High Impact Project Accelerator Initiative

A Case Study for Twin Cities Local Initiatives Support Corporation

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Executive Summary

Case Question

How do the High impact Project Accelerator tools streamline and speed up the development process for two community-based developers, Aurora St Anthony Community Development Corporation (ASANDC) and Model Cities?

Purpose of the Case Study

The purpose of this case study is to examine the effects of the High Impact Project Accelerator, a package of tools and supports assembled by the Twin Cities Local Initiatives Support Corporation (TC LISC), to streamline and accelerate equitqble transit oriented development projects for two community based developers along the eastern segment of the light rail Green Line in Saint Paul, Minnesota. The Accelerator Tools include grants and loans, technical assistance, convening stakeholders, and advocacy. Support for the tools was provided by the Central Corridor Funders Collaborative, the St. Paul Foundation, and the Bigelow Foundation.

The case study focuses on ways these tools were applied with two community based developers, Aurora St Anthony Community Development Corporation and Model Cities, to advance their proposed projects along the Central Corridor in the Frogtown/Rondo Neighborhood. It identifies what worked well, challenges, questions to consider, and recommendations.

High Impact Accelerator Initiative

The High Impact Accelerator Initiative (Accelerator) is designed to support a set of targeted activities and financial investments to advance and accelerate a minimum of two--and potentially up to four--catalytic, equitable transit-oriented development (TOD) projects over the course of the next three years along the Green Line between Lexington and Rice Streets. These projects are expected to contain a mix of housing, retail, commercial and/or community uses. They will provide an opportunity to better connect residents of all incomes to a wide range of economic, social, and educational opportunities. TC LISC has a commitment to equitable transit oriented development as part of its focus on building sustainable communities.

ASANDC and Model Cities: One Common Focus, Two Different Approaches

ASANDC and Model Cities have a common vision for place-based development. As community developers within a holistic, place-based framework, both Model Cities and ASANDC want to build wealth that can:

- → Generate higher quality economic opportunities for the communities they serve, in the form of jobs, business growth and development, and investment opportunities
- → Enable them to serve as effective advocates and intermediaries on behalf of their communities to policy makers, public and private funders, financial institutions, and the market place
- → Sustain themselves over time, so they can continue their work and grow the next generation of leaders.

With strong support from the community, ASANDC, in partnership with Sand Corporation, Inc. (SCI), is developing Western U, almost the entire block between Western Avenue and Virginia Street, one of the largest parcels along the eastern segment of the Green Line. The mixed use development will incorporate 60 units of affordable housing, including seven apartments for people who have been homeless for a long time, as well as community space. A second phase project includes 6,000 sq. ft. of commercial space and 8 units of market rate housing along University Avenue.

Model Cities envisions developing two sites it owns along the transit line: the Brownstone and Central Exchange. The Brownstone project is designed as a mixed used, 4-story building with 2 floors of commercial space (12,000 sq. ft.) and 35 affordable housing units. The Central Exchange was initially envisioned as ground-floor commercial space, with upper levels of housing, underground parking, and a pocket park. While the Brownstone project is moving forward to construction in 2015, the Central Exchange is currently being redesigned to meet financial feasibility requirements. Model Cities is focusing on building its own internal capacity to lead the project, rather than partnering with a larger, more experienced developer.

Lessons Learned

When Accelerator Tools Worked Best

- → The Accelerator model provided the framework for supporting the partnership between a community-based developer and an experienced developer. It clearly demonstrated that the time required to complete a community based development project can be significantly shortened. Without the partnership, it is difficult to imagine that ASANDC's Western U Plaza development would be close to breaking ground.

- → The flexibility of the Accelerator tools—a combination of loans, grants, and advocacy—lifted up ways to infuse strategies to strengthen equitable transit oriented development at critical points in the development process, which raised the bar for future projects. It gives TC LISC the resources to keep the concept of equitable development front and center with institutional stakeholders—the city, funders, financial institutions, and regional and state agencies; to define the concept at project, district, city, regional, and state levels; and to create an actionable framework that enables cross-project synergy; and to keep small, community-based developers at a the table.

- → Supporting a market study for commercial development and the SafeGrowth initiative directly addressed the concerns and assumptions of many institutional stakeholders that often inhibit investments in low-income communities.

- → TC LISC generated positive effects by periodically convening stakeholders, including city staff, developers, technical assistance providers, to discuss the vision for the district, individual projects, capacity issues, and other challenges. These convening's brought a broader range of stakeholders together. They got to know each other and became familiar with the individual projects. They also gained a deeper understanding of the overarching vision, why it was important, and how that vision was embodied in specific projects.

- → Accelerator tools enabled TC LISC to support the translation of the vision and goals of the projects into standards, criteria, and financial models familiar to mainstream institutions and agencies. With the Accelerator tools, TC LISC could support the community developers in providing evidence of the feasibility of their projects in a form and format that met the criteria of city, funders, financial institutions, and large developers. Accelerator funds enabled TC LISC to provide support for technical assistance at critical junctures, --using their own resources and reputation to give credibility to the projects when it was most needed.

Because of the Accelerator tools, TC LISC could be a more proactive intermediary, bridging and solidifying relationships that ASANDC and Model Cities could not develop on their own.

Challenges

Equity between partners

When the partnership between ASANDC and Sand Corporation, Inc. (SCI), is viewed through a wealth-building and equity lens a troubling picture emerges. There are significant disparities between the benefits to SCI and those to ASANDC. These disparities highlight issues that must be taken into account when structuring such partnerships, without diminishing the opportunity. Because the goals of community-based developers are to build internal capacity and increase their sustainability while building wealth in their communities, the impact of risk factors on their operations must be taken into account. Delays and surprises can quickly diminish cash flow. The partnership and the payouts must be structured in such a way that the operations of the smaller, community-based developer are not harmed.

These disparities result, to a great degree, from accounting and underwriting practices, standards, criteria and conventions that typically are not applied in ways that recognize and accurately account for the value that community- based developers bring to projects. Nor are the timing and sequence of their investments in development projects typically understood. Because current practices do not seem to reflect these values, there is a compelling need to review, revise, or reinterpret them if partnerships between community-based and large scale developers are to be viable for both.

Building Internal Capacity

Although both Model Cities and ASANDC wanted to develop their internal capacity to lead development projects, there appeared to be no consensus on how to generate the support from key stakeholders to achieve this goal. Creating such a consensus among stakeholders would entail having a shared understanding of the critical role of small community developers in building sustainable communities, and adopting processes and procedures that are appropriate for them. It would also be essential to understand the trends and forces that affect the communities that small developers serve, as well as emerging opportunities. Both are often invisible to decision-makers who may not have direct access to highly nuanced information of this type or quality.

Minnesota's New Normal

Re-assessing the models, practices, and criteria for financing large development projects, has become more urgent because of changes and uncertainties in Minnesota's social and economic environment. These changes are already impacting the sustainability of St Paul communities and options for how development projects are carried out. The facts underlying those changes and uncertainties include:

- → In Minnesota, Millennials outnumber baby boomers. [1]
- → The income of millennials age 16-24 in 2012 is over 20 percent lower than the income of baby boomers in that age group in 1980. [2]
- → 1 in 4 millennials in Minnesota is a person of color. [3]
- → By 2030, there will be only 2.5 working-aged adults, likely with only 2 actually employed in the paid workforce, for every retirement-age Minnesotan. [4]
- → Social Security is the only source of income for almost three in ten Minnesotans age 65+. [5]
- → The budget bill passed by the US Congress in December 2014 permits certain financially troubled multiemployer pension plans to cut existing benefits to retirees under age 80. [6]

It is clear that incomes are trending lower for certain significant segments of Minnesota's population. Stakeholders in community development will need to re-examine their assumptions, practices, policies, and models to accommodate this rapidly approaching "new normal", and to transform it from a downward trajectory into rising opportunities.

Frogtown/Rondo is a low-income community, predominantly of people of color. It is a more concentrated microcosm of many of these trends that will soon become the dominant landscape. Its highly diverse population is younger than the city's average: 22.5% of householders are 25-34 years old; 19.8% are 35-44 years old. According to 2013 data, the median income for the area is $29,326—41% lower than Ramsey County as a whole. Average weekly wages are $707—30% lower than St Paul weekly wages as a whole. Average annual household consumer

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[1] Helmsletter and Tigan, Six Surprising Trends about Minnesota's Millennials, Compass Project, http://www.mncompass.org/trends/insights/2014-03-01-minnesota-millennial-trends

[2] Ibid.

[3] Ibid.

[4] Helsmsletter, Craig. Minnesota's Aging Population: Prepare for Lift Off, Community Matters, Wilder Blog, Aug 26, 2014.

[5] AARP Research, 2014 Social Security Quick Fact Sheets, February 2014. http://www.aarp.org/work/social-security/info-01-2014/2014-social-security-quick-fact-sheets.html

[6] Outrage: Can They Grab Your Pension?, AARP Bulletin, March 2015, http://www.aarp.org/work/retirement-planning/info-2015/take-your-pension-away.html?intcmp=BUBB2

expenditures range from $20,980 – $34,887, while in Ramsey County the average household expenditure is $52,546.

Intermediaries and the New Realities

The role of intermediaries like TC LISC is becoming more challenging. There has never been a greater disconnect between the realities on the ground and the policies, rules, and conventions that govern accounting standards and the criteria for financing and underwriting development projects. For TC LISC to engage such a broad range of institutional stakeholders who use these conventions in a framework of equitable transit oriented development is a major accomplishment. The coordination, sharing of information, and convening, and advocacy done by TC LISC, enabled these stakeholders to approve financing for these projects that reflect a new vision for equity and, in part, a new reality.

ASANDC and Model Cities are intermediaries between the communities they serve and the policy makers, institutions, and agencies that shape their lives. The two organizations have built a substantial body of knowledge about the neighborhoods, points of value, opportunities, the residents and their needs and preferences, networks, including formal and informal relationships, and information flows. Synthesizing knowledge and information from these sources is essential to community-based projects where equity and sustainability are major goals. Their knowledge can be particularly valuable to public, private, and financial sectors that must prepare to serve a growing population of Millennials and retirees that are trending toward lower incomes.

The Accelerator Initiative and the tools that are being used are providing a chance for key stakeholders to apply approaches to development that can work well for lower income communities, generating opportunities that are place based, equitable, and sustainable—and to make needed adjustments. Given the tensions that are being generated by trends, uncertainties, and the changes already underway, Frogtown/Rondo transit oriented development is a learning opportunity that could not be more timely.

Observations and Recommendations

Observation 1

The Accelerator tools and the strategy of partnering with well-established, large developers work very effectively in translating the development projects of less known, smaller developers into a framework, form, and format familiar to conventional lenders and funders.

Recommendation

It would be useful to small developers if the process for assessing the value of a potential partnership were outlined on the TC LISC website or in some other easily accessible form. The process can include criteria to consider, questions to ask, as well as links to detailed descriptions of partnerships that worked well. A webpage could also include questions that community-based developers can ask accountants, attorneys, and other professionals as they assess whether or not a partnership will work for them.

Observation 2

In light of the demographic and economic changes that have created a “new normal” for Minnesota, there is a need for stakeholders in development to collectively and individually assess how their policies and practices move the vision for equity, opportunity and sustainability forward or inhibit it. –And to better understand the critical roles that small, community-based developers can play. While small, community-based developers have extensive knowledge and experience, there are many barriers to their successful interface with funders and financial institutions. Those barriers range from the structure of application processes and procedures, the design and timeline of initiatives, to simply not having a platform for discourse.

Recommendation

Convene a mini conference of development stakeholders in which the “new normal” and its impacts can be discussed along with the role of small, community-based developers. Explore ways in which all stakeholders can adjust their policies and practices to reduce barriers for small community-based developers, and enable them to create opportunities in low-income communities and for communities of color.

Observation 3

Small, community-based developers do not have sufficient financial resources to build internal capacity, despite the critical roles they play in stabilizing communities and bringing the vision and voices of residents to the development process. Without building their own capacity, there is a danger that they can become conduits, providing the justification for which public and philanthropic dollars pass into private hands.

Recommendation

Advocate to stakeholders for the important niche occupied by small community-based developers and their significance to sustainable communities for low-income people and people of color. Within the Accelerator framework, consider developing strategies to support community-based developers who want to build internal capacity and further tailoring accelerator tools to their needs.

It would be extremely useful to the field for TC LISC to continue to build out the Accelerator model for these different contexts.

Appendix A

A Choice: Project Completion, Wealth Building, or Both

Is the ultimate goal for development projects in Frogtown/Rondo project completion, wealth building, or both? The differences between these options is profound. Studio 4, a professional recording studio, is considering leasing space in the commercial portion of University Plaza. Studio 4 is also the founder and manager of the High School of the Recording Arts (HSRA), located on the transit corridor at University and Lexington, adjacent to the Amherst H. Wilder Foundation. Studio 4 focuses on high school students who have dropped out and want to return. Many of them are homeless. Under Studio 4 leadership, HSRA has produced national ads for State Farm Insurance and other companies, music for General Mills ads, and public service announcements for the Minnesota Department of Education. Its approach to education has been recognized nationally and internationally.

Focusing narrowly on completing the project, Studio 4 would be assessed solely on its ability to pay the rent, help meet the job creation requirements of the CED grant, and satisfy the terms of the lease.

A wealth building focus would be broader and engage more stakeholders. It would build on Studio 4's network of world class, national and international entertainers. Some of them have family connections to the Frogtown/Rondo community, including Prince, Jimmy Jam and Terry Lewis, as well as the founders of Studio 4.

As indicated by the Maxfield Research commercial market analysis, a wealth building strategy would connect Studio 4 to major Twin Cities advertising companies and Minnesota-based corporations with significant advertising budgets. It is indeed possible that a wealth building strategy, supported by multiple stakeholders and related regional business clusters, can position the Twin Cities to become a mid-west production center that is competitive with Atlanta, New York, and Los Angeles.

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The case study focuses on ways these tools were applied with two community based developers, Aurora St Anthony Community Development Corporation and Model Cities, to advance their proposed projects along the Central Corridor. It identifies what worked well, challenges, questions to consider, and recommendations.

Methodology

This case study is based upon a two year process which began in January of 2013. The case question was defined and refined over time with TC LISC staff: How do the High impact Project Accelerator tools streamline and speed up the development process for two community-based developers, Aurora St Anthony Community Development Corporation (ASANDC) and Model Cities?

At the beginning of this initiative, there were four potential projects, in various planning stages, that were in the pipeline. The two projects, ASANDC and Model Cities were selected based upon their momentum. ASANDC was chosen first, and Model Cities several months later. As part of this inquiry, TC LISC wanted to know what conditions make a difference in how the tools can be applied and can increase their effectiveness.

A work plan was developed and sources of information identified. Activities included reviewing background information, analyzing internal and external documents from a variety of sources as well as web sites, meetings with TC LISC staff, attending convenings of key stakeholders (city staff, developers, project consultants, and others); attending special events related to the developments, and twice annually interviewing key stakeholders, staff, and consultants from each of the community developers.

High Impact Accelerator Initiative

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TC LISC is committed to fostering a targeted and comprehensive investment strategy in this area and believes it is essential to improving the quality of life in the neighborhoods, generating market conditions that will stimulate private investment and draw new residents and businesses. The Accelerator Initiative aligns community and regional visions with a new investment approach and strategic partnerships to advance transit oriented development projects at key opportunity sites. TC LISC is using the Accelerator tools as a resource in coordination with the public, private, philanthropic, and development partners.

Background: The Green Line and the Frogtown/Rondo Neighborhood

The Green Line, part of the metropolitan light rail system, is transforming University Avenue in St Paul. A portion of the Green line runs through Frogtown and Rondo, working class, culturally diverse neighborhoods,--rich in history, tenacity, resiliency and relationships. Located on the eastern segment of the Central Corridor between Lexington and Rice Streets, and abutting the state capital, these neighborhoods are poor in financial investments with few assets owned and controlled by long-time neighborhood residents. Under such circumstances, as more businesses and new residents are attracted to these communities, total gentrification would seem probable. Concerns over displacement loom large for many low-income families.

Two neighborhood organizations, however, Aurora St Anthony Community Development Corporation (ASANDC) and Model Cities (also a community development corporation) work to support and strengthen these communities that have a different vision for the neighborhood, and so does TC LISC. ASANDC and Model Cities are long-standing icons in the community. They carry the memories, history, and hopes of the communities they serve, and they are committed to ensuring that development in the neighborhoods along the transit corridor will take place with the needs and preferences of the community in mind. They are small scale, "place-based," community developers. ASANDC and Model Cities were using place-based practices long before the concept had a name.

TC LISC has a commitment to equitable transit oriented development as part of its focus on building sustainable communities. In addition to investments in real estate, the LISC model includes: increasing family income and wealth; stimulating economic development; supporting healthy environments and lifestyles, and improving access to quality education. The mark of this commitment is clearly visible in developments along the transit corridor in which TC LISC has played a significant role.

To support equitable, market-based development along the transit corridor, TC LISC, with support from local foundations, created a package of tools to streamline the community-based development process and help it to move more quickly. Project sites that were selected to participate in the Accelerator had already passed the first hurdle – site control. Four sites were in queue: Hamline Station (People's Pride in Living), Western U Plaza (ASANDC / Sand), Brownstone and Central Exchange (Model Cities), and Saxon Ford (acquired by the City of St. Paul).

Momentum and timing are essential factors in any real estate development. When quality-of-life elements are added, such as equity, community needs and preferences, and cross-sector collaboration, the process can slow down significantly. Typically, community-based development projects take 8-10 years. TC LISC hoped to see two or more community-based projects substantially underway, if not completed, in three years.

TC LISC focuses the Accelerator tools on the key phases of development: project feasibility and planning; acquisition and predevelopment; and project implementation. Each of these phases rests on a foundation of project management capacity, financial capacity, and strategic partnerships.

A Complex Past and an Active Present

Frogtown and Rondo are feisty neighborhoods, a mix of African American (37%), Hmong (32%), White (21%), Latino (9%), and other, 11%. The Frogtown Neighborhood developed primarily because of the railroad and the jobs it generated, in the late 1800s. It attracted a mix of working class and immigrant residents, drawn to the smaller and more affordable single family homes and smaller lots. It has consistently maintained it self-help, populist orientation. Adjacent to Frogtown is the Rondo community. Though it always included other ethnicities, from the 1930s-50s, Rondo was the largest African American community in St Paul, Minnesota. It was a tightly knit community of well-established residents and new arrivals from the south—many attracted by railroad jobs. Because of US apartheid laws and customs prevalent at the time, Rondo was mostly independent of the larger white society. It had businesses, churches, civic organizations, single-family homes and apartments.

In that respect, Rondo was similar to many ethnic communities in the US today: the China Towns, Little Italys, Orthodox Jewish communities, and Latino communities. Their businesses, unique shops, and services appealed to the particular needs and preferences of their communities. All were platforms for economic growth, social support, jobs within the community, and cultural understanding. Most Rondo businesses were financed through networks of kinship and friendship, because of the difficulty or impossibility of getting loans through mainstream financial institutions.

With passage of the 1954 Housing Act and the 1956 Federal-Aid Highway Act, however, black business districts and their markets in most major cities across the United States were simultaneously destroyed over a 20 year period. Today such a policy would be unthinkable. Typically, new highways were routed through these communities; their businesses and residents (markets), dislocated and dispersed. Rondo was no exception. Interstate Highway 94 was routed straight through the heart of the community, dividing it and displacing thousands of people—many of whom moved to Frogtown.

Rondo today shows evidence of this complex history. The two community developers in this case study, ASANDC and Model Cities, are in some ways bridges from the old Frogtown/Rondo to a new, more expansive, but inclusive identity. Both organizations are led by African American women with strong ties to Frogtown/Rondo. They are the weavers of relationships and connectors to webs of place and interest that are dispersed, but still quite alive.

ASANDC and Model Cities are part of a network of highly active, community-based organizations in Frogtown/Rondo. They both compete and cooperate for resources. These organizations range from multi-ethnic to being deeply rooted in one particular ethnic/racial community. Part of the Frogtown/Rondo self-help, populist tradition, these community-based organizations have a long history of collaborating, reinventing themselves, bringing more opportunities, transforming blighted properties, and joining forces to ensure that having fewer resources would not mean a loss of voice, identity, or civic engagement. They are highly knowledgeable about city and county government; and they have been remarkably effective.

Although unemployment and crime are higher than the city average, and incomes and home values are lower, Frogtown/Rondo is significantly transforming its appearance and the quality of services available to its residents—with lots of community input through the work of these organizations and the support of TC LISC.

A Successful Campaign for Community Transit Stops

Originally, transit stops for this part of the Green Line were placed a mile apart. The light rail cars would whiz by, offering little access to the largely transportation dependent, low-income community. Led by the Alliance for Metropolitan Stability, a coalition was formed to advocate for 3 additional stops at Hamline Avenue, Victoria Street, and Western Avenue. Both ASANDC and Model Cities were part of the "Stops for Us" coalition, with ASANDC playing a particularly active role.

The campaign was successful. All three additional stops were added. In 2010, the coalition received an Environmental Justice Award from the US Environmental Protection Agency. In addition, the coalition established a committee to ensure equitable community benefits from related development.

Model Cities and ASANDC have also been members of other community-based coalitions that brought development projects and a range of benefits to Frogtown/Rondo, including MCASA housing with lease to own and contract for deed financing; and Frogtown Square and Kings Crossing Apartments, a mixed use development with senior housing. ASANDC was a partner in the award winning Dale Street Apartments, three stories of mixed income apartments over the Rondo Community Library.

Despite these strengths—testament to an active and persistent community vision--the Frogtown/Rondo communities were mostly known to outsiders by their deficits: predominantly low-income with high levels of unemployment, and higher than average levels of crime.

Current Conditions: Change and Uncertainty

In many ways, Frogtown/Rondo is a critical learning opportunity for all the key stakeholders involved in development along the Green Line: the St Paul Planning Department, financial institutions, state and regional agencies, the philanthropic sector, businesses, individual investors, the community-based developers, and TC LISC. Frogtown/Rondo is a microcosm of many of the changes and uncertainties that are already affecting the larger Minnesota population—and will profoundly impact the stability of communities and the structure and financing of development projects.

The facts underlying those changes and uncertainties include:

→ In Minnesota, Millennials outnumber baby boomers. [7]

[7] Helmsletter and Tigan, Six Surprising Trends about Minnesota's Millennials, Compass Project, http://www.mncompass.org/trends/insights/2014-03-01-minnesota-millennial-trends

- → The income of millennials age 16-24 in 2012 is over 20 percent lower than the income of baby boomers in that age group in 1980.[8]
- → 1 in 4 millennials in Minnesota is a person of color.[9]
- → By 2030, there will be only 2.5 working-aged adults, likely with only 2 actually employed in the paid workforce, for every retirement-age Minnesotan.[10]
- → Social Security is the only source of income for almost three in ten Minnesotans age 65+.[11]
- → The budget bill passed by the US Congress in December 2014 permits certain financially troubled multiemployer pension plans to cut existing benefits to retirees under age 80.[12]

Frogtown/Rondo is a more concentrated microcosm of many of these trends that will soon become the dominant landscape. Its highly diverse population is younger than the city's average: 22.5% of householders are 25-34 years old; 19.8% are 35-44 years old. According to 2013 data, the median income for the area is $29,326—41% lower than Ramsey County as a whole. Average weekly wages are $707—30% lower than St Paul weekly wages as a whole. Average annual household consumer expenditures range from $20,980 – $34,887, while in Ramsey County the average household expenditure is $52,546.

In addition, state, and local economies are just recovering from the recession that started in 2008. Public dollars are becoming more scarce and difficult to obtain at every level. New initiatives are competing with efforts to regain lost ground. While the state now has a surplus, the recovery has eluded many Minnesotans. Wages for middle- and low-income people have largely stagnated, and the jobs that are being created tend to be lower level service jobs, affecting trajectories for the tax base. In Minnesota, the greatest job growth is projected to be in lower paying service jobs in health and education (MN Department of Employment and Economic Development), and the average student loan debt for college seniors who graduate is $30,894. (http://www.projectonstudentdebt.org/state_by_state-data.php)

It is clear that incomes are trending lower for certain significant segments of Minnesota's population. Stakeholders in community development will need to re-examine their assumptions, practices, policies, and models to accommodate this rapidly approaching "new normal," and to transform it from a downward trajectory into rising opportunities.

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[8] Ibid.

[9] Ibid.

[10] Helsmsletter, Craig. Minnesota's Aging Population: Prepare for Lift Off, Community Matters, Wilder Blog, Aug 26, 2014.

[11] AARP Research, 2014 Social Security Quick Fact Sheets, February 2014. http://www.aarp.org/work/social-security/info-01-2014/2014-social-security-quick-fact-sheets.html

[12] Outrage: Can They Grab Your Pension?, AARP Bulletin, March 2015, http://www.aarp.org/work/retirement-planning/info-2015/take-your-pension-away.html?intcmp=BUBB2

The Green Line and the magnitude of development opportunities it is bringing to the neighborhoods along its eastern section may well be an increasingly rare opportunity. It is providing a chance for key stakeholders to apply approaches to development that work well for lower income communities, generating opportunities that are place based, equitable, and sustainable—at an accelerated pace. Given the tensions that are being generated by trends, uncertainties, and changes already underway, Frogtown/Rondo transit oriented development is a learning opportunity that could not be more timely.

As an intermediary, TC LISC is often in the middle of these tensions—trying to adapt old rules to new situations, defining unfamiliar landscapes, highlighting trends and opportunities, charting different pathways, and promoting new models that are better suited for the advancing new normal.

One of those models, using the Accelerator tools, explores how to speed up the completion of mixed-use and affordable/workforce housing development projects in an equitable way, creating economic opportunities for current and new residents without displacing those who want to stay.

ASANDC and Model Cities: One Common Focus, Two Different Approaches

ASANDC and Model Cities have a common vision for place-based development, but quite different histories. ASANDC began as a neighborhood association and transitioned into a community development corporation in the late 90s. Model Cities began as a health and social service agency. In 1998, it established its community development corporation with the intent of integrating human services with development. Both ASANDC and Model Cities have maintained a holistic view of development and have used their understanding of the needs and preferences of community residents to inform their approaches.

Both organizations have done successful, small scale (under $2.5 million) housing and commercial developments, and ASANDC has participated in complex, large scale development projects with tax credit syndications.

As community developers within a holistic, place-based framework, both Model Cities and ASANDC want to build wealth that can:

- → Generate higher quality economic opportunities for the communities they serve, in the form of jobs, business growth and development, and investment opportunities.
- → Enable them to serve as effective advocates and intermediaries on behalf of their communities to policy makers, public and private funders, financial institutions, and the market place.

→ Sustain themselves over time, so they can continue their work and grow the next generation of leaders.

The two organizations have built a substantial body of knowledge about the community, the lives of residents and their networks, including formal and informal relationships, points of value, and information flows. Synthesizing knowledge and information from these sources is essential to community based projects where equity and sustainable communities are major goals.

Their knowledge can be particularly valuable to public and financial sectors that must prepare to serve a growing population of Millennials and retirees that are trending toward lower incomes.

Early on, both ASANDC and Model Cities were pressed by time and circumstances to make a decision. Given limited resources and the scale and complexity of their proposed projects, would they partner with a well-established developer, or would they work to build internal capacity so they could carry out projects themselves? In either case, there was no time for lengthy contemplation. As with any major development opportunity, site control was a first essential milestone, and prices were already beginning to rise.

Each approach—partnering with a developer or developing internal capacity--requires ASANDC and Model Cities to have a particular set of skills and specific kinds of support to be successful. Each approach also requires different capacities on the part of the stakeholder institutions and agencies that are engaged: the city of St. Paul, financial institutions, public and private funders, as well as TC LISC as an intermediary. The accelerator project worked with the developers and their partners to fill technical gaps and assess opportunities to incorporate equity elements into the projects. It is also surfacing which capacities are in place, require strengthening, or need to be developed.

Accelerator Tools and Supports

Land Acquisition and Predevelopment

Both ASANDC and Model Cities focused heavily on land acquisition to leverage community benefits in the midst of significant transit investment. It was clear that land prices were going to rise quickly and dramatically as the light rail construction moved forward. For both organizations, securing the land was essential to positioning themselves as key participants in the development process.

ASANDC

With strong support from the community, ASANDC wanted to develop the Minnesota Milk Company (Old Home Dairy) site on University Avenue, almost the entire block between Western Avenue and Virginia Street, one of the largest parcels along the eastern segment of the Green Line. The Twin Cities Community Land Bank purchased and held the land on behalf of ASANDC while predevelopment due diligence was completed.

TC LISC strongly encouraged ASANDC to identify a co-developer in order to strengthen their capacity to position the project for financing. After interviewing several developers, ASANDC formed a strategic partnership with Sand Corporation, Inc. (SCI), an experienced, for-profit, national developer headquartered in Waite Park, Minnesota. They are planning a mixed-use development that will include 60 units of housing as well as commercial and community space, with some financially feasible involvement of the arts. SCI is a virtually integrated company engaged in architecture and planning, construction and building, and hotel and residential property management.

Such partnerships are an essential part of the TC LISC strategy for accelerating the development process for small, community-based developers who, even if they have experience, are unlikely to be able to get financing on their own for large scale, complex projects. The ASANDC/SCI partnership gave the project instant credibility with St Paul Department of Planning and Economic Development, public and private funders, financial institutions, and with state and regional agencies. It gave ASANDC access to top-level technical expertise. It also made TC LISC's advocacy for the project easier and more effective.

ASANDC, using its experience with public/private partnerships and its knowledge of how to navigate the maize of opportunities and requirements they engender, brought knowledge resources and predevelopment funds to the partnership from private funders as well as from city, state, and federal sources. According to SCI, which had little experience or capacity in this arena, ASANDC brought approximately $1.2 million in value to the project in its initial stages. These funds played a critical role, because the initial planning phase is the most risky for investors. Accelerator funds also played a significant role in moving the project forward more aggressively with predevelopment loans and grants to ASANDC. These funds supported some of the costs associated with the extensive work to gather community input, define a vision, and reach agreement.

In less than a year, ASANDC purchased the Old Home site from the TC Land Bank, with financing from the Minnesota Housing Finance Agency. The site is directly adjacent to one of the Green Line stations added via the "Stop for Us" campaign. It was projected that ASANDC would benefit financially from its 35% developer's fee, 15% ownership of phase I of the housing (85%, SCI), and 49% ownership of the commercial space (51%, SCI). The commercial space was particularly important, because, in addition to its appreciation over time, ASANDC would lease and manage the 12,000 sq. ft. commercial space—generating income that could help support internal operations. It seemed to be a good deal. ASANDC was looking forward to benefiting and being able to add much needed staff.

Model Cities

Model Cities was not convinced that partnership with a larger, experienced developer would move it toward its goals of wealth building for the community, sustainability for itself, and increased internal capacity. There were no detailed models available of partnerships between large developers and small community-based developers that showed how to achieve this outcome.

While TC LISC strongly encouraged partnerships, and partnerships are a foundational part of the Accelerator model, they were not a requirement for Accelerator assistance. The community-based developers made the final decision as to whether or not they would choose a partner for their projects.

The advantage of having formal partnerships with experienced, large-scale developers was that the arrangement brought credibility to the project, generating confidence among key stakeholders, and enabling TC LISC to advocate more vigorously,--significantly speeding up the development process. It was not at all clear how the tools could speed up the process when a community-based developer with experience in small-scale projects wanted to build its own internal capacity to lead a large-scale, complex project.

Model Cities had trouble from the start. Its application to the TCC Land Bank and other financial institutions for help in acquiring the lots was denied on the basis of the loan to value ratio of the properties. Lenders wanted an 80:20 ratio on the appraised values. Property owners, on the other hand, were already escalating their prices beyond appraisals in anticipation of the increase in the value of land that fronted on the light rail Green Line. Despite this setback, Model Cities, which already owned the Brownstone site, purchased the Central Exchange site with its own resources. Both sites were along the corridor near projected stations. They felt if they waited longer, the land would be priced beyond their reach.

The Brownstone property, is located on University Avenue between Victoria Street and Avon Street, adjacent to the Victoria Light Rail Station. The second property, Central Exchange is also on University Avenue, a block away, between Avon and Grotto Streets. Initially, Model Cities envisioned the Brownstone as a multi-story, mixed-use development, with commercial space on the ground floor, as well as space for community meetings and a reading room. The Central Exchange was envisioned as ground-floor commercial space, with upper levels of housing, underground parking, and a pocket park.

While there did not appear to be a clear alternative model for accelerating the project in the absence of a partner, TC LISC continued to provide Model Cities with other types of technical support.

TC LISC provided a grant to Model Cities to contract with a consultant experienced in development to assist them in developing their concept which included building internal capacity. However, without clear criteria from a successful model and on-the-ground examples to guide their choices, there was, by all accounts, a mismatch of knowledge, skills, and expectations.

In addition to technical, and highly specialized skills, Model Cities needed a consulting developer willing to disclose or use on its behalf the secret sauce of relationships, old boy (and girl) networks, unstated rules and protocols that operate in all organizations, agencies, and institutions—especially when large sums of money are involved.

Model Cities also needed a consultant who understands how the dynamics of power, perception, class, race, and ethnicity operate within the context of large scale development projects that take place in a highly competitive, politically sensitive environment.

Such a unique combination of skills, abilities, and nuanced understanding may not be available in one development company, or in a single individual. Moreover, because large scale real estate development involves both high levels of investment and risk, it may be difficult to find a development company willing to take on this role at all. Such a transfer of skills and bridging of relationships in a high-risk, highly competitive arena may only be possible under a particular set of conditions that have not yet been defined.

Feasibility and Planning

Accelerator funds supported assembling cross sector project teams, consisting of project developers, city planning and economic development staff, and community stakeholders to review specific development concepts, share information, problem solve, monitor progress, and flag potential issues. The meetings provided a platform for strengthening relationships and keeping the project in the forefront of key decision makers. They also helped to identify gaps in funding and expertise, as well as opportunities for synergy across projects. TC LISC hoped that synergy would enable multiple projects to come one line more quickly and around the same time with greater impact on the district as a whole.

Accelerator funds supported technical assistance at both the district and the project level. At the district level, these funds supported a commercial market analysis conducted by Maxfied Research. The market analysis presented the vision and the district concept, and the projects underway added credibility in the minds of private developers and institutional stakeholders. It also gave useful information to projects along the corridor that were still in the early planning stage.

The commercial market analysis was particularly useful to ASANDC in focusing on the feasibility of a music production studio which ASANDC is considering as a possible tenant in Western U Plaza. The market analysis was initially less useful to Model Cities which had already conducted its own market analysis and had lease commitments for over 95% of its commercial space. Model Cities has since used the commercial market analysis to inform its redesigns of both its Brownstone and Central Exchange projects.

With Accelerator funds, TC LISC contracted with Design Works, Minneapolis College of Art and Design, to develop concepts for a marketing campaign that strengthen the identity of the district and attract commercial businesses to lease space as well as potential residents for housing. Community input from businesses and residents was garnered through focus group sessions.

Accelerator funds also supported SafeGrowth, Safe Design and Crime Prevention through Environmental Design (CPTED), a course that trains professionals in community development, design, planning, law enforcement and crime prevention. Because of higher rates of crime in Frogtown/Rondo, both Model Cities and ASANDC found it particularly useful. It offered practical and esthetically pleasing ways to address safety issues in project design.

Course participants learned CPTED principles and team-building which they then applied to real-life problems in their community. The course was hands-on, practical, and offered an opportunity to discuss realistic challenges, such as policy issues, resource limitations, political and attitudinal resistance, and other obstacles to collaboration.

In addition, by sponsoring professionals in the community to take the course, ASANDC and Model Cities increased capacity within Frogtown/Rondo that they will be able to draw upon in the future. Both organization incorporated CPTED principles into their project designs.

ASANDC

Accelerator funds were used to support ASANDC with technical assistance in two important areas: applying for federal funds from the US Office of Community Services for Community Economic Development and identifying community investment models that can be adapted to the needs and interests of community members at different income levels. The grant application was successful, and ASANDC was awarded $721,770 in the fall of 2013.

The purpose of the funds was to finance the construction of the commercial component of Western U Plaza. In addition, a consultant, experienced in the legal structures of cooperative business models, was hired to identify an appropriate model and develop a plan for soliciting community residents to invest in an investment fund for the commercial component of the project.

ASANDC, however, was beginning to face some challenges. Most of the $1.2 million it had received for purchasing the land, technical assistance, and other planning costs were passed through to SCI, financial institutions, and consultants.

Very little of it went to support ASANDC's operating expenses or to increase its internal capacity.

Then, in the summer of 2014, a change in the federal historic tax credits requirements forced a redesign of the site. The redesign reduced the commercial space to 6,600 sq. ft. and eliminated the SafeGrowth CPTED design features, dramatically reducing ASANDC options for tenants and rents. It also added an additional $3 million to the cost and delayed the project by several months.

Unexpected costs and overruns also forced ASANDC to defer portions of its developer's fee—an essential part of its current compensation. When unexpected costs and overruns threatened a part of the development that was important to the community and the overall vision of the project, ASANDC felt that it had no choice but to defer its fee.

While this is common, especially among nonprofit developers, it was an act of sacrifice that ASDANDC could ill afford. In the spring of 2013, ASANDC could no longer support its staff member in charge of leasing space and providing technical assistance to businesses that wanted to locate in the commercial portion of the development. Leasing, rent payments, and managing the commercial part of the development were also an essential component of ASANDC's compensation. Because of all the changes, the commercial space has been temporarily put on the back burner. ASANDC is looking for additional financing for the commercial building that, in the new design, is now a separate, stand-alone building. A community investment fund is still being planned, but marketing to potential community investors has been put on hold while the ownership structure of the commercial building is sorted out.

ANSNDC is confident that financing will be forthcoming. The city of St Paul is committing resources, and TC LISC is amending a loan agreement that should enable the property to close. Even so, it is not clear how ASANDC will absorb these significant cuts to its compensation.

The ground breaking has not yet been scheduled for the commercial component (phase II) of the project. Meanwhile, the housing component (phase I) is moving along quite well.

Model Cities

Model Cities faced many difficulties in obtaining financing for its scattered sites project, all the while burdened with the carrying costs of the lot it purchased. After being rejected for financing in 2012, Model Cities spent 2013 working closely with St Paul Department of Planning and Economic Development to redesign its project. At the suggestion of a major financial institution from whom it sought financing, Model Cities developed a financing plan that treated the two sites as one development, thereby becoming large enough in dollar value to attract financing. It also eliminated the scattered sites housing from its concept.

The Model Cities application for financing was rejected yet again in 2013 despite the changes. With support from Accelerator funds and the Family Housing Fund, Model Cities found an experienced consultant who was a good match for them. They revised their concept, separating the Brownstone and Central Exchange sites into two separate projects. The Brownstone project was redesigned as a 4-story building with 2 floors of commercial space and 35 housing units, reducing the amount of commercial space and increasing the number of housing units by 50%. Model Cities also contracted with SCI to manage the property.

The Brownstone application to the Minnesota Housing Finance Agency was approved, and Model Cities was awarded $4 million in bonds, with 4% low-income housing tax credits and new market tax credits for the commercial portion. With TC LISC advocacy and technical assistance, they are attracting more support, but have a significant gap. They are still seeking financing for the Central Exchange site. As it is currently designed, the cost per unit is too high to make the project feasible for funding.

Model Cities says it has learned a lot from its experiences regarding what funders and financial institutions are looking for; that they will develop a financial plan much earlier in the process and not waste time with concepts that are not financially feasible.

Lessons Learned

When Accelerator Tools Worked Best

- The Accelerator model provided the framework for supporting the partnership between a community-based developer and an experienced developer. It clearly demonstrated that the time required to complete a community based development project can be significantly shortened. Without the partnership, it is difficult to imagine that ASANDC's Western U Plaza development would be close to breaking ground.

- The flexibility of the Accelerator tools—a combination of loans, grants, and advocacy—lifted up ways to infuse strategies to strengthen equitable transit oriented development at critical points in the development process, which raised the bar for future projects. It gives TC LISC the resources to keep the concept of equitable development front and center with institutional stakeholders—the city, funders, financial institutions, and regional and state agencies; to define the concept at project, district, city, regional, and state levels; and to create an actionable framework that enables cross-project synergy; and to keep small, community-based developers at a the table.

* Supporting the market study for commercial development and the SafeGrowth initiative directly addressed the concerns and assumptions of many institutional stakeholders that often inhibit investments in low-income communities.

* TC LISC generated positive effects by periodically convening stakeholders, including city staff, developers, technical assistance providers, to discuss the vision for the district, individual projects, capacity issues, and other challenges. These convenings brought a broader range of stakeholders together. They got to know each other and became familiar with the individual projects. They also gained a deeper understanding of the overarching vision, why it was important, and how that vision was embodied in specific projects.

* Accelerator tools enabled TC LISC to support the translation of the vision and goals of the projects into standards, criteria, and financial models familiar to mainstream institutions and agencies. With the Accelerator tools, TC LISC could support the community developers in providing evidence of the feasibility of their projects in a form and format that met the criteria of city, funders, financial institutions, and large developers. Accelerator funds enabled TC LISC to provide support for technical assistance at critical junctures, --using their own resources and reputation to give credibility to the projects when it was most needed.

Because of the Accelerator tools, TC LISC could be a more proactive intermediary, bridging and solidifying relationships that ANANDC and Model Cities could not develop on their own.

Challenges

Equity between partners

When the partnership between ASANDC and SCI is viewed through a wealth-building and equity lens a troubling picture emerges. There are significant disparities between the benefits to SCI and those to ASANDC. These disparities highlight issues that must be taken into account when structuring such partnerships, without diminishing the opportunity. Because the goals of community-based developers are to build internal capacity and increase their sustainability while building wealth in their communities, the impact of risk factors on their operations must be taken into account. Delays and surprises can quickly diminish cash flow. The partnership and the payouts must be structured in such a way that the operations of the smaller, community-based developer are not harmed. These disparities result, to a great degree, from accounting and underwriting practices, standards, criteria and conventions that typically are not applied in ways that recognize and accurately account for the value that community-based developers bring to projects. Nor is timing and sequence of their investments in development projects typically understood. Because current practices do not seem to reflect these values, there is a compelling need to review, revise, or reinterpret them if partnerships between community-based and large scale developers are to be viable for both. These disparities call into question the value of such partnerships to ASANDC and other small community-based developers.

Example

While grants support some of the work that community-based developers take on to develop concepts and forge community consensus before a particular project has been identified, a significant portion of the cost of that work is absorbed by the organization. This work is often neither counted as an expense nor recognized as an investment in the project. It is usually absorbed in the current operational budget of the community-based developer. Its real value to the project is not captured, thereby distorting the true costs of the project and unduly burdening the community-based developer.

Community developers bring expertise regarding building consensus, navigating the political terrain, identifying points of value, and analyzing and synthesizing contextual information. They also bring, as ASANDC demonstrated, significant funds to development projects. This work could be expensed or capitalized along with the hard funds they bring, reflected as investments in the project, and weighted according to the level of risk at the time the investments are made.

Moreover, with a more accurate accounting of project costs and a better understanding of when particular blocks of work take place, the schedule of draws can better align with the needs of both partners. Community-based developers would be less likely to have cash-flow issues that thwart their ability to build internal capacity and threaten their sustainability.

Community-based developers are the intermediaries between lower income communities and the larger financial institutions that shape their lives, and, to a great extent, determine their futures. Without more accurate and equitable accounting practices, it will be difficult to sustain partnerships between community-based developers and larger, better resourced entities. Community-based developers will be placed in jeopardy, and the local economy will lose the value of their work. Given the trends that show Minnesota’s population becoming more diverse and trending toward lower incomes, this loss would be short-sighted, as well as entirely preventable.

Intermediaries and the New Realities

The role of intermediaries like TC LISC is becoming more challenging. There has never been a greater disconnect between the realities on the ground and the policies, rules, and conventions that govern accounting standards and the criteria for financing and underwriting development projects. For TC LISC to engage such a broad range of institutional stakeholders steeped in those conventions in a framework of equitable transit oriented development is a major accomplishment. The coordination, sharing of information, and convening, and advocacy done by TC LISC, enabled these stakeholders to approve financing for these projects that reflect, in part, a new reality.

Questions to Consider

The Accelerator project provides a rich examples that point to ways the tools can work to promote equitable development, as well as ways they could be refined and augmented. It also raises questions to consider:

→ **If there were a well-resourced partnership between TC LISC, TCC Land Bank, and the Family Housing Fund, could both ASANDC and Model Cities, two high risk projects, have been vigorously supported from the outset and given appropriate technical assistance for their two different approaches?**

→ **How can the Accelerator tools be used to build community wealth more intentionally as well as for project development? (See Appendix A: A Choice: Project Completion, Wealth Building, or Both?)**

→ **How can partnerships between community-based organizations and established developers be structured to recognize and appropriately reward the high-risk, front-end investments and expertise provided by the community-based developer?**

→ **How can the Accelerator tools support strategies for both developing the internal capacity of community developers and increasing their sustainability, as well as strategies for assisting them in forging effective partnerships with established developers?**

Observations and Recommendations

Observation 1

The Accelerator tools and the strategy of partnering with well- established, large developers work very effectively in translating the development projects of less known, smaller developers into a framework, form, and format familiar to conventional lenders and funders.

Recommendation

It would be useful to small developers if the process for assessing the value of a potential partnership were outlined on the TC LISC website or in some other easily accessible form. The process can include criteria to consider, questions to ask, as well as links to detailed descriptions of partnerships that worked well. A webpage could also include questions that community-based developers can ask accountants, attorneys, and other professionals as they assess whether or not a partnership will work for them.

Observation 2

In light of the demographic and economic changes that have created a “new normal” for Minnesota, there is a need for stakeholders in development to collectively and individually assess how their policies and practices move the vision for equity, opportunity and sustainability forward or inhibit it. –And to better understand the critical roles that small, community-based developers can play. While small, community-based developers have extensive knowledge and experience, there are many barriers to their successful interface with funders and financial institutions. Those barriers range from the structure of application processes and procedures, timing and the design of initiatives, to simply not having a platform for discourse.

Recommendation

Convene a mini conference of development stakeholders in which the “new normal” and its impacts can be discussed along with the role of small, community-based developers. Explore ways in which all stakeholders can adjust their policies and practices to reduce barriers for small community-based developers, and enable them to create opportunities in low-income communities and for communities of color.

Observation 3

Small, community-based developers do not have sufficient financial resources to build internal capacity, despite the critical roles they play in stabilizing communities and bringing the vision and voices of residents to the development process. Without building their own capacity, there is a danger that they can become conduits, providing the justification for which public and philanthropic dollars pass into private hands.

Recommendation

Advocate to stakeholders for the important niche occupied by small community-based developers and their significance to sustainable communities for low-income people and people of color. Within the Accelerator framework, consider developing strategies to support community-based developers who want to build internal capacity and tailoring accelerator tools to their needs. It would be extremely useful to the field for TC LISC to continue to build out the Accelerator model for these different contexts.

Appendix A

A Choice: Project Completion, Wealth Building, or Both

Is the ultimate goal for development projects in Frogtown/Rondo project completion, wealth building, or both? The differences between these options is profound. Studio 4, a professional recording studio, is considering leasing space in the commercial portion of University Plaza. Studio 4 is also the founder and manager of the High School of the Recording Arts (HSRA), located on the transit corridor at University and Lexington, adjacent to the Amherst H. Wilder Foundation. Studio 4 focuses on high school students who have dropped out and want to return. Many of them are homeless. Under Studio 4 leadership, HSRA has produced national ads for State Farm Insurance and other companies, music for General Mills ads, and public service announcements for the Minnesota Department of Education. Its approach to education has been recognized nationally and internationally.

Focusing narrowly on completing the project, Studio 4 would be assessed solely on its ability to pay the rent, help meet the job creation requirements of the CED grant, and satisfy the terms of the lease.

A wealth building focus would be broader and engage more stakeholders. It would build on Studio 4's network of world class, national and international entertainers. Some of them have family connections to the Frogtown/Rondo community, including Prince, Jimmy Jam and Terry Lewis, as well as the founders of Studio 4.

As indicated by the Maxfield Research commercial market analysis, a wealth building strategy would connect Studio 4 to major Twin Cities advertising companies and Minnesota-based corporations with significant advertising budgets. It is indeed possible that a wealth building strategy, supported by multiple stakeholders and related regional business clusters, can position the Twin Cities to become a mid-west production center that is competitive with Atlanta, New York, and Los Angeles.