

Phase 1, consisting of 282 units, commenced construction in August, 2001, was completed in November, 2002 and reached full occupancy in January, 2003.

Phase 2, consisting of 206 units, commenced construction in June, 2003, the first units were turned over in April, 2004 (completion of all construction is estimated to occur in August, 2004) and rent-up started immediately.

Phase 3, consisting of 141 units is set to close June 14, 2004.

Phase 1 funding was from a variety of sources including: (i) first mortgage debt financing insured under the HUD Section 221(d)(4) program; (ii) subordinate debt financing (in the form of tax-exempt, non-rated bond proceeds and direct loans) from the City through the use of so-called "Upfront Grant" funds awarded to the City by HUD; and (iii) private sector equity from the Enterprise Social Investment Corporation derived from the sale of low-income housing tax credits ("Tax Credit"), authorized by Internal Revenue Code ("IRC") Section 42. Fannie Mae is the Tax Credit investor through the Enterprise Social Investment Corporation.

Phase 2 and 3 funding comes from the same sources and is almost identical to Phase 1.

Generally, the City (including Cleveland Public Power) is funding the construction of extensive public infrastructure and utilities; the State of Ohio has provided tax-exempt "bond cap" authorized by IRC Section 103; Cuyahoga County of Ohio has issued the tax-exempt bonds; and the Ohio Housing Finance Agency has adjusted its Tax Credit Qualified Allocation Plan to accommodate Arbor Park's needs and has underwritten a Tax Credit allocation.

Beyond the "bricks & mortar", Arbor Park is taking very significant steps to address the social service and recreational needs of the residents. Phase 1 includes a daycare center, community room, computer learning center, supportive/social services space, resident council space, and other common area amenities (water feature, recreational equipment, etc.) designed to maximize resident access to necessary recreational, educational, supportive, family and social services.

The remaining sections of this Redevelopment Narrative will seek to describe in more detail the history, vision, process, components, financial structure, governmental assistance, management, and services that have made, and will continue to make, the Arbor Park development effort successful.

## **DUE DILIGENCE; A THRESHOLD UNDERSTANDING**

While TFG took over the ownership and management of Longwood in January 1999, it did not do so without: (a) significant prior planning, analysis and thought; (b) a general understanding of what TFG hoped to accomplish in terms of a redevelopment plan; and (c) knowledge that the City was prepared to accept and support TFG's general development goal of seeking to build an entirely new community, as opposed to rehabilitate the existing buildings.

One of the certainties of dealing with the redevelopment of distressed affordable housing is that very little can be achieved without the wholehearted support of the local, state and federal elected officials. The City provided support to TFG from the beginning. The City support acted

as a catalyst for other elected officials to provide their support as the redevelopment plan took shape.

In the case of Longwood, the support was for a phased demolition of Longwood, and the creation of Arbor Park. This vision is now almost a reality.

## **ARBOR PARK VILLAGE**

At the completion of the third (scheduled to commence June, 2004) and final development phase, Arbor Park will consist of 629 affordable, residential rental, family housing units, plus related community, childcare, and supportive services space.

The Arbor Park site layout is one of townhouses and streets creating blocks. The plan has a green area "spine" running east to west connecting Arbor Park with the adjacent Cuyahoga Metropolitan Housing Authority ("CMHA") and Cuyahoga Community College ("CCC") properties. In design, as well as metaphorically, Arbor Park in many ways, establishes a link from low-income affordable housing to educational benefits and a brighter future. Residential units are set back by a green strip and parking from Woodland Avenue, a main commercial thoroughfare, and the business/commercial properties across the street; units are brought up relatively close to Community College Avenue due to its lesser traffic flows and the single-family homeownership district located directly across the street.

To provide security for young children at play, blocks have an interior courtyard accessible solely by the residents who live in the units around the courtyard perimeter, and whose rear windows look out to the courtyard. Individual townhouse units each have two means of egress, private access from the street and private access to their interior courtyard.

The single apartment building has one-bedroom "elderly" units located on the second through fourth floors using shared hallways. The ground floor contains the management office, community room, computer resource center, supportive/social services space, and day-care space. These first floor management/community related areas enhance security for the upper floors.

Arbor Park units are well laid out and increased significantly in size from the Longwood units, with modern code-compliant systems. Among other amenity items, each unit has central air conditioning, a dishwasher, washer/dryer hookups, garbage disposal, and solid wood kitchen cabinets. While parking is on the street, parking spaces will generally be immediately outside of the individual front doors.

When completed, Arbor Park will contain 54 one-bedroom units (607 sq. ft.), 212 two-bedroom units (932 & 961 sq. ft.), 325 three-bedroom units (1360, 1519, 1538 & 1573 sq. ft.), and 38 four-bedroom units (1624 sq. ft.). Arbor Park will have a total of 1605 bedrooms. Phase 1 contains all the one-bedroom units, 82 two-bedroom, 131 three-bedroom and 15 four bedroom units; Phase 2 contains 80 two-bedroom, 117 three-bedroom and 9 four-bedroom units. Phase 3 has 50 two-bedroom units, 77 three-bedroom and 14 four-bedroom units.

While the Arbor Park property has many obvious design and amenity attributes, it should be underscored that TFG has taken special effort to introduce a range of energy conservation design

and construction elements well beyond that required by local building codes. (One of many examples is to use of 2” by 6” studs (as opposed to 2” by 4” studs) for the exterior walls to allow for increased insulation thickness.)

## **LONGWOOD DESCRIPTION & HISTORY**

The old Longwood, made up of 80 buildings located on 32.5 acres of land, was constructed in four or five phases during the mid-1950’s, the days of urban renewal. In relatively typical fashion for the time, urban renewal in the City’s Central neighborhood resulted in the demolition of the older, complex, urban “neighborhood” pattern (then consisting essentially of a single family home street grid with numerous ancillary and supportive uses), and replaced it with a single multi-family residential use in a suburban layout, with a sprawling site plan, undifferentiated open space, complete absence of defensible common areas, little differentiation between the front and back of buildings, and an atmosphere of overwhelming sameness and disorientation.

Longwood consisted of 820 units: 15 studio units, 180 one-bedroom units, 514 two-bedroom units, and 111 three-bedroom units. Longwood had a total of 1556 bedrooms. (Arbor Park’s unit mix and bedroom count makes it more responsive to the resident and community needs.)

Between the mid 1950’s and the late 1980’s, the property went through several ownership entities, including a failed low-income cooperative. What had originally been housing of decent quality occupied by moderate-income working families, became, over time and with each title transfer, more distressed and more the housing of last resort.

In the late 1980’s, Longwood benefited from some moderate rehabilitation funded through a combination of a HUD-insured first mortgage and Tax Credit equity. It also benefited from a property-based, fifteen-year HUD housing assistance payments contract (a.k.a. Section 8 contract) that covered 100% of the units. The property rehabilitation effort, while not inexpensive, did nothing to remedy the essential planning and site design deficiencies noted above, and did little to make the property and the rental units appealing to individuals and families with moderate incomes and other housing options.

## **LONGWOOD-JANUARY 1999**

In January of 1999, Longwood was clearly the City’s housing of last resort, and the “blight” on the Central neighborhood. It was the subject of several community-wide protests involving the residents, the Cleveland Tenant’s Organization, the local City Councilman, and others. The Cleveland Plain Dealer had published several articles describing the substandard conditions at the property.

The City had brought civil and criminal code enforcement actions against the then Longwood owners, identifying some 4800 outstanding health and safety code violations. HUD had taken action to terminate all Section 8 rental subsidies. (Even without the threat of termination by HUD, the Section 8 rental subsidy contract was scheduled to expire, in phases, during calendar year 2003. Given the property’s physical deficiencies, it had little chance of renewal under HUD mark-to-market guidelines.)

About 150 of 820 units were vacant and uninhabitable. Resident selection criteria and screening appears to have been nonexistent or not applied. Evidence of drug dealing and other crime existed throughout the property. Many residents had very significant social and family problems that were apparently not being addressed in any manner.

Units, which were poorly laid out and small, were largely accessed from interior common hallways, which defy adequate security and maintenance. Building systems were substandard and severely deteriorated, and parking was relegated to inadequate and insecure lots, often distant from front doors.

## **CENTRAL NEIGHBORHOOD-JANUARY 1999**

Despite, and in the face of, the bad news with regard to Longwood, in January 1999 the area immediately adjacent the property was experiencing extensive capital improvement.

To the north across Community College Avenue is the City of Cleveland's Homeownership District containing the already completed Central Commons development of 86 owner-occupied single-family homes, with an additional 450 plus houses planned for the district over the next 4 to 5 years, many of which have been completed over the past couple of years.

To the east across East 40<sup>th</sup> are the Cuyahoga Metropolitan Housing Authority Carver Park, King Kennedy, and Outhwaite properties which are the beneficiaries of very substantial HUD HOPE VI rehabilitation funding.

To the west is the metropolitan campus of Cuyahoga Community College ("CCC"), Ohio's first and largest public community college, which had recently completed the preparation of a master plan for development.

To the south across Woodland Avenue is the Maingate Business District employing over 6500 persons in over 100 businesses. The Maingate Business Development Corporation, a not-for-profit corporation made up of the business owners in the district, has numerous ongoing efforts to revitalize the district. Employers in the district provide many jobs to Longwood residents.

The above are immediately adjacent to the property. Stepping back a block or two from Arbor Park, one additionally finds: (i) the Greater Cleveland Regional Transit Authority ("RTA") new surface light rail line, one route taking it along East 30<sup>th</sup> Street next to CCC (Arbor Park is presently well served by several RTA bus routes along both Community College and Woodland Avenues); (ii) the City of Cleveland has totally redone East 40<sup>th</sup> and East 55<sup>th</sup> Streets, two major north/south streets, which have enhanced access for residents and businesses; and (iii) Neighborhood Progress, Inc., a Cleveland-based not-for-profit, is constructing a new retail development at Longwood Plaza, which abuts Arbor Park to the northeast.

Longwood, and therefore Arbor Park, was and is literally surrounded by ongoing efforts to improve Central. The failure to redevelop Longwood would have put those already completed and planned Central neighborhood improvements very much at risk.

## **THE VISION**

The TFG vision for Longwood, and its potential to be Arbor Park, was formulated in the most general way during the four months prior to January 1999. This positive vision was driven by, among other things: (i) the property's proximity to downtown Cleveland, the Maingate Business District and jobs; (ii) the wide range of Central neighborhood improvements that were recently completed and/or progressing on adjacent land; (iii) the many existing amenities easily accessible to residents (public transportation, recreation, education, and supportive/social services); and (iv) perhaps most importantly, the fact that the Mayor, the Councilman and the City had made the remedy of Longwood's many problems a priority. By TFG creating the Longwood Group, this vision was refined, augmented and improved during the two plus year development process.

## **THE BASIC CITY & RESIDENT AGREEMENT**

As TFG had certain preconditions for its involvement, the City and the residents had theirs: (a) no tenant displacement off the Longwood site, (b) to provide housing that residents and the City can be proud of, and (c) Arbor Park must remain as an entirely affordable housing resource.

Each of these requirements has been fully met.

## **RESIDENT, GOVERNMENTAL & COMMUNITY REVIEW**

As noted, one of TFG's first actions was to establish what became the Longwood Group referenced above. The Longwood Group, while its composition evolved over time, consists of representatives of, among other officials and groups: the residents; Governor Bob Taft; Senators DeWine & Voinovich; Congressperson Stephanie Tubbs-Jones; the City of Cleveland; Councilman Frank Jackson; HUD Washington, DC, and Columbus & Cleveland, Ohio; Cleveland Tenant's Organization; neighborhood stakeholders; and others.

The group served three basic purposes: (1) provided critical comment, suggestion and input into each and every aspect of the Arbor Park development plan, (2) monitored the status of the day-to-day property management and maintenance effort at Longwood, and (3) provided a forum for the exchange of ideas, expertise and observations among experienced individuals and groups with strong interests in seeing Longwood improve, and Arbor Park succeed.

It has served these purposes well.

## **CONSTRUCTION RELATED FINANCIAL COMPONENTS & STRUCTURING**

In January, 1999 it was self evident that TFG did not then have any of the numerous and extensive federal, state, county, local and/or private sector financial commitments necessary in order to accomplish the demolition of Longwood and the creation of Arbor Park.

On the other hand, TFG did know what was needed, understood the various governmental programs that could make the vision possible, and knew how to make these programs, often authorized in different decades, work together to build Arbor Park. What follows is a narrative describing the Phase 1 funding and financial structure. Phase 2 was funded in substantially the same manner. As is Arbor Park Phase 3.

Phase 1 is funded with a combination of hard and soft mortgage debt and investor equity. “Hard” debt means debt which bears a market rate of interest payable monthly and is amortized over a fixed period of time. “Soft” debt means debt that bears a below market rate of interest payable annually only from a defined available cash flow and is not amortized, but is due as principal and interest at the end of the amortization period of the hard debt. The hard debt would constitute a first mortgage, and the soft debt a subordinated second and third mortgages.

The amount of the hard/first mortgage debt is a function of the relevant interest rate at the time of the loan, annual operating costs, and the monthly Section 8 rents approved by HUD. This debt was insured by HUD under its 221(d)(4) program, and derived from the proceeds of the issuance of rated and insured tax-exempt bonds issued by Cuyahoga County under IRC Section 103.

The soft/second and third mortgage Phase 1 debt was established by converting the HUD Upfront Grant funds of \$40,000 per unit into debt. The HUD funds were granted to the City of Cleveland, which then loaned the funds to the Phase 1. Neither the second or third mortgage funds were insured by HUD. The second mortgage funds, as with the first mortgage funds, were derived from the proceeds of the issuance of tax-exempt bonds issued by Cuyahoga County (bonds the City of Cleveland purchased with a portion of the HUD Upfront Grant funds), but were not rated or insured. The total of the first and second mortgage debt equaled about 55% of the total development costs (“TDC”) for Phase 1.

The Phase 1 third mortgage was made up of those HUD Upfront Grant funds not used to acquire the second mortgage bonds and not expended on pre-construction soft costs. The third mortgage funds were not derived from the proceeds of the sale of tax-exempt bonds.

The debt related machinations with regard to insuring that the HUD Upfront Grant funds are debt to the Partnership, and that not less than 50% of TDC are funded from the proceeds of tax exempt financing, issued under Section 103 of the IRC, are made necessary by the requirements of the Tax Credit program, and TFG’s business goal of bringing to the development of Arbor Park as many private-sector equity dollars as is possible in order to minimize the need for public funds.

A couple of basic concepts are worth noting. Funds derived from the issuance of tax-exempt bonds under IRC Section 103 carry with them the so-called 4% Tax Credit. To the extent that more than 50% of the TDC (actually, the IRC uses the term “aggregate basis” which is roughly equivalent to TDC) are funded by Section 103 tax-exempt bond proceeds, all of the TDC carries the 4% Tax Credit. To the extent that less than 50% of the TDC are funded by tax-exempt bonds, only those costs funded by tax-exempt bond proceeds carry the 4% Tax Credit. Put another way, if 49% of Phase 1’s TDC are funded by tax-exempt bond proceeds, then only 49% of the costs carry the 4% Tax Credit, but if 51% of TDC is funded by the tax-exempt bond proceeds, then 100% of the costs carry the 4% Tax Credit. Because the so-called 50% test is made after construction is actually completed, and the construction process contains uncertainties, the accepted rule of thumb is that one must budget for 55% of TDC to be funded by tax-exempt bonds so that modest cost overruns are not likely to sink the business plan.

The reason that one does not fund 100% of TDC with tax-exempt bond proceeds is that, as with the Tax Credit, each State is limited to the amount of Section 103 tax-exempt bonding authority

it has available annually. In order to minimize Phase 1's demand on this limited resource, TFG capped its' request for tax-exempt bond authority at 55% of TDC.

The greater the percentage of TDC that carries the 4% Tax Credit, the more private-sector equity is available for redevelopment.

The immediately preceding statement is true so long as TDC is made up of loans and equity, not grants. Grants present problems relative to taxable income to the recipient, and also do not constitute a component of depreciable basis. Depreciable basis, a sub part of TDC (among other things, TDC includes land costs not includable in depreciable basis) is essentially the dollar figure upon which the calculation of available Tax Credit is based. The more depreciable basis, the more the Tax Credit and the more private-sector equity is available for redevelopment. Hence, the previously described conversion of the HUD Upfront Grant funds into a loan from the City of Cleveland to Phase 1.

## **GOVERNMENTAL ASSISTANCE**

### City of Cleveland Assistance

The City has provided and/or will provide very significant and indispensable assistance to the overall development effort in numerous ways, including each of the following:

- \$9M in City funds from various sources to pay for public infrastructure construction (roadways, sewers, storm drains, potable water, etc.);
- \$825,000 of the above-referenced infrastructure funds were contributed by Councilman Frank Jackson from his very limited discretionary sources;
- Substantial sums are being spent by Cleveland Public Power ("CPP") to fund the installation of the underground electric utility service infrastructure. These sums are beyond those sums which CPP would normally spend on infrastructure in exchange for a commitment from a utility user to buy CPP electricity;
- Approximately 8 acres in City owned land was sold to Arbor Park for a modest sum. This land, most of which is a portion of Phase 1, allowed us to create essentially a rectangular shaped piece of land for the Arbor Park development site from several irregularly shaped parcels constituting the old Longwood;
- A Longwood Planned Unit Development ("PUD") ordinance was adopted securing the requisite zoning approvals for all phases of the redevelopment effort;
- Various City ordinances were passed, each of which authorized and approved City action necessary to enable the development to proceed; and

- Approval of a real estate tax agreement eliminating taxes on the improvements for a fifteen-year period following completion (taxes on the value of the land remain due).

### HUD Assistance

HUD has also provided very significant and indispensable assistance to the redevelopment effort, including the following:

- Forbearance on the HUD insured mortgage in place in January 1999 in order to make funds available to assist in remedying health and safety code violations;
- Willingness to foreclose its own mortgagee position immediately followed by a step-transfer of title from the January 1999 title-holder, to HUD, to the City, and then to an entity associated with TFG;
- Upfront Grant funds in the amount of \$25,160,000;
- Commitment to provide a property-based Section 8 rental subsidy contract for 100% of the all 629 units insuring that tenant rents shall not exceed 30% of household income;
- Phases 1 and 2 221(d)(4) mortgage insurance; and
- Expeditious and efficient application processing.

### State of Ohio/OHFA Assistance

Both the State of Ohio and the Ohio Housing Finance Agency (“OHFA”) have been of considerable assistance, including the following:

- The State of Ohio Department of Development provided Phases 1 and 2 with IRS Code Section 103 tax-exempt bond cap. The “bond cap” is a finite annual State resource, and the allocations represents a significant amount of bond cap; and
- OHFA has adjusted Ohio’s LIHTC Qualified Allocation Plan, required under Section 42 of the IRS Code, so as to permit the Arbor Park redevelopment to take advantage of the Tax Credit in order to bring private sector equity to the development. Phase 1 benefits from \$16.3M in private equity, and Phase 2 benefits from \$12.3M in private equity.
- Phase 3 has secured an allocation of bond cap.

## **HOUSING ASSISTANCE PAYMENTS CONTRACT**

While this section is brief, what it says is no less important than the preceding lengthy financial structuring section. HUD has agreed to provide each phase of Arbor Park with a fifteen-year, property-based, Housing Assistance Payments Contract (a.k.a. Section 8 Contract), subject to annual Congressional appropriation.

The Section 8 Contract, in subsidizing tenant rents, allows Arbor Park to rent units to low and moderate income families who pay a monthly rent equal to 30% of household income, with the federal government paying the difference between the full rent and the tenant portion.

This valuable “asset” allows Arbor Park to remain affordable.

## **PROPERTY IMPROVEMENTS; MANAGEMENT & OPERATIONS; STAFFING**

While TFG spent much time and effort in dealing with the problems of developing and funding the Arbor Park development plan, the residents were most concerned about day-to-day issues. Therefore, from most residents’ standpoints, it is those changes that TFG’s associated property management company, Signature Housing Solutions, Inc. (“SHSI”), made to existing physical conditions and management practices which had the most initial impact on their day-to-day living conditions and lives.

Immediately upon taking over the property, four buildings were emptied out and boarded up. Between January 1999 and March 2000, over \$1.5M was spent by TFG to remedy the most serious of the Longwood health and safety code violations.

SHSI requires all properties and employees to operate under a comprehensive set of guidelines, policies and procedures set out in SHSI’s Field Operating Procedures. These were implemented at Longwood and remain in effect at Arbor Park.

Longwood staffing had been halved in the summer of 1998 by the prior general partner. In the first quarter of 1999, SHSI increased the maintenance mechanics staff from 4 to 9, including 2 supervisors; added 9 grounds persons/janitors, two painters and one inventory clerk; and increased the office staff by 3, including 2 leasing agents and a director of resident initiatives. Additionally, all employees were required to pass drug testing at initial hire, and on a random basis during employment.

One example of change was that prior to TFG taking over, resident work orders were written on an unnumbered single-part form. SHSI implemented a four-part, numbered work-order system that required residents to sign off on work as, and only if, it is completed to their satisfaction. SHSI Inspectors also verify completed work on a daily basis.

## **SUPPORTIVE SERVICES COMPONENTS**

One of the areas where TFG feels it has been very successful for Longwood residents, and will be even more so for Arbor Park, is the increase of on-site availability of supplemental programs for residents. The intent is not to duplicate the extensive social/supportive network of services which already exists in the Central neighborhood, but to see to it that Longwood/Arbor Park residents get their “fair share” of the available services, and to bring on-site programs designed to foster the process of making residents feel like a community within the Central neighborhood.

Because the CMHA has such a large presence in Central, it has tended to dominate the social service program agenda and resources. Whether the Carl B. Stokes Social Service Mall, the

Friendly Inn, or other entities in Central, CMHA is the major and dominant influence, not necessarily by design, but certainly by default.

In order to help moderate this fact, TFG hired a full-time director of resident initiatives to assist residents and their families, and to bring to Longwood and Arbor Park several dozen programs and events not previously easily accessible to residents. The director is actively involved with, among other things, the Central Community Linkage Council that is an umbrella group of directors and senior staff of the various social service agencies located in the Central neighborhood.

SHSI also holds monthly resident meetings to address physical conditions, management and security related matters. Additionally, the Resident Council and Cleveland Tenant's Organization hold their own monthly meeting (with SHSI attending only upon request). On-site resident meetings were held during the Arbor Park development planning process, and resident representatives were present at all Longwood Group meetings held at City Hall. The early on-site resident meetings produced a list of resident concerns that were used as one of the guides, and incorporated into, the Arbor Park final redevelopment plan.

Additionally, TFG and SHSI have been working closely with CCC, Triedstone Baptist Church, and Mt. Hermon Baptist Church to expand the recreational and supportive services available to Longwood/Arbor Park tenants.

## **RESIDENT SELECTION**

The residents at Longwood are very low income with over 60% of the households reporting incomes of less than \$5,000 annually and pay monthly rents of less than \$50. Even comparing the Longwood resident profile to that of the Central neighborhood, Longwood residents are quite poor.

The Longwood tenancy has in the past been selected generally from individuals and families without other options and from the poorest economic strata. This fact is one TFG and the City seek to change. In creating Arbor Park, while we are committed to allowing those present residents who abide by the terms of their lease to continue as residents in Arbor Park, TFG and the City are committed to creating a viable mixed-income community going forward. Approximately 50% of the units in each phase are likely be occupied by existing Longwood residents, and 50% by new families not presently living at the property.

The statutes and regulations under which the Arbor Park will operate allow residents, at initial occupancy, to have household incomes at or below 50% of the area median adjusted for family size. Should household income rise above the maximum subsequent to initial occupancy the family will not be required to move, but will be allowed to remain at Longwood as a tenant.