

# Capital Absorption in New Orleans



GREATER NEW ORLEANS  
FOUNDATION

*For a vibrant region.*



# FORD FOUNDATION

**LIVING CITIES**



with the Initiative for Responsible Investment  
at Harvard University

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Prepared by:



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## Introduction

New Orleans has come a long way since Hurricanes Katrina and Rita in 2005 and has built much greater resiliency and capacity in both the community development and public sectors. As subsidies and support from disaster recovery efforts are sun-setting, the needs related to ongoing revitalization in New Orleans are changing and new challenges are emerging.

There is a sense that New Orleans is at a crossroads and has an opportunity to build on its recent experience to take decisive action in community development and capital deployment to leverage public investment and to attract more private capital to the city. Strategic decisions need to be made about how to effectively deploy public and philanthropic resources, improvements in transparency and efficiency are needed, and capacity must be supported in key sectors such as commercial revitalization and economic development to attract private investment and leverage resources allocated to important projects and organizations as New Orleans continues its shift from recovery to revitalization. The strategic use of public, philanthropic, and private capital can provide a clear path forward for future capital deployment and lead revitalization of key corridors.

## The Greater New Orleans Foundation and Capital Absorption

In the aftermath of the storms of 2005 and the loss of more than 100,000 housing units in the City of New Orleans, the Greater New Orleans Foundation (GNOF) launched a \$25 million Community Revitalization Fund. The Fund's goal was to restore much needed housing units and more importantly, strengthen the systems that support affordable housing development. After \$21 million in investment, \$120 million in leverage, and over 9,500 units of housing assisted, the fund is in its final year of operation.

As the various New Orleans stakeholders continue their work to strengthen the economy, provide housing for people at all income levels, rebuild infrastructure, and respond to a smaller population in the same city footprint, there is a sense that we must work more efficiently to direct the resources that remain and to determine how to best access and direct shrinking subsidies by assessing the system as a whole. To this end, GNOF and the Ford Foundation have been working with Living Cities and the Initiative for Responsible Investment, a project of the Hauser Center for Nonprofit Organizations at Harvard University, to evaluate how community investment leaders in the New Orleans area can think through the strengths and weaknesses of its community investment ecosystem. This team has worked with Living Cities' Capital Absorption Framework (see Appendix) to assess the formal and informal systems currently used to attract and deploy capital for community development projects that expand opportunities for low- and middle-income families and revitalize underserved communities. This framework is being tested in other cities like Denver, Pittsburgh, and Detroit, and New Orleans' participation will help test and shape the efficacy of this vital tool. In addition, in 2012, the Greater New Orleans Foundation hired the Local Initiative Support Corporation to assess the Community Development Finance Institutions present in the New Orleans market. Some of the recommendations and findings of that report are included here.

GNOF adopted a team approach to this project. Organizers, facilitated by Alexandra Stroud of Urban Focus, included Ellen Lee of GNOF, David Wood of the Initiative for Responsible Investment, Lisa Davis and Jerry Maldonado of the Ford Foundation, and Robin Hacke and Marian Urquilla of Living Cities.

An initial meeting was held in November 2012 to introduce the framework to a small group of local community development professionals and gauge interest in pursuing its use in New Orleans. After receiving positive feedback, a series of focus group meetings was held during the first week of April 2013 consisting of representatives of foundations, banks and lending institutions, real estate developers, public sector agencies, economic development entities, and advocacy and policy organizations (see Appendix for a list of all participants). These meetings afforded the organizers a deeper understanding of the challenges and opportunities facing the local community development field through the lens of each of these sectors. While several lenders and mission driven investors participated at various times, private sector financial institutions were not as optimally represented in the information gathering stage.

The insights garnered from the focus groups formed the springboard for an all-inclusive stakeholder meeting held April 16, 2013. Organized around the Capital Absorption Framework, the participants worked together to assess the New Orleans ecosystem and begin identifying recommendations for improvement and actions to strengthen it. In particular, the group focused on short and mid-term actions that can be taken to develop New Orleans' capital absorption ecosystem and enhance the ability to attract and deploy capital effectively and efficiently to advance community development initiatives. The intent of this summary report is to outline how the Capital Absorption process has unfolded in New Orleans and to summarize the recommendations and proposed next steps that have emerged from this effort.

### **The Capital Absorption System**

As described by Living Cities and the Initiative for Responsible Investment, the Capital Absorption framework grew out of on-the-ground experience:

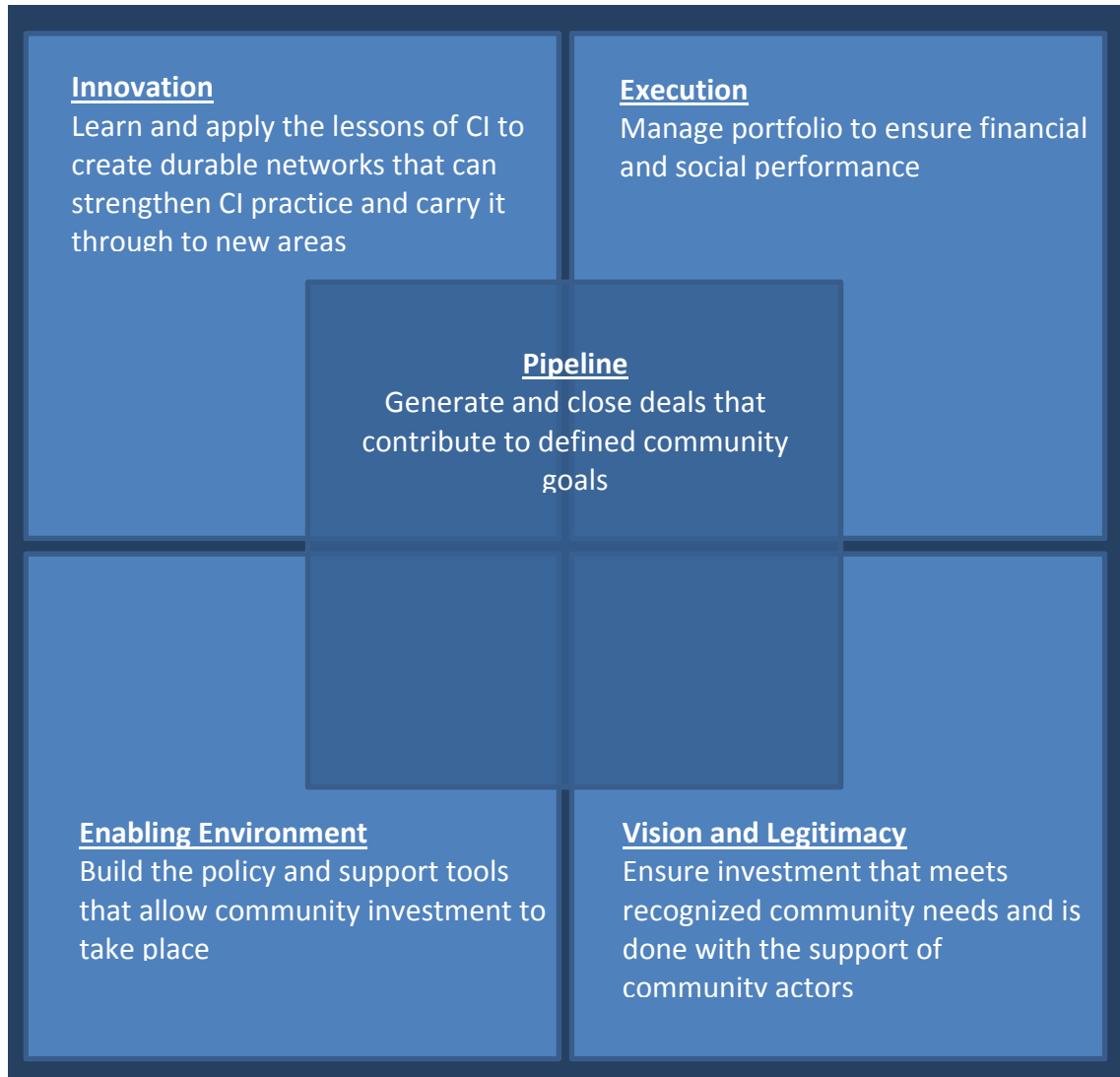
*As part of its work with the Integration Initiative, an effort to transform the systems that shape lives of low income people in five US metropolitan regions—Living Cities found that in many communities the hard work of building a pipeline of community investment deals and bringing them to fruition generally took place deal-by-deal rather than through a coordinated process that could sustain itself over time.*

The Capital Absorption Framework grew out of this observation. The Framework is an assessment tool “meant to help cities (metropolitan regions) better understand their own community investment systems, and to diagnose intervention that would make community investment more prevalent and effective.”

The framework is organized around a set of core functions needed for capital absorption and effective community investment. As the authors explain it:

*[The core functions] are required to absorb capital and make effective community investment. These functions do not predetermine what a successful community investment ecosystem looks like or the specific actors involved. Certain functions may be best performed by local, regional, or national actors; institutions not conventionally understood as community investors may be*

*best placed to achieve specific goals. Further, there is potential for new technologies or innovative collaborations to deliver functions more effectively.*



### Where New Orleans Investment is Today

As the stakeholders of New Orleans assess its economic ecosystem using the Capital Absorption Framework, it is important to acknowledge where New Orleans is in the redevelopment process. After seeing its population drop to 223,388 in late 2005 from its pre-storm tally of 452,170 (according to the US Census), New Orleans has seen a strong population influx over the past several years and was named the fastest growing city in the country according to the US Census Bureau in the 15 months after the 2010 decennial headcount. Despite these gains in population, market challenges remain.

Non-profits, foundations, and the public sector have taken the lead in driving development in these early stages of recovery, building momentum and rebuilding neighborhoods. In addressing the need to rebuild, the public sector and non-profit developers have concentrated on building housing. In the first

phase of recovery, there were many challenges and limited private sector investment interest in the marketplace and public subsidy determined much of what was redeveloped through Low Income Housing Tax Credits, Disaster Community Development Block Grant (CDBG) funding, HOME funds and FEMA directed funding sources. While some private sector investment has come to New Orleans through tax-credit investment and some market rate demand in the Central Business District of the city, most projects, even in the Central Business District, require some subsidy to be viable. With new funding sources limited and previous funding sources sun-setting, New Orleans is at a crossroads and needs to be more creative and build on the expertise developed over the past eight years in order to sustain the economic recovery. In addition, a complex development process that is difficult to predict discourages new investors in the New Orleans market. A goal of this assessment will be to determine whether capital, public or private, is efficiently directed to the areas where it can be most impactful.

### **Guiding Principles for Moving Forward**

Through the process of convening six focus groups and conducting an all inclusive convening, stakeholders agreed that there must be a focus on building confidence and attracting investment by removing barriers and obstacles to development and by building capacity across all sectors. The participants in this process determined that stakeholders have a shared responsibility necessary to make implementation efforts successful, and as a group developed a set of principles to guide future action:

**Establish Transparency/Accountability** – We must identify clear criteria and a process for decision-making and widely communicate this to stakeholders. We must also determine the criteria to measure success and ways to document progress toward meeting goals that can be viewed/reviewed by stakeholders.

**Target Resources/Make Choices** – We must make hard choices about where resources are directed in order to focus investment to areas of need and where the investment can create a multiplier effect. Some places are going to get resources because they are ready and some places will not as they are not able to leverage the investment. Such an approach relies on a shared definition of readiness and a clear commitment for support of capacity building for those areas deemed not ready.

**Support Data Collection and Use** – We must collect and use data to identify market needs and direct investment. Providing clear and shared data to prioritize funding to projects and neighborhoods can affect significantly private sector investment for community and economic development activities while helping to grow and retain existing business

**Coordinate Funding** – We must better coordinate regulatory, review, funding, and monitoring activities as part of developing clear, efficient, and effective development processes.

**Build Capacity** – We must continue capacity building across sectors around underwriting, development expertise, creative financing and implementation and around strengthening community engagement and workforce development efforts.

**Build a Community Engagement Plan** – We must develop and maintain a consistent and thoughtful community engagement process across sectors.

### Ownership

Participants recognized that there has been and is innovation in all sectors and that there are abundant opportunities to build on a strong collaborative spirit. Collaborative support for the implementation of the Capital Absorption Framework was considered to be a major next step for this group.

As part of this process, the group members discussed the importance of taking ownership and working to advance and institutionalize these recommendations. As participants represent multiple sectors, there is the opportunity to bring a variety of funding as well as broad support and legitimacy to the implementation. The intent is to move directly into the early action stages of this process. Key to accelerated progress will be matching stakeholders to particular principles and action items, ensuring that those best suited to take the lead and/or to provide funding are positioned to implement the various initiatives. In this report, we have proposed recommendations for action and potential stakeholders to take the lead role. This does not and should not preclude others from participating in each task.

In order to achieve success, the stakeholders present expressed the importance of building an institutionalized mandate at the leadership level across the sectors. While the participants present fully support the efforts going forward, it was recognized that in order to achieve long term impact, it is important to carry this framework into policy and strategic planning decisions across all sectors. Therefore, as part of taking ownership, the group first and foremost proposes the creation of an ongoing formalized entity, referred to in the following action items as the One Table Advisory Committee, that provides a forum for both collaboration on these action items and management of overarching interventions and guiding principles. In addition, it was determined that the Claiborne Avenue corridor be used as a starting point to pilot many of these action items.

In the wake of the ongoing national disaster recovery effort, New Orleans' public, private, non-profit, and philanthropic sectors have developed momentum, leadership, and a strong interest in building strong communities. Through this framework New Orleans' leadership, public and private, has the opportunity to advance a comprehensive, thoughtful, and productive approach to invigorating our City.

The Capital Absorption process has identified areas where New Orleans stakeholders can be proactive and impactful and take ownership of its recovery to continue to revitalize the city. The following table identifies recommended actions to be piloted in the Claiborne Corridor that improve the capital absorption ecosystem and follow the guiding principles articulated above. The recommended leader column identifies an entity or entities that might be best suited to take a leading role in implementing that action item. As stated above, this does not and should not preclude others from participating in each task.

## Recommendations for Action

Action	Recommended Leader
Establish a "One Table" Advisory Committee.	Representation from all stakeholders
Create a pilot for the One Table in the Claiborne Corridor that tests the six guiding principles outlined below	Claiborne Advisory Committee, Livable Claiborne Communities
<b>Establish Transparency/ Accountability</b>	
Establish and streamline the development process (for funding, zoning, and permitting approvals) across agencies.	One Table/ Public Sector
Create a common application for funding and a project readiness criteria/checklist.	One Table/ Public Sector
Create check points in the development process for evaluation of transparency and accountability.	One Table/ Advocacy
Create problem solving process/table when projects get stuck for development, permitting and financing.	One Table/ Advocacy/ Intermediary
Create an integrated policy for prioritizing and funding projects; share reporting requirements across investors and lenders; consolidate to create common reporting among funders and financing entities (clarify real estate taxes, bonding capacity, abatements and regulations).	One Table/ Public and Private Sector
Make sure all projects that are publicly funded have competitive bidding and value pricing to contain costs. Set reasonable limits on profits.	New Orleans OCD
Pass the Comprehensive Zoning Ordinance so that the zoning process can be grounded in a clear and public document.	New Orleans OCD
Set realistic housing and commercial production goals of all types over a 10 year period. Set benchmarks for neighborhood and cluster growth businesses for low-mod income entrepreneurs in Claiborne Avenue corridor based on GNOCDC data and other market data.	One Table
Work to pass well-aligned local and state priorities in response to Section 3 and CRA requirements across public and private investors.	One Table/ Public and Private Sector
<b>Target Resources/ Make Choices</b>	
Hold ongoing conversations with the community on staging of the shared vision and prioritization of investment to maintain transparency in the process of determining neighborhood readiness and prioritizing development projects.	One Table/ Public Sector
Use data to determine and prioritize neighborhoods and identify areas where the market demand does not yet exist but where directed support can catalyze economic opportunity.	One Table/ Public and Private Sector
<b>Support the Development and Use of Data</b>	
Create a Data Hub – centrally maintain the available, vetted resources that exist yet are not widely available to make investors, lenders, and developers aware of existing funding sources, market data, and development mechanisms available.	GNOCDC/ NOLABA
Manage and support the development of new data and tools needed to prioritize, maximize impact, and achieve more efficiency in the deployment of capital.	Advocacy group/ FFL/ GNOF/ Enterprise
Encourage the city to collect cost data and make it transparent and accessible to developers, lenders, and investors.	GNOCDC/ NOLABA
Use the Market Value Analysis (MVA) by The Reinvestment Fund to direct how investment happens as well as where investment happens in the housing sector. Hold public meetings to explain the use of the MVA in making investment decisions and impacting communities.	NORA
Develop equivalent commercial demand studies to provide market based data on demand and opportunity for economic and development impact in the commercial sector as has been done in the residential sector.	NORA/ NOLABA
<b>Coordinate Funding</b>	
Convene funders and financial institutions to encourage participation and to understand requirements and limitations and discuss opportunities for more leveraged financing tools to be made available as needed.	Living Cities, Financial Institutions



Establish an efficient, transparent and creative One Table process with lenders and investors to support a directed approach to leveraging resources.	One Table/ Living Cities
Encourage CDFIs', community developers' and private sector investment in commercial and economic development projects by defining and communicating priorities and incentives.	Office of Economic Development/NOLABA/ NORA
Inventory and maintain a list of funding sources and mechanisms available, creating a living document that helps to identify the opportunities for leverage and determine system gaps in funding tools.	Advocacy group/ FFL/ GNOF/ Enterprise
Build and broaden the public and private sector toolkits for investment and development – by identifying and developing more creative financial products to fill system gaps based on city and philanthropic priorities and market needs (guarantees, risk share, clear PILOT guidelines) and consider the infrastructure needed to deliver those benefits.	Enterprise/ Lenders/CDFI's/ Living Cities
Identify new/inactive private funding sources. Bring at least 2 of them into deals and to participate in One Table (Low Income Investment Fund is an example of new CDFI's working in the area).	One Table/ Public and Private Sector
Make long-term financial commitment to funding intermediaries with a proven track record of success as priorities dictate.	Living Cities/ Ford/ FFL/ GNOF/ Enterprise
<b>Build Capacity</b>	
Conduct an inventory of existing organizations that engage in capacity building work – who they are, what are the offerings, who is eligible, etc.— and identify capacity building needs across all sectors as it relates to capital absorption needs. Use this assessment to determine where to direct philanthropic and capacity building funding resources.	Living Cities/ Ford/ FFL/ GNOF/ Enterprise
Build capacity across sectors – provide access to technical assistance, continuing education and professional development around underwriting, the development process, and community engagement.	FFL/ GNOF/ Enterprise/ Universities
Create check points in the development process to evaluate efficacy and impact.	Advocacy group/ FFL/ GNOF/ Enterprise
Develop CDFI capacity to close priority deals in a timely and affordable manner.	FFL/ GNOF/ Enterprise / Living Cities
Attract Community Development Financing Institutions (CDFIs) that can support and develop capacity in the region.	One Table/ Public and Private Sector
Attract Community Development Entities (CDEs) that can support and develop capacity in the region.	One Table/ Public and Private Sector
Promote and develop a <i>social impact measure</i> for underwriting development projects and find ways to consolidate and minimize subsidy.	Living Cities/ Ford/ FFL/ GNOF/ Enterprise
The Community Development Corporation (CDC) sector needs significant capacity building investment to fund fulltime real estate development staff, accounting systems, and board development.	Living Cities/ Ford/ FFL/ GNOF/ Enterprise
Include community benefits and public participation as criteria in underwriting standards for One Table participants.	One Table/ Public Sector
Develop a comprehensive Workforce development plan including DBE and Section 3 requirements that serves business growth and attraction needs.	One Table/ Public Sector/ NOLABA
<b>Build a Community Engagement Plan</b>	
Create neighborhood-by-neighborhood quality of life measures by well-being, neighborhood services and housing choice as outlined in the UNOP plan to support a shared vision and community buy-in for investment priorities and projects.	Advocacy group/ FFL/ GNOF
<b>Build a Community Engagement Plan (cont'd)</b>	
Maximize Community Benefit – create an inventory of current policies and practices to understand the current role of community benefits (use of DBE, local hiring, etc.) in funding decisions and make recommendations for improvement.	Advocacy group/ FFL/ GNOF
Maximize Community Benefit – Establish and formalize a consistent level of community engagement in the development process across agencies and funding sources.	One Table/ Public Sector/ Advocacy Groups

## APPENDIX

## Meeting with Stakeholders

### Focus Groups Meetings (April 1-4, 2013)

A series of focus group meetings was held in early April 2013 with the various sectors and stakeholder groups engaged in the process of implementing, funding, and otherwise participating in the development process. Six groupings were identified:

- Foundations
- Banks and lending institutions
- Real estate developers
- Public sector agencies
- Economic development entities
- Advocacy and policy organizations

Each group worked through the Capital Absorption worksheet (see Appendix), and participants were asked to speak openly about their perspective on the process and the overall ecosystem. Common themes and some conflicting perspectives emerged. In addition to the themes listed below, it was clear that there was multi-sector support for streamlined coordination and development of a systemic approach to leveraging funding for community development while encouraging private sector investment in the New Orleans market. While all sectors and stakeholders were invited to participate, the most active participants were the public sector, foundations, and non-profits. Private institutional lenders and Community Development Financial Institutions (CDFIs) were underrepresented.

### What We Heard

In each of the six focus groups, we followed the functions defined in the Capital Absorption protocol.

#### ***Vision and Legitimacy***

The Vision and Legitimacy Function is designed to assess whether investment is focused on meeting recognized community needs with the support of community actors.

#### ***Pipeline and Execution***

The Pipeline and Execution Functions are designed to ask questions about the deal process and how deals are prioritized. Participants agreed that funding sources have typically driven the pipeline, often defining the focus, scope, placement and/or priority of efforts.

#### ***Innovation***

The Innovation Function assesses how communities identify and carry forward best practices and lessons learned to create durable networks that strengthen community investment practice and carry it through to new areas.

#### ***Enabling Environment***

The Enabling Environment Function is designed to assess the availability of policy and support tools that allow community investment to take place. It is used to evaluate the

strength of the market and determine the available support, linkages and mechanisms needed to attract and sustain investment.

### **Strengthening the System: Opportunities and Challenges**

A series of themes emerged from the focus groups, individual preparatory meetings, and the larger group meeting in April:

#### ***Shared Vision***

In the context of the Capital Absorption Framework, shared vision is an established direction through which a variety of parties can proceed. It does not imply that all parties must agree in full in order to partner. Instead, it calls for agreement on a set of broad priorities that all parties endorse and agree to pursue. Among the stakeholders in the New Orleans process, there is widespread, though not universal belief that a shared vision needs to be strengthened for significant progress to occur.

The stakeholders identified a desire for explicit City leadership to signal where and when investments will be made. The City's place-based planning strategy, for example, can be more closely tied to incentives and offer an opportunity to conduct outreach on a regular basis to lenders and philanthropic funders in order to present how and where the City is directing its funding and focus in order to direct and leverage investments. There was expressed interest in asking philanthropic funders and financial institutions to help drive a visioning process by pushing for research identifying where the market is strong enough to support private investment and where directed investment could promote further economic development.

Participants recognized that some public sector entities are already working together on shared goals and interest was expressed in building and expanding this effort. The Comprehensive Zoning Ordinance was also seen by some as a useful component of a shared vision that once fully implemented will help drive and signal the City's priorities.

Using data to target where there is market demand was seen as vital to being able to direct subsidy to the projects that need it most. The use of data in the decision-making process was seen as a key component in reforming the overall development process.

Participants desired a multi-sector mechanism to institutionalize a shared vision. Throughout the focus groups various iterations of a financing table and creation of a common funding application were proposed as ways to make the process more transparent and provide a collaborative environment for leveraging and directing funding.

#### ***Transparency and Predictability***

Participants observed that improved coordination between City departments, foundations, and private funders would streamline and regularize the investment process. Across the board, stakeholders wanted more reliable systems and processes from application requirements, underwriting standards, regulatory requirements, and funding criteria to disadvantaged and minority business requirements across public agencies. The participants also highlighted the need for clear and consistent policies around procurement and prioritization standards across public sector agencies and in collaboration

with foundations, private banking institutions, and CDFI's. Currently, each public agency has different requirements and processes. In addition, stakeholders argued, these common goals need to be made clear to the public and used regularly to make decisions.

Participants noted that a strong clear process could attract and enable national funders to lend locally, building trust in the community and creating a reliable pipeline that investors, developers, and funders can plan for.

### ***Community Engagement***

A community's input in the development process varies by neighborhood, by agency, and by project according to the stakeholders interviewed. Some participants saw the need for full community engagement from the beginning of the project. Others saw it as important to inform the public at the beginning and/or the end of the project as opposed to full engagement. There was also a question of who was defined as the community. Several in the focus groups suggested a more formalized or institutionalized process for determining community leadership. In many cases, funding sources, e.g., FEMA funding for schools or the Comprehensive Neighborhood Initiative, stipulate a definition of community for a particular project. As the only defined criteria on community engagement, these federal standards often define the process. In all cases, participants called for a consistent approach to community engagement across agencies in an effort to promote a sustained, even, transparent, and trusted investment process.

### ***Expanded Public Private Partnership Mechanisms***

Many focus group members and stakeholders interviewed expressed a desire for more creativity in the development process. This discussion included a variety of examples: openness to new tools to capture value both in serving the community (i.e. Community Benefit Agreements) and new uses for public and private investment capital or tools for cross sector collaboration. Currently several agencies have funding tools in their authority that are not being used. The New Orleans Redevelopment Authority has both taxation and bonding authority that it is not accessing. Recent Requests for Proposals issued by the City of New Orleans have been written without integrating any defined City goals such as resiliency, civic space, workforce development goals, shared value creation, or requirements for creating economic value in the surrounding area. Other tools, including Tax Increment Financing for example, have been mostly discarded due to poor public perception/reception when previously used.

Also discussed was the need for high level public sector engagement at the regional, state, and city levels. Such interaction and coordination was seen as fundamental to building partnerships and leveraging funding and other resources across agencies.

### ***Capacity Building and Collaboration***

Capacity building was seen as very important in order to expand the toolbox and work more creatively within both the public and private sector.

The stakeholders identified many examples of innovation including:

- Beginning efforts by both the public sector and among funders to streamline the financing process across agencies such as the New Orleans Redevelopment Authority and the City's Office of Housing and Community Development
- Vacant property and land use initiatives using a systemic approach to evaluation and response that could be expanded upon in other areas
- Trade and advocacy groups such as the Greater New Orleans Housing Alliance, that bring critical feedback from their constituents to City and State policymakers
- The Greater New Orleans Community Data Center, that provides an invaluable resource through its regular data and reporting efforts
- Collaborative funding applications for the Choice Neighborhoods Initiative for the Iberville Redevelopment project and the TIGER Grant application for the streetcar redevelopment on Loyola Avenue

Participants also agreed that since Katrina, project financing has become more complex and sophisticated based on the variety of funding sources and entities in play. Local expertise in complex funding through Low Income Housing Tax Credits, New Markets Tax Credits, and Historic Tax Credits, for example, has expanded in the past eight years. The focus groups saw this as a positive trend, but they also mentioned that as development is relational, it is difficult for new groups to gain a track record, build capacity, or understand the development process. In addition, much of the existing expertise is around funding sources such as Disaster CDBG funding and other directed funding that is sun-setting. The existence of new players in the marketplace including Goldman Sachs, the Low Income Investment Fund, and NCB Capital, was also cited as an example of recent successes in attracting national CDFI and private sector actors to the local market. The Louisiana Loan Fund, a takeout loan for single family home construction financing, created by Enterprise Community Partners and backed by Goldman Sachs, was provided as another successful example. This loan fund encourages private banks to provide construction financing to affordable housing developers, providing the take out financing at construction completion, thus removing the sales risk.

This moment in time was seen as a necessary time of transition; all sectors across the board believe there is a need to build capacity in complex funding sources, underwriting, and overall creative financing.

The public sector was seen as needing to take ownership of the process of implementing creative financing mechanisms to direct development. In addition, there was an identified need to make sure community impact is included as a component of the underwriting process. Currently the social and community impact of a project has not been accounted for in the underwriting processes for public agencies. It was noted that foundations and non-profit support should be considered as resources for capacity building programming.

There was interest in the expansion of the forms of capital available and used including predevelopment funding and working capital. Currently, organizations working in New Orleans have tools and financial products that they are not using. As market needs are more clearly defined through

data and research, use this information to create funding sources that match the market needs and support the kinds of development desired (example: the Fresh Foods Initiative funding)

### ***Workforce Development Plan***

In addition, as it relates to capacity building, workforce development was seen as lagging and not successfully serving the needs of the business development community. Stakeholders noted that the systems currently in place are inconsistent based on each agency's requirements, and the Job 1 and Disadvantaged Business Enterprise program are considered inadequate for providing a broad work force. Stakeholders determined that a complete evaluation and revamping of the current system is needed to address the needs of economic and business development. As organizations like the New Orleans Business Alliance and Greater New Orleans (GNO) Inc. continue to work to attract major business development to the area, the existing system for workforce development needs to be restructured to better support these initiatives.

### ***Building Markets Based on Data***

Participants agreed that we need to rely on and cull more data about the New Orleans market and use it to drive priorities and make informed decisions. By providing a clear understanding of the needs of an area based on data, stakeholders wanted funds to be directed more purposefully. Resources around commercial, retail, and residential data are needed to leverage the available funding to go farther. For example, there has been a push to provide more data around the housing sector including the newly published Market Value Analysis by The Reinvestment Fund. Stakeholders want more public meetings and information sessions to explain the Market Value Analysis and to demonstrate need and the reasoning behind where resources are to be allocated based on the data.

The Harrell Building (see project profiles) is an example of a project delayed by inconsistent data. When the State Bond Commission delayed the project because they would not issue a bond for the project, they did so based on the belief that there was no longer a need for affordable housing in the area until this was proven incorrect

Additional market analysis is needed that demonstrates demand for commercial, industrial and retail development in underserved areas of the city.

### **Conversations That Need to Continue**

In addition to the extensive discussion around consensus on areas of focus, there were also areas that, while not conclusive, were thought to be important enough to continue as part of the discussion:

#### **Long term Affordability**

As this paper and the Capital Absorption process encourage successful investment and economic development, it is important to manage the need for long-term affordability in the City of New Orleans. As areas are developed and can be sustained by market demand, new solutions will be needed to preserve affordability in both housing and commercial developments.

**Private Investment Attraction**

As mentioned throughout this paper, more private investment in the New Orleans marketplace will stretch the subsidies available going forward. It will be important to continue to provide an attractive and transparent market for investment.

**Build a deep pool of mission driven developers**

Think about how to develop, maximize, integrate and support these organizations.

**Establish coordination at the State, Federal, and Philanthropic Level** in a formalized manner.

**Take Advantage of New Opportunities**

- The New Orleans Business Alliance is finishing an Economic Development Study and the Sustainable Communities Plan is almost done. These two documents should be brought together to determine opportunities for responsive investment action.
- **Create a Regional Commercial Corridors Fund** - Beyond the Main Street programs, create a fund that directs funds to blight reduction, façade improvements, and street improvements and leverages private sector matching funding sources.
- Access the BP Oil Settlement as a new funding source that could be used to develop some innovative economic development work.



## Project Profiles in Detail

As part of the analysis, two projects that are currently underway were reviewed and summarized to determine where challenges were found in the capitalization process. These two projects were selected because they demonstrate the use of a variety of funding sources, partners, and public and private sector relationships. The two projects chosen were the Broad Street Refresh project on Broad Street and the Harrell Building on OC Haley Boulevard.

Broad Community Connections, a non-profit Main Street organization, initiated the Broad Refresh Project. Broad Community Connections ultimately selected a private sector developer as a partner to redevelop a grocery store into a new grocery (Wholefoods) and a variety of food related training facilities (Tulane Medical School and Liberty's Kitchen) along an underserved corridor in New Orleans. Funding sources include New Markets Tax Credits, Community Development Block Grant funding (Fresh Foods Initiative), several smaller foundation grants, and mezzanine debt from a mission driven investor. Currently, the project has closed on its financing. As the project consists of the renovation of an existing traditional grocery store and the project is primarily interior build-out of the space, Wholefoods is projected to open by Thanksgiving 2013 and the remaining tenants should be in place by the end of 2013.

The Harrell Building was developed by a local non-profit developer, Gulf Coast Housing Partnership, and includes senior affordable housing, office, and retail commercial space. The funding was separated into two condominiums (commercial and residential) and included tax-exempt state bonds, 4% low income housing tax credits, Neighborhood Stabilization Program funds, and project based vouchers on the residential side and New Market Tax Credits, private debt, and a public sector low interest loan on the commercial side. The Harrell Building is 100% occupied on the residential side and 75% occupied on the commercial side. The New Orleans Redevelopment Authority occupies the second to fourth floors and the first floor (retail) currently has three unoccupied bays and one tenant, a coffee shop.

Overall, the project profiles reinforced the perspectives found in the focus group meetings. Both projects:

- Were very complex in nature
- Required substantial subsidy and coordination from the public and the private sectors
- Are considered catalytic projects with strong potential to impact their respective neighborhoods
- Required strong relationships among the many players including both local and national development partners, lenders, and other funders.
- Represent a significant amount of human capital and effort that was driven by the non-profit and private sector
- Engaged the community in a variety of ways

Clearly, both projects could have benefitted from a coordinated, broader understanding of the vision and direction of the City as well as a more streamlined process for acquiring and processing their funding sources (see expanded Project Profiles in the Appendix).

# LIVING CITIES



## The Harrell Building

1931 Martin Luther King Jr. Blvd/  
1409 Oretha Castle Haley Boulevard, New Orleans, LA 70113

Project Summary for the Capital Absorption Analysis  
New Orleans, Louisiana

Prepared by



April 2013

# Project Summary



Source: Gulf Coast Housing Partners

Size	<ul style="list-style-type: none"> <li>• 84000 SF mixed-use development; a 64,000 SF, 70-unit mixed-income residential apartments for seniors and a 20,000 SF commercial space where the top three floors consist of office space for NORA (15,000 SF) and the ground floor will be occupied by 3-4 commercial tenants (5,000 SF).</li> </ul>
Construction Start/Finish	<ul style="list-style-type: none"> <li>• Residential construction: April 11, 2011 to September 27, 2011</li> <li>• Commercial construction: April 11, 2011 to June 1, 2012.</li> </ul>
Address	<ul style="list-style-type: none"> <li>• Residential: 1931 Martin Luther King Jr. Blvd, New Orleans</li> <li>• Commercial: 1409 Oretha Castle Haley Blvd, New Orleans</li> </ul>
Census Tract	<ul style="list-style-type: none"> <li>• 79</li> </ul>
Zoning	<ul style="list-style-type: none"> <li>• C-1</li> </ul>
TDC	<ul style="list-style-type: none"> <li>• \$20.6 million, of which \$5.9 million is allocable to commercial and \$14.7 million to residential.</li> </ul>
Occupancy	<ul style="list-style-type: none"> <li>• Residential component : 100% occupied</li> <li>• Commercial component : Retail space is master leased by the developer and 25% occupied, one out of four tenant spaces leased. Office space is 100% occupied by NORA.</li> </ul>
Amenities	<ul style="list-style-type: none"> <li>• Residential component designed to meet Enterprise Green Communities criteria. Project amenities include an on-site service provider and immediate public transportation via bus and streetcar.</li> </ul>
Target Market	<ul style="list-style-type: none"> <li>• All residential units are committed to adults 55 years and older.</li> </ul>

## Narrative

Gulf Coast Housing Partnership is a New Orleans-based real estate development company with a mission to revitalize the Gulf Coast through transformative development. GCHP has developed The Harrell Building, a new-construction, mixed-use 84,000 SF building in the Central City neighborhood of New Orleans, Louisiana. The Harrell Building was financed through two separate financial transactions:

- (1) *Commercial Component:* a 20,000 SF commercial space that houses the New Orleans Redevelopment Authority as the anchor tenant (75%) on the upper three floors and speculative retail on the ground floor; and
- (2) *Multifamily Component:* (King Rampart Apartments) a 64,000 SF, 70-unit mixed-income, affordable rental housing for residents 55 years and older with supportive services provided by First Evangelist Housing and Community Development Corporation. The apartment building has four floors of apartments elevated above ground floor parking and entrance lobby, administrative offices and multi-purpose meeting room. Of the 70 apartments, there are 40 2-bedroom apartments and 30 one-bedroom apartments.

The project is located on a city block at the intersection of MLK Boulevard and Oretha Castle Haley Boulevard in Central City. The entrance to King Rampart Apartments is on MLK Boulevard, directly across from the 6<sup>th</sup> District Police Station. The commercial office building fronts on Oretha Castle Haley Boulevard. Parking for residential tenants is available on-site. Commercial tenants have dedicated parking at an off-site parking lot located one block away at 1303 South Rampart Street.

The residential facility unit amenities include:

- 10-foot ceilings
- Low and no-VOC paints, adhesives, and sealants
- Energy Star appliances and lighting
- Full kitchen with dishwasher, refrigerator, oven/range, exhaust hood, and floor to ceiling cabinets
- Washer and dryer installed and maintained by owner in each unit
- Internet and cable-ready

The project Amenities include:

- Secured building access
- On-site secured and covered parking
- Pet-friendly
- Outdoor patio/landscaped area
- Services from First Evangelist Housing and Community Development Corporation
- On-site property management
- Multi-purpose activity room
- Furnished lounges on each floor

GCHP began acquiring parcels on this city block (bound by Oretha Castle Haley Boulevard, Thalia Street, South Rampart Street and Martin Luther King Jr. Boulevard) in 2007. The vision for the Harrell Building stemmed from increasing requests from the neighborhood for higher quality senior housing and more commercial and mixed-use development on O.C. Haley Boulevard. Having been actively involved with developments and stakeholders on O.C. Haley for the past 12 years, GCHP President Kathy Laborde also received significant feedback and support from residents who wished to see O.C. Haley being restored to its heyday. Initially, GCHP had only planned to develop a multifamily facility, but as GCHP acquired more contiguous parcels on the block, they expanded their vision to include commercial space, with the goal of securing a high-impact anchor tenant.

In 2009 NORA was actively pursuing new offices outside the Central Business District where it was based at the time. GCHP proposed to NORA a build-to-suit office building on O.C. Haley Boulevard, as part of GCHP's vision for the Harrell Building. NORA expressed strong interest, and subsequently agreed to contribute \$2 million in CDBG gap financing to the project. Since NORA had already identified O.C. Haley as one of their targeted commercial corridors for investment in 2007, along with Oak Street, Freret Street and Broad Street, GCHP's proposal was fortuitously aligned with NORA's investment goals.

Throughout the design phase for the Harrell Building, GCHP hosted several meetings with stakeholders such as the O.C. Haley Merchants and Business Association, the 6<sup>th</sup> District Police Station, and other area property owners to answer their questions and

concerns. GCHP also liaised with First Evangelist Housing to get their feedback and suggestions on the senior housing component, resulting in the project getting the buy-in and support it needed. The project's public funding sources triggered the Section 106 review process, whereby the architectural plans had to meet the approval of SHPO, given the site's location in a National Historic District. GCHP and the project architect met with SHPO on several occasions to review and revise the plans and ensure the building would be compatible with the historic fabric of the neighborhood.

## Development Partner

The development partners for the Harrell Building consist of the following companies/entities:

Developer and Owner:	Gulf Coast Housing Partnership
Architect:	CCWIV Architecture
General Contractor:	G&M Construction/White-Spinner NOLA JV
Property Manager:	Latter & Blum Property Management
Service Provider:	First Evangelist Housing and Community Development Corporation
Commercial Leasing:	Talbot Realty

## Current State

As of April 19, 2013, King Rampart Apartments is 93% leased; and the commercial building is more than 80% leased. The New Orleans Redevelopment Authority occupied their office space on June 1<sup>st</sup>, 2012; and Velvet Espresso Bar opened its doors in the corner unit on the ground floor March 18, 2013. GCHP continues to work with their leasing agent to secure tenants for the remainder of the ground floor retail spaces.

# Financials

Development Budget as of June 15, 2010

70 units

30 One-bedroom      21 NSP2

40 Two-bedroom      9 NSP2

Acquisition- Land	\$ 365,804
Demo/Debris Removal	\$ 76,026
Construction Cost	\$ 9,271,590
Hard Cost Contingency	\$ 927,159
Development Fee	\$ 1,140,396
NMTC Consultant Fees	\$ 288,140
Construction Interest	\$ 415,000
Operating Reserves	\$ 158,631
Phase I/EER	\$ 3,801
Archaeology Testing- Ph 1-3	\$ 129,245
Soils Testing	\$ 11,404
Appraisals & Inspections	\$ 15,281
Engineering (Test Piles)	\$ 76,026
Architecture- Design	\$ 394,043
Architecture- Supervision	\$ 69,537
Accounting/Cost Certification	\$ 20,000
Legal	\$ 37,500
Organizational	\$ 7,603
Bond Issuance Costs	\$205,271
Construction Loan Fee/LC Fee	\$75,000
LHFA Fees	\$25,000
Title and Recording	\$ 15,205
Permits/Fees	\$ 60,821
Miscellaneous	\$ 30,411
Marketing	\$ 7,603
Market Study	\$ 7,603
Surveys	\$ 11,404
Taxes/Insurance	\$ 107,550
<b>TOTAL</b>	<b>\$ 13,497,931</b>

## Sources and Uses as of March 12, 2012

### Commercial Component

Sources	Amount	
GoZone Bonds (Private Placement with First NBC Bank)	\$ 2,500,000	
NORA CDBG Commercial Gap Financing Loan	\$ 2,000,000	
Bridge Loan *	\$ 2,000,000	
Developer Equity Contribution	\$ 141,697	
NMTC Net Equity Proceeds	\$ 1,260,000	
<b>TOTAL</b>	<b>\$ 7,901,697</b>	
Uses	Amount	Per SF/(Gross)
Bridge Loan Repayment	\$ 2,000,000	\$ 100
Development/Reserves	\$ 5,901,697	\$ 293
<b>TOTAL</b>	<b>\$ 7,901,697</b>	
Surplus (Deficit)	0	

\*The \$2M bridge loan from FNBC was funded at closing to bridge the pay-in of the CDBG funds during construction. Although we completed construction on the building, as of 04/23/13, GCHP is still awaiting NORA's disbursement of the final \$100,000 in CDBG funds. Until then, we continue to incur interest expense on the bridge loan and have executed several extensions of the bridge loan term.

### 70-unit mixed income rental housing for seniors

Sources	Amount	
Interim Financing (T-E Bonds)	\$ 7,500,000	
Tax Credit Equity (4% Bonds-Enterprise Community Investors)	\$ 3,198,000	
CDBG/Piggyback- State OCD	\$ 8,101,036	
NSP1- State of LA	\$ 1,723,937	
NSP2- NORA	\$ 1,700,000	
<b>TOTAL</b>	<b>\$ 22,222,973</b>	
Uses	Amount	Per SF/(Gross)
Interim Financing Repayment	\$ 7,500,000	\$ 89
Development/Reserves	\$ 14,722,973	\$ 230
<b>TOTAL</b>	<b>\$ 22,222,973</b>	
Surplus (Deficit)	\$ 0	

## Notable Compliance Requirements

CDBG and NSP imposed federal labor/wage compliance and Section 3 requirements on the entire project, including both commercial and residential components.

LIHTC, CDBG and NSP impose long-term affordability requirements on the residential units. For CDBG and LIHTC, 49 units (70%) will be affordable units at 60% Area Median Income or below, leaving 21 units unrestricted. NSP2 funds impose the additional affordable requirement that 21 one-bedroom and 9 two-bedroom units must be affordable at 50% AMI or below.

For the residential component, the CDBG funding imposed an extended compliance/affordability period of 35 years from the closing date.



# Financial Partners

Commercial component : Financed through New Market Tax Credits and permanent debt

## First NBC Bank

First NBC Bank acted as investor and senior lender, contributing a \$2,500,000 Senior Leverage Loan using the proceeds of GO Zone Bonds issued for the project. FNBC also made the Bridge Loan of \$2,000,000 for the project.

## Local Initiatives Support Corporation

The Local Initiatives Support Corporation acted as the CDE contributing new markets tax credits to the transaction in the amount of \$5,760,000.

## New Orleans Redevelopment Authority

NORA agreed to make a loan of \$2,000,000 to GCHP for the financing of the project that will be funded on a reimbursement basis as construction costs are incurred. The proceeds of NORA's loan will be used to repay a bridge loan of \$2,000,000 from First NBC Bank to the GHCP, which was funded at the closing of the financing transaction.

Residential component : Financed through a combination of these sources.

## JP Morgan Chase

JP Morgan Chase purchased tax-exempt bonds from the Finance Authority of New Orleans and contributed a \$7,500,000 construction loan to the residential component.

## Enterprise Community Investments

Enterprise Community Investments contributed 4% tax credit equity to the residential component in the amount of \$3,198,000.

## Louisiana Housing Finance Agency

Louisiana Housing Finance Agency contributed NSP1 funds to the residential component in the amount of \$1,723,937.

## New Orleans Redevelopment Authority

NORA contributed NSP2 funds to the residential component in the amount of \$1,700,000.

## State of Louisiana, Division of Administration, Office of Community Development

The Office of Community Development contributed piggyback Community Development Block Grant funds in the amount of \$8,101,036.

## Programming

First Evangelist Housing and Community Development Corporation did not contribute financing but they are providing programming and services for senior residents such as referrals, training, workshops, activities, benefits awareness, and federal and income tax filing in return for a part of the developer fee. As Kathy Laborde and Gulf Coast Housing Partners have a good relationship with First Evangelist Housing, whose offices are located down the street from GCHP, the group was brought on early in the development and design process, during which an asset management meeting was held to establish what kind of services are needed by senior residents and how to implement them.

## Tenants

As there was a lack of tenant commitment at the time of closing, the bank required GCHP to master lease the ground floor retail space. GCHP has set aside an additional \$60,000 for tenant improvements for the entire ground floor commercial, \$20,000 of which had been spent on build out for Velvet Espresso Bar. The commercial component was included in the project as the rent from these spaces made the financing work well, especially because retail financing was done separately from residential.

The rent for the commercial spaces was \$12 per square foot in 2009, market rate but still significantly lower than rents in other areas in New Orleans. Currently, the rent is below market rate at \$15-\$16 per square foot. NORA was given a flat rate rent for 10 years in the lease.

NORA and GHCP have also entered into an option agreement pursuant to which NORA can purchase the commercial portion of the building in exchange for assuming certain senior debt and forgiveness of NORA's debt. At the end of the New Markets compliance period of 7 years, NORA's position will be as the subordinate lender to the GHCP, holding a note secured by a subordinate mortgage on the property. At that time, NORA will decide whether to exercise its option. Two scenarios exist for the exercise of the Option:

(a) If the appraised value of the building is less than the outstanding debt, then the exercise of the Option will involve the transfer of the property to NORA, the assumption of the FNBC loan by NORA and the forgiveness of NORA's loan.

(b) If the appraised value of the building is greater than the amount of the FNBC debt and NORA debt, then the exercise of the option will involve the transfer of the property to NORA, the assumption by NORA of the FNBC debt, the forgiveness of the NORA debt, and a payment by NORA of the difference between the collective balance of the FNBC and NORA debt and the appraised value of the building. This process is necessary so that the option existing on the property is a fair market value option. If it is not, new markets tax issues arise. This is different from the initially agreed upon option, which would have allowed NORA to pay 50%, rather than 100%, of the excess appraised value of the building.

# Timeline

Date	Milestone
November 2008	-CDBG/Piggyback-State OCD commits \$8,101,036 to project
2009	-NORA starts looking for a new office space, GCHP proposes the Harrell Building idea to NORA
October 2009	-NSP1- State of LA commits \$1,723,937 to project
April 2010	-NSP2- NORA commits \$1,700,000 to project
June 2010	-Tax credit equity (4% bonds) worth \$3,198,000 generated
August 2010	-T-E bonds worth \$7,500,000 released
March 31, 2011	-Financial close
April 11, 2011	-Residential construction begins
September 27, 2011	-Certificate of Occupancy issued for residential -Commercial construction begins
June 1 <sup>st</sup> , 2012	-Commercial construction complete -NORA moves into new office space
March 2013	-Residential component fully occupied -One out of three commercial spaces occupied

# Lessons Learned

## **Housing Authority Approval Process**

The project-based voucher (PBV) units should have been filled earlier but faced challenges from HANO's approvals process. There was confusion on HANO's part as they had not informed potential PBV residents, and the process for filling the units was delayed. As tax credit financing was closed in April 2011, the credits were supposed to be generated in Jan 2013 but were contingent upon filling all the low-income units. The delay in PBV approvals caused challenges in getting the building placed in service and therefore generating the LIHTC tax credits on time.

## **State Bond Commission Requirements**

In the summer of 2008, a moratorium on approvals for new bonds for affordable housing was issued as the city determined that there was not a need for more affordable housing. Due to the moratorium, the State Bond Commission refused to approve tax-exempt bonds for the transaction for 18 months, delaying closing date. The CDBG funding was contingent upon getting the 4% credits, but tax credits could not be generated without the bonds. The developer was notified that they could only get approval if they had a letter of support from the Mayor (Landrieu). The developer had approached the Mayor for support but he did not agree to write a letter until NORA intervened and appealed on the developer's behalf, resulting in the Mayor's support of the project. In all, it took 1.5 years to get the approval from the State Bond Commission.

## **Project Deadlines limited ability to make schedule adjustments**

The construction completion date for commercial component had to be completed by June 1st, 2012 regardless of delays as the developer had signed a lease agreement with NORA to have its office space ready by the set date or face a penalty charge. As the developer had two construction draws for the two development components (commercial and residential), the lease agreement made construction schedule hard to adjust. More coordination among the funders to coordinate the draws could have simplified the development process.

## **Lack of a Formal Community Process delays project**

There was opposition from a member of the community during the design process as the individual wanted to open a jazz bar with a view of downtown in the area and viewed the development as a challenge to his plans. He filed complaints to SHPO about the building not meeting approved design standards for historic districts. This slowed the development process while he was heard but ultimately he was not successful in his pursuit.

# LIVING CITIES



## Broad Street ReFresh Project

300 N Broad St, New Orleans LA

Project Summary for the Capital Absorption Analysis  
New Orleans, Louisiana

Prepared by



April 2013



Source: Billes Partners (early rendering)

Size	•60,000 SF (net)
Construction Start/Finish	•April 2013 to December 2013
Address	•300 N Broad St, New Orleans
Census Tract	•49
Zoning	•C-1A with Conditional Use permit for grocery over 10K SF
TDC	•\$19M
Occupancy	•83% leased as of March 23, 2013
Amenities	<ul style="list-style-type: none"> <li>•25K SF grocery</li> <li>•10K SF cafe and commercial kitchen</li> <li>•5K SF demonstration kitchen</li> <li>•20K SF office space</li> <li>•4K SF community space</li> </ul>

Broad Community Connections is a non-profit Main Street organization in New Orleans with a mission to revitalize the Broad Street commercial corridor. BCC is repurposing a former Schwegmann's grocery store at 300 N Broad St as a mixed-use center for neighborhood health. The building, which sat vacant for nearly 8 years after Schwegmann's closed, will contain a full-service fresh foods grocer, a café and commercial kitchen, a demonstration kitchen for seminars on healthy food preparation and office space for local non-profit organizations. Although the developers will not pursue a LEED certification for the building, the project prioritizes on-site water retention and other sustainable building strategies.

Whole Foods, the project's anchor tenant, will open its doors by Thanksgiving 2013. ReFresh will be fully occupied by year-end 2013.

## Development Partners

Broad Community Connections is developing ReFresh in conjunction with L+M Development Partners, a New York-based developer with a focus on affordable housing. L+M is also participating in the redevelopment of the Lafitte Housing Development, a project located near 300 N Broad. L+M was motivated to develop ReFresh by a lack of healthy food and retail options in the vicinity of Lafitte. In addition to acting as developer of the ReFresh project, L+M contributed equity for the acquisition of the property and will own 80% of the completed project. The development partners hired New Orleans-based Metro Studio as project architects and Metairie-based Malin Construction Company as general contractor. Malin was the general contractor for 3 other Whole Foods stores in Louisiana, making them a good fit for ReFresh's anchor tenant.

Prior to engaging L+M as a partner in early 2012 BCC initiated the ReFresh project with Value Spark Capital, a New Orleans-based financial services firm. Value Spark engaged Billes Partners, a local architectural firm, to conduct initial conceptual and schematic design. BCC and Value Spark signed a phased development agreement that was ultimately not renewed after December 2011. BCC also concluded its contract with Billes Partners in December 2011.

# Financials

## Sources & Uses

Sources	Amount	
Senior debt	\$3,000,000	
Low-Income Investment Fund mezzanine debt	\$1,558,800	
NMTC equity	\$5,491,200	
Fresh Foods Retailer Initiative	\$1,000,000	
New Orleans Redevelopment Authority	\$900,000	
Foundation for Louisiana	\$500,000	
Newman's Own Grant	\$250,000	
Whole Foods build out	\$5,300,000	
Developer equity	\$181,818	
<b>TOTAL</b>	<b>\$18,181,818</b>	
Uses	Amount	Per SF (Gross)
Acquisition	\$2,400,000	\$37
Construction costs	\$12,421,638	\$191
Soft costs	\$2,749,754	\$42
Developer fee	\$610,426	\$9
<b>TOTAL</b>	<b>\$18,181,818</b>	



# Financial Partners

## Goldman Sachs

Goldman Sachs contributed a \$10M New Markets Tax Credit allocation and a \$3M senior loan to the project. Goldman Sachs became involved with the project after Enterprise Community Partners withdrew its New Markets allocation due to project delays.

## Chase Bank

Chase Bank contributed an \$8M New Markets Tax Credit allocation to the project.

## Low-Income Investment Fund

The Low-Income Investment Fund, a CDFI with offices in California, New York and Washington, D.C., contributed a \$1,500,000 mezzanine loan to the project. ReFresh is LIIF's first investment in the New Orleans area and its first project loan over \$500,000.

## New Orleans Redevelopment Authority

The New Orleans Redevelopment Authority contributed 2 low-interest loans in the amounts of \$420,000 and \$480,000 as part of its Commercial Corridor Revitalization Program. Funding for these loans comes from federal Community Development Block Grants. The loan in the amount of \$420,000 is forgivable 5 years from project completion.

## Fresh Food Retailer Initiative

The Fresh Food Retailer Initiative, a program jointly administered by the City of New Orleans and Hope Enterprise Corporation, contributed 2 low-interest loans of \$500,000. One loan is forgivable 5 years from project completion. The Fresh Food Retailer Initiative applies disaster CDBG funds to projects that create better fresh food access in underserved communities. ReFresh is the second project to receive funding through the Fresh Food Retailer Initiative.

## Foundation for Louisiana

The Foundation for Louisiana, a non-profit philanthropic organization, provided a low-interest loan in the amount of \$500,000. The Foundation also provided a \$95,000 grant in March 2011 to fund predevelopment activities.

## Newman's Own Foundation

The Newman's Own Foundation provided a grant to Broad Community Connections in the amount of \$250,000.

## L+M Development Partners

In order to finance acquisition of the site, L+M incurred a loan in the amount of \$1,800,000 from La Raza, a CDFI focusing on investment in Latino communities. L+M also contributed \$1M in equity to acquisition costs.

## Whole Foods

Whole Foods will funnel \$5,300,000 in build out costs through the project's New Markets Tax Credit structure, generating an additional \$1.2M in tax credit equity for the project.

# Tenants and Programming Partners

## Whole Foods

Whole Foods is the anchor tenant at ReFresh and will occupy 25,000 SF. Broad Community Connections, through its relationship with Revolution Foods, gained the interest of Whole Foods board member and Tulane Freeman School of Business professor John Elstrott. BCC first met with Whole Foods leadership in December 2011 and signed a lease with the company in December 2012 at a below market rate with percentage rent of up to 2% of the store's earnings, capped. Prior to establishing a relationship with Whole Foods, BCC reached out to at least 10 other grocers, including Winn Dixie, Trader Joe's, Rouse's and Sterling Farms but was unable to draw them to the project.

## Liberty's Kitchen

Liberty's Kitchen is a New Orleans-based café that employs and trains at-risk youth in the restaurant industry. Liberty's Kitchen expressed interest in the space at 300 N Broad in early 2011 and signed a preliminary LOI in December of that year. As of March 23, 2013 Liberty's Kitchen's lease was still under negotiation. The café will rent its space at a below-market rate.

## FirstLine Charter Schools

FirstLine Charter Schools will occupy 10,000 SF of space at ReFresh. FirstLine operates charter schools in the Mid-City and Gentilly neighborhoods of New Orleans, making the 300 N Broad site a convenient office location for them. FirstLine signed a lease in mid-March 2013 and will rent at market rates.

## Tulane School of Medicine

The Tulane School of Medicine will operate a teaching kitchen, offering community classes on nutrition and healthy cooking and potentially partnering with local health clinics. Tulane's School of Public Health Prevention Research Center will also conduct studies to determine baseline health conditions in the surrounding community with the hopes of measuring positive health impacts of the ReFresh project in the future. Tulane has been a project partner since 2011. As of March 23, 2013 Tulane's lease was still under negotiation. The university will rent its space at a below-market rate.

# Timeline

Date	Milestone
Fall 2010	-Winn Dixie relinquishes control of the site at 300 N Broad
December 2010	-BCC obtains site control
Spring 2011	-RFP for potential development partner circulated by BCC in conjunction with Value Spark Capital and Billes Partners; no response received.
March 2011	-BCC receives \$95K predevelopment grant from Foundation for Louisiana
December 2011	-Letters of Intent signed by Whole Foods, Liberty's Kitchen and Tulane University -Contract with Billes Partners and Value Spark Capital terminated
January 2012	-BCC establishes informal partnership with L+M Development Partners
June 2012	-NORA commits a \$900K loan to the project
July 2012	-BCC and L+M acquire the site
Fall 2012	-Goldman Sachs joins the project as senior lender and New Markets tax credit allocatee after Enterprise's departure
October 2012	-BCC receives \$500K development loan from Foundation for Louisiana
December 2012	-Whole Foods signs lease for 300 N Broad
March 2013	-FirstLine Charter Schools signs lease for 300 N Broad
April 2, 2013	-Financial closing
April 3, 2013	-Construction begins
November 2013	-Whole Foods construction complete -Whole Foods opens by Thanksgiving
December 2013	-All construction complete -Project fully occupied

# Lessons Learned

## Lease Negotiations

Too much specificity in early tenant partnership agreements made final lease negotiations more difficult. Changing circumstances throughout the development process complicate predictions of feasible rent levels and tenant allowances. The LOIs signed by Broad ReFresh tenants in December 2011 contained rent levels that were not ultimately viable for the ownership.

## City Processes for Non-Local Investors

By virtue of its partnership with L+M, BCC was able to attract several out-of-town investors to the project, including Goldman Sachs and the Low-Income Investment Fund. BCC feels that these investors' involvement were put at risk by inefficient underwriting and unclear compliance processes at the city level, particularly with respect to city financing programs. The attraction of non-native investors, especially those experiencing the New Orleans development process for the first time, could be better encouraged through streamlined and transparent city processes.

## Development Partnerships

Admittedly, BCC learned a great deal in the process of bringing this project together. As a non-profit entity, BCC needed a development partner with development expertise, strong relationships with potential financing partners and a willingness to incur risk in the project's interest. BCC experienced two contrasting development partnerships throughout the course of the project, and will ultimately deliver the project in conjunction with L+M because of the company's similar priorities and excellent qualifications for a project of this type. If BCC had more internal capacity or there had been access to development expertise at the early stages of the process, it is believed that the project would have proceeded more quickly.

## Funding Sources

The existence of the Fresh Foods Initiative has admittedly helped initiate this project to move forward. In the early phases, it was difficult due to the need for working capital and predevelopment funding. The Foundation for Louisiana took an early role in supporting the development of the project and ultimately the relationship with L&M, an organization that could absorb some up front working expenses made this project move forward.

## Relational Development

Broad Community Connections, and its Executive Director Jeff Schwartz, worked tirelessly to make connections. The relationship with John Elstrott was what ultimately brought the primary tenant to the project and Jeff's previous position within City government and his relationships with NORA, the City and other Foundations helped him layer together the funding sources for the project.

## Large group meeting attendees (November 7, 2012)

Facilitators: David Wood, Initiative for Responsible Investment; Ellen Lee, Greater New Orleans Foundation; Alexandra Stroud, Urban Focus Louisiana; Lisa Davis, Ford Foundation; Jerry Maldonado, Ford Foundation; Isabel Barrios, Greater New Orleans Foundation; Marco Cocito-Monoc, Greater New Orleans Foundation; Ryan Albright, Greater New Orleans Foundation

### Attendees:

Walter Dymynski, Hope Enterprise Corporation  
Christy Wallace Slater, Foundation for Louisiana  
Kathy LaBorde, Gulf Coast Housing Partnership  
Phil Eide, Enterprise Corporation of the Delta  
Tara Hernandez, JCH Development  
Neal Morris, Redmellon Development  
Cleland Powell, Iberia Bank  
Victor Smeltz, Renaissance Redevelopment  
Sean Closkey, The Reinvestment Fund  
Ira Goldstein, The Reinvestment Fund  
Pat Forbes, State of LA - Office of Community Development  
Rod Miller, New Orleans Business Alliance  
Jeff Hebert, New Orleans Redevelopment Authority  
Brian Lawlor, Director of Housing Policy, City of New Orleans  
Brad Sweazy, Louisiana Housing Corporation  
Monica Gonzalez, Enterprise Community Partners

## Focus group attendees (April 1-4, 2013)

Facilitators: Alexandra Stroud, Urban Focus Louisiana, Ellen Lee, Greater New Orleans Foundation, Isabel Barrios, Greater New Orleans Foundation, Darell Koh, Urban Focus Louisiana

### *FOUNDATIONS*

Liza Cowan, JP Morgan Chase Foundation  
Alfredo Cruz, Foundation for Louisiana  
Flozell Daniels, Foundation for Louisiana  
Ellen Lee, Greater New Orleans Foundation

### *BANKS AND LENDING INSTITUTIONS*

Lisa Mazique, CD Capital  
Vaughn Fauria, NewCorps  
Nancy Montoya, Federal Reserve Bank of Atlanta  
Ken Overshiner, Chase Bank

### *PUBLIC SECTOR AGENCIES*

Ashleigh Gardere, Mayor's Advisor for Strategy and Development  
Brenda Breaux, New Orleans Redevelopment Authority

Brian Lawlor, Director of Housing Policy, City of New Orleans  
Brad Sweazy, Louisiana Housing Corporation  
Lona Hankins, Recovery School District  
Ryan Albright, Greater New Orleans Foundation  
Loretta Poree, Small Business Administration

*REAL ESTATE DEVELOPERS*

Kathy Laborde, Gulf Coast Housing Partnership  
Victor Smeltz, Renaissance Neighborhood Development  
Una Anderson, Harmony Community development Corporation  
Terri North, Providence Community Housing  
Santiago Burgos, Broadmoor Community Development Corporation  
Josh Collen, HRI Properties

*ECONOMIC DEVELOPMENT ENTITIES*

Amber Seely, Regional Planning Commission  
Jeff Schwartz, Broad Community Connections  
Rod Miller, NOLA Business Alliance  
Emilie Tenenbaum, NOLA Business Alliance  
Leigh Ferguson, Downtown Development District

*ADVOCACY AND POLICY ORGANIZATIONS*

Michelle Whetten, Enterprise Community Partners  
Patrick Haughy, New Orleans Business Council  
Allison Plyer, Greater New Orleans Community Data Center  
Nicole Heyman, Center for Community Progress  
Rachel Heiligman, Ride New Orleans

**Large group meeting attendees (April 16, 2013)**

Facilitators: Marian Urquilla, Living Cities, David Wood, Initiative for Responsible Investment, Alexandra Stroud, Urban Focus Louisiana, Ellen Lee, Greater New Orleans Foundation, Isabel Barrios, Greater New Orleans Foundation, Darell Koh, Urban Focus Louisiana

Alfredo Cruz, Foundation for Louisiana  
Allison Plyer, Greater New Orleans Community Data Center  
Amber Seely, Regional Planning Commission  
Annie Cambria, Recovery School District  
Ashleigh Gardere, Mayor's Advisor for Strategy and Development  
Boo Thomas, Center for Planning Excellence  
Brad Sweazy, Louisiana Housing Corporation  
Brian Lawlor, Director of Housing Policy, City of New Orleans  
Christy Slater, W. K. Kellogg Foundation  
Desiree Andrepont, Housing Authority of New Orleans

Ellen Lee, Greater New Orleans Foundation  
Emilie Tenenbaum, NOLA Business Alliance  
Eric Van Hoven, Gulf Coast Bank  
Erich Caulfield, Office of International and Philanthropic Innovation, Housing and Urban Development  
Gary Williams, ECD, Hope Credit Union  
James Ross, NeighborWorks America  
Jeff Hebert, New Orleans Redevelopment Authority  
Jerry Maldonado, Ford Foundation  
Josh Collen, HRI Properties  
Karl Seidman, MIT  
Kathy Laborde, Gulf Coast Housing Partnership  
Kurt Weigle, Downtown Development District  
Leigh Ferguson, Downtown Development District  
Lisa Davis, Ford Foundation  
Lisa Mazique, CD Capital  
Liza Cowan, JP Morgan Chase Foundation  
Michelle Whetten, Enterprise Community Partners  
Nancy Montoya, Federal Reserve Bank of Atlanta  
Nicole Heyman, Center for Community Progress  
Santiago Burgos, Broadmoor Community Development Corporation  
Tara Hernandez, JCH Development  
Terri North, Providence Community Housing  
Una Anderson, Harmony Community Development Corporation  
Van Temple, Crescent City Community Land Trust  
Vaughn Fauria, NewCorps  
Victor Smeltz, Renaissance Neighborhood Development  
Will Bradshaw, Green Coast Enterprises

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# LIVING CITIES

## Capital Absorption in New Orleans



# INTRODUCTION

## AGENDA

8:30 – 9:00am	Breakfast
9:00 - 10:00am	Welcome and Opening Panel
10:00 – 10:30am	Capital Absorption Tool Overview
10:30 – 10:45am	Break
10:45 – 11:15am	<u>Module 1</u> : Vision and Legitimacy (including what might it be)
11:15 – 12:15pm	<u>Module 2</u> : Pipeline and Execution
12:15 – 12:45pm	Lunch
12:45 – 1:30pm	<u>Module 3</u> : Innovation
1:30 – 2:30pm	<u>Module 4</u> : Enabling Environment
2:30 – 2:45pm	Break
2:45 - 3:15pm	<u>Module 5</u> : Next Steps
3:15 – 3:45pm	Full Group Discussion of Next Steps
3:45 – 4:00pm	Closing

# SETTING THE LOCAL CONTEXT

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## SIX FOCUS GROUPS

- FOUNDATIONS
- BANKS AND LENDERS
- DEVELOPERS
- PUBLIC SECTOR
- ECONOMIC DEVELOPMENT
- ADVOCACY AND POLICY

# SETTING THE LOCAL CONTEXT

## HEADLINES

- Widespread though not universal belief that **shared vision is needed**
- **Transparency and Predictability** are priorities, from streamlined processes to , potentially, a single portal for stakeholders to enter
- There are questions on where community enters **into the process of community investment**
- **Openness to new tools to capture value**, both on the community side (i.e. Community Benefit Agreements) to new uses for public and private investment capital, or tools for cross sector collaboration.
- **Capacity Building and Collaboration** was seen as necessary across sectors, though not always clear what was meant
- **Mayoral and City Engagement** at the regional, state and city levels (RPC, LHC, NORA, HANO, IDB) seen as fundamental
- Community investment in real estate **seen as occurring in spite of the system;** workforce development seen as lagging
- All development deals have subsidy in them - **costs to build too high** (construction cost due to wind load and elevation requirements and insurance costs) and **market too low** to support market rate development

# PROJECT PROFILES

## HARRELL BUILDING

An 84000 SF mixed-use development

- 64,000 SF, 70-unit mixed-income residential apartments for seniors (70% at 60% AMI)
- 20,000 SF commercial space where the top three floors consist of office space for NORA (15,000 SF) and the ground floor is occupied by three commercial tenants (5,000 SF).

### Financial Partners

Commercial component :

First NBC Bank

The Local Initiatives Support Corporation (NIMTC)

New Orleans Redevelopment Authority

Residential component :

JP Morgan Chase

Enterprise Community Investments

Louisiana Housing Finance Agency

New Orleans Redevelopment Authority

State Office of Community Development



### Tenants and Programming Partners

*Programming for Seniors:* First Evangelist Housing and Community Development Corporation

*Tenants:*

Residential - Seniors

GCHP Master Lease with Tenant Improvements

Velvet Espresso Bar

Three vacant spaces

The New Orleans Redevelopment Authority

# PROJECT PROFILES

## HARRELL BUILDING

### Lessons Learned

- The project-based voucher units faced challenges from HANO’s approvals process. The delay in PBV approvals caused challenges in getting the building placed in service and therefore generating the LIHTC tax credits on time.
- In the summer of 2008, a moratorium on approvals for new bonds for affordable housing was issued as the city thought there was not a need for more. Due to the moratorium, the State Bond Commission refused to approve Tax Exempt bonds for the transaction for 18 months, delaying closing date. The CDBG funding was contingent upon getting the 4% credits, but tax credits could not be generated without the bonds. GCHP was notified that they could only get approval if they had a letter of support from the Mayor (Landrieu). NORA intervened on GCHP’s behalf, resulting in the Mayor’s support of the project. In all, it took 1.5 years to get the approval from the State Bond Commission.
- Gulf Coast Housing Partnerships working relationship with NORA initiated the project as NORA was actively looking to relocate.

# PROJECT PROFILES

## BROAD REFRESH

Broad Community Connections is repurposing a former Schwegmann's grocery store with L+M Development Partners at 300 N Broad St as a mixed-use center which will contain a full-service fresh foods grocer, a café and commercial kitchen, a demonstration kitchen for seminars on healthy food preparation and office space for local non-profit organizations.

### Financial Partners

Goldman Sachs  
Chase Bank  
Low-Income Investment Fund  
New Orleans Redevelopment Authority  
Fresh Food Retailer Initiative  
Foundation for Louisiana  
Newman's Own Foundation  
L+M Development Partners  
Whole Foods



Early rendering, Billes Partners

### Tenants and Programming Partners

Whole Foods  
Liberty's Kitchen  
FirstLine Charter Schools  
Tulane School of Medicine - teaching kitchen



# PROJECT PROFILES

## BROAD REFRESH

### Lessons Learned

- The project was able to attract major investors including Goldman Sachs and the Low-Income Investment Fund. The attraction of non-native investors, could be better encouraged through streamlined and transparent city processes.
- As a non-profit entity, BCC needed a development partner with development expertise, strong relationships with potential financing partners and a willingness to incur risk in the project's interest.
- The existence of the Fresh Foods Initiative helped initiate this project to move forward.
- In the early phases, it was difficult due to the need for working capital and predevelopment funding. The Foundation for Louisiana took an early role in supporting the development of the project and ultimately the relationship with L&M, an organization that could absorb some up front working expenses made this project move forward.
- It is through initiative and relationships that Wholefoods was brought in as the primary tenant to the project. Relationships with NORA, the City and other Foundations helped layer together the funding sources for the project.

# WELCOME AND OPENING

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## PURPOSE

This research framework is an effort to:

- Think about the system as a whole
- Think about unlikely actors in the system, or unlikely configurations
- Find places where we can make the system work more effectively

# COMMUNITY INVESTMENT IS A SET OF FUNCTIONS

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**VISION AND LEGITIMACY**



**PIPELINE**



**EXECUTION**

(MANAGEMENT AND MONITORING)



**INNOVATION**



**ENABLING ENVIRONMENT**

# SEATING CHART

TABLE 3

Liza Cowan (F)  
Lisa Mazique (B)  
Victor Smeltz (D)  
Emilie Tenenbaum (E)  
Boo Thomas (A)  
Brian Lawlor (G)

TABLE 4

Ellen Lee (F)  
James Ross (F)  
Terri North (D)  
Leigh Ferguson (E)  
Van Temple (D)  
Jeff Hebert (G)  
Nicole Heyman (A)  
Vaughn Fauria (B)

TABLE 5

Michelle Whetten (F)  
Eric Van Hoven (B)  
Santiago Burgos (D)  
Annie Cambria (G)  
Kurt Weigle (E)  
Desire Andrepont (G)  
Jeff Schwartz (A)

TABLE 6

Christy Slater (F)  
Josh Collen (D)  
Alfredo Cruz (F)  
Amber Seely (E)  
Allison Plyer (A)  
Brad Sweazy (G)  
Nicole (G)

TABLE 2

Lisa Davis (F)  
Kathy Laborde (D)  
Ashleigh Gardere (G)  
Gary Williams (B)  
Tara Hernandez (D)  
Erich Caulfield (G)  
Will Bradshaw (D)



# VISION AND LEGITIMACY

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## WHAT IT REQUIRES:

ENSURING THAT INVESTMENT IS FOCUSED ON MEETING RECOGNIZED COMMUNITY NEEDS WITH THE SUPPORT OF COMMUNITY ACTORS.



# VISION AND LEGITIMACY

## WHAT WE HEARD:

MANY THINK WE NEED A CLEAR, SHARED VISION THAT ALLOWS FOR TRANSPARENCY IN PRIORITIZING PROJECTS AND SCORING APPLICATIONS

- CURRENTLY WE HAVE TRANSACTIONAL OR TRIAGE-BASED REACTIONS - CRIME, BLIGHT, STREETS
- WOULD LIKE TO SEE THE CITY TO PRESENT PLACE-BASED PLANNING STRATEGY AND OPPORTUNITIES FOR INVESTMENTS TO LENDERS AND PUBLIC FUNDERS

THERE IS A LACK OF CONSENSUS REGARDING THE COMMUNITY'S ROLE IN DEVELOPMENT PROCESS

- DISPARITY IN COMMUNITY NEED – 8.7% UNEMPLOYMENT (2.8% FOR WHITE NEW ORLEANIANS AND 13.8% FOR BLACK NEW ORLEANIANS)
- UNCLEAR PATHS FOR COMMUNITY ENGAGEMENT

THERE IS AN EMPHASIS ON PHYSICAL PROJECTS WITH LIMITED CONSIDERATION TO HUMAN CAPITAL

- COMMUNITY IMPACT DEFAULTS TO REAL ESTATE
- SOCIAL AND COMMUNITY IMPACT NOT ACCOUNTED FOR IN BANK UNDERWRITING



# VISION AND LEGITIMACY

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## HOW DO WE GET THERE?

- WHAT IS THE IMPLICIT VISION THAT IS CURRENTLY “ORGANIZING” OUR WORK?
- WHAT MIGHT BE SOME CORE ELEMENTS OF OUR SHARED VISION MOVING FORWARD?
- WHO IS BEST SUITED TO CONVENE A VISION-SETTING PROCESS?
- WHAT ISSUES WOULD LIKELY GET THE MOST TRACTION?
- WHAT PRIORITIES NEED SORTING OUT?



**PIPELINE**



**EXECUTION**

**WHAT IT REQUIRES:**

**PIPELINE**

**GENERATE AND CLOSE DEALS THAT  
CONTRIBUTE TO DEFINED COMMUNITY  
GOALS**

**EXECUTION**

**TRANSLATE TRANSACTIONS INTO ONGOING  
SOCIAL BENEFIT**





**PIPELINE**



**EXECUTION**

## **WHAT WE HEARD:**

FUNDING SOURCES DRIVE PIPELINE, NEED TO COMPLETE PROJECTS DETERMINES PRIORITY

NEED TO PROVIDE LOCAL KNOWLEDGE TO NATIONAL FUNDERS TO ATTRACT INVESTMENT

NEED AN AGGREGATOR OF CAPITAL TO ATTRACT OUTSIDE INVESTMENT FOR SMALLER DEALS

NEED TO EDUCATE THE PUBLIC AROUND ACTUAL DATA

- *MARKET VALUE OF PROPERTY VERSUS DENSITY VERSUS ZONING*

DESIRE MAYOR'S PRESENCE AT BOARD MEETINGS OF REGIONAL, STATE AND LOCAL AGENCIES FOR COORDINATION AND LEVERAGE

NEED MORE VARIETY IN FORMS OF CAPITAL

- *PREDEVELOPMENT FUNDING, WORKING CAPITAL*



**PIPELINE**



**EXECUTION**

## **WHAT WE HEARD:**

NEED CLARITY AMONG PUBLIC SECTOR AGENCIES ON ROLE OF COMMUNITY, DBE REQUIREMENTS, OVERALL PROCESS

- *THERE ARE NASCENT EFFORTS BY BOTH THE PUBLIC SECTOR AND FUNDERS TO STREAMLINE FINANCING PROCESS ACROSS AGENCIES*

NEED POLICY IN WORKFORCE DEVELOPMENT TO FOCUS ON SERVING THE NEEDS OF EMPLOYER AND MARKET ATTRACTION

- *NEED TO REINFORCE AND SUPPORT DATA PROFILES OF THE EXISTING LOCAL WORKERS IN THE AREA TO ATTRACT INDUSTRY (GE OPENING A NEW OFFICE IN NEW ORLEANS)*

NEED TO BROADEN THE TOOLBOX OF FUNDING SOURCES, PRODUCTS AND CREATIVE LEVERAGING SOLUTIONS (NORA HAS TAXATION AND BONDING AUTHORITY IT HAS YET TO USE)



## HOW DO WE GET THERE?

- HOW DO GOOD INVESTMENTS AND PROJECTS TYPICALLY GET IDENTIFIED, PUT TOGETHER AND RESOURCED? IN WHICH SECTORS IS THERE THE MOST STRENGTH?
  - FOR REAL ESTATE TRANSACTIONS: WHO LEADS PREDEVELOPMENT/DEVELOPMENT?
  - WHO IS AT THE TABLE?
  - WHO IS MOST MISSING?
- WHO AGGREGATES CAPITAL? WHO LEADS INVESTMENT?
- HOW STRONG OR WEAK IS CAPACITY OF END-USERS TO BORROW?
- HOW DO GOALS OF ECONOMIC DEVELOPMENT, SOCIAL EQUITY AND SUSTAINABILITY GET INTEGRATED INTO DEALS AND PROGRAMS?



PIPELINE



EXECUTION

## HOW DO WE GET THERE?

- WHO ARE THE ACTORS WHO STEWARD INVESTMENTS FROM BEGINNING TO END—WHO TAKES THE LEAD, WHAT HAPPENS WHEN THINGS GO WRONG?
- WHO ADVOCATES FOR SOCIAL GOALS/BENEFITS IN INVESTMENT DEALS? ARE THERE EXPLICIT MECHANISMS (E.G. POLICIES/TOOLS) THAT TIE INDIVIDUAL DEALS TO THE SHARED COMMUNITY VISION AND ENSURE THE DELIVERY OF SOCIAL BENEFIT? WHAT ARE THEY? **HOW COULD THEY BE STRENGTHENED?**
- HOW WELL HAVE WE INTEGRATED COMMUNITY INVESTMENT WITH WORKFORCE TRAINING, BUSINESS DEVELOPMENT SERVICES AND SOCIAL SERVICES? ARE THE RELEVANT AGENCIES EFFECTIVE, AND HOW ARE THEY INVOLVED?
  - **HOW COULD WE MOVE THAT INTEGRATION FORWARD?**

## WHAT IT REQUIRES:

LEARN FROM EXPERIENCE AND APPLY  
LESSONS TO CREATE DURABLE NETWORKS  
THAT STRENGTHEN COMMUNITY  
INVESTMENT PRACTICE AND CARRY IT  
THROUGH TO NEW AREAS.



# INNOVATION

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## **WHAT WE HEARD:**

THERE ARE BEGINNING EFFORTS BY BOTH THE PUBLIC SECTOR AND AMONG FUNDERS TO STREAMLINE FINANCING PROCESS ACROSS AGENCIES

VACANT PROPERTY AND LAND USE INITIATIVES ARE USING A SYSTEMIC APPROACH TO EVALUATION AND RESPONSE

TRADE AND ADVOCACY GROUPS ARE BRINGING FEEDBACK FROM THEIR CONSTITUENTS TO CITY AND STATE POLICYMAKERS

## **WHAT WE HEARD:**

REGULAR REPORTING BY THE GNOCDC IS INVALUABLE

FUNDING APPLICATIONS FOR CNI AND TIGER ARE EXAMPLES OF SUCCESSFUL COLLABORATIONS

SINCE KATRINA, PROJECT FINANCING HAS BECOME MORE COMPLEX AND SOPHISTICATED

SOME INNOVATIVE PLAYERS AT THE CITY, IN THE PRIVATE SECTOR AND IN THE NON-PROFITS AND ADVOCACY GROUPS

## WHAT ELSE SHOULD WE BE DOING?

- SPECIFICALLY, WHAT MECHANISMS (REGULAR MEETINGS, JOINT RFPs, FORMAL COLLABORATIONS, ETC.) NEED TO BE STRENGTHENED OR DEVELOPED TO ENSURE THAT WE APPROACH INVESTMENTS SYSTEMATICALLY RATHER THAN AS ‘ONE-OF’ DEALS? PRIORITIZE THE TOP THREE!
- WHAT ARE THE NEW KINDS OF OPPORTUNITIES WE NEED TO WORK ON GENERATING? PRIORITIZE THE TOPTHREE!
- HOW CAN WE ENSURE THAT NEW IDEAS OR AREAS OF FOCUS BECOME PART OF THE COMMUNITY INVESTMENT DISCUSSION? IDENTIFY ONE SPECIFIC STRATEGY.



# ENABLING ENVIRONMENT

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## WHAT IT REQUIRES:

BUILD THE POLICY AND SUPPORT TOOLS THAT ALLOW COMMUNITY INVESTMENT TO TAKE PLACE.

STRENGTHEN THE MARKET AND PROVIDE THE SUPPORT, LINKAGES AND MECHANISMS NEEDED TO ATTRACT AND SUSTAIN INVESTMENT.



# ENABLING ENVIRONMENT

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## WHAT WE HEARD:

FUNDING IS OFTEN BASED ON RELATIONSHIPS RATHER THAN LOCAL PRIORITIES

TOO LITTLE FOCUS ON BUILDING HUMAN CAPITAL MEANS THAT INVESTMENT RESULTS ARE NOT SELF-SUSTAINING

IMPROVED COORDINATION BETWEEN CITY DEPARTMENTS WOULD STREAMLINE THE INVESTMENT PROCESS

- *MORE RELIABLE PROCESSES AND SYSTEMS*

# ENABLING ENVIRONMENT

## WHAT WE HEARD:

MORE RELIABLE AND UNBIASED DATA SHOULD BE PUBLICLY AVAILABLE (EX: MARKET VALUE ASSESSMENT)

A LOCAL NON-PROFIT CDFI COULD ENABLE NATIONAL FUNDERS TO LEND LOCALLY

THE CITY CAN INCREASE COMMUNITY IMPACT BY UNITING DEVELOPMENT AND COMMUNITY BENEFIT AGENDAS

# ENABLING ENVIRONMENT

## HOW DO WE GET THERE?

- IDENTIFY A PROJECT THAT IS CURRENTLY STALLED? WHAT'S THE SYSTEM FIX NEEDED THAT WOULD HELP MOVE THAT FORWARD?
- WHAT ARE SOME CONCRETE STEPS WE COULD TAKE TO IMPROVE OUR USE OF SUBSIDY, TRAINING, DATA AND COORDINATION TO BOOST THE EFFECTIVENESS OF COMMUNITY INVESTMENT? IDENTIFY UP TO 5.

# COMMUNITY INVESTMENT IS A SET OF FUNCTIONS

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**VISION AND LEGITIMACY**



**PIPELINE**



**EXECUTION**



**INNOVATION**



**ENABLING ENVIRONMENT**

# NEXT STEPS

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## IMPLEMENTATION:

- FUNDERS ARE LOOKING FOR OUTCOMES TO FIND OPPORTUNITIES TO FUND HERE
- TAKING OWNERSHIP
- CRYSTALIZE RECOMMENDATIONS/ RANK PRIORITIES

# NEXT STEPS

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## IMPLEMENTATION:

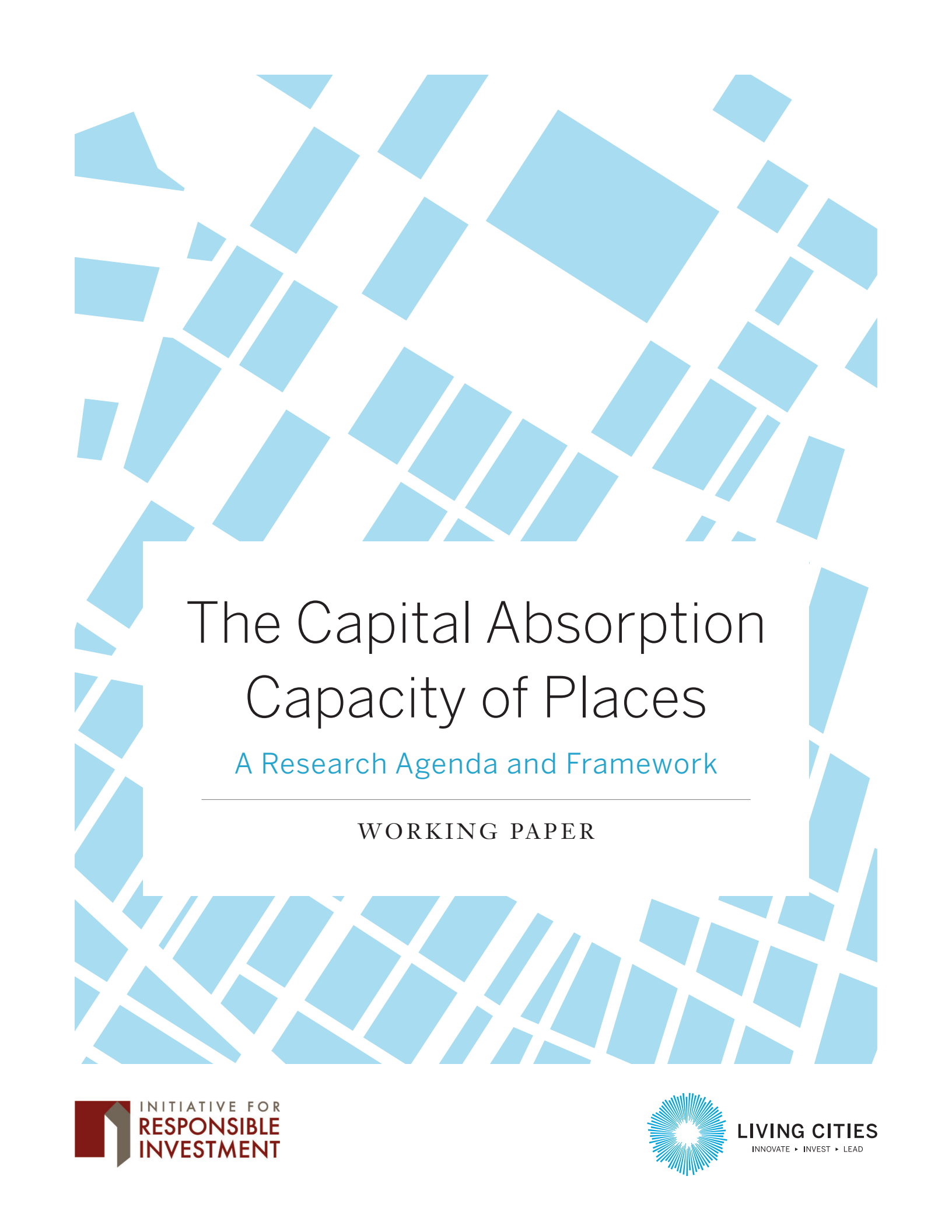
- WHAT ARE THE 5 MOST IMPORTANT ACTIONS THAT NEED TO BE TAKEN?
- WHAT ARE THE 3 CONVERSATIONS WE NEED TO TACKLE AS SOON AS POSSIBLE?
- NOMINATE WHO SHOULD TAKE RESPONSIBILITY FOR SHEPHERDING THIS WORK FORWARD IN THE MIDTERM

# LIVING CITIES

## Capital Absorption in New Orleans







# The Capital Absorption Capacity of Places

A Research Agenda and Framework

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WORKING PAPER

## BACKGROUND

In 2010, the philanthropic collaborative Living Cities ([www.livingcities.org](http://www.livingcities.org)) launched the Integration Initiative, an effort to transform the systems that shape the lives of low income people in five U.S. metropolitan regions – Baltimore, Cleveland, Detroit, Minneapolis-St. Paul, and Newark. A key goal of the Integration Initiative was to learn what is needed to move beyond piecemeal approaches to vital issues, and to engage multiple sectors – public, private, philanthropic and non-profit – in work that creates an integrated platform for stakeholders to work together on systemic change.

Central to the Integration Initiative was the investment of significant capital, in the form of grant dollars, below-market and market-rate loans, in projects that would catalyze the revitalization of underserved communities by supporting the development of businesses, jobs, housing and transportation in these regions. But as Living Cities moved from design of the Integration Initiative to implementation, it found that a number of implicit assumptions about how community investment capital gets deployed did not match the reality on the ground. For instance, the design assumed that:

- Cities would have a local community financial development institution (CDFI) with at least \$50 million in assets, sufficient scale to absorb \$10–15 million of debt capital;
- The local CDFI would have relevant expertise in the program area(s) chosen by the sites as their focus (i.e. not only affordable housing, but also small business, health, and mixed use transit-oriented development);
- The CDFI would already be an active participant in an integrated civic leadership that included the public and private sectors, philanthropy and community groups.

In practice, many communities did not have intermediaries with lending experience in the areas that philanthropic partners wanted to concentrate on, nor were there always lenders of sufficient scale to work with the capital that Living Cities wanted to invest. Public and private sector organizations did not necessarily have much experience working with each other. And the hard work of building a pipeline of community investment deals and bringing them to fruition generally took place deal-by-deal rather than through a coordinated process that could sustain itself over time.

As a result of this experience, Living Cities is developing a research agenda meant to illuminate the political, social, cultural, and financial elements that create capacity for the effective deployment of investment capital in underserved communities. Our focus is not on the **supply** of capital, although an adequate supply of capital is clearly fundamental. Nor are we focused specifically on the nature of, and ways to build, investment intermediaries that meet certain criteria of scale and sectoral reach. Instead, we are looking at **how communities themselves deploy investment** and create an environment that puts dollars to work on behalf of low income people. We intend to examine a variety of places, sectors and approaches and try to understand what actions can be taken—by public, philanthropic, non-profit and private sector leaders—to facilitate the flow and usefulness of community investment dollars.

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This paper is the work of David Wood and Katie Grace of the Initiative for Responsible Investment at the Harvard Kennedy School and Robin Hacke and John Moon of Living Cities. We appreciate the feedback of numerous colleagues and leaders in the community development field who have participated in our research, reviewed drafts of the paper and contributed their expertise to advance our thinking. We view this working paper as the basis for continuing dialogue and invite your reactions and comments. Please respond to John Moon, [jmoon@livingcities.org](mailto:jmoon@livingcities.org).

## **CAPITAL ABSORPTION CAPACITY AS A RESEARCH TOPIC**

The goal of our research is to build a new framework for understanding capital absorption capacity – understood as the ability of communities to effectively use investment capital to serve pressing needs. To make community investment possible, many stakeholders – from investment intermediaries to community groups and organizations to public agencies to the philanthropic sector to the mainstream investment community – must play a part.

This research initiative is focused not on assessing the existence or absence of any specific type of institution in any given place, but rather on understanding how an integrated, multi-sector approach to community investment might deliver the goods and services that create sustainable and just communities.

We suggest the following two propositions:

- Community investment is better understood as a set of functions for the delivery of community development outcomes, rather than a network of particular institutions that manage investments.
- These functions can be performed by a wider variety of local, regional, and national actors than are typically considered when analyzing community investment.

These propositions are meant both to capture the existing mechanisms for bringing capital to public purpose, and to allow us to rethink how the goals of community investment are achieved in practice. Accepting these two propositions may help us develop an approach to strengthening capital absorption capacity and intervening in specific communities in ways that build on existing strengths and fill gaps in the most effective way.

This working paper is a first effort to describe the community investment ecosystem as a way to better evaluate and understand how community investment capital is absorbed and deployed in specific metropolitan regions. Part I describes the functions that must be performed in order to put capital to work in underserved communities. Part II offers an initial diagnostic framework that analysts can use to understand how functions are being performed in a given place and what is missing. With further work, we hope to create a more formal assessment tool for this purpose, as well as to understand the types of philanthropic, policy or other interventions that could expand capital absorption capacity in a given place.

## PART I: DEFINING COMMUNITY INVESTMENT

We need a coherent definition of community investment in order to analyze absorption capacity. For this purpose, we can define community investment (CI) as the application of capital to build equitable and sustainable cities.

What types of outcomes are relevant? Investments that create affordable housing in underserved areas have been and remain central to CI. Recently, elements such as affordable financial services, access to healthy foods, community health clinics, charter schools, energy efficiency retrofits that lower the cost of living, small business lending, and transit-oriented development that links homes to jobs, have become part of the CI discussion. Targeted investment to revitalize urban brownfields or to create broad-based economic development is also a CI goal.<sup>1</sup>

### Community Investment Issues and Sectors

- Access to financial services
- Affordable housing
- Arts and culture
- Economic development
- Education
- Energy efficiency
- Health and wellness
- Public safety
- Small business development
- Transit-oriented development
- Urban regeneration

Each of the community investment issues and sectors touched on above contributes to building viable and vibrant communities. The effectiveness of such investments can be analyzed by considering the extent to which they help underserved communities achieve access to food and shelter, work and leisure, health care and education, and expand people's capacity to live full and rewarding lives. In other words, community investment does not simply increase financial resources, but rather increases human capabilities, social equity and environmental sustainability. It does so by focusing on the links between local, regional, and global networks within which human capabilities take shape. Investment is only one, albeit an important, factor in supporting sustainable and equitable communities.

The capital to achieve these goals can come from a variety of private sources, including banks (CRA-regulated, CDFIs, or neither), foundations and private individuals, as well as federal, state, and local government sources. It may take the form of grants, debt, equity or guarantees and span the return spectrum from no return to below-market and market-rate investments. Delivery of this capital to achieve community investment goals requires investment capacity to identify and execute deals effectively, as well as a host of conditions –from a supportive public policy environment to engaged community leaders and institutions – in order to achieve equitable and sustainable financial and social returns.

But to understand how CI achieves these goals, we need to answer the question: *How do communities successfully and efficiently take investment capital and apply it to community development purposes?*

<sup>1</sup> Worth noting has been the tendency for much CI in practice to resolve to real estate investment, perhaps because the intersection of public policy in the form of tax credits and building codes, and the scalability of certain forms of housing finance, have made real estate an easier asset class in which to deploy capital, regardless of whether real estate in any specific case is the most important use of community investment dollars.

## COMMUNITY INVESTMENT AS A SET OF FUNCTIONS

In order to better understand CI as a vehicle for enhancing human capabilities, social equity, and environmental sustainability, we suggest here that it may be useful to think of CI as the delivery of a set of functions

rather than as a set of actors (who are, of course, engaged in delivering those functions). We propose that the following core functions are required to absorb capital and make effective community investments.



These functions do not predetermine what a successful community investment ecosystem looks like or the specific actors involved. Certain functions may be best performed by local, regional, or national actors; institutions not conventionally understood as community investors may be best placed to achieve specific goals. Further, there is potential for new technologies or innovative collaborations to deliver functions more effectively.

Each of these functions can be broken down into smaller tasks—i.e. there are a number of different roles and actions that go into ensuring that there is municipal and regulatory support for community investment, or that tie various subsidies and private and nonprofit actors together to generate good deals.

As noted, the goal of this framework is to portray an integrated ecosystem that allows for the effective deployment of CI. The relationship of the individual deal to the city's broader ecosystem is complex. At the most fundamental level, the health of the ecosystem affects the operation of the deal, and conversely, deals in the aggregate contribute to a stronger or weaker ecosystem. Actors in an

ecosystem make tradeoffs between institution-building and deal completion that may affect the health and functioning of the overall ecosystem.

### Community Investment Actors

- Foundations
- High Net Worth Individuals and Family Offices
- Banks (national, community)
- Insurance Companies
- Community Development Finance Institutions (CDFIs)
- Intermediaries
- Master Developers and Redevelopment Authorities
- Developers (for-profit and not-for-profit)
- Anchor institutions
- Government (local, state, regional, national)
- Civic Organizations

## A FRAMEWORK FOR MOVING THE CI FIELD FORWARD

The community investment field appears to be at an inflection point. The need for effective community investment has skyrocketed after the financial crisis. Changes in the banking industry, potential federal and state regulatory reforms, newly interested investors who have yet to deploy capital, and the urge to expand out from traditional real estate CI investments have all helped provoke reflection and a desire to reshape CI for the coming decades.

This framework, we hope, is a step in moving the CI field forward. We think that by focusing on functions, and by identifying the many paths through which stakeholders engage with the field and with each other, we can help build an analytical model for understanding how CI works and how it can be strengthened.

Our work to date has led us to focus on the systems that make transactions possible. These systems require collaboration across the public, private and civic sectors, and research suggests there is significant value in building platforms that enable this collaboration. We emphasize that not all CI functions are necessarily best delivered by local actors, though they do require local communities to see CI as important and legitimate. We have tried to capture the multiplicity of local, regional, national, and ostensibly international investors, for-profit and non-profit investment intermediaries, real estate developers, political agencies, community groups, and others that can come together in different configurations to deliver CI functions in specific communities.

The challenge implicit in this framework is in reimagining what it means to have a successful CI system at scale. We recognize that each region will have unique strengths

and gaps. A better understanding of the underpinnings of the CI ecosystem may open up unexpected opportunities for transformational, systemic change.

## CAVEATS TO THE DRAFT FRAMEWORK

As noted, this framework is a work in progress, on which we are soliciting input from experts in the field. We would like to highlight a few issues which are particularly challenging for making this sort of framework useful to community investing:

- As the list of community investment issues and sectors suggests, community investment encompasses diverse issues, from affordable housing to small business development to arts and culture. In order to assess functions in a particular community, it will be necessary to specify the issue areas being considered, as some functions may be performed effectively in the affordable housing sector but not in the small business arena, and so on.
- We do not have a fully articulated vision of what a sustainable and equitable community looks like, nor do we have specific measures for achievement across CI sectors such as access to finance, health care, or transit. It is clear that community investment strives to achieve a vision where all individuals can maximize their human potential as well as access necessary goods and services. Defining success is still elusive.
- Ideally, we would hope to articulate and propose intervention strategies to improve the delivery of functions to underserved communities. The draft framework as it stands is more of a diagnostic tool, and further research, elaboration and testing will be required to develop intervention strategies.
- Finally, we do not have a clear sense of how to determine when a place has “enough” capital absorption capacity, i.e. what an acceptable scale of capital absorption capacity looks like and how can we measure whether the functions are being achieved to a great enough extent to make a real difference in outcomes. In a world where subsidy is scarce, this is a particularly tricky question, as needs will outstrip addressable demand, which itself will in most cases outstrip community investment resources.

With these caveats in mind, we suggest below how this framework could be used to diagnose the extent of capital absorption capacity in a given community.

## PART II: EXPLORING COMMUNITY DEVELOPMENT FUNCTIONS IN A PARTICULAR PLACE: A DIAGNOSTIC

This framework should inform efforts to evaluate capital absorption capacity in a particular place, both to determine what capacity exists and where there are gaps in functions. Here we offer a set of questions that translate the functions framework into a diagnostic tool that researchers can use to evaluate CI absorption strengths and weaknesses in a given community.

The questions below assume a high level of familiarity with the functions framework. The diagnostic tool, in a simplified form, could also be adapted for use as self-evaluation by actors in a particular place.

The goal of the diagnostic is to evaluate where there is room for improving absorption capacity, and which stakeholders are best positioned to build this capacity. The questions would be used to guide interviews with key actors in the CI space in local communities, as well as potential actors identified by people familiar with the area in question. They would be supplemented with case histories of deals, and publicly available information on markets and market demand, institutions, and public policies, in order to create a holistic description of the CI market ecosystem.

### Enabling Environment:

- What is the biggest barrier to getting community investment deals done? Do barriers vary by issue area or location?
- What public policies at the city, county, state, regional, or national level enable community investment? Inhibit community investment from being done? (It might help to work through this by sector or issue area and geographic reach)
- On what sets of data do people draw to identify needs and opportunities for community investment? What data is missing?
- What mechanisms exist for coordination and collaboration?
- Which organizations participate in CI capacity development?
- What tools exist to boost capacity (subsidy, training, coordination)?
- What is the quality of individual and institutional talent involved in the region's CI activities?
- Are there particular kinds of money (e.g. use of Section 108, CDBG, PRIs) associated with the region? Policies (subsidies/regulations) that tend to be used? Locally specific sources of CI (e.g. housing trust funds)?

### Vision and Legitimacy:

- What signs are there of public, private, and civic engagement in community investment? What do people see as community investment? What “dynamic” (issues, actors) is driving current topics of interest or engagement?
- How are community investment opportunities prioritized? Who has influence over this process?
- What institutions are singled out as leaders? What evidence is used to identify them as leaders?
- Which sectors are seen as engaged or disengaged?
- What forums exist that bring stakeholders together? Where is there potential for such forums?
- What examples of shared visions of community investment can they point to?
- What is the role of the local/community voice? How are actions taken in low-income communities legitimized (or not)?
- Are there areas without shared vision? How, if at all, is blame allocated for disconnection?



**Deals:**

- How do “good” deals get identified?
- What criteria guide the selection?
- What is the quality of deal vetting (e.g. initial underwriting, knowledge and availability of local capital sources)?
- Gather examples of deal management. Who takes the lead in predevelopment/development, who is at the table?
- Who aggregates and invests capital? Are they local, regional, national?
- How do people assess end users’ capacity to borrow or take equity investment? To what do they attribute this capability?
- Gather examples of deal structures. Account for types of money, policies, and how access to subsidies, deal construction is achieved.
- In what sectors(s) is the pipeline strongest? Weakest? Why?
- How efficient is the system at moving deals through the pipeline? What facilitates/inhibits progress?

**Management and Monitoring:**

- How can impact be measured? Who can measure it? Is it being measured and if so, measured well? Who might use these measurements?
- Who can serve the role of advocate for social equity and/or environmental goals?
- What structures exist, or could be developed, to monitor progress against plans and adjust them as necessary?
- What skills do public, private, civic stakeholders have to pull together and keep plans on track? Where are those skills lacking?
- What happens when projects or investments run into trouble?
- How do we single out those people, organizations, and networks that can serve these goals?

**CI Innovation:**

- Who is thinking creatively about new fields for social investment? How are new topics generated and explored?
- Where do people see capabilities for developing tools and mechanisms for financing community needs? Opportunities for new tools?
- What structures are in place to ensure systems rather than one-off deals? How stable are those structures? How open to innovation?
- How can we determine the appropriate scale for community investment? How can we judge whether enough addressable demand is being met?

## COMMUNITY DEVELOPMENT FINANCE ECOSYSTEM ANALYSIS

The results of the diagnostic, combined with collateral research, may serve as the basis for place-based reports on absorption capacity in a CI ecosystem. These reports could inform stakeholder decision-making on CI in a particular place, and also make possible comparisons of capacity in different regions and contexts.

### Proposed Table of Contents

#### I. Local market context

- Market analyses, if they exist, with notations on their original purpose and sponsors
- Demographics: population size, growth, composition
- Local government organization: city/county dynamics, key policies, state policy environment
- Economy: dominant industries, unemployment, job quality
- Poverty dynamics: concentration, size of population
- Spatial dynamics
- Level of CRA requirement
- Sector-specific indicators (e.g. housing prices, percentage of homeownership, homelessness, monthly payments vs. income, housing stock, foreclosure rates; vacant land; inventory of small businesses by number of employees; industry cluster analysis)

#### II. The place

- Overview of actors engaged in community investment
- Overview of investment activity
- Highlight signature CI deals, opportunities, initiatives
- General description of what the local (or otherwise engaged) actors say about capacity

#### III. Functions

How are key functions (as described above) accomplished? Focus on where research and interviews have identified capacity or lack of capacity to deliver. In each piece, link specific actors to functions.

- Enabling Environment: What policies, tools and mechanisms have people singled out as most useful, most needed? How do they evaluate the general cultural disposition towards CI in a given place?
- Vision and Legitimacy: Who is and how are they defining CI goals? What does the table look like, what priorities have been set? How is the community voice considered?
- Deals: Describe exemplary deals, or deals that haven't gotten done or fallen through. Specify local idiosyncrasies that favor one sort of deal over another. Who are the players that tend to be involved in most deals? What are the usual capital sources?
- Management and Monitoring: How does the deal management function work? Who plays the various roles, and who speaks for social equity and benefit in the deal management process? What evaluation has been done?
- Innovation: Is there something new going on that reveals capacity to innovate? Are there specific innovations worth highlighting and sharing?

#### **IV. Historical overview of Community**

##### **Investment in the place**

- Timeline of development of functions and institutions
- Brief history of a few exemplary deals
- Brief history of failures to address exemplary need
- Are there unique aspects to the functions that make or have made this region particularly effective or ineffective?
- How involved or invested is the community in engaging in community investment and developing a vision for their community? How has it changed over time, if at all?

#### **V. Questions to consider**

Description of where there are opportunities for:

- Intervention and table setting
- Capacity building
- Innovation
- Engagement with new stakeholders
- Policy development
- Data provision

Answers to questions including:

- What resources (local and extra-local) could be repurposed to better effect?
- Where are there case histories or networks on which to build?
- Which local actors need to be engaged?
- Which extra-local organizations could be brought in to increase capacity?
- What information or research is needed to make better decisions?