



CINCINNATI'S OVER-THE-RHINE

A PRIVATE-LED MODEL FOR
REVITALIZING URBAN NEIGHBORHOODS

KATZ, BLACK, & NORING



DREXEL UNIVERSITY
Nowak Metro Finance Lab
Lindy Institute for Urban Innovation

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Drexel University Nowak Metro Finance Lab

The Nowak Metro Finance Lab was formed by Drexel University in July 2018. It is focused on helping cities find new ways to “finance the inclusive city” by making sustained investments in innovation, infrastructure, affordable housing, quality places, and the schooling and skilling of children and young adults. It is situated within the Drexel’s Lindy Institute of Urban Innovation.



Accelerator for America

Accelerator for America is a non-profit organization created by Los Angeles Mayor Eric Garcetti in November 2017. It seeks to provide strategic support to the best local initiatives to strengthen people’s economic security, specifically those initiatives that connect people with existing jobs, create new opportunities and foster infrastructure development.



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About the Authors

Bruce Katz is the inaugural director of the Nowak Metro Finance Lab at Drexel University and the co-author (with Jeremy Nowak) of *The New Localism: How Cities Can Thrive in the Age of Populism*. Bruce also leads New Localism Advisors, whose mission is to help cities design, finance and deliver transformative initiatives that promote inclusive and sustainable growth, in addition to serving as a Partner in the Accelerator for America. In all these roles, he regularly advises global, national, state, regional and municipal leaders on public reforms and private innovations that advance the well-being of metropolitan areas and their countries.

For more information please visit www.drexel.edu/nowak-lab.

Karen L. Black is a Senior Research Fellow at the Lindy Institute for Urban Innovation and teaches at the University of Pennsylvania in the Urban Studies Department. In 2002, Black began May 8 Consulting, Inc., a woman-owned social impact consulting firm, to create innovative legal tools and policies to transform urban markets. Black also is the author of award-winning publications co-founder of the Healthy Rowhouse Project, a Philadelphia initiative to improve access to private capital for home improvement loans that has leveraged \$100 million in public and private capital. In 2015, Black taught a course on public policy responses to gentrification at Princeton's Woodrow Wilson School of Public and International Affairs as well. Prior to beginning her consulting practice, Black was the founding director of the Metropolitan Philadelphia Policy Center, a region-wide policy center founded to research issues impacting the economy, environment and equity within the Philadelphia metropolitan region. Prior to that, Black worked with the U.S. Department of Housing and Urban Development (HUD) and spent 12 years as a practicing civil rights attorney. Black received a Bachelor of Arts from Williams College and a Juris Doctor from UCLA Law School.

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Dr. Luise Noring is an Assistant Professor and Research Director at the Copenhagen Business School in Denmark. As a business economist, Noring specializes in urban governance and finance, including socio-economic impact analyses, urban business models and finance mechanisms for implementation of both large-scale urban regeneration and smaller neighborhood interventions. Noring has several years of experience identifying and implementing models for self-governing and self-financing cities, including institutional arrangements and finance mechanisms for urban regeneration, infrastructure investments and affordable and social housing. Since 2016, Noring's company, City Facilitators, has provided specialist advice and guidance on urban growth, business development and urban finance mechanisms.

For further information please visit www.luisenoring.com.



This is the first in a series of Nowak Metro Finance Lab City Cases, a set of case studies that will dig deeply into institutional and financing models that have driven large-scale urban transformation. City Cases seek to provide sufficient detail to enable large-scale adaptation and adoption and, over time, contribute to a new paradigm for financing inclusive cities by demonstrating how reorganizing public, private and civic resources in novel and creative ways can reshape local economies and remake local places.





INTRODUCTION

The rise of cities is the defining and unifying dynamic of the new global order. Given their agglomeration and concentration of key assets, cities have emerged as the engines of national economies and the centers of global trade and investment. At the same time, with national and supra-national politics increasingly polarized, cities have become the principal vehicles for solving the world's toughest challenges, as Bruce Katz and Jeremy Nowak persuasively argued in *The New Localism: How Cities Can Thrive in the Age of Populism*.¹

This new era of city-led problem solving comes with a large price tag. Higher levels of government have systematically pushed down responsibilities for designing and financing innovative solutions without providing a concomitant delegation of capacity or resources. And no relief is coming: due to aging populations, national and state governments will inevitably shift substantial portions of their capital towards health care and retirement benefits, crowding out investments in other domestic activities. Going forward, cities will be increasingly responsible for investing in the catalysts of future growth and prosperity including, most importantly, infrastructure, housing, quality places, and the schooling and skilling of children and young adults.

To accomplish this, cities and metropolitan areas will require new governance and finance models that organize public, private and civic capital in new ways. One such model, studied extensively by Luise Noring, has

emerged in Northern Europe. There, cities are unlocking public wealth by creating publicly owned and professionally managed corporations to leverage the value of underutilized public assets to finance a wide range of transformative projects. In Copenhagen, CPH City and Port Development, a company jointly owned by the municipal and national governments, has regenerated the historic harbor and used the revenue to service the debt on a citywide transit system. In Hamburg, HafenCity Hamburg GmbH, a company fully owned by this historic city-state, is overseeing the largest inner-city regeneration effort in Europe through the redevelopment of former port and industrial sites. Both these cities are using the public asset corporate model to lead the transition to new sources of renewable energy and are using nature-based solutions to mitigate the effects of climate change and drive down carbon emissions.²

The United States has spawned a very different institutional innovation. Here, cities are organizing private and civic capital to advance key community objectives such as stewarding regional economies, spurring entrepreneurship or catalyzing redevelopment of critically located neighborhoods. These strategies build on the central insight that capital, in mature economies at least, is not the constraint. With the right institutions and instruments, vast amounts of capital are out there to be raised, connected and deployed. To this end, *The New Localism* showcased Indianapolis' Central Indiana



Renovating Fountain Square, a one-block public space in downtown Cincinnati, was one of the first major efforts of 3CDC and utilized an innovative capital stack that provided a roadmap for future civic space renovation projects.

Corporate Partnership, which has raised hundreds of millions of private and civic resources for investment in companies and research institutes in the life sciences field, a competitive advantage of the metropolis and region. This institutional model has a governance structure that is private/civic rather than public/private, deploying corporate, philanthropic and university resources through a professionally managed entity that works *with* rather than *for* the public sector.

This paper, designed as the first in a series of City Cases, aims to build on this existing research by identifying and codifying additional urban institutions that have the proven capacity, capital and community standing to effect transformative change. The goal of this series is to bring depth and specificity to the analysis of institutional solutions, distilling enabling features as well as financial mechanisms, to enable large-scale adoption and adaptation.

This case study focuses on the Cincinnati Center City Development Corporation (3CDC), a 16-year-old nonprofit corporation that has driven the regeneration of Over-the-Rhine, a formerly distressed community located near the traditional downtown. 3CDC powerfully blends corporate and philanthropic resources, strong professional management, and close cooperation with the public sector. It has a replicable governance structure and a strategic mix of public, private and civic ownership and responsibilities. It has already provided the model for the new Downtown Development Corporation in Erie, Pennsylvania and could be adapted to dozens of other cities.

The examination of 3CDC is particularly timely given the enactment of a new federal tax incentive—centered around the deferral, reduction, and elimination of capital gains taxes—to spur private investments in low-income areas designated

by states as Opportunity Zones. Given the significant interest among investors, it is possible that this new tax incentive could attract hundreds of billions of dollars in private capital, making this one of the largest economic development initiatives in U.S. history.³ To maximize the economic and social outcomes of this new federal tax incentive, cities need a new generation of community institutions that can pursue development, enable finance, grow local entrepreneurs, unlock public assets and upgrade the skills of local residents. While 3CDC emerged long before the enactment of Opportunity Zones, its proven success and geographic focus makes it a model worth considering as cities strive to expand economic opportunities for places and people left behind.

Right: Aerial photo of downtown Cincinnati and Over-the-Rhine. 3CDC's efforts are concentrated in the central portion of OTR adjacent to downtown, although their partnerships extend to downtown and elsewhere in Cincinnati.

OVER-THE-RHINE

3CDC FOCUS AREA / OTR

**DOWNTOWN
CINCINNATI**







EXECUTIVE SUMMARY

In 2003, Cincinnati's Mayor, Council and business leaders created a private, non-profit organization called the Cincinnati Center City Development Corporation (3CDC) to implement a revitalization plan for downtown and its adjacent Over-the-Rhine neighborhood. This paper explores how the Cincinnati model created a new type of institution that makes catalytic, non-conventional investments in real estate such as civic spaces, severely blighted properties, affordable and special needs housing, speculative condominium development, and retail and office developments. 3CDC and its corporate board used primarily private funding to improve civic spaces and to catalyze the transformation of vacant and underutilized properties into investable resources in order to reinvigorate Cincinnati's dormant downtown and change the trajectory of a neighborhood plagued by blight and vacancy.

WHO IS 3CDC?

The Cincinnati Center City Development Corporation (3CDC) is a non-profit, privately led full service real estate development and finance organization formed in 2003 by Cincinnati corporate and civic leaders to direct the redevelopment of Cincinnati's Central Business District—beginning with the area around

Fountain Square—and the adjacent neighborhood of Over-the-Rhine (OTR).

WHAT IMPACT HAS 3CDC HAD?

3CDC has created a profound physical transformation of a 110-square-block area of Cincinnati over the last 15 years. With an investment of \$1.4 billion, 3CDC has restored 166 buildings and 14 acres of civic space. 3CDC leveraged significant capital funding from Cincinnati corporate partners with conventional loans and public funding to complete large-scale redevelopment projects.

WHY WAS 3CDC FORMED?

3CDC was established when Cincinnati was at a low point, having experienced decades of population loss and a 2001 multi-day, racially-charged riot following the shooting of an unarmed black teen by police. The mayor at the time, Charlie Luken, and corporate leaders agreed that action needed to be taken to spur revitalization and stem the tide of disinvestment in the core of the City. Corporate leaders hired a consultant (HR&A Advisors) and Mayor Luken formed the Economic Advisory Task Force. The consultant and task force both recommended the creation of a non-profit to provide the acumen to creatively finance and

This is the 18-year overnight success story about Cincinnati.

Former Procter & Gamble CEO A.G. Lafley

redevelop civic space and vacant properties and to manage a long-term strategic infusion of capital into Over-the-Rhine.

HAS THE CINCINNATI MODEL CREATED LONG-TERM INCLUSIVE GROWTH?

3CDC's regeneration of OTR and the confidence it engendered in the city's largest employers and key stakeholders put Cincinnati back on track at a critical juncture in the city's history. That, by itself, is an act with deep inclusive consequences, given how much opportunities for disadvantaged urban residents depend upon a prosperous economy and committed and sustained public, private and civic leadership. The substantial reinvestment in OTR's housing market has, however, triggered a shift in neighborhood demographics. While 3CDC did not directly displace residents, as it primarily redeveloped vacant buildings and allowed renters to remain in the small percentage of occupied buildings it acquired, market pressures have motivated 3CDC leadership to undertake expansive inclusive growth strategies. 66 percent of the rental units 3CDC has built in OTR are affordable to households earning below 80% of area median income and 3CDC has developed three new comprehensive residential and service facilities for the homeless (the organization has also helped fund two additional



Before and after photos of the northwest corner of 12th and Vine Streets in Over-the-Rhine.

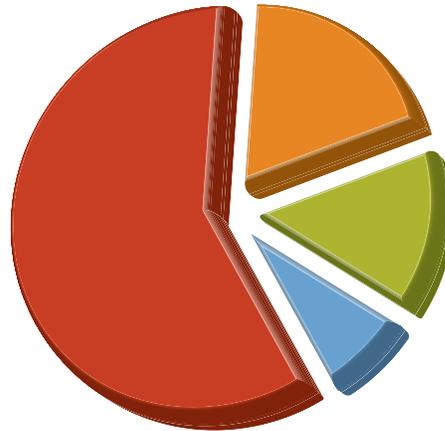
facilities). Today, OTR remains a high-poverty neighborhood (the neighborhood poverty rate is 41 percent, compared to 27.7 percent in the city as a whole) but with the continued creation of a mix of affordable and market rate housing and aggressive implementation of policies to ensure local residents benefit from new amenities, jobs and entrepreneurial opportunities, the Cincinnati model may become a success story for creating a sustainable, racially diverse, mixed income neighborhood.

WHY IS THE CINCINNATI MODEL IMPORTANT TO EXPLORE?

The Drexel University Nowak Finance Lab has partnered with Accelerator for America to better understand the types of innovation in leadership, financing and collaboration that can regenerate our disinvested urban downtowns and neighborhoods. At a time when cities across the country are looking to create inclusive growth, it is essential that medium and small sized cities can identify, combine and reinvest local capital to revitalize old housing stock, reinvigorate flagging public spaces and create new jobs and vibrancy. The Cincinnati model shares important lessons on the power, agility, and leadership an organization needs to truly change the trajectory of neighborhoods plagued by blight and vacancy.

3CDC'S TRANSFORMATIVE ACTIVITIES BY THE NUMBERS

Source of \$1.4 Billion in Investments (2004-2018)



\$839,752,965
Conventional Debt/Equity
 (Bank loans, New Markets and Historic Tax Credit Equity)

\$277,557,433
3CDC
 (Capital Funds created by Cincinnati corporate community and managed by 3CDC)

\$205,542,222
Public Investment
 (State and local government grants, loans and land donations)

\$103,554,840
Philanthropy

Total Investments:
\$1,426,407,460

- Buildings Restored 166**
- Acres of Civic Space 14**
- Civic Buildings Restored 2**
- Apartments 1,300**
- Condominiums 534**
- Hotel Rooms 156**
- Shelter Beds 320**
- Commercial SF 1,063,91**
- Parking Spaces 4,680**

What they accomplished feels like a miracle.
Former Mayor Charlie Luken



THE CINCINNATI MODEL: KEY ENABLING FEATURES

AGILE PRIVATE GOVERNANCE

3CDC's strong board comprised of corporate CEOs provides talented, flexible and resilient leadership for the organization. Its Board of Directors offers key strategy development and oversight on levels of risk. Its board committee structure gives corporate leaders efficient, specialized oversight of each aspect of 3CDC's staff and asset performance.

SKILLED STAFF LEADERSHIP

Led by President & CEO Steve Leeper, the staff has sophisticated skills in complex deal-making, raising financial capital, developing real estate, and managing assets. Corporate and government leaders interviewed repeatedly described key staff members as having the tenacity and focus to work for years on a single goal along with the agility to experiment with a new approach wherever it is needed.

AT-SCALE LAND CONTROL

3CDC purchased a critical mass of hundreds of surplus vacant properties within the targeted geography to achieve land control and eliminate nuisance and blighted properties.

PATIENT LOCAL INVESTMENT

The capital funds created by local corporate partners – the Cincinnati Equity Fund and Cincinnati New Markets Fund – provided a critical source of capital and below-market-rate terms, which enabled 3CDC to leverage conventional and public funding and initiate large-scale redevelopment projects.

TARGETED GEOGRAPHY

3CDC focused efforts on approximately 110 square blocks encompassing the Central Business District (CBD) and the adjacent neighborhood of OTR.

CLEAR MISSION AND PRIORITIES

3CDC has had four distinct priorities from the start, which still guide the organization today – create/manage great civic spaces, preserve historic structures and improve streetscapes, build high-density mixed-use development, and develop diverse, mixed-income neighborhoods supported by local business.

PARTNERSHIP WITH CITY

3CDC views the city as its client. The Mayor, City Manager, and council members review and approve projects undertaken by 3CDC.

LONG-TERM THINKING

3CDC's original Board Chair, A.G. Lafley, former CEO of Procter & Gamble, said it would take 50 years to revitalize Over-the-Rhine and they needed to play the "long game." 3CDC makes long-term investments and manages assets for decades.

SOPHISTICATED PLACEMAKING

A key element of 3CDC's success is the redevelopment and management of civic spaces with extensive programming that draw residents and visitors to a distinct place.

INVEST WHERE DISINVESTMENT

Cincinnati leaders understand that to thrive, the city needed to invest in the downtown-adjacent neighborhood of OTR and therefore created Tax Increment Financing Districts (TIFs) that spanned both geographies so increased property values in downtown could finance improvements to OTR through a "Robin Hood effect."



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A man in a light-colored shirt and blue jeans is walking on the sidewalk in front of the building.

THE CINCINNATI 3CDC MODEL: BACKGROUND

Cincinnati faced disinvestment, vacancy, and deteriorating public infrastructure in its Central Business District and nearby Over-the-Rhine.

Cincinnati is a mid-sized Ohio city that, as a result of deindustrialization and suburbanization, experienced a dramatic drop in population from 453,514 in 1970 to just over 300,000 in 2018.⁴ The city has a high and rising poverty rate with the number of poor households jumping 20% from 30,355 in 2000 to 36,896 in 2014.⁵ Cincinnati's Central Business District (CBD) is the home of eight Fortune 500 businesses including Procter and Gamble, Fifth Third Bank and Kroger and Co., but for decades, employees came to work and headed back to suburban homes each night, leaving downtown deserted. Unlike many other cities where downtown housing was emerging to fill a market void, such housing was absent in Cincinnati. The City's corporate

leaders began to find employee recruitment challenging as Cincinnati's CBD declined.

Over-the-Rhine (OTR), a downtown-adjacent neighborhood that was founded by German immigrants, depopulated dramatically from 50,000 residents at its high to just 7,000 in 2000. Despite an enviable location and roughly 365 acres filled with densely-packed 19th century brick Italianate and German Revival buildings, the historic neighborhood experienced crime at levels nine times the city average and suffered such a significant loss of historic buildings due to "demolition by neglect"⁶ that in 2006, OTR was named one of the nation's "most at-risk historic neighborhoods" by the National Trust for Historic Preservation. A neighborhood of renters, in 2003, the OTR homeownership rate was just 4%, the lowest of Cincinnati's 52 neighborhoods.

A moment of crisis created widespread political support for an outside-government, non-profit led approach.

By 2001, Cincinnati had faced over four decades of population decline but three days of rioting following the killing of an unarmed black teenager by police represented an "all time low" for the city according to former Mayor Luken. Luken was a second-time Mayor, having served from 1984-1991, and he began his second stint in 1999 with a deep dissatisfaction with city government's ability to impact markets or to catalyze new economic development for the city. Luken stated that corporate leaders shared his skepticism about whether government could move the needle or create transformational change.⁷ Luken took the unusual step in 2001 of closing the city's Economic Development Department and Planning Commission. Soon after, the Mayor appointed an Economic Development Advisory

"I gutted the Planning Commission during the economic downturn in 2002. I am not sure I was right about that but a city can't just make plans that sit on shelves. We had bookcases of neighborhood plans. We needed to implement a bricks and mortar solution."

Former Mayor Charlie Luken

Task Force⁸ to recommend a new approach to restoring a failing downtown and creating inclusive growth in the city. Mayor Luken believed strongly when appointing the task force that the city needed a non-profit organization to take the lead on revitalizing the downtown and Over-the-Rhine areas, rather than government or a for-profit that would be assailed by people worried about its motives.⁹ At the same time the Cincinnati Business Committee, a century-old business-led organization, hired highly respected New York real estate consultant John Alschuler and his firm HR&A Advisors to offer their expertise on an effective economic growth policy. Corporate leaders were in agreement that Cincinnati was experiencing broad disinvestment that impacted their ability to attract employees and that the injection of millions of dollars of private capital alone could not turn things around, as evidenced by the failure of the Cincinnati Equity Fund (CEF) they created in 1995 to support real estate

development loans. The dormant fund contained \$45 million in unspent dollars in 2001.

Prior to forming a non-profit to spearhead revitalization, private and public sector leaders agreed upon a targeted geography, four key priorities, public funding through tax increment financing (TIF) districts and initial private funding.

The Mayor's Economic Advisory Task Force and the corporate revitalization plan led by HR&A agreed that a new non-profit entity should be established with the sole task of revitalizing a targeted geography and that it should have a private sector board. The Mayor's Task Force and the Business Committee's consultant both advised the city to create a non-profit with the capacity, capital and talent to transform the Fountain Square area, a dangerous and depressing place in the heart of the city, and the Over-the-Rhine neighborhood. While originally 3CDC was also going to lead new construction

of The Banks on the waterfront, Hamilton County assumed this role.

Private and public leaders also agreed on four priorities that the 3CDC Corporate Board memorialized in its founding documents. The board defined four priorities for the new organization: (1) Create and manage great civic spaces, (2) Preserve historic structures and improve streetscapes, (3) Build high-density mixed-use projects and (4) Develop diverse mixed-income neighborhoods supported by local business. The Board also agreed that 3CDC should favor homeownership over rental housing opportunities to reverse low homeownership rates.

City leaders also established two TIF Districts that connected the fates and finances of downtown and Over-the-Rhine. State law authorized the city to create one or more tax increment financing districts (TIFs) no larger than 300 acres. Within each TIF district, tax increases

“ In 2002 I was a 26-year-old City Councilman and it was an extremely frightening time for the city. Everything was on the line and the real question was whether Cincinnati would survive or not. We didn't need small change. We needed big change and we were lucky that the business community decided to double down when things got tough.

Mayor John Cranley

“ Our business leaders had an interest in taking on a larger role in City development. Corporations had been repeatedly called in when there was a crisis, but we wanted more control of the game. We wanted to be the exclusive developer for the city in the Central Business District and Over-the-Rhine and prove we could do this, and I think we have.

A.G. Lafley

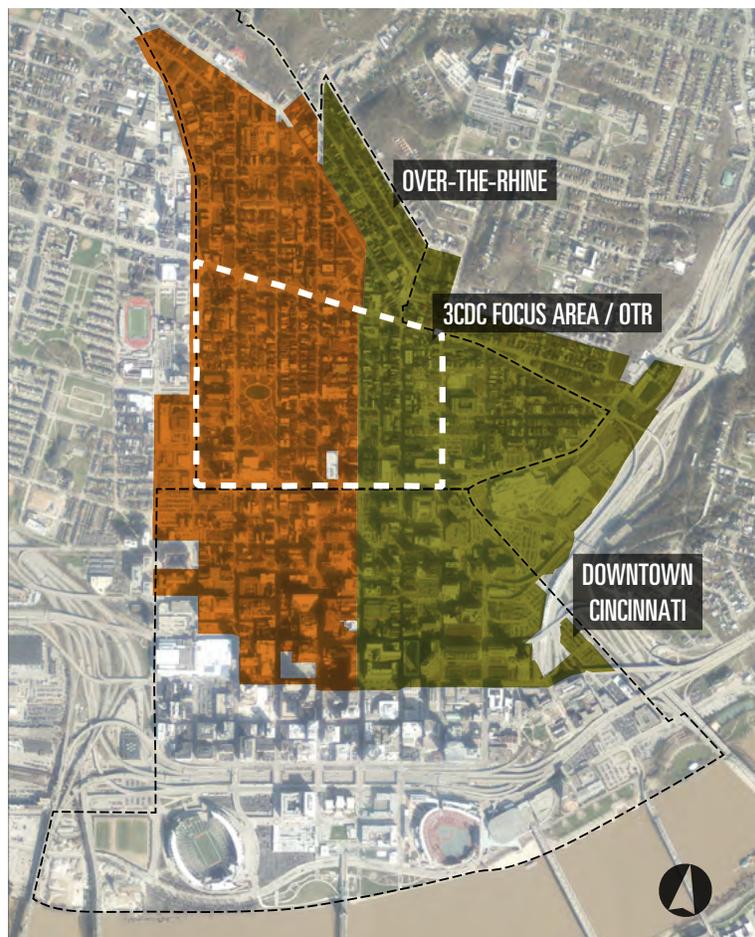


Blighted and vacant buildings in OTR in 2005. Much of the area’s historic buildings had experienced “demolition by neglect” after years of population loss and disinvestment.

Leadership already believed civic spaces like Fountain Square were important when we started. They had identified a targeted focus area. Our goal was to be more about execution than planning and outreach or defining what should happen.

Steve Leeper

resulting from development or improvements can be applied to project costs or to project-related debt service. Cincinnati not only established two new TIF Districts but each of these districts included both a portion of downtown and a portion of OTR to allow for a “Robin Hood effect” where new growth in dormant parts of downtown could help to finance improvements in OTR. Mayor Cranley, as a Councilman, led the charge to establish TIFs in the city and while the Cincinnati Business Committee initially opposed the idea of taking property taxes from downtown and pouring them into OTR, Councilman Cranley was quickly able to convince his colleagues that it would take resources to repair OTR and that that the city could not thrive with a neighborhood that was the setting for gun violence, open air drug markets and prostitution adjacent to downtown.¹⁰ Further, leaders agreed that new development would not create significant increases in property values in OTR for many years and the investment was needed immediately. The dormant Cincinnati Equity Fund (CEF) with \$45 million of corporate contributions in its coffers would provide initial funding for the new organization. In addition, city leaders applied for and won \$50 million in New Markets Tax Credits for 2003-2004. The Cincinnati New Markets Fund



Above: Cincinnati Tax Increment Financing (TIF) Districts covering portions of downtown and OTR.

Right: A corner store in historic building in OTR. Long-term disinvestment had left OTR with few retail establishments.

was the sponsor organization for the New Markets Tax Credit application. In 2004, 3CDC took over management of these two previously established private investment funds.

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THE CINCINNATI 3CDC MODEL: HOW IT WORKS

The Cincinnati Center City Development Corporation (3CDC) was created in July 2003 as a 501(c)(3) nonprofit with a 24-member corporate board and no public board members. The Chair was A.G. Lafley, the CEO of Procter & Gamble Company (P&G). Lafley and Mayor Luken agreed that no elected official would serve on the board in order to allow the new organization to make tough decisions without political influence. It also allowed the decisions to be debated in private rather than as part of a more public process. Its mission was “to strengthen the core assets of downtown by revitalizing and connecting the Fountain Square District, the Central Business District and Over-the-Rhine.” Steve Leeper was hired as CEO of the new start-up based on a national search. Leeper, former head of Pittsburgh’s Sports & Exhibition Authority,

had sophisticated deal-making capacity. In Pittsburgh, Mr. Leeper led construction projects representing nearly \$1.1 billion in private and public funding.

The Board of Directors, comprised of CEO-level corporate leaders, committed to providing long-term leadership and operating funding for the organization. More than 30 corporate leaders make up 3CDC’s Board of Directors. Their primary function is to approve operating budgets and authorize committee reports. To serve on the Board of 3CDC, the member’s company must provide an annual investment in 3CDC’s operating costs. Much of the critical work is done by the Executive Committee which is made up of 12 corporate leaders who must each invest at least \$75,000 towards 3CDC’s operating costs or serve as Chair of one of the committees listed

on the following page. There is no set term for serving on the Board, although the members are reviewed annually. The by-laws state that a senior officer of Procter and Gamble will always serve as Chair. This was agreed to in 2003 for two reasons: (1) P&G is a city leader and other companies look to them on key issues, and (2) P&G had no conflicts of interest, as they had no financial or land interest in the areas in which 3CDC worked. P&G typically provides \$250,000 annually towards 3CDC’s operating costs. The Board meets 3-4 times per year and there is a “no substitute rule” for the Executive Committee—members must be present and cannot send representatives. Its board committee structure gives corporate leaders efficient, specialized oversight of each aspect of 3CDC’s operations while limiting their time commitment. There are also a few positions kept open on the Committees for non-

“We needed an objective that was definable, and we needed a very specific geography. It wouldn’t have worked if we said we were going to fix the city. This effort was about a defined piece of ground within Cincinnati.”

A.G. Lafley

member participation to ensure the Board has the diversity and expertise that it requires.

In addition, a separate Board of Managers oversees and provides corporate governance for the capital funds managed by 3CDC. A separate board was established to make underwriting decisions for the initial two loan funds (Cincinnati Equity Fund I and Cincinnati New Markets Fund I) as well as two subsequent funds (Cincinnati Equity Fund II and Cincinnati New Markets Fund II). Each fund is a separate legal entity, although the Board of Managers for the four funds and the 3CDC Board of Directors share about 16 members, so there is substantial overlap. Once underwriting decisions are made by the Funds' Investment Committee, they are sent to the Board of Managers for final review and a corporate decision.



3CDC's activity generally focuses on the Washington Park area of OTR, an area of roughly .21 square miles (.55 square kilometers).

Having and keeping a geographic focus is absolutely critical. There is no optimum number of square blocks but it sure isn't square miles. It really helps if there is a natural connection between the areas you work in so the connection between the neighborhoods is seamless. From the heart of downtown, which is Fountain Square, to Over-the-Rhine where we are working is 7 blocks. That is it.

Steve Leeper

“ We wanted to make a long-term investment in our city and our community but we did not view this as a charitable contribution. We expected a return on investment and wanted this money to be spent sensibly on purchasing and developing real estate and to achieve a high impact. ”

A.G. Lafley

BOARD COMMITTEES WITH CURRENT BOARD CHAIRS

- **Board of Directors** – Chair, Jeff Schomburger, Procter & Gamble – Meets up to 4 times a year and approves operating budget, committee reports and appointment of individuals to committees
- **Executive Committee** – Chair, Jeff Schomburger, Procter & Gamble – 12 members, monitors key projects, development proposals and initiatives, approves development plans and strategies and recommends Board-approved operating budget
- **Governance & Human Resources** – Chair, Mike Michael, Fifth Third Bank – 5 members, evaluates performance and compensation of CEO, succession planning, assessment of staff capacity and nominations to board
- **Asset Committee** – Chair, Shane Wright, GE Aviation – 13 members and 4 meetings a year, provides oversight of 3CDC’s asset portfolio, approves asset budgets, assesses financial and managerial performance of 3CDC-held assets, including debt management, and provides guidance regarding retention or disposition of assets
- **Audit Committee** – Chair, Jill Meyer, Cincinnati USA Regional Chamber – 9 members, up to 6 meetings a year, provides direct communication between board and auditors, oversight of integrity of financial statements
- **Development & Finance Committee** – Chair, Tom Williams, North American Properties – 10 members, up to 6 meetings a year, approves investment guidelines and investment policy, approves specific development proposals and capital and operating budgets for each project and reviews capital fund allocation to priority projects
- **Event and Sponsorship Committee** – Chair, Tim Maloney, Haile Foundation – 17 members and up to 6 meetings a year, membership based on talent, reviews programming plans and operating budgets for civic spaces, monitors financial performance of civic spaces, reviews sponsorship budgets and marketing activities
- **Center City Management Committee** – Chair, Chris Habel, Frost Brown Todd – Up to 11 members and up to 6 meetings a year, provides oversight of the Downtown Cincinnati Improvement District (DCID) contract and downtown and OTR business district management activities, budget, annual service plans and performance
- **Capital Funds Board of Managers** – Chair, Bob Castellini, Castellini Co.
- **Capital Funds Investment Committee** – Chair, Mario San Marco, Eagle Realty Group

Staff leadership for 3CDC was critical so the Board conducted a national search for an Executive Director.

When the corporate founders established a hiring committee, many of its members seemed to have a local candidate they thought would be great to lead the new organization, according to A.G. Lafley, but no one locally had successfully restored neighborhood markets or financed redevelopment at this scale. So, the board embarked on a national search to find someone with executional excellence who had successfully made major investments in real estate and civic spaces. The national search discovered Steve Leeper, who had headed the Pittsburgh Sports and Exhibition Authority, which funded and developed the two professional sports stadiums (Heinz Field and PNC Park), the David L Lawrence Convention Center and North Shore Riverfront Park—over a billion dollars in projects in Pittsburgh. Once on board, Leeper hired professional staff with varied skill sets in the areas of finance and development, asset management, and later on programming and event management. Staff adjusted over time to organizational growth and evolving strategy. Board members also routinely allowed 3CDC to borrow their employees for a period of time to access needed experience and expertise, according to A.G. Lafley.

The City of Cincinnati was understood to be 3CDC's primary client from its formation.

3CDC was formed to be a partner to the City. Both partners understood that neither could achieve the revitalization of Cincinnati's urban core without the other. The non-profit needed the city's support and access to TIF dollars and other public resources. The City needed a single organization that could work at scale and creatively finance significant new development in the agreed-upon geography. In addition, the City would serve as 3CDC's primary client. Since its formation, 3CDC staff has regularly reviewed its work program and major development projects with the Mayor and City Manager to obtain their feedback. To the extent that the Mayor and City Manager have concerns or objections, 3CDC does not proceed unless those objections can be remedied. Mayor Luken explained that from the start, he and Council wanted 3CDC to succeed and understood that the non-profit needed political leaders to back them up in situations where Cincinnati residents resisted change. Luken explained that when 3CDC started its first big project, renovating Fountain Square, there was much public discussion when it became known that 3CDC would move the historic fountain away from traffic. A local television station ran a survey asking viewers

**3CDC's GROWTH:
2009-2018**

Year	Employees	3CDC Budget
2009	19	\$2,443,320
2012	36	\$4,263,096
2014	56	\$5,888,793
2018	69	\$9,182,052

Above: 3CDC's staff and operating budget has more than tripled from 2009 to 2018, reflecting the scaling-up of their redevelopment and programming activities in OTR.

Right: Cafe seating in Fountain Square. The renovation of one of Cincinnati's signature downtown public spaces was one of 3CDC's first major projects.

about whether they agreed that the fountain should be moved and 96% of viewers were against it. Nevertheless, City Council unanimously approved the move, and residents of the City were ultimately happy with the results according, to former Mayor Luken.

“ We were doing something and the alternative was doing nothing. Certainly there was criticism, but I cannot remember a meaningful discussion where someone had a better redevelopment idea. ”

A.G. Lafley

“ The nub on this was trust between the public and private sector. The key is to do something that everyone knows needs to get done but for whatever reason—usually not enough resources—it hasn’t been done. 1 +1 doesn’t always have to equal 2, sometimes with enough trust you can put together a really good strategy and then through patience and persistence execute it to get to a 4 or 5 instead.

A.G. Lafley





FIFTEEN YEARS OF CONSISTENT DEVELOPMENT, ASSET ACCUMULATION AND MANAGEMENT

3CDC was determined to work at a transformative scale but to do so methodically, one block at a time. According to A.G. Lafley, the non-profit was designed to take a long-term community approach with careful strategy and high quality. This required the organization's leadership to maintain focus and not deviate from their plan, regardless of calls to work in other areas of the city or to take on someone's pet project. A.G. Lafley and the Board emphasized the need for a strategic

approach—going block-by-block in Over-the-Rhine, starting at the Southernmost end where it abuts the central business district and then moving up Elm, Race, Vine, Walnut and Main Streets. The goal was to sequence markets with a continuous pipeline of projects. For example, 3CDC has largely met its consistent goal to have 50 condominium units under construction and 50 on the market at all times. This goal not only allows 3CDC to maintain momentum, but also recognizes

market absorption capacity for new homeownership units.

Every 3CDC real estate development is financed and designed to perform independently. The value stays within the asset rather than being extracted to pay for another project that is not feasible without additional funding. This ensures that every project 3CDC takes on can perform on its own and is not reliant on a portfolio of other projects.

“ This is the most significant change in Cincinnati in my lifetime. The city is back on the right track. The city is the place to be. They say failure is an orphan and success has many parents but the execution of this amazing transformation belongs to Leeper and 3CDC. ”

Former Mayor Luken



Despite early resistance to moving the Tyler Davidson Fountain to a more central location in Fountain Square, Cincinnati and visitors alike have grown to embrace the redesigned public space, which 3CDC programs.

In 2003, 3CDC began two major initial projects: the redesign and renovation of Fountain Square, a publicly owned civic space, and the purchase and remediation of blighted vacant properties within the OTR Washington Park area. Fountain Square was a deteriorated and tired one-block civic space in the heart of the Central Business District (CBD). In 2003, this central square was surrounded by walls that enclosed the space, making it too dangerous to visit at night. The founding corporate members identified this square as a critical geography for revitalization because it was manageable in scope and scale and extremely visible as a key gathering space for the city. The \$48.9 million restoration required a major reengineering

of a historic civic space, including moving the great bronze 43-foot-tall, 150-year-old statue and fountain from which the square takes its name, away from traffic and removing skywalks between buildings above to encourage walking at street level. Fountain Square was 3CDC's first project and the innovative capital stack they built to finance the renovation formed the model for financing future civic space renovations. First, 3CDC master leased the Fountain Square parking garage from the city for up to 40 years. 3CDC paid \$7.5 million for the right to operate the garage under the lease but asked for \$4 million back from the city in the form of a grant. In return 3CDC agreed to raise \$45 million privately, based on the assumption that future parking revenues would

Fountain Square Total Project Budget (3CDC)

Uses

Hard Costs:	\$20,257,033
Soft Costs:	\$28,663,478
Total:	\$48,920,511

Sources

3CDC Loan Funds:	\$20,800,000
Commercial Mortgage:	\$15,000,000
Private Fundraising:	\$5,120,511
City of Cincinnati Grant:	\$4,000,000
State of Ohio Loan:	\$4,000,000
Total:	\$48,920,511

amortize the debt. The improved parking garage revenues have been successfully used to pay off the debt needed to finance the project and today generate net revenues of \$2.7 million a year (with outstanding debt of \$32 million). The remodeled space is hugely popular and enjoys innovative programming year-round. 3CDC operates and programs Fountain Square as a catalyst for redevelopment and to provide a better experience for residents and visitors. The facelift led to significant private investment around Fountain Square.¹¹ The increased property values generated money under the TIF shared with Over-the-Rhine, which helped to finance key projects there, including the transformation of Washington Park.

“The layer cake of funding and financing that 3CDC used on Fountain Square created the template that they used for all other civic spaces.”

Former Mayor Luken



Top: Fountain Square prior to its redesign was an uninviting and closed-off space, with perceptions of being a dangerous place to visit at night.

Bottom: Fountain Square post-redesign and renovation. 3CDC programs the square year-round, including the installation of an ice skating rink and warming tent during cold months as pictured above.

Washington Park and its vacant properties were the focus of 3CDC's other formative project. The 3CDC board believed that to impact Over-the-Rhine's depressed real estate market, it was essential to purchase hundreds of vacant and blighted properties in the area surrounding Washington Park and to do so quickly and stealthily to avoid artificially inflating prices. After it achieved site control of the low-value vacant properties blighting the surrounding area, the Board was planning a \$48 million upgrade of Washington Park into a core city civic green space. 3CDC bought most of the hundreds of vacant and abandoned properties on the private market using different LLC owners to effectuate the purchases. 3CDC invested over \$32.8 million in private funds to buy 200 buildings and 170 vacant parcels centered on Washington Park. 3CDC was able to do this without public outcry because they focused on long-term vacant and abandoned properties and displaced few, if any, residents.

The high level of vacancy in OTR had resulted from several historic decisions and movements but

the two most powerful were (1) the Over-the-Rhine People's Movement led by Buddy Gray that fought market-rate development in the 1980's and 1990's and (2) a 2001 decision by the City's largest low-income property owner, Tom Denhart, to opt out of Section 8 project-based subsidies and his subsequent bankruptcy caused by the departure of thousands of renters after the riot that resulted in 1600 vacant OTR apartment units.¹² At the time the city was being criticized for concentrating most of its subsidized housing in OTR.

Once vacant properties were purchased, 3CDC acted as a responsible landowner and cleaned, repaired, and fenced the banked properties to prevent future deterioration, reduce crime and limit each property's blighting influence on the neighborhood. 3CDC targeted nuisance properties for acquisition and often paid a premium for liquor stores. 3CDC initially paid approximately \$700,000 annually in carrying costs that included clean up, maintenance, stabilization, insurance and interest—an amount that has gradually

decreased over time as the vacant properties have been redeveloped. Crime in the area dropped by 36 percent from 2004 to 2008 as they acquired and cleaned up the problem properties.¹³

3CDC innovated an effective process to acquire and prepare property for development, finance its rehabilitation and sell or rent it for commercial and residential use. From the start, 3CDC methodically moved each development project through to completion with a consistent pipeline of projects in predevelopment. The organization worked in careful increments—constantly improving the area but not taking on too much at one time. Mayor Cranley observed that 3CDC “has been extremely laser focused on a geographic strategy that has been intense over a sustained period of time.” 3CDC would focus on one block for 15 months and keep experimenting until the development and business activity reactivated the block.

Right: Less than 100 feet from Washington Park, 1405 Race Street exemplifies the types of vacant and blighted properties 3CDC acquired in the Park's vicinity.

3CDC bought up empty properties surrounding Washington Park quietly and there was no pushback. There were tensions there but even some of the homeless and low-income housing advocates recognized OTR was in dire condition and something had to be done.

Former Mayor Luken

3CDC was a strange creature. As an organization we were entrepreneurial and strategic on where to play and pragmatic on how to win, and at the same time we were willing to evolve our capabilities to meet unexpected needs. We had never envisioned doing programming for civic spaces, but it was a need, so we filled it.

A.G. Lafley

3CDC'S TYPICAL PROPERTY REACTIVATION PROCESS INVOLVES SEVEN STEPS:

1. **Identify building, vacant property or civic space** in targeted geographic area that will leverage and expand neighborhood redevelopment;
2. **Bank land** to obtain site control, and ensure property is maintained, secured and does not suffer further deterioration before development begins;
3. **Define a viable adaptive reuse** for historic properties;
4. **Create a capital stack** that structures financing from multiple sources with the majority of funding coming from private sources;
5. **Serve as lender and master developer**—Obtain loans from the four equity funds it manages and serve as master developer for each project;
6. **Supervise the construction**—Manage construction and update street infrastructure, if needed; and
7. **Activate the asset**—Utilize programming to activate a civic space or lease retail space to add to reasons to live, work or play in the area.

3CDC developed a financing model featuring a mix of debt and equity investment for its initial projects that provided the template for funding future residential and commercial projects. A foundational financing principle is that each project must “pencil out” and be funded independently rather than being part of a portfolio of projects that share risk. Every project had to have sufficient independent funding to be viable even in early OTR projects where 3CDC was forced to over invest in a property—investing far beyond its current value—to prove the market. While the two funds that Cincinnati corporate leaders gave 3CDC to manage upon its founding provided the bulk of their flexible capital, 3CDC leveraged these local dollars in order to attract conventional loans, grant dollars, tax credits and other funds needed to capitalize the project. 3CDC split their investment between CBD and OTR in equal halves.¹⁴

The initial capital for most projects is provided by low-interest loans or lines of credit to 3CDC by the four Cincinnati Equity and New Markets Funds that 3CDC manages. In 2003, 3CDC was given two existing funds to manage—the Cincinnati Equity Fund (CEF) and the Cincinnati New Markets Fund. Over time 3CDC created two additional funds—the CEFII and CNMFII funds—to increase its ability to finance development at scale. In 2008, 3CDC fundraised to begin the second Cincinnati Equity Fund (CEFII). Most of the capital within the initial CEF was tied up in current projects and land-banked property and 3CDC was eager to invest in other ripe and ready projects within their pipeline. While there were funds available in the CNMF fund, these dollars were restricted as to the types of projects and geography where it could invest.¹⁵ Corporate investors

in the initial two funds chose to reinvest their dollars or make new investments in subsequent funds. For example, when the initial Cincinnati New Markets Fund ended after the seven-year statutory period expired, the \$50 million of capital was returned to investors. Of this amount, the local corporate investors reinvested approximately \$45 million into the Cincinnati Equity Fund II (CEFII). Once transferred, their recycled capital, along with substantial new funding, made possible an additional \$214 million in loans as detailed in the chart below provided by 3CDC.¹⁶

Each fund is a separate legal entity with 3CDC serving as both the fund manager and its primary borrower. Each fund is a separate legal entity with its own board but 3CDC staff leadership serve as officers of all four capital funds: Steve Leeper (CEO), Adam Gelter (Exec VP) and

Tim Szilasi (CFO and Senior VP). As a result, 3CDC staff leadership owe a fiduciary duty to both the funds and 3CDC, a dual role that is constantly in play because 3CDC is the borrower for virtually every loan being underwritten by these funds. In the early days of 3CDC, the organization outsourced the development work; in a few instances, other developers ran into difficulties on projects that had received loans from CEF or CNMF, and 3CDC was forced to step in and take over management or operations to ensure the project was a success. Based on this experience, early on, 3CDC realized it was in the organization’s best interest to have full control of all aspects of its projects – from financing to construction to asset management upon completion. All four funds are audited annually.

Loans to 3CDC from the loan funds it manages typically charge interest rates of 3-4%. They are

3CDC-Managed Cincinnati Equity and New Markets Funds

FUND	INVESTOR CAPITAL	LOANS MADE	ACTIVE LOANS
Cincinnati Equity Fund I [CEF I]	\$44,566,500	\$ 79,802,200	\$ 42,945,454
Cincinnati Equity Fund II [CEF II]	\$97,632,791	\$213,610,123	\$92,105,383
Cincinnati New Markets Fund I [CNMF I]	-	\$98,861,115	-
Cincinnati New Markets Fund II [CNMF II]	\$4,000,000	\$16,100,000	\$4,000,000
TOTAL	\$ 146,199,291	\$408,373,438	\$139,050,837

At the beginning, the loan committees took the risk with us on blind faith. There were no comps. Their perseverance from a financial standpoint was unprecedented.

Steve Leeper

not tied to market rates. The terms of the loans vary from a few months to 30 years depending upon their use. In addition, 3CDC has a \$36 million line of credit for acquisition and predevelopment costs from the CEF funds that allows it to quickly purchase available properties free and clear without the need to await lender approval or to impose conditions on the sale. Upon acquisition of a property through this line of credit, CEF I or CEF II takes a mortgage interest in the property. Each underwriting decision from one of the four funds must be sent to the full board of directors of each fund for final review and a corporate decision. Members of both boards of directors and loan review committees are indemnified by liability insurance and other specific financial controls. When loan repayments are returned, the money is slated for redevelopment on subsequent projects.

3CDC or one of the loan funds is typically the first money into a project and is subordinate to other lender's debt, but once performing, 3CDC refinances projects with conventional debt to recycle the money back into the funds. This approach helps to attract conventional loans and grants as it represents 3CDC's "skin in the game" according to Tim Szilasi, CFO of 3CDC. Once

an asset begins to perform, 3CDC typically goes out and refinances the initial Cincinnati Equity Fund loan with a conventional loan at higher interest rates so it can pay back the fund and get the money back out into other projects. There is no formal rule or guideline as to how much of the total Equity or New Market Tax funds are on the street at one time but the fund officers, who also serve as officers of 3CDC, track cash flow regularly and the same capital is circulated repeatedly. According to Steve Leeper, these funds have made hundreds of millions of dollars in loans without encountering any serious delinquency.

In addition to the four funds, the typical 3CDC capital stack of financing for its redevelopment projects includes conventional private market loans, tax credits and tax increment financing (TIF) revenues. Whenever possible 3CDC transforms its real estate development projects into operating assets that will pay back debt service or cover operating costs. For example, with public civic spaces such as Fountain Square and Washington Park, 3CDC was able to dramatically increase the commercial yield of parking to pay for debt service.

Conventional lending

Virtually every 3CDC development project is supported by conventional loans in some form. Even the initial funding structure for Fountain Square included a conventional loan of \$15 million. Today, with a strong track record for performance, 3CDC finds it far easier to approach one of its key lenders and obtain a loan to support a project. Leeper states that often one lender will agree to match another lender's commitment to a project and therefore share the risk.

New Market Tax Credits

CDC has managed funds from five New Market Tax Credits awards totaling approximately \$198 Million. The federal NMTC program provides capital in exchange for tax credits awarded to corporate investors against their federal tax obligations. Investors can claim their allotted tax credits in as little as seven years—5 percent of the investment for each of the first three years and 6 percent of the investment for the remaining four years—for a total of 39 percent of the NMTC project.¹⁷ In addition, the State of Ohio has a NMTC program that awards tax credits to organizations with a federal NMTC allocation.¹⁸ New Market Tax Credits can be combined with historic tax credits.

Four Funds Invested Over 273 Million in Capital Funds in OTR and CBD

	Total Capital Funds	Cincinnati Equity Fund I (CEF)	Cincinnati Equity Fund II (CEF II)	Cincinnati New Markets Fund (CNMF)	Cincinnati New Markets Fund II (CNMF II)
OTR Projects	\$179,646,965	\$22,723,411	\$90,317,917	\$66,005,636	\$600,000
CBD Projects	\$93,963,732	\$35,719,587	\$33,860,167	\$14,983,978	\$9,400,000
All Projects	\$273,610,697	\$58,442,998	\$124,178,084	\$80,989,614	\$10,000,000

The four funds provided over 273 million in capital within Over-the-Rhine and the Central Business District from 2004 to 2008, with the greater share of funding used to improve OTR.¹⁹

Historic Tax Credits

3CDC made the preservation of OTR’s historic buildings a priority in order to keep the neighborhood’s architectural integrity and create an authentic, high-density district. The vast majority of 3CDC’s redevelopment efforts in OTR have been supported by Historic Tax Credit equity made available under both the State and Federal programs. The Federal program offers Rehabilitation Investment Tax Credits for income producing certified historic properties that take the form of a 20% tax credit to be claimed over five years. The additional Ohio Historic Tax Credit offers a 25% credit for qualified commercial property rehabilitation costs.

Tax Increment Financing (TIFs)

3CDC’s development projects have been the primary beneficiary of two Tax Increment Financing (TIF) Districts that the city established in 2002. Each of the TIF districts established by the city has a 30-year term and span across an area that includes the Central

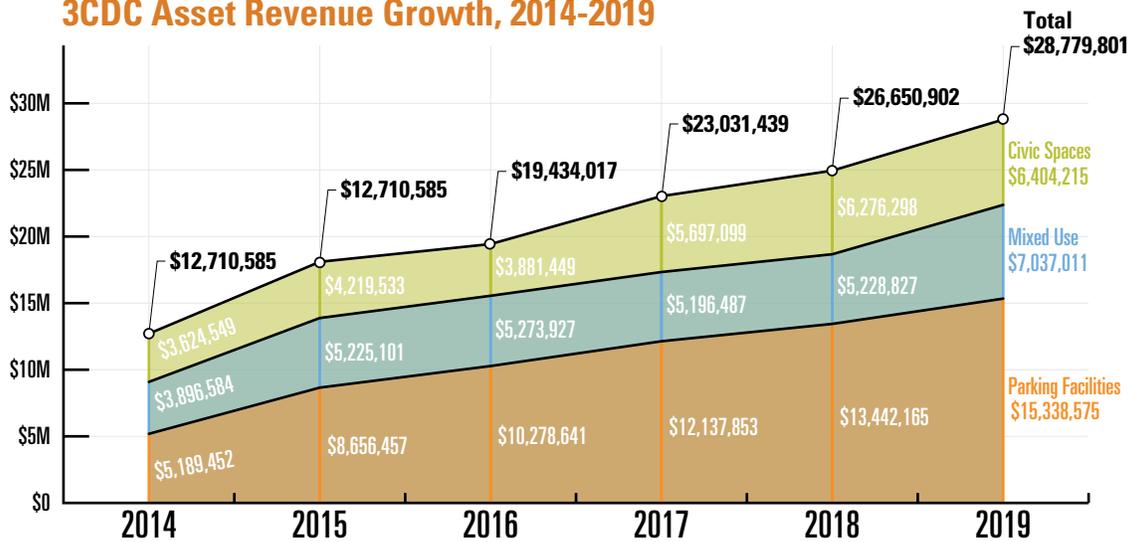
Business District and Over-the-Rhine. The TIF itself works in a strategic fashion that makes it a very powerful tool. Under state law, the city basically froze all property values in 2002 within each 300-acre TIF District and as property values rise, incremental property tax payments go into a TIF fund for redevelopment purposes. These monies can only be used for capital improvements or residential projects within the District itself, so they are insulated from any competition from other budgetary priorities. Developers such as 3CDC can borrow an amount equal to or more than the tax revenues the TIF District will generate against future payments. Each request for use of public funds requires public vetting and an individual vote by City Council. One of the factors City Council considers when reviewing a project is the amount of private funding that the TIF dollars will leverage. Mayor Cranley estimates that 3CDC has received nearly \$50 million via TIFs, yet the Mayor is clear that it is the projects that 3CDC spearheaded and the city that are the true beneficiaries. Mayor Cranley estimates that

3CDC leverages each public dollar with approximately seven private dollars. 3CDC either directly borrows against future TIF funds or uses the TIF funds as a partial credit enhancement. For example, 3CDC invested \$20.9 million of corporate funds in a speculative mixed-use development early in the organization’s history. The City allocated TIF proceeds to provide a credit enhancement based on projected condo sales and commercial rents. As the development outperformed projections (both sales prices of condos and commercial rents) the total TIF proceeds committed was reduced.

Asset Revenue Growth

3CDC has created and retains 28 high-functioning assets that offer a commercial yield. These include parking lots, civic spaces and commercial street-level retail spaces. Expanded or new parking has been a critical revenue source for 3CDC to pay debt-financing costs on major civic space projects such as Fountain Square and Washington Park. In 2019, gross revenues from parking will exceed \$15.3 million dollars.

3CDC Asset Revenue Growth, 2014-2019



3CDC has broadened its sources of operating revenues well beyond board contributions. 3CDC supports its annual operations with asset management fees, developer fees, loan management fees and corporate sponsorships. For example, 3CDC has a management agreement with the four capital funds termed the Capital Funds Resource Sharing Reimbursement Agreement. This agreement requires that the funds reimburse 3CDC for its employees' hours spent on fund management at an annual amount of approximately \$2.1 million or 45% of fund revenue. 3CDC also generates revenue by charging below market-rate developer fees—the organization charges roughly 5% when industry standards are generally in the 10-12% range. Civic space operating expenses exceeded their revenues in 2018 and most other years. While exciting civic spaces drive interest from potential residents and visitors, the cost of quality programming, maintenance and security creates an operating deficit that must be covered by other revenues.

The essential need to create and maintain a vibrant, local retail, restaurant and entertainment district motivated 3CDC's decision to retain long-term ownership and management of street-level commercial space in OTR properties. When 3CDC began working in OTR, no conventional lender was willing to lend for the purchase and renovation of street-level retail space. The market was unproven, and lenders rarely seek to finance retail spaces, according to 3CDC's Vice President of Development, Lann Field. As a result, 3CDC purchased buildings and typically sold the upper floors as condos but retained ownership of street-level commercial spaces. Today, there is a proven market

3CDC Operating Budget: 2018 Actuals

REVENUES	
Corporate Sponsorships	\$1,170,000
Developer Fees	\$3,164,596
Capital Funds Resource Sharing Reimbursement	\$2,130,544
Civic Space Operating Revenues	\$1,674,991
Asset Management Fees and Other	\$1,154,489
TOTAL REVENUES	\$9,294,620
EXPENSES	
Payroll and Benefits	\$6,676,934
Rent, Insurance and Office Expenses	\$1,112,565
Professional Fees	\$330,699
Other Expenses	\$147,852
Civic Spaces Operating Deficits	\$495,840
Project/Operating Reserve	\$430,000
TOTAL EXPENSES	\$9,193,889
NET SURPLUS/(DEFICIT)	\$100,731

Right: Retail along Vine Street has flourished under 3CDC's management.

for these spaces but according to Field, the Board has reaffirmed repeatedly that retaining ownership and control over street-level retail in OTR is paramount to the success of the neighborhood as a destination and falls squarely within 3CDC's mission.

3CDC has used its control over commercial spaces to lease space affordably and strategically to small local businesses in order to grow a vibrant commercial district of restaurants, shops and bars with annual sales of over \$70 million. The commercial spaces are relatively small and therefore lend themselves to small businesses and the blocks of retail on Vine Street offer a vibrant street life, cobbling together a

mixture of stores, bars and retail that includes some well known local brands like Graeter's Ice Cream. The commercial corridor is anchored in the unique historic neighborhood identity rather than a sanitized or idealized version of a Main Street. The historic buildings have been restored, but retain the feeling of a gritty urban neighborhood. The only two national retailers that 3CDC has agreed to lease space to are Bonobos and Warby Parker – two upscale fashion clothes and eyewear chains – giving the area a unique, local feel. Significantly, zoning for the OTR area permitted high density mixed use so it easily accommodated a vibrant mix of commercial uses without requiring zoning variances.



KRUEGER'S
TAVERN

Incredible
Creations

SWITCH

The Little
MAHATMA

KRUEGER'S
TAVERN

A 12/7

3CDC CONSISTENTLY EVALUATES ITS PERFORMANCE BY INTERNALLY TRACKING KEY METRICS:

- Number of properties acquired
- Number of properties restored
- New housing units introduced to market
- New commercial spaces introduced to market
- Purchase price per square foot over time
- Total sales per square foot for commercial space over time
- Average days to sell or lease properties
- Net operating income for civic spaces and commercial spaces
- NMTC Investment
- State and Federal Historic Tax Credit Investment
- Philanthropic investment
- Revolving capital—active loans and dollar amounts/total issued and total repaid
- Rate of return on assets
- Number of homeless beds introduced to market
- Asset management fees
- Developer fees
- Crime rates
- Attendance at civic spaces
- Number of free events
- Sponsorship rates for civic spaces
- Operating revenue for civic spaces
- Parking lot gross and net revenues
- Personnel number and performance

In order to ensure rents are affordable to start-ups and small local businesses, 3CDC offers attractive renovated spaces for low rents that increase as revenues rise. In order to fill OTR street level space, 3CDC actively recruits start-ups and small businesses with unique below-market lease structures that start at \$15 a square foot or 6% of gross revenue, whichever is higher. Once the business is able to pay rents at 6% of gross revenue, the lease becomes a market rate transaction. Some of the businesses have become so profitable over time that they have negotiated a rental agreement with 3CDC to cap their rent below 6%.

3CDC also supports an effort to increase the number of minority and women owned businesses in their storefronts. 3CDC partnered with MORTAR, a non-profit that provides training and support to OTR low-and moderate-income entrepreneurs with a goal of making 60% of new businesses in OTR black-owned. 70% of MORTAR's students are African American women. 90% of entrepreneurs complete the program. MORTAR offers a 14-week curriculum, free legal support through the University of Cincinnati law school and start-up mentorship with the Service Corps of Retired Executives (SCORE). 3CDC's supportive role centers on providing pop up spaces for a

***“ We aren't interested in growing bigger. If we can't touch it, feel it and understand each and every aspect of a project, then we don't want to be involved. We will lose quality.*”**

Steve Leeper





reduced rent to MORTAR where MORTAR students and graduates can test their idea in real time. While MORTAR began their work in OTR, they have expanded their work to five Cincinnati neighborhoods and are about to expand into a sixth.²⁰

3CDC seeks to remain small and agile and retain the current size of its staff. For two years now, payroll for 3CDC has remained constant. 3CDC's Leeper states that he does not want 3CDC to grow any larger than it already has over the past decade. Leeper is clear that the secret of their success is that their key leadership wades knee deep into every project and keeps track of every detail to ensure it is done right. By remaining relatively small and agile, 3CDC hopes to maintain control and ensure high quality performance that centers on attention to small details.



Above: Donny Harper, founder of GO(O)D Company, is an alum of the MORTAR program who operates his store on Race Street in OTR.

Below: Eateries along Vine Street in OTR. 3CDC curates the ground-floor retail for both regional retailers (such as Graeter's Ice Cream on the left) and local restauranteurs (such as Pontiac BBQ on the right).



OVER-THE-RHINE
RHINOS
ZIEGLER PARK POOL



IMPACT OF THE CINCINNATI MODEL ON OTR RESIDENTS

What has been the impact of the Cincinnati model on OTR's long-term residents and has it created inclusive growth? Many of the stakeholders interviewed for this study stated that no one could have predicted OTR's evolution from the most blighted and crime-ridden neighborhood in Cincinnati to a trendy neighborhood where home sales and rental values rival those of the Central Business District. An important concern some stakeholders voice about the Cincinnati model is whether it displaced low-income residents and residents of color and created amenities that benefit visitors and new residents rather than existing residents. This section examines the transformation of OTR resident demographics and property values between 2000 and 2017 in an early attempt to determine whether OTR low-income residents were displaced and whether existing residents and local small businesses benefited from the investments in their neighborhood. The table below compares changes experienced within three geographies between 2000 and 2017 – the city, the neighborhood of OTR and the two census tracts within OTR where

3CDC has developed most of its real estate (3CDC service area). While the data is helpful, it does not present one clear story of OTR's transformation. In fact, it tells the story of a neighborhood that continues to experience high vacancy and high poverty but has lost a significant number of Black households while increasing White and higher income residents.

OTR's Black population declined at a higher rate than the city as a whole. From 2000 to 2017, the Black population dropped slightly in the city (from 146,000 to 136,000) but fell by almost half in OTR (from 5,010 in 2000 to 2,631 residents in 2017). The White population decreased in Cincinnati as a whole but doubled in OTR (from 1,387 in 2000 to 2,665 in 2017). In the 3CDC service area, the Black population dropped from 2433 in 2000 to about 1,148 in 2009 and 1,085 in 2017. This data validates the perceptions of some stakeholders that Black renters have been displaced from OTR. Given 3CDC's practice of redeveloping primarily vacant buildings and allowing renters to

Data Comparison for Cincinnati, Over-the-Rhine and 3CDC Service Area (2000 to 2017)

	Cincinnati				Over-the-Rhine				3CDC's Service Area			
	2000		2017		2000		2017		2000		2017	
	#	%	#	%	#	%	#	%	#	%	#	%
Population	331,285		298,957		6,497		5,293		3,427		3,238	
Black	145,615	44.0%	135,834	45.4%	5,010	77.1%	2,631	49.7%	2,433	71.0%	1,085	33.5%
White	179,453	54.2%	159,069	53.2%	1,387	21.3%	2,665	50.3%	930	27.1%	2,068	63.9%
Median household income	\$29,493		\$36,429		\$8,343		\$24,741		\$10,756		\$42,614	
Poverty population	331,285		287,371		6,497		5,225		3,427		3,171	
Income below poverty level	69,722		82,356		3,904		2,142		1,889		1,181	
Poverty rate		21.9%	28.7%		60.1%		41.0%		55.1%		37.2%	
Total housing units	166,012		161,881		4,587		4,340		2,505		2,304	
Occupied housing units	148,095	89.2%	136,180	84.1%	3,101	67.6%	2,585	59.6%	1,663	66.4%	1,497	65.0%
Owner-occupied housing units	57,715		51,367		101		529		37		447	
Homeownership rate		39.0%	37.7%		3.3%		20.5%		2.2%		29.9%	
Vacant housing units	17,917	10.8%	25,701	15.9%	1,486	32.4%	1,755	40.4%	842	33.6%	807	35.0%
Households w/ Housing Choice Vouchers*	7,177	4.8%	7,595	5.6%	297	9.6%	280	10.8%	139	8.4%	193	12.9%

Source: US Census Bureau, PolicyMap.^{22 23 24 25} 3CDC's Service Area is defined as Census Tracts 39061000900 and 39061001000. Over-the-Rhine includes Census Tracts 39061000900, 39061001000, 39061001600, and 39061001700.

remain in the small percentage of occupied buildings it acquired, market pressures from rising rents appear to have pushed Black renters out of OTR rather than "direct displacement".

OTR remains a high-poverty neighborhood with 41% of residents falling under the poverty line in OTR and 37% within the 3CDC tracts. Median income growth in OTR far exceeded that of the city. Between 2000 and 2017, OTR median income increased by 300% and the median household income in the 3CDC tracts increased almost 400%. Much of this change can be attributed to the growth in OTR households earning more than \$100,000 from just 36 households in 2000 to 533 households in 2017. Even with the introduction of higher income households, the median income of OTR remains well below the city median at \$24,741.

Homeownership and market rate property values have increased significantly in OTR but vacant property levels remain high and the number of residents with housing subsidies in OTR has grown. As 3CDC began its work, the homeownership rate in OTR was 4%, the lowest of any Cincinnati neighborhood. Creating a condominium market where none had existed proved to be an effective method to attract homeowners to the area. Since 2004, 3CDC has added 438 condominiums to the OTR market and, as demand has grown, the price per square foot has increased significantly. During this same period, subsidized affordable housing in OTR grew as well. Between 2009 and 2017, the percentage of households with housing vouchers increased in the 3CDC tracts from 8.4% to 12.9% of total rental units, a rate

OTR Condo Sales/Price per Square Foot by Year

2008	\$164
2010	\$170
2012	\$167
2014	\$269
2016	\$305
2018	\$343

that far exceeds growth in the city as a whole. In addition, 40% of the properties in OTR remain vacant and the Xavier University's Community Building Institute's recent 2015 Housing Survey for OTR showed 1,189 units in the neighborhood to be vacant, or unoccupied and shut off from all utilities.²¹

The number of homeless shelter beds in OTR did not significantly change from 2000 to 2017, although their location has shifted and quality has improved.

3CDC developed three new comprehensive residential service facilities for the homeless, which contain over 320 beds (the organization helped fund two additional facilities containing 95 beds). The land swap and financing that made these 320 beds possible is described in detail below in one of the emblematic project case studies.

3CDC is building new affordable rental units as part of mixed income buildings in OTR.

According to 3CDC records, 173 of 263 (66%) of the apartments 3CDC has developed in OTR are affordable units that are fully subsidized or restricted to low-to moderate-income households making 30-80% of area median income. These apartments are all included within mixed-income developments and are rent restricted. OTR residential construction projects like Mercer Commons (described in one of the emblematic project case studies) has 67 units and 30 are restricted to renters at 50-60% of AMI.

3CDC continues to acquire and make capital improvements to troubled portfolios of distressed low-income rental properties.

The Cincinnati model includes several initiatives to support equity and inclusive growth in OTR.

•3CDC is OTR's largest real estate developer and set local minority inclusion goals for construction.

According to Steve Leeper, minority-owned firms are leading three of the organization's six current projects. On those three projects, 30-45% of subcontractors are minority-owned building industry businesses as well. 3CDC has not tracked MWBE-owned firm participation over time but says the current use of MWBE contractors is representative of inclusion efforts over the years.

•3CDC seeks local, minority and women owned businesses to lease its commercial real estate.

3CDC owns over a million square feet of commercial space. Fifteen percent (11 of 74) of 3CDC's first-floor retail

tenants are minority-owned businesses, and 38% (28/74) of 3CDC's first-floor retail tenants are women-owned businesses.

•3CDC redeveloped early civic spaces to attract new residents and visitors but it has now moved towards improving neighborhood parks, such as Ziegler Park, for existing residents. Ziegler Park is not a regional attraction; rather it is a neighborhood park with a pool that offers free swimming lessons to residents and was designed with extensive community input.

OTR has the potential to become a sustainable mixed income neighborhood if the Cincinnati model continues to proactively create and maintain a mix of affordable and market rate housing and aggressively implements policies to ensure local residents benefit from new amenities, jobs and entrepreneurial opportunities. The future uses for the remaining vacant real estate will likely determine whether the model becomes a success story for inclusive growth.

“ We had no idea that urban places could look like OTR does. If you had said to people in Cincinnati that you will have a high end Japanese restaurant at 14th and Vine ten years ago in an area of OTR near Washington Park where people of all kinds could enjoy themselves, they would have laughed.

Mayor Luken





EMBLEMATIC PROJECT 1: WASHINGTON PARK

3CDC, the City of Cincinnati, and the Cincinnati Park Board collaborated on the \$48 million renovation of Washington Park, which was completed in 2012. Together they transformed a failing, deteriorated Over-the-Rhine (OTR) civic space that was a frequent gathering spot for homeless individuals, open-air drug markets, and prostitution, into a beloved urban greenspace with three million visitors a year. Today Washington Park offers an exciting anchor amenity for neighborhood growth and a cultural focal point for the city, with the Cincinnati Music Hall, home to the Cincinnati Symphony Orchestra and Cincinnati Opera, as well as Memorial Hall, and the School of Creative and Performing Arts, facing the park.



“ The Washington Park project was about recapturing public space and reactivating it so people wanted to be in that neighborhood. It reminded people through smart design and programming of the importance of our civic spaces. ”

Mayor Cranley

BACKGROUND

The land for Washington Park was acquired by the City of Cincinnati in 1855 and constructed in 1860. Over time, the park fell into disuse as the neighborhood population fell, crime rose and park amenities deteriorated. By 2004, the park was populated primarily by homeless individuals who utilized the services of nearby shelters. 3CDC, the City of Cincinnati, and the Cincinnati Park Board, the three partners in the redesign and reinvestment in Washington Park, understood that the OTR neighborhood could not prosper while its largest public space remained dangerous and uninviting.

PROJECT DESCRIPTION

Washington Park was redesigned to create an attractive natural and recreational outdoor environment with a number of new amenities including a performance stage, civic lawn, event plaza, interactive water feature with lights and sound, children’s playground, dog park, restored historic bandstand, and a half-acre of landscaped pathways through areas of the park shaded by historic trees. Prior to its redesign in 2008, the park was enlarged by two acres as Cincinnati Public Schools (CPS) closed and demolished the Washington Park School to the immediate north of the park and provided the space to the Cincinnati Park Board as payment for another parcel the Park Board had transferred to CPS.

While improving the park, 3CDC also made significant investments in the adjacent properties to attract new park users and to improve the safety and attractiveness of the park area. Starting in 2005, 3CDC invested over \$32 million

to buy 200 vacant buildings and 170 vacant lots surrounding or near to Washington Park in order to remove blight and create new homes and commercial space. Between 2013 and 2015, 3CDC worked with homeless service providers to relocate and expand a homeless shelter on the park. In September 2017, 3CDC completed the \$143 million renovation of Music Hall, a historic performance venue, constructed in 1878, that sits directly across the street to the west of the park.²⁶ 3CDC also renovated the county-owned Memorial Hall and operates and manages programming at the site.²⁷

COMMUNITY ENGAGEMENT

Working in collaboration with the Cincinnati Park Board, 3CDC reached out to residents about the redesign and expansion of Washington Park. According to 3CDC’s 2012 Annual Report, they hosted four sessions with fifty total attendees. 3CDC attributes low attendance to the small number of residents who were living in the area back in 2012. The only pushback from residents in nearby neighborhoods involved the removal of basketball hoops in favor of a children’s playground, interactive water feature and other amenities. 3CDC sent weekly emails throughout the construction period to 400 recipients who asked for updates regarding the park’s progress.

RENOVATION FINANCING MODEL

Funding for the makeover of Washington Park came from a variety of public and private sources listed below. The City of Cincinnati awarded the project \$14 million that included a \$2 million capital grant, a \$500,000

Washington Park Total Project Budget

Uses

Hard Costs:	\$31,713,736
Soft Costs:	\$16,293,599
Total:	\$48,007,335

Sources

Cincinnati Equity	
Fund II [CEF II]	\$4,500,000
Conventional Debt	\$3,607,016
Jobs Ohio/State	
Regional 166 Loan	\$5,000,000
New Markets Tax	
Credit [NMTC] Equity	\$13,337,939
Private Fundraising	\$4,712,380
City Grant	\$14,500,000
State Grant	\$2,850,000
Total:	\$48,007,335

grant from the Metropolitan Sewer District and a \$11.5 million tax increment-financing (TIF) grant. The State of Ohio provided a \$2.85 million capital grant as well as a \$5 million Jobs Ohio Urban Redevelopment Loan/Regional 166 loan to help finance the parking garage. Philanthropy contributed almost \$5 million. Prior to the park’s completion in 2012 3CDC filled a \$3 million gap in the capital budget with a CEFII bridge loan. (2012 Annual Report)

The Washington Park restoration included the construction of a 450-space two-deck parking garage beneath the park. 3CDC operates and manages the parking garage, which generates revenue to pay down the debt from loans used to finance the renovation.



Top: The Washington Park section of OTR prior to 3CDC's intervention contained hundreds of vacant and blighted properties. The northern portion of the Park was also a large parking lot devoid of amenities.

Bottom: Washington Park post-renovation, with the Cincinnati Music Hall in the background. The parking lot has been replaced with a large open lawn that acts as a flexible space for 3CDC's public programming.

Washington Park Garage Net Operating Income 2013-19 Used to Pay Debt Service



OPERATIONS FINANCIAL MODEL

3CDC, the City of Cincinnati, and the Cincinnati Park Board, collaborated on the renovation of the park, but it was 3CDC who was given the task of programming and managing the park. Like Portland's Pioneer Courthouse Square and New York City's Bryant Park before it, Washington Park would have a private, nonprofit operator. 3CDC had refined its programming skills in Fountain Square and, as was true of Fountain Square, there was no local organization with capacity to take on the role.

IMPACT

Today, the park attracts over 3 million visitors a year. In 2018, 3CDC held 596 events in Washington Park, including kickball, concerts, yoga, Shakespeare, movies and festivals. 3CDC finances the \$1.8 million operations budget through grants, concession income, rental fees and civic space sponsorships. Sponsorships are used exclusively to fund programming and roughly 80% come from corporate sponsorships that come with advertising opportunities in the park or parking garage.

Washington Park

Total Operating Budget: 2019

REVENUES

Sponsorships and Grants	\$393,000
City of Cincinnati	\$225,000
Park Board	\$450,000
Concession Income	\$388,044
Event Service Fees	\$157,609
WP Garage Management Fee	\$60,000
TOTAL REVENUES	\$1,673,653

EXPENSES

Administrative Expenses	\$526,732
All Event Expenses	\$527,677
Park Expenses	\$734,741
TOTAL EXPENSES	\$1,789,150
NET OPERATING INCOME/(LOSS)	\$(115,497)

While the park is not currently self-sustaining, it is a critical neighborhood attraction that brings people and investment to OTR. 3CDC has continued to refine its programming and operations to better serve the community. For example, after young children began to arrive at the park without adult supervision, 3CDC hired “Play Ambassadors” who are on site to ensure children’s safety and resolve disputes with a goal of establishing a fun and welcoming environment.



A recent study of residents in the park vicinity shows significant changes in resident demographics with White residents rising from 505 in 2000 to 666 in 2014 and median income increasing from \$6,972 to \$20,921, still well below the city average. Median rent in Washington Park climbed from the lowest in OTR (\$188) in 2000 to the second highest (\$580) in 2014.²⁸



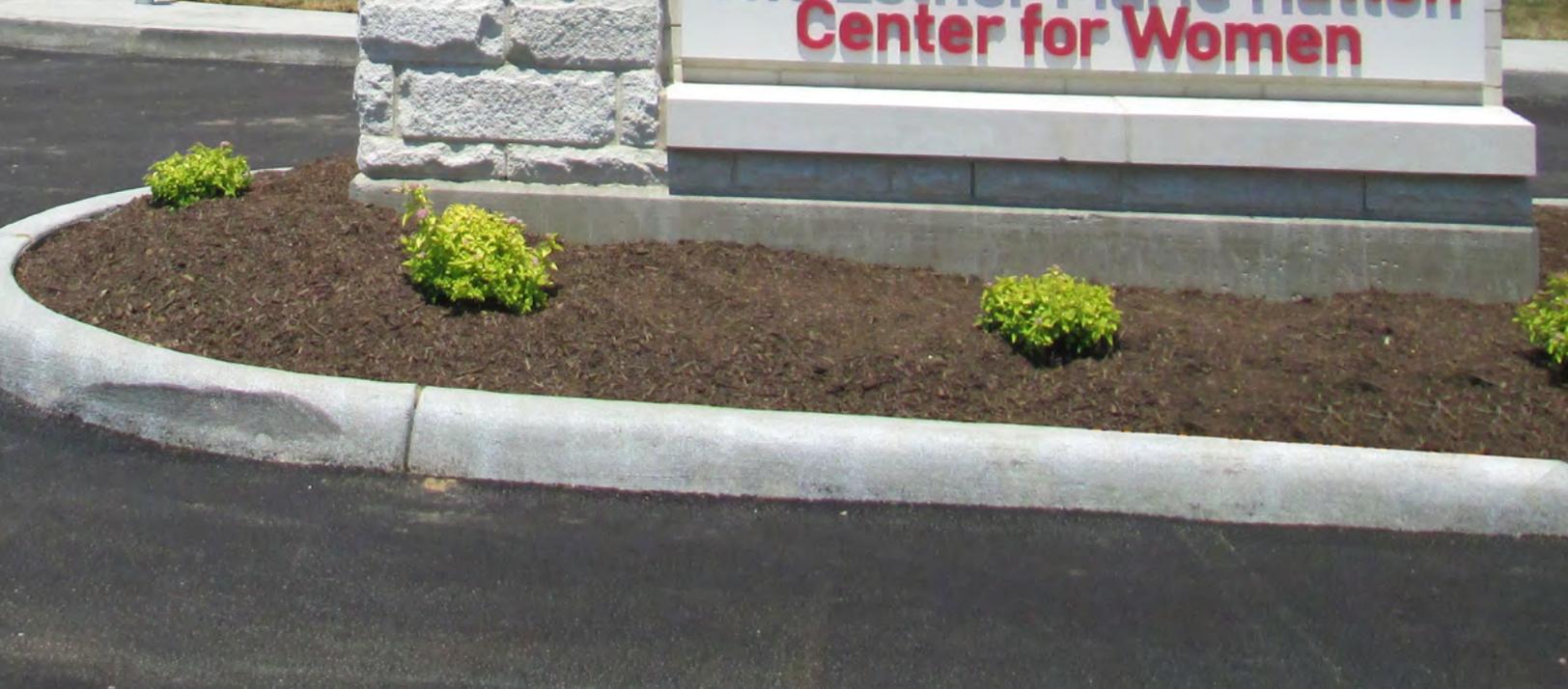
Top: Washington Park pre-renovation.
Middle: Washington Park post-renovation.
Bottom: A public event at the Park.





shelterhouse

**The Esther Marie Hatton
Center for Women**



EMBLEMATIC PROJECT 2: HOMELESS TO HOMES

3CDC partnered with the City of Cincinnati, Hamilton County and homeless shelter providers to construct three new comprehensive residential and service facilities for the homeless with 320 total beds, in addition to upgrading two other facilities with 95 total beds. These new state-of-the-art facilities replaced the well-known Drop Inn Center and smaller facilities formerly located in the OTR area.

BACKGROUND

In 2010, the County Homeless to Homes Plan asserted that the city needed five new service-enriched shelters.²⁹ The report acknowledged a lack of resources to address the needs of the city's homeless population and looked to local stakeholders including 3CDC to help make new facilities and better service delivery a reality. The city's largest homeless shelter, the Drop Inn Center, created without city permits in an abandoned Teamsters Union Hall at 217 West 12th Street in 1978, was in poor



Map of 3CDC's focus area in OTR in relation to the Homeless to Homes Shelters that 3CDC constructed or helped fund. (1) City Gospel Mission; (2) David and Rebecca Barron Center for Men; (3) Lighthouse Youth Center; (4) Esther Marie Hatton Center for Women; The Talbert House Parkway Center is northeast of this map.

This plan honestly was going to go nowhere until 3CDC pushed it along. The plan had no funding but 3CDC knows how to find funding.

Arlene Nolan, CEO Shelterhouse (formerly Drop Inn Center)

3CDC wanted what we had. We had a property at a fantastic location in the heart of Over-the-Rhine. But from the time we approached them about a swap for a new facility, they have been amazing partners who recognized the importance of what we do and were committed to getting this right so we could help those in need.

Arlene Nolan

condition and City Hall had tried for decades to get the Center to move to a new facility.

In 2010, the Drop Inn Center Board decided it might be time to move. The Board had hired current director Arlene Nolan in 2010 to create a different approach to providing services to homeless men and women and she defined the inadequacy of the size, design and condition of the Drop Inn Center facility as a key barrier to better service delivery. The Drop Inn center was a 32,000 square foot facility servicing 3000 people per year and most of the space was dedicated to offices rather than programming.

The Drop In Center Board and its new Director proposed the idea of a land swap with 3CDC, recognizing that with the significant increase in property values experienced in OTR as a direct result of 3CDC's work, that they were sitting on a valuable piece of property. Nolan approached 3CDC about making a land swap with three simple must-haves – bullets written on a single piece of paper that were non-negotiable: (1) 3CDC will build a brand new large homeless facility within 1.5 miles of the Central Business District; (2)

the organization needed to own the new facility outright with no debt and (3) the building design and programming would be fully within the control of the organization. Within minutes of reading the three conditions, Steve Leeper agreed to work within those requirements. Nolan made clear that they had no funding in place for the plan.

PROJECT DESCRIPTION

3CDC Constructed and/or Helped to Fund Five New Shelters

1. Lighthouse Youth Center: a new 12,000 SF facility with 30 shelter beds for homeless young adults age 18-24 has been operating on Highland Avenue since January 2012.
2. Talbert House Parkway Center: the Parkway Center, operating since July 2012 on Central Parkway, is a 65-bed shelter for homeless men with substance abuse and mental health issues.
3. Esther Marie Hatton Center for Women: single homeless women are now being served in a new 20,000 SF, 60-bed facility on Reading

Road designed to meet their unique needs. The shelter was completed and ready for occupancy in June 2015.

4. City Gospel Mission: a new 110-bed, 63,000-SF facility in Queensgate was recently built by 3CDC to serve homeless individuals seeking a faith-based, service-enriched program. The two-building campus was completed in July 2015.
5. David and Rebecca Barron Center for Men: this new 79,000-SF “safe-shelter” facility with 150 beds, which was finished in October 2015, serves the population of single homeless men who are often turned away from other facilities.

The David and Rebecca Barron Center for Men, a new 79,000-SF “safe-shelter” facility with 150 beds, was finished in October 2015. 3CDC and Nolan spent three years searching for the right site for the facility. The location they found, a former Hostess Bread Factory site, is a .9-mile walk from CBD that is located across from a bus stop. The new shelter places all operations on a single floor to lower operational costs. Shelterhouse, formerly the Drop

Inn Center, had a small team who worked with 3CDC on construction and the project was completed on time and under budget.

The new shelter is three times the size of the Drop Inn Center. It is an impressive space with state-of-the-art technology that allows men living there to swipe their pass to obtain services or food and enables staff to know who is in the building accessing what services. Everything in the new shelter space is constructed to be indestructible with walls of concrete and toilets of stainless steel. Nolan is constantly trying to innovate and bring down operating costs and the new space makes this possible. Veterans have their own section of the shelter. A health clinic is on site and methadone is now available on-site for those struggling with addiction. Shelterhouse also opened a Winter Shelter for families facing freezing nights on the street in their basement and 3CDC is currently helping them to remodel the basement so they can better serve this population. The former Drop Inn Center was sold to the Cincinnati Shakespeare Company in a market rate sale and they have opened the Otto M. Budig Theater on the corner across from the park.

In addition, 3CDC built a new shelter for women that YWCA was going to operate. When YWCA's

circumstances changed, the Shelterhouse agreed to run this second shelter as well. Nolan says the Women's Shelter facility is also a fabulous building although it is a bit further from downtown and is too far from the men's shelter to achieve true economies of scale. When agreeing to operate the women's shelter, Nolan negotiated a deal with 3CDC to allow her to use all remaining funds from the construction budget for operations, so she had significant incentive to cut construction costs wherever possible.

FINANCING MODEL

The capital stack needed to build or upgrade all five shelters included extensive philanthropic and corporate grants as well as government dollars and loans from the funds that 3CDC manages. For example, during the three years searching for a new property for the Barron Center, as well as the two years during construction, 3CDC fundraised non-stop, taking Nolan to meetings, introducing Nolan to donors and helping her make an effective pitch for the new facility.

IMPACT

The City met the goals of the County Homeless to Homes Plan with five facilities open and providing enhanced services to individuals

Homeless to Homes Total Project Budget

Uses

Hard Costs:	\$30,230,700
Soft Costs:	\$11,836,080
Total:	\$42,066,780

Sources

Cincinnati Equity	
Fund II [CEF II]	\$2,750,000
Ohio Housing Finance	
Agency [OHFA]	\$5,000,000
Grants	\$15,654,480
Developer Equity	\$3,337,000
New Markets Tax	
Credit [NMTC] Equity	\$5,370,300
City Grant	\$9,955,000
Total:	\$42,066,780

and families facing homelessness. The quality of services has improved significantly and Cincinnati is being cited as an innovation leader as the Barron Center is one of the first low barrier shelters in the country, meaning that it does not turn anyone in need away and does not enforce residency requirements, background checks or require sobriety.

“ We created five new homeless shelters in ten years. No other city has done that. . . Any city looking to revitalize needs to know that the social contract we have with our people is just as important as economic development. ”

Mayor Cranley



EMBLEMATIC PROJECT 3: MERCER COMMONS

Mercer Commons is a \$51 million mixed-use development in Over-the-Rhine that restored 19 historic buildings and blended those buildings with modern infill construction on 26 vacant parcels. The multi-block project created 67 apartments in Phases One and Two. Thirty of the apartments are maintained as permanently affordable. In addition, Mercer Commons offers 23 condominiums, 5 townhomes, 14,500 SF of street-level commercial space, and a 340-space parking garage.

BACKGROUND

While the 3CDC board endeavored to preserve as many OTR historic properties as possible, not all could be preserved. Mercer Commons was built to fill in significant portions of blocks that were left vacant within the critical 1200 to 1400 blocks of Vine Street - the newly formed vibrant street of shops and restaurants that 3CDC created and manages. (Insert map.) In addition 3CDC acquired and developed as part of Mercer Commons 2.7 acre property from the Cincinnati School District.

PROJECT DESCRIPTION

Much of the land for the Mercer Commons infill development was acquired as part of 3CDC's vacant property purchases within OTR on land that was vacant after the demolition of structurally unsound buildings. In addition,



in July 2008, the School District sold the City of Cincinnati 35 vacant and improved parcels of land on the north and south side of Mercer Street for \$4,200,000. The City then conveyed the property to 3CDC who assumed the \$4,200,000 note and took title to the parcels subject to the mortgage.³⁰ 3CDC made the decision to integrate existing historic buildings with new modern buildings with design that would blend in with its historic context. Mercer Commons' new construction is modern and does not attempt to imitate the look of historic buildings.

Mercer Commons integrates market value ownership and rental units with subsidized affordable units. The design, materials and fixtures in the market rate and affordable units are identical. No unit is designated as a low-income unit. Instead, a specific number of apartments are reserved at any given time for people who make 50-60% of AMI. Affordable units were added to the project as a result of community input.

While 3CDC was the developer, they hired urban development specialist McCormack, Baron Salazar to own and manage

the apartments. It is their responsibility to ensure that thirty qualified low-income households are renting. 3CDC manages the street level commercial space and a new aboveground 340-space parking garage that is hidden behind a mixed-use building. All residents who seek to use the parking lot must pay a monthly fee with the exception of the low-income tenants living in the 30 affordable units. In addition, the public may pay to use the lot and parking revenues are used to pay debt financing.



FINANCING MODEL

The financing model for Mercer Commons is similar to other 3CDC housing development projects and relies heavily upon loans from the funders 3CDC manages as well as historic and Low Income Housing Tax Credits.



IMPACT

Mercer Commons is a multi-phase housing development project that offers a mixture of historic and modern spaces as well as affordable and market rate rental units. The multi-block infill development has reconnected the urban fabric in OTR and contributed to the vibrancy of the area.



Clockwise, from top left: Parking lot and future infill site of the Mercer Commons development; infill apartments along Rodney Alley; the Mercer Bistro and apartments along Vine Street.

Below: Financing model for Mercer Commons Phases I and II.

	Cincinnati Equity Fund II (CEF II)	Cincinnati New Markets Fund (CNMF)	3CDC Investment	Commercial Mortgage	New Markets Tax Credit Equity (NMTC)
Mercer Commons, Phase 1	\$7,635,436	\$2,500,000	\$10,135,436	\$3,852,154	\$7,143,856
Mercer Commons, Phase 2	\$3,752,412	-	\$3,752,412	-	\$3,665,575
Total	\$11,387,848		\$13,887,848	\$3,852,154	\$10,809,431



Historic Equity	Low-Income Housing Tax Credit Equity (LIHTC)	Conventional Debt	City Grant ³¹	Jobs Ohio Loan (166)	Public Investment	Total Investment
-	-	\$10,996,010	\$1,500,000	\$5,000,000	\$6,500,000	\$27,631,446
\$5,385,212	\$4,700,592	\$13,751,379	\$5,709,000	-	\$5,709,000	\$23,212,791
\$5,385,212	\$4,700,592	\$24,717,389	\$7,209,000	\$5,000,000	\$12,209,000	\$50,844,237



3CD
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DEVELOPMENT

TRIVE CITY
CINCINNATI

3CD
CINCINNATI
DEVELOPMENT

PLEASE

South Park



ADAPTING THE CINCINNATI MODEL

Can the Cincinnati model be replicated in other cities in the United States and beyond?

As with any institutional transformation, there are elements of the 3CDC story that are unique to Cincinnati and the Over-the-Rhine neighborhood at a particular time in their evolution. An exact replica of the Cincinnati model is thus impossible to imagine or achieve; to succeed, institutions need to reflect the distinctive culture, leadership organizations and economic and social conditions of their communities. However, we strongly believe that the enabling features of 3CDC can inform the creation or repurposing of urban institutions and many of its strategies and tactics can be adapted in whole or in part.

Our conviction is bolstered by Erie, Pennsylvania's recent experience. Like many U.S. cities, key anchor institutions (e.g., Erie Insurance Company, Gannon University, the University of Pittsburgh Medical Center, the city and county governments) are all located in close proximity in a walkable, historic downtown on Lake Erie. These stakeholders and others recognized that the regeneration of the downtown required an "all-of-the-above"

focus: mixed use development, quality place making, activation of public spaces, affordable housing and a commitment to quality architecture, historic preservation and streetscape re-design.

In 2017, the Erie Downtown Development Corporation (EDDC) was formed to bring strategic focus and professional capacity to these disparate efforts. Most significantly, private and civic investors, led by Erie Insurance Company, capitalized an Erie Downtown Equity Fund to give EDDC the patient capital necessary to make redevelopment possible in a relatively weak market. Since its formation, the corporation has made several acquisitions of strategic properties in the heart of the downtown and has begun the process of raising a mix of capital for the renovation critical to making redevelopment visions a reality. To this end, EDDC has been an early leader in engaging with Qualified Opportunity Funds that have been organized as part of the new Opportunity Zone tax incentive.

EDDC purposefully modeled itself on 3CDC and Erie leaders engaged with Steve Leeper and his team in both the building of the

organization and its early period of implementation. Several lessons emerge from their adaptation:

Geographic targeting is essential. Like 3CDC, EDDC has focused on a bounded, limited territory that has good historic bones, deep cultural significance and unrealized economic potential. The focus on the downtown core raises distinct opportunities and challenges, compared to other sub-geographies of an urban area (e.g., residential communities, industrial areas, waterfronts).

Governance structure is critical. Like 3CDC, EDDC has been established and capitalized by private and civic organizations (e.g., corporations, philanthropies, universities, hospitals) and work with rather than for the public sector. As discussed below, this private/civic is particularly suited to the cross-sectoral nature of urban governance in the United States.

Smart hiring decisions are fundamental. It is axiomatic that the capabilities and competencies of the individuals selected to run these corporations must fit the multi-layered nature of the task. Real estate and finance experience are a must. Political skills are also necessary, given the engagement of multiple constituencies that at the heart of urban redevelopment.

Inclusion must be baked in at the beginning of the process. 3CDC was formed at a time when Cincinnati's very economic *raison d'être* was at stake. In many respects, inclusion was an implicit goal of the new corporation, given that regeneration of OTR was seen as a precondition for a prosperous economy and stable fiscal base. The narrative in many if not all U.S. cities is quite different today given the intense juxtaposition of wealth and poverty, growing concerns with gentrification and the close physical proximity between anchor

institutions and economically disadvantaged communities. The new urban debate requires that inclusion be an explicit part of a corporation's mission and that detailed goals, objectives and strategies be specified.

Capital is not a constraint. Like 3CDC, EDDC has been built and backed by local private and civic capital. Erie Insurance Company, in short, has played the role of Cincinnati's Procter & Gamble. Many communities in the U.S. have people or anchor institutions that could step up and play this central role. Some of the country's largest investors are high net worth families in Kansas City, MO, Omaha, NE and Philadelphia PA; anchor corporations in Birmingham, AL, Milwaukee, WI and Salinas, CA; well-endowed universities in Baltimore, MD, Houston, TX and South Bend, IN; philanthropies in Buffalo, NY, Cleveland, OH and Detroit, MI and community foundations and pension funds in every state. The challenge for these cities and many others is to harness their local capital for patient, targeted local investment.

The 3CDC model is perfectly suited to the United States, given the plethora of private-, civic- and university-led initiatives that already exist. Outside the United States, it is more likely that the institutional path forward will be led by the public sector and characterized by new public/private arrangements like the Copenhagen City & Port Development Corporation and HafenCity Hamburg GmbH. We believe that private/civic institutions in the U.S. and public/private institutions in Europe and elsewhere would benefit from evidence-driven interaction that compares and contrasts their approaches to the range of difficult issues—housing affordability, clean energy, wealth building and inclusion—that now characterize modern urban regeneration.







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CONCLUSION

Institutions matter. Institutions like 3CDC provide a solid platform and foundation for inclusive, sustainable and innovative cities. Smartly structured, they can enable true collaboration across disparate stakeholders (e.g., governments, corporations, universities, hospitals, philanthropies and key community organizations) that share a common geography but rarely act in unison. Appropriately empowered, they can leverage and deploy public, private and civic capital at scale in sustained ways; in other words, “be the gift that keeps on giving.” Carefully staffed, they can deliver policies and practices with creativity, efficiency and effectiveness.

As urbanization has emerged as the unifying dynamic of the global economy today, enormous attention has been paid to identifying innovative policies and practices, particularly designed and delivered by local governments, that can travel across the world. The authors respect this focus and believe it should be deepened and extended.

This City Case makes a different contention. As the evolution of cities continues, we believe attention must be paid to establishing or repurposing institutions that have governance

structures and innovative mixes of public, private and civic ownership and responsibilities. Urban governance circa 2020 fits along a broad continuum between the public and private spheres, enabling new financing mechanisms and execution capacities. There are latent powers, resources and capacities in cities that are there to be unveiled, unlocked and deployed. Capital, again, is not the constraint; collective will and organizing are the principal challenges.

The evolution of urban institutions, in many respects, will mirror the broader evolution of cities themselves. A few cities like Cincinnati will be first movers, creating innovative institutions that show measurable outcomes and burnish their position. These innovations will be captured and codified and then adapted by other cities, which will be fast followers. Ultimately, exceptional innovations will become the norm, seamlessly adapted to dozens of cities across the country.

An Urban Age could prompt a new wave of urban institutions, capable of tackling the hard challenges and intriguing opportunities of our times. We hope these City Cases contribute to a field of study that accelerates and amplifies this positive dynamic.

APPENDIX A: BIBLIOGRAPHY

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- 3** The level of unrealized capital gains in the United States is calculated at \$6.1 trillion. *Opportunity Zones: Tapping into a \$6 Trillion Market*, Economic Innovation Group, downloaded May 27, 2019 <https://eig.org/news/opportunity-zones-tapping-6-trillion-market>.
- 4** Renia Ehrenfeucht & Marla Nelson (2018): *Just revitalization in shrinking and shrunken cities? Observations on gentrification from New Orleans and Cincinnati*, *Journal of Urban Affairs*, DOI: 10.1080/07352166.2018.1527659
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- 7** Interview of Former Mayor Charles Luken by Karen Black January 29, 2019.
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- 12** Christopher Maagnov, *In Cincinnati, Life Breathes Anew in Riot-Scarred Area*, *New York Times* (November 25, 2006) <http://www.nytimes.com/2006/11/25/us/25cincy.html> downloaded April 24, 2019; Doug Trapp, *The Fight for Over-the-Rhine: Can the neighborhood survive so many good intentions?* *City Beat* (Dec 13, 2001) <https://www.citybeat.com/home/article/13022579/cover-story-the-fight-for-overtherhine> downloaded April 24, 2019; Dan Monk, *Over-the-Rhine’s future is now*, *Cincinnati Courier* (October 15, 2001) <https://www.bizjournals.com/cincinnati/stories/2001/10/15/story1.html> downloaded April 24, 2019.
- 13** Colin Woodard, *How Cincinnati Salvaged the Nation’s Most Dangerous Neighborhood*, *Politico* (June 16, 2016) <https://www.politico.com/magazine/story/2016/06/what-works-cincinnati-ohio-over-the-rhine-crime-neighborhood-turnaround-city-urban-revitalization-213969> downloaded April 29, 2019.

- 14** Based on a 3CDC spreadsheet titled Master Development Numbers dated 12.05.18 provided by Tim Szilasi, CFO of 3CDC to Karen Black on February 14, 2019, the total investment in OTR Projects is \$693,329,256 while the total investment in CBD was \$738,792,310.
- 15** New Markets Tax Credit applications specify particular projects for which the investment will be used. 3CDC wanted the flexibility to respond to new opportunities as they arose.
- 16** 3CDC pays each investor a small operating distribution to cover their tax liability each year.
- 17** 3CDC received NMTC allocations of credits in 2004, 2008, 2010, 2011 and 2014.
- 18** 3CDC received OHIO NMTC allocations in 2011, 2013 and 2017 for a total of awarded state credits of approximately \$18 million.
- 19** This table was derived from a 3CDC internal working document titled Master Development Numbers dated 12.05.18 provided by Tim Szilasi, CFO of 3CDC to Karen Black on February 14, 2019.
- 20** “Derrick Braziel, Webinar on Building a Culture of Opportunity, Next City, March 27, 2019.
- 21** Ryan Dyson & David P. Varady (2018) Using Housing Vouchers to Create Stable Mixed-Income Gentrifying Neighborhoods: A Case Study of Over-the-Rhine, Cincinnati, OH, Journal of Community Practice, 26:3, 257-282, DOI: 10.1080/10705422.2018.1475315
- 22** Number of households receiving Housing Choice Vouchers in 2009, 2017. PolicyMap. Based on data from HUD. Accessed February 14, 2019.
- 23** U.S. Census Bureau. 2000. Profile of General Demographic Characteristics, Census 2000 Summary File 1. <http://factfinder.census.gov>. Accessed February 14, 2019.
- 24** U.S. Census Bureau. 2000. Profile of Selected Economic Characteristics, Census 2000 Summary File 3. <http://factfinder.census.gov>. Accessed February 14, 2019.
- 25** U.S. Census Bureau. 2017. 2013-2017 American Community Survey 5-Year Estimates. <http://factfinder.census.gov>. Accessed February 14, 2019.
- 26** Music Hall is owned by the city and 3CDC served as development manager. 3CDC has no ongoing role at Music Hall.
- 27** Memorial Hall’s operating costs exceed its revenues each year and are subsidized by 3CDC’s other revenues.
- 28** Ryan Dyson & David P. Varady (2018) Using Housing Vouchers to Create Stable Mixed-Income Gentrifying Neighborhoods: A Case Study of Over-the-Rhine, Cincinnati, OH, Journal of Community Practice, 26:3, 257-282, DOI: 10.1080/10705422.2018.1475315
- 29** The Homeless to Homes Plan: Implementation Report and Update (2010) <https://www.strategiestoendhomelessness.org/wp-content/uploads/HomelesstoHomesPlan2010.pdf>
- 30** The land acquisition for this property was unusual given that the land was acquired in 2008 but could not be developed until the final installment payment was made in 2013. The District agreed to the partial release of the mortgage in 2012 and the release of the remaining parcels in June 2013 based on early payment of the remaining installments. Board of Education Cincinnati Ohio Special Meeting Minutes May 20, 2013, A Resolution Agreement for Partial Release and Early Payoff of Mercer Commons Mortgage Loan to 3CDC p. 277. https://www.cps-k12.org/sites/www.cps-k12.org/files/files/pdfs/boardminutes/052013Special&Regular_1.pdf
- 31** The city grant was not Tax-Increment Financing related.

All photographs courtesy of 3CDC.

APPENDIX B: TIMELINE

JULY 2003

3CDC founded as a 501(c)3 with private corporate board.

APRIL 2004

Steve Leeper hired by the 3CDC Board of Directors to serve as President & CEO.

NOVEMBER 2004

Management for two private loan funds totaling \$95 million transferred to 3CDC.



JUNE 2015

3CDC's construction of new women's shelter, Esther Marie Hatton Center for Women, complete.

JUNE 2014

Mercer Commons Phases I and II complete, yielding a total of 67 apartments (30 of which are affordable units), 23 condominiums, 5 townhomes, 14,500 square feet of commercial space, and a 340-space parking garage.



NOVEMBER 2013

Agreement reached with Drop Inn Center board to swap property for bigger facility with 3CDC funding construction.

OCTOBER 2015

Construction of the city's largest homeless shelter David & Rebecca Barron Center for Men opens at a new location replacing the Drop Inn Center.

DECEMBER 2016

\$11 million renovation, of Memorial Hall complete and reopens to the public. 3CDC begins overseeing the day-to-day operations and programming of the Hall.

JUNE 2017

Officials with Kroger, the City of Cincinnati and 3CDC announce plans to build and open a downtown store as part of a mixed-use development project at the corner of Court and Walnut streets.

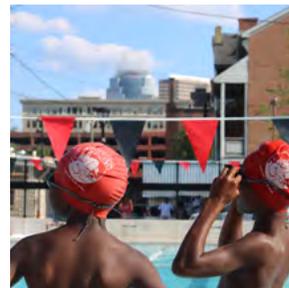
SEPTEMBER 2017

After 15 months of construction, the \$143 million renovation of historic Music Hall is completed.



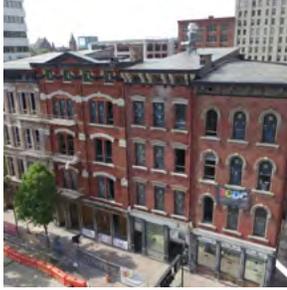
JUNE 2017

The renovated Ziegler Park is officially opened to the public, with the new Ziegler Pool welcoming more visitors in its first three days than the old pool welcomed during the entire 2015 season.



MARCH 2005

3CDC begins land banking vacant and problem properties in Over-the-Rhine Washington Park area for future redevelopment.



MAY 2005

Rehabilitation Plan for downtown's central civic space Fountain Square approved by Council.

2006

3CDC and Cincinnati Park Board launched planning process for renovation of Washington Park.

MARCH 2007

Approximately 100 new condo units and more than 23,000 square feet of commercial space comes online in OTR.



OCTOBER 2006

3CDC and Cincinnati \$48.9 million renovation of Fountain Square is complete with optimized underground parking garage to fund operations.

JULY 2012

\$48 million renovation of Washington Park is complete and the park is re-opened to the public.

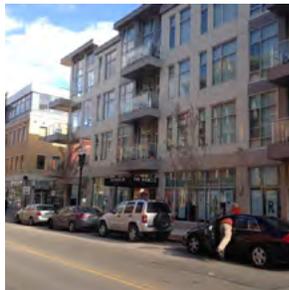


SEPTEMBER 2010

Washington Park expansion and renovation begins

OCTOBER 2017

Employees of Empower Media Marketing relocate to their new, 64,000-square-foot headquarters in OTR. The project serves as the fourth (and final) phase of 3CDC's Mercer Commons project.



APRIL 2018

3CDC celebrates the completion of its \$19.5 million 15th & Vine project, bringing 55,000 square feet of commercial and office space to Over-the-Rhine.

OCTOBER 2018

3CDC, Model Group and Urban Sites along with the African American Chamber of Commerce, the Over-the-Rhine Chamber of Commerce, Mortar and Findlay Market announce an initiative, called 'Represent,' aimed at making OTR the most diverse business district in the region by setting a new goal of filling most of their commercial spaces with African-American-owned businesses.

MARCH 2018

3CDC, the Model Group and Cornerstone Renter Equity complete the \$17 million Abington Race & Pleasant project, which includes 50 new affordable residential units.

JULY 2018

3CDC celebrates the completion Together with City Gospel Mission, Downtown Cincinnati Inc., Greater Cincinnati Behavioral Health Services, and the City of Cincinnati, 3CDC launches the GeneroCity 513 initiative in an effort to reduce panhandling on city streets, connect panhandlers with needed services and give them a paid day of work if they so desire.



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