

*Dep - HUD 007294*

Case Study

Contract H 4369

CONTROLLING OUTSIDE INVESTORS  
IN A  
HOUSING DEVELOPMENT PROGRAM

Submitted by

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Second Submission 8/79

## IA. Case Study Abstract

In early 1970, Tri-City Citizens Economic Union #1 (Citizens Economic Union) decided to relinquish its ownership of Amity Village I and rehab sponsorship of Amity Village 2, its two housing projects, in order to concentrate on community development and neighborhood services programs.

Recently passed federal legislation provided investors with tax shelters as incentives to invest in rehab and construction projects in the inner city.

Tri-City Citizens Economic Union spent over five months negotiating a sales contract with North American Development Corp. of Boston, Mass. The contract featured clauses that would not only protect the residents, but also minimize neighborhood disinvestment.

In the December 16, 1970 sales contract, Tri-City Citizens Economic Union included contract clauses which it felt would protect the Amity Village properties and the residents of the Amity Village properties. Because the private investment corporation is interested primarily in the tax shelter benefits it will receive, the company has little concern for the eventual ownership of the property, the management of the property, and community development in general.

Tri-City Citizens Economic Union, therefore, included clauses which:

1. set standards for the rehab work to be done
2. would help to maintain quality in the interim management system of the Amity Village properties
3. would require the owners to engage in activities benefitting the community
4. would guarantee that ownership of the property would revert to the tenants first

In each case the protective measures of the clauses benefitted the Amity 2A residents and the neighborhood. Some measures, however, were more effective than others. This case study will attempt to evaluate the level of effectiveness.

## 1B. THE WEST SIDE PARK NEIGHBORHOOD

Although city planners have extended the lines, the West Side Park area is traditionally defined as approximately 50 square blocks bordered by South Orange Avenue (north), Springfield Avenue (south), South 10th Street (east) and the Irvington-Newark city line (west). The park itself is a 12 square block tract of land which is presently under renovation by the Essex County Park Commission. The 1960 Census placed the total population of these four census tracts at 17,200 people.

The neighborhood is trisected by three main east-west thoroughfares which are still heavily used to carry suburban workers in and out of the downtown sections of Newark. These three thoroughfares have commercial strips that attest to the economic depression that has plagued the city since the late 1950's. The West Side Park neighborhood was one of the last to go. Its sister community in the adjacent town of Irvington is thriving.

### A. Its People:

The West Side Park area could best be characterized as a neighborhood still in the state of flux that was precipitated by the exodus of white ethnic elderly people in the late 1960's and the influx of younger Black and Hispanic "refugees" from the inner core of the city. Residents of the central city were dislocated for the construction of a state medical school as well as other public institutions as part of the city's urban renewal program.

The predominantly Ukrainian population took with them that sense of community and economic stability that had characterized

this western fringe area of Newark for forty years or more. Their offspring, now middle class and committed to suburban living, were not interested in living in the three family wooden frame buildings lined shoulder to shoulder in this neighborhood. Thus, the outgoing population left their homes, churches, public halls and businesses to an incoming population that was, for the most part, not prepared economically or socially for ownership.

West Side Park residents were hard hit by unemployment and inflation. Of the 17,200 residents, almost half (47%) are under the age of 18 years. The large minor population has a large school drop out and concomitant unemployment rate. This combination of idle youth from disparate cultural backgrounds makes for a potentially explosive situation. It also increases the incidences of vandalism and crime in the neighborhood.

B. Its Services:

In the past ten years, the families of West Side Park are younger and larger, a phenomenon immediately felt at South 17th Street Elementary School. Despite an annex completed in 1976, the school has had to bus out its seventh and eighth grades. Until the annex was opened two years ago, the first, second and third graders attended school for only a half day.

In the entire 50 square blocks that residents define as West Side Park, there are two private group health practices, no individual practitioners, and one non-profit preventive health care center sponsored by the Citizens Union. The nearest community health treatment center is about 1½ miles away. The closest hospital in any direction is two miles away. There is one pharmacy. The most common

health problems detected at the Tri-City Women and Children's Health Action Project are iron deficiency and dental caries in the children and obesity, high blood pressure and iron deficiency in the women.

Because of their proximity to the town of Irvington, neighborhood residents tend to shop and seek services outside of Newark.

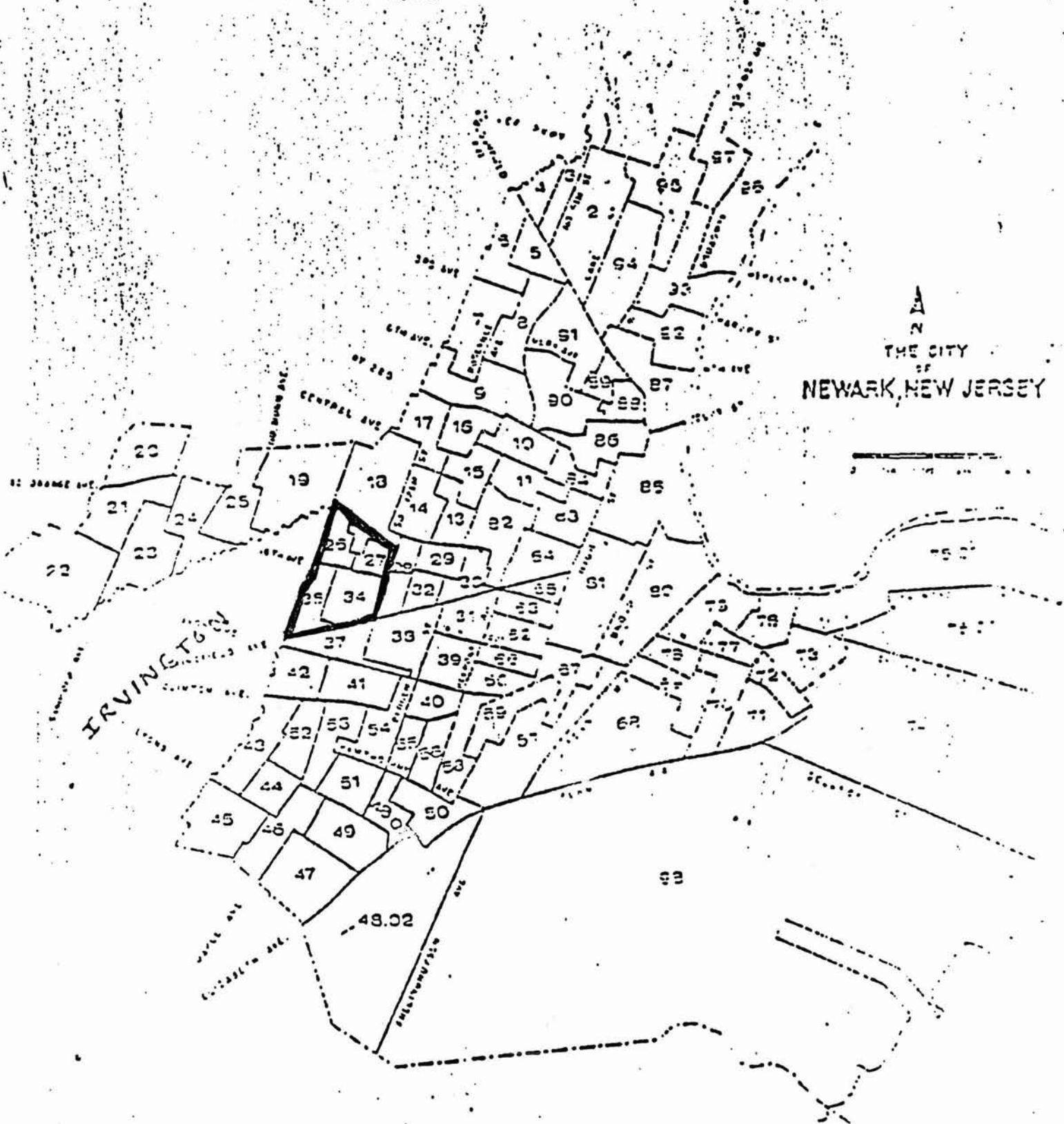
Summary:

A striking contrast can be seen in the statistics for census Tract 35 as compared to Tracts 26, 27 and 34. For example, the Hispanic population is 32.7% as compared to an average of 13% in the other tracts.

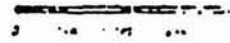
Home ownership, while only half of the city norm, at 20% in Tract 35, is noticeably higher than the other areas which average 13.3%.

These differences are directly attributable to the influence of the Citizens' Union rehabilitation and housing co-operative effort called Amity Village which is totally located in Census Tract #35. The major objective of this organization was to demonstrate that an assertive and comprehensive campaign of physical rehab and leadership development could stabilize this neighborhood of newcomers.

# 1970 CENSUS TRACT MAP



A  
N  
THE CITY  
OF  
NEWARK, NEW JERSEY



PREPARED BY  
DIVISION OF CITY PLANNING

IC. History: Economic Development and Housing Rehabilitation

The Tri-City Citizens Union for Progress was formed in late 1966 by civil rights activists and clergy from the three urban centers of northern New Jersey: Newark, Jersey City and Paterson. Each city formed a local chapter to identify those needs unique to its own community and to decide on those activities that would best foster black self-development. The general objectives the Citizens Union established as three-city coalition were:

1. Economic development of the community
2. Preparation of children and adults for the world of work
3. Greater awareness of the cultural heritages of the community
4. Wider civic participation
5. General community rehabilitation

Within the next two years, the Jersey City and Paterson chapters foundered and died out. The Newark chapter, however, took hold of the idea of sponsoring housing rehabilitation and continued to grow. Within the ranks of the Newark members were people who had organized community controlled programs, clergy and most importantly a former national labor organizer whose negotiating skills and political acumen had been recognized in labor circles for over thirty years. The chapter never exceeded twenty members, but the combination of skill and determination was enough.

The Citizens Union in Newark decided to sponsor housing rehab with cooperative ownership as its first project. The critical shor-



tage of decent, low cost housing and the city's urban renewal program which dislocated large numbers of poor people convinced the Citizens Union that they should demonstrate that neighborhood preservation efforts around the fringe areas of the city would save many viable neighborhoods and would prevent wholesale demolition and dislocation of people. The organization also recognized that Black and Hispanic families moving into the West Side Park area were not as cohesive and economically stable as the Ukrainians who were leaving the area.

With rehab, low cost, decent housing would be within the financial reach of most families within a short period of time. Rehab would also create jobs for minority workers. Co-operative ownership was seen as strategy for ownership on a level people could afford and would help to build a neighborhood identity among the newcomers. Thus, the organization saw rehab and co-operative ownership as an economic development effort that would promote entrepreneurial interests as well as broad community interest.

Summary:

Within the first three years of its existence the Citizens Union for Progress:

1. sponsored the first state financed rehab project in New Jersey;
2. set up one of the first community sponsored reinvestment efforts by using \$30,000 of private money to leverage \$1.4 million dollars into the neighborhood;
3. negotiated the rehab of 700 more units of housing under private development. More than \$14 million rehab dollars were brought in;
4. organized one of the first low income housing co-ops in the state;
5. created jobs for a large number of minority workers;



6. gave minority contractors their first large scale construction work in the city;

7. arranged for low cost housing protected from absentee ownership;

8. generated funds to bring community services into the neighborhood;

9. set up a People's Center to concentrate on preparation of children and adults for the world of work.

In short, a model for neighborhood preservation, community control and neighborhood economic development was in place.

## IIA. Background (Neighborhood Context)

In 1967, Tri-City Citizens Union for Progress set up a limited dividend housing corporation called Tri-City Citizens Economic Union for Progress, Inc. to sponsor its housing rehabilitation programs.

At the same time Tri-City appealed to a group of professionals to form an investment corporation to provide the seed money needed to get the rehab project underway. This group became known as Priorities Investment Corporation. Priorities raised \$30,000 in order to help Tri-City purchase and rehab the first house. Once the mortgage commitments were made from the state, the Citizens Economic Union designated Priorities as its general contractor.

The first housing rehab project named Amity Village #I was financed with a 35 year mortgage insured by the New Jersey Housing Finance Agency and subsidized by the federal 236 and 221d(3) legislations. The intention of the Citizens Economic Union was to convert all of its rehabbed properties into cooperative ownership as a strategy for self development and neighborhood stabilization.

Amity Village I was comprised of 96 residential and one (1) commercial unit, located in one square block in the West Side Park neighborhood of Newark.

By the time that Amity Village #I was 90% occupied and officially ready for co-op conversion, the Citizens Economic Union was already negotiating for a second mortgage to continue the housing rehab work. Amity Village #2 was to be four times as large with a loan package of 400 units submitted to the state Housing Finance Agency. (With the final mortgage negotiations, the package was divided into two sub sections: Amity 2A and Amity 2B).

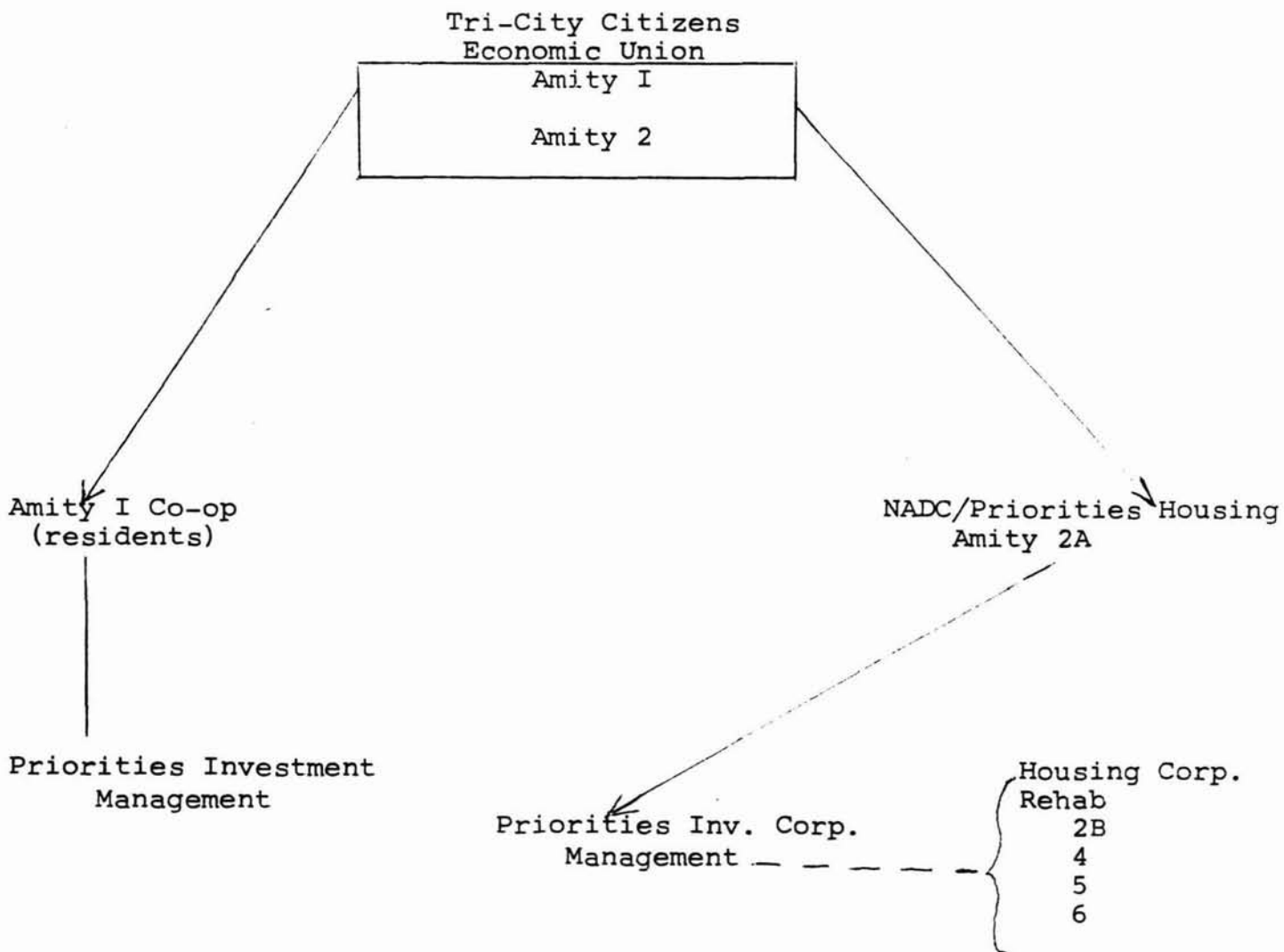
In mid 1969, the parent organization began to realize that it was past time for the Citizens Union for Progress to begin its people programs, not only for Amity Village residents but for other residents as well. However, the housing sponsorship was monopolizing all of the time of its experienced members. The decision was made, therefore, to get out of housing sponsorship so that limited resources could be focused on developing the family services and leadership training programs.

This decision was facilitated by the fact that Priorities Investment Corp., the original investors and general contractor, had become a wholly owned subsidiary of a Boston based investment corporation called North American Development Corp.

IIA. Background (continued)

This new combination offered a full, well staffed approach to housing development which Tri-City Citizens recognized it could not provide to the West Side Park community. Therefore, in early 1970, members of Tri-City Citizens Economic Union and representatives of North American Development Corporation began talks to spell out areas of mutual agreement on how to continue rehab and social programs in the West Side Park community.

Thus, by early 1970, Tri-City Citizens Economic Union was prepared to relieve itself of property ownership by selling Amity Village #1 to the residents and by selling its rehab rights to Amity Village #2 to <sup>the</sup> private development corporation.



IIB. Preparation of the Memorandum of Understanding

- General Purpose
- Selection of Negotiators
- Definition of terms
- Ratification
- Approval by
- Outcome
- Memorandum of Understanding (copy)

## IIB. Preparing the Memorandum of Understanding

The purpose of the Memorandum of Understanding was to put down in writing how each party expected to benefit from the transfer of rehab rights from the Citizens Economic Union to North American Development Corp: NADC sent Lofton to talk with Tri-City Citizens because they wanted entree into rehab investment and tax shelter benefits. Tri-City Citizens was anxious to be relieved of housing sponsorship duties but wanted to be sure that rehab would continue with a community development orientation.

January, 1970 - Selection of Negotiators

### Selection of Negotiators

To serve as representatives, North American Development Corp. selected Oliver Lofton, a vice president who was also the founding president of Priorities Investment Corp. Lofton was the prominent Newark attorney who answered Tri-City Citizens appeal for investment help in the preliminary stages of the rehab proposal. It was also Lofton's personal intervention with state financing officials that helped Tri-City Citizens gain entree into rehab financing. Although Lofton was now a vice president of a large development corporation, he was seen first and foremost as an ally and local leader who had pioneered in housing investment and rehab work in Newark.

Tri-City Citizens selected Ernest Thompson as its chief negotiator and Ed Andrade as his assistant. Ernie was seen by all parties as the one who could keep the whole legal, financial and political issues in perspective and proper proportion. Both Tri-City representatives were volunteer members of the Economic Union board of trustees.

### Definition of terms

The major issues addressed in the memorandum of understanding were:

Amity Village #I:

1. Complete the conversion of Amity Village #I to the residents as a co-op
2. Dispose of all Amity I debts incurred due to rehab construction problems
3. Guarantee a low cost management service to Amity I residents

IIB. Preparing the Memorandum of Understanding (continued)

May, 1970 - Ratification of the Memorandum

The negotiating period took place from, January, 1970 until May, 1970 to complete the major components of the memorandum.

Clauses were ratified by each organization as they were "settled" by the negotiators. Once the Memorandum was signed, the bulk of the work had been done for the subsequent sales contract.

June, 1970 The New Jersey Housing Finance Agency approves the memorandum in principal. This approval is necessary for both parties to proceed since HFA must be willing to receive a substitute sponsor to complete the Amity Village #2 rehab project. The subsequent sponsorship contract between HFA and North American Development Corp. would spell out state requirements in detail.



MEMORANDUM OF UNDERSTANDING AND JOINT  
PROPOSAL OF TRI CITY CITIZEN'S ECONOMIC  
UNION #1

AND

PRIORITIES INVESTMENT CORPORATION

I. This is a memo of understanding entered into between Tri City Citizens' Economic Union #1 (hereinafter referred to as Tri City #1) and Priorities Investment Corporation, (hereinafter referred to as Priorities) to make possible the immediate development and processing of Amity II. The memo, when implemented, will enable the New Jersey Housing Finance Agency (hereinafter referred to as H.F.A.) to issue a commitment for financing for Amity II. At the same time it will preserve the cooperative nature of the project and allow Tri City #1 to further its social and educational program and maintain its objective of minority participation in housing development.

Presently, an issued commitment of the H.F.A. has been pending for about 1-1/2 years. In addition, approximately \$600,000 in State seed money loans has been expended in connection with Amity II, most of it for property acquisition and option money. The majority of the buildings are still not yet closed but are under option with substantial downpayments. All options will expire by August 1, 1970. In order to expeditiously process Amity II to commitment, Tri City and Priorities agree as follows.



1. A limited dividend corporation will be formed by North American Development Corporation in accordance with N.J.S.A. 55:16-1, to qualify as a housing sponsor under N.J.S.A. 55:14J-1, et seq. The Board of Directors of the limited dividend corporation will include one member from the Tri City #1 Board of Directors and one member who is an Amity Village I cooperator. The Tri City #1 member shall be a member of the executive committee of the limited dividend corporation Board, if any.

2. The limited dividend corporation will acquire from Tri City #1 all of the properties and rights to purchase properties comprising Amity II, develop and construct Amity II with financing from the H.F.A. in the amount of 90% of total project cost. The limited dividend corporation will absorb 10% of the project cost as its equity. In the event that the tenants of Amity II form a qualified housing cooperative, the limited dividend corporation shall grant it an option to purchase Amity II in its entirety after five years from the date of completion at the then fair market value of the project which shall be equal to the then principal balance of the mortgage plus the 10% equity of the limited dividend corporation.

3. The limited dividend corporation will assume the Tri City #1 contractual obligations to the architect and will make mutually satisfactory arrangements with the Tri City #1 attorneys provided that the cost of assuming same is included in project cost and the H.F.A. mortgage.

4. Priorities will manage Amity II both before and after rehabilitation for the limited dividend corporation and will manage the Amity I cooperative for its account under separate contract to it for a reasonable management fee. The management staff of Priorities will be professional. The management staff of Priorities shall work and meet with the Tri City #1 staff committee and present management for a period of four weeks for purposes of orientation to the Tri City community. Residents of the ~~Amity~~ Village cooperative shall be employed on the management staff, provided that said residents meet the standards set for such position. The standards shall be determined by Priorities. Priorities and the limited dividend corporation shall leave a trained management staff in the event of a sale of Amity II to a cooperative formed by the residents of ~~Amity~~ II under the option set forth in paragraph "2" above. The limited dividend corporations or its management shall select and orientate the Amity II tenants with the objective that they become co-operators. The limited-dividend corporation shall provide maintenance and repair services to the Amity II properties before rehabilitation provided that the cost of such pre-rehabilitation repairs and services are included as part of project cost and in the H.F.A. mortgage for Amity II.

5. A joint Tri City #1 limited dividend corporation committee will be formed which may advise on the aesthetics of the Amity II housing project with a view to quality housing as permitted by the budgeted cost and in accordance with the standards of the H.F.A. Final decision on the aforementioned shall rest with the limited dividend corporation.

6. Tri City #1 will organize the Amity Village I cooperative and convey Amity I to it. Regarding Amity II, all pertinent documents will reflect that it is intended that Amity II become a cooperative and join the Amity I cooperative by its option to purchase. Tri City shall undertake the responsibilities to organize and become the organizational representative of the tenants.

7. Tri City #1 shall be the community organization group that will administer social projects in the Amity Village area.

8. The construction force on the Amity project shall be a minimum of 40% Black and Puerto Rican. ( Within the 40% , at least 25% of the skilled work force shall be Black and Puerto Rican, including apprentices. The State Department of Community Affairs is to be requested to supply funds for apprentice and training programs. If same is not supplied, then Tri City #1 and Priorities are to jointly seek funds for training programs from other sources.) [REDACTED]

~~and when the 25% skilled work force is not supplied, then the 25% skilled work force shall be supplied by the State Department of Community Affairs.~~

9. Priorities and Tri City #1 shall seek to have the State, by way of grant or H.F.A. mortgage, finance the site planning and site work and construction for Amity I. If possible, the effort will be to have same placed in the Amity II mortgage.

10. To further its social, educational and tenant-training program Tri City #1 shall receive a payment of \$50,000 per year for five years, which is to be used for programs that will benefit residents of Amity Village. In addition, as part of the winding up of Amity I, North American Development Corporation will pay to a maximum of \$35,000 for any Tri City #1 deficit remaining on Amity I. Tri City will be paid all net debt due it from Priorities. Priorities and Tri City #1 will jointly request the Department of Community Affairs to convert the \$50,000 seed money loan made to Tri City #1 for Amity I to a grant.

11. All funds advanced in connection with Amity II by the Department of Community Affairs or the H.F.A. will be included in the Amity II mortgage given to the limited dividend corporation.

12. The foregoing is contingent upon the H.F.A. granting approval to the transaction and the procedures for accomplishing same. In addition, the transaction is contingent upon an H.F.A. commitment to finance the limited dividend corporation for 90% of the project cost and a 100% financing commitment to be issued now in order that



the cooperative to be formed be able to purchase under its option as set forth in paragraph "2" above. Further, the 236 supplement program must remain available to the Amity II project.

13. North American Development Corporation and the limited dividend corporation must receive a favorable tax opinion on the availability of the rapid depreciation applicable to residential rehabilitation.

14. Tri City and Priorities will join to negotiate with the State in order that the Priorities and the limited dividend corporation not suffer a decrease in fees due to the change in sponsor.

15. The purchase of the Ukrainian Church <sup>properties</sup> by the limited-dividend Corporation to be included in the mortgage for Amity II, and leased to Tri City #1. The lease to contain an option to purchase.

for a period of 5 yrs to be renewed

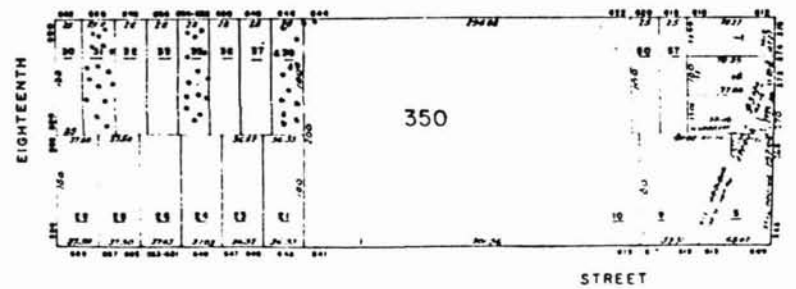
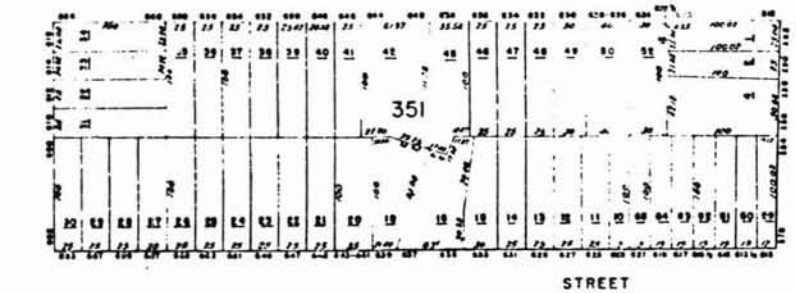
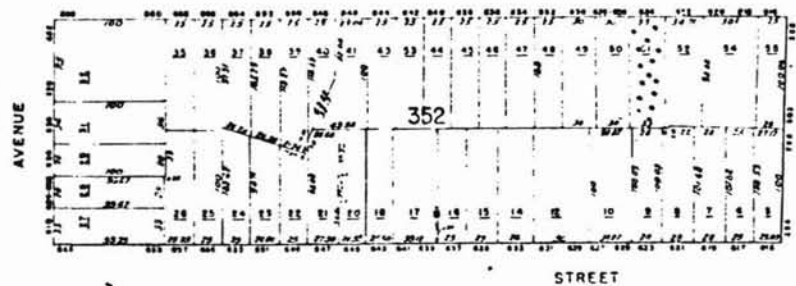
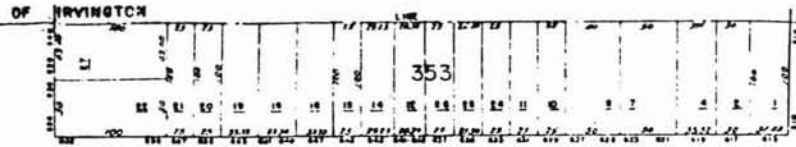
W. J. Blakley  
President, Tri City Citizens' Economic Union #1

Oliver Lofgren  
President, Priorities Investment Corporation

IIC. The Sales Contract

- Map of Property

- Synopsis of Clauses and their purposes



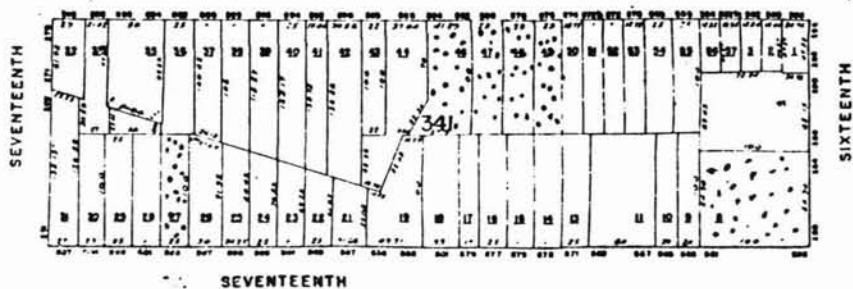
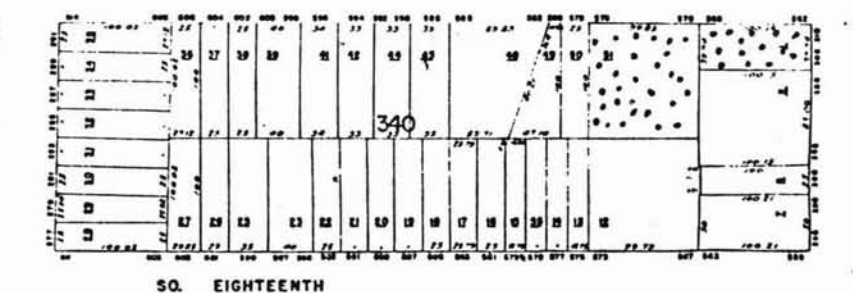
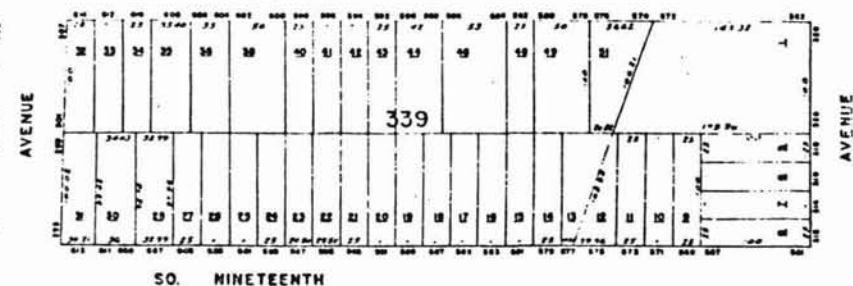
Amity Village 1

Amity Village 2A



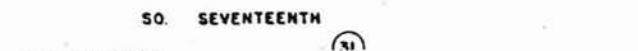
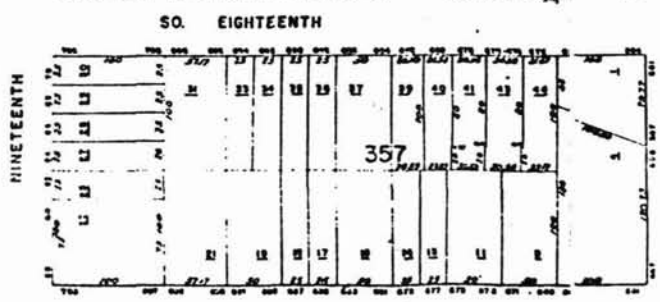
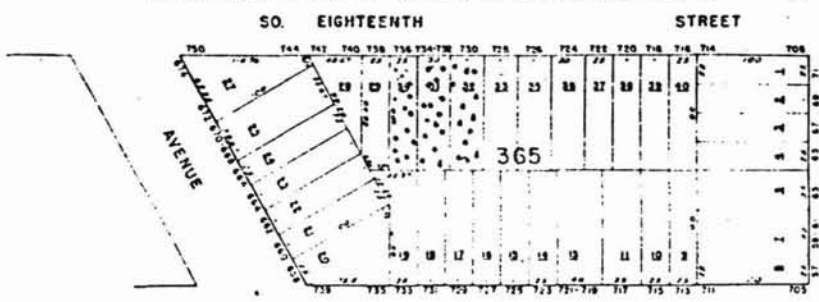
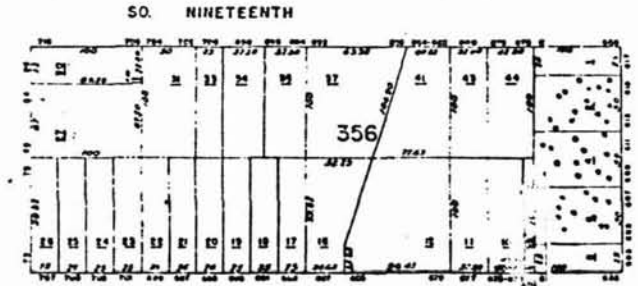
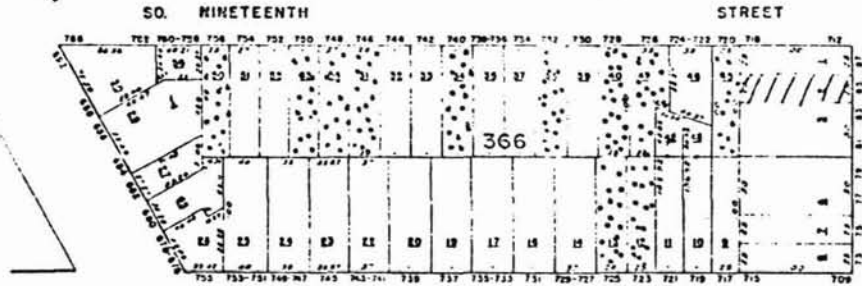
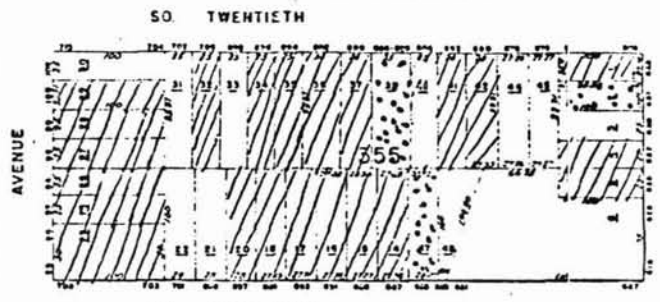
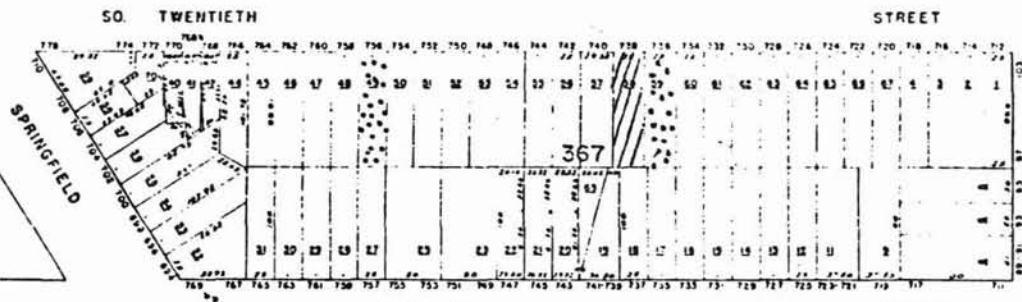
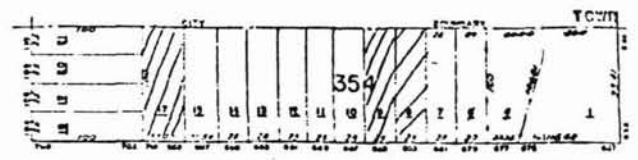
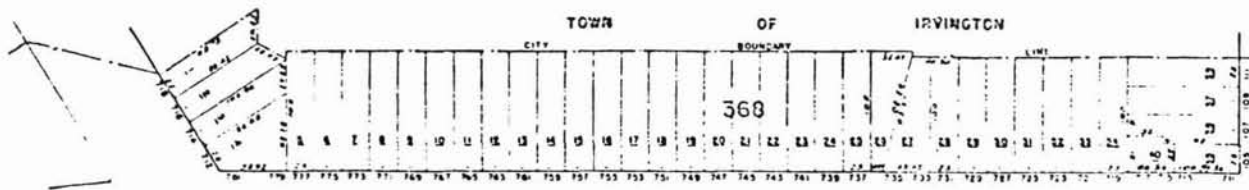
TOWN C

50. TWENTIETH City Boundary





-16-



CONTRACT

AGREEMENT made this 16<sup>th</sup> day of December, 1970, among Tri-City Citizens Economic Union #1, hereinafter "Tri-City", having its principal place of business at 518 Springfield Avenue, Newark, New Jersey; Priorities Investment Corporation, hereinafter "Priorities", having its principal place of business at 605 Broad Street, Newark, New Jersey; and North American Development Corporation, hereinafter "NADC", having its principal place of business at 114 State Street, Boston, Massachusetts:

## W I T N E S S E T H T H A T:

Heretofore Priorities and Tri-City entered into a Memorandum of Understanding regarding Priorities undertaking sponsorship of the rehabilitation project known as Amity Village II in the place and stead of Tri-City -- the former sponsor. Since the time of the Memorandum of Understanding, the project known as Amity Village II has been divided into two projects known as Amity Village II-A and Amity Village II-B, the buildings comprising which are set forth in Schedule A annexed hereto. The following is the final agreement among the parties regarding the substitution of sponsorship by Priorities and NADC for the Amity Village II-A and II-B projects.

The following agreement reflects the division of the Amity Village into sections II-A and II-B as aforesaid, and is the final agreement among the parties hereby superceding the prior Memorandum of Understanding, all prior negotiations and agreements.

IIC.

Clauses of December 16, 1979 Sales Contract

<u>Clause</u>	<u>Purpose</u>
Clause 1: NADC will form a limited dividend housing corp. to qualify as a housing sponsor	Required by N.J. Housing Finance Agency in order to use federal 236 and 221d(3) legislation.
Clause 2: Upon committment and closing of the Amity 2A mortgage, all properties will be sold to Priorities Housing Corp. at cost.	Economic Union wanted to avoid increasing the mortgage which would have been reflected in a higher rent scale.
Clause 3: In the event that Priorities Housing Corp. receives a committment from either N.J. HFA or HUD, Citizens Economic Union will sell the Amity 2B properties to the Priorities Housing Corp.	HFA initially committed financing for only half of the 400 units proposed for rehab. This necessitated splitting the rehab package and seeking a separate financing for the second part of the package (Amity 2B)
Clause 4: The committment to finance from either of the above sources must provide that Priorities Housing Corp. receive a mortgage for 90% of the total project cost, and that the remaining 10% be supplied as equity by Priorities Housing Corp.	Federal and state financing requirements
Clause 5: In the event that the above contingencies are met, residents of Amity 2A and 2B will be granted an option to purchase the projects upon the formation by the tenants of a qualified housing cooperative within five years of the housing rehab.	Citizens Economic Union wanted to avoid absentee ownership in the neighborhood once the owners had used up all of their tax benefits and wanted to "dump" the properties. This clause gives the tenants first option to buy. The goal was to work with tenats to form a cooperative housing corporation

IIC.

Clauses of December 16, 1970 Sales Contract

<u>Clause</u>	<u>Purpose</u>
Clause 6: Upon closing of the projects, Priorities will manage the buildings comprising the project with the following terms:	
1) Priorities Investment Corp. will assemble a professional management staff on which residents of Amity I cooperative will be employed, provided they meet job standards.	To provide for management by a local management corporation and to promote jobs and neighborhood control.
2) Priorities Housing Corp. and Priorities Investment Corp., its manager, shall select and orient the Amity 2 tenants to becoming cooperators.	As housing managers, Priorities Investment have direct contact with incoming tenants. For legal and organizational purposes, the Citizens Economic Union felt that all tenants should begin their orientation about cooperative ownership at the outset of their residency.
3) Priorities Housing Corp., and Priorities Investment Corp., its manager, shall leave a trained management staff in the event of a sale of Amity 2A or 2B to a cooperative formed by 2A or 2B.	Guarantee that the new co-op owners would have technical and professional help at the outset of their ownership.
Clause 7: Priorities Investment Corp. will manage Amity I.	Amity Village Co-op #I was not only new but also small (96 families). They could not afford professional management services with such limited income. The state HFA required a managing agent. Tri-City insisted that Priorities take the contract even though it was not profitable for them to do s

Clauses of December 16, 1970 Sales Contract

Clause

Purpose

- Clause 8: After the closing of Amity 2A or 2B, Priorities Housing Corp. will provide maintenance and repair services prior to rehabilitation as long as the costs of these repairs and maintenance are included in the HFA or HUD mortgage. Citizens Union shall retain ownership of Amity 2B. Amity 2B will be managed and serviced by Priorities Investment Corp.
- Clause 9: All documents pertaining to Amity 2A and/or 2B will reflect where it is proper that it is intended that Amity 2A or 2B shall become a cooperative and join the Amity I cooperative if the cooperators of Amity I and Amity 2 so desire.
- Clause 10: Upon closing Amity 2A, as part of the Amity I project, NADC will pay to Citizens Economic Union a maximum of \$35,000 to eliminate any Amity I deficit as appears on the Economic Union balance sheets as of October 31, 1970.
- Clause 11: Citizens Economic Union will be paid by NADC all the debt due Citizens Economic Union from Priorities Investment Corp.
- This was to provide interim maintenance and relocation services to tenants. In some cases, interim properties had to be managed for six months or more if rehab could not begin immediately upon acquisition. Amity 2B was not sold to NADC/PIC until financing was finally obtained.
- Citizens Economic Union felt that co-op ownership was the most affordable way for low income residents to own and control property. This clause was crucial to see that community development would continue even under the profit making ownership.
- Amity I rehab exceeded the original mortgage due to construction problems and changes in state regs. Citizens Economic Union wanted to avoid having new cooperators inherit a debt incurred because of past errors.
- This was to make sure the non-profit effort received all monies due. Since NADC had become the parent organization, it also make them liable for any debts incurred by their subsidiary, PIC.

IIC.

Clauses of December 16, 1970 Sales Contract

<u>Clause</u>	<u>Purpose</u>
Clause 12: The N.J. Dept. of Community Affairs will be asked to liquidate the \$50,000 seed money loan as a debt of Citizens Economic Union or the Amity I cooperative.	This loan was used to cover extra costs incurred in correcting rehab problems. Liquidation of the loan would clear both parties of future indebtedness. These measures were received by the state as reasonable since much more training of minority contractors was needed than anticipated.
Clause 13: At the closing of Amity 2A, Priorities Housing Corp. will repay the seed money loan advanced by the N.J. Dept. of Community Affairs to Amity 2, but allocable to Amity 2A, only if the funds to repay the loan have been allowed in the mortgage.	
Clause 14: Priorities Housing Corp. will assume the architect's contract regarding Amity 2A at closing provided the cost of assuming the contract are allowed and included in the mortgage and total project cost.	This was to provide continuity and to avoid obligation of Economic Union to settle on a broken contract with the architect.
Clause 15: (a) Citizens Union will be the community organization group which will administer social projects for either Amity 2A, 2B or both.	Citizens Union, the parent organization wanted to have official standing to work with the tenants of Amity Village. It was also an attempt to make sure that management provided support services to its residents.



Clauses of December 16, 1970 Sales Contract

Clause

Purpose

Clause 15: (b) NADC will pay \$175,000 to Citizens Economic Union over a three year period to be placed in Tri-City Citizens' Trust Fund. If Priorities Housing Corp. closes the Amity 2B project according to the mortgage and the terms set forth in Clause 4, NADC will be obligated to pay to the Tri-City Citizens' Trust Fund an additional \$75,000.

The proceeds from the sale of the rehab rights would be paid by the investors. It was estimated that \$250,000 proceeds from the sale of property mortgaged at \$4.5 million was satisfactory.

In today's syndication transactions more/less is usually contracted.

The Trust Fund was a separate entity set up by Tri-City Citizens to make sure that the monies were used for a community purpose and not vulnerable to political takeovers.

The major responsibility of the Trustees was to see to it that trust funds were used to pay for the lease of the church properties as a community center and other operating costs.

Clause 16: Priorities Housing Corp. will purchase the Ukrainian Church property as a location where Citizens Union can further its social, educational and tenant training for the Amity 2 project. The lease will be for five years with fifteen years of renewal options. The acquisition cost is included as part of the Amity 2A mortgage. The lease will include a provision for the payment of one year's rent simultaneously with the payment of each \$50,000 payment from NADC to Tri-City Citizens' Trust Fund interest rate of 5% on the unearned portion of the rent.

The sales contract included the provision which spells out the housing owner's responsibility to provide community facilities for its tenants. Tri-City Citizens is the designated social services agent and will use its proceeds from the housing sale to operate the facilities.

This strategy was used because it provided for a subsidized mortgage interest rate for the purchase of the church property (as part of the housing package). At that time Tri-City Citizens had no collateral to qualify for a \$200,000 mortgage to buy the property itself.

Clause 17: The construction shall be a minimum of 40% Black and Puerto Rican workers.

To guarantee more jobs and training for local residents.



## Summary on Contract

Controlling an outside developer must be clearly defined in its purpose. In the case of Tri-City Citizens Economic Union, the organization had four main objectives:

1. to set standards for monitoring the rehab itself.
2. to maintain a local management system while under absentee ownership
3. to require the owners to finance activities to benefit the residents and community as a whole
4. to guarantee that ownership would first be offered to tenants in the event of a sale.

Each of the contract clauses is designed to meet these major as well as other objectives. A community housing corporation was selling its rights to an outside investment group whose main interest was tax benefits and the federal legislation which provided the benefits made no provision to protect the community. It was primarily due to the political acumen of chief negotiator, Ernie Thompson, who had been a long time labor negotiator that such a contract was possible.

In these days, syndication transactions are much more commonplace and there are many resources available, especially for a fee.

## IID. Neighborhood Impact----10 Years Later

Almost ten years later, in 1979, the terms of the sales contract have proven themselves to be most valid.

Since that contract was signed in 1970, following is a summary of each objective:

### 1. Rehabilitation

Because NADC adhered to its agreement that a minimum of 40% of the construction force be Black and Hispanic, many jobs were created for inexperienced minority contractors who had difficulty finding construction work.

The rehab project additionally served as a valuable training ground for the inexperienced.

The advocacy of the Citizens Economic Union on the first rehab project, Amity I, helped to sensitize the state agency staff to community interests. The agency was receptive and supportive of the purchase of the church property in order to provide a community center.

### 2. Management

The Citizens Economic Union required NADC/PIC to agree to manage the fledgling co-op at a 4% fee. This was not to their advantage but the Citizens Economic Union was anticipating the expansion of co-op concept into the subsequent Amity Village projects. Because of the scattered site nature of Amity I, it was felt that a management system was necessary.

Priorities Investment Corp. was also a locally originated and controlled corporation. Its founding members were in agreement with the Citizens Union on its community development mission. In many ways, the Citizens Union saw Priorities Investment Corporation as an extension of itself.

The sales contract also included a mechanism for tenant organization and development. Tri-City Citizens Union for Progress, the parent organization was to be recognized and used as the agency to provide social services and tenant organizing help to the Amities. This was in line with the objectives of the organization and was intended to help keep the management corporation responsive to the tenants and co-operators.

However, PIC did not have the experience or the insight to maintain an intensive level of working with the residents who were not sufficiently organized. Gradually their working relationship with the residents lessened until the traditional tenant system existed in which the tenants had no decision making powers and became more hostile to the managers.

## IID. Neighborhood Impact (continued)

Management problems would have been lessened had they used the Citizens Union as the tenant organizer, as agreed to in the sales contract. The residents of Amity I were new to the cooperative notion and needed to be sufficiently orientated and organized as a group.

PIC as a subsidiary of a larger corporation, also was not free to make management decisions, especially if additional costs were involved. Plus, PIC was gearing up to become housing managers. They had never been managers before but were very self confident.

Lack of experience, the proliferation of units to be managed and new organizational restrictions all contributed to their myopic approach to housing management. The net result was that in less than two years, the management was re-organized three times under different structures: all sections of Amity Village, except Amity I co-op, waged a rent strike against the project.

### 3. Community Benefit

The Ukrainian Church did become a community center called the Tri-City People's Center. Because of the housing proceeds money given to it by the Economic Union by way of the Trust Fund, Tri-City Citizens Union now operates over 20 grants and contract services through the People's Center. These are neighborhood controlled services available to residents of the West Side Park neighborhood as a whole, not only Amity Village residents.

The Center opened in 1971 and expands its services annually. The building provided by the Amity 2A housing package and the \$250,000 housing proceeds available for five years as operating monies have made all this possible. The annual budget is approximately \$400,000 and employs approximately forty (40) neighborhood residents as well.

The rehab project did provide jobs and training for minority contractors who had never worked on a construction job of its size or quality before.

Tri-City Citizens Union, largely because it did terminate its housing sponsorship and concentrated on community development for a while, has survived the onslaughts of the housing moratorium. Of all the parties involved in the original dream of 1967, it is the only entity still alive and growing. Its viability proved to be essential in 1973 in saving the housing programs it had initiated.

## IID. Neighborhood Impact (continued)

The Tri-City Citizens Trust Fund was set up to be used exclusively for the service operations housed at the People's Center. By requiring that NADC make note payments to the Fund, Citizens Economic Union in essence, got NADC to additionally pay for administrative costs of the People's Center. The trustees of the Trust Fund were a separate entity guided by by-laws that clearly spelled out for what use the proceeds of the housing sale were authorized.

The Trust Fund measures not only controlled the use of the funds, they also protected the income from outside encroachment. At that time in Newark, one strong organization was moving to take over smaller organizations that had assets and stable resources of funding.

As a result of acquiring the Ukrainian Church and setting up the Trust Fund, in 1979 the Tri-City People's Center handles over 20 service contracts and daily serves in a 12 square block target area as well as gives assistance to other organizations.

- Child Care
- Women's Health
- Children's Health
- Neighborhood Services
- Youth Development
- Neighborhood Beautification
- Neighborhood Anti-Crime

### 4. Tenant Ownership and Control

From 1968 until 1973, approximately 800 units of housing in the West Side Park neighborhood were rehabilitated. Of that number the Citizens Economic influenced the disposition of 300 units because of its original ownership and the sales contract signed with NADC/PIC. The New Jersey Housing Finance Agency also had a property management system, including field visitation that added to the monitoring process. The state agency administered these subsidized programs under Section 236 of the National Housing Act and had to make sure that mortgage payments were timely so that bond holders would continue to invest in state operated projects. Thus the management of local projects and the ability of those projects to collect rents to pay their bills was crucial to the state Housing Finance Agency.

However, after the financing of Amity 2A, NADC/PIC shifted its financing mechanism to Project Rehab, a HUD sponsored Section 8 mechanism.

## IID. Neighborhood Impact (continued)

Because of their own financial troubles, NADC sold its assets to a syndicate of investors for the tax shelter. The local management corporation, Priorities Investment Corporation was replaced by a new housing manager that had less resources and less civic interest in the development of Newark.

Tenants became less organized, more hostile and more destructive of the property. Rent arrearages were high but because the project is 75% HUD subsidized it is still possible to meet the major obligation of the utilities, taxes and mortgage.

In less than six years, the property was in as poor or worse condition than prior to the rehab. Absentee ownership and management has taken its toll.

Amity Village I Co-op and Amity Village 2A, on the other hand, are noticeably in good condition after 8 - 10 years of constant occupation.

The reason is that Amity Village I is a cooperative and has been managed by a community based organization since 1973. It was at that time that the co-op board asked Tri-City Citizens to resume management.

The sales contract called for the tenants of Amity 2 to have first option to buy their property and to form a housing cooperative. On several occasions, NADC offered to buy that option out of the contract so that they could unload Amity 2A. Tri-City refused on the basis that it was still opting for a co-op organization in the future and that tenants were the only ones who should give up the option to buy.

NADC was on the verge of bankruptcy and desperate for money. They offered to sell the property to Tri-City on the basis that this would release their 10% equity deposit with the state Housing Finance Agency.

A second Memorandum of Understanding was prepared spelling out the terms of such a transaction.

The state Housing Finance Agency was interested rather than see their property get entangled in bankruptcy proceedings. Their concern was to keep Amity 2A operating and paying its mortgage.

NADC needed money and wanted to rid itself of its last property holding in Newark.

Tri-City Citizens wanted to keep the option to buy clause intact until tenants could be organized to deal with it.

IID. Neighborhood Impact (continued)

An agreement was reached that the state would make an interest free loan to Tri-City Citizens for \$200,000 to buy Amity 2A from NADC (actually Priorities Housing Corporation, its subsidiary).

That Tri-City Citizens would own and manage Amity 2A with the objective of organizing the tenants to form a co-op.

NADC would not receive their total cash equity on deposit. That would remain as an asset of the project. Rather NADC would receive \$200,000 in cash for the sale of Amity 2A.

In June, 1976, the transaction was completed. The Amity 2A housing corporation/Priorities Housing Corp is now wholly owned by Tri-City Citizens Union for Progress.

Negotiations began in 1978 to convert Amity 2A into cooperative ownership. Tenants have not been receptive to owning scattered site properties. Therefore, new strategies around breaking up the mortgage package are underway.

Whatever the specific outcome, the intent of the sales contract of 1970 will be protected in one form or several. Ownership of the properties of Amity 2A will be turned over to the tenants as originally envisioned by the Citizens Union for Progress.



### III. Advice

The four major areas with which a community corporation must concern itself in a syndication proceeding are:

1. Ownership - how can ownership in the sense of control of the property stay in the hands of the neighborhood or residents? Option to buy clauses should be included.
2. Management - will management system not only provide acceptable services in maintenance, recordkeeping and business affairs but will the system serve to promote participation of residents?
3. Community Interest - will the proceeds of the transaction be used in a way that is clearly beneficial to the neighborhood. A syndication can be viewed as "selling out". Can the benefits be so clearly seen by all that the transaction can be readily defended.
4. Since rehab or construction are invariably involved, is the neighborhood getting maximum mileage out of jobs and training opportunities?

Is the quality of the work being properly monitored? Are the costs justifiable?

In summary, a neighborhood organization has to have the capability of owning or controlling the property management system. Our experience with our partner corporation and our own involvement in ~~management~~ is that monies must be available to provide a management system that is fortified with tenant outreach and family services.

There are now many more neighborhood organizations that have gained the sophistication and skill to negotiate syndications effectively.

In 1979, groups have the advantage of learning from the mistakes and problems that we pioneers encountered in 1970-71.

However, the central question still is:

Can this serve the people both in the long and short run?