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Section 4 Capacity Building for Community Development and Affordable Housing Program

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SUMMARY

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Section 4 Capacity Building for Community Development and Affordable Housing Program

Multiple federal agencies administer a range of programs and resources designed to support community development activities, and the capacity of the nonfederal entities that carry out such efforts. The U.S. Department of Housing and Urban Development (HUD) oversees the majority of community development-related programs, which provide funding to states, insular areas (or U.S. territories), units of general local government, and nonprofit entities. The majority of federal funding for nonprofit community development provides financial and technical assistance to enhance programmatic and operational capacity of local nonprofit organizations.

HUD's Section 4 Capacity Building for Community Development and Affordable Housing program (Section 4) is one of its primary programs designed to support community development organizations. Originally authorized under Section IV of the HUD Demonstration Act of 1993 (P.L. 103-120), the Section 4 program provides grants on a competitive basis to eligible national intermediary organizations. In turn, these organizations support the work and enhance the capacity of local community development organizations. Typically, Section 4 program funds support local community development organizations through training, technical assistance, and financial support for community development and affordable housing projects and initiatives. The program's statute requires private cash or in-kind match of three times the award amount.

The Section 4 Program is part of a broader network of federal programs and policy tools designed to support and incentivize local community development and revitalization investments. In some cases, HUD has encouraged the use of Section 4 program funds in a way that supplements efforts funded by other federal programs such as the Community Development Block Grant Program (CDBG).

Community development needs have evolved since the Section 4 program was last reauthorized in 1997. Although Congress has not modified the eligibility structure in the program's statute since 1997, some appropriations acts have limited eligibility. Some Members of Congress have introduced proposals that would further modify the eligibility structure for HUD community development capacity funding. Some proposals have sought to expand or establish additional support for local organizations. Others would include a larger group of eligible grantee organizations and could serve a wider range of community development entities as eligible beneficiaries.

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Introduction

Federal community development programs are intended to empower states, local governments, and other entities to carry out a range of activities and initiatives tailored to local conditions. Congress has established and funded a variety of programs and initiatives that have supported the creation and expansion of many current local approaches to neighborhood revitalization, affordable housing, and other aspects of community development.[1]

What Is Community Development?

The Board of Governors of the Federal Reserve System defines *community development investments* as those "designed to create new opportunities—primarily related to affordable housing, small businesses, and jobs—that specifically benefit lower-income neighborhoods and populations."[2] Such activities are generally carried out by community development corporations and similar nonprofits.

The role and function of individual community development organizations may vary by community based on a range of factors. The mission and purpose of an organization may allow for access to and participation in a variety of federal programs. Community development organizations may participate in the local administration of several federal housing and community development programs. In turn, many community development organizations rely on federal funding for operational stability as well as project-based funding.

Local community development organizations carry out a variety of activities to address local issues, including but not limited to[3]

- affordable housing development and rehabilitation,
- neighborhood beautification and business district enhancement or revitalization,
- local business and workforce development, and
- community wealth building.

The federal government administers a wide range of programs and resources that may support community development organizations directly or indirectly. Some federal programs support the capacity of community-based organizations to facilitate or lead community development efforts. The Section 4 Capacity Building for Community Development and Affordable Housing program is one such program within the U.S. Department of Housing and Urban Development (HUD).

In addition to the Section 4 program, there are several other sources of federal funding, administered by HUD and other agencies, that may also support organizational capacity for community development or similar efforts. This report provides an overview of the Section 4 program's structure and funding, briefly describes a selection of similar programs, and discusses some potential policy considerations for Congress.

[1] For instance, the Economic Opportunity Amendments of 1966 (P.L. 89-794) established the Bedford-Stuyvesant Restoration Corporation, which is generally known as the first community development corporation in the United States.

[2] Board of Governors of the Federal Reserve System, *Community Development Investments*, May 2014, https://www.federalreserve.gov/consumerscommunities.

[3] This report uses *local community development organizations* as a general term for nonprofit entities engaging in community development activities at the neighborhood or community level, including community development corporations and community housing development organizations.

Section 4 Capacity Building for Community Development and Affordable Housing Program

Originally authorized under Section IV of the HUD Demonstration Act of 1993 (P.L. 103-120),[4] the Section 4 program awards grants on a competitive basis to selected eligible national community development intermediary organizations. In turn, these organizations support the work and enhance the capacity of local community development organizations.[5] Program activities are focused on training, technical assistance, and financial support for community development and affordable housing projects and efforts.

Eligible Entities

As amended, the program's authorizing statute identifies five national community development intermediary organizations as eligible applicants for Section 4 program funds.[6] Congress has further limited eligibility to three organizations in recent appropriations acts:[7]

1. Enterprise Community Partners;
2. The Local Initiatives Support Corporation (LISC); and
3. Habitat for Humanity International.

What Are Community Development Intermediaries?

Generally, community development intermediaries are tax-exempt nonprofit organizations established to support capacity needs among local community development organizations. Intermediaries support local community development organizations with financial and technical resources in order to maximize the benefit of their local knowledge and networks.[8] Intermediary organizations may offer a variety of services to member organizations, including training, technical assistance, networking opportunities, financing for development projects, and access other types of funding.[9]

In 1993, Section 4 of P.L. 103-120 authorized HUD to "provide assistance through the National Community Development Initiative" (NCDI, currently known as Living Cities), a consortium of private entities funding community revitalization efforts.[10] Under this structure, NCDI worked with LISC and Enterprise to enhance the capacity of community development organizations in 23 designated U.S. cities. Congress amended the Section 4 program's authorizing statute in 1997 under Title II of P.L. 105-18, which adjusted the program's structure and expanded its geographic coverage. Specifically, the act modified grantee eligibility by formally listing LISC and

[4] The organizations enumerated in statute are the National Community Development Initiative, Local Initiatives Support Corporation, the Enterprise Foundation, Habitat for Humanity, and YouthBuild USA (42 U.S.C. §9816 note).

[5] 42 U.S.C. §9816 note.

[6] 42 U.S.C. §9816 note.

[7] For examples of recent appropriations legislation limiting program eligibility, see Division H, Title II, of P.L. 116-94 and Division L, Title II, of P.L. 116-260.

[8] HUD, *Building the Organizations That Build Communities: Strengthening the Capacity of Faith and Community-Based Development Organizations*, 2004, p. 64, https://www.huduser.gov/publications/pdf/buldorgcommunities.pdf.

[9] Y. Thomas Liou and Robert C. Stroh, "Community Development Intermediary Systems in the United States: Origins," *Housing Policy Debate*, vol. 9, no. 3 (1998), pp. 575-594.

[10] For historical information on the NCDI, see Living Cities, "Our History," https://livingcities.org/about/our-history/.

Enterprise as eligible direct grantees[11] and included additional organizations in statute, such as Habitat for Humanity and YouthBuild.[12]

Application Process

Typically, HUD releases Notices of Funding Availability (NOFA) for the Section 4 program on an annual basis. The NOFAs outline the application process and program requirements for a given year, as provided in the program's statute.[13] HUD assesses and scores eligible grant applications based on five rating factors, each with corresponding maximum point values, as outlined in the program NOFA. The overall maximum point value within the five-factor assessment is 100 points.[14] As an example, **Table 1** provides an overview of the rating factors and maximum point values outlined in the FY2020 Section 4 NOFA.

Table 1. Section 4 Application Core Rating Factors

FY2020 NOFA

Rating Factor	Maximum Points
Capacity of Applicant and Relevant Organizational Experience	4
Need/Extent of the Problem	18
Soundness of Approach	41
Match Requirement and Leveraging Resources	10
Achieving Results and Program Evaluation	27
Total	**100**

Source: U.S. Department of Housing and Urban Development, *Section 4 Capacity Building for Community Development and Affordable Housing*, May 11, 2021, pp. 23-24, https://www.hud.gov/sites/dfiles/SPM/documents/FY20Section4NOFOUpdated.pdf.

Notes: Rating factors and their maximum point totals may differ year to year.

HUD may also award preference points for applications that demonstrate planned activities that align with specified department or Administration priorities. For instance, the FY2020 Section 4 NOFA allowed for up to two preference points for applicants with proposed activities in a designated Promise Zone or an Opportunity Zone. Typically, HUD sets a point threshold that applicants must reach in order to qualify for additional preference points. In its FY2020 NOFA, HUD required applicants to have a score of at least 75 points under the five rating factors in order to be eligible for preference points.[15]

[11] U.S. Government Accountability Office, *Capacity Building: Section 4 Program Has Expanded and Evolved*, GAO-03-975, September 2003, p. 4, https://www.gao.gov/assets/gao-03-975.pdf.

[12] 42 U.S.C. §9816 note.

[13] 42 U.S.C. §9816 note.

[14] HUD, *Section 4 Capacity Building for Community Development and Affordable Housing*, May 11, 2021, pp. 23-24, https://www.hud.gov/sites/dfiles/SPM/documents/FY20Section4NOFOUpdated.pdf.

[15] HUD, *Section 4 Capacity Building for Community Development and Affordable Housing*, pp. 23-24.

Grant Terms

HUD informs applicants of their application status and negotiates grant agreements and amounts with grantees based on a process outlined in the corresponding Section 4 program NOFA.[16] Section 4 grantees administer program funds over a four-year period in accordance with the planned activities outlined in the application. Planned activities may be subject to any changes made during grant agreement negotiations. Grantees are required by statute to match Section 4 funds with private resources in an amount that is three times the amount awarded,[17] satisfied by primary grantees or subrecipients.[18] Intermediaries are reimbursed once program costs have been incurred. Typically, Congress requires that at least $5 million of Section 4 funds appropriated annually be used to support rural community development capacity efforts.[19]

Eligible Beneficiaries

As stated earlier in this section, HUD competitively awards Section 4 funds to specified eligible intermediary organizations. Those intermediaries, in turn, provide funding to eligible beneficiaries. Organizations may qualify as beneficiaries for Section 4 financial and technical assistance if they meet one of three sets of criteria for eligible Community Development Corporations (CDCs) or Community Housing Development Organizations (CHDOs). HUD defines these beneficiary organizations in annual NOFAs. Generally, the Section 4 program definition for *CHDOs* is consistent with that of HUD's HOME Investment Partnership Program.[20] An organization is eligible as a CDC if its work is aligned with eligible program activities and it meets certain criteria related to organizational structure.[21] The specific eligibility criteria as enumerated in Section 4 program NOFAs and the relevant program regulations defining *CHDOs* are included in **Appendix A**.

Eligible Activities

Section 4 grantees can use program funds to support technical assistance and/or financial assistance for eligible beneficiaries. Technical assistance activities include (1) training, (2) education, and (3) advice or other forms of informational support. Financial assistance under the Section 4 program includes (1) loans, (2) grants, and (3) predevelopment assistance for community development and housing projects benefitting low- and moderate-income households and persons.[22] Additionally, participating intermediary organizations may seek approval from

[16] HUD, *Section 4 Capacity Building for Community Development and Affordable Housing*, p. 35.

[17] 42 U.S.C. §9816 note.

[18] U.S. Government Accountability Office, *Capacity Building*.

[19] For an example, see P.L. 116-260, Division L, Title II. This required amount is often in addition to a separate appropriation of $5 million for the HUD Rural Capacity Building program.

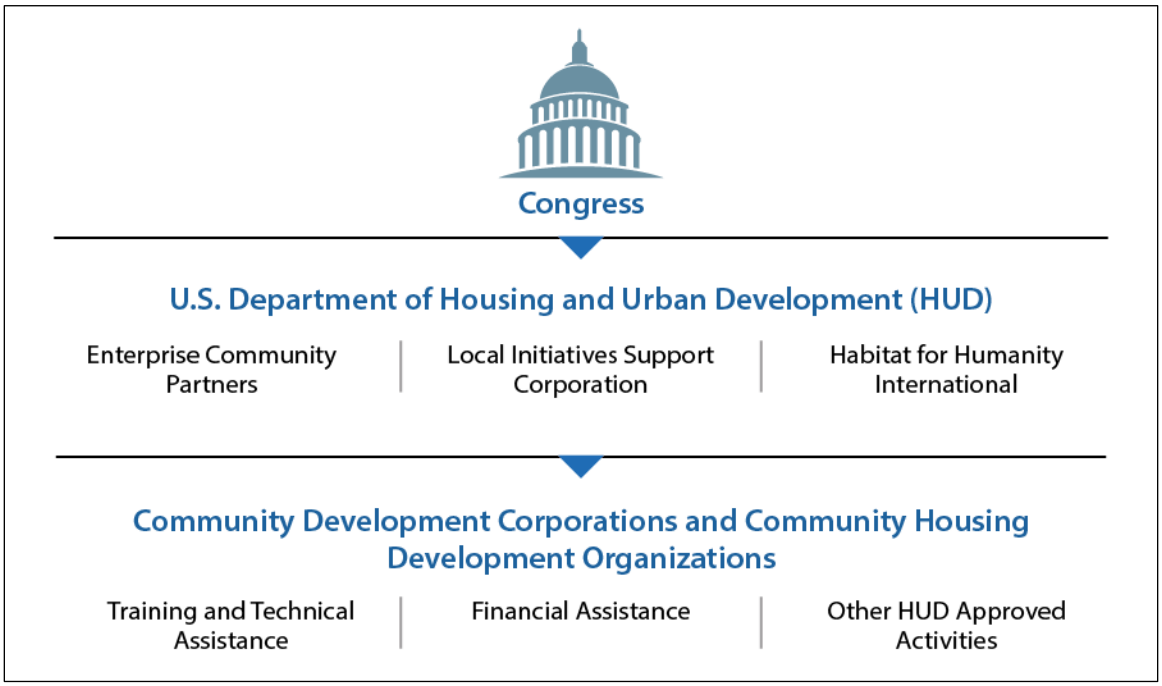
[20] 24 C.F.R. §92.2.

[21] HUD, *Section 4 Capacity Building for Community Development and Affordable Housing Grants*, FR-6300-N-07, March 12, 2020, https://www.hud.gov/sites/dfiles/SPM/documents/FY19_Section4CapacityBuildingNOFA.pdf.

[22] The FY2020 Section 4 NOFA defines *low- and moderate-income household* as "a household having an income equal to or less than the Section 8 low-income limit established by HUD, which means a household whose income does not exceed 80 percent of the AMI [area median income]." It defines *low- and moderate-income person* as "a member of a family having an income equal to or less than the Section 8 low-income limit established by HUD, which means an individual whose income does not exceed 80 percent of the AMI."

HUD for other related activities.[23] **Figure 1** provides an overview of the Section 4 program's funding process, which is further detailed in this section.

Figure 1. Section 4 Program Flow of Funds



Source: Developed by CRS using HUD Program Information.

Notes: Intermediary organizations may provide training and technical assistance directly or provide funding for the procurement of such services.

Program Monitoring

As directed in the Section 4 program authorizing statute (42 U.S.C. §9816 note), HUD enumerates program reporting requirements and other information for grantees in program NOFAs.[24] HUD requires Section 4 grantees to report program performance, finances, and other aspects of implementation in accordance with guidance from the Office of Management and Budget and HUD.[25] HUD requires grantees to submit performance reports on a semiannual basis.[26] The semiannual reports provide an update on progress toward the goals outlined in a grantee's Section 4 application and approved work plan.[27] Grantees submit their semiannual Section 4 performance reports to the HUD Disaster Recovery Grant Reporting system.[28] Grantee

[23] 42 U.S.C. §9816 note.

[24] HUD, *Capacity Building Programs Reporting Guidance*, 2016, https://files.hudexchange.info/resources/documents/Capacity-Building-Programs-Reporting-Guidance.pdf.

[25] HUD, *Section 4 Capacity Building for Community Development and Affordable Housing Grants*, p. 36.

[26] HUD, *Section 4 Capacity Building for Community Development and Affordable Housing Grants*, p. 36.

[27] HUD, *Capacity Building Programs Reporting Guidance: Designed for Section 4 and Rural Capacity Building Grantees*, 2016, p. 1, https://www.hud.gov/sites/dfiles/CPD/documents/Capacity-Building-Programs-Reporting-Guidance.pdf.

[28] HUD, *Disaster Recovery Grant Reporting System*, https://www.hudexchange.info/programs/drgr/.

reports typically include updates on (1) expenditures and matching funds, (2) program outcomes, and (3) an overview of the status of planned activity implementation.[29]

Appropriations

Congress typically funds the Section 4 program in the Self-Help Homeownership Opportunity program account in annual Transportation, Housing and Urban Development, and Related Agencies appropriations legislation.[30] Title II of Division L in the Consolidated Appropriations Act, 2021 (P.L. 116-260), included $41 million in Section 4 program funds for FY2021. This amounted to a $5 million increase from the program's FY2020 appropriation. **Table 2** provides an overview of annual appropriations for the Section 4 program from FY2018 to FY2021.

Table 2. Recent Section 4 Program Appropriations

In Millions of Dollars

Fiscal Year	Section 4 Appropriation Amount
FY2021 Enacted	41.0
FY2020 Enacted	36.0
FY2019 Enacted	35.0
FY2018 Enacted	35.0

Sources: P.L. 116-260; P.L. 116-94; P.L. 116-6; P.L. 115-141.

Grant Awards

HUD awards Section 4 program funds to eligible grantees based on analysis of grant applications and negotiation of grant agreements. As mentioned above, in recent years, program awards have been granted to three national community development intermediary organizations. **Table 3** provides a breakdown of Section 4 program awards to participating intermediary organizations in FY2020, FY2019, and FY2018.[31]

Table 3. Recent Section 4 Awards by Grantee

In Millions of Dollars

	FY2020	FY2019	FY2018
Enterprise Community Partners	14.2	14.3	13.9
Local Initiatives Support Corporation	13.6	14.3	14.7

[29] HUD, *Capacity Building Programs Reporting Guidance: Designed for Section 4 and Rural Capacity Building Grantees*, p. 2.

[30] This account also includes funding for other HUD programs such as the Self-Help and Assisted Homeownership Opportunity Program. For FY2021, Congress appropriated $60 million to this account in Division L, Title II, of P.L. 116-260.

[31] As of the date of publication of this report, HUD has not announced FY2021 Section 4 program awards.

	FY2020	FY2019	FY2018
Habitat for Humanity	8.1	6.3	6.2
Total	36.0	35.0	35.0

Sources: HUD, *Capacity Building Programs*, https://www.hud.gov/program_offices/comm_planning/capacitybuilding/.

Notes: Due to rounding, award amounts may not add up to totals.

Table B-1 in the Appendix includes Section 4 program award amounts by organization for FY2010-FY2020.

Implementation

Section 4 intermediary grantees administer program funds over a four-year period in accordance with the plans submitted during the application process and as approved in the grant agreement process.[32] In some cases, intermediaries offer training and technical assistance activities, including facilitation of professional development courses and events.[33] Grantees also provide financial assistance to support the technical and operational capacity of community development organizations. The most common form of Section 4 financial assistance is subgrants (sometimes referred to as pass-through grants). It is also common for Section 4 grantees to award subgrants for purposes that support the administrative and technical capacity of community development organizational operations, such as staffing or consulting services.[34]

In its FY2022 Congressional Budget Justification, HUD indicated that with funds awarded between FY2016 and FY2018, Section 4 intermediary grantees have supported more than 3,000 local community development organizations.[35] This assistance included more than 200 trainings; 1,183 sub-grants (totaling $60.9 million); and five loans (totaling $8.1 million). According to HUD's reporting, Section 4 financial assistance from funds awarded during this period supported the construction of 6,686 new housing units; rehabilitation or reconstruction of 11,631 housing units; and pre-development support for 29,665 units.[36]

Table 4 provides a sample of projects that received Section 4 funding from intermediary organizations since FY2008.[37]

[32] HUD, *Section 4 Capacity Building for Community Development and Affordable Housing*, p. 23.

[33] HUD, *2022 Congressional Justifications*, 2021, p. 18-4, https://www.hud.gov/sites/dfiles/CFO/documents/Consolidated_2022CJ.pdf.

[34] USA Spending, *Spending by Sub-Award*, https://www.usaspending.gov/search/?hash=2a78b969ab0729b01e2a84ba4f3adf41.

[35] For these three fiscal years, Congress appropriated a total of $105 million to the Section 4 program.

[36] HUD, *2022 Congressional Justifications*, p. 18-4.

[37] USA Spending data for Section 4 grants is available for FY2008-FY2022.

Table 4. Section 4 Capacity Building Program Examples

Selected Activity Types	Example Funded Activities
Pre-Development	• Activities including stakeholder engagement, master plan development, and generation of predevelopment documentation to support the redevelopment of a 162-unit affordable housing community.[a] • Pre-development activities for an affordable multifamily rural housing development, including land appraisal, market analysis, environmental analysis, and stakeholder engagement. • Schematic master planning for a sustainable housing and community development project on tribal land.
Affordable Housing Development	• Financial support for the development of approximately 135 housing units in rent-burdened neighborhoods. • Development of five accessory dwelling units and financial support for five qualified homebuyers to purchase these units.[b] • Staffing and other direct costs associated with the development of 16 affordable rental housing units for households earning below 80% of the area median income.
Housing Rehabilitation, Reconstruction, or Preservation	• Financial support for the renovation of an eight-unit transitional housing facility for youth. • Home repairs, beautification, and safety improvements for 30 owner-occupied housing units. • Support for interior home modifications to allow low-income senior residents to safely age in place.
Community Facilities	• Development of a 2.5-acre urban farm to provide training, community activities, and access to produce. • Capacity building to support the development and maintenance of water infrastructure. • Funding to support the development of a mixed-use affordable housing and workforce development facility.
Local Economic Development and Business Support	• Financial support for the revitalization of a craft business district. • Economic development plan supporting local small businesses. • Development of a commercial corridor development strategy that considers market conditions, as well short- and long-term opportunities and challenges. • Stakeholder engagement, planning, and maintenance activities for an ongoing commercial corridor program.
Program Implementation and Administration	• Implementation of a "Housing Emergency and Rehabilitation Program" to support communities as part of the recovery effort from the impacts of Hurricane Maria. • Expansion of an initiative that supports the provision of healthy foods in corner stores. • Establishment and operations of a homeownership program for Native veterans. • Funding for the provision of affordable music lessons for low- and moderate-income residents.

Selected Activity Types	Example Funded Activities
Organizational and Programmatic Staffing	• Partial funding for a special projects officer and community development manager position to carry out a variety of social services for residents and clients. • Establishment of a director-level position for the administration of family services including financial literacy programming. • Funding to support the staffing of a family self-sufficiency coordinator and a homeownership center coordinator.
Consulting and Technical Assistance Services	• Hiring a construction management consultant to enhance real estate development production. • Retaining services of planning and development consultants for projects related to housing, community development, and water infrastructure. • Training and technical assistance to strengthen staff capacity in carrying out commercial and residential real estate development activities.

Source: USASpending.gov.

Notes: This is not an exhaustive or comprehensive list of activity categories or activities.

a. For additional information on this project, see U.S. Department of Housing and Urban Development (HUD), Office of Policy Development and Research, *In Practice: The Village at Washington Terrace Preserves Affordable Housing in Gentrifying East Raleigh, North Carolina*, June 21, 2021, https://www.huduser.gov/portal/pdredge/pdr-edge-inpractice-062121.html.

b. For more information on accessory dwelling units, see HUD's Regulatory Barriers Clearinghouse, https://www.huduser.gov/portal/rbc/search.html?topic=101&PubYear_from=2015&PubYear_to=2020.

Section 4 in Context

The Section 4 program is part of a broader landscape of federal resources that may support the capacity and efforts of local community development organizations. In some cases, federal program funds make up a large portion of operating budgets for local organizations focused on affordable housing and community development.[38] In recent NOFAs, HUD has encouraged the use of Section 4 program funds to enhance projects and activities funded by other federal programs.[39]

These programs are similar to the Section 4 program in that they provide funding or technical assistance to local organizations, through intermediaries or directly, to support operational and project capacity. **Table 5** provides an overview of some federal programs or federally chartered organizations that provide financial or technical capacity support to community development entities, including nonprofit organizations.

[38] Yael Krigman, "The Role of Community Development Corporations in Affordable Housing," *Journal of Affordable Housing and Community Development Law*, vol. 19, no. 2 (Winter 2010), pp. 235-236.

[39] HUD, *Section 4 Capacity Building for Community Development and Affordable Housing*, p. 13.

Table 5. Selected Federal Resources for Community Development Capacity

Program	Administering Agency	Program Overview
Rural Capacity Building for Community Development and Affordable Housing Program	U.S. Department of Housing and Urban Development	Provides funding to rural community development intermediary organizations to administer technical support and financial services for rural community development organizations, local governments, and tribal entities.
Neighborhood Reinvestment Corporation (NeighborWorks America)	NeighborWorks America[a]	Serves in an intermediary role by providing financial and technical assistance for affiliated organizations working in order to facilitate community revitalization efforts (42 U.S.C. §8101 et seq.).
Rural Community Development Initiative Grants	U.S. Department of Agriculture	Provides grants on a competitive basis for the expansion of rural housing opportunities, development of rural community facilities, and other community and economic development projects in rural areas.
Community Economic Development Program	U.S. Department of Health and Human Services	Provides grant funding to selected private nonprofit organizations for activities supporting employment and business expansion that provides economic opportunities for low-income individuals and communities.
Community Development Financial Institutions (CDFI) Program	U.S. Department of Treasury, Community Development Financial Institution Fund	Provides financial and technical assistance grants to support the capacity of CDFIs and their efforts in community revitalization (12 U.S.C. §4703; 12 C.F.R. §1805).

Sources: U.S. Department of Housing and Urban Development, https://www.hudexchange.info/programs/rural-capacity-building/; NeighborWorks America, https://www.neighborworks.org/Home.aspx; U.S. Department of Agriculture, https://www.rd.usda.gov/programs-services/community-facilities/rural-community-development-initiative-grants; U.S. Department of Health and Human Services, https://www.acf.hhs.gov/ocs/programs/ced; U.S. Department of Treasury, https://www.cdfifund.gov/.

Notes:

a. NeighborWorks America is a federally chartered nonprofit organization that typically receives congressionally appropriated funding as a related agency in the annual Transportation, Housing and Urban Development, and Related Agencies appropriations acts.

b. The CDFI Fund also administers certain other types of programs that provide funding to CDFIs.

Programs focused specifically on strengthening the capacity of local community development entities generally provide relatively low levels of funding as compared to other federal housing and community development programs. Some broader federal community development programs provide funding to states or eligible local governments on a formula basis for a range of activities related to community development or housing. Although these funds are not exclusively designed to support community development organization capacity and projects, they may be eligible for such uses. **Table 6** provides an overview of selected federal block grant programs that may support local community development and housing organizations.

Table 6. Selected Community Development and Affordable Housing Block Grants

Program	Administering Agency	Program Overview
Community Development Block Grant Program[0]	U.S. Department of Housing and Urban Development	A primary source of flexible federal funding to states, localities, and insular areas for economic and community development, and other related purposes (42 U.S.C. §5301 et. seq.; 24 C.F.R. §570).
HOME Investment Partnerships Program[b]	U.S. Department of Housing and Urban Development	Supports a variety of affordable housing-related activities including acquisition, construction, and rehabilitation of rental and owner-occupied housing and direct rental assistance (42 U.S.C. §12742; 24 C.F.R. §92).[c]

Sources: U.S. Department of Housing and Urban Development (HUD), https://www.hud.gov/program_offices/comm_planning/communitydevelopment; HUD, https://www.hud.gov/program_offices/comm_planning/home.

Notes:

a. For more information on the CDBG program, see CRS Report R46733, *Community Development Block Grants: Funding and Allocation Processes*, by Joseph V. Jaroscak.

b. For more information on HOME, see CRS Report R40118, *An Overview of the HOME Investment Partnerships Program*, by Katie Jones.

c. By statute, HUD requires jurisdictions to set aside 15% of HOME program funds for certain affordable housing activities undertaken by Community Housing Development Organizations. For more information, see 42 U.S.C. §12771; 24 C.F.R. Part 92, Subpart G; and HUD Exchange, "HOME CHDO," https://www.hudexchange.info/programs/home/topics/chdo/#policy-guidance-and-faqs.

Federal programs and policy tools may also influence the attraction of private investment to community development and affordable housing projects, which may, directly or indirectly, support the efforts of community development organizations. **Table 7** provides an overview of selected community development incentives.

Table 7. Selected Federal Community Development Tax Credits and Incentives

Tax Credits and Incentives	Administering Agency	Program Overview
Low Income Housing Tax Credits (LIHTC)	U.S. Internal Revenue Service[a]	Incentivizes the development of affordable rental housing units by offsetting construction costs.[b]
New Markets Tax Credits	U.S. Department of Treasury	Incentivizes private capital equity investments in economically distressed communities to support local business development.[c]
Opportunity Zones	U.S. Internal Revenue Service	Encourage private investment in economically distressed communities designated by states, the District of Columbia, and U.S. territories (26 U.S.C. §1400Z-1).[d]

Sources: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, https://www.huduser.gov/portal/datasets/lihtc.html; U.S. Department of Treasury, https://www.cdfifund.gov/programs-training/programs/new-markets-tax-credit; U.S. Internal Revenue Service, https://www.irs.gov/credits-deductions/businesses/opportunity-zones.

Notes:

a. The LIHTC is a provision of the tax code and is therefore under the oversight of the Internal Revenue Service. The primary administrators of the LIHTC program, however, are state and local housing finance agencies (HFAs). HFAs screen applications to determine which developers receive awards of credits. Delegating this authority to HFAs gives each state the flexibility to address its individual housing needs, which is important given the local nature of housing markets. It also reduces the federal government's oversight role, as HFAs are also charged with containing costs and monitoring projects to ensure they are compliant with the program rules.

b. States are required to award no less than 10% of LIHTC tax credits to nonprofit organizations to develop long-term affordable housing options in their communities. For more information on LIHTC, see CRS Report RS22389, *An Introduction to the Low-Income Housing Tax Credit*, by Mark P. Keightley.

c. For more information, see CRS Report RL34402, *New Markets Tax Credit: An Introduction*.

d. For more information, see CRS Report R45152, *Tax Incentives for Opportunity Zones*.

In addition to federal sources, such as those mentioned in this section, community development organizations may receive additional financial assistance from a variety of state, local, philanthropic, and private entities.[40]

Policy Considerations

Community development needs have evolved since the Section 4 program was last reauthorized in 1997, including shifts in the national housing market.[41] As noted in the previous section, the Section 4 program is part of a broader landscape of federal resources for community development in the United States. Some Members of Congress have proposed legislation that would modify the Section 4 program's structure or create alternative models for providing technical and financial capacity support to local community development entities.

Section 4 Structure

Since the Section 4 program's inception, the list of intermediary organizations eligible for program funding has fluctuated in size. Although Congress has not modified the eligibility structure in the program's statute since 1997, some appropriations acts have limited eligibility, as described earlier. Some Members of Congress have introduced proposals that would further modify the eligibility structure for HUD community development capacity funding.

Some proposals have sought to expand or establish additional support for local organizations. For example, the HUD Demonstration Improvement Act of 2010 (H.R. 4737) would have amended the program's authorizing statute by expanding the list of eligible grantees to include the National Urban League and the Housing Partnership Network. Expansion of eligibility under the Section 4 program may increase access and potentially diversify the range of activities carried out under the program.[42] However, any changes to the list of eligible grantees would need to consider the

[40] Federal Reserve Bank of St. Louis, *Coming Up with the Money: Five Principles for Launching a Successful Community Development Initiative*, Unit 3—Process: Sourcing Financial Resources for Community Development Initiatives, https://www.stlouisfed.org/community-development/how-to-launch-community-development-project/process-sourcing-financial-resources-for-community-development-initiatives.

[41] For more information on the U.S. housing market, see CRS In Focus IF11327, *Introduction to U.S. Economy: Housing Market*, by Lida R. Weinstock

[42] Section 4 grantees have broad discretion over the manner in which they administer program funds to support eligible beneficiaries.

relative alignment of organizational mission and record of performance with the Section 4 program's intent.

In the 117th Congress, on November 19, 2021, the House approved the Build Back Better Act (H.R. 5376), a FY2022 reconciliation measure.[43] Title IV, Section 40302, of the bill would fund competitive grants for "Community-Led Capacity Building" to be administered by HUD with substantially similar eligible activities to the Section 4 program. However, the proposed competitive grants would include a larger group of eligible grantee organizations and could serve a wider range of community development entities as eligible beneficiaries. Specifically, the funds would be available to

> non-Federal entities, including nonprofit organizations that can provide technical assistance activities to community development corporations, community housing development organizations, community land trusts, nonprofit organizations in insular areas, and other mission-driven and nonprofit organizations that target services to low-income and socially disadvantaged populations, and provide services in neighborhoods having high concentrations of minority, low-income, or socially disadvantaged populations.[44]

As illustrated by these proposals, Congress may consider authorizing or funding a separate program, with broader eligibility, to supplement or replace the Section 4 program. Congress could also potentially modify the Section 4 program to address any shifts in community development needs through reauthorization of the program. Congress may also consider maintaining the current structure.

The most recent detailed federal assessments and reports on the program's structure and performance were conducted in the early 2000s. In assessing potential modifications to the Section 4 program, Congress may consider commissioning updated reports or conducting hearings to assess the program's role and effectiveness in addressing current and emerging needs.

Coordination of Federal Community Development Resources

The Section 4 program represents a model in community development by which federal resources are used to generate additional private sector investment to support the financial and technical capacity of community development organizations through selected intermediary organizations.[45] Section 4 is one of several federal programs that provides funding to national community development intermediaries and local community development organizations.

Federal funding represents an integral component to organizational budgets and enables leverage of other funding and financing.[46] Although several federal community development and housing programs have unique aspects or separate purposes, some analysis has suggested that there may be redundancies and overlap, which could pose a duplication of benefits risk.[47] Accessing the full

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[43] For more information on provisions related to housing and community development in H.R. 5376, see CRS Report R46916, *FY2022 Reconciliation: Title IV, House Financial Services Committee Provisions*, coordinated by Maggie McCarty.

[44] H.R. 5376, Title IV, §40302.

[45] Office of Management and Budget (OMB), *Detailed Information on the Capacity Building for Community Development and Affordable Housing Assessment*, https://georgewbush-whitehouse.archives.gov/omb/expectmore/detail/10001165.2003.html.

[46] U.S. Congress, Joint Economic Committee, *The Promise of Opportunity Zones*, 115th Cong., 2nd sess., May 17, 2018, 30-384 (Washington: GPO, 2018), p. 77.

[47] OMB, *Detailed Information on the Capacity Building For Community Development and Affordable Housing*

network of community development programs, administered by various federal agencies and offices, might also pose administrative challenges associated with application and reporting processes for some organizations with limited capacity.[48]

Congress may consider options to enhance coordination among federal community development programs and streamline application processes and grant management requirements across programs. Alternatively, Congress might consider other options and identify other tools to assess and address local community development capacity. This may include identifying other types of organizations or other methods for addressing local community development needs.

Assessment.

[48] OMB, *Detailed Information on the Capacity Building for Community Development and Affordable Housing Assessment*.

Appendix A. Section 4 Eligible Beneficiaries

HUD competitively awards Section 4 funds to specified eligible intermediary organizations. Those intermediaries, in turn, provide funding to eligible beneficiaries. Organizations may qualify as beneficiaries for Section 4 financial and technical assistance if they meet one of three sets of criteria for eligible CDCs or CHDOs. The specific eligibility criteria for these organizations are enumerated in program NOFAs and, in the case of CHDOs, Title 24, Section 92.2, of the *Code of Federal Regulations*. This appendix includes the criteria for each category of eligible Section 4 program beneficiaries as outlined in HUD's FY2020 program NOFA.

Section 4 Community Development Corporation Definition 1

A CDC is a nonprofit organization that undertakes eligible Section 4 Capacity Building Program activities as defined in this NOFA and that meets these qualifications:

a. Is organized under Federal, State or local law to engage in community development activities (which may include housing and economic development activities) primarily within an identified geographic area of operation;
b. Is governed by a board of directors composed of community residents, business and civic leaders;
c. Has as its primary purpose the improvement of the physical, economic or social environment of its geographic area of operation by addressing one or more critical problems of the area, with particular attention to the needs of persons of low income;
d. Is neither controlled by, nor under the direction of, individuals or entities seeking to derive profit or gain from the organization;
e. Has a tax exemption ruling from the Internal Revenue Service under section 501(c)(3) or (4) of the Internal Revenue Code of 1986 (26 CFR 1.501(c)(3)-1);
f. Has standards of financial accountability that conform to 2 CFR Part 200.302, "Financial Management" and 2 CFR Part 200.303, "Internal Controls";
g. Is not an agency or instrumentality of a State or local government; and
h. "Community" may be a neighborhood or neighborhoods, town, village, county or multi-county area (but not the entire State or territory).[49]

Organizations may also qualify as CDCs under the following definition.

Section 4 Community Development Corporation Definition 2

An organization that does not qualify under paragraphs (a) through (h) may also be determined to qualify as an eligible entity if:

a. It is a Small Business Administration (SBA) approved Section 501 State Development Company—or an SBA Certified Section 503 Company—under the Small Business Investment Act of 1958, as amended (P.L. 85-699); or
b. The recipient demonstrates to the satisfaction of HUD, through the provision of information regarding the organization's charter and by-laws, that the organization is sufficiently similar in purpose, function, and scope to those entities qualifying under paragraphs (a) through (h) of this definition; or
c. It is a State or locally chartered organization; however, the State or local government may not have the right to appoint more than one-third of the membership of the organization's governing body and no more than one-third of the board members may be public officials or employees of the State or local government entity chartering the organization. Board members appointed by the State or local government may not appoint the remaining two-thirds of the board members.[50]

[49] Contents presented as posted in HUD, *Section 4 Capacity Building for Community Development and Affordable Housing*, p. 7.

[50] Contents presented as posted in HUD, *Section 4 Capacity Building for Community Development and Affordable Housing*, p. 7.

Additionally, CHDOs, as defined under HUD's HOME program's authorizing statute and regulations, are eligible beneficiaries in the Section 4 program.

Community Housing Development Organization Definition

Community housing development organization means a private nonprofit organization that:

1) Is organized under State or local laws;
2) Has no part of its net earnings inuring to the benefit of any member, founder, contributor, or individual;
3) Is neither controlled by, nor under the direction of, individuals or entities seeking to derive profit or gain from the organization. A community housing development organization may be sponsored or created by a for-profit entity, but:
    i. The for-profit entity may not be an entity whose primary purpose is the development or management of housing, such as a builder, developer, or real estate management firm.
    ii. The for-profit entity may not have the right to appoint more than one-third of the membership of the organization's governing body. Board members appointed by the for-profit entity may not appoint the remaining two-thirds of the board members;
    iii. The community housing development organization must be free to contract for goods and services from vendors of its own choosing; and
    iv. The officers and employees of the for-profit entity may not be officers or employees of the community housing development organization.
4) Has a tax exemption ruling from the Internal Revenue Service under section 501(c)(3) or (4) of the Internal Revenue Code of 1986 (26 CFR 1.501(c)(3)-1 or 1.501(c)(4)-1)), is classified as a subordinate of a central organization non-profit under section 905 of the Internal Revenue Code of 1986, or if the private nonprofit organization is an wholly owned entity that is disregarded as an entity separate from its owner for tax purposes (e.g., a single member limited liability company that is wholly owned by an organization that qualifies as tax-exempt), the owner organization has a tax exemption ruling from the Internal Revenue Service under section 501(c)(3) or (4) of the Internal Revenue Code of 1986 and meets the definition of "community housing development organization;"
5) Is not a governmental entity (including the participating jurisdiction, other jurisdiction, Indian tribe, public housing authority, Indian housing authority, housing finance agency, or redevelopment authority) and is not controlled by a governmental entity. An organization that is created by a governmental entity may qualify as a community housing development organization; however, the governmental entity may not have the right to appoint more than one-third of the membership of the organization's governing body and no more than one-third of the board members may be public officials or employees of governmental entity. Board members appointed by a governmental entity may not appoint the remaining two-thirds of the board members. The officers or employees of a governmental entity may not be officers or employees of a community housing development organization;
6) Has standards of financial accountability that conform to 2 CFR 200.302, 'Financial Management' and 2 CFR 200.303, 'Internal Controls;'
7) Has among its purposes the provision of decent housing that is affordable to low-income and moderate-income persons, as evidenced in its charter, articles of incorporation, resolutions or by-laws;
8) Maintains accountability to low-income community residents by:
    i. Maintaining at least one-third of its governing board's membership for residents of low-income neighborhoods, other low-income community residents, or elected representative of low-income neighborhood organizations. For urban areas, "community" may be a neighborhood or neighborhoods, city, county or metropolitan area; for rural areas, it may be a neighborhood or neighborhoods, town, village, county, or multi-county area (but not the entire State); and
    ii. Providing a formal process for low-income program beneficiaries to advise the organization in its decisions regarding the design, siting, development, and management of affordable housing;
9) Has a demonstrated capacity for carrying out housing projects assisted with HOME funds. A designated organization undertaking development activities as a developer or sponsor must satisfy this requirement by having paid employees with housing development experience who will work on projects assisted with HOME funds. For its first year of funding as a community housing development organization, an organization may satisfy this requirement through a contract with a consultant who has housing development experience to train appropriate key staff of the organization. An organization that will own housing must demonstrate capacity to act as owner of a project and meet the requirements of

§92.300(a)(2). A nonprofit organization does not meet the test of demonstrated capacity based on any person who is a volunteer or whose services are donated by another organization; and

10) Has a history of serving the community within which housing to be assisted with HOME funds is to be located. In general, an organization must be able to show one year of serving the community before HOME funds are reserved for the organization. However, a newly created organization formed by local churches, service organizations or neighborhood organizations may meet this requirement by demonstrating that its parent organization has at least a year of serving the community.[51]

[51] Contents presented as enumerated in 24 C.F.R. §92.2.

Appendix B. Section 4 Awards FY2010-FY2020

Table B-1. Section 4 Awards by Intermediary Organization: FY2010-FY2020

Dollars in Millions

Year	Enterprise Community Partners	Local Initiatives Support Corporation	Habitat for Humanity	Total
FY2020	14.2	13.6	8.1	36.0
FY2019	14.3	14.3	6.3	35.0
FY2018	13.9	14.7	6.2	35.0
FY2017	14.5	15.4	5.2	35.0
FY2016	14.3	15.0	5.7	35.0
FY2015	14.7	13.8	6.6	35.0
FY2014	15.8	14.8	4.2	35.0
FY2013	15.8	14.8	4.2	35.0
FY2012	15.6	15.2	4.2	35.0
FY2011	19.7	22.1	7.5	49.4
FY2010	25.3	19.3	4.9	49.5

Source: U.S. Department of Housing and Urban Development,, *Section 4 Capacity Building for Community Development and Affordable Housing Program Historical Awards*, https://www.hudexchange.info/programs/section-4-capacity-building/historical-awards/.

Notes: Due to rounding, some figures may not add up to totals.

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