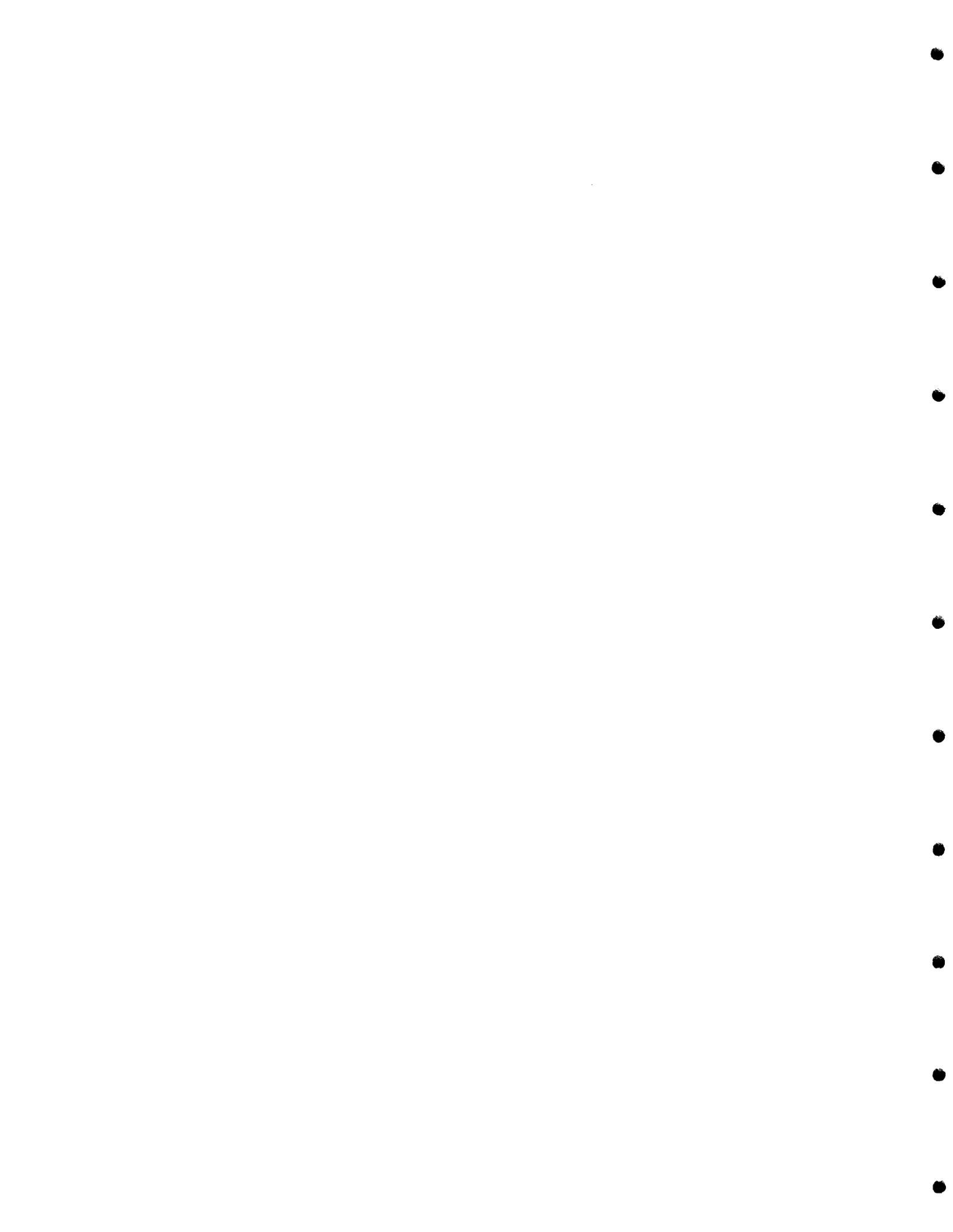




U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Final Evaluation of the Neighborhood Development Demonstration Program

Final Report



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Neighborhood Development Demonstration Program**

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Prepared for:

**U.S. Department of Housing and Urban Development
Office of Policy Development and Research**

Prepared by:

**The Urban Institute
Washington, DC**

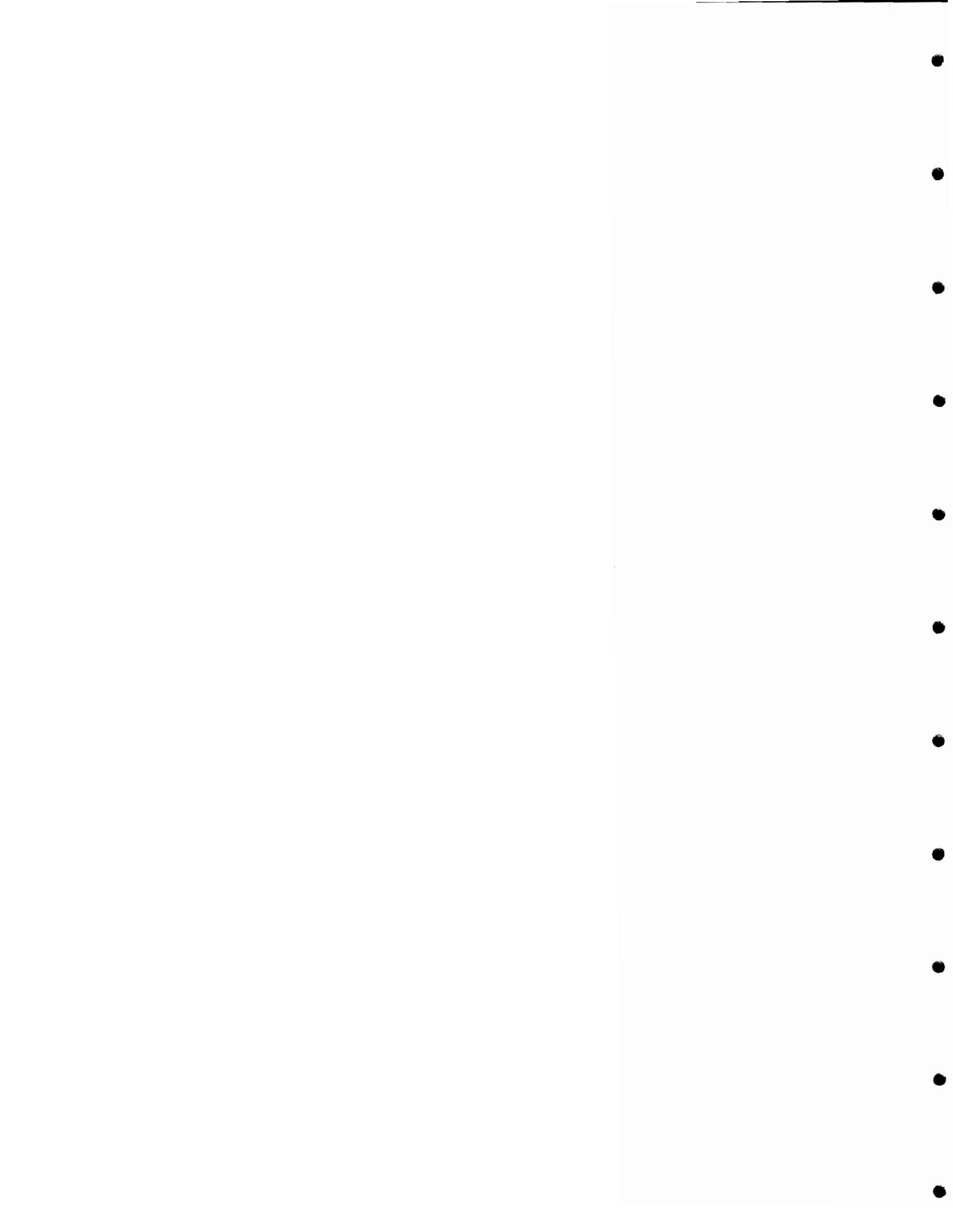
Contract HC-5841

March 1992



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Executive Summary

Community-based organizations (CBOs) have made numerous contributions to America's neighborhoods. They have organized services, mobilized local development capital, channelled the enthusiasm of neighborhood volunteers, and articulated community needs to public and private sector decision-makers. To do this work, CBOs depend on private sector contributions. This requires that CBO executive directors spend a large portion of their time raising funds for organizational support and project development.

How can the ability of the CBOs to raise funds and sustain private sources of support be strengthened? In 1983, Congress created the Neighborhood Development Demonstration Program (NDDP) to test whether Federal matching grants to CBOs can leverage additional, and continuing, private contributions from the neighborhoods in which these groups operate.¹ The NDDP is a small program. Appropriations totaled \$7 million over four fiscal years (1984, 1987, 1988, and 1989) for grants to local CBOs. This funding enabled HUD to provide grants for a total of 143 neighborhood projects sponsored by 113 CBOs nationwide. Grants of up to a maximum of \$50,000 are awarded to CBOs in ratios of from 1:1 to 6:1 depending on extent of neighborhood distress. To receive a Federal matching grant, a CBO must raise local funds from within its own neighborhood. CBOs are required to use these funds for neighborhood improvements such as rehabilitating housing, creating jobs, or providing services.

The NDDP is intended to test the degree to which:

- 1) Federal incentive funding can encourage new voluntary contributions from private sources, and new project activities;
- 2) Neighborhood characteristics--demographic, social, and economic features--affect CBOs' ability to raise funds within neighborhoods;
- 3) The type of project undertaken affects CBOs' ability to raise funds; and
- 4) Characteristics of CBOs influence their success in fundraising.

¹The NDDP is authorized under Section 123 of the Housing and Urban-Rural Recovery Act of 1983.

As part of the program's enabling legislation, Congress authorized the U.S. Department of Housing and Urban Development (HUD) to evaluate and report on the NDDP. This report presents HUD's evaluation.²

In 1989, HUD contracted with The Urban Institute to evaluate the NDDP experience from its inception through the spring of 1989.³ In addition to analyzing the demonstration's objectives (listed above), the Institute was also charged with examining other issues about NDDP operation and impacts on CBOs and their neighborhoods. This report describes NDDP participants, projects, and neighborhoods; discusses evaluation findings; and presents program recommendations.

DESCRIPTION OF PARTICIPANTS, PROJECTS AND NEIGHBORHOODS

Participant Characteristics. CBOs range from fledgling organizations with all-volunteer staff and minimal operating budgets, to large-scale development entities with long experience in community renewal. To ensure that CBOs are representative of their neighborhoods and have at least a minimum track record, the NDDP requires that 51 percent or more of each grantee's governing board must consist of neighborhood residents, and that the organization has been in existence for at least three years. Of the actual CBO grantees:

- Most have at least 6 years of development experience in their neighborhoods. Over 70 percent had been in existence for 6 or more years at the time of application.
- Over 42 percent had been incorporated for more than a decade prior to application.

²This is HUD's second evaluation and report to Congress on the NDDP. The first evaluation report, An Evaluation of the Neighborhood Development Demonstration was prepared by the Pratt Institute Center for Community and Environmental Development, and was transmitted to the Congress in July, 1988. It focused only on the first round of funding. This second evaluation incorporates NDDP project experience from the first through the third round of funding (appropriations for 1988 and 1989 were combined for one funding round). This report does not cover the additional \$6 million appropriated by the Congress for fiscal years 1990-1992.

³The Evaluation team conducted on-site and telephone interviews with executive directors of CBO grantees, mail surveys of grantees, telephone interviews of city officials, and analyses of grantee files and HUD records. This evaluation does not include analyses of project activity beyond the spring of 1989 nor results of grant awards made after that date.

- Neighborhood residents are heavily represented on their boards. Almost 80 percent of the organizations have more than 60 percent of board membership consisting of residents. About one-quarter of them have boards that are almost wholly comprised of neighborhood residents. Over 80 percent of all boards also include neighborhood business representatives.
- Most are small organizations. Half have two or fewer full-time professional staff members. By comparison, the members of the Neighborhood Reinvestment Corporation's (NRC) NeighborWorks network, consisting of local housing development corporations, average over 5 staff members per organization. Yet NRC officials believe that by national standards, their network members are themselves among the nation's smaller CBOs.⁴
- Most are also small in terms of annual revenues. Twenty-nine percent had less than \$100,000 in total revenue; over half had less than \$250,000 in revenue. Therefore, the maximum NDDP grant of \$50,000 represented a significant portion of annual revenues for many participating CBOs.

Project Characteristics. The NDDP legislation establishes a wide range of eligible activities, and neither the Congress nor HUD has assigned priorities among these activities. Of projects undertaken:

- Housing creation or renewal is the most frequent project type--45 percent of all projects. The remainder of projects are roughly evenly distributed among essential services, economic development (job creation and business expansion), neighborhood improvements, and mixed-purpose projects not including housing.

⁴The NRC is a Federally chartered non-profit organization that receives direct Congressional appropriations and private contributions. As the nation's largest provider of technical assistance to local CBOs, it created the NeighborWorks network. Although best known for the hundreds of independent local Neighborhood Housing Services (NHS) members, NeighborWorks also includes many other small CBOs.

- Bricks-and-mortar projects are most common. About 55 percent of all projects include property acquisition, construction and/or development finance. The remainder include service delivery or other project activity.
- Projects supported by the NDDP are fairly small. This is not surprising since the NDDP was designed primarily to test the impact of Federal incentive funding rather than to be a national "production" program. The median project costs about \$95,000 including the NDDP grant, the neighborhood match, and other funds. Nevertheless, some projects are quite large: one economic development project totaled over \$10 million.

Neighborhood Characteristics. All CBOs define themselves in terms of neighborhood, and the NDDP takes explicit account of neighborhood characteristics in determining the appropriate match ratio for each grantee. Of the neighborhoods in which NDDP projects were undertaken:

- All are distressed, as measured by rates of unemployment, poverty, receipt of Aid to Families with Dependent Children (AFDC), and single-parent households. Looking at median values for each of these distress characteristics, 11 percent of the labor force is unemployed, almost 20 percent of the population is on AFDC, 27 percent of households are in poverty, and 14 percent of households are female-headed with children. Even the participating neighborhoods that are in the highest quartile for any of these characteristics show great distress relative to figures for cities nationwide.
- Neighborhoods in which grantees operate became more distressed over the decade 1970-80 (the most current data period available). Half lost 16 percent or more of their population. Nominal income grew by less than 1 percent per year.

EVALUATION FINDINGS

The NDDP's core requirement is that each CBO raise a stipulated amount of private funds from the neighborhood it defines as its service area. The major objective of this evaluation was to test for a link between characteristics of CBOs, projects, and neighborhoods, on the one hand, and performance in raising local funds and developing new funding sources, on the other hand.

1) Federal Incentive Funding and Success in Local Fundraising.

Raising Required Local Funds. The NDDP stipulates that Federal funds can match only those funds that CBOs raise within their neighborhoods. The Federal government will release funds based on the amounts raised by CBOs in any quarter, up to the maximum specified in the grant agreement. Thus, even if a CBO does not raise its full planned amount by the final quarter of the grant period, those amounts that are raised are matched. From NDDP inception through the spring of 1989:

- Two-thirds of the grantees met or exceeded 100 percent of the amounts they planned to raise from their neighborhoods, and nearly three-fourths raised at least 90 percent of planned local funding.
- The strongest predictor of success or failure in raising the local share was the target amount. Overall, the higher the target amount to be raised, the lower the percentage of the goal achieved.
- Program priorities for award encouraged grantees to propose projects for which funds already had been committed (committed funds count toward the matching share). Those projects with prior commitments were significantly more likely to raise their local share, and raise it more quickly, than were those without. Over half of all second and third round NDDP projects had neighborhood funds committed prior to NDDP award.

Fundraising Sources. CBOs can raise funds from a variety of sources: soliciting individuals and businesses, special events such as dinners or festivals, proposals to nonprofit institutions, or fees for service. Not all of these techniques are equally productive. In the NDDP overall:

- CBOs generated higher total revenues, and higher revenues per individual funding source, from businesses and nonprofit institutions than from individuals.
- CBOs' success in meeting local funding goals is tied more to the average size of contributions rather than the number of contributors. Successful CBOs obtained larger contributions from fewer contributors, on average, than did CBOs that did not meet their funding targets.
- Among CBOs reporting on low-payoff funding sources, most cited special events and soliciting neighborhood residents as being marginally productive. Nevertheless, several CBOs did find such sources financially productive, and many found them valuable for mobilizing residents.

Progress Toward Self-Sufficiency. In addition to generating local private funds, the NDDP aims to encourage CBOs to develop new, lasting, funding sources within their neighborhoods. The NDDP appears to have had some success in achieving this objective:

- CBO executive directors overwhelmingly reported that the challenge grant feature of the NDDP broadened their sources of neighborhood support. Seventy percent believed that new sources were tapped; three-quarters reported that existing sources contributed more than they would have without the challenge grant feature.
- However, fewer than half of those surveyed reported that the new funding sources would continue after completion of the NDDP-funded project. In some cases,

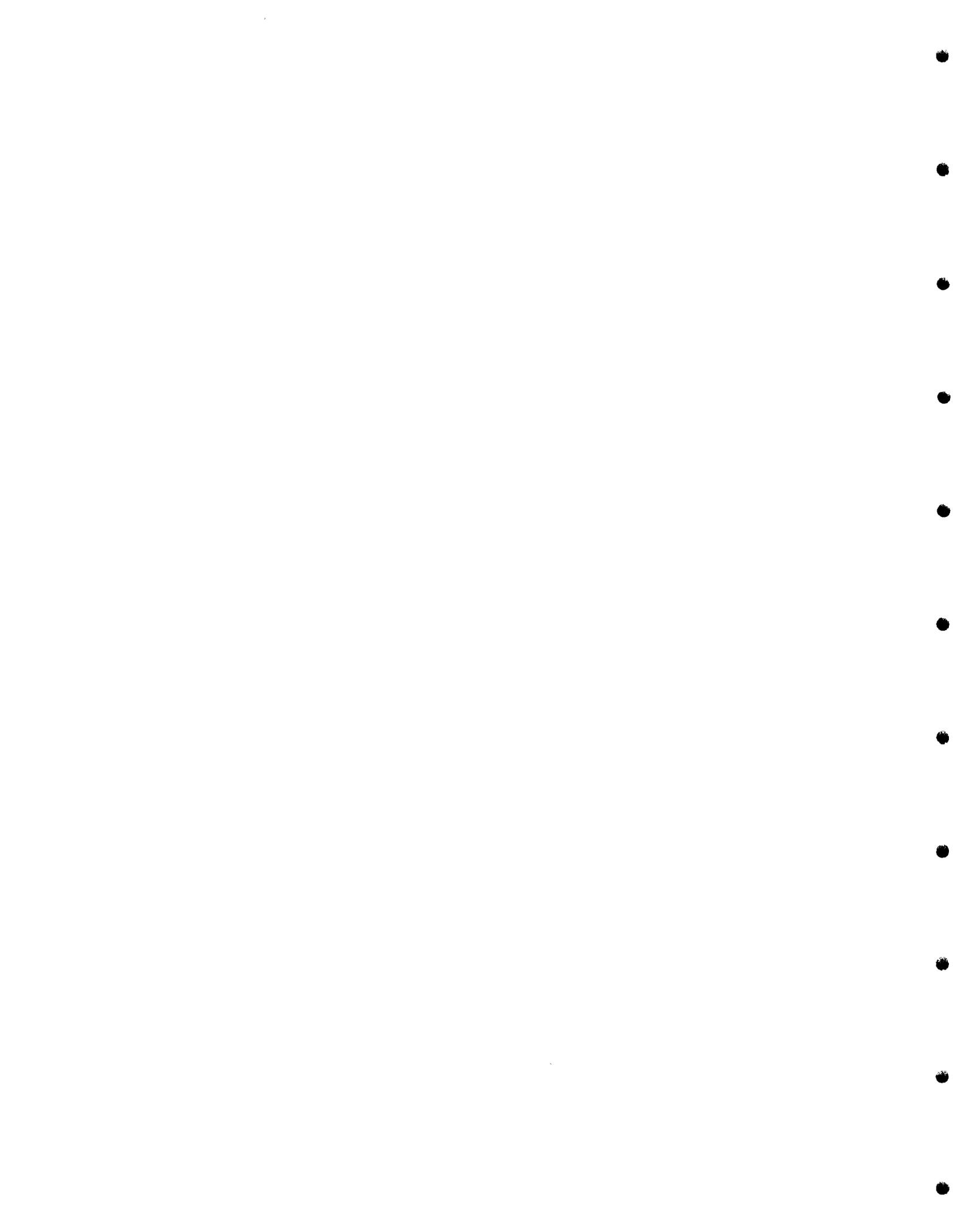
relatively unproductive new sources will not be pursued by the CBO because of fundraising costs; in others, contributors are disinclined to continue their support.

- Most CBO executive directors (three quarters of those surveyed) believed that the activity of seeking neighborhood sources of funds helps in community-building by demonstrating commitment to the CBO, or increasing resident participation in community-based projects. However, directors did not include the generation of substantial revenue among these advantages.
- Participation in NDDP projects helps build organizational capacity. Asked a battery of questions on organizational effects, CBO executive directors most frequently cited increased board involvement, gain in staff skills, and mobilization of unskilled volunteer support.
- NDDP grantees, in general, successfully carried out the projects they funded with the assistance of NDDP matching grants. Grantees viewed these projects as making concrete contributions to the quality of life in neighborhoods (although because of the NDDP's design, they tended to be of small scale).

2) Effect of Neighborhood Characteristics.

For the NDDP, the neighborhood is the arena within which local funds must be raised. It would be reasonable to expect that neighborhood characteristics would influence fundraising performance: low residents' incomes mean fewer discretionary dollars available to make contributions; poor neighborhoods tend to be ill-served by commercial and other business establishments; and competition among CBOs for contributions may be higher in poorer neighborhoods. This expectation, however, does not seem to be borne out:

- CBOs' fundraising success is unrelated to neighborhood characteristics (as defined by the 1980 census) for any single neighborhood distress characteristic.



- Furthermore, CBOs' fundraising performance does not appear to be related to a summary neighborhood distress indicator (constructed by statistically combining individual demographic or social characteristics).

3) Effect of Project Characteristics.

It was expected that fundraising would be easier for certain types of projects (e.g., highly visible bricks-and-mortar projects, or projects meeting a compelling social need such as helping the homeless). This study, however, did not demonstrate this relationship, based upon available data:

- Overall, the nature of a project activity and CBOs' success in fundraising are statistically unrelated. Nevertheless, CBO executive directors interviewed for this study widely believed that visibility is important (e.g., removing a prominent blighted structure, or undertaking neighborhood beautification).

4) Effect of CBOs' Organizational Characteristics.

The makeup of CBOs' boards and membership, and their track records are likely to influence their performance in fundraising. This study found that two characteristics of NDDP grantees could serve as predictors of fundraising success:

- The size of CBOs' boards was significantly related to fundraising success. Only 50 percent of CBOs with fewer than 10 board members met their fundraising goals while 83 percent of CBOs with more than 20 members met their goals. Other board characteristics--percentage or number of business representatives, for example--were unrelated to fundraising success.
- The size of CBOs' budgets was significantly related to fundraising success. CBOs with higher total revenues more often met fundraising goals than did those with lower revenues. For example, grantees generating less than \$50,000 in total revenue--less than the maximum Federal grant--succeeded in their efforts only 38

percent of the time. CBOs with total revenues between \$250,000 and \$500,000 succeeded 86 percent of the time.

- Staff size, however, was not significantly related to success.

PROGRAM OPTIONS

Over the life of the NDDP, the Congress has made no changes to either its purposes or program requirements, and funding levels have remained constant. In terms of the NDDP's analytic objectives, little remains to be learned from continuing the program unless changes are made in the demonstration design that will improve HUD's ability to assess effects.

This is because the NDDP is both a program and a demonstration. As a program, it is intended to assist grantees with partial funding to implement community development projects. As a demonstration, it is designed to test relationships between grantee, project, and neighborhood characteristics on the one hand, and success in developing new neighborhood funding sources on the other hand. These two objectives conflict. The NDDP is not structured to provide a true test of the relationships. For example, as a "program", the NDDP varies the matching ratio with neighborhood distress, providing the more distressed areas with easier funding targets. As a "demonstration", if the NDDP is to analytically determine whether neighborhood distress matters to fundraising performance, all grantees should be subject to the same matching ratio.

Four broad options are available for changing the NDDP:

- 1) Refine the NDDP as a demonstration, allowing better hypothesis testing and, thereby, continue the program's purpose of building understanding of CBOs.
- 2) Restructure the NDDP as a capacity-building grants program that would provide technical assistance or targeted general support grants for CBOs.
- 3) Restructure the NDDP as a production grants program that would emphasize the community development outputs of the projects by expanding the NDDP's scope and targeting grants to national priorities.

- 4) **Terminate the NDDP because it has achieved its major objectives. CBOs have become established neighborhood developers, and other funding programs now exist.**

With the vastly increased role provided for CBOs in the 1990 National Affordable Housing Act, many of the benefits of the two grants program options (#2 and #3 above) will have the opportunity to be effectively realized in the future without the NDDP.

1) Refine the NDDP as a Demonstration.

The NDDP's structure does not allow a true test of relationships between fundraising success and characteristics of CBOs, projects, or neighborhoods. First, awards are not made with a view to controlling for a limited number of variables. As is typical of all categorical grants programs having a production component, any CBO or project can be funded if it meets minimum eligibility criteria and competes successfully in the ranking process. Second, the program does not test all grantees equally because the enabling Act requires that applicants from more distressed neighborhoods be offered an easier funding target than are those from less distressed neighborhoods. The Congress may wish to:

- Apply a standard test for all grantees, e.g., stipulate the same local match, but vary the amount of the Federal grant if the program is to continue to favor more distressed areas.**
- Specify analytic criteria and select grantees accordingly. For example, if the primary goal is to examine the effect of neighborhood characteristics, vary the types of neighborhoods funded by trying to minimize variation in organizational capacity or project type.**
- Direct awards to CBOs that have not already demonstrated their success in raising funds. Larger CBOs tend to have established their ability to raise funds exclusive**

of the NDDP incentive. What may be needed are ways to further the development of smaller groups.

2) Restructure the NDDP as a Capacity-Building Grants Program.

The capacity of CBOs to successfully carry out projects remains a serious issue in the community-based sector. While many CBOs have become adept at neighborhood development, other smaller or weaker CBOs still need assistance to improve their development capability. This latter group of CBOs could benefit from the transfer of fundraising and other techniques from their more mature counterparts. By shifting the NDDP's focus to a program of technical assistance provision, the Congress could:

- **Build more capacity in the sector.** Availability of consulting assistance to CBOs nationwide would supplement project-based funding already provided through the CDBG program or grants soon to be made under the new HOPE, HOME, and Low Income Housing Preservation and Homeownership programs. However, the new programs provide for a substantial amount of technical assistance and training for non-profit organizations participating in the programs.
- **Target assistance to smaller CBOs that need it most.** Larger CBOs tend to be better staffed and have better institutional infrastructure than do smaller CBOs.
- **Focus assistance on priority areas.** For example, NDDP currently funds individual CBOs that directly benefit from the assistance. However, grants targeted to particular purposes or activities--for example, support for local consortia of CBOs--could contribute to the overall development of the sector.

3) Restructure the NDDP as a Production Grants Program.

Much of the gain to CBOs through the NDDP results from combining local fundraising with actual development projects. If the Congress were to consider moving away

from the demonstration aspect of the NDDP toward a more traditional production focus, it might wish to:

- Relax the neighborhood match requirement. Neighborhood sources of funds are not particularly productive, although they do help promote local commitment to a CBO's projects. If promoting local financial support is a goal, allow a match from non-neighborhood sources. If encouraging local participation is important, allow non-monetary demonstrations of commitment.
- Consider multi-year funding. Annual funding--common to many sources of support to the community-based sector--introduces a high degree of uncertainty into organizational budget and project planning.
- Target the program on national goals. The Congress or HUD could encourage involvement of CBOs in local development while focusing on national goals--for example, homeless assistance or drug elimination.

In redesigning the NDDP along these lines, it would be important to avoid duplicating other recently enacted Federal initiatives involving CBOs in housing and community development, such as the HOPE, HOME, and Low Income Housing Preservation and Homeownership programs.

4) Terminate the NDDP.

Primary reasons for terminating the NDDP include:

- The demonstration questions and issues have been evaluated twice, leaving little more to be learned.
- The housing and other development projects undertaken in the NDDP are neither unique nor innovative, and are common among CDBG programs.

- **The program is small and costly to administer.**
- **The NDDP has been superseded by the 1990 National Affordable Housing Act which accords CBOs major roles and funding in HOPE, HOME and the Low Income Housing Preservation and Homeownership programs.**

Chapter 1

Neighborhood Development Demonstration Program Objectives and Design

1.1 Legislative and Policy Background

Community-based organizations (CBOs) make an important contribution to the nation's ability to meet pressing community development needs. From the birth of Community Development Corporations in the 1960s, the number of local groups organized to meet neighborhood needs has increased dramatically. The importance of this sector is recognized in the creation and management of HUD programs. Local recipients of Community Development Block Grant program funds, for example, deliver many of their programs through nonprofit sub-grantees. The McKinney Act's Supportive Housing Demonstration Program is restricted to nonprofit applicants. The National Affordable Housing Act's HOME program sets aside a portion of funds for nonprofit development organizations.

Despite the availability of program funding from the public sector, CBOs nationwide rely heavily on private sector contributions to sustain development activities. The smallest organizations are particularly dependent on small contributions and volunteer support. Congress created the Neighborhood Development Demonstration Program (NDDP) to show whether a Federal matching grant program, targeted to CBOs, could spur them to broaden financial support within their neighborhoods.

Section 123 of the Housing and Urban-Rural Recovery Act of 1983 (Public Law 98-181) states:

"The Secretary shall carry out, in accordance with this section, a demonstration to determine the feasibility of supporting eligible neighborhood development activities by providing Federal matching funds to eligible neighborhood development organizations on the basis of the monetary support such organizations have received from individuals, businesses, and nonprofit or other organizations in their neighborhoods prior to receiving assistance under this section."

The Act sets eligibility criteria for CBO grantees and projects. Grantees must be private, voluntary, nonprofit corporations with not less than 51 percent of their respective boards of directors from their neighborhoods. They must demonstrate an aptitude for housing, community development, and other work by being in business for at least three years and by serving in an area that meets the requirements for Federal assistance as set out in Section 119 of the Housing and Community Development Act of 1974. (This was intended to ensure that funds went to neighborhoods in cities meeting the distress criteria of the Urban Development Action Grant Program.) The CBO grantee must also perform eligible activities whose primary beneficiaries are low- and moderate-income persons. The Act defines eligible activities as:

- Creating permanent jobs in the neighborhood;
- Establishing or expanding businesses within the neighborhood;
- Developing, rehabilitating, or managing neighborhood housing stock;
- Developing delivery mechanisms for essential services that have lasting benefit to the neighborhood; or
- Planning, promoting, or financing voluntary neighborhood improvement efforts.

NDDP is not primarily a production program. The objective of the program is to build organizational capacity among grant recipients, with a focus on increasing their private fund-raising capability. NDDP also has an analytic purpose. Each Notice of Funding Availability (NOFA) describes the evaluation objectives of the NDDP:

- To evaluate the degree to which new voluntary contributions and other private sector support can be generated and new activities can be undertaken at the neighborhood level through Federal incentive funding;
- To determine the correlation, if any, between the demographics of a neighborhood and the neighborhood organization's abilities to raise funds within the neighborhood boundaries;

- To determine the correlation, if any, between type of improvement activity undertaken and success of fund-raising efforts; and
- To determine the correlation, if any, between characteristics of the organization and success of fund-raising efforts.

In addition to addressing these Congressional objectives, the evaluation also analyzed broader issues of self-sufficiency and capacity-building among the recipients of NDDP funds. These issues include the effects of the NDDP on creating continuing sources of funding and contributing to neighborhood improvement, and the effects of NDDP requirements on organizational ability to raise funds and carry out projects.

To accomplish these analytic objectives, this study used file content analysis and survey research techniques to develop comprehensive information regarding all funded grantees and a subset of unfunded applicants. These data--consisting primarily of interviews with CBO executive directors, city officials, and information recorded from application documents--were combined with HUD financial records and U.S. Census data to permit exploring the analytic issues raised by the Congress and HUD.

1.2 NDDP Operations

The NDDP's grants are intended as "seed money." The maximum amount a recipient organization can receive in one year is \$50,000. By requiring grantees to raise matching funds within their neighborhoods, the Congress hopes to encourage creation of new sources of non-Federal support, encourage organizational sustainability, and build continuing capacity to implement community projects. In addition to the project funding, a portion of the annual allocation is used for technical assistance to grant recipients.

The NDDP is a competitive grants program. Staff in both HUD field offices and HUD headquarters must review applications, assign scores, and reconcile any differences between the scores. The NOFA published for each funding round specifies the factors for award in the grant process. Each of the two major components in application scoring--

Neighborhood Organizational Qualifications and Project Qualifications--consists of a series of indicators on which each organization is rated:

Organizational Qualifications (40 points)

- Degree of economic distress within the neighborhood (15 points);
- Extent of neighborhood participation in the proposed activities (5 points);
- Extent to which the governing body reflects the demographics of the neighborhood (5 points); and
- Record of demonstrated measurable achievements (15 points).

Project Qualifications (60 points)

- Extent of monetary contributions available that are to be matched with Federal Funds, supported by reasonable evidence that private funding sources within the neighborhood have been identified. (HUD will waive the scoring under this provision and assign full points in the case of an application submitted by a small eligible organization, an application involving activities in a very low-income neighborhood, or an application that is especially meritorious (5 points));
- Extent to which a strategy has been developed for achieving long-term private sector support (10 points);
- Extent to which the proposed activities will benefit persons of low- and moderate-income (15 points); and
- Quality of the management plan submitted for accomplishing one or more of the specified eligible activities (30 points).

The matching ratio of Federal dollars to local dollars depends on the level of neighborhood need. The Act requires that the "highest such ratios shall be established for neighborhoods having the smallest number of households or the greatest degree of economic

distress."⁵ The Department established a range of matching ratios from one to six Federal dollars to each local dollar contributed. Grant funds are disbursed quarterly based on grantee documentation that requisite local matching funds have been received.

1.3 NDDP Participants

NDDP Activity. The NDDP is a small program, with only \$7 million available for grants over the three funding rounds that occurred between 1984 and 1989. Because the NDDP is a competitive grant program, not all applicants can be awarded grants. Over the three rounds covered by this report, about 43 percent of all eligible applications received awards. The number of awards in the first two rounds was 44 and 41, respectively. (See Table 1.) The fact that 64 projects were funded in round 3 stemmed from the availability of combined Fiscal Year 1988 and 1989 appropriations of \$3 million.

Table 1
NDDP Applications and Grant Awards
in Rounds 1-3

	Number of Organizations in:		
	<u>Round 1</u>	<u>Round 2</u>	<u>Round 3</u>
Total Applications	281	118	99
Incomplete or Ineligible	111	21	17
Eligible Applications	170	97	82
Awards Made	44	41	64
Terminations	6	0	0
Total Projects	38	41	64

Source: Neighborhood Development Demonstration Annual Report, 1991, Table 1.

⁵Section 123(e)(4), Public Law 98-181.

NDDP Participating Organizations. Analytic questions raised in the NDDP's authorizing legislation distinguish among three sets of factors presumed to affect grantee performance in making progress toward self-sufficiency: (1) organizational characteristics, (2) project activities, and (3) neighborhood characteristics. This section describes the major organizational features of funded applicants: How old are the CBOs funded under the program? Who are their board members? How many staff do they employ? What kinds of projects do they undertake? How large are their budgets? In subsequent sections and chapters, these variables will be used to assess success (and failure) in meeting program goals.

Organizational Age. The NDDP's legislation and program rules explicitly recognize internal organizational characteristics as potential factors affecting program performance. The requirement that organizations must have been in existence for at least three years prior to grant application implicitly assumes that organizational age is linked to organizational capacity. Start-up or nascent CBOs are supposedly less likely to have the appropriate institutional infrastructure to successfully plan and implement projects of the scale funded by the NDDP.

Little is known about the age of neighborhood organizations nationally, although anecdotal evidence suggests an expansion in the number of such organizations in the last ten years as public sector funding cuts and new local needs (such as growth in the homeless

**Table 2
Organizational Age of NDDP-Funded Grantees**

<u>Age Category</u>	<u>Number</u>	<u>Percent</u>
3-4 Years	10	10.1%
5-6	19	19.2
7-8	16	16.2
9-10	12	12.1
10+ Years	42	42.4
Total	99	100.0%

N = 99/Missing = 14

Source: Grant File Content Analysis

population) have stimulated volunteerism. About 29 percent of NDDP funded organizations were incorporated 6 or less years prior to grant award. However, over 42 percent operated for more than a decade prior to their grant. (See Table 2.)

Board and Organizational Membership. The NDDP requires board membership to be comprised of at least 51 percent neighborhood residents or businesses that operate in the neighborhood. Board composition is an indicator of representativeness; boards having fewer than half their members from the neighborhood are less likely to have the community ties required to ensure that projects are consistent with neighborhood needs. Almost 80 percent of the CBOs have more than 60 percent of board membership consisting of residents. About one-quarter have boards that are almost wholly comprised of neighborhood residents. (See Table 3.)

Table 3
Resident Percentage of NDDP Grantee Boards

<u>Percentage Category</u>	<u>Frequency</u>	<u>Percent</u>
50-60%	21	20.6%
61-70%	23	22.5
71-80%	20	19.6
81-90%	12	11.8
91-100%	26	25.5
Total	102	100.0%

N = 102/Missing = 11

Source: Grant File Content Analysis

Grantee selection criteria reward grantees that have boards with more than 51 percent resident members, and those with business members. These may be important determinants of a CBO's ability to mobilize funds. For example, boards that are able to draw on a number of active participants crossing a range of skill categories ought to be able to tap funding sources not easily available to boards with narrower representation. In particular, neighborhood business people on the board should bring managerial skills to the organization,

and afford a conduit to the local business community. Over 80 percent of the CBOs funded in the NDDP have such business board representation. (See Table 4.)

Table 4
Business Representation on CBO Boards

Percent of Organizations with:

<u>Percent Category</u>	<u>Neighborhood Business</u>	<u>Non-Neighborhood Business</u>
None	16.4%	26.8%
1-20%	32.9	30.4
21-40	20.5	23.2
41-60	17.8	5.4
61-100	12.4	14.2
Total	100.0%	100.0%

N = 97/Missing = 16

Source: Grant File Content Analysis

Staffing and Revenues. The best summary indicators of organizational capacity are staff size and budget. Although technical and leadership skills of organizations having the same staffing levels and annual revenues can vary greatly, an organization able to sustain paid professional staff and maintain more than minimal annual expenditures is presumptively more capable of carrying out project activities than are those that cannot. Whether modest differences in staff size and revenue are very good predictors of fundraising success in the NDDP will be discussed in Chapter 2.

By most standards--among small for-profit businesses, for example--participating CBOs are small in terms of staff size. About half of the NDDP grantees have only one or two full-time professional staff members. (See Table 5.) This suggests that, for a large number of program participants, revenue generation must occupy a large portion of total available staff time. Even among CBOs, NDDP grantees are small. For example, the members of the Neighborhood Reinvestment Corporation's (NRC) NeighborWorks network,

consisting of local housing development corporations, average over 5 staff members per organization. Yet NRC officials believe that by national standards, their Network members are themselves among the nation's smaller CBOs.

Table 5
Number of Professional Staff in
NDDP-Funded Neighborhood Organizations

<u>Number of Staff</u>	<u>Number</u>	<u>Organizations:</u>	<u>Percent</u>
1	23		24.2%
2	25		26.3
3	21		22.1
4	14		14.7
5+	12		12.6
Total	95		100.0%

N = 95/Missing = 18

Source: Grant File Content Analysis

Table 6
Annual Revenues of NDDP Grantees

<u>Revenue Category</u>	<u>Number</u>	<u>Percent</u>
Less than \$50K	13	14.4%
\$50-99K	14	5.6
\$100-249K	26	28.9
\$250-499K	13	14.4
\$500-999K	12	13.3
\$1,000+	12	13.3
Total	90	100.0%

N = 90/Missing = 23

Source: Grant File Content Analysis

Similarly by small business standards, NDDP grantees on average do not generate large amounts of annual funding. As shown in Table 6, the first two categories of total revenue, which include organizations with less than \$100,000 in total funding, represent 30 percent of participating CBOs. For these grantees, the NDDP grant award amounts to at least half of their annual budget (not including the required match to be raised) assuming the maximum grant is received. In contrast, 27 percent of the CBOs generated over 10 times the NDDP maximum grant, or more than \$500,000.

1.4 Characteristics of NDDP Projects

NDDP legislation defines five categories of project activity eligible for funding under the program: (1) job creation, (2) business creation and expansion, (3) housing creation or management, (4) delivery of essential services, and (5) neighborhood improvement. Few activities of community-based organizations nationwide would fail to meet one of these statutorily-authorized purposes. Only those organizations that undertake activities with a city-wide or other supra-neighborhood focus would appear to be ineligible for NDDP funding. This section describes the projects NDDP grantees proposed for support through the program, including project purposes, project activities, and project funding. The next chapter will examine project performance, including an assessment of project effects on sponsor ability to raise funds in the program.

Housing creation or renewal is the single most frequent project type funded under the NDDP, although all eligible project activities are represented to some degree. As shown in Table 7, an estimated 45 percent of funded projects have a primary housing purpose. The other projects are roughly evenly distributed among the remaining project types. (Job creation and business expansion categories have been collapsed into "economic development" for want of a clear distinction between them.) Essential services projects, such as those related to health and education, comprise 17.5 percent of the total, economic development about 15 percent, neighborhood improvement projects about 13 percent, and mixed projects not including housing the remaining 10.5 percent.

**Table 7
Purposes of NDDP-funded Projects**

<u>NDDP Project Category</u>	<u>Number</u>	<u>Percent</u>
Housing	64	44.8%
Essential Services	25	17.5
Economic Development	21	14.7
Neighborhood Improvement	18	12.6
Mixed Purpose	15	10.5
Total	143	100.0%

N = 143 projects

Source: Grant File Content Analysis

Most often, NDDP grantees undertook bricks-and-mortar projects. As shown in Table 8, acquisition, construction, or rehabilitation activities totaled 46 percent of all projects funded. Because to finance projects undertaken by others typically involves skills similar to those demanded by bricks-and-mortar efforts--for example, reviewing budget submissions, monitoring subrecipients--these activities might also be considered "hard" activities. Together, these two categories of projects account for about 55 percent of all projects. Pure service delivery projects account for 31 percent of the total, and combination projects (consisting of both hard and soft project activities) account for the remaining 15 percent.

**Table 8
Project Activities Undertaken by NDDP Grantees**

<u>NDDP Project Activity Category</u>	<u>Number</u>	<u>Percent</u>
Acquisition/Construction	65	45.5%
Finance	13	9.1
Service Delivery	44	30.8
Combination	21	14.7
Total	143	100.0%

N = 143 projects

Source: Grant File Content Analysis

The average amount of NDDP funds awarded differs little across types of projects or activities, and this is also true regarding the average amount of the required local match. However, median total project cost (including funds from non-program sources) is highest for economic development projects, and lowest for service projects. (See Table 9.) This spread is consistent with the relative emphasis placed on funds leveraging in the two project categories. The reason for using the median figure for total project cost is worth noting. Some NDDP-funded projects are large by any community development standard. For example, the top five housing projects ranged in total cost from \$1.97 million to \$3.95 million; one economic development project totaled over \$10 million. Table 10 presents comparable data for project activities.

Table 9
Project Financing by Purpose

<u>NDDP Project Purpose Category</u>	<u>Average Grant</u>	<u>Average Match</u>	<u>Median Total Project Cost</u>
Housing	\$44,709	\$21,900	\$100,000
Essential Services	45,874	23,248	88,395
Neighborhood Improvement	41,603	26,321	100,000
Economic Development	47,603	29,504	150,000
Mixed Purpose	45,637	21,425	92,500
All Purposes	\$45,044	\$23,759	\$95,000

N = 143

Source: Grant File Content Analysis and HUD Financial Management Data

Table 10
Project Financing by Activity

<u>Activity Category</u>	<u>Average Grant</u>	<u>Average Match</u>	<u>Median Total Project Cost</u>
Acquisition/Construction/Finance	\$45,894	\$23,872	\$100,000
Service Delivery	44,691	25,625	100,000
Combination	41,875	18,072	71,000
All Activities	\$45,044	\$23,759	\$95,000

N = 143

Source: Grant File Content Analysis and HUD Financial Management Data

1.5 Characteristics of NDDP Neighborhoods

The concept of neighborhood is essential to the definition of CBOs, and central to the NDDP. The NDDP legislation recognizes neighborhood characteristics in three ways: (1) the majority of the CBO's governing board must be from the neighborhood as defined by the CBO; (2) the matching ratio depends in part on the severity of neighborhood problems; and (3) the match share must be raised within the neighborhood. Furthermore, one of the NDDP's analytic objectives is to examine the effect of neighborhood on a CBO's ability to raise its required match. This section describes the NDDP neighborhoods.

Table 11 presents 1980 census data for NDDP neighborhoods. In addition to the median value, values for the first and third quartiles for each variable are shown. All quartiles are defined in terms of ascending values, which for the economic variables, are in order of increasing distress. For example, the second row of the table shows that the median unemployment in the NDDP neighborhoods was 11.1 percent; however, 25 percent of the neighborhoods had less than 8.6 percent unemployment, and 25 percent had more than 13.4 percent unemployment.

Table 11
Demographic, Social and Income Characteristics of NDDP Neighborhoods (1980)

<u>Characteristic</u>	<u>First Quartile</u>	<u>Median</u>	<u>Third Quartile</u>	<u>Central City Median</u>
Population	5,677	12,158	26,466	N/A
Persons Unemployed	8.6%	11.1%	13.4%	7.3%
AFDC Families	14.3	19.4	26.9	11.8
Households				
Earning <\$15K	26.5	35.4	43.2	38.6
Persons in Poverty	22.4	27.2	37.6	16.5
Total Minority	26.6	44.8	71.2	24.5
Hispanic	1.9	7.8	20.0	10.6
Persons under 18 Yrs.	17.8	22.1	27.1	30.3
Persons over 65	17.5	20.2	25.1	11.9
Female Headed				
Households	8.8	14.3	18.5	21.0

N = 92/Missing = 21
 Source: 1980 Census

The NDDP neighborhoods are clearly distressed, based upon their economic conditions in 1980. At the median, almost 20 percent of the population received AFDC, 27 percent of households were below the poverty level, and over 11 percent were unemployed. Even the economically strongest of the NDDP neighborhoods--those at the first quartile cutoff--were worse off than the 1980 national medians for central cities.

Neighborhoods in which the NDDP organizations operate generally became more distressed between 1970 and 1980. In terms of population change alone, one summary indicator of neighborhood health, half of the NDDP neighborhoods lost 16.4 percent or more of their population over the decade and more than 25 percent lost over one-fourth of their residents. (See Table 12.) Further, nominal income growth over the ten years was almost nil for the median neighborhood, a 6.4 percent increase over the entire period. This represents a decline in real household buying power over the period.

Table 12
Demographic, Social, and Income
in NDDP Neighborhoods (1970-1980)

<u>Characteristic</u>	<u>First Quartile</u>	<u>Median</u>	<u>Third Quartile</u>
Pct. Change 1970-80 in:			
Population	-4.4	-16.4	-24.7
Average Income (nominal)	23.6	6.4	-21.5
Increase in Percentage:			
on AFDC	2.5	6.9	10.4
Minority	1.3	7.7	16.9
in Poverty	1.0	4.6	8.9

Source: 1970 and 1980 Censuses



Chapter 2 NDDP Program Outcomes

2.1 Fundraising and Matching Funds Performance

The core requirement of the NDDP is that each grantee, as a condition of grant receipt, raise matching funds from within neighborhood boundaries that they define. How well did grantees fare in meeting their funding goals? What characteristics of organizations, projects, or neighborhoods appear tied to the ability of grantees to raise the required match? This section assesses grantee performance in fundraising.

Raising the Targeted Match. The centerpiece of the NDDP is a modified challenge grant concept--to receive the maximum Federal grant funds, CBOs must raise matching funds from the neighborhood in amounts stipulated by the matching funds ratio. However, it is not a pure challenge grant, which would require that the full match be raised in order for an organization to receive any Federal funds. Rather, the Federal dollars disbursed are tied to the amount of local match raised in any quarter. Even if an organization fails to raise the full match, it can receive Federal funds proportionate to the share of the planned match actually raised.

Thus, even if CBOs fail to raise the full match goal, failure is not absolute--some Federal funds are received, even if only small local amounts are raised. Nevertheless, grantees incur real costs if they do not fully meet their fundraising target. At typical program ratios of 4:1 or 5:1 Federal-to-local dollars, each dollar a CBO does not raise costs it four or five dollars in anticipated revenue. The program has two minimum performance benchmarks: (1) did a CBO raise the full amount of local match, thereby entitling it to the full Federal grant amount, and (2) if a CBO did not receive the full amount, what percentage of the match share did it raise?

The fundraising performance of funded CBOs in the first three rounds of the NDDP is summarized in Table 13. Overall, two-thirds of participating CBOs met or exceeded their local fundraising targets, while an additional eight percent raised between 90 and 99 percent of their targets. These percentages do not change appreciably across funding rounds, although first round (1984) grantees were somewhat more likely to achieve their local match goals than

were CBOs funded in subsequent rounds. Moreover, first round grantees also were more likely to have raised at least 90 percent of their target if they did not manage to raise the full amount.

Overall, does this level of program performance indicate success? There are no comparable programs or program benchmarks that would allow a test of whether the NDDP degree of success or failure is better or worse than expected given the stated purposes of the program and the types of grantees funded.

Table 13
Matching Funds Performance by Funding Round

<u>Percent Raised</u>	Funding Round:							
	<u>1984</u>		<u>1987</u>		<u>1988/89</u>		<u>Total</u>	
	<u>N</u>	<u>Pct</u>	<u>N</u>	<u>Pct</u>	<u>N</u>	<u>Pct</u>	<u>N</u>	<u>Pct</u>
100%+	27	71%	27	66%	40	63%	94	66%
90-99	5	13	3	7	3	11	11	8
50-89	4	11	5	12	10	16	19	13
<50	2	5	6	14	11	17	19	13
Total	38	100%	41	100%	64	100%	143	100%

Note: Table does not include terminated projects.

N = 143

Source: HUD Financial Management Data

What of the 26 percent of grantees that failed to reach even 90 percent of their funding goal? Assuming the maximum grant and a program match ratio of 6:1, applicable to CBOs in the most distressed neighborhoods, a grantee raising three quarters of its match has succeeded in generating \$7,500 in neighborhood funds, but has failed to raise the remaining \$2,500. This failure has cost it \$15,000 in promised Federal aid.

The NDDP does not require that all organizations raise the same amount of local funds, and one would expect that, all things equal, CBOs should find it more difficult to raise funds the higher their fundraising target. This was, indeed, the case. The average required

match in the first three NDDP rounds was \$23,648 and, on average, organizations raised 85 percent of their match. But as the amount of the match increased, the percentage of funds raised declined. Twenty-one percent of the variance among grantees in the percent of funds raised is explainable by variation in the amount to be raised (i.e., there was an R^2 of .21 between percentage raised and amount to be raised, significant at the .01 level).

One factor complicating the relationship between match amounts and percentage of match raised is the prior availability of matching funds. (Projects are awarded selection points based on prior identification of neighborhood funding sources.) Funds already committed to a project and which qualify as neighborhood sources reduce the amount of match to be raised. Indeed, over half of all second and third round NDDP projects had neighborhood funds already committed. As Table 14 shows, such commitment increased the

Table 14
Matching Funds Performance by Prior Commitment

	Funds Previously Committed:	
	<u>Yes</u>	<u>No</u>
Raised Match		
Yes	76.1%	58.3%
No	23.9	41.7
	(Significance = .086)	
Raised Before Final Quarter		
Yes	45.7%	28.6%
No	54.3	71.4
	(Significance = .037)	

N = 143 projects

Source: HUD Financial Management Data and Grantee Telephone Survey

likelihood that a CBO would raise its share, and allowed it to raise funds more quickly than could CBOs without such commitments. Seventy-six percent of projects with prior commitments of funds raised the match, compared to 58 percent of those projects without prior commitments. Forty-six percent of those with prior commitments raised the match before the fourth quarter of the fiscal year, compared to 29 percent of the projects without

prior commitments. It is worth noting that the presence of funding prior to award enormously complicates the NDDP's analytic objectives; in effect, not all grantees must pass the same fundraising test. (This will be discussed further in Chapter 3.)

Fundraising Sources and Techniques. Every CBO that relies on more than volunteer support to carry out community development or neighborhood improvement activities must raise funds. Indeed, the search for sources of operating and project funding is a major, if not the dominant, preoccupation of CBO executive directors. Borrowing from concepts used to assess public sector revenue generating efforts, funding sources can be evaluated for their productivity and their efficiency: (1) how much revenue can be generated from a particular source, and (2) how much effort is required to obtain funds in relation to the amounts raised? This section examines the productivity and efficiency of the fundraising efforts used by NDDP grantees to raise their required match.

The first program evaluation of the NDDP, conducted by the Pratt Institute, collected and analyzed information on fundraising methods, broadly grouped into five categories: (1) business solicitation, (2) individual canvassing, (3) special events, such as dinners and festivals, (4) proposals to nonprofit institutions, and (5) fees for services. The first round of CBOs varied in their reliance on these techniques but nearly all used more than one method to generate their neighborhood match. While not all of these methods proved equally productive for any given CBO, a CBO's reliance on one or another funding source was unrelated to its success in raising matching funds. In retrospect, one would not expect to find such a relationship unless a host of organizational, neighborhood, and policy variables were controlled for; most importantly, the fundraising skills of a CBO's board or staff, skills that are very difficult to measure.

Nevertheless, on average, some funding sources are more productive or more efficient than are others. In particular, organizations can generate higher revenues overall, as well as per individual funding source, from business solicitation and nonprofit institutions than from individuals. This is not a particularly startling finding. Moreover, this finding does not imply that organizations, and in particular CBOs, should ignore individual contributions as a source of support. Indeed, membership and resident solicitation are important avenues of community building quite apart from the revenues generated.

Table 15 shows, for a subset of NDDP-funded grantees, the number of contributors per source and the amounts raised per contributor. While average contributions from nonprofit and business sources are substantially higher than those from individuals, the number of contributions from individuals is much larger. Because extreme values for a few organizations distort the averages, Table 15 also displays median grantee values for number of contributors and amounts contributed. At the median, average contributions received by grantees were \$112 from individuals, \$736 from businesses, and \$1,945 from nonprofit sources. This means that half of the CBO grantees received larger average contributions from these sources while half received smaller contributions. Also at the median, the number of contributors to a grantee was 30 individuals, 8 businesses, and 3 nonprofits. These data show that revenue generation from nonprofits and businesses tends to be more productive than from individuals. Moreover, the large median and average size of contributions from individuals (\$112 and \$359, respectively) suggests that most of the individual contributors are not low-income residents.

Table 15
Productivity of Fundraising Sources

<u>Funding Source</u>	<u>Median NDDP Grantee</u>	<u>Average All Grantees</u>
Individuals		
Average Contribution	\$112	\$359
Number of Contributors	30	58
Businesses		
Average Contribution	\$736	\$3,009
Number of Contributors	8	15
Nonprofits		
Average Contribution	\$1,945	\$4,557
Number of Contributors	3	6

Note: N = 98 projects/71% of all projects/84% of Round 2&3 projects
Source: Grant File Content Analysis and Grantee Telephone Survey

Grantees that relied on more productive sources and generated funds more efficiently should have been more likely to raise their match than those that did not. Indeed, figures in Table 16 show that NDDP grantees that succeeded in raising their match had larger average contributions, but fewer contributors, than did unsuccessful grantees.

Table 16
Fundraising Sources and Match Performance

<u>Funding Characteristic</u>	<u>Match Performance:</u>	
	<u>Raised Match</u>	<u>Did Not Raise Match</u>
Individuals		
Average Contribution	\$448	\$131
Number of Contributors	50	76
Business		
Average Contribution	\$3,660	\$1,589
Number of Contributors	14	22
Nonprofit		
Average Contribution	\$5,229	\$3,213
Number of Contributors	4	6

Note: N = 98 projects/71% of all projects/84% of Round 2&3 projects

Source: Grant File Content Analysis and Grantee Telephone Survey

These figures should be viewed as instructive, not conclusive. How much organizational effort is required to generate larger amounts per contribution from a small number of nonprofit funders compared to smaller amounts from a large number of individual contributors? Whereas four proposals may be needed to generate a single nonprofit grant, a single raffle can generate funds from a hundred individuals. Data on net contributions are not available to this analysis because they are extremely difficult to obtain. As a substitute for data on net contributions, this study asked CBO executive directors to identify which sources,

if any, were either particularly rewarding or unrewarding in terms of the effort required to obtain funds from each. To some degree, their responses confirm the evidence presented in Table 16. Nevertheless, and highlighting the importance of organizational skill in using particular techniques, and possibly neighborhood characteristics, many of the same techniques identified as particularly rewarding by some were cited as particularly unrewarding by others.

While executive directors of funded CBOs in the second and third funding rounds often cited special events and neighborhood resident solicitation as particularly rewarding fundraising techniques, almost all executive directors who cited unrewarding techniques cited these same kinds of activity. What this suggests is high down-side risk with community-based appeals. While they can be productive sources of revenue, they are far more likely to be unprofitable than are person-to-person appeals to businesses or proposals to foundations. Roughly a third of the executive directors who expressed an opinion on this issue cited business contacts and nonprofit sources as particularly productive. Only one executive director cited these same sources as unrewarding. These results are consistent with the Pratt Institute's earlier findings for first round organizations: half cited business solicitation as an important fundraising source and roughly 40 percent cited nonprofit proposals and special events as important sources.

Organizational Characteristics and Fundraising Performance. CBOs funded under the NDDP are characterized by a diversity of organizational structure, size, and project focus. The preceding analysis suggests that a significant portion of the variation in success rates in raising the local match is unexplained by the size of the local match and the particular techniques used to generate matching funds. Are organizational characteristics associated with successful matching funds performance? This section assesses this potential relationship.

Discussion in Chapter 1 focused on two basic structural characteristics--board size and composition, and organizational size. The importance of an organization's board in setting general policy, contributing specialized skills, and assisting in fundraising efforts has been recognized in the general literature about performance of neighborhood organizations. This analysis examined whether board size or composition was related to CBO success in raising the local match, testing whether higher success rates were linked to: (1) larger boards, (2) boards with higher percentage of neighborhood residents (above the required 50 percent for

establishing eligibility), and (3) boards with higher percentages of business members. Larger boards are expected to contribute to fundraising success due to their potentially deeper pool of talent and more extensive network of contacts. Boards with higher percentages of neighborhood residents should ease efforts to raise funds within the neighborhood, while those with higher percentages of business people should possess financial skills and access to productive revenue sources.

The size of CBO boards was found to be significantly related to fundraising success.⁶ Other characteristics showed no such relationship. Table 17 shows the effect of board size on success rates in raising the local match: 50 percent of organizations having fewer than 10 board members met their fundraising, compared with 83 percent of organizations having more than 20 members.

Table 17
Board Size and Fundraising Performance

<u>Board Size</u> <u>Category</u>	<u>Raised Match</u>	
	<u>Number</u>	<u>Percent</u>
<10	21	50%
11-15	42	67
16-20	12	80
20+	19	83
Total	94	

N = 94/Missing = 19

Source: Grant File Content Analysis and Financial Management Data

A similar relationship, though weak, was detected for board size in relation to the percentage of the match raised. A correlation between ungrouped board size and percent of match raised produced a coefficient of .19 (significant at the .023 level). Correlations

⁶Significant at the .031 level.

between percent of residents on the board or percent of business people on the board and the percentage of matching funds raised were found to be insignificant.

In addition to organizational structure, organizational staff size should affect a grantee's ability to raise its targeted match. Hypothetically, CBO's with more staff should be able to devote more time, on average, to fundraising tasks than should CBOs with fewer staff, though CBOs with fewer staff also may have a smaller project-related workload. More likely, CBOs with higher total revenues should be better able to generate their local match for a variety of reasons: they are more likely to have a reliable funding base, including neighborhood sources, and they have a demonstrated track record which makes it easier to raise funds on the strength of organizational performance.

Table 18
Matching Funds Performance and
Total Prior Year Revenue

<u>Revenue Category</u>	<u>Raised Match</u>	
	<u>Number</u>	<u>Percent</u>
Less than \$50K	5	38.5%
\$50-99K	10	62.5
\$100-249K	20	71.3
\$250-499K	19	86.4
500 or more	18	66.7
Total	72	

N = 72/Missing = 41

Significance = .058

Source: Financial Management Data and Grant File Analysis

Crosstabular analysis shows that total revenues predict fundraising performance while total staff size does not. Table 18 shows that, while CBOs in the smallest revenue category (those under \$50,000 in previous year revenue, i.e., less than the maximum NDDP grant) successfully met their local match target only 39 percent of the time. Larger CBOs (for example, those with total revenues between \$250,000 and \$500,000) succeeded 86 percent of the time. Note, however, that the largest organizations--revenues over \$500,000--were less

successful than were some smaller organizations. Overall, this relationship between revenue and matching funds performance is significant only under a slightly relaxed test of significance (.058 v. .05 in the table below). It is worth noting that correlation analysis of the relationship between ungrouped total revenue and percentage of matching funds raised did not produce a significant result; that is, while success or failure is tied to budget size, degree of failure is not.

About half the executive directors interviewed believed particular features of their organizations made fundraising easier for them than for other CBOs, and most frequently, they mentioned track record as a key feature. In some respects, this result is consistent with the previously observed correspondence between revenues and match performance. Although it would be unwise to posit too tight a link between budget size and ease of fundraising, certainly there is a presumption among many prospective funders that larger organizations (which tend to be older as well) can more effectively use contributed funds simply because they have managed to establish continuing programs. In addition to track record, executive directors offered responses in two other categories, visibility of the organization as a bricks-and-mortar developer and community ties. Those who indicated features of their CBOs that made it difficult to raise funds--about 40 percent of those interviewed--cited features that by and large were idiosyncratic to their own CBO or special circumstances: internal turmoil, local policy conflict, or characteristics tied to the projects undertaken.

Project Characteristics and Fundraising Performance. Are some projects easier to raise funds for than others? The NDDP legislation poses this analytic question as a NDDP objective. Some executive directors contend that some bricks-and-mortar projects are easier to raise funds for--deteriorated housing or commercial structures are visible blights for which contributed funds can make a lasting visible difference. Others point to social service needs that episodically attract public attention and public contributions--homelessness is a recent example. This section discusses whether matching funds performance is better for some types of projects or activities than for others.

Overall, no statistically significant relationship appears to exist between types of projects and performance in raising the local match. Table 19 presents the percentage of projects raising the targeted match and the percentage of match funds raised, on average, for each purpose category. Overall, 66 percent of all projects raised the full match. Some 80 percent of services projects met their funding goal, and the average project raised 93 percent

of the planned neighborhood contribution. Between 62 and 67 percent of projects in the other categories raised the full match. Economic development projects were slightly less successful than housing and neighborhood improvement projects.

Table 19
Project Purposes and Fundraising Performance

<u>Project Purpose</u>	<u>Pct. Raising Match</u>	<u>Avg. Pct. of Match Raised</u>
Housing	64.1%	86.3%
Essential Services	80.0	93.0
Economic Development	61.9	80.3
Neighborhood Improvement	66.7	85.9
Total	65.7%	85.4%

N = 95/Missing = 18

Source: Grant File Content Analysis and Financial Management Data

Just over half of all executive directors regarded some feature of their project as conducive to community fundraising, and almost all reported that project visibility--e.g., a prominent commercial building or a neighborhood beautification effort--was important. The relation between project visibility and fundraising success was not, however, statistically significant.

Neighborhood Characteristics and Fundraising Performance. Does a CBO face poor prospects for raising funds from its own neighborhood if it works in a poor neighborhood? A number of considerations suggest that the answer may be "yes." First, low resident incomes mean fewer discretionary dollars available to make contributions. Second, poor neighborhoods are generally thought to be less well-served by commercial and business establishments operating at the margin of profitability. Third, because poorer neighborhoods rely more heavily on nonprofit charitable and religious institutions to provide services than do better-off neighborhoods, competition for limited contributions is high.



Table 20
Neighborhood Characteristics and Match Performance
 (Category Means)

<u>Neighborhood Characteristic</u>	Organization:	
	<u>Raised Match</u>	<u>Did Not Raise Match</u>
Population	19,424	16,749
Unemployment	11.7%	11.1%
AFDC Families	20.9	20.6
Poverty Population	30.2	29.8
Minority Population	49.6	54.3
Female-headed HHS	14.3	14.2
Income Change '70-80	1.2%	6.4%
Female-head Change	-1.7	-1.2

Source: Financial Management Data and 1970,1980 Censuses

Neighborhoods defined by NDDP grantees contain, for the most part, higher percentages of persons in poverty, on AFDC, and unemployed than do central cities generally. Nevertheless, as indicated by the figures in Table 11 in Chapter 1, NDDP neighborhoods vary substantially in degree of distress, permitting comparisons of organizational performance under varying degrees of distress.

No apparent relationship exists between neighborhood characteristics as defined by the 1980 Census and a CBO's performance in raising the required match by the end of the NDDP grant period. Table 20 presents the means for selected neighborhood characteristics by whether or not the match was raised. (A t-test for each pair showed no comparison to be statistically significant.)

Similar results were obtained from an analysis of the difference of means between grouped percentages of funds raised. In other words, degree of failure in raising the targeted match was not at all dependent, statistically, on neighborhood characteristics. On average,

organizations that raised less than 50 percent of their match did not face significantly more adverse neighborhood environments than those that raised their target amount.

Combining individual distress factors into a single distress scale did not improve their ability to predict or explain fundraising success. Two scales were constructed for this analysis: (1) a distress scale consisting of the summed z-scores of poverty percentage, female-headed households, AFDC recipients, and population (reverse sign) and (2) a distress change scale consisting of the 1970-80 change on these same variables.

Summary scales of neighborhood distress and change in neighborhood distress do not predict CBO performance in raising the neighborhood match any better than individual distress indicators taken in isolation. A t-test of differences across the means of each category of match (yes or no) and the percent of match raised showed no significant statistical differences between any of the paired categories. Nor did a correlation analysis between the percentage of match raised and either of the two distress scales yield meaningful coefficients.

This seems counterintuitive. Either the initial assumptions about resource pools in low-income neighborhoods should be revised or the preceding analysis is flawed. A case can be made for either. First, analysis of organizational variables conducted in a preceding section suggests that organizational characteristics dominate fundraising success.

Appropriately structured, staffed, or led CBOs can raise neighborhood funds in the poorest neighborhoods; weak CBOs in strong neighborhoods will fail to raise the required funds. Second, even under the most stringent matching ratio, the amount of funds to be raised in the NDDP is small in relation to the available pool even in the poorest neighborhoods. Third, the structure of the NDDP may defeat at least this one analytic purpose because CBOs in different neighborhoods are not subjected to the same fundraising test: The amount of funds to be raised is inverse to neighborhood distress, so that grantees in highly distressed neighborhoods are given an easier target. Finally, aggregate census data do not convey a complete picture of the funding resources available in a neighborhood--number, profitability, or social commitment of local business, for example.

2.2 Progress Toward Self-Sufficiency

The NDDP establishes a single quantitative criterion for program success: Did the grantee raise the desired match within the neighborhood? In light of the NDDP's broader purposes--to encourage CBOs to progress toward self-sufficiency--this criterion is limiting on at least two counts. A CBO may have raised its local match, perhaps quite easily, but may have made little progress toward establishing new funding sources or making more productive use of existing sources. Conversely, a CBO may have failed to raise the required match, but nonetheless have tapped new and continuing funding sources. This section assesses grantee performance in light of these broader criteria.

Quantitative data presented in this section are distilled from a comprehensive survey of executive directors of CBOs funded in the second and third rounds of the NDDP. Most of the questions were closed-ended--that is, they forced yes/no or other specific responses--but were followed by open-ended questions to elicit qualitative assessments of particular program features. Because most analytic issues dealt with short-term institutional responses to NDDP participation, only second and third round directors were surveyed in this manner. First round executive directors were asked about longer-term effects through open-ended questions. In addition, for comparison purposes, a sample of executive directors from unfunded first round organizations were asked about their organizations' experience since denial of funding.

Sources of Funding and the Matching Grant Concept. The primary broad objective of the NDDP is to assist organizations in establishing new funding sources. Two program mechanisms were intended to encourage development of new sources: (1) the challenge grant feature and (2) the neighborhood match requirement.

The challenge grant concept assumes that, if Federal funds can be disbursed only upon receipt of the local match, the funding mechanism establishes a clear tie between each individual's contributions and broader organizational funding, a tie that is not established by appeals based on organizational need alone. That this challenge induces additional contributions is a now-established principle of corporate giving, as any viewer of public television fundraising efforts suspects.

Executive directors in the NDDP overwhelmingly report relying on the challenge grant feature of the program and believe that it was effective in generating new sources of support

or spurring additional contributions from existing sources. Fully 90 percent of the executive directors invoked the program's grant match feature in their fundraising appeals; 70 percent believed that, as a result of the match, new sources were prompted to contribute funds; almost three quarters believed that more funds were contributed by existing sources than would have been true without the challenge grant approach. Asked to volunteer reasons for success of the appeal, executive directors most often cited the desire of individuals and business donors to see their contributions leveraged. The potential loss of Federal support if contributed funds fall short adds urgency to a CBO's appeal. However, some executive directors noted that potential donors saw Federal involvement *per se* as conferring legitimacy on a CBO's efforts. This suggests that, in some cases at least, the challenge grant alone did not induce new giving; the source of funding was important quite apart from the funding mechanism.

It is worth noting that most NDDP grant recipients had not previously had experience with challenge grants. Only about a third of the executive directors surveyed reported that they received funds from other sources that contained a challenge grant feature, among them the local United Way, community foundations, and the Local Initiatives Support Corporation.

Funding Sources and the Neighborhood Match. The requirement that grantees raise funds from within their neighborhoods is without question the most contentious issue in this program. Most grantees recognize the appropriateness, and utility, of using Federal funds to leverage private and nonprofit sector contributions through the challenge grant. However, NDDP grantees appear to be almost evenly split on the general appropriateness of the neighborhood boundary requirement.

Even though the neighborhood match requirement is resented by over half the grantees surveyed, three quarters believe they raise more from their own neighborhood because of the neighborhood match than they would had there been no area fundraising requirement. (However, very few organizations were able to report or document what level of additional funding this represented.) Much more often than not, grantees had a prior, non-monetary, link with these new sources; almost three-quarters of those who developed new sources claimed such a tie. However, just fewer than half of the surveyed grantees claimed to have developed new, continuing, sources. According to executive directors who did develop new sources but did not expect to tap them again, the decision not to continue a funding

sources but did not expect to tap them again, the decision not to continue a funding relationship was as often the grantee's (i.e., deeming it an unproductive source) as it was the funder's.

Overall, 75 percent of executive directors believe there are real advantages to tapping neighborhood funding sources. However, none of the reasons offered for neighborhood fundraising efforts included the locality as a productive source of funds. Rather, executive directors cited: pride of participation in community projects; a deepening of commitment to local organizations; and strengthening the legitimacy of organizational goals.

While executive directors generally affirmed the benefits of neighborhood fundraising, the issue of whether or not a continuing program should formalize such a requirement is debatable. Asked to choose between which belief came closest to their own position--that the required neighborhood match "encouraged self-reliance" or "placed unfair limits" on fundraising--54 percent chose "unfair limits." Nearly every response explaining that answer cited neighborhood poverty and the unrealistic expectation that productive fundraising could be accomplished in that environment. Nevertheless, CBOs did succeed in raising their match regardless of neighborhood poverty, as shown in the preceding chapter, although there is no way of determining with any confidence the degree of difficulty these efforts encountered.

Those executive directors who agreed that neighborhood fundraising requirements encourage self-reliance did so largely for the general reason noted above, namely, that fundraising efforts with a neighborhood thrust strengthen community ties. In addition, more than a few executive directors regarded a CBO's ability to raise local funds as a clear sign of neighborhood commitment to the CBO. Important in its own right, demonstration of local support is a signal to external funders, including to the local public sector, that a CBO requesting funds has a legitimate claim to represent community interests.

Net Program Effects on New Source Development. The NDDP is not structured to be last-resort financing. As noted above, more than half of all projects were at least partially funded prior to CBOs' applying for NDDP grants. Consistent with this finding, executive directors also reported that they would have proceeded with their projects even without benefit of the NDDP award. These findings are consistent with those based on the experience

of unfunded applicants; fewer than 20 percent of those turned down for NDDP funding abandoned the projects they proposed, although many were delayed or downsized.

Of those funded projects that would have gone forward in some form or another (usually at reduced levels) had they not been awarded NDDP funds, fully 63 percent reportedly would have been funded from the same general sources as qualified for matching funds under the program. Nevertheless, grantees that participated in the NDDP did develop new sources, and a significant portion of those doing so specifically attributed this result to the challenge feature or the neighborhood match requirement. Is their experience different from what would be expected in raising funds for any other community development project?

In terms of general funding sources, virtually every unfunded applicant and first round grantee has shifted funding sources to some degree over the last five years. New funders become active in community-based investments, while old funding sources are exhausted or shift their funding priorities. By and large, the net result of these changes has been positive. Particularly encouraging among unfunded applicants are reports of increased participation in tax credit projects and new funding from local foundations, despite frequent mentions of declines in CDBG-funded projects. Moreover, almost 80 percent of unfunded applicants claimed to make special efforts to raise neighborhood funds. Again, as with assessments by funded grantees, unfunded applicants believe community fundraising is important as a vehicle for community building and community support. Few regard the neighborhood as a productive source of sustainable revenue.

2.3 Project Effects on Sponsoring CBOs and Neighborhoods

The preceding sections documented fundraising performances and effects on progress toward self-sufficiency of NDDP participation. Although these are primary legislative purposes of the NDDP, the process of project implementation can produce other benefits as well, for example, accumulated experience in project management or additional organizational activities. Moreover, the NDDP projects directly assist households or businesses and, in turn, some of this assistance produces broader neighborhood effects as well. This section discusses some of these other effects, taking first the organizational responses to project participation and, second, the process and outcomes of the projects themselves.

some of these other effects, taking first the organizational responses to project participation and, second, the process and outcomes of the projects themselves.

Organizational Effects. There are a number of dimensions on which CBOs can register self-sufficiency gains which are unrelated to new funding ties. Project participation can support staff capacity through new hires, staff retention, or skills gained during project implementation. The need to raise funds and implement projects can help CBOs to mobilize volunteers, recruit members, and heighten board involvement in organizational activities.

Not surprisingly, NDDP projects are no different from most other community development projects in spurring organizational change. Executive directors were asked a battery of questions to identify organizational responses to program participation. Three areas stand out as areas of organizational improvement: (1) gains in staff skills, (2) mobilizing unskilled volunteers, and (3) increased board involvement. As shown in Table 21, almost

Table 21
Summary of Organizational Responses Attributed to
NDDP Participation

<u>Response Category</u>	<u>Percent of Yes Responses</u>
Added Staff	31%
Continued Staff Slots	37
Signalled Needed Change in Staff Mix	28
Gain in Special Skills	73
Mobilized Skilled Volunteers	35
Mobilized Unskilled Volunteers	62
Added Board Involvement	65

N= 61

Source: Grantee Telephone Survey

three-quarters of the executive directors surveyed pointed to gains in staff skill as a result of NDDP project involvement. Given the overall fundraising focus of the NDDP, it is encouraging that about 40 percent of directors cited increased fundraising skills as an area of strengthened staff capacity. A roughly equal percentage of directors cited increased skills in:

budget management, bookkeeping, Federal grants compliance, and board relationships--organizational infrastructure. The remaining Directors mentioned project-based skills. In addition to building staff capacity, NDDP participation encouraged mobilizing unskilled volunteers and increased board involvement. Again, these responses were largely due to the fundraising focus of the program--unskilled volunteers were needed to participate in community fundraising, and board members were called upon to solicit contributions.

Project Process and Outcomes. Consistent with the finding that about two-thirds of grantees met or exceeded their planned match, a similar share met or exceeded the project output targets they set for themselves. About one-third of grantees did not raise their required match, and an equivalent percentage did not achieve the planned project outputs. Overwhelmingly, projects recording shortfalls were tied to housing rehabilitation activities. This finding is unsurprising. Even projects expending full planned funding can meet unanticipated rehabilitation costs. On average, the shortfall totaled about half the planned units.

As noted in the above discussion of self-sufficiency gains, applicants do not have to show that NDDP funding is absolutely necessary for their projects to go forward, and, in fact, more than half the projects reportedly would have gone forward in some form without the NDDP grant. Nevertheless, about 43 percent of the executive directors claimed that without the NDDP funds, the project would not have gone forward at all. Furthermore, most executive directors who would have pursued the NDDP-funded project even if no grant were obtained reported that, without the award, their projects would not have been implemented quite the same way. Three quarters of this latter group reported that without the NDDP grant, total project expenditures would have been lower, and about half reported that other projects would have been postponed, funded at lower levels, or eliminated.

Fewer than 20 percent of all executive directors reported a delay in project completion that was unusual for projects similar to that funded by the NDDP, although about half of them, when asked about obstacles to successfully completing the project, cited issues tied to NDDP rules or program administration. Broadly, the responses volunteered by directors fell into three categories: (1) delays tied to fundraising requirements--40 percent, (2) administrative difficulties--48 percent, and (3) time limits on the funding award--12 percent.

Fundraising delays or time pressures are not difficult to understand given the preceding discussion and the neighborhood match requirement. Administrative barriers bear more extended discussion.

Complaints about paperwork was a prominent theme in executive directors' responses about implementation problems. To some extent this complaint is predictable: no organization, public or private prefers added paperwork, but this is probably particularly true among small community-based nonprofit organizations. NDDP grantees contended that documentation and reporting requirements were difficult to comply with. In addition, some grantees were unclear on program rules. This is, again, a difficulty generally encountered in grants programs.

Despite obstacles in performance, executive directors reported project successes that contributed substantially to quality of life in their neighborhoods. The NDDP is both a demonstration and a program. Because the analytical objectives of the demonstration are the reason for this evaluation, they have been the focus of this report. Nevertheless, as a project-based grants program, the NDDP is responsible for concrete community development outcomes.

Grantees asked to summarize the major benefits of participating in the NDDP most often cited neighborhood accomplishments. There is no convenient way to summarize the impacts of those projects because community development achievements are inherently situational. A project is successful if it makes a difference in a specific local setting. Such successes are difficult to quantify or aggregate. Nevertheless, some projects are especially noteworthy for their contribution to developing a particular neighborhood. Exhibit 1 summarizes, for each category of eligible activity, some of the projects sponsored by NDDP grantees.

When asked to describe the principal impacts of projects they carried out in neighborhoods, executive directors reported: (1) producing housing or services, (2) revitalizing the neighborhood, (3) bettering the community, and (4) building local institutions.

Production can be an important part of the program, particularly for those grantees that combined the NDDP grant with other public sector funding. As an example, the Portland (Maine) West Neighborhood Planning Council, funded in all three rounds, created 49

residential units with one of its grants. Portland West also gained experience allowing it to become a more active housing developer.

Some organizations used their NDDP awards to take on highly visible developments with significant revitalization impacts. The Westside Housing Organization in Kansas City, Missouri, combined the NDDP award with \$1.7 million in other funding to renovate the largest blighted property in the neighborhood. At the same time, it created 48 units of affordable rental housing.

Smaller scale efforts also succeeded in improving the neighborhood environment. The Iron Mountain/Ozan Ingraham Neighborhood Group in Texarkana, Arkansas, improved safety and accessibility for older residents by installing handrails in the neighborhood. This effort was part of a community-created improvement plan to clean up alleyways and mow vacant lots.

Finally, the projects themselves are viewed as less important than their effect in building partnerships in the community. Eastside Community Investments in Indianapolis, Indiana, used its NDDP grant to fund its first community participation project--mobilizing volunteers to fix up 150 homes in the neighborhood.

For most of these grantees, the NDDP is less a mechanism for developing funding sources than a vehicle for funding community improvements--the first services in the neighborhood for handicapped individuals, three new jobs, a child care program, and a building saved from demolition. These successes are well-documented in the fundraising case studies developed by the Community Information Exchange as part of its technical assistance activities in the first three rounds.

Almost as often, grantees reported institutional development not easily captured through closed-ended questions. Some respondents cited a more generalized strengthening of organizational capacity, gain of accounting skills and improved project management skills. The most promising results were those that solidified institutional ties to their neighborhoods, the city, or other neighborhood organizations. Several cited improved visibility in the neighborhood as a result of a successful development project. Others noted the community pride that resulted from a successful assault on at least one neighborhood problem.

Exhibit 1

NDDP Project Examples

Housing-

In Kansas City, Missouri, 10-to-20 elderly or handicapped individuals can now maintain neighborhood roots through cooperative living, relinquishing the burdens of individual homeownership. A vision of the Washington Wheatley Neighborhood Association, Wheatley House responds to the needs of the community's elderly. This mostly volunteer group takes advantage of the time and experience of retirees to staff development activities, including this project. The NDDP gave Washington Wheatley flexible funding to meet special housing needs.

Services-

Woodbine Community Organization in Nashville, Tennessee, operates in a predominantly white, low-income community with many elderly residents. Woodbine combined its Round Three NDDP grant with other public and private funds to convert an abandoned school into a community and health center. Commended by the city, the project not only reclaimed an unused public building, but also established essential services. These services include children's summer activities, after school youth programs, Headstart, GED classes, and health services.

Business-

The Vermont Slauson Economic Development Corporation in Los Angeles, California used its NDDP grant to fund its first commercial joint venture. The group, whose previous focus had been solely housing, renovated a facility to provide low-rent industrial space. Businesses established or expanded include a printing company, recycler, office supplier and welding company. This new direction fits into the organization's plan to revitalize the physical, economic and social well-being of the area by stimulating the business community.

Neighborhood Improvements-

In Knoxville, Tennessee, the Park Ridge Community Organization constructed a neighborhood playground. It sought to serve the families of the area by providing a safe and creative place to play. This CBO teamed with a local youth group to maintain the park, allowing the group to use the park's equipment for lawn maintenance in the neighborhood. This multifaceted project benefits all members of the Park Ridge community.

Job Creation-

The Latino Community Land Trust in Trenton, New Jersey, implemented a business development/housing rehabilitation project. The development was designed to provide new residential units and create jobs by establishing a neighborhood business to serve the new residential area. Residents of the new development bought shares in a laundromat, creating three permanent jobs as well as providing needed services.

Chapter 3 Policy and Program Implications

The Congress has several possible choices to make regarding the future of the NDDP. The NDDP has achieved its key demonstration objectives and provides lessons to guide decision-makers. The program should not be refunded as is.

Should the NDDP be redesigned to make it more of a pure demonstration, or to test new analytic objectives? The current NDDP design contains flaws that make more comprehensive findings difficult to reach. Redesign to permit more measurable results could contribute to understanding local institution-building.

Should the NDDP's analytic focus be dropped and the demonstration be converted into a continuing program to support community-based organizations? If so, it could be converted into either a program for CBO capacity-building, or a production program for neighborhood development.

Should the NDDP be terminated? It has been operating almost continually since the mid-1980's without change in the legislation or administrative objectives. The "demonstration" questions have now been evaluated twice and there is little more to be learned about the ability of organizations to raise funds, particularly if the NDDP is continued in its present form.

This Chapter summarizes the overall responsiveness of the NDDP to its legislative objectives and presents options for its redesign or termination.

3.1 NDDP Responsiveness to Legislative Objectives

As noted in Chapter 1 of this report, the NDDP has four demonstration objectives, each testing assumptions about the ability of CBOs to raise local funds within their neighborhoods for development projects. As reported in Chapter 2, these objectives have been satisfied--the NDDP has answered each of the analytic questions inherent in the objectives:

1) *Does Federal Incentive Funding with Neighborhood Match Matter?* Overall, CBOs, with the promise of the Federal challenge grant, succeeded in achieving their voluntary

contributions targets, developing new sources of neighborhood funding support, and successfully completing projects funded under the NDDP. They also succeeded in building organizational capacity in working to meet the challenge grant.

Nevertheless, while CBOs did report that the neighborhood match requirement prompted them to identify new neighborhood contributors, most did not regard this as a particularly productive source of revenue. Partly as a result, CBO executive directors were sharply divided over whether the neighborhood match requirement was worthwhile. Slightly more than half found that the requirement was limiting, while the others contended that it encouraged self-reliance.

2) *Does Neighborhood Matter?* On balance, organizations in more-distressed neighborhoods raised funds at no lower rates than did grantees in less-distressed areas. This finding suggests the dominant role of organizational characteristics.

3) *Do Project Characteristics Matter?* Statistically, there is no relationship between the types of projects proposed for funding under the NDDP and success in raising the planned match. This finding is contrary to the prevailing opinion among executive directors, who contended it is easier to raise funds for visible physical development activities.

4) *Do Organizational Features Matter?* Two organizational characteristics are linked to success rates in raising matching funds--board size and organizational size. CBOs with larger boards are more likely to achieve their funding targets than are those with smaller boards, most likely due to the broader pool of fundraising talent available from having more inclusive boards. Larger CBOs, measured in terms of revenues, met their funding targets at rates higher than did smaller CBOs. Smaller organizations, however, were much more likely to have registered gains in mobilizing unskilled volunteers than were larger organizations.

3.2 NDDP Options

The NDDP is both a program and a demonstration. As a program, it is intended to assist grantees with partial funding to implement community development projects. As a demonstration, it is designed to test relationships between grantee, project, and neighborhood characteristics and success in developing new neighborhood funding sources. As discussed

below, these two objectives conflict, limiting the NDDP's ability to fully achieve its purposes either as program or demonstration.

Congress may wish to decide whether the NDDP should be:

- redesigned and continued as a demonstration,
- restructured as a capacity-building grant program,
- restructured as a production-oriented grant program, or
- terminated.

These options are summarized in Exhibit 2 and discussed in the following sections.

Option 1: Redesign NDDP and Continue as a Demonstration

The NDDP's statutory purpose is "to determine the feasibility of supporting eligible neighborhood development activities by providing Federal matching funds to eligible neighborhood development organizations" on the basis of neighborhood monetary support. The matching grant concept does work: it is feasible to support neighborhood development by requiring a local match before Federal dollars are disbursed.

Nevertheless, the NDDP's core concept by legislative intent--self-sufficiency--is ambiguous. Overall, this analysis has shown that the NDDP has successfully demonstrated that CBOs, with sufficient Federal financial incentives, can make progress toward self-sufficiency if self-sufficiency is understood as development of new funding, organizational capacity, and community ties. However, self-sufficiency can take on broader meanings. Does self-sufficiency mean reliance solely on neighborhood sources of funds? If so, is self-sufficiency a realistic prospect? Does self-sufficiency mean reliance only on private funding sources, whether neighborhood-based or not? If so, is it realistic, and is self-sufficiency an appropriate goal in light of the central role played by CBOs in the delivery of government-funded housing and community development services? The uncertain meaning of self-sufficiency enormously complicates the NDDP's ability to yield clear research findings.

In addition, other programmatic features of the NDDP inhibit a full analysis of the factors that contribute to self-sufficiency. The NDDP is not structured to provide a true test of relationships. First, funding awards are not made with a view to controlling for organizational, project, or neighborhood characteristics. A pure demonstration would select

Exhibit 2
Summary of Program Redesign Options

<u>MAJOR OPTIONS</u>	<u>SUGGESTED CHANGES</u>	<u>RATIONALE</u>
Redesign and continue as Demonstration	Apply standard test to all grantees	Grantees in needier areas face lower targets than other grantees, making test of neighborhood effects difficult
	Award grants to allow better test of hypotheses	Better tests of relationships are possible if more factors can be held constant; e.g., limiting project types
	Fund grantees that will gain more from program	Larger CBOs have demonstrated ability to raise funds, smaller ones have not.
	Limit access of those funded previously	Multi-round awards limit the number of groups for which tests can be applied.
Create Program with Capacity-building Focus	Provide technical assistance to CBOs	Would support project-based assistance available from CDBG and HOME program funding
	Better target assistance to smaller organizations	Smaller organizations are more in need of organizational management and fundraising guidance
	Target assistance to congressional or HUD priorities	Focused assistance to priority areas would encourage capacity-building to meet emerging needs
	Streamline the program	Technical assistance contracts are easier to manage than multiple project-based awards, administered centrally
Create Program with Production Focus	Expand program scale	Builds on demonstrated link between project implementation and organizational capacity-building
	Relax the neighborhood match requirement	Neighborhood-only match limits fundraising to less productive sources
	Offer multi-year funding	Reduces financial uncertainty and encourages management improvement
	Target program to HUD priorities	Would encourage capacity in areas of emerging need
Terminate NDDP	Change legislation	Achieved major objectives
	Do not refund	Overtaken by National Affordable Housing Act

projects for funding according to social science criteria of a quasi-experimental design after minimum requirements of project eligibility and organizational capacity were satisfied. For example, if the purpose of the demonstration were to assess the effects of neighborhood characteristics on self-sufficiency prospects, a limited set of these locational variables would be precisely specified in advance. Project awards would then be made based on differences in these variables and on these variables alone. A similar procedure would be followed for a limited set of other characteristics of interest, for example, project type or organization type. The NDDP as currently structured does not do this.

Moreover, the Act's requirement that the matching ratio vary with area distress complicates the NDDP's analytic purpose. If the NDDP is to test whether neighborhood distress matters to self-sufficiency, and one benchmark of success is fundraising performance, then all organizations regardless of location should be subjected to the same test. However, the NDDP affords CBOs in more-distressed neighborhoods an easier funding target than is available to those in less-distressed neighborhoods. These flaws as a demonstration are because the NDDP is partially structured as a program. Grantees are selected according to a set of ranking criteria that emphasize capacity, project quality, neighborhood distress, and organizational representativeness, rather according to analytic criteria. Funding amounts are awarded based on an indicator of need.

If the NDDP is to be continued as a demonstration, Congress may wish to consider several changes:

1. Apply a standard test to all grantees.

The Congress could retain the sliding match ratio and still satisfy analytic requirements by stipulating a standard local match--say \$10,000--but varying the amount of the Federal match. By establishing what is in effect a standard Federal grant amount and varying the amount of the local match, the program does not apply the same fundraising performance test to all grantees.

2. Redesign the program to allow hypothesis testing.

For example, the Congress could accord HUD the flexibility to specify with some precision the neighborhood characteristics deemed most likely to affect fundraising success. Then, grantees would be selected to ensure that organizations operating in neighborhoods that differ only in those characteristics are funded. As much as possible, other factors--types of projects pursued or size of organizations--would be held constant.

3. Direct awards to CBOs most likely to gain from new fundraising efforts.

The analysis above showed that success in raising matching funds correlates with the amount of the match in relation to total budget. That is, the higher the match in relation to total organizational revenue, the less likely is an organization to raise its match share. Small CBOs, however, did develop new funding sources and organizational capacity. Larger CBOs already demonstrate their ability to generate revenue, although not always from neighborhood sources. They too developed new sources of funds, but these sources represented a relatively minor part of their total development budget.

4. Limit participation by previously funded applicants.

Currently, NDDP legislation limits the percentage of grant funds in any round that can be awarded to previously funded applicants. In the program overall, 25 percent of project awards went to multi-round grantees. In terms of performance, these grantees did not differ from grantees funded in only one round. Moreover, in terms of total revenues, large CBOs were no more likely than were smaller ones to receive funding in more than one grant round.

These findings suggest that multi-year funding did not affect the NDDP's overall performance. Small and large CBOs were equally apt to return for more funds. However, if the analytic purpose of the NDDP is to test for relationships, the presence of multi-round grantees reduces the potential number of organizations for which tests can be applied.

Option 2: Restructure NDDP as a Capacity-Building Grants Program.

No systematically collected data are available pertaining to the scale of the community-based sector and how it has changed over the last decade. Some anecdotal evidence exists from selected cities that indicates CBOs have grown, both in number and scale of activity.

There is also some evidence that CBOs play a vital role in the delivery of housing and community development services nationwide. City community development (CD) officials interviewed for this study overwhelmingly reported making explicit use of CBOs in their CDBG-funded programs. Only two of the 55 officials interviewed expressed general skepticism about CBO performance. There also was a clear pattern to CD officials' responses as to why they make use of these organizations: (1) CBOs can implement small-scale neighborhood development projects more efficiently than can the public sector, (2) CBOs are important in assessing and organizing around neighborhood needs, and (3) CBOs help leverage community involvement and private sector contributions.

Three quarters of CD officials report that their reliance on CBOs to deliver community development programs has increased over the last five years, most citing the increasing capacity of CBOs to take on development work. A similar share noted that reliance was expected to increase further over the next five years. Nevertheless, capacity issues dominated these discussions. While officials noted that part of their reliance on CBOs stemmed from improved capability, most expressed some degree of caution, expressing concern that some grantees remained weak.

The NDDP, as a small production program, centrally administered, is costly relative to the amount of community development activity that can be supported. This analysis has shown, nonetheless, that CBOs participating in the program generally are successful in developing new funding sources and building organizational capacity. The Congress can advance the capacity-building purpose of the NDDP, streamline program administration, and more effectively target assistance to organizations that most need it by shifting program resources into technical assistance provision. Specifically, a program of this kind could:

1. Build more capacity in the community-based sector.

Many of the organizations receiving funds under the NDDP gained fundraising and project development expertise by virtue of their participation. Strengthening fundraising skills is directly tied to the purpose of the grant--to encourage new local sources of continuing support. Other organizational gains were not linked to the NDDP structure as such. Any community development project, successfully or even unsuccessfully completed, contributes to staff experience. The Congress may wish to create a technical assistance program that affords access to institution-building, project development, and fundraising expertise to CBOs. The continuing availability of consulting assistance to CBOs nationwide would be an important adjunct to the project-based financial assistance offered on a larger scale through state and local governments.

HUD's priorities call for empowerment of poor neighborhoods. In public housing, this has taken the form of funding support for resident initiatives, including resident management of public housing. These essentially call for creating new vehicles for public participation and program delivery. There is no counterpart assistance program to the community-based sector generally. A technical assistance program can boost the ability of community-based organizations to take advantage of the HOME Program set-aside to non-profit development organizations.

2. Better target assistance to recipients.

The NDDP is open to all CBOs that satisfy the minimum criteria. Some grants have been part of multi-million dollar funding packages. While important if production is a program priority, such grants have little capacity-building effect on their own. A technical assistance program open to CBOs that satisfy NDDP eligibility criteria may be better targeted to less sophisticated CBOs through self-selection. Larger CBOs may well not avail themselves of the technical assistance offered. If assistance were offered for institution-building purposes only--fundraising, board participation, program management--and excluded specialized development consulting, larger organizations probably would not seek access to the program.

3. Better target assistance to Departmental priorities or CBO need.

The overall pattern of community development activities now funded under the NDDP is driven by application requests. The Department does not accord preference to one kind of project over another in its reviews. A technical assistance program would create opportunities for targeting funds to priority areas. For example, many communities have created city-wide networks of community-based organizations. Such networks encourage coordinated strategy development, heighten public attention to neighborhood-based activities, and promote information- and skills-sharing among member organizations. Technical assistance to establish and operate such consortia locally would contribute to overall development of the community-based sector.

4. Streamline the program.

A single technical assistance contract or cooperative agreement can easily be managed centrally, with a part-time staff person allocated to its oversight. Several contracts can be handled relatively easily, for example, if assistance is regionally focused or the Department wishes to diversify providers.

Option 3: Restructure NDDP as a Production Grants Program.

The previous option, shifting the NDDP to emphasize capacity-building alone, would have real costs. As noted above, much of the organizational gain stemmed from project development. In addition, most NDDP executive directors reported that the Federal grant, extended on a match basis, made their fundraising efforts easier. Finally, more than a few grantees noted that the Federal grant conferred a legitimacy to their organization, which also eased fundraising efforts. Clearly, a program devoted solely to technical assistance would not produce results to the same degree.

Much of the gain to CBOs through the NDDP results from the program combining local fundraising with actual development projects. If the Congress were to consider moving away from the demonstration aspect of the NDDP toward a more traditional production focus, it might wish to:

1. Expand the scale of the program.

The NDDP, at its current scale, does not make a major contribution to development nationwide. Only forty or so CBOs per year improve their technical capacity and only those few neighborhoods benefit from development projects. At the same time, this small program is expensive to administer compared with, for example, the CDBG Program. A larger program would benefit more CBOs and neighborhoods while achieving administrative economies of scale.

2. Relax the neighborhood match requirement.

As noted above, few executive directors found that neighborhood funding sources were particularly productive, although they noted substantial gains in nonfinancial community support. If promoting local financial support is a goal, Congress may wish to consider a match from non-neighborhood sources. If encouraging local participation is important, other demonstrations of community involvement could satisfy programmatic objectives, e.g., citizen participation in project and organizational planning, volunteer efforts, or sweat equity. The program would achieve its programmatic goals--build nonprofit organizational capacity--without restricting organizational funding sources.

3. Consider multi-year funding.

The practice of providing annual funding, common to many funders of CBOs, introduces a high degree of uncertainty in organizational revenues. If a restructured program were to retain its capacity-building aspect while shifting to a program- or project-based focus, allowing multi-year funding is even more important: smaller CBOs would stand to gain most in terms of reliably supporting staff, investing in organizational management improvements, and building credibility and track record.

4. Target the program to HUD priorities.

Just as technical assistance can be used to further Departmental priorities or areas of CBO need, an expanded program can do the same. For example, a program

to provide project-based operating assistance to CBOs can augment the development aid set aside for them under the HOME program.

Option 4: Terminate the NDDP.

Many of the reasons for terminating the NDDP have already been discussed in the preceding pages:

- It has been refunded six times without any changes in the legislation.
- The demonstration objectives were tested and largely achieved.
- It has been evaluated twice.
- It is a small program and costly to administer.
- The types of development projects undertaken by the CBOs are neither unique nor innovative.
- CBOs are now firmly established entities in the local arena, able to secure other public and private funds even without the NDDP.

The core demonstration objectives--locally based fundraising and increased self-sufficiency--have been tested with some success. CBOs have been able to raise funds within their neighborhoods to successfully earn the Federal matching grant. A greater measure of self-sufficiency in rallying local financial assistance and use of volunteer help in delivering CBO programs has also been realized, but CBOs remain primarily dependent upon public support to deliver housing and other community development services.

As has been discussed above, there is nothing distinctive about the housing and other development projects undertaken as part of the NDDP. In fact many NDDP projects are actually part of larger projects for which CBOs received funds from several other sources, including the Community Development Block Grant program. In this sense, these projects are only partially demonstration projects.

Perhaps the most compelling reason to simply discontinue the NDDP is that CBOs have received recognition and acceptance as integral players at the local level. They have been accorded an important role in many of the new initiatives mandated by the National

Affordable Housing Act of 1990, which dwarfs the NDDP. The intensive use of staff time by both HUD and the CBO to meet the administrative requirements of the NDDP does not seem warranted in light of the new legislation and programs.

3.3 Cross-cutting Management Recommendations

If the NDDP is continued either as a demonstration or grants program, several management changes are warranted. Currently, the NDDP is structured as a categorical, competitive grants program, largely managed by HUD headquarters. Project selection, funds management, and program monitoring are carried out in Washington. This poses management issues for both HUD and grantees. First, the annual funding level does not justify a permanent staff allocation to the program to handle both seasonal and continuing workload. Second, centralized program management means that monitoring is somewhat removed from grantees.

A small grants program is staff intensive. Annually, staff in the HUD central office must rate and rank 80-100 applications for funding, execute grant agreements with 40-60 funded grantees, and manage a total inventory of 75-100 active grants, on an annual program appropriation of \$2 million. Because funding rounds are on an annual cycle, workload is seasonal, requiring a short-term and intense period of program staff involvement. To handle application volume in the competitive process, staff must be temporarily assigned from within the Office of Community Planning and Development to rate and rank applications. Despite written guidance and training in application review, this process inevitably means that staff make funding recommendations without continuing experience in either neighborhood development or in evaluating the capacity of neighborhood organizations.

While HUD field staff are involved in application ratings, final decisions are made centrally, and field staff are not involved in ongoing program management. Executive directors surveyed for this analysis did not complain about the overall quality of central office program management. Some expressed confusion over program guidelines, however, and generally expressed concern that central office management was removed from their own project and neighborhood concerns. In addition, the many felt that the application was excessively complex and expensive to complete.

If the program is not terminated, the following management changes are recommended:

1) HUD should decentralize the program to field offices. While shifting workload to the field would impose costs on field offices, there are several reasons why such a shift is justified. First, the field office staff are already involved in application review. Second, field staff, principally the community development representatives, already should know the neighborhoods in which applicants work and in many cases, know the applicants themselves. Finally, the field office staff are generally more accessible to grantees than HUD central office staff can be.

2) A pre-application should be required to reduce the amount of material that CBOs must assemble for the initial ranking. Those organizations that pass this step would be required to submit further material to document project and fundraising plans.

3) Program reporting should be streamlined. This is particularly true if the NDDP is converted from a demonstration to a grants program. For smaller organizations, fundraising documentation can amount to nontrivial expenditures of staff time. Both grantees and HUD staff agree that reporting requirements are burdensome.

**APPENDIX:
NDDP Evaluation Methodology**

The NDDP Evaluation relied on seven primary methods of data collection:

- (1) content analysis of grantee files for 143 funded projects and 24 unfunded projects to record information on baseline characteristics of organizations and proposed projects;
- (2) on-site interviews with executive directors of grantees in those cities with multiple first-round grantees to obtain information on project outcomes, and a small sample of unfunded applicants;
- (3) a mail survey of funded grantees to collect information on organizational revenues and project outcomes;
- (4) telephone interviews with second- and third-round grantees to collect information on qualitative project effects and evaluative assessments of program outcomes;
- (5) telephone interviews with city officials to collect evaluative information on the use of community-based organizations locally;
- (6) automated retrieval of 1970 and 1980 census data to combine information on neighborhoods with fundraising outcomes; and
- (7) automated retrieval of HUD management data to combine information on matching funds performance with grantee, project, and neighborhood characteristics.

The NDDP Evaluation sample consisted of a 100 percent sample of grantees from rounds 1, 2 and 3, not including grantees dropped after award, and a small control sample of 25 organizations that were not funded. (Applicants not in the competitive range were not sampled.)

The overall evaluation sample was subdivided into two subsets--those interviewed on site, and those interviewed by telephone. Table A-1 summarizes the distribution of cities, grantees and controls by interview method.

**Exhibit A-1
NDDP Evaluation Sample By Interview Type**

<u>Observation</u>	<u>Interview Type</u>		<u>Total</u>
	<u>On-site</u>	<u>Telephone</u>	
Cities (Pct. of Total)	15 (20.3%)	66 (79.7%)	81
Grantees (Pct. of Total)	37 (32.7%)	76 (67.3%)	113
Unfunded	25		25

On-site interviews were conducted with CBO executive directors of funded and unfunded organizations and, where available and appropriate, with CBO board presidents and principal contributors of matching funds under the NDDP.

