

NEIGHBORHOOD FOUNDATIONS
MEMORANDUM #15

FROM: MILTON KOTLER, INSTITUTE FOR POLICY STUDIES,
WASHINGTON, D. C.

DATE: DECEMBER 6, 1966

SUBJECT: THE NEIGHBORHOOD CORPORATION: TESTIMONY BEFORE
THE SENATE SUBCOMMITTEE ON EXECUTIVE REORGANIZATION

STATEMENT OF MILTON KOTLER
BEFORE COMMITTEE ON GOVERNMENT OPERATIONS,
SUBCOMMITTEE ON EXECUTIVE REORGANIZATION

HEARINGS ON PROBLEMS OF THE CITIES

Tuesday

December 6, 1966

Mr. Chairman, Members of the Committee:

I wish to thank you for inviting me to comment on the urban crisis and recommend an approach, born of much thought and hard practice in the ECCO project in Columbus, Ohio, which could be of substantial value in rebuilding our slums and of achieving a better city for all.

The facts of urban poverty and despair in our slums and ghettos are in: Housing is rotten, unemployment is great, education is poor, health is bad, and so on. These factors compose a menacing condition. Yet, there is some encouragement in this committee's systematic deliberation on this question of rebuilding the slums, as well as recent legislative developments representing a commitment of our government to apply some of the wealth and know-how of this nation to attack this urban crisis.

Between existing despair and new hope, the question is: How is this task to be done? What is the proper method of action to rebuild our slums? What is the proper role of different agents of change, public and private, federal, state, and local, to best assist this method? The crucial issue is our ability to understand the urban crisis and conceive a method of change. All too often, we are strong in wealth and short in concept. Our real test is to find the proper concept of urban reconstruction and efficiently apply our resources to its method.

Out of my thought and experience in the actions of different communities to correct poverty and slum conditions, the proper concept of change is neighborhood self-governing decision. The neighborhood, constituted as a non-profit, tax exempt, democratically structured, corporation with its own assembly, officials, and revenues must be the principal agent of change to rebuild our slums into a legal community of self-help and self-governing decision with the sufficient capacity to relate to other organizations, public and private, for the resources and technical assistance required to build a better community.

In current comment on this question of urban crisis and in testimony by others before you, the word neighborhood and its role has constantly sprung up. Notwithstanding the skepticism of academacims and experts about the existence of neighborhoods and their viability as a unit of action in a technological age, the neighborhood today is a living concept and image in the actual practice of ordinary people's lives. Granted it is often weak, but it is still the last remaining principle of public confidence in people's lives, particularly poor people. The neighborhood must be strengthened by organization and legal incorporation. It must be legitimized by democratic structure and public authority over resources to decide and act on specific local matters of the neighborhood, be it of 7,000 or 50,000. The neighborhood, as a legal community, must become the principal agent of rebuilding its locality and governing the public matters, principally social service, which touch the lives of that locality. It must also become a major agent of economic development within its area. Further, neighborhood corporations responsible to outside authorities through its contract and legal agency, may start a motion toward neighborhood government so strongly needed in today's mass urban society.

Our cities today are often larger than our states were in an earlier day. New York City itself is larger than the nation in population at its inception. To paraphrase Jefferson, for a political concept of future direction--divide the cities into neighborhood governments. Neighborhood government, legally instituted and democratically constituted, may some day decide those matters of essentially local concern, and coordinate their activities at a city level on larger questions requiring city-wide uniformity and management. That future direction of neighborhood government is a subject of new federalism which we should begin thinking about. For the moment, however, let us practically build its precursor, the neighborhood corporations, as the new units of democracy in our cities, and as the agents of self-governing decision and action in rebuilding our slums. It is in behalf of this new structure of community action that I wish to address my remarks and recommend some ways in which the federal government can assist its new growth.

While the facts are out on the despairing condition of our slums, it remains for us to understand what the constellation of poor housing, education, unemployment, health, etc., means to its people. These are not simply bad conditions which are each open to separate improvement. Rather, these impoverished material conditions impose a unified style of public life and civil disorder in the slum. These conditions constitute in our slums a political order of oppression which the residents of the slums are powerless to change in any legal way. Despair then, is the principle of its public order. All hope is forced underground. The people cannot decide their own public life. Their public life is administered from outside. No expert approach from the outside, with technologically improved talent and resources, administered more systematically or efficiently, will change this basic condition of oppression and despair. The only thing that will change the slum is the people's own decision, through the legal structure of their neighborhood corporation, about those matters that intimately touch their lives. Technology has never been a substitute for political freedom.

There is new thought today and new efforts to tackle each of the different impoverish conditions of slum life. New approaches to education, new approaches to housing, new approaches to job training, etc. New approaches to all these problems have been devised from outside and are now proposed for external administration directly upon the slum community. These approaches may change things, but I doubt if they will improve things. At best, their inspiration is technological, and their shortcoming is political oversight. Americans will always insist on the right to decide the public matters of their local community.

We grant material conditions are poor, but they cannot be improved in behalf of social peace and order simply by new technological design and administration. Neighborhood decision is essential. With such self-governing decision the people will get behind the program, because it is their own plan of improvement. It is their own commitment.

There is another way to state the simple truth: To change life which is poor toward greater dignity and prosperity, we must work not with people's despair but with their hope. This is the human approach to urban change in a free society. An effective program of change in the slums must work with and build upon what no slum can kill--namely, people's humanity and freedom. And, today, the field of humanity and popular hope in the slums is the territory of their own neighborhood community. The expression of hope is through their neighborhood decision. Structure that hope into the neighborhood corporation, and let that hope exercise itself legally and practically upon the material conditions of poverty. If the impoverished conditions of slum life are indeed political, the method of change is simply political freedom which incorporates for decision and uses the resources of technology and the wealth of a nation to do the task.

1. The neighborhood area must be organized as a tax exempt corporation based on one man-one vote membership of residents.
2. It must be territorially bound and can be based on resident populations of 7,000-50,000. In our largest cities, density may even support self-governing corporations of 100,000. But, always its membership must be based on the citizenship principle of residence.
3. It must be democratically structured on the basis of assembly, officials, and funding.
4. It must be formed to govern some real public matter and program.

Neighborhood corporations must have authority to govern certain matters of social service and economic development that intimately affect their local life. The neighborhood corporation must relate in its practice of decision and of management of services to all appropriate city wide public and private agencies and organizations. It must be a part of the way of performing public services in the city.

This argument is practical, as it reflects two years of experience and hard practice in the development of the ECCO project in Columbus, Ohio. I would like to briefly describe the major lines of that development as it suggests a model program for poor communities of other cities, and the role in which different agencies, public and private, can assist their corporate development.

ECCO, the East Central Citizens Organization, is today a tax exempt neighborhood corporation of 7,000 residents in a poor area of Columbus. Its territory is one square mile. Its population is 70% Negro and 30% white. Unemployment is high. The median income is \$3,000. Housing is largely substandard and in many other respects, its community corresponds with poverty areas elsewhere. Today, however, ECCO is no longer a desperate slum, because of its corporation, and the action and decision of its citizens in assembly, council, and administration in deciding the affairs of that community. ECCO is a poor community building its prosperity through dignity and independence. For the first time in the lives of its residents, that neighborhood community is an integral part of the life of its city.

How was it formed; how does it govern; and what does it do?

How was it formed?

A church in that area transferred its settlement agency to neighborhood control. The neighborhood incorporated on a one man-one vote membership

of residents, 16 years of age and above, to receive that settlement, gain funding for it and govern its activities. Today, that center is no longer a settlement in the typical sense. It is the seat of ECCO's corporate government currently developing a wide range of social services. It is the seat of the neighborhood polity, in assembly, council and administration, acting in community decision, to develop and govern new social undertakings in social service, education, housing, health, manpower training, economic development, legal service, etc.

How does it govern?

The programs and activities of ECCO's democratically structured corporation is today funded at approximately \$350,000, with the early expectation of an additional \$130,000 grant. The ultimate authority of that corporation is its assembly of membership which elects a council, authorizes and terminates programs, has powers of investigation and law-making through frequent meetings, and holds powers of removal of officials and staff. Its elected council is its executive arm and appoints an administration. That, in broad outline, is its constitution.

What has it done?

ECCO is running a wide range of social services and is awaiting funding for further program components. It is also negotiating on new programs in health and housing. For specifics, I would like to introduce later Mrs. Love, the Executive Director of ECCO.

As important as its self-developed programs are, ECCO is also the place of a vibrant political life. ECCO, in assembly, council, committees, and neighborhood block groups meets near every night to deliberate and decide the life of its community. Through its staff, ECCO works every day and night in community development, always building the momentum of its public decision on the basis of the real needs and real communication of its people. ECCO has a vita-activa--a total active life of public concern and engagement. To describe this vibrance, born of a legal community with authority to govern something, I would like to introduce later Pastor Leopold Bernhard.

Of still equal importance to program development and the political life of its new independence born of governing public matters, ECCO is also engaged in the everyday task of building the relationship of its neighborhood to the agencies and organizations, public and private, of its City of Columbus. It is on the board of CAMALAO, the local community action agency; it is represented on the Mayor's Advisory Committee; it is on the Police Advisory Committee. Its relationship to the city is complex and endless. On the

matter of the value of ECCO's relationship to the city, Mayor Sensenbrenner's letter is attached.

ECCO is town meeting government, and the federal government funded it. Last year, an anti-poverty demonstration grant, under Section 207, funded the governing structure of the ECCO neighborhood corporation. This included stipends to the elected council and the general cost of corporate administration. That grant did not include the cost of service program operation. The test under that grant was whether supporting a governing structure could enable the ECCO corporation to gain funding from other agencies and sources. ECCO has done this. The Youth Board of ECCO developed a self-governing youth program which gained funding from the Office of Juvenile Delinquency. That program is currently operating with wide involvement of the youth and is now currently developing a large manpower training program for unemployed youth in the neighborhood. The ECCO program committee developed a Center Proposal covering a range of service program components in education, day-care, welfare, legal services, etc. That program was approved by the Columbus community action agency and now awaits funding from the regional office under the new appropriations. ECCO's program development will continue to grow and test out the question of what essential program authority is within the capacity of the neighborhood corporation to effectively govern and operate.

*ECCO has the support of its people and the city.

*There are no riots in ECCO because ECCO has the authority to decide and govern its affairs.

*Politicians do speak to ECCO in assembly and council. There is communication between the people of ECCO and city and state leadership because ECCO, too, is a corporate government deciding and doing public things.

ECCO is self-help through legal community, self-governing authority, and public and private funding. It has the resources and disposition to hire the best administrative skill and professional help needed, because the people have the authority to decide.

The success of ECCO over the past two years, in program, political life, and relationship to the city suggests the model value of the neighborhood corporation in other cities as a principal agent of rebuilding our slums from an oppressed community into independent corporate communities of decision and viable economy.

The experience of ECCO suggests a general method by which the federal government can enable the formation and development of neighborhood

corporations in other cities, and promote new healthy relationships between the neighborhoods and their city.

The real object of our concern is how the poor community, through neighborhood corporations, can become principal agents of urban change in rebuilding the slums; and thereby become integral parts of their city engaged in the common task of general freedom and prosperity. The federal government can assist this new cooperation in the following ways.

RECOMMENDATIONS

- I. The Federal Government can assist the formation of neighborhood corporations by funding their administrative costs and program operation. This support would enable the neighborhood, through its corporation, to enter into constructive relation to its city government.

The experience of ECCO and its funding under Section 207 of the Economic Opportunities Act suggests that the costs of organizing the corporation and funding its self-governing administration would run around \$150,000-\$200,000 for a twelve month period, on the basis of a neighborhood population of 7,000 and a territorial area of one square mile. A twelve month period is sufficient for the corporation to develop programs for submission to the local Community Action Agency, in the capacity as a delegate agency. My estimate is that the cost of such an organization for a population of 25,000 would be one-fifth more requiring only additional community workers.

Columbus also provides a model citywide neighborhood corporation organizing effort through the Council of Federated Foundations (COFF) and Peoples Poverty Board (PPB) and suggests that approximately \$1,000,000 could effectively develop and initially fund 8-10 neighborhood corporation administrations, as well as carry substantial personnel costs for program operation.

It has already spent a small foundation grant to develop and strengthen neighborhood corporations in many areas of the city. To do this COFF has paid the staff of the Peoples Poverty Board in Columbus, which is the associated organization of these member neighborhoods. To date, COFF has used its small funds toward this purpose and has achieved the incorporation of six member neighborhood organizations of PPB. These different incorporated neighborhood organizations have already become members of the Columbus Metropolitan Area Community Action Organization and are now in a position to gain funding from that agency for the operation of their self-determined service programs.

I am submitting the articles of COFF for its model value toward this limited, though essential purpose of forming and incorporating neighborhood organizations throughout the poverty areas of a city.

A. The Economic Opportunities Act is an existing instrument for this federal support.

1. Five sections of the EOA, as currently amended, are available for funding the formation and governing structure of neighborhood corporations.

a. The language of Section 205G, Title II for funding independent programs of a limited scope to private agencies without broad comprehensive community representation would permit the Director to use the 5 percent funds as provided to directly fund new local agencies in different cities established for the limited purpose of forming territorially defined, democratically constituted neighborhood corporations. It can pay their cost of initial governing administration, until such time as these corporations become delegate agencies of existing city community action agencies for program funding.

In addition to the method of funding new local agencies to develop a number of neighborhood corporations in a city, the language of Section 205G would also permit the direct funding to particular neighborhood-based organizations seeking to incorporate as democratically-structured, self-determining organizations for program development, decision, and operation.

b. Under Section 206, Title II, the Director could fund CAA's for their specific use of giving technical assistance to neighborhood corporations for developing self-determined programs which would be submitted to Community Action Agency for funding. This same section can also fund the training costs of the elected council and staff of these neighborhood corporations to advance membership organization and involvement in corporation program decision, as well as training in program management and operation. The further provision of utilizing central personnel for special training and technical assistance would be helpful in developing a central office, or division of OEO expert in the formation and operation of neighborhood corporations.

Grants under this section could also come directly to the local agencies or specific neighborhood organizations which aim to

- develop new structure of neighborhood corporation, or develop their existing structure of neighborhood organization into neighborhood corporations aimed toward self-determining program development and decision, and funded as delegate agencies of the CAO.
- c. The flexibility of Section 207 is of obvious value in this behalf. Different models on neighborhood corporation can be advanced. ECCO has a membership of 7,000. What corporate model of constitution is required for populations of 25,000 to 100,000 in major cities of high density, where acknowledged neighborhoods have large populations within small geographic territory. Demonstration can also experiment with new kinds of service program operations, which are suitable to the governing capacities of neighborhood corporations.
 - d. Finally, Section 205, Title II, money could be spent directly by the CAA of a city to develop the formation and support the governing structure of neighborhood corporations, as well as subsequently fund their developed program proposals.
 - e. The new amendment Title ID, Section 131, provides the possibility of funding both the governing structure and program operation costs of particular neighborhood corporations formed and directed toward the employment development concept of building a ghetto economy. In this connection, I am attaching a paper for interest on the Neighborhood Corporation as an Instrument of Economic Development. (Attach Memo #14)
2. The second step is for the independent neighborhood corporations of a city to become delegate agencies of the existing CAA. Money under Title II, either earmarked or for unspecified service programs, would then be channeled through the community action agency to the neighborhood corporation as its delegate agency for their final authority on expenditure and program operation. Thus, the neighborhood corporation would be an ultimate recipient of funds and administrator of programs. As delegate agencies, they would be eligible for board membership on the CAA as ECCO is currently a board member of the Columbus Metropolitan Area Community Action Organization.

Based on our experience, the independent neighborhood corporation has the capacity to directly administer Head Start programs, legal services, credit unions, consumer education programs, housing programs, etc.

As delegate agencies of the local CAA, the neighborhood corporations could become 'little CAA's' immediately and directly responsible to the CAA's neighborhood and to the coordinated metropolitan wide body of the CAA agency. This would further move the budgeting, and coordinating, with more actual program administration delegated to the democratically structured neighborhood corporation.

3. Such non-profit neighborhood corporations would also be in a position to gain funding through other federal programs like MDTA, HUD, HEW, the Small Business Administration, NIMH, etc., either directly as non-profit agencies or through local municipal sponsorship, where such a requirement is necessary.

To facilitate this ability of neighborhood corporations to gain program funding from other federal agency programs, I would recommend a whole new thrust to amend the legislation of existing programs, in education, housing, manpower training, etc., to permit these departments and agencies to grant directly to non-profit, democratically-structured, neighborhood corporations. Thus, the Department of Education would be in a position, and so directed, to fund educational programs directly to non-profit neighborhood corporations on the basis of the merit of their proposed educational programs. I would suggest the same for the MDTA, to permit its institutional and OJT funds for manpower training to go directly to the neighborhood corporations with approval by municipal and state agencies. Such amendments would permit each of these departments to try out the capacity of neighborhood corporations to do the job. This approach would also enable each of the departments to foster good, healthy competition in their program development between different program operating structures, both the designated public agencies like the Board of Education, the universities, and democratically-structured, territorially-defined, non-profit neighborhood corporations.

The strongest effort should be made to open all departments in the social service and economic development field to directly grant to neighborhood corporations. It is a mistake to think, even in education, that healthy competition for new educational development should be confined to only the public school system and the universities. The neighborhood corporation, which is the people legally organized to govern themselves, could be the strongest principal structure for educational invention and progress in conjunction with educational institutions.

4. Between program funding to the neighborhood corporation from the community action agency, as well as program funding from other departments directly from Washington, or through the state and municipal agencies of these departments, the neighborhood corporation could gain substantial funding and become an effective operation of local decision, program management and responsibility. The neighborhood corporation would then be in a position to find its proper relationship with local municipal authorities. This could move in several ways, which remain open. The neighborhood corporations could move toward becoming new local authorities of the municipal government over limited service jurisdictions. This may develop either through direct commission or charter of the city council; or the neighborhood corporations themselves could become legal delegate agencies of the existing municipal departments and agencies. The neighborhood corporations could become delegate agencies of the local Board of Education, Public Housing Authority, Urban Renewal Authority, Sanitation Authority, Recreational Authority, etc. In this delegate capacity, the neighborhood corporation could assist city administration through performing its proper local service role and program jurisdiction, under required funding.

I am projecting here a line of neighborhood corporate development that starts with the existing local community action agency and its capacity to develop and fund neighborhood corporations which then move toward their fulfillment as neighborhood governments--new cooperative units of city government.

B. Other existing federal programs can be used as instruments for funding the structure and program operations of neighborhood corporations. While the advantage of such funding through the anti-poverty program is clear because of its established CAA's as local agencies for this development, nonetheless limited funding suggests that we look to other federal programs as well, for achieving the same purpose. For example, the Department of Housing and Urban Development should grant direct funds to non-profit neighborhood organizations for incorporation and self-governing administration. Such funds should be set aside possibly through the Demonstration Cities Act for the specific costs of the organization and governing structure of neighborhood corporations necessary to develop comprehensive neighborhood rebuilding plans. HUD can then fund these plans as approved by the local Demonstration Cities agency either directly or through municipal sponsorship. The Department of Education should also set aside money to fund the formation of neighborhood corporations, democratically-based for the purpose of developing educational programs for direct or indirect federal funding.

Briefly, I am suggesting that the needed funds for building program operating neighborhood corporations are available through other federal department and agencies programs. In most cases, little legislative change is required to have these other departments fund the organization, governing structure, and specific program costs of neighborhood corporations. Currently, however, OEO should be strengthened to pioneer this effort.

I. The realities of the current federal budget make it imperative that private sources of capital be found for this same purpose of funding the program development and operation of democratically structured neighborhood corporations in our cities for the threefold purpose of neighborhood authority for effective programming, the practice of self-government to build constructive political relationships between the neighborhoods and their city leadership, public and private, and the development of a strong neighborhood economy for greater urban prosperity.

A. Current plans for attracting private capital by national organization into the project of rebuilding our slums, whether the Economic Opportunities Corporation plan of Senator Javits or the COMSAT Housing plan, should specifically require that the private capital for housing and other economic programs which such national agencies gain under varying tax-free, or federally-guaranteed mechanisms, be granted directly to neighborhood corporations and their coordinating structures. The neighborhood corporation must make the basic decision of an economic development plan for that neighborhood (be it of 7,000 or 200,000 population). The national agency could also use part of its funds to also pay the initial costs of developing the organization and governing structure of the neighborhood corporations. The neighborhood corporation, in developing its economic plan of housing and other economic programs, could use national and local technical assistance, and determine the appropriate industries with which to subcontract for developments in housing and job training.

It stands clear, however, that effective economic development requires that the neighborhood corporation be the ultimate recipient of national private funds at the local level. Let the neighborhood corporation, rather than the national agency, contract with industry and negotiate its necessary relationship with the municipality. If the national agency contracts with industry directly to go into local slum areas around the country without that neighborhood's legal and deliberative decision and approval, through its self-governing democratic structure based on assembly, officials and funding, then beware of sabotage. If the neighborhood corporation decides with whom to contract and is involved in the plan by its own corporate decision, then the job will be effectively done.

- B. There presently exists strong instruments at the local level for bringing private capital into this arena of rebuilding the slums, on the basis of neighborhood corporation decision in a cooperative negotiation and relationship with the municipality.

Currently, metropolitan housing authorities float tax-free bonds which are supported by various federally-guaranteed mechanisms. So far, such bonds have been used for public housing construction by those authorities. Two things seem possible.

1. The neighborhood corporation could become a delegate agency of its local public housing authority. Thereby, the housing authority could either float the neighborhood corporation bond for its housing development, or the neighborhood corporation as delegate agency, could negotiate for a part of the bond capital raised by the public housing authority through its bonds. This would bring private capital induced by tax-free, federally-guaranteed conditions to the neighborhood community corporation for its use through the existing institution of the public housing authority. This could provide substantial money at low interest to the neighborhood corporation for housing development.

As the public housing authorities today are going into the field of purchase, rehabilitation, and sale of existing units, the question comes up as to who is going to own these dwellings. Does the city housing authority want to end up as the ghetto landlord? That would be dangerous. For safety's sake, let the neighborhood community corporation be the owner until it can resell rehabilitated housing to its member residents and others. It is a much safer authority for protecting that property.

2. Another adaptation of existing local instruments for gaining private funding for economic development beyond housing alone, is to expand the legitimate area of investment of such public housing bonds. Let the housing authority invest its capital from bonds not only in housing but also in the adjunct social and economic components of a good housing plan, that is, stores, job training, health centers, etc. Thus expanded, private capital can flow through the public housing authorities of the city to the neighborhood corporations, for comprehensive economic development. Such neighborhood economic plans can be worked out with the proper technical assistance and expertise and coordinated by the public housing authorities, and funded privately through bonds at low interest rates under such tax-free, federally-guaranteed incentives.

III. In addition to the federal government and private capital's role in building neighborhood corporations, other existing institutions can play their part.

- A. Private agencies, like settlement houses and other specialized social service programs, should move toward transferring the authority of their operations to neighborhood control. Such transfer of existing private agencies to the neighborhood people, could be a major contribution to the development of self-governing, democratically structured neighborhood corporations.
- B. The United Charities agencies which organize and coordinate the collection and distribution of local philanthropic funds to private agencies, should begin budgeting funds to the neighborhood corporations as well. As in the case of ECCO, these neighborhood corporations would continue as tax-deductible organizations.
- C. Community Foundations should relate to the neighborhood corporations of their city both for contribution, as well as for endowment development and management.
- D. National foundations can continue to play a constantly innovative role by exploring new capacities of the neighborhood corporations for capital accumulation and investment in economic development for new service program operation. They should also explore new methods of management and financing of such organizations.
- E. The church can play an exciting role in this new birth of self-governing communities. The ECCO project evidences this, on the basis of its own initiation by a church. Pastor Bernhard can comment on the possibilities of the church as enabler of neighborhood corporations.

CS:kk
5/67