

NEIGHBORHOOD COMMUNITY FOUNDATIONS

MEMORANDUM #9 *

FROM: MILTON KOTLER

SUBJECT: FUNDING NEIGHBORHOOD COMMUNITY FOUNDATIONS

This is a brief comment on the problem of funding the program operations of neighborhood community foundations. In terms of the many projects (see Memo #8) of new institution building that could be creatively pursued, the funding issue is no less than the problem of how to finance a ward polity without the power of direct taxation.

There are essentially four sources of capitalizing neighborhood community organization:

1. Membership contribution or assessment
2. Federal government grants
3. Philanthropic contribution, particularly foundations and community trusts
4. Community corporate capitalization

I. Direct Membership Contribution or Assessment

The direct payment by membership is the traditional approach to funding voluntary associations. Yet in the context of the incorporation of communities of the poor, it is not likely that this

*The title of these memoranda is changed to Neighborhood Community Foundations. My interest is to avoid confusion between what is proposed as a tax-exempt non-profit foundation structure for neighborhood corporate organization in our cities and the current metropolitan community foundations, established under incorporation or trust.

approach would be effective in raising the required capital for community action programs. In this case, the real function of direct membership payment is symbolic. Membership fees and annual payments can be kept nominal and function to establish continuing membership and rights to the benefits and duties of the community corporate activity.

Another appropriate use of direct membership funds would be to serve a matching function in grant proposals to national foundations, community trusts, and federal government grants. This can serve to express the community's commitment and responsibility to the proposed projects. It is a form of community action ratification.

Another method of direct membership fund raising would be through payments for particular community services for highly individual use, like health care, legal services, etc. Once again, this is not a substantial source of revenue. Rather such payments can serve to control use as a reasonable exchange for received benefits, within the income of members.

II. Federal Government Grants

1. With the current legislative movement toward direct federal program funding to non-profit private organizations, there are increasing possibilities of federal support of neighborhood community foundations. This trend has been advanced under the Poverty Program, but also covers other federal programs, e.g. cooperative

research in education, Hill-Burton, etc. Under the Poverty Program, neighborhood foundation project development should take the form of community action submission under Title II of the Economic Opportunity Act.

In terms of OEO's provision of representation of the poor, this program submission by neighborhood foundations, whose directors are elected by the membership, is of particular interest. Furthermore, under the recent policy of Sargent Shriver, neighborhood community action programs can be submitted to the Poverty Office notwithstanding a metropolitan community action agency.

The federal government is the major source for funding community foundation activities. Community action **grants** to representative polities of the poor within the city is a realistic approach to the equitable distribution of social benefits in the society. Funding thereby will respond to corporate community representative and publicly supported projects, rather than to professional and political organization, which only ends up serving middle class occupational interests.

2. A further direction of federal funding should be considered, as reflected in the Heller Plan of federal rebates of tax surplus to state governments. Here the surplus of federal taxes could be rebated to neighborhood community foundations on the basis of their tax-exempt status. It is conceivable to develop new legislation for federal rebates of local property tax to community foundations, thereby reducing the costs of community owned

housing, and permitting rehabilitation at low rentals. Under such an arrangement, the state will still gain the property tax; the federal government will achieve its interest in distributing its surplus, and the community will gain the advantage of improved housing at low cost. A whole series of federal tax rebates can be developed to support the community action of neighborhood foundations.

3. It is important to review the whole federal grant-in-aid structure, with an eye to developing a grant-in-aid system of federal matching funds to neighborhood community foundations. Currently grants-in-aid relate the federal government principally to state governments. But there are new directions of federal matching to municipalities and public purpose institutions, like universities. What we are looking forward to is a grant-in-aid structure relating the federal government to non-profit organizations engaged in para-governmental community social services. This program could be worked out with equalization formulas, and be helpful in raising a serious review of the whole approach of grants-in-aid structure. Related to this direction there are possibilities of working out matching neighborhood community foundation grants with the state government, bypassing the municipality. Can neighborhood foundations be tax-exempt non-profit organizations recipient of state matched federal grant-in-aid money?

III. Philanthropic Contribution

1. The national foundations and community trusts are a growing source of support for community action and public service improvement. Today, this source of funds is not much less than federal funding for social welfare purposes. Hopefully the federal budget will step up welfare expenditure to outstrip charitable contribution, so that, in the long run, we can look at foundations and community trusts as the principal sources for innovating new approaches to community service rather than continue as sources of operational support. As community organizations proliferate all over the country, it is hard to see private foundations and trusts sustaining the operational costs of thousands of community foundations. Their use, therefore, should be fashioned to support the social innovations of neighborhood community foundation. The national foundations and trusts should stand as patrons of community creativity, rather than as sugar daddies.

2. An interesting possibility of stretching the supportive capacities of national foundations and trusts to neighborhood foundations is the development of interest-free loans. Neighborhood community organization, by borrowing \$100,000 on a twenty year interest free loan for a national foundation, could gain during the first year \$5,000 in non-taxable interest, returning at the end of the year \$5,000 from its capital to the linking foundation. In the second year it could gain \$4,750, and return a gain another \$5,000

in its third year, \$4,500, returning another \$5,000. Thus, each time it reduces its capital by \$5,000, it still gains 5%, which could go toward staff and project operation. The foundations might be interested in this method of funding community action.

3. An important source of support for neighborhood foundations would be through metropolitan community foundations, or community trust funding. These trusts, in the past 50 years, have been receiving and distributing charitable contributions for metropolitan social welfare. They have been principal supporters of private agency welfare work.

There is great importance in relating the neighborhood foundation to the metropolitan community trusts in a kind of federated financial arrangement. This conduit of money and advice from community trusts to neighborhood community foundations can open a floodgate of private charitable contribution, now locked by specific trust arrangements and the absence of strong public accountability. Further, financial distribution and professional assistance and guidance from community trusts to neighborhood polities can give trust administrators a public backing useful for more creative persuasion on private wealth for increased contribution to social purposes within our cities. The community trusts would enjoy expansion of their purpose and effectiveness in bringing them into a more public position. This new source of public support would be helpful for their own dealings with private wealth. Neighborhood foundations can enhance the importance of the community trust structure.

In this connection, it's important to work out the trust capacities of neighborhood foundations, just as those trust capacities have been so well used by metropolitan community trusts. For example, the neighborhood foundations, through trust powers, can receive property use for limited durations. In the case of housing held in 20 year trust, the neighborhood could enjoy the rents while the owner achieves the advantages of 20 year cost free market appreciation. Private wealth may have a strong interest in giving property in trust to neighborhood foundations, especially in depreciating markets, for their own use and financial benefit during the limited periods. With the foundation paying a small carrying charge to the private donor, who in turn writes off the loss of income of the limited duration, there may be many possibilities of strong financial interest by private wealth in this kind of limited transfer. In short, there is a whole range of tax benefits that can be explored for funding application to neighborhood community foundations. The neighborhood foundation should work to develop its maximum financial receiving and distribution capacities, just as community trusts have done.

IV. Community Corporate Capitalization

A further approach to capital funding of neighborhood community foundations lies in the just cause of class suits, run by the foundations for damages to membership suffered in slum housing or by

the negligent picture of public service agencies. The neighborhood corporation, by contract with damaged members, could run these suits under the agreement that the neighborhood foundation will be beneficiary to the judgment. This has particular application in the field of landlord-tenant law. Can the community foundation run damage suits for classes of slum tenants against slumlords for failure or warranty of fitness in slum property? Can the principles of warranty, so well established today in the field of personal property, be applied in the field of landlord-tenant? Can the principles of suing for the psychic damage of the mouse in the coke bottle be applied to a civil suit for damage for a rat in the apartment? The neighborhood foundation can run a suit for ten slum tenants who are members of the foundation against a slum landlord for rats, falling beams, and other damages common to all tenants in the dwelling structure. This suit can be brought on failure of warranty. In this behalf, a "Brandeis" brief establishing physical and psychic damage would have to be developed. It is conceivable that such suits can succeed to substantial judgments--possibly \$80,000 in the case of ten tenants--against the landlord. If this succeeds, then settlement solutions of transfer of the slum property to the neighborhood foundation can be worked out. Thus, the outcome of the suit could result in community-owned housing, a substantial approach to capital accumulation by the neighborhood corporation.

On the matter of class suits in landlord-tenant law, Richard J. Barnet, of the Institute for Policy Studies, has prepared a seminal memorandum which will follow in this series.

Another example of capitalization by class suits can be cited. In a neighborhood community in Chicago, the elementary school children suffer the nuisance of elevated tracks right next to the building, moving fast subway cars every two minutes past the windows of the school. It is estimated that the students suffer a million interruptions a year. The question is to what extent is their education impaired and their future income damaged by this nuisance. What is of particular interest in this case is that technologically there is a positive solution in a \$9,000 soundproofing job. Currently, the Board of Education refuses to make substantial repairs on old school structures in anticipation of new construction. In the meantime, however, the children must suffer damage. The suit against the Chicago Transit Authority could be run by the community foundation under contract agreement with the class of parents of the children in that school. \$9,000 of the judgment could be used to soundproof the building. Indeed, this should be interpreted as the cost to the C. T. A. for right of way or easement. There are further claims for damages beyond the \$9,000, on the basis of already lost value of education, notwithstanding the subsequent soundproofing of the building. That soundproofing can only prevent

future damage, but not repair past loss. If a judgment beyond \$9000 can be gained by the neighborhood foundation that futher amount could be invested in a playground adjoining the school, which the school does not currently have. A futher portion of the judgment could be distributed to the plaintiffs, and the surplus of the judgment could be retained by the neighborhood foundation as a source of capital either for investment in supplementary education or capital investment.

Theses and other class damage suits are possible for the neighborhood community foundation as beneficiary to run for its membership. This approach holds substantial hope for capitalizing the foundation by just law through the courts. This damage approach has its parallels in 19th Century American industrial growth. During that century of small depressions and bankruptcy, Americans repurchased depreciated English and French investment, particularly in railroads. Thus, American capital accumulated by bankruptcy and transfer from foreign to domestic sources. What is suggested, then, is that neighborhood foundations could capitalize under the damage principle just as finance capitalized under bankruptcy in the 19th Century.

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