

**Neighborhood Planning  
for Community  
Revitalization**

**Proposal for Creation of a  
Housing Partnership in the  
Steven's Square Community**

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by John Borders

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*Proposal for Creation of a Housing Partnership  
in the Steven's Square Community*

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*Center for Urban and Regional Affairs*

*University of Minnesota*

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## **Introduction**

This report entails an overall plan for the inception, development, and fruition of a housing rehabilitation strategy designed to make Steven's Square an affordable, safe neighborhood with high-quality housing, while providing employment opportunities for the neighborhood's unemployed. The instrument used will be a public-private venture entitled the Steven's Square Housing Partnership.

### **Steven's Square: The Community and Its Needs**

Steven's Square is one of three neighborhoods (Steven's Square, Loring Park, Elliot Park) in central Minneapolis having similar characteristics and facing similar challenges: They are proximate to downtown; have racially and socially diverse populations; are comprised largely of rental apartment housing; are ripe for construction and renewal; suffer from crime and a lack of job opportunities; and are high density living areas. Thus, a housing renewal prototype for Steven's Square, if successful, can serve as a model for these neighborhoods. Perhaps the city at large can benefit by selective implementation determined by circumstance in the target neighborhood.

### **Current Housing Composite**

- Ninety percent of housing is potential for high quality rental
- Ten percent is ready for demolition and new construction
- Housing comprised of roughly four categories: Older (1880's-1920's) 20-40 unit buildings; newer (1940's-onward) 10-30 unit buildings; one public housing high rise; and some single family homes or single owner, one to four unit condominiums.

- SCA currently owns approximately 650 of Steven's Square's units, other owners hold a total of 500 units.

The major focus will be on apartment rehabilitation (with some reconstruction) in Steven's Square, but parallel rehabilitation for the Clinton sector will be part of SSHP's long-range plan, as conditions in the Clinton sector will have an affect on the success of Steven's Square rehabilitation. There is a significant need for a housing plan which eschews reliance on institutions, such as the more inexperienced Community Development Corporations (CDCs), that have been unable to efficiently manage housing developments within the market driven realities of housing and real estate. Instead, the neighborhood needs a public-private partnership in order to cultivate short-term solvency and long-term profitability. The vehicle proposed here would be dedicated to the housing goals mentioned above.

### **The Methodology**

The research which inspired the majority of the ideas presented here emanates from a series of case studies nationwide that evaluate housing rehabilitation strategies in low-income communities. In particular, case studies of San Francisco, Milwaukee, Cleveland, Boston, and Chicago are rather prominent. The successes and failures evident in the endeavors of these communities were analyzed, with examples of "what works" being integrated into a comprehensive plan appropriate to realities of the Steven's Square Community. Therefore, it serves as an innovative model whose components are derived from past success stories.

## **Phase I: Conceptual Planning and Funding of the Steven's Square Housing Partnership.**

*Duration: 6 to 12 months from point of hire*

Initially, one person should be hired to organize and implement the incubation phase of the project. His/Her mission would be to acquire the initial funding and participant agreements for financing of the project, while planning the structure of the organization which will administer and manage the project. He/she should report to the Steven's Square housing committee. Other than this "supportive" supervisory role, this person should be given a necessary amount of freedom during this phase. However, any legally binding decisions or contract obligations made by this person must be ratified by the housing committee.

Undue interference by other committees, or the greater board, at such an early phase will slow progress, inhibit SSCO's ability to act efficiently, and frustrate the individual's motivation.

### **Qualities needed in this person:**

- Must have clarity on and be in general agreement to SSCO's policies towards housing renewal.
- Business background in real estate and housing development, needs prior experience with private developers.
- An appreciation for the social concerns of Steven's Square, and a sensitivity to the needs of the neighborhood's lower income individuals.
- Training and expertise in the public and private sector finance tools.

Funding for this position should come from one-time funds donated or acquired by SSCO.

An employment contract should be drawn up between the employee and SSCO containing performance-based pay measures. What percentage of the contract the employee actually

receives is dependent upon the level of job objective achievement as determined by the SSCO housing committee. Upon successful completion of phase one, the employee shall be granted the title of President, Steven's Square Housing Partnership, and lead the project into phase II.

*The end of phase one shall be marked by the following accomplishments:*

- \* **The attainment of grant funds from a foundation or the government for the staffing and administration of the organization which will direct the partnership.**
- \* **Identification of private sector developers and investment partners willing to participate in the partnership.**
- \* **Identification of government or philanthropic institutions willing to make a long-term financial commitment to the project.**
- \* **Establishment of an organizational framework with a mission statement, project objectives, and a five-year business plan.**
- \* **Establishment of the "Steven's Square Housing Partnership" as a public benefit 501(c)(3) non-profit corporation.**

**Phase II:** Finalization of initial project finance and funding arrangements, hiring of staff, selection of board of directors for the housing partnership.

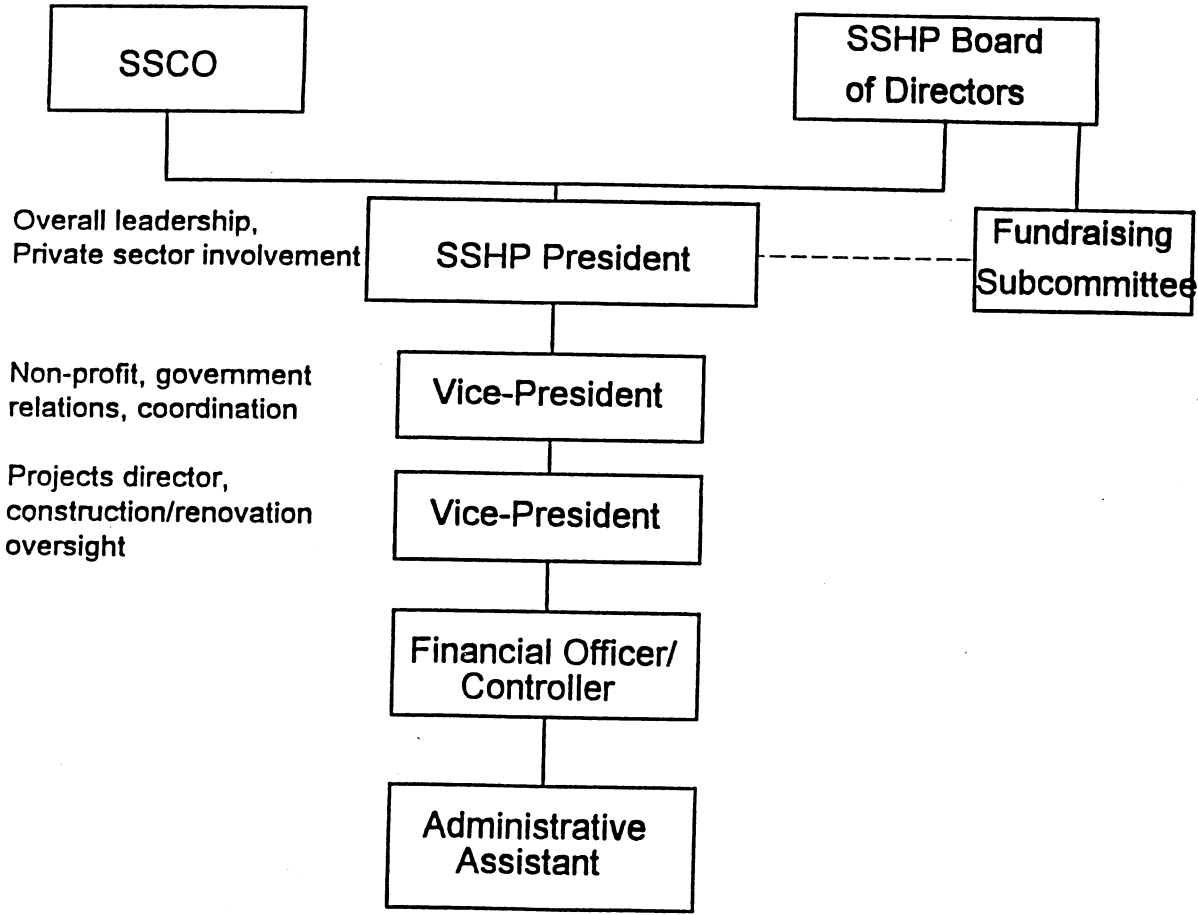
*Duration: 8 to 12 months*

**The Organization: Steven's Square Housing Partnership**

The SSHP staff will be small and efficient in order to reduce costs and make a positive impression on private investors wary of over bloated staff and management. Its office should be located in the Steven's Square neighborhood so as to keep a daily exposure to the community it serves. One suggestion is to house the outfit in rental space donated by a

local property owner, and thus, could be part of SSCO's street level development plan. Office furnishings could be donated by either local property owners or by corporations. It is vital that overhead is kept to a minimum so that maximum funding goes to housing projects.

Steven's Square Housing Partnership  
Organizational Chart



### **Organizational Roles**

**President:** Responsible for overall guidance and management, including conducting relations between the Board of Directors as well as SSCO. He/She will also specialize in recruitment of private sector participation in the partnership.

**Vice-President:** Responsible for handling relations with non-profit organizations and governmental bodies. This person will ensure that proper funding and assistance is forthcoming from the non-profit sector, and will conduct recruiting, grant writing, etc. to that end. They will also foster a special relationship with participant governmental bodies, ensuring that government regulations do not hamper progress of the partnership.

**Vice-President:** Will be projects director of all rental rehabilitation. They will conduct duties relating to acquisition, construction, rehabilitation, contracting, etc. Thus, their major role will be to actualize projects commensurate to the needs of the neighborhood and appropriate for the size and type of funding obtained by the two other officers.

**Controller:** This financial administrator is responsible for seeing that all projects and operations are conducted with budget. Besides this accounting function, they will also conduct ongoing evaluation of the partnership's financial strategies to determine what changes (due to changing markets or government programs) can be made to reduce debt service on certain projects or to leverage more venture capital from the private sector.

**Administrative Assistant:** Will provide administrative and secretarial services for the organization. Only one person will be hired initially, but other may be added as projects and funding increase.

### **The Board of Directors**

The President is in charge of recruitment of officers to serve on the partnership board. It should include: bankers; developers; government officials; neighborhood residents; non-profit leaders; and CEO's. Besides oversight of the partnership, there will be a special fundraising role. We seek a board of directors with the power and will to foster political and financial support from the community. It will be especially important for the board to be proactive in seeking seed money for the partnership in its inaugural year. This is why a fundraising subcommittee should be formed. Its main task is to recruit funding and donation of in-kind services. Donation of property, buildings, legal counsel, real estate and financing expertise, government waivers, and general equipment and services are all potential contributions which could emerge as a result of the subcommittee's work. An important common ingredient in housing partnerships which have succeeded has been a politically and financially powerful board willing to go to bat for the organization. The same is needed for Steven's Square.

### **Funding and Financing**

The partnership will seek a total of \$22 million for the purpose of renovation or construction of 1,000 units at the cost of \$22,000 per unit. The funding and financing sources are discussed below. However, the contribution from each sector may vary according to the additional funding and service captured by the Board of Directors, in addition to opportunities that may emerge as market conditions change. Regardless, new projects will not be pursued at the expense of the original 1,000 unit renovation is funded.

### **Apartment Rehabilitation vs. Home Renewal**

The primary focus of SSHP will be apartment renovation, but projects which enhance other housing stock in Steven's Square is also necessary. Of special note here is the Clinton sector. It borders 3rd Avenue South, near the heart of the apartment rental stock,

and failure to submit a rehabilitation plan for Clinton's single family dwellings will negatively impact the aggregate success of SSHP apartment renovation. Demolition, land banking, and eventual reconstruction for many lots are plausible options. However, Clinton's priority should not supersede the core 1,000 unit rehabilitation. Accordingly, SSHP will not undertake Clinton sector renovations until phase four, when 1) a majority of apartment renovations will be completed or in progress 2) The President has ensured that the Partnership's revenue stream and financial obligations will adequately finance such an option. This delay is to insure that apartment renewal remains the centerpiece project. To commit to peripheral (e.g.- non-apartment) projects at an early stage will make the Partnership susceptible to a lack of focus and a tendency to promote "special projects" above the needs of low income renters, who are the main constituents of apartment stock housing.

### **Mortgage**

Twelve million will come from a mortgage with an interest rate of 7 percent, planned to have a guarantee, perhaps by the MFHA or the Federal government. A long term, low interest mortgage is vital to the success of the operation, and would be sought from funders such as banks, foundations, or the government. Banks may be interested in order to enhance their compliance record with the Community Reinvestment Act, and having a powerful banking figure on the Board will facilitate this. Others companies may be enticed into offering loans by the neighborhood's strategic location, the market return of the operation, or tax benefits (title two tax treatment, historic preservation credits, low income housing credits, etc.)

**Equity**

Five million will come from equity (investment partners such as NSP, General Mills, or city pension funds). Again, the enticement will be in the form of market returns and tax credits. Installation of market rate rent subsidies for first time job seekers in the neighborhood may also entice equity partners. Five million is a conservative figure, as the conceptual planning of the partnership encourages private sector equity investment to the greatest extent possible. For those companies reluctant to participate, one strategy to persuade them is to leverage equity through matching non-profit funding. For example, encourage the local banks that have interests in Steven's Square (or even downtown Minneapolis) to collectively match 1:1 any non-profit funding; \$7 million non-profit dollars would thus bring \$7 million from the private sector. A crucial part of this partnership will be giving the private sector the opportunity to prove that they are committed to improving the lives of its customers and the community at large. Incorporation of this thinking in SSHP's fund-raising efforts can produce substantial capital.

**Grants**

Five million dollars will be acquired by grant funding. Possible donors included HUD, City, State, or Federal government. However, national political currents may limit their ability to contribute monetarily. Moneys from non-profit organizations, such as the Minneapolis Foundation, are more likely options. However, we must ensure that the philanthropic process is designed in a way that allows non-profit money to be used in a project which pays returns to its equity investors. Some innovative programs which are geared towards non-profit contributions to low-income housing are listed below:

### **The Local Initiatives Support Coalition**

It is the largest non-profit community development intermediary in the United States whose goal is to provide financial and technical assistance to low-income communities. LISC has helped housing organizations develop their expertise and capacity for putting together and properly managing large scale housing rehabilitation projects. In 1988, direct financial support from LISC to outfits such as CDCs reached over \$66 million, much of this support helped leveraged investment support by developers and other institutions. It operates in twenty-two major American cities, but presently, it is not in Minneapolis. A well-thought out Minneapolis proposal submitted to their national board of directors may induce some action.

### **The Enterprise Foundation**

The Enterprise Foundation is a non-profit created in 1982 that facilitates the development of low income housing. Its particular focus is the creation of public/private housing partnerships to provide decent and affordable housing. It has a for-profit subsidiary which has assisted more than one-hundred local non-profit housing groups. Another subsidiary, the Enterprise Social Investment Corporation, structures project finance for low-income housing construction or revitalization which are controlled and managed by a non-profit general partner. Enterprise also has a construction loan fund of over \$6 million dollars offered at three percent interest. They also encourage job training in their program, which might appeal to the jobs and training objective we seek in SSHP. Overall, this is another intermediary which offers some real one-stop shopping for this kind of project.

### **A new twist on some old lenders**

Besides using the Community Reinvestment Act and tax credits as incentives for equity investment, there also are special programs that set aside philanthropic funds for low-income housing projects. The insurance companies like to participate in these, but banks are prevalent as well. A good example is the program run by Chicago's South Shore Bank. It aggregates and holds funds from individuals, government agencies, and foundation in low or no interest bank accounts. These "linked deposits" are set aside for local community development. Because this bank is federally chartered, depositors assume no risk because their deposits are insured up to \$100,000 by the federal government. A program such as this would be easily transferred to Minneapolis. Again, a reminder of CRA compliance might make local banks very willing participants.

### **Using the Banks: Lender Consortia**

Separate lending groups are sometimes formed by a groups of banks or other financial institutions for the purpose of lending for low-income housing development. Since low-income housing is their only charge, they are very knowledgeable and efficient in operation, and get much more done than if SSHP approached each bank individually. They often work with local government agencies to supplement the effectiveness of their programs by getting the government to provide rent restrictions, subsidies, or below market finance if they are case appropriate. This has been done in New York, and there are like models in Chicago, San Francisco, and a few other cities. SSHP would benefit by having such a consortium. Its scale and production capabilities would take a lot of work of the shoulders of a small outfit. Without it, we run a risk of having a partnership that is understaffed and underfunded to efficiently manage all operations.

Once the staff is planning place, planning on projects will begin according to the type and size of funding available. The partnership will take a "do the easy ones first" philosophy. The first projects to be undertaken will involve purchase and rehabilitation of existent rental housing in relatively good shape. This will provide renovated units in relatively short time and initiate a stream of revenue. Major demolition, construction, or other expensive, long-term projects will hold lower priority because of the financial stress put upon the partnership, as well as the time they would take before housing would be available.

The President will lead the way for equity building and negotiation of a loan with favorable terms and the appropriate guarantees and insurance. The Vice-President in charge of non-profit, governmental relations will work for both financial resources from those sectors. In the case of government, negotiate to speed the approval of the various licenses, permits, tax breaks, etc. along with any other funding or services that may speed the development process.

Meanwhile, the Vice-President for projects will draw up initial development plans. They will use program based budgeting in the design of the first renovation plans, as well as in the general agreements with contractors. Special focus will be made on ensuring that the contractors are forthright and trustworthy in their activities. This is to avoid another poor quality company, such as DKC, from impeding the neighborhood's ability to revitalize.

### **Marketing**

The general public must be made aware and enthusiastic about the renewal occurring in the neighborhood. SSHP will undertake appropriate marketing measures to insure that this message gets out so that new residents are recruited while existent residents find a compelling reason to stay.

### **Rents**

The improvement of units will mean an increase in rents to support debt service and to attract more higher income individuals into the area. To prevent gentrification, there must be a rent subsidy for lower income individuals so Steven's Square will remain affordable.

### **Job Creation**

An important aspect of the success of this partnership concept is the creation of local employment. Therefore, contractors hired for work will be bound, by contract, to hire a certain percentage of Steven's Square residents for their unskilled labor needs. Skilled slots are also desirable, but Union restrictions and a shortage of locally qualified individuals make this option unlikely. The Vice-President for non-profit and governmental relations will work with local Union authorities to negotiate any waivers which may open up temporary work for neighborhood residents. Another option is to get a local technical educational school or other firm to donate a few weeks of training for selected residents.

The majority of phase two work will involve finalizing the financial arrangements, while making adjustments in the first housing project according to the success of fundraising. The key is to plan according to realistic assumptions about money availability. Growth in project scale should be incremental in order to decrease pressure on SSHP's incubate phase.

*The end of phase two shall be marked by the following accomplishments:*

- \* **SSHP staff and organization will be in place and operational.**
- \* **Finance and other monetary arrangements for operations will be finalized.**
- \* **The blueprints for the first projects shall be in place, including selection of contractors and management.**
- \* **The first renovations will begin.**

### **Phase III: Expansion**

*Duration: One year*

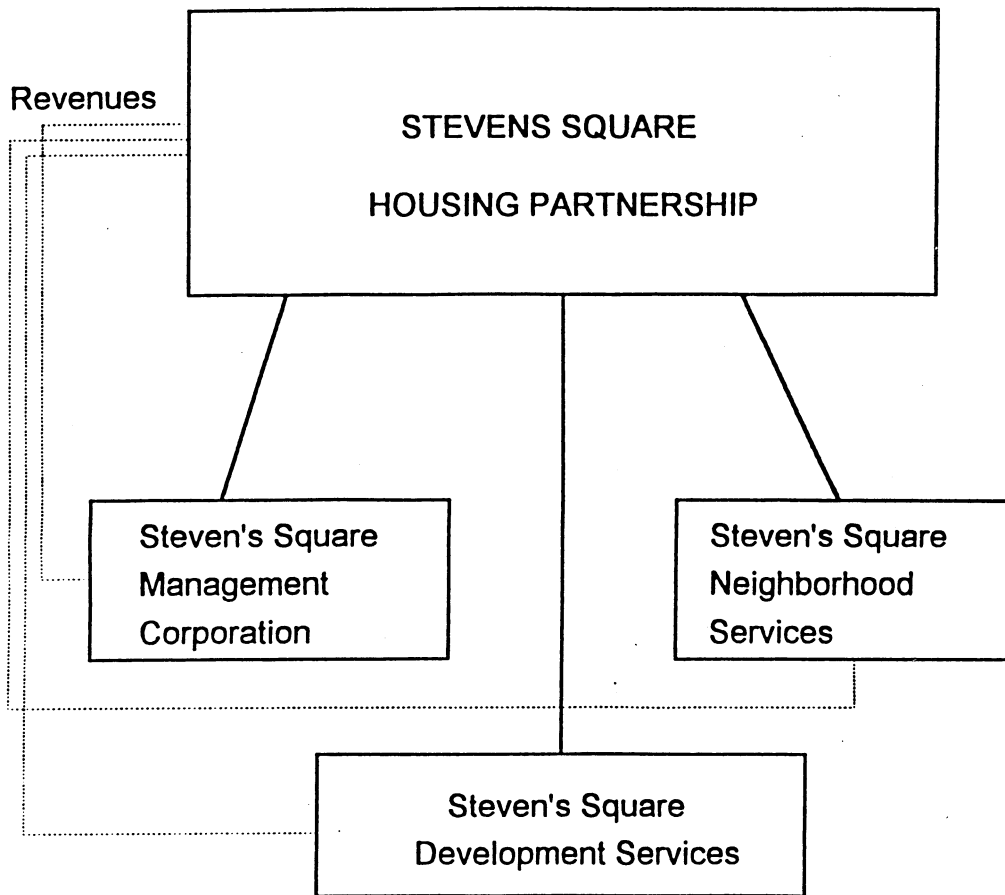
At this threshold, the major capital projects will begin, assuming a healthy revenue stream from the first rehabilitated units. In addition, a renewed search for venture capital will commence to enhance the scale of current projects or to compensate for any cash shortages. An active campaign by the President bolstered by proactive advocacy among board members should make this a successful venture. The key is to emphasize the successes achieved to date while reminding the community of the work yet to be done.

A re-evaluation of SSHP's debt service will also take place. This will make sure that loan repayments are on schedule and that optimal use is made of market conditions. For instance, it may be wise to refinance some mortgages if interest rates are lower, or the schedules of debt service may be adjusted to give the partnership maximum flexibility to achieve its goals. Failure to reexamine the way SSHP handles its money will certainly threaten long-term survival.

Phase three will also see the termination of contracted building management, with the creation of a self-owned management company that will oversee all SSHP buildings. This will be another employment source for local residents, as many of the tasks involved with caretaking are relatively low skill and can be met by the neighborhood's labor pool. Those receiving rent subsidies will be recruited to fill many of these general labor positions. This lets them accomplish a sense of self sufficiency while reducing the number of subsidized units in the partnership. Any profits derived from this activity will finance debt repayment.

Another new organization created will be Steven's Square Neighborhood Services. It will address the needs of SSHP residents in terms of neighborhood safety, landscaping,

## EXPANSION OF STEVEN'S SQUARE HOUSING PARTNERSHIP



**Profits realized by the new operations will return to the Steven's Square Housing Partnership operating fund**

transportation services, tenant activities, community building, etc. Without this effort, the hard work of physical improvements will be mitigated by negative circumstance which might exist outside the buildings. It complements the renovation's impact makes while rounding out the comprehensive nature of SSHP's approach. The difference between this and the present SSCO agenda is that it gives the partnership a free and quick hand to improve the community without reliance upon SSCO resources. Service delivery to its tenants will be quicker, and since funds will come from the partnership, it will not financially burden already strapped neighborhood agencies.

*The end of phase three shall be marked by the following accomplishments:*

- \* Maximum revenue streams and capital development will be underway.
- \* Over 50% the projects will be in progress or completed.
- \* New donors/investors will be identified, a reevaluation of SSHP finance schedules will have taken place.
- \* A new management company will be created.
- \* A new neighborhood services company will be created.

#### **Phase Four: Further Expansion and Reevaluation of SSHP's Objectives and Strategies**

*Duration: Ongoing*

This stage will see further expansion additional capital rehabilitation projects along with the creation of a consulting firm to offer for hire services to city neighborhoods interested in benefiting from the Steven's Square model. It shall be known as Steven's Square Development Services. This will promote the SSHP concept elsewhere in the city,

heightening public awareness of its work and accomplishments, and will also create another revenue stream to supplement the partnership's capital budget. Another Vice-President will be added to the organization to assume the additional responsibilities inherent in this new undertaking.

Growth will occur concurrently with a re-evaluation of the entire Partnership program. The staff and its board will set down together to assess how SSHP is faring in terms of mission success. Organizational strengths shall be capitalized on while weakness will be improved. Overall assessment of SSHP's plans in light of changing conditions in Steven's Square or the financial markets will also be appropriate. The purpose of this reevaluation to insure that SSHP is focused on appropriate goals, and is taking the correct approach to achieving those goals. Furthermore, this stage will introduce a greater push towards organizational self-sufficiency. The hope is that revenue streams and capital assets will be strong enough to end any significant reliance upon grant money for survival. This is not to say that grant funding will be completely ignored. Rather, we shall remove it as a cornerstone to organizational solvency. Its role will be relegated to financing peripheral activities, or to constitute reserve funds.

#### **Steven's Square Public Housing High-Rises**

Part of this phase will incorporate management of the two public housing high-rises into the SSHP structure. An arrangement will be pursued with the city of Minneapolis to have high-rise management contracted out to SSHP's management company. This will accomplish three things: 1) It will bring the neighborhood's new management philosophy into the highest density housing 2) The solid management will improve the lives of those residing in the high rises 3) The city of Minneapolis benefits from responsible, efficient management, while SSHP experiences increased revenue streams.

At this time, the President will make necessary adjustments to staff size or organization structure to outfit this rapidly expanding agency to meet the challenges of the coming years. Since SSHP will have branched out into three new areas at this point, it is anticipated that substantial office growth must occur to staff and develop these enterprises, along with coordinating their work with the central SSHP office. The key here is to foster an ever-present reminder that these bodies-- through their work, or the revenues that their work creates-- must remain focused upon SSHP's core mission.

### **End State**

Steven's Square Housing Partnership will be a financially sound, self-sufficient project responsible for massive rental housing rehabilitation in Steven's Square. It will be the premier property owner and management company in the neighborhood, committed to quality housing for all income level, with special emphasis on providing local employment opportunities while improving neighborhood safety and overall quality of life. Some qualitative objectives planned to reach fruition at the state include:

- Consolidated and responsible systems, overcoming the negative aspects of diverse and divergent management groups
- Substantial private sector leverage for borrowing ability, erasing the historical problem of a lack of qualified buyers and owners
- A communal, mission driven housing initiative with substantial monetary support a shared vision, preventing decay commensurate with a lack of vision and dissension
- Coordinated marketing processes and a focus on neighborhood safety and renewal, addressing the current problems of no marketing and a negative neighborhood image

- Uniform tenant screening and employment opportunities of low income tenants, in lieu of little or no tenant screening and a lack of economic opportunities for neighborhood residents
- Comprehensive, planned neighborhood development with long-term vision, overcoming the lack of vision problem, and general neighborhood deterioration
- Improved quality of living in the neighborhood vs. continuing problems with poverty, crime, and general decay