



**HOW THE FORTUNE SOCIETY  
ACHIEVED A  
TRIPLE BOTTOM LINE  
WITH  
CASTLE GARDENS**

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## Castle Gardens Development Timeline

### 1996

- The Fortune Society (“Fortune”), a reentry services provider in New York City, during a strategic planning process, focuses on lack of safe, affordable housing open to its clients, individuals with criminal justice histories.

### 1998

- Fortune purchases shell of “Castle” building and adjacent vacant lot in Manhattanville, New York to develop as housing for Fortune clients.

### 2002

- Fortune launches the Fortune Academy in the renovated “Castle” building, which provides 21 beds of emergency housing, 41 beds of longer-term housing and social services to formerly incarcerated homeless men and women.

### 2005

- Fortune Society Board discusses what to do with the vacant lot adjacent to the Fortune Academy. Discusses need for *permanent*, affordable, supportive and safe housing for Fortune clients.
- Dennis Derryck of the New School approaches Fortune about entering a design idea for the vacant lot in the JP Morgan Chase Community Development Competition.

### 2006

- Fortune builds pre-development team.
- New School team wins JP Morgan Chase Community Development Competition.
- Fortune hires Jonathan Rose Companies to conduct Feasibility Study for the vacant lot. Feasibility study designed to achieve Fortune’s triple bottom line and green building goal.
- Fortune engages community and Board in pre-development phase.
- Fortune Board decides to pursue development of the vacant lot.
- Fortune begins to assemble development team. Issues first RFP for co-developer.

### 2007

- Fortune issues second, follow-up RFP for co-developer. Partners with Jonathan Rose Companies as co-developer.
- Fortune continues to build development team, including hiring Curtis + Ginsberg as architecture firm.

- Fortune and team plans building design and begins fundraising.

## **2008**

- Fortune and team continues to plan building design and fundraising.
- Hires General Contractor.
- Fortune closes on capital construction financing.

## **2009**

- Ongoing construction of Castle Gardens.
- Planning begins for lease up and ongoing operations and supportive services.

## **2010**

- Fortune meets lease up timing goals.
- Castle Gardens receives Temporary Certificate of Occupancy.
- Fortune hires Castle Gardens' staff, including superintendent.
- First tenants move in.

## ***Section 1. Introduction***

In July 2010, [The Fortune Society](#) (“Fortune”), a New York City based non-profit that has served individuals with criminal justice histories since its founding in 1967, opened the doors to Castle Gardens, an approximately 110,000 square foot green, mixed use – *affordable* and *supportive* – housing development in West Harlem. Castle Gardens provides approximately 20,000 square feet of service space and approximately 90,000 square feet of residential space, composed of:

- 50 supportive studio apartments for homeless individuals with a history of involvement in the criminal justice system;
- 13 supportive family apartments for homeless families with at least one member formerly incarcerated;
- 50 family-oriented affordable apartments for the greater community, and
- An apartment for a live-in Superintendent.

The state-of-the-art, green building includes a green roof space, several community meeting spaces, a library and a computer lab.

In five years, Fortune and its development team took Castle Gardens from project idea, to raising approximately \$43 million dollars, to opening the doors to 114 apartments and a service center. Significantly, the project accomplished three goals -- its “triple bottom line” :

- **Housing and supportive services for Fortune’s client population;**
- **A financially sustainable building and services; and**
- **Benefit to the local community.**

Fortune’s decision to dedicate itself to developing Castle Gardens was informed and motivated by its clients’ needs. Throughout its over 40 years of work, Fortune experienced great success with its holistic one-stop approach to reentry services. In 1996, during the agency’s strategic planning process, Fortune recognized that many clients were hurt by the lack of safe, affordable housing open to individuals with criminal justice histories. In particular, persons with histories of violent convictions and those without a track record of drug free “clean time” had an exceptionally difficult time being accepted into already very limited affordable supportive housing. The agency decided to address this issue by creating its own supportive housing model. Fortune made the transition from social services provider to social services provider *and* housing provider (and landowner) when it opened the Academy in April 2002. The Fortune Academy (also known as “the Castle”) provides emergency short-term and “phased-permanent”<sup>1</sup> supportive housing to homeless formerly incarcerated people, regardless of their criminal history.”<sup>2</sup> The

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<sup>1</sup> “Phased permanent housing” is a term coined by Fortune. It describes housing that bridges the traditional gap between transitional and permanent housing by providing housing that is “permanent for this phase of the person’s life,” with the expectation that the person will move on to independent housing in the community when ready – often in a year or more – but will have continued access to Fortune’s supportive services and the opportunity to return to the Academy in the future if s/he experiences a crisis that would otherwise result in homelessness. (Definition adopted from the Fortune Society’s publication, “[In Our Backyard: Overcoming Community Resistance to Reentry Housing \(A NIMBY Toolkit\)](#)”.

<sup>2</sup> This story is described in the [NIMBY Toolkit](#). This toolkit highlights the experiences of Fortune as it established the Castle, a supportive residence in West Harlem for approximately 62 men and women released from incarceration to homelessness. The toolkit focuses on helping organizations address community opposition it faces as it works to establish services for populations that are considered “threatening.” “Not in My Back Yard” (or NIMBY) opposition can result in significant program delays or even complete shutdown.

Fortune Society overcame, among other challenges, the community opposition to its housing project, as it sought to establish housing services for populations that the neighboring community viewed with stigma and fear.

After opening the Academy, Fortune continued to evolve its model of supportive congregate emergency and phased permanent housing. This was step one. Working to find permanent, affordable housing in which to place “graduates” of the Academy would be step two. Fortune clients, carrying the stigma of their records and their needs for supportive services, had far too few good options. In 2005, Fortune began to think about how to use its adjacent lot to further meet client needs.

After five years of planning, fundraising, construction and lease-up, The Fortune Society opened the doors to Castle Gardens, an award-winning project even as it opened. Castle Gardens has been given The Charles L. Edson Tax Credit Excellence Award in the area of Special Needs Housing from the Affordable Housing Tax Credit Coalition; the Downstate Project of the Year by the New York State Association of Affordable Housing; the Boston Society of Architects John M. Clancy Award for Socially Responsible Housing 2011; and the Multifamily Executive Project of the Year: Affordable, Merit Award 2011. Castle Gardens also received certification from Enterprise Green Communities in 2010.

Fortune has created this toolkit to share the experiences and lessons learned in developing Castle Gardens, permanent housing that addresses the needs of formerly incarcerated homeless individuals *and* low income neighborhood residents.

#### **The Fortune Society**

Fortune provides formerly incarcerated people with wrap-around services, including education, employment services, housing assistance, substance abuse treatment, mental health treatment, family services, alternatives to incarceration, HIV/AIDS services, discharge planning, counseling, case management, and lifetime aftercare needed to break the cycle of crime and incarceration and to build productive lives in their communities. All of Fortune’s programs are designed to meet the unique needs of this population through skilled, holistic, and culturally competent services.

This toolkit highlights Fortune’s experiences in each of the four phases in the development of Castle Gardens:

- *Pre-Development Planning (2 years):* This section includes insight into Fortune’s analysis of its capacity to undertake another housing project; whether such a project was the best use of the empty lot to fulfill its mission; Fortune’s early brainstorming process, including two feasibility studies; its pre-development engagement with the Board and the local community; the Board’s decision to move forward with the development and the principles they sought to achieve; Fortune’s selection of a development team; and finally

how the organization funded pre-development.

- *Project Financing (18 months):* This section details Fortune’s capital sources of funding, including low income housing tax credits (the main source of funding in affordable housing developments) and other government and private revenue streams for supportive and affordable housing. The section describes how Fortune accessed the various funding streams by building and leveraging relationships, working with the local community and coordinating funders. Finally, the section discusses how The Fortune Society and its Board changed organizationally as a result of the capital financing process.
- *Construction (18 months):* While construction management will vary site to site, this section provides Fortune’s suggestions for managing risk as a social service agency during the construction phase. Fortune partnered with a co-developer with expertise in construction management, built its construction team early and with significant due diligence and dedicated

high-level internal capacity to supervising the design and construction process. Finally, Fortune was careful not to erode its hard-won community support with construction-related disruptions to its neighbors.

- *Moving In*: This section describes Fortune’s operations and service plans, and the ongoing funding necessary for Castle Gardens. It also describes how Fortune managed its complex lease-up process, which required juggling affordable and supportive housing funders’ eligibility requirements and timelines. Finally, the section briefly describes Castle Gardens’ building management.

This toolkit is a case study that is intended to serve as a resource for other organizations thinking about starting a supportive housing project, or in the process of planning one. The toolkit also provides some of Fortune’s development materials and directs readers to other helpful resources, including technical “how-to” documents created by the Corporation for Supportive Housing (CSH).<sup>3</sup> CSH’s “[Toolkit for Developing and Operating Supportive Housing](#)” (CSH Toolkit) links to many useful tools, some of which are cited here to highlight and explain Fortune’s lessons learned. The Fortune Society’s David Rothenberg Center for Public Policy (“DRCPP”), the policy and advocacy wing of The Fortune Society, also provides technical assistance that integrates Fortune’s internal expertise – the life experience of formerly incarcerated staff and clients and first-hand experience as a longstanding direct service provider. In particular, DRCPP is working with organizations interested in replicating the Castle Gardens model in other jurisdictions.

## ***Section 2. Background***

### *Section 2.1 Incarceration, Reentry and The Fortune Society*

As the story in “Fortune and Men’s Eyes”, the off-Broadway play that was the creative inspiration for the founding of Fortune Society, in 1967 showed, the experience of living in prison can be a grisly one. The playwright, John Hebert, who had served time himself, created a mesmerizing story that David Rothenberg then produced. The play generated public discussion, and David Rothenberg joined audience members who had histories of incarceration, and was inspired to found The Fortune Society.

Unfortunately, the experience of incarceration is an all too common one in the United States. The United States incarcerates its citizens -- in particular its minority citizens -- at a rate that far outpaces that of most developed countries. The country has less than five percent of the world’s population but has 25% of the world’s prisoners.<sup>4</sup> Further, data shows 95% of incarcerated people are released from prison.<sup>5</sup> It is important to understand that justice-involved individuals suffer from mental illness and substance abuse at higher rates than the general public. They have received little treatment before and during their incarceration. According to a recent study: “[s]ubstance abuse appears to be inextricably interrelated to criminal behavior,” and as many as 80% of the nation’s prison and jail population are seriously involved with alcohol and illicit drug use.<sup>6</sup> National studies show that over 33% of prisoners have a history of mental health issues. Nearly all come from poverty. After experiencing housing instability, lack of education and/or stable employment history, prisoners then experience the loss of solid family and

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<sup>3</sup> CSH contributed funding to this publication, was part of Fortune’s Castle Gardens pre-development process and provided pro bono technical assistance as Fortune planned Castle Gardens. CSH is a non-profit that “helps communities create permanent housing with services to prevent and end homelessness.” Additional information available at [www.csh.org](http://www.csh.org).

<sup>4</sup> See e.g. Adam Liptak, “Inmate Count in US Dwarfs Other Nations,” New York Times (April 23, 2008).

<sup>5</sup> Joan Petersilia, *When prisoners come home: Parole and Prisoner Reentry* (2003).

<sup>6</sup> Matthew Hiller, et al., *Prisoners with Substance Abuse and Mental Health Problems: Use of Health and Health Services*, American Journal of Drug and Alcohol Abuse Vol. 31 (2005).

community ties, and what we now know is the trauma of incarceration itself. When released from prison, people are frequently without resources, employment, support and guidance. It is not surprising that approximately 40% nationwide<sup>7</sup> go back to prison.

Housing has always been of particular concern for Fortune’s clients. Our experience has shown that more than 10 percent of individuals currently incarcerated in prison and jail were homeless in the months before their incarceration. For those with mental illness, the rates are even higher – about 20 percent. The rates are also higher for those returning to major urban areas.<sup>8</sup> In a 36-city survey on hunger and homelessness, prison release was identified by officials in six cities as a major contributor to homelessness.<sup>9</sup> Further, according to a qualitative study by the Vera Institute of Justice, parolees released from incarceration who entered homeless shelters in New York City were seven times more likely to abscond during the first month after release than those who had some form of housing. The Fortune Society believes that this data suggests the positive public safety impact of providing stable housing and comprehensive services to individuals being released to their communities.<sup>10</sup>

Until 1996, before the Academy, Fortune’s housing services consisted of doing its best to connect clients with existing housing resources in the community. This was no easy task. Individuals with criminal histories face a host of challenges in securing affordable, stable housing. Often, individuals are returning home to families and communities already financially stretched. Exacerbating the impact on local shelters is the fact that private landlords routinely refuse to rent apartments to individuals with criminal histories. In addition, multiple other barriers to housing for individuals with criminal histories severely limit housing options. These include federal, state and local statutory bars to accessing publically supported housing, such as limited eligibility for programs because the definitions of homelessness in many federal and local agencies exclude those being released from institutions. The forces of gentrification in low-income neighborhoods, stigma, discrimination, “[Not in My Backyard](#)” (NIMBY) attitudes, and woefully inadequate supplies of affordable housing contribute significantly to the problem.

## *Section 2.2 Supportive Housing as a Solution*

Supportive housing, which CSH defines as “permanent, affordable housing linked to health, mental health, employment, and other support services”<sup>11</sup> has been heralded as an “effective and efficient approach to meet the housing and specialized service needs of ex-offenders in one comprehensive program.” The success of supportive housing programs is attributed to the fact that these projects provide both stable and safe housing to homeless formerly incarcerated men and women, alongside wraparound services such as the ones Fortune provides. There is growing evidence that supportive housing for homeless formerly incarcerated persons reduces recidivism, makes neighborhoods safer, promotes family

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<sup>7</sup> Pew Center on the States, “State of Recidivism: The Revolving Door of America’s Prisons” (April 2011) (“45.4 percent of people released from prison in 1999 and 43.3 percent of those sent home in 2004 were reincarcerated within three years, either for committing a new crime or for violating conditions governing their release. While differences in survey methods complicate direct comparisons of national recidivism rates over time, a comparison of the states included in both the Pew/ASCA and BJS studies reveals that recidivism rates have been largely stable. When excluding California, whose size skews the national picture, recidivism rates between 1994 and 2007 have consistently remained around 40 percent.)

<sup>8</sup> US Department of Justice, Bureau of Justice Statistics and US Department of Justice, Federal Bureau of Prisons, “Survey of Inmates in State and Federal Correctional Facilities, 1997,” Inter-university Consortium for Political and Social Research (Ann Arbor), ICPSR 2598; and US Department of Justice, Bureau of Justice Statistics, “Survey of Inmates of Local Jails, 1996,” Inter-university Consortium for Political and Social Research (Ann Arbor), ICPSR 2598.

<sup>9</sup> US Conference of Mayors, *A Status Report on Hunger and Homelessness in American Cities* (2002).

<sup>10</sup> Marta Nelson, Perry Deess, and Charlotte Allen, *The First Month Out: Post-Incarceration Experiences in New York City*, Vera Institute of Justice (1999).

<sup>11</sup> CSH Toolkit, “About supportive housing.”

reunification, and is more humane and cost-effective than re-incarceration.<sup>12</sup> Supportive housing projects come in a variety of different forms varying in size, funding streams, length of stay and services available.<sup>13</sup>

In 1996, as a result of a strategic planning process, The Fortune Society decided to address the challenge that many of their clients did not succeed because of their lack of access to appropriate housing. The result was The Fortune Society's first supportive housing project, the Academy.

### *Section 2.3 Fortune's Transition to Supportive Housing Provider*

Understanding the development of the Academy is essential to understanding the development of Castle Gardens. The Academy was Fortune's first step on its path to Castle Gardens: it started the necessary organizational change and introspection to become a supportive housing provider, gave Fortune experience and laid the foundation for a strong relationship with the local community, with supportive housing service providers and leadership, and with funders.

In May 2002, as the result of a five-year period of planning, fund-raising, community relations work and construction, The Fortune Society launched The Fortune Academy, also known as "the Castle," a supportive housing development located in the Manhattanville neighborhood of West Harlem. The neighborhood is a predominantly lower-middle and working class Latino and African-American community that is tightly knit and politically organized, most recently against the expansion of Columbia University and the accompanying expectation of gentrification and rising property values.

The Academy serves homeless individuals from New York City's five boroughs, all of whom have a history of criminal justice involvement and are in need of a wide array of social services to address issues adjunctive to homelessness, such as substance abuse, unemployment, and independent living skills. Residents living in the emergency housing initial phase of the Academy live in shared rooms of two to six persons, often entering the residence with no source of income, incomplete documentation such as identification, and no track record of success or drug free "clean time." Residents living in phased-permanent units live in either single or dual occupancy units until they can be stabilized and linked to permanent housing—a process that usually takes about 12 months but has lasted as long as three years when a resident has extensive special needs. The facility has 21 beds for emergency housing and 41 beds for longer-term housing. Fortune also offers lifetime aftercare and access to services to help prevent clients' return to homelessness, substance abuse and incarceration.

The opening of the Academy was not an easy task. Fortune surveyed over 20 sites before choosing its location. Its arrival at the decision to create housing was based upon an intensive strategic planning process that began with organizational self-analysis with the help of two organizational psychologists, working through the issues that came with the transition from a small organization run hands-on by the Executive Director to a larger and growing organization managed by a leadership team. Once the decision was made to create housing, Fortune had to develop the skills needed to become a property owner and housing service provider, including learning how to develop a project with Board support. Finally, as detailed in the next section, it learned to cultivate community support and engagement.

### *Section 2.4 Fortune's Experience in Overcoming "Not In My Backyard" Resistance*

Fortune spent considerable time and energy addressing one particular challenge: "Not In My Backyard" (NIMBY) opposition, which can delay or even derail a project. Fortune's strategy was two parts: (1) Fortune collaborated with the community with respect, transparency, accountability, accessibility and

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<sup>12</sup> [NIMBY Toolkit](#) (Internal Citations Omitted).

<sup>13</sup> For details, see the [NIMBY Toolkit](#) at p.4 or CSH Toolkit Section 1.

neighborliness; and (2) Fortune did not waiver on its goal, which was to provide congregate supportive housing to its client population.

**Community Board:** In New York City, Community Boards are local representative bodies composed of unsalaried members appointed based on their involvement in the community. The Community Boards, among other tasks, have an advisory role in dealing with land use and zoning issues; and in assessing the needs of their neighborhoods to present to the City during its budget process, and to City agencies. (See “About Community Boards,” by the New York City Mayor’s Community Affairs Unit, available at <http://www.nyc.gov/html/cau/html/cb/about.shtml#govt.>)

**Community Advisory Board:** “To create a sense of shared ownership in the project and further integrate itself into the community, Fortune created a Community Advisory Board early in the process. They invited as members elected representatives, Community Board leadership, and neighbors, including opponents of the project. Fortune used its Advisory Board to share information on the proposed renovations and program design, listen to the area residents’ concerns, and solicit input from the Board members, honoring their local experience and knowledge.” (See [NIMBY Toolkit](#)).

The details of Fortune’s approach are shared in the [NIMBY Toolkit](#). Fortune identified community stakeholders, and worked to build one-one-one relationships with key organization leaders of groups such as the Community Board. Fortune hired a former employee who was known and trusted in the community as a community liaison, and paired him with a formerly incarcerated Fortune staff member who had been a drug dealer in the community before turning his life around. The two of them worked as a team with the CEO and other members of Fortune’s leadership including then Board Chair Roland Nicholson, meeting with neighborhood residents and attending an array of regularly scheduled community meetings (Fortune still attends six monthly community meetings to maintain its connection to the community and its awareness of community issues). Further, Fortune created the Fortune Academy Community Advisory Board that became a part of the Castle Gardens development process. Fortune invited elected representatives, neighbors and members of the formal neighborhood Community Board, Community Board #9 (“Community Board”), to be members. Fortune was careful to invite opponents to serve on the Advisory Board, recognizing the importance of their voice. Over time, community opposition became community support as Fortune proved itself as a good neighbor that helped make the neighborhood safer. Fortune’s success in addressing the neighborhood’s NIMBY resistance was crucial to the successful development of Castle Gardens.

Since its opening, The Academy has been cited as a model program by such respected and varied institutions as The Urban Institute, AIDS Housing of Washington, and the U.S. Department of Justice.

### ***Section 3. Castle Gardens Pre-Development***

#### ***Section 3.1: A Preview of Castle Gardens***

Castle Gardens is another major step toward fulfilling Fortune’s original mission-driven goal to provide services to its clients and have the financial stability to do so long-term; and its additional goal to serve the community in which it is located and had become a part of since the opening of its first housing development. Castle Gardens meets Fortune’s triple bottom line.

Castle Gardens is a green building with 113 affordable apartments for individuals and families earning 60% or less of the Area Media Income (AMI), including fifty furnished studio apartments and 13 larger apartments that are supportive housing for homeless individuals and families with incarceration histories.

The other fifty apartments, with rents at 50-60% AMI, range from studios through three bedroom apartments and are available to low income and very low income members of the community at-large. Finally, Castle Gardens has an apartment for the live-in superintendant, who is, as described in a [New York Times](#) article shortly after Castle Gardens opened, a [key anchor of the Castle Gardens community](#).

Castle Gardens also has approximately 20,000 square feet of dedicated service space. As will be explained in greater detail, Fortune was dedicated to finding a way to include a large service space, a priority that required Fortune to exhibit greater creativity in its project development. The Castle Gardens service space has expanded services for Fortune's clients, building residents and community members. The building has a computer lab and library, a 725-square-foot conference and event room with state-of-the-art technology, and an energy-efficient green design that will lead to significant long-term health benefits and cost savings.

Castle Gardens is a cutting edge green building designed according to the following green standards: US Green Building Council Leadership in Energy and Environmental Design Certification (LEED) for New Construction, Gold anticipated; Enterprise Green Communities Guidelines; and New York State Energy and Research Development Authority (NYSERDA) Multifamily Performance Program. The project has features designed to reduce utility usage and costs by at least 20% compared to a standard building, including:

- Aluminum solar shades above each window on the south façade that block the intense summer sun and keep apartments cooler during the warmer months while allowing daylight in to the units during the winter.
- Energy-efficient appliances, the use of occupancy sensors for lighting in public spaces, low-flow plumbing fixtures, and additional insulation reduce utility demand.
- A rainwater harvesting system that conserves water by supplying make-up water for the cooling tower, irrigation for the green roof, and water for cleaning sidewalks.
- Mechanical systems are designed with input from an energy model and include a high-efficiency boiler located on the rooftop, which enhances performance.
- Appropriately-sized HVAC systems reduce operating expenses for the Fortune Society.

### *Section 3.2: The Conception of Castle Gardens*

One of the benefits of the Academy land purchase was that the adjacent vacant lot, which Fortune also owned, allowed for future development.<sup>14</sup> When Fortune decided to develop the Academy after much planning and deliberation, it became a landowner and supportive housing provider, a new role for the social services agency. The decision to proceed with the development of the adjacent empty lot was made after a similarly high level of analysis and scrutiny. Fortune's process of Board and community engagement and of organizational reflection continued as it decided to develop Castle Gardens.

The development of Castle Gardens required a serious organizational commitment to another large-scale supportive housing project. It would take five years of intensive effort to open it, which would involve significant internal manpower working alongside external partners. As CSH details, the decision to take on such a project should be a deliberate one in which the organization considers capacity and mission, and understands the various roles it can play in such a development. Capacity concerns include financial capacity and viability, staffing capacity, Board commitment and a careful consideration of opportunity costs of dedicating time to this particular project.<sup>15</sup>

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<sup>14</sup> When Fortune developed the Academy, it legally split the purchased lot in two. It continued to own the vacant lot, which it mortgaged and used as a parking lot.

<sup>15</sup> See materials linked in CSH Toolkit, Section 2A.

Particularly powerful is this framing of the decision by CSH: “Once a supportive housing project is built, ***it must be operated, managed and maintained for the rest of its useful life, which could be 30, 40, 50 years, or longer***, and the service needs of the tenants must be met throughout the project’s operational life.” (emphasis added). The agency potentially becomes a landowner, a landlord and a debtor to a multitude of funding streams. A decision to begin such a project is not one to be made lightly. The upside is also great: “such development activities establish an organization as an important stakeholder with a tangible investment in the community, with greater potential influence, and better able to present the case for affordable and supportive housing with greater credibility in the eyes of many decision-makers. Finally, success in developing and operating real estate can greatly enhance an organization’s credibility with philanthropy, government agencies, and other potential funding sources.” Fortune has recognized this upside with Castle Gardens as demonstrated, for example, by increased effectiveness in service provision, increased community support, increased competitiveness in funding proposals, enhanced marketing opportunities including media coverage, and interest in Fortune’s technical assistance to replicate the model.

In late 2005, Fortune staff had started conversations internally and with its Board about its options for the vacant lot as it learned that the land was valued at considerably more than it had cost to purchase. In December of 2005, the Board had preliminary deliberations about how best to meet Fortune’s goals of providing services in the future, financial stability and promoting its core values. The Board discussed

whether it should sell the land and create an endowment for The Fortune Society for future financial stability to provide reentry services; or develop the land as low income housing, market rate housing and/or a service center. The values question was always an important one to Fortune as it considered how best to utilize the empty lot in support of its mission.

The decision about what to do with the lot took on a greater sense of urgency when Fortune was advised that the political and economic climate under the current mayor, Michael Bloomberg, provided an opportune time to undertake a project such as this. A seed had been planted.

*Section 3.3 The Castle Gardens Pre-development Planning Team*

**For additional materials on how to decide if a supportive housing project is a fit, consider these CSH resources:**

- CSH Toolkit, Section II.A, including:
  - Assessing Readiness for Supportive Housing Development Activities
  - Assessing Fit: Does Developing Supportive Housing Fits with Your Strategic Plan, Mission and Organizational Structure

In order to determine how it should achieve its triple bottom line, Fortune had to better understand its options for the site, and consider those options in light of fit and capacity. To understand its choices, Fortune and its Board were guided by a team of paid and pro bono experts. Fortune had learned early on the importance of being clear on what its capacity and strengths and weaknesses were and solicited expert advice throughout the process. Fortune enlisted a consultant, Jaye Fox, early in the process, in April 2006, to “provide assistance to the Fortune Society in reviewing financial, architectural, and project planning concepts.” Fortune also had the Corporation for Supportive Housing providing extensive and much-valued pro bono advice.

As was recommended by experts, Fortune’s first step was to conduct feasibility studies “to evaluate the benefits of several different viable development options for this site given the current zoning.” This included “review[ing] the conditions of the site and the neighborhood, gather[ing] comparable market

data, perform[ing] a zoning analysis, evaluat[ing] various housing development options, and finally perform[ing] a financial feasibility analysis for the selected options.”<sup>16</sup>

In November 2005, Fortune’s first expert approached the agency. Dennis Derryck, a professor of Professional Practice and Management at Milano School for Management and Urban Policy (“Milano”) at the New School with a strong commitment to Harlem, approached Fortune to ask if it was interested in his students designing a project for the lot to enter into a JP Morgan Chase Community Development Competition.<sup>17</sup> Fortune agreed. The competition was an opportunity to brainstorm – and a winning project would be awarded \$25,000.

#### **Pre-Development Tips from Fortune’s Experience**

- Enlist a range of experts during this phase to provide advice in areas where the organization does not have sufficient expertise.
- Carefully consider mission and organizational goals and have experts work through the various options to obtain those goals. Be clear about what is negotiable and what the organization must have.
- Keep an open-mind and be guided by the idea of “choice points” when the project can be halted or shaped differently.
- Secure pre-development planning funds. This may only require limited funding, but having money available to engage experts is critical to being able to make an educated decision.
- Have senior leadership commitment.
- Cultivate Board engagement early and regularly.
- Engage with the community early and regularly.
- Use RFP process to select partners in a competitive and transparent way, while further educating internal decision-makers.
- Carefully think through organization’s capabilities and limitations and solicit experts and support in areas in which it is needed. Be honest about this upfront.

Derryck, and his team of students from Parsons Institute for Design and Milano, provided Fortune a creative spark,<sup>18</sup> created an opportunity for Fortune to do some “blue sky” visioning about the project and what mattered most to the organization’s mission, and engaged Fortune’s neighbors through its

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<sup>16</sup> Jonathan Rose and Curtis Ginsberg, “Fortune Society: Feasibility Study for 625 West 140th Street” (October 2006).

<sup>17</sup> “The aim of the JP Morgan Chase Community Development Competition has been to assist low-and moderate-income communities, small businesses (particularly minority-and women-owned), and low-to-moderate-income individuals and families to achieve two commonly incompatible goals: economic profitability of their businesses together with promoting social sustainability in their communities.” (Summary adopted from New School course materials.)

<sup>18</sup>The students were tasked with designing Fortune an affordable housing option for homeless formerly incarcerated persons, possibly on a permanent basis; a service center for clients residing in permanent housing; and the development and design of a sustainable income stream to support wrap-around services, possibly in the form of market-rate housing on the site. Fortune was committed to looking into financial, environmental and social sustainability.

Community Advisory Board.<sup>19</sup> The students’ design was a big picture thought piece for the project and considered the following: (1) a financially sustainable project that meets the requirements of the lending community and will generate an income stream to strengthen Fortune’s financial capacity; (2) social rate of return to benefit the community and society; and (3) developing an environmentally sustainable building. The students’ brainstorming inspired Fortune to commit to a green building with design elements that included the community’s affordable housing needs. What’s more, the students’ design won the JP Morgan Chase award in May 2006 – providing Fortune with \$25,000 that was then applied to predevelopment costs.

Simultaneously, Fortune began the process of hiring additional experts. The students’ project provided one option of how Fortune could generate revenue and fulfill its mission, but the organization had to step back and consider all options (including selling the land), and to analyze these options with rigor. Fortune issued an RFP, selecting and hiring Jonathan Rose Companies (JRCo), a New York City-based “green real estate policy, planning, development, civic development and investment firm” to conduct a feasibility study, paid for with a grant from the Corporation for Supportive Housing and the JP Morgan Chase Award money. CSH and Jaye Foxe both provided feedback on Fortune’s Feasibility Study RFP. JRCo was tasked to provide an “assessment of housing service options for the site, an estimate of project costs, identification of prospective funding resources, and a project timeline for completion.” The feasibility study would explore all options, including selling the land outright, retaining all or part of the space for housing, services or both; and would take into account *Fortune’s mission, the needs of the organization, its clients ,community relations and needs, sustainability and financial feasibility.*

#### Request for Proposals

Throughout the development of Castle Gardens, Fortune hired experts through the Request for Proposals (RFP) process. RFPs allowed Fortune to solicit and learn from a range of ideas, “meet” multiple providers and compare them side-by-side before making a decision. The RFP process also set the right relationship and tone with providers because they knew there was competition and had incentive to provide competitive prices and quality service.

At this early stage, then, Fortune’s team of planning experts included the New School, Jonathan Rose Companies, Curtis + Ginsberg Architects, LLP (“Curtis + Ginsberg”) (who were enlisted by Jonathan Rose Companies as architectural advisors to the feasibility study), the Corporation for Supportive Housing, and Jaye Fox.

#### *Section 3.4 Board and Community Engagement During Castle Gardens Pre-Development*

Fortune engaged its Board regularly in the pre-development phase, and in April 2006, the Board was notified that Fortune had engaged Jonathan Rose Companies and was told “the Board will be presented with a series of alternatives that are

worked out according to cost benefit, juggling benefit to client, benefit to community, and benefit to our sustainability.” The Board was supportive and reiterated that Fortune’s core values should be presented when evaluating each option. The Board stressed that the development of the lot should be a profitable enterprise to help sustain The Fortune Society for years to come.<sup>20</sup> Some members of the Board had a larger role in pre-development planning. Betty Rauch, Chair of Fortune’s Board, was a member of Fortune’s pre-development Steering Committee. The Board also created a Vacant Lot Planning Committee to focus on this project.

Fortune and its experts also met with Fortune’s Harlem neighbors early on and often. In June of 2006, Fortune introduced Jonathan Rose Companies and Curtis + Ginsberg to its Community Advisory Board. As Fortune and its advisors solicited its neighbors’ input, it was clear that Fortune’s relationship with the community as it planned Castle Gardens was dramatically different than when it had started the Academy.

<sup>19</sup> Fortune Society Community Advisory Board Meeting Minutes (March 28, 2006).

<sup>20</sup> Fortune Society Board Meeting Minutes (May 24, 2006).

### The Feasibility Study

“Based on how it fits with the stated project goals, its financial feasibility, local support, the management of risk, the preferred building program would be to build 55,000 square feet of Fortune Society service space and supportive housing, with the remaining 55,000 square feet [sic] dedicated for affordable and supportive rentals financed with Low Income Housing Tax Credits.” The study took in to account Fortune’s priorities to provide supportive housing for Academy graduates and have rent free service space. The building would have one or two floors of service space, two or three floors of supportive housing for Fortune clients and floors of affordable housing. The design anticipated fitting in to the “Quality Housing” zoning scheme for a more contextual design, a more efficient floor plate, lower construction cost and more square footage; and would be attached to the existing Academy building.

With tax credit financing, Fortune would be able to provide housing to its local community and have lower risk, more control over the future character of the building and regular cash-flow. Market rate rentals and mixed income program units were found to be less financially feasible than low income tax credit programs (either 4% or 9%), especially given New York City’s commitment to such developments. Fortune also rejected the more lucrative option of coops because of its values commitment to providing housing that was in fact affordable to the surrounding community. The feasibility study also envisioned being able to afford a large Fortune service space, a unique feature in an affordable housing development, and one that required more complex financing. The results of the feasibility study were presented to Fortune’s Community Advisory Board on November 1, 2006.

Around this time, Columbia University was buying land in West Harlem and the community was concerned about gentrification. The Community Advisory Board requested that Fortune include affordable housing that was *truly* affordable to the local community and include apartments fit for families, and expressed a need for community space.<sup>21</sup> In a strange turn of events, the Fortune Society and its formerly incarcerated clients became the “good guy” as it worked with the community to incorporate its input. In five years, Fortune’s relationship with the community went from “not in my backyard” to “we want to live with you in the new house that you will be building.”

On September 12, 2006, at a Board meeting deemed one of the most important in Fortune’s Board history, Jonathan Rose Companies and Curtis Ginsberg presented the results of the feasibility study, reviewed the options for the lot and recommended developing the lot with mixed affordable and supportive housing rentals rather than selling. Fortune had to make the case that the proposed development made more sense than selling the land at approximately \$9 million (the approximated value in the feasibility study) to create an endowment for Fortune to provide reentry services. The projected value of the endowment was based on the assumption that it would yield, at 5%, an annual income of \$450,000 of unencumbered social services funding, and Fortune calculated that rent-free service space targeted would yield that much in savings that could be used to support services instead. With creativity and careful analysis, Fortune, with the help of its experts, demonstrated that the rent free service space, rental income and social good of providing housing to clients and the community better met Fortune’s mission-driven triple bottom line – services to clients, financial sustainability, and service to the Harlem community. The Board considered the decision, and in a unanimous decision, voted to develop the lot as recommended.<sup>22</sup> JoAnne Page, Fortune’s President and CEO, recalls in particular the insight of Max Ansbacher, a former Fortune Board member who said Fortune will have many opportunities to sell this land and only one opportunity to own it; and if Fortune sold it, they might end up with adjacent land used for a purpose – such as luxury apartments – that might create opposition to the existing Academy. Fortune and its Board were committed to its clients and the Academy and its low income neighbors.

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<sup>21</sup> Fortune Academy Community Advisory Board Meeting Minutes (June 6, 2006).

<sup>22</sup> Fortune Society Board Meeting Minutes (September 12, 2006).

### *Section 3.5 Selecting the Castle Gardens Development Team*

Although the Board and Fortune were excited about the project as described in the feasibility study, Fortune thought it important to keep an open mind, and was guided by the idea of “choice points” throughout the process, “at which the organization could discontinue or reshape the project if the risk to organizational functioning was determined to be too great.”<sup>23</sup> Fortune’s next steps in the process were to assess in-house capacity, to decide its role in development, and select its development team.

CSH details a few of the challenges that arise in developing supportive housing that organizations should consider in assembling a development team, including financial risk and staff time and knowledge of real estate transactions and affordable housing finance. The Developer “is the organization designated as the lead agency on the development of the project. The Developer is ultimately responsible, whether through in-house staff or through engaging the services of a development consultant, for managing the development team and driving the development process, from the acquisition of the site through to the leasing up of the completed units. In many cases, the Developer will continue to own the project after it is completed and operational.”<sup>24</sup>

CSH’s description for the project manager of a development team is useful to understanding the tasks development entails. Project managers are typically responsible for “assembling the development team of experts who will design, build, finance and manage the project; identifying and obtaining control of a suitable site for the housing; working with the development team, particularly the architect, to design the physical space; obtaining appropriate financing for the development from private lenders and public agencies; obtaining all design review and planning approvals from local agencies; maintaining compliance with all funders during the predevelopment and construction process; implementing and monitoring the construction process with the construction team; selecting and hiring property management services; and monitoring the property management agent as it implements initial lease-up to tenants.”<sup>25</sup>

Building the development team was a risk-management choice point. Fortune had to consider the financial impact and risk of the various development team options. In low-income housing tax credit (“LIHTC”) financing – expected to be a key part of Fortune’s funding mix -- a developer’s fee is built in to the financing structure. Enlisting a co-developer meant splitting the developer fee, which is badly needed unrestricted funding for an agency. Further, under low income housing tax credit financing, the developer would be required to provide guarantees, which protect investors by holding the project “liable for certain things, including tax benefit shortfalls, unanticipated operating deficits and development cost overruns.”<sup>26</sup> Fortune had the following choices of how to develop the land:

- Option 1: Serve as the sole developer and handle all project related tasks and the overall management of the project in-house. Fortune could, under this option, hire a development consultant to manage the project based upon instructions provided and decisions made by the organization along the way. This option entailed greater risk but would mean Fortune would retain the full developer’s fee.
- Option 2: Partner with a developer. Under this scenario, Fortune anticipated working with a co-developer as a team. This relationship may vary from project to project, but Fortune was looking for a partner to help plan the project and secure capital financing commitments. The co-

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<sup>23</sup> [NIMBY Toolkit](#).

<sup>24</sup> CSH Toolkit. “Roles and Responsibilities of Development Team Members”

<sup>25</sup> CSH Toolkit. “Roles and Responsibilities of Development Team Members”

<sup>26</sup> CSH Toolkit. “Understanding Low Income Housing Tax Credits: How to Secure Equity Investments and Evaluate Syndication Options.”

developer would most likely take primary responsibility for construction and related financial guarantees. The co-developer and Fortune would split the developer's fee.

- Option 3: Contract with a developer who would develop the project, receive the full developer's fee, and then turn the building over to Fortune once completed.<sup>27</sup>

Option three was out of the question because an out-of-the box turn-key development would not meet Fortune's needs. Fortune required a large amount of service space, both to serve its clients and also to provide service dollars through rental savings from the rent-free service space that Fortune was planning on as the trade-off for choosing against the sale of the lot to create an endowment. This requirement, on top of the affordable and supportive housing space, made the project unique, and more complex to develop and finance. This was not a turn-key housing project and Fortune wanted a co-developer interested and able to work on an out-of-the-box project. Further, Fortune felt it essential to reserve the right to choose or not choose funding sources based upon requirements that they might make for use of the building, and this possibility of rejection of available funding based on mission would not have been acceptable to many turn-key developers.

A development partner would assume some of the risks and guarantees associated with a project of this scale. Further, the right co-developer would enhance Fortune's funding application packages and help build relationships with additional funders with whom it had done prior projects. While Fortune was advised by others to hire a development consultant (the cheaper, less supportive option) and serve as developer on its own – thereby saving the developer's fee – Fortune assessed that it did not know enough about development and construction to be able to supervise construction and provide construction-related guarantees. As the economy itself became deeply troubled during late 2008, it became clear that recognizing this and enlisting a co-developer with the stature of Jonathan Rose Companies provided a level of protection against financial risk that was needed far more than had been anticipated when the decision to bring in a co-developer had been made.

Fortune selected a co-developer through two rounds of RFPs. Fortune wanted much from its co-developer, and the RFPs were used to evaluate which of the applicant co-developers would meet the project's specific needs. The first RFP solicited co-developer applications that were to be judged on history of comparable development projects, strength of references, organizational capacity, experience working in and with the West Harlem community, green building experience, and the developer's cost-sharing proposal. The RFP was drafted by Fortune's consultant based on Fortune's requirements for a co-developer, with the support of CSH and an attorney who is an expert on tax credits, and was sent to 18 pre-qualified firms.

The second RFP was used to further vet the respondents and narrowed the field to two co-developers. This RFP tested the developers' creativity in combining funding sources in a viable way to support Fortune's project goals of service space for Fortune services, housing for its clients and affordable housing for the community. As has been mentioned before, Fortune's requirement of a large service space was unusual in an affordable housing project. Jonathan Rose Companies, the firm that conducted the feasibility study, was on board with this requirement and was willing to work to bring in multiple funding sources. The other contender, "C", knew low income tax credits but offered a more turn-key project – it did not want to include a large service space because it would be harder to fund and therefore carried a greater risk. While C would have allowed Fortune to play a more limited day-to-day development role, Fortune would also not have optimally met its triple bottom line.

Further, in this second RFP, Fortune was explicit that "[o]ne of Fortune's concerns is that restrictions from funders must not drive client selection or program design in a way that is contrary to Fortune's

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<sup>27</sup> CSH Toolkit. Section II.B.

program models or goals.”<sup>28</sup> Fortune tested applicants on how they would respond to Fortune, for example, wanting to walk away from a particular funding source because of values issues. However, agreeing to do so would expose the co-developer to greater financial risk and potential delays in closing on funding for the project. Finally, Fortune, because it already owned the land and had other pre-development activities in the works or completed, was looking for the best possible deal on the developer’s fee. Fortune wanted the full developer’s fee, thereby, again, cutting in to Fortune’s access to unrestricted funds.

Fortune selected JRCo because the co-developer agreed to work with Fortune on these funding questions. They were willing to do so because it was a large-scale project, because of Fortune’s record, because it was good for JRCo’s reputation, and because they had the stomach for a big risk-big return project. But, importantly, they also did this because Jonathan Rose Company’s values lined up with Fortune’s values; and Fortune verified this by diligently checking JRCo’s references and track record. Reference checks were an important part of Fortune’s decision-making in choosing a development team. Fortune investigated not only the principal of the firms it was considering but also the staff that it would directly be working with. Since Paul Freitag, the senior person at JRCo who would directly manage the project, would be pivotal to the quality of JRCo’s role, Fortune’s due diligence included an in-depth, extremely positive reference check of his work on prior projects and at his prior employment. Jonathan Rose was also asked directly what his personal role would be in the project, and responded that the project “would have all of his personal involvement that was needed.” That included taking part in regular Steering Committee meetings and being available to provide coaching and consultation during the course of the project and Fortune’s Capital Campaign. (In addition, as the economy of the country entered crisis mode just as the project was to close on construction financing in the winter of 2008, Jonathan Rose ended up far more personally involved in bringing financing to a close than ever anticipated).

After the co-developer decision was made, Fortune then worked with JRCo to select the rest of its development team. To select its architect, Fortune leveraged its relationships and worked with CSH, JRCo, HHAP and the New York State Dormitory Authority (NYSDA) to create a short list of architects with an expertise in green design, government budgets and the creativity to design a structure with maximum value within such a budget. Fortune described what was desired as a “champagne building on a beer budget”: the organization wanted a building that was beautiful and showed how much tenants were valued, as well as being functional and environmentally responsible.

The RFP was sent only to the short-listed architectural firms, and was written to evaluate their ability to meet these criteria. Important in the selection process were site visits, during which Fortune learned about the firms, but also learned about construction possibilities such as material, social services areas, security and line of sight, colors and comfort. Fortune and JRCo were able to narrow the field to two architecture firms; one a large prestigious architecture firm that had worked with JRCo before; and the second a smaller firm, Curtis + Ginsberg that had not designed a building for JRCo but had worked with sister agencies and had worked on the Castle Gardens feasibility study. Fortune and JRCo used reference checks and decided to use Curtis + Ginsberg, which was respected and high quality, but small enough such that Mark Ginsberg, co-owner of the firm, would be deeply involved with the project. As with the decision to hire JRCo, Fortune knew that researching the firm alone was not enough, and that it was important to know which individuals within the company would be active on the project day-to-day.

Fortune’s chosen architect, Curtis + Ginsberg also, along with JRCo, helped Fortune understand what it wanted from its general contractor. From this point forward, Curtis + Ginsberg, JRCo and a team from Fortune met weekly about design elements including materials, tiles, traffic flow and more. Fortune’s team included Sherry Goldstein, Chief of Staff; JoAnne Page, CEO; and at times Senior Vice President of

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<sup>28</sup> Fortune Society Co-Developer Requests for Proposals: Phase II.

Programs Stanley Richards to contribute to decisions about service space and flow questions. As a result of this process, Fortune began to solidify its design preferences for the building.

Fortune's partners helped in drafting the General Contractor ("GC") RFP, released in March 2008. "The General Contractor is responsible for processing the necessary insurance coverage and building permits, contracting with subcontractors, managing the construction, and ensuring wages and labor standards are met for all construction workers."<sup>29</sup> The RFP stressed Fortune's project-specific priorities including the green building requirements and price requirements because of government funding, including prevailing wage requirements. Further, Fortune sought a general contractor that could coordinate and manage a complex set of government agencies, each with its own monitoring requirements. The state and city funding agencies monitor construction and sign off on Application and Certificate for Payment documents that verify progress and release funding. The contractor would need experience in managing that process and completing the construction on schedule, and funders would consider who the GC was in making funding decisions. Some developers did not find this complex project to be the right fit, and Fortune conducted interviews and site visits of the applicants' to narrow the field to one contractor – Lettice Construction -- that met all of Fortune's criteria, including price.

The Castle Gardens construction team also included the following experts:

- Landscape Architect, AECOM
- Mechanical, Electric and Plumbing Engineer, Simon Rodkin, Rodkin Cardinale PC
- Structural Engineer, Robert Silman Associates
- Sustainability Consultant/Commissioning Agent, Steven Winter Associates.
- Geotechnical Engineer, Pillori Associates

The Castle Gardens development team also had Paul, Weiss, Rifkind, Wharton & Garrison LLP as attorneys for the project and Karen Sherman of ShermanLaw as the attorney for Fortune to handle its relationship with the co-developer. Fortune followed advice that it retain an attorney separate from its co-developer to protect the organization in the areas in which their interests and responsibilities may differ, and shared an attorney with its co-developer for the project. These attorneys assisted in drafting the site development agreement and readying Fortune's corporate documents to allow for the project.<sup>30</sup> Karen Sherman also played an important role for Fortune as she guided Fortune's CEO through the complexities of the guarantees, the site development agreement with the co-developer, and the host of commitments and documents that Fortune had to agree to and bind itself with over the course of the project.

Finally, Fortune integrated its project team, Board and internal expertise into committees, including a Castle Gardens Steering Committee, which included Fortune CEO JoAnne Page and Chief of Staff Sherry Goldstein; Jonathan Rose and additional JRCo staff; Fortune Board member Betty Rauch, and other Board members and Fortune staff at times. Fortune also had a Project Management Team composed of Fortune and JRCo to deal with day-to-day planning; and a Real Estate sub-committee of its Board.

### *Section 3.6 Castle Gardens Pre-Development Financing*

Fortune required funds to carry out the pre-development activities detailed above. As CSH says, "[t]o be effective in housing development activities, and to be able to move a project forward in a timely manner, an organization needs access to resources to pay for predevelopment activities – the earliest activities in

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<sup>29</sup> CSH Toolkit. "Roles and Responsibilities of Development Team Members"

<sup>30</sup> Fortune Society Board Minutes (November 26, 2008) (The board adopted a resolution to amend Fortune's certificate of incorporation to include, among Fortune's purposes, the provision of affordable housing for low income persons and families. Fortune Board voted yes unanimously.)

the development process necessary to establish initial plans for the project and to assess the feasibility of the project’s successful completion and operation. While some of these activities may only require staff time and not incur costs, others, such as engaging the services of consultants, performing a market analysis, initial architectural drawings, evaluating potential sites, and obtaining site control, will require financial resources to pay for the associated costs.”<sup>31</sup> To fund the pre-development costs, Fortune had the following sources of funding (in addition to using Fortune’s unrestricted funds and staff time):

<b>Castle Gardens Pre-Development Funding Sources</b>			
<u>Funding Source</u>	<u>Type</u>	<u>Amount</u>	<u>Process</u>
<b>JP Morgan Chase Competition Award</b>	Grant	\$25,000	This was the money Fortune received as a result of the students’ winning design.
<b>Corporation for Supportive Housing</b>	Planning grant; Interest-free Project Initiation Loan repaid at predevelopment loan closing; Interest bearing pre-development loan repaid at construction closing; Pro-bono consulting	\$15,000 \$50,000 \$647,000 respectively; pro bono services	Fortune had a longstanding relationship over 7 years with CSH and received consulting services from CSH in addition to this funding. CSH had been impressed with Fortune’s Academy and was interested in reentry supportive housing.
<b>Deutsche Bank Americas Foundation</b>	Interest-free pre-development loan; and pre-development grant.	\$25,000 \$50,000 respectively; each year for three years.	Fortune applied for this funding through an RFP for Deutsche Bank’s Supportive Housing Acquisition and Rehabilitation Effort (SHARE) program, which supports “developers of new Permanent housing for New Yorkers with special needs.” <sup>32</sup> The funds were to be used for pre-development and development of Castle Gardens.

#### ***Section 4. Raising Capital for Castle Gardens***

##### *Section 4.1 Fundraising Introduction*

Once Jonathan Rose Companies came on board in 2007, Fortune and JRCo began applying for financing, each drawing upon their knowledge of funding streams and past track record with funders. Together, JoAnne Page, Fortune’s CEO, and Whitney Foutz, JRCo Project Manager, wrote their first proposal on Memorial Day weekend of 2007. That was the first of many proposals needed to bring in full financing for the project, which closed on December 18, 2008, at which point construction could begin. In 18 months, Fortune and JRCo raised the approximately \$43 million required for capital construction of the

<sup>31</sup> CSH Toolkit. “Applying for Financing for Predevelopment Activities.”

<sup>32</sup> Information available at <http://www.db.com/us/content/en/1080.html>.

project, a fundraising pace unheard of by industry standards, and which included over a dozen funding sources of varying types.

We refer readers to a wealth of information by CSH on funding supportive housing projects, and provide a brief summary of the relevant terms. In addition to pre-development funding, supportive housing projects require funding for each component of the project: capital, operating and services.<sup>33</sup>

- **Capital (or development) financing sources** are those sources that may be used to fund the costs associated with acquiring, creating, and/or rehabilitating housing units, costs sometimes referred to as “bricks and mortar” costs.<sup>34</sup>
- **Operating sources** are defined as those sources that may be used to pay for the costs of operating and/or maintaining the housing or physical component of supportive housing. Operating costs in a project owned by a housing sponsor include all costs of maintaining the project once it is ready for occupancy, such as property management, utilities, maintenance, insurance, security, debt service or other loan payments, and operating and replacement reserves.<sup>35</sup>
- **Services:** The term "supportive" in supportive housing generally refers to flexible services designed primarily to help tenants maintain housing. Tenants of supportive housing are individuals and families who face complex challenges -- people who have been homeless and who also have very low incomes and often serious, persistent health issues and/or disabilities or other barriers to housing stability. These challenges may include mental health issues, substance use issues, and HIV/AIDS. They are often times exacerbated by persistent and long-term poverty. The types of services that comprise the "support" in supportive housing emerge from the varied needs of the people who live in the housing.<sup>36</sup> In the case of Fortune’s commitment to serving a homeless formerly incarcerated population with additional challenges including histories of addiction and mental illness, services included intensive case management and a broad array of in-house services.

This section focuses primarily on the capital funding for Castle Gardens, with reference to the operating and services funding considerations that influenced development fundraising.

Funding for each of these areas comes in many forms. First, capital funding sources for housing developments are typically intended for either affordable housing projects or supportive housing projects. In Fortune’s case, because Castle Gardens included both affordable residents and supportive residents (who would also meet affordable housing criteria), Fortune was able to apply for both types of funding. Further, funding can either be tax credit equity, a grant or a loan. For these types of funding, organizations may be eligible “as of right” (by meeting eligibility criteria and/or through negotiations, rather than through an RFP process), or the funding stream may require participation in a competitive process to secure the financing.<sup>37</sup> Loans may also be “soft loans” (also known as forgivable loans) or loans with low interest that are flexible on how and when they get re-paid.<sup>38</sup> This is often the case with supportive housing funders because the funders do not expect an income stream; however, they require that the project be able to provide services for a number of years, which has to be budgeted in. For example, one of Castle Gardens’ key funders, the New York City Department of Housing Preservation Development’s Supportive Housing Loan Program, requires the building be used as supportive housing

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<sup>33</sup> CSH Toolkit. “Financing Supportive Housing Guide.”

<sup>34</sup> CSH Toolkit. “Financing Supportive Housing Guide.”

<sup>35</sup> CSH Toolkit. “Financing Supportive Housing Guide.”

<sup>36</sup> CSH Toolkit. “Financing Supportive Housing Guide.”

<sup>37</sup> CSH Toolkit. “Types of Financing for Supportive Housing Development and Operations.”

<sup>38</sup> CSH Toolkit. “Types of Financing for Supportive Housing Development and Operations.”

for 30 years. Affordable housing projects (more so than supportive housing projects) typically include hard debt for which the project would carry a mortgage to be amortized over time. Each funding source has its own requirements and limitations such as population, income level, or apartment type and size. Unlike most projects which provide either affordable housing for low-income tenants or supportive housing for persons with special needs, Castle Gardens was designed to provide both supportive and

#### **Project Financing Tips from Fortune's Experience**

- Think through what relationships – both public and private -- you can leverage or need to partner to leverage. Political leverage, reputation and track record are important in being able to secure funding. They are also necessary to compel funders to coordinate with each other and provide technical assistance that is helpful in securing funding.
- Similarly, organizations should think through their internal available resources to engage in the fundraising process directly. It is a serious time commitment.
- Fundraising and project design is an evolutionary and iterative process. Organizations should be clear on what compromises they are willing to make so that they can stay true to their values while ensuring financial viability for construction, operations and services. Unrestricted funds such as a developer's fee will give organizations important flexibility to accomplish their missions.
- Community support continues to be critical during the fundraising stage.
- The fundraising process can build an organization and strengthen its Board.

affordable housing, which are distinctive in their requirements and in their funding sources, increasing the complexity both of the funding sources and of the requirements that came with them.

CSH cautions, "It's one thing to put together a list of prospective sources of funding, and another thing to ensure that the sources will work together, and will pay for what's needed at the time it's needed. Many supportive housing projects must rely on a "layer cake" of funding sources. . . . It is critical to understand all of the various program parameters and requirements when layering one source with another."<sup>39</sup> Key to Fortune's choice of co-developer was JRCo's track record in working on projects that involved coordinating with and meeting the demands of multiple funders.

One particular type of funding is critical to supportive housing projects. As discussed above, the Castle Gardens feasibility study concluded that affordable housing rentals would optimize financial and mission goals. A common source of affordable housing funding is Low-Income Housing Tax Credits (called "LIHTC" or "tax credits")<sup>40</sup>, which offer private individuals and corporations incentives to invest in low-income housing. "The Tax Reform Act of 1986 created and provides for a dollar-for-dollar credit against federal income taxes owed, as opposed to tax deductions, which reduce taxable income. In exchange for these benefits, individuals and corporations invest in low-income housing, usually paying less than a dollar for a dollar's worth of credit (thereby creating a return on their investment)." LIHTC are allocated to states based on their population, and states then designate agencies to distribute the LIHTC. In New York State, these agencies are: New York City Department of Housing Preservation and Development (HPD), New York State Housing Finance Agency (HFA) and the New York City Housing Development Corporation (HDC).

<sup>39</sup> CSH Toolkit. "Deal Structuring for Supportive Housing."

<sup>40</sup> The explanation of LITC is derived from CSH Toolkit, "Understanding Low Income Housing Tax Credits: How to Secure Equity Investments and Evaluate Syndication Options."

Non-profit housing developers “can sell the credits to investors, and use the proceeds as equity in the project.” CSH estimates that LIHTC usually make up 30 – 50% of total development costs. “The amount of equity that can be raised for a project is a function of how much “qualified basis” there is in the project. “Basis” is simply the project costs that are subject to depreciation – like construction, appliances and traditional soft costs. The total amount of tax credits depends on the basis, the total number of affordable units available and the tax credit rate, which is either 4% or 9% depending on the program. Investors, in Fortune’s case a syndicator, purchased the tax credits, thereby providing Fortune equity. CSH’s materials provide detail on the various ways in which tax credits may be sold and tips for evaluating options. Tax credits can also be competitive or as of right, and either hard loans or soft loans.

#### Section 4.2 Castle Gardens Capital Funding Sources

What next? As Fortune and Jonathan Rose Companies began developing the capital financing plan, the feasibility study provided a starting point of what they needed to raise money for, including the number of affordable housing units, supportive housing units, and the square footage of service space. Using this, the developers created a pro forma budget, which included a financial plan for operating and developing the project and considered rental income, development costs and operating costs.<sup>41</sup> The pro forma included an estimate of the project’s LIHTC eligibility amount, a large proportion of the expected funding balance, and its additional funding requirements. Fortune was informed by the same funding issues it considered as it chose its co-developer. In particular, the following were important issues:

**For tips on how to prepare supportive housing budgets see CSH’s Toolkit:**

- 1) Preparing the Supportive Housing Proforma
- 2) Types of Financing for Supportive Housing Development and Operations
- 3) How to Prepare a Supportive Housing Project Development Budget
- 4) How to Prepare a Supporting Housing Operating Budget
- 5) Considerations for Developing and Managing the Supportive Services Budget

- The affordable and supportive housing funding mix needed;
- Maximizing the developer’s fee for unrestricted funds for Fortune;
- Ensuring Fortune was paid at least in part for the land, valued at over \$9 million, which it already owned and was providing for the project;
- Securing funding for sufficient service space;
- Avoiding overly restrictive or value-compromising funding sources;
- Minimizing/managing risk/guarantees.

It is important to note that a feasibility study is a *starting point* and that a project’s design and financing structure evolve throughout the fundraising and construction phases. As Fortune’s CEO JoAnne Page describes it, financing and design are an iterative and evolutionary process. It is important, as it was in the previous phase, for organizations to be clear on what their priorities are and where they are willing to compromise. Fortune and Jonathan Rose Companies researched funders and their funding areas, requirements and limitations and went back and forth adjusting the project and funding sources to build back out to a final project. Fortune started with an ideal project design, and had a range of design contingencies and priorities. The final project was the product of this evolutionary process and was determined by program design priorities, zoning restrictions, funders’ interests and restrictions (including the need for ongoing operational and service funding), and an unyielding dedication to core values.

<sup>41</sup> CSH Toolkit “Preparing the Supportive Housing Proforma,” and “Types of Financing for Supportive Housing Development and Operations.”

As discussed above, large service space was a core value for financial and client service reasons, but it was also the wild card in the design and funding puzzle. Much of the funding for supportive and affordable housing projects comes from low income housing tax credits and other housing-based funding. These funding sources pay a certain amount per square foot of housing space, and allow for a small service area; therefore, Fortune would have to fundraise separately and creatively for the larger service area. The organization was willing to adjust, but not such that Fortune's values or financial feasibility would be compromised in an untenable way. Through the building design and project financing process, Fortune gradually reduced the service area square footage to approximately 20,000 feet of service space.<sup>42</sup>

As was mentioned at the outset, as the result of 18 months of meetings, relationship building and proposal writing, Fortune and JRCo were able to work together to raise over \$43 million. JoAnne Page, Fortune's CEO, attributes this to Fortune and Jonathan Rose Companies, as co-developers, taking joint responsibility for project financing; thereby leveraging their connections and relationships and expertise to secure advice and funding. These strong relationships with funders and government entities then allowed the co-developers to ensure that their funders worked together to piece together funding and coordinate project oversight. Further, by combining both affordable and supportive housing funding streams, although a challenge, the Castle Gardens project had diversified, and therefore, more stable funding. In the end, the project had city and state competitive funding, as of right low income tax credits, appropriations from elected officials, foundation support, private grants, bank funding and funding from Fortune's capital campaign.

Below is a chart of Castle Gardens' permanent capital funding sources. In addition to the sources below, Castle Gardens had two capital funding sources for the construction period only. First, Capital One Community Development Finance provided a letter of credit, or credit enhancement. Under this letter of credit, the project would pay a fee to the bank, in exchange for which the bank would agree to pay if the project defaulted on construction payments. This letter of credit was required to secure the second construction-period only funding source, \$21.7 million in bond financing from the New York Housing Finance Agency. \$3.6 million of this funding became a part of the Castle Gardens permanent funding, as captured in the chart below. The other \$18.1 million was repaid in 2011. Castle Gardens permanent financing was structured so that as HFA was repaid, additional LIHTC became available to the project (the total value of LIHTC is also captured in the chart below).

<b><u>Castle Gardens Permanent Capital Funding Sources<sup>43</sup></u></b>			
<b><u>Funding Source</u></b>	<b><u>Type</u></b>	<b><u>Amount</u></b>	<b><u>Process</u></b>
<b>Enterprise Green Communities</b>	Construction grant	\$50,000	Fortune had a relationship with Enterprise Green Communities, a LIHTC syndicator, because it funded the Academy. We

<sup>42</sup> Fortune Society Executive Committee Meeting Minutes (April 24, 2007). Fortune's original feasibility study set 55,000 square feet as the desired size of the service space. However, it proved impossible to achieve funding for service space of that size, so the service space was gradually reduced to 25,000 square feet in the building design, and then further reduced to 20,000 square feet as other building costs mounted and reduced the money available for the service space. Fortune held the line at 20,000 square feet, which provided the rent-free space necessary to achieve the rental savings which equaled the income that a \$9 million endowment would have generated at 5% interest, thereby remaining consistent with the rationale used to justify developing the land rather than selling it to create an endowment.

<sup>43</sup> Proforma Summary: Affordable Housing + Fortune Supportive Housing + Fortune Program Space," The Fortune Society (Last Updated: December 23, 2008).

			submitted a proposal and were awarded this grant.
<b>Federal Home Loan Bank of New York<sup>44</sup></b>	Competitive Grant treated as Soft Loan	\$1.5 million	Jonathan Rose identified this private source of funding and a proposal was submitted. The Federal Home Loan Bank of New York funded Fortune through a competitive affordable housing program. This was a grant issued to Fortune and loaned by Fortune to Castle Gardens.
<b>Hudson Housing Capital/Capital One Community Development Finance</b>	Low Income Housing Tax Credit Equity	\$16,060,594	Fortune issued an RFP for a syndicator for its LIHTC, selecting Hudson Housing Capital (“Hudson”). Hudson matched the project with Capital One as the tax credit investor.
<b>Mayor’s Fund to Advance New York City</b>	Grant	\$250,000	Fortune became aware of this grant through its relationship with Jessica Katz and Commissioner Shaun Donovan at HPD. HPD was working closely with Fortune, and around that time, a major donor came to HPD and said he was interested in a supportive housing project. The anonymous donor gave \$250,000 to HPD through the Mayors Fund to Advance New York, which was granted to Castle Gardens.
<b>Manhattan Borough President’s Office</b>	Grant	\$1M	The Borough President, because of his long working relationship with Fortune and support for the project, committed \$1 million in discretionary funds. Castle Gardens fit Borough President Scott Stringer’s vision for housing development in West Harlem. This money was received upon closing, and was unrestricted

<sup>44</sup> Current information available at <http://www.fhlbny.com/community/housing-programs/ahp/index.aspx> (The Federal Home Loan Bank of New York has an affordable housing program, “Each year since 1990, the HLB has set aside 10% of its private earnings to support the creation and preservation of housing for lower income families and individuals through the Affordable Housing Program (AHP). AHP funds are awarded to members who submit applications on behalf of project sponsors who are planning to purchase, rehabilitate, or construct affordable homes or apartments. Funds are awarded through a competitive process which typically takes place either once or twice a year, at the HLB's discretion.” Permitted uses include, “[a]cquisition, construction, or rehabilitation of Rental Housing in which at least 20% of the project's occupants must earn 50% or less of the area median income.”)

			funding used for construction.
<b>New York City Council</b>	Grant	\$2M	Through the appropriations process, Castle Gardens was allocated \$2M in City Council funding. This was possible because of Fortune’s Community Board and Advisory Board relationships, the strong reputation that it had with local City Councilmember, Robert Jackson, and City Council Speaker Christine Quinn, and their deep commitment to affordable and supportive housing.
<b>New York City Department of Housing Preservation and Development Supportive Housing Loan Program<sup>45</sup></b>	Interest Only Loan	\$8.3M	This was Castle Gardens’ second funding source, brought in through JRCo’s track record and knowledge. Based on the strength of the feasibility study, community support and HPD’s buy-in to the program model, the project received \$8.3 million and the team was able to negotiate a streamlined reporting procedure.
<b>New York State Energy Research and Development Authority</b>	Grant	\$239,390	Fortune and JRCo applied, through a rolling application process, for funding for a green affordable housing program.
<b>New York State Housing Finance Agency<sup>46</sup></b>	\$21.7 million tax exempt bonds proceeds during construction, paid down to a \$3.6 million permanent mortgage.  Subsidy Loan; \$4M Accrued Loan	\$7.6M	JRCo took the lead in securing tax exempt bond proceeds along with a soft subsidy loan. HFA issues and sells tax exempt bonds. Bond holders of these federally tax-exempt private activity bonds receive tax-exempt interest on their investment. HFA then uses the proceeds to make mortgage loans to housing developers that agreed to rent at least 20% of the units to low-income households. (Castle Gardens is 100% low income and very low income

<sup>45</sup> Current information available at <http://www.nyc.gov/html/hpd/html/developers/shlp.shtml>.

<sup>46</sup> Current information available at <http://www.nyhomes.org/index.htm>.

			housing).  In addition, HFA bond financing comes with an as-of-right allocation of 4% federal low income housing tax credits, which helped Fortune raise a significant equity investment in the project.
<b>New York State Office of Temporary &amp; Disability Assistance (HHAP) Homeless Housing and Assistance Program</b>	Interest only soft loan	\$5.5M	Fortune had built a strong working relationship with HHAP, which had provided key funding for the Castle. The proposal for Castle Gardens was the first proposal completed by the Fortune/JRCo team and the first money awarded in September 2007. “Program funds are awarded through an annual competitive Request for Proposals process.” <sup>47</sup> This funding was the critical first step to financing the construction of Castle Gardens. As with the Castle, HHAP provided “first money in” which was essential to bringing in other funders. HHAP staff were flexible and supportive during both planning and construction.

*Section 4.3 Castle Gardens First Money In and Funder Technical Assistance*

Castle Gardens’ first commitment, from the New York State Homeless Housing and Assistance Program (HHAP), built momentum and credibility for Castle Gardens. HHAP “provides capital grants and loans to not-for-profit corporations, charitable and religious organizations, municipalities and public corporations to acquire, construct or rehabilitate housing for persons who are homeless and are unable to secure adequate housing without special assistance” through an RFP process.<sup>48</sup>

Fortune had built a close relationship over time with HHAP because HHAP had funded the Academy through a competitive bid and considered the Academy one of their flagship projects. They also had been willing to accept Fortune’s innovative concept of Phased Permanent housing, defined as “permanent for this phase of the client’s life.” Because of the partnership that Fortune and HHAP had built around

<sup>47</sup> Current information available at <http://otda.ny.gov/programs/housing/hhap.asp>.

<sup>48</sup> As described in current materials: “The Homeless Housing and Assistance Program (HHAP) provides capital grants and loans to not-for-profit corporations, charitable and religious organizations, municipalities and public corporations to acquire, construct or rehabilitate housing for persons who are homeless and are unable to secure adequate housing without special assistance.” “Program funds are awarded through an annual competitive Request for Proposals process. Applicants and awardees represent a broad range of not-for-profit and charitable organizations, generally with experience either in housing development or management, or in the provision of social services. A relatively small number of grants have also been made to municipalities.”  
<http://otda.ny.gov/programs/housing/hhap.asp>.

funding and operation of the Academy, it was possible to have HHAP and the Dormitory Authority of the State of New York (DASNY) provide advice during the early stages of thinking through Castle Gardens well before any application for funding was made. Through these early discussions, Fortune was able to solicit feedback and technical assistance about Castle Gardens from HHAP, both about its selection of a co-developer and architect, and after JRCo joined, on design plans and overall financing.

By the time HHAP's RFP was released – at which point Fortune could no longer communicate with the agency because of competitive bidding laws – Fortune had received significant advice that helped in shaping the project and its implementation. Fortune and JRCo split drafting responsibilities for the proposal, with each organization taking the lead on its area of expertise. In this case, JRCo wrote the technical sections and JoAnne Page wrote about the program, including how it would fulfill its long-term service commitment, the expertise it had developed in running the Castle, and the project's target population. As shown by Fortune's experience, it is important for organizations in the fundraising phase to think about their relationships to funders; their capacity to handle funding applications; and their areas of and gaps in expertise.

Through a successful competitive bid when an RFP was issued, Fortune received the HHAP \$5.5 million soft loan for construction. This was a big moment for the project because it gave the project gravitas; and because HHAP was flexible in how the funds were used and was willing to fill gaps around what other funding covered.

#### *Section 4.4 Leveraging Relationships for Castle Gardens Funding: Community Support and Coordinating Funders*

Fortune's relationship with the community and Community Board 9 was critical during pre-development and continued to be so during project financing.<sup>49</sup> An organization's ability to access HPD's funding stream is tied, in part, to its ability to secure Community Board support, which is one of the criteria that HPD uses in determining whether or not to fund a project. Fortune's ability to overcome "not in my backyard" resistance during the development of the Academy, and the inclusion of badly needed family-oriented affordable housing to meet community need, provided it with the foundation of community support necessary to access HPD funding for Castle Gardens.

At the time when Fortune approached HPD, the City agency was near its cap for funding allocations. However, HPD coordinated with the New York Housing Finance Agency to access additional funding. Because HPD funding was not granted through a competitive RFP process but rather obtained through negotiations, and likely to be a large source of funding for Castle Gardens, HPD and Fortune had a partnership in which the two organizations worked together on design and funding for the overall project.

The group worked together to craft a funding structure that would provide sufficient capital for construction and ongoing operating and supportive services funding. HPD had a formula for apartment sizes and funding on the supportive and affordable housing sides, which became data for the design and financing iterative process; and HPD and Fortune coordinated with the HFA throughout the process.

In the end, Castle Gardens received a total of \$8.3 million in funding from HPD's Supportive Housing Loan Program, which provides financing, including for new construction, to not-for-profit organizations to develop supportive housing for homeless single adults. The HPD loans are "to develop permanent housing with on-site social service. Loans have a 30 year term and neither principal nor interest are repaid if the sponsor complies with the terms of a regulatory agreement requiring that the property be

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<sup>49</sup> Fortune's proposed project was included in Community Board 9's funding requests to the City Council, and, even though funding was not granted, this inclusion was an important demonstration of community and Community Board support that was essential to securing other sources of funding.

used for housing for low income homeless disabled tenants for 30 years.” The program requires the rent to meet certain affordability criteria<sup>50</sup> and Fortune was able to use this HPD funding for the affordable as well as the supportive units.

As referenced above, HPD and HFA, coordinated and worked together to provide funding to Castle Gardens. HFA played a significant role in Castle Gardens’ financing: it provided the project bond financing during the construction phase, which was converted into \$3.6 million in permanent capital financing. Further, Castle Gardens received another \$4 million in permanent financing from HFA.

Details on Castle Gardens’ other funding sources and how Fortune and JRCo leveraged relationships to weave together financing is included in the chart above.

#### *Section 4.5 Board and Organizational Development during Castle Gardens Supportive Housing Fundraising*

Fortune’s Board continued to be active during the fundraising phase, and the Project Steering Committee, which met regularly, included the Board Chair Betty Rauch, Jonathan Rose, and JoAnne Page. Capital Campaign issues were also addressed during the Steering Committee meeting, raising funds for such items as the building staircase and purchase of furniture for office space. Other Board members joined Steering Committee meetings occasionally, and important decisions were brought before the Board and the Executive Committee of the Board. (See Section 6.1).

As the Castle Gardens project continued to require significant decision-making resources from the Board, Fortune’s Board evolved, and in the end strengthened as a result of the intense process. The financial disclosures required of Board members to access funding, including HPD funding, was one juncture during the development process. In order to access HPD and other funding sources, Board members would be required to provide in-depth financial disclosures, which some Board members at the time decided they were unable to do and resigned. While this was difficult, it also meant that Board members deepened their engagement with an organization that was growing in prominence as a housing provider. For those that were on the Board, the successful opening of Castle Gardens was a moment of great pride.

#### *Section 4.6 Low Income Housing Tax Credits and Closing on Castle Gardens Financing*

Fortune had issued an RFP in Spring 2008 to create competition and yield the best possible price on its LIHTC, which was critical to meeting Fortune’s goal of having robust on-site service space. Hudson Housing Capital (Hudson or Hudson Housing) and Enterprise, two main LIHTC syndicators, were competing for Fortune’s LIHTC business. Fortune had originally assumed Enterprise would fund the project because it had financed the Academy and had provided technical assistance to the Castle Gardens project. However, Hudson Housing wanted to enter the New York market, and to do so with Jonathan Rose Companies, and offered an even more competitive price and an attractive working relationship that led to being chosen by the Fortune/JRCo team. Surprisingly, during a time of economic uncertainty in which tax credits that had been going for over \$1 for each dollar of credit were trading well under a dollar, Fortune was able to get an above market price on its tax credits from Hudson Housing (as syndicator) and from Capital One Community Development Finance (Capital One), the bank with which they worked and was the investor.

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<sup>50</sup> Current information available at <http://www.nyc.gov/html/hpd/html/developers/shlp.shtml>. HPD funding for Castle Gardens came with the requirement that Fortune had to dedicate a certain number of apartments to individuals referred from the Department of Homeless Services (DHS) and the remaining apartments could be used for other populations.

As the financial markets worsened in the face of the economic crisis that was growing toward the end of 2008, many projects that were trying to close on financing found that the prices that they had been relying on for their tax credits were reduced by their purchasers, and, in many cases, that meant that projects were unable to move forward. In Fortune's case, Hudson Housing and Capital One honored their commitment to the price that they had offered, even as the market continued to drop and that price became more and more above-market. However, although they did not reduce their price, they instead asked for additional guarantees, both of Jonathan Rose Companies and of Fortune. As was mentioned above, Fortune had negotiated to get paid for the Castle Gardens land, which it already owned at the time of development. The appraised price was significantly higher than what had paid at the time of purchasing the land for the Academy, and Fortune negotiated to be paid something in between. But as the larger economy faltered, Hudson Housing and Capital One added the requirement that a portion of that payment be placed in a special reserve fund that would provide additional financial guarantees for the project.

December 2008 was a month fraught with tension as the economic climate worsened and heated negotiations about guarantees and contractual terms took place. However, all parties involved were determined to bring financing of this project to fruition. Finally, at Fortune's December 9 Full Board Meeting, JoAnne announced that Castle Gardens would close on funding on December 18, at a time when many other organizations' deals had fallen apart.

## ***Section 5. Construction***

### *Section 5.1 Managing Risk During Castle Gardens Construction*

On February 19, 2009, the Fortune Society and JRCo hosted a groundbreaking for Castle Gardens, with remarks from Mayor Michael Bloomberg:

**“Supportive housing is essential for the health, safety, and dignity of many vulnerable New Yorkers who are weathering hard economic times . . . . By combining public and private funds and partnering with organizations like the Fortune Society and Jonathan Rose Companies, the City has set the stage for a stunning new green housing complex that will become an important anchor in this West Harlem community.”<sup>51</sup>**

As the [press release](#) from the event demonstrates, the community – including neighbors, elected officials such as Borough President Scott Stringer, City Council Speaker Christine Quinn, City Councilman Robert Jackson and Fortune clients and staff – were excited to see the project move towards reality. As the first ceremonial shovel broke ground, Fortune was aware that construction was a challenging process that would have to be carefully managed. Delays in construction, and therefore lease up can be costly to a project as funders require lease up according to a certain schedule and the rental income is needed to meet costs.

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<sup>51</sup> On hand for the groundbreaking ceremony were Congressman Charles Rangel; Borough President Scott Stringer; City Council Speaker Christine Quinn; City Council Member Robert Jackson; Acting Commissioner Marc Jahr, Department of Housing and Preservation; Commissioner David Hansell, Office of Temporary and Disability Assistance; President/CEO of New York State Housing Finance Agency Priscilla Almodovar; Michael Colgrove, Director of NYC Office for NYSERDA; Keith Fairey, New York Director and Regional Operations Officer for Enterprise Community Partners; Patricia Jones, Chair of Community Board 9; Mark Ginsberg of Curtis + Ginsberg Architects LLP; Nick Lettire of Lettire Construction; James Covington, Senior Vice President of Capital One; John S. Zeiler, CEO of Hudson Housing; Alfred A. DelliBovi, President of the Federal Home Loan Bank of New York; and hundreds of supporters.

As experts in the field of supportive and affordable housing including CSH<sup>52</sup> and The Enterprise Foundation,<sup>53</sup> explain, the construction process has two types of risks associated with it:

- Risks that are largely unknowable in advance and therefore *inherent* to the development process, and
- Risk that are well understood and therefore are generally *avoidable* with diligent management and oversight of the process.<sup>54</sup>

Fortune managed the avoidable risk associated with construction by:

- ***Building its construction team early and with care;***
- ***Partnering*** with JRCo in order to leverage the firm’s construction expertise and reduce risk;
- Creating high-level ***internal capacity*** by designating Fortune’s Chief of Staff to serve as point person during the construction phase, supported by other Executive team members and the Board Chair.
- ***Engaging with the community*** throughout the construction process.

Fortune’s construction process went smoothly. Fortune was often able to report to its Board that construction was *ahead* of schedule, and *below* cost, and the building received its Temporary Certificate of Occupancy in July 2010.<sup>55</sup>

### *Section 5.2 Building the Castle Gardens Construction Team*

Fortune’s development of Castle Gardens was atypical because Fortune began pre-development knowing and owning its site. For organizations that do not have a site in mind, pre-development will include selecting and securing a project site,<sup>56</sup> and project sites for supportive housing can range from apartment or single-room occupancy buildings (SRO), townhouses, or single-family homes that exclusively house formerly homeless individuals and/or families; apartment or SRO buildings, or townhouses that mix special-needs housing with general affordable housing; rent-subsidized apartments leased in the open market; and long-term set-asides of units within privately owned buildings.<sup>57</sup>

With its location chosen and its commitment to new construction, Fortune’s next step was to build off the feasibility study’s design ideas to conceptualize the building’s design and construction options given zoning and structural requirements. The building would be designed to fit within existing zoning regulations, thereby avoiding the need to seek zoning variances. As CSH explains, it is desirable to build

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<sup>52</sup> CSH Toolkit. “Navigating the Construction Period.”

<sup>53</sup> The Enterprise Foundation, Inc., “Risks in Affordable Housing Development: Important Factors to Watch” (2000) (linked in CSH Toolkit).

<sup>54</sup> CSH Toolkit. “Navigating the Construction Period.”

<sup>55</sup> Fortune Society Board Meeting Minutes (May 19, 2009) (Construction on schedule); Fortune Society Board Meeting Minutes (July 21, 2009) (Construction was ahead of schedule); Fortune Society Board Meeting Minutes (February 4, 2010) (Construction was ahead of schedule); Fortune Society Board Meeting Minutes (March 16, 2010) (Construction was 85% complete at this time and ahead of schedule and budget).

<sup>56</sup> CSH Toolkit. Section II.D. “Selecting and Securing the Project Site”

<sup>57</sup> CSH Toolkit. “What is Supportive Housing.”

upon a site that is already zoned for the intended use, "...since the process of seeking and being granted a zoning variance will add time and uncertainty to the development efforts, and may give any opponents to the project additional opportunities, and additional leverage, to block the planned development."

With this in mind, an essential part of risk mitigation in constructing Castle Gardens was to begin the design and construction process early by building its development team. For example, as described earlier, Fortune issued its RFP for architectural design services in January 2007. Fortune thought it was important to have a clear design for the building early on to have a real sense of price as it began raising funds. Further, certain funders required design details as part of the funding application. In Fortune's case, the Homeless Housing and Assistance Program (HHAP) funding application, due in late April or early May 2007, required "Sketch Plans of the proposed building" to include a site plan, each floor plan, and typical unit plans.<sup>58</sup> Additional details of Fortune's early design and construction team selection are described in Section 3.5 above.

### *Section 5.3 Jonathan Rose Companies as Construction Expert and Fortune Executive Involvement*

The Castle Gardens design team had met weekly for a year to plan the building, but, as with any construction project, issues, questions and decision arise during construction, and the process requires monitoring and a range of small and large decisions on the part of the owner. These decisions include fine-tuning design, including on materials, finishes, layout and more; and many of these decisions are cost-sensitive. Fortune was the key decision-maker on these questions – it had a range of alternates depending on what it could afford as the process went along – and drew heavily on JRCo's and Mark Ginsberg's expertise to understand the options.

Fortune managed risk by using the expertise of its co-developer, JRCo, during the construction process to supervise construction. Whitney Foutz continued to be the point person for the project, supported by Paul Freitag, Managing Director of Development, as well as other JRCo staff as needed. Fortune assigned Sherry Goldstein, Chief of Staff to Fortune's CEO and a key member of Fortune's Executive Team, to participate in weekly construction meetings to monitor construction and make decisions on Fortune's behalf as issues arose, and to confer with Fortune's executive team when necessary. Weekly construction meetings also included JRCo, Lettire, Curtis + Ginsberg, a representative from funders HPD and HHAP (represented by DASNY), and representatives from other funders. The organizational commitment during this phase was significant. As described above, the funders would monitor construction and sign off on payment; they would also have to approve any changes made to the original plans as construction progressed.

In addition, the Castle Gardens' Steering Committee, at this time composed of Jonathan Rose and others from JRCo; Fortune Board Chair Betty Rauch; CEO JoAnne Page, Senior Vice President of Programs Stanley Richards, Chief of Staff Sherry Goldstein and others from Fortune met approximately every six weeks until construction was completed. Sherry Goldstein dedicated approximately 20% of her time to overseeing Castle Gardens construction until actual construction was completed. However, she and other key members of the team still participate in a construction call every two weeks as of mid-2012 and will continue until all items of the punch list are satisfactorily completed.

### *Section 5.4 Community Engagement during Castle Gardens Construction*

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<sup>58</sup> See Fortune's RFP for Architectural Design Services.

In addition to the potential NIMBY community issues associated with a reentry supportive housing project, which Fortune had addressed as described in Section 2.4 above, construction projects can be disruptive to neighbors. Fortune wanted to minimize this potential strain to its community. It had worked hard to build a relationship in the neighborhood when it opened the Academy and in operating that project, and wanted to maintain that as its new community space opened.

Fortune worked with neighboring buildings, including by providing tenant associations notice on hours of construction, street closures, and progress. CEO JoAnne Page served as community point person to answer questions and provide liaison with the community. Fortune also continued to engage with its Community Advisory Board and Community Board 9, and to attend six regularly scheduled community meetings a month, something that it has done consistently since purchase of the shell of the Castle and the vacant lot in 1998. As with its efforts to build the trust needed to overcome original NIMBY resistance for the Castle, Fortune's policy was to maintain open communication and proactively provide information to its neighbors.

Fortune completed construction ahead of schedule and had started the lease up process on an aggressive timeline. (See Section 6). The building's green construction is described in Section 3.1.

## ***Section 6. Opening the Doors to Castle Gardens***

### *Section 6.1 Planning and Fundraising for Castle Gardens Operations and Supportive Services*

Castle Gardens would require ongoing funding for operating expenses and supportive services. Operating expenses are the costs associated with running any residential building, and typically include general and administrative costs such as management fees and accounting fees; payroll for administrative staff; maintenance staff and security; utilities, marketing and leasing; maintenance and repair; taxes; and insurance.<sup>59</sup> Supportive services funding is for the costs associated with providing social services at Castle Gardens – the supportive services that made the project more than an affordable housing development -- and the cost would depend on the nature and robustness of the supportive services. (See Section 4.1 for additional details). Finally, it is important to remember that the ongoing funding structure would have to include a plan for paying down hard construction debt where it existed.

As Fortune raised capital funding, it simultaneously planned for how it would finance Castle Gardens' operating and service costs on an ongoing basis. Key to the financial feasibility of operating Castle Gardens were the building's green features. As described above, the building's green features are designed to reduce utility usage and costs by at least 20% compared to a standard building.

Just as design and financing options interplay, development fundraising, design and ongoing funding inform each other. For example, projected operating deficits can be capitalized in the development budget (as some funders require) or separately.<sup>60</sup> Or, as was the case with Castle Gardens, supportive services funding informed unit size, quantity and design. Fortune's vision for the large service space it wanted informed design, and it had to consider how it would afford to staff those services. As a result of the forgoing, budgeting for operating and supportive services should begin *early*.

Fortune is able to fund operating and supportive services by, as it did capital funding, creatively combining different funding sources and staying true to core values. Fortune is funding the building's non-service operating expenses with its rental income (paid by tenants and subsidies); and expects the rent to generate enough surplus over the cost of operating expenses to provide some supportive service

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<sup>59</sup> CSH Toolkit.

<sup>60</sup> CSH Toolkit. "How to Prepare a Supportive Housing Operations Budget."

funding Tenants in the affordable housing units pay rent according to income formulas associated with low income tax credits, as discussed in Section 6, and Fortune receives rental subsidies for all of the supportive housing tenants. (See directly below). Key supportive service funding comes from a NYNY III congregate housing contract<sup>61</sup> won through competitive bid, providing housing and services to homeless formerly incarcerated individuals and families who meet tightly defined eligibility criteria because of their special needs. NYNYIII funds 35 of Castle Gardens' 50 supportive studios and all 13 of its supportive family units. For values reasons, Fortune chose to leave 15 of its supportive studios out of its application for NYNYIII funding in order to be able to house homeless clients who needed permanent supportive housing but did not fit NYNYIII criteria, and thus needed to use other funding to provide for the services for those clients. As part of its fund-raising strategy Fortune also has, as described herein, a Capital Campaign to fund service center start-up.

The building's ability to generate service funding through rental income was only possible because Fortune was awarded Project-Based Voucher Section 8<sup>62</sup> rental subsidy for all of its supportive housing apartments and some of its affordable housing apartments through a HPD pilot program<sup>63</sup>. The program also included tenant-based vouchers for clients who met certain criteria and wanted to move to other housing in the future. JRCo and Fortune were able to access this pilot through working closely with HPD, and this funding was critical to Castle Gardens' financial feasibility as the project-based subsidy would be tied to the apartment, and therefore, provide a rental income stream as long as the program lasted and the apartment was occupied. Under Section 8, Fortune would be paid the difference between the 30% of income that a tenant would pay and the market rent. The Section 8 subsidy required that 48 units be designated for elderly or disabled individuals: 35 of Castle Gardens supportive studios; and the 13 supportive family units. The NYNYIII tenants meet these criteria, and NYNYIII funding pays for their Case Managers as well as other service costs.

“Case Managers help residents identify and achieve their goals and meet their needs through the provision of access to various services. A Case Manager addresses the physical, psychological and social needs of the person and helps him/her to maintain housing. . . . Additionally, a Case Manager will negotiate, advocate, inform, coordinate and serve as a liaison to other professionals and service programs. Some of the linkages Case Managers access to help people meet their goals include education programs,

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<sup>61</sup> Castle Gardens obtained funding from the NYC Department of Health and Mental Health (DOHMH) for the NY/NY III Congregate Supportive Housing-Option IV program (NYNY3), a competitive grant offered by New York City in partnership with New York State.<sup>61</sup> NYNY3 Option IV funds case management for the supportive services for “[h]omeless single adults who have completed a course of treatment for a substance abuse disorder and are at risk of street homelessness or sheltered homelessness and who need supportive housing to sustain sobriety and achieve independent living”<sup>61</sup> Fortune anticipated NY/NY III-eligible individuals to find their way to Castle Gardens either through the shelter system or the Academy. Castle Gardens' 13 family supportive units are also supported by NYNY 3 under Option V, to serve “[c]hronically homeless families, or families at serious risk of becoming chronically homeless, in which the head of the household suffers from a substance abuse disorder, a disabling medical condition, or HIV/AIDS.” Fortune added the additional criterion that tenants or household members also be formerly incarcerated.

<sup>62</sup> Section 8 is usually a benefit to individuals who meet certain qualifications: “The Section 8 Housing Assistance program was created by the Housing and Community Development Act of 1974 to assist lower income families in obtaining a decent place to live at a rent that they can afford. Under this program, the New York City Housing Authority (NYCHA) administers a citywide Section 8 Housing Choice Voucher Program that is the largest Section 8 voucher program in the nation with more than 96,481 active Section 8 tenants and over 29,000 owners currently participating in the program. NYCHA pays part of the rent each month directly to the landlord for an eligible family, which has been given a Voucher, in accordance with regulations of the United States Department of Housing and Urban Development (HUD). HUD provides the funding for the Section 8 Housing Choice Voucher Program.”

<sup>63</sup> This HPD rental assistance is separate from the HPD capital funding mentioned above.

vocational programs, medical providers, entitlement centers, advocacy groups, day treatment programs, psychotherapists and psychiatrists.”<sup>64</sup>

Fortune’s supportive service planning for the Castle Gardens Community Living Center (CLC) continues after Castle Gardens’ doors opened. Fortune’s vision is to provide a broad array of needed services in its 20,000 square feet service space in Harlem to serve homeless formerly incarcerated individuals and low-income tenants residing in the building, along with other formerly incarcerated individuals from the surrounding community in need of services and supports. Designing and obtaining funding for these services is an ongoing process and the needs of the community are vast.

Castle Gardens’ West Harlem community (Community District 9) is one of the neighborhoods identified by criminal justice experts as containing several “million dollar blocks” where criminal justice spending on residents exceeds \$1 million annually.<sup>65</sup> In addition, Castle Gardens’ residents and others from the surrounding community also face high unemployment, low literacy levels, low-quality housing stock, and low availability of social services options – making the Castle Gardens CLC a crucial lifeline of support and access to essential services. Finally, the area has significant health challenges. The communities suffering from the highest asthma rates as a result of pollution and toxic waste are the same communities that have the highest rates of incarceration in New York City. As Fortune considers its services, it is attuned to the needs of its supportive residents, its affordable residents and the greater Harlem community.

Currently, Fortune offers the following services to meet the needs detailed above. The Castle Gardens Service Center opened in January 2011 and is open year round on weekdays from 9am-8pm, Monday-Thursday; and from 9am-5pm on Friday, with some availability on evenings and weekends. The satellite substance abuse treatment clinic offers evening hours (3pm-11pm), along with 24/7 counselor coverage. On-site programming is being introduced in stages in response to Fortune’s formal assessment of individual client needs, ongoing community meetings, needs of building residents, and availability of funding. And all building residents, regardless of their criminal justice history, have access to the CLC library, a 14-station computer lab, and community meeting spaces.

Its core on-site programs currently include:

- **One-on-one case management** (to ensure that social services needs are met and to track client progress)
- **Licensed substance abuse treatment and relapse prevention programs** (clinical case management, individual and group counseling, and recovery support services).
- **Life skills training** (anger management, safer sex, and healthy living).
- **Computer literacy skills** (basic and intermediate computer: Microsoft Office, Internet usage, basic PC troubleshooting).
- **Video/media production and creative writing.** In addition to core computer skills training, the Computer Lab Coordinator conducts an 11-week video production class where students create personalized, short documentaries. The students also learn hard skills, including basic video camera use, story board and script development, and lighting and video editing skills, along with

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<sup>64</sup> CSH Toolkit. Role of the Case Manager.

<sup>65</sup> The NYC Department of Probation (DOP) serves 28,000 probationers on any given day; and the NYC Department of Corrections (DOC) average daily population was 13,362 in 2009, with 99,939 admitted annually. Furthermore, in 2009, 25,976 people came home from NYS prisons, and 8,093 (49.3%) were from New York City.

soft skills such as project planning and teamwork. Fortune pursued this programming to address the digital divide that its residents and neighbors face; and to increase participants' employment prospects.

- **Farm fresh food distribution and nutrition education** (in partnership with Corbin Hill Road Farm and Taste & Texture). Given health and wellness indicators in West Harlem, this programming is critical.

CLC clients also can access additional services at Fortune's main service center located in Long Island City, Queens, including: employment services, hard skills training, adult literacy and GED classes, alternatives to incarceration, recreation and food, health services, mental health services, and lifetime aftercare supports and services.

Fortune conducted a baseline assessment of the new residents of Castle Gardens, and is conducting a one-year follow-up to see the impact of residency on needs at arrival and to identify the areas of unmet needs. Fortune also holds regular community meetings to obtain feedback and program ideas from residents. Based on what Fortune's staff members have learned thus far, Fortune plans to launch a wide array of initiatives at Castle Gardens and throughout Fortune to promote sustainability, eco-friendly values, healthy nutrition, green jobs training, and environmental justice. Castle Gardens was also approved as a New York City Department of Probation (DOP) targeted Neighborhood Opportunity Networks (NeON) community site. The NeON is a network of community organizations, government agencies, local businesses, and community residents focused on connecting probation clients who live in the target neighborhood to opportunities, resources, and services.

**See the CSH Toolkit Section III.B. for links to the following materials:**

- Sample Marketing Plan
- Identifying Prospective Supportive Housing Tenants
- Sample Application for Supportive Housing
- Legal Considerations During Screening and Intake
- Sample Applicant Screening Protocol
- Rejection Criteria for Supportive Housing
- And more.

Since its opening, Fortune has continued to raise funding from private and government sources for supportive services at Castle Gardens. Fortune also embarked on a Capital Campaign - a time limited fundraising campaign targeted to raise money for Castle Gardens. Funds have been used for such capital needs as building the service center's internal staircase and purchasing needed technological equipment, as well as for initial funding for support for social services while additional funds are being raised.

### *Section 6.2 Castle Gardens Lease Up Introduction*

As the Castle Gardens construction process progressed, Fortune had to think about how it would lease up the new apartments. While a seemingly simple task on its face, as CSH explains, "[t]he goal should be to make the time from when the contractor completes the building and secures a certificate of occupancy to full occupancy as short as possible.<sup>66</sup> This process includes, among other steps, "finalizing rent-up procedures, verifying marketing and tenant selection requirements of government funders, initiating any required advertising or outreach so as not to delay rent-up, and determining whether it is possible to pre-select or pre-screen tenants in advance."<sup>67</sup>

<sup>66</sup> CSH Toolkit. "Navigating the Construction Period."

<sup>67</sup> CSH Toolkit. "Navigating the Construction Period."

As CSH's advice suggests, financing structures are based on timelines that anticipate rental income by a certain date. Further, Fortune's funding came from both affordable and supportive housings streams, thereby creating an increased complexity of marketing and tenant requirements. The affordable housing funded through low income housing tax credits has strict requirements to ensure that the apartments are in fact rented by individuals in need of affordable housing. The majority of Fortune's supportive units required that individuals meet NYNYIII criteria and HPD Section 8 criteria. Further, individuals had to be matched to apartments based on family size and, to the extent possible, preference on particular unit. Fortune began the lease up process in **December 2009**.

### *Section 6.3 Castle Gardens Affordable Housing Units Lease Up*

Castle Gardens is funded by low income housing tax credits, and Fortune had to find individuals who met income eligibility guidelines under that program. Maximum rent is tagged to a certain percentage of area median income, with the assumption that individuals can afford to pay 30% of their income on rent. Most of the affordable units at Castle Gardens were, accordingly, rented to individuals earning 60% or less of the area median income and maximum rent was based on the aforementioned affordability standard.<sup>68</sup> Other affordable units would house individuals with project based Section 8 or their own Section 8 eligibility, which required a separate process and rental standard, and allowed far lower income.

In addition to income eligibility, federal housing funding requires compliance with a Federal Affirmative Marketing Plan, and Castle Gardens' funding through the Department of Housing Preservation included federal funding. The Federal Affirmative Marketing Plan requires the owners to "make good faith efforts to provide information and otherwise attract eligible persons from all racial, ethnic and gender groups in the housing market area to ensure that groups unlikely to apply for the housing are informed of its availability." The federal regulations (24 CFR Section 511.10(m) require documentation of these efforts.

Finally, Fortune wanted to ensure that its tenants had the qualifications to be stable tenants. Losing tenants would mean having to find new residents, which takes time and can temporarily reduce rental income. Therefore, leasing up affordable housing can be a complex process, and Fortune enlisted an expert, C&C Affordable Management LLC, to manage initial lease-up. C & C was responsible for:

- Verification of financial eligibility
- Conducting standard background checks
- Considering applicant's history of responsibly paying rent and conforming to all aspects of a lease.

Fortune made its values clear in its materials:

***"We are looking for responsible tenants who want to be part of a community, who will help an elderly neighbor carry groceries, who will give a smile and a "welcome home" to someone newly released from prison and living in the Academy, who is looking for a good place to put down roots and call home. If you think that sounds like you...if you think that this is a building that you would like to live in and a community that you want to be a part of, we welcome you to apply for an apartment in this building."***

(Memorandum from Fortune Society to Tenant Applicants. See Exhibit A for full letter.)

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<sup>68</sup> Proforma Summary: Affordable Housing + Fortune Supportive Housing + Fortune Program Space," The Fortune Society (Last Updated: December 23, 2008).

Originally, Hudson Housing, the syndicator of the tax credits, had had significant concern about the mixed tenancy planned for the building, worrying that Fortune might have difficulty in leasing up the affordable units because of the significant population of formerly incarcerated and formerly homeless tenants who would be living there. Part of their due diligence involved site visits and extensive investigation of Fortune before committing to syndicate the tax credits. JoAnne Page, Fortune's CEO, predicted that Castle Gardens would have no difficulty in finding applicants for its 50 affordable apartments, but Hudson Housing watched the lease up with concern to see that this might be true.

As a matter of full disclosure, prospective tenants were fully informed both verbally and in writing about the mix of tenants in the building. In February 4, 2010, partially through the lease-up period, Sherry Goldstein reported to the Board that Castle Gardens had received over 900 applications for affordable housing at that time; **and only 15 individuals had looked at the mixed residency of the building and chosen not to apply.** This was a testament to the hard work Fortune had undertaken in working with the community to work through "not in my backyard" resistance. This minimal turn away rate and the large number of applications – a total of about 2,000 in the end -- were also a testament to the need for affordable housing, and C & C, as outside consultant, assured that apartments were awarded in a fair and systematic way. Applications were considered on a first come first basis, screened for income eligibility and then for other factors.

C & C was also to conduct criminal history checks; however, Fortune learned that C & C, according to industry practice for companies that handle affordable housing lease up for developments, screened out individuals with criminal records in the first instance, and allowed them to appeal that decision. For values reasons, and because of its expertise in serving individuals with criminal records and its commitment to providing services for this group, Fortune did not want this standard used for Castle Gardens and left candidates with criminal history in the applicant pool to be judged for suitability on an individual basis. The Fortune Society's David Rothenberg Center for Public Policy continues to advocate against affordable housing practices that routinely screen out persons with criminal justice history rather than judging them individually on the merits as is done with other applicants.

#### *Section 6.4 Castle Gardens Supportive Housing Units Lease Up*

C & C also supported Fortune in leasing up the supportive housing apartments, a process guided by the supportive housing funding streams described above under Section 6.1. Fortune anticipated that a number of supportive housing clients would transition from the Academy to Castle Gardens, and began reviewing Academy residents for Castle Gardens readiness as early as December 2009.<sup>69</sup>

Supportive housing clients would, therefore, be referred from Fortune and from the New York City Department of Homeless Services if eligible for NYNYIII housing. All supportive housing applications would be reviewed for the following:

- Verification of homeless status;
- Review of criminal history, including an in-depth interview with Fortune;
- Credit history and other indicators of rehabilitation and stability;
- NYNYIII eligibility criteria, where applicable.

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<sup>69</sup> Fortune Society Board Meeting Minutes (December 21, 2009)

Again, Fortune was very involved in reviewing screening decisions, especially when about individuals' criminal history. For both affordable and supportive housing clients, JoAnne Page, Barry Campbell, Sherry Goldstein, Stanley Richards, and JRCo were involved in reviewing applicant files.

Based on past experience, JRCo advised Fortune to strongly staff the lease up process in order to meet timing requirements. The supportive housing lease up proved to be challenging because of the two-part parallel government processes required: the majority of individuals had to first qualify as eligible for NYNYIII services funding; and then be referred for HPD eligibility as disabled for the Section 8 pilot. This procedure presenting tight time frames: NYNYIII could lapse if individuals did not end up in housing within a certain time frame; and HPD, which held briefings for Section 8, had a certain schedule for those briefings, and tenants could not sign leases without attending these briefings. Fortune's Senior Vice President of Programs, Stanley Richards, played a key role in identifying formerly incarcerated homeless applicants for Castle Gardens eligibility. Stanley Richards was supported by Barry Campbell and clients' counselors. Chief of Staff Sherry Goldstein, with support from Barry Campbell, led the process. They interviewed Fortune clients and DHS referrals for NYNYIII supportive spots. Fortune assisted applicants to obtain identification and fill out applications in order to navigate the complex and often daunting eligibility process.

Through its relationships and diligence and its assignment of a significant portion of Sherry Goldstein's leadership at this key time, Fortune was, in fact, able to work with HPD to process individuals through the Section 8 eligibility process more quickly than usual. For example, on August 13, 2010, an HPD briefing was held on site at Fortune – a process that, to the knowledge of those involved in the lease up, had never before been done by HPD. In a six hour marathon session, 52 leases were signed to start on August 15. Part of the reason to work so hard to qualify tenants and to sign leases quickly was driven by the need to meet timing requirements and to get rental income flowing, but part was also driven by Sherry Goldstein's personal commitment to having families move in before the new school year for their children's sake. Castle Gardens' Grand Opening occurred on September 15, 2010 and was attended by many of Castle Gardens' newly housed tenants.

### *6.5 Castle Gardens Building Management*

A story about Castle Gardens during lease-up provides an illustration of the tone and culture of the building. With the building almost at occupancy and Thanksgiving around the corner, the Fortune Society received a donation of turkeys to distribute for the Thanksgiving holiday. Fortune received more turkeys than it had planned initially for, and its challenge was to find freezer space for the turkeys so they would not defrost. Sherry Goldstein, Chief of Staff to Fortune's CEO, asked Chris Carney, Castle Gardens' new superintendent, to find storage space for the turkeys in the freezers of any of the vacant apartments for a few days until they were distributed. On December 1, as Chris was conducting a move-in apartment inspection with one of the last tenants to move into Castle Gardens, he got to the refrigerator and opened the freezer door to find there was still a turkey in the freezer. The tenant was surprised and started crying with happiness that she was even being given a turkey with her new apartment. Superintendent Chris Carney did not have the heart to tell her it was a mistake and let her keep the turkey.

As demonstrated by this story, the Castle Gardens' superintendent has been integral to managing Castle Gardens and in setting the culture and tone aspired to by Fortune. Fortune goes out of its way to hire staff who come from the same backgrounds and histories as its clients, believing that the role modeling and cultural competency that they bring to the job greatly increases their effectiveness and that of the organization.<sup>70</sup> Chris Carney is a former Fortune client and graduate of the Academy who studied to learn

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<sup>70</sup> Fortune considers such hiring a best practice and has written a manual, [Employing Your Mission: Building Cultural Competency in Reentry Service Agencies Through the Hiring of Individuals Who Are Formerly Incarcerated and/or in Recovery](#),<sup>70</sup> which details Fortune's belief in the importance of hiring culturally competent

the skills needed to be superintendent of a green building and was hired for the job. As Fortune learned, it takes time for a new staff and residents to settle in to a new building, and Chris Carney has served to not only solve the problems traditionally associated with a superintendent, but also by serving as an anchor at Castle Gardens. He has demonstrated a professionalism and ability to solve and identify problems; and brings to his job knowledge of the client population. This cultural competency was invaluable at Castle Gardens, with its diversity of tenants and multiplicity of needs including those of tenants who are living independently for the first time in their lives.

**Consult the CSH Toolkit for Links to the following Materials (and more) about Property Management in Supportive Housing:**

- Roles of the Property Manager and Asset Manager
- Key Principles for Coordinating Property Management and Supportive Services in Supportive Housing
- Property Management and Supportive Services: Roles and Responsibilities and Areas of Overlap
- Forms of Property Management in Supportive Housing
- Supportive Housing Policy and Procedures Manual
- Management Plan Outline

In addition to the superintendent, Castle Gardens’ management requires additional staff. The Fortune Society chose Phipps Houses Services, Inc., (“Phipps”) to manage the building through an RFP process. Fortune had decided, after asking experts and based on its capacity and expertise to hire a management company rather than manage the building internally. Phipps oversees the physical maintenance, financial administration and compliance, and has additional staff at the building. Administration and compliance is made particularly complex because of the varying and significant reporting requirements associated with Castle Gardens’ many funding sources; Phipps provides Fortune support in meeting these requirements.

As CSH’s materials linked in this section explore, ongoing management includes property management and supportive services elements,

with overlapping tasks. Fortune has the following staff at Castle Gardens, reporting to its Senior Vice President of Programs, Stanley Richards: (*See Organizational Chart in Exhibit B*)

- Associate Vice President;
- Senior Director. Supervises two Case Managers, Clinical Social Worker and Manager of Residential Services;
- Two Case Managers and one Clinical Social Worker;
- Manager of Residential Services, supervises three Residential Aid Team Leaders; and
- Residential Aids. Three Residential Aid Team Leaders and six Residential Aids.

Fortune expects staffing at Castle Gardens to continue to evolve as its service center is brought to scale and it introduces programs based on community need and feedback.

***Section 7. Conclusion***

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staff and provides guidance for doing so effectively. Today, at the Fortune Society, 55% of staff have a history of incarceration and/or are in substance abuse recovery; 78% are from communities of color; and 25% are bilingual.

As this toolkit describes, developing a supportive and affordable housing project is a significant investment of organizational, and in particular management time. Creation of Castle Gardens consumed much of the time and energy of Fortune’s CEO for five years, drew heavily on various members of the Executive and line staff at different stages, and deeply engaged the agency’s Board Chair throughout the five years as well as drawing on other Board members as well. However, the Fortune Society believes, with passion, that there is significant pay-off for organizations for which such a project is a fit. In addition to creation of a beautiful building that helps Fortune achieve its mission, the agency has built capacity in various ways including strengthening its Board and its ability to fund-raise.

Castle Gardens provides permanent, stable, healthy, affordable and supportive housing to low-income New Yorkers, many of them with criminal justice histories that would make accessing such housing particularly challenging. Moments such as the Castle Gardens first Thanksgiving story occur daily, and Fortune is warmed to witness Castle Gardens’ residents blossom in this environment.

Fortune has also seen the ways in which the project has helped it meet its organizational goals. Fortune was able to meet its “triple bottom line”:

- **Housing and supportive services for Fortune’s service population**
- **A financial sustainable building and services, and**
- **Benefit to the local community.**

Finally, while the project seems daunting – a social service agency may ask itself what it could possibly know about green materials selection, let alone how to raise the necessary capital -- it *is* possible to open the doors to a supportive housing development, and in an orderly, managed way. The heavy lifting of opening a permanent affordable supportive housing development is done over time and in incremental steps by a strong team. This manual provides suggestions on how to manage this process, and how to plan so that agencies have the right external and internal teams and processes in place.

Warning – creating such housing is addictive. Once an organization experiences the multiple benefits of such a project and sees the human impact of safe, affordable and supportive housing, it is hard to stop at just one residence...or two....

Exhibit A

To: Tenant Applicant  
From: Fortune Society:  
Date:  
Regarding: Mission Statement of Fortune Society/625 West 140<sup>th</sup> Street

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We welcome your interest in living in 625 West 140<sup>th</sup> Street (the "Apartment Complex"), and wanted to provide you with some background on the building itself and the way in which it came to be. First, a little background on the Fortune Society ("Fortune"), the organization that created this building and is responsible for it.

Fortune started in 1967 as an advocacy and service organization for men and women who have been incarcerated and want to rebuild positive lives upon release. In our main offices in Long Island City, we serve about 3,000 men and women each year who seek our assistance in such areas as finding employment, addressing their substance abuse problems, and supporting their families. In 1998, Fortune bought the abandoned shell of the West Harlem building known as the Castle. It took us a few years to raise the funds to renovate the building, but in 2002, we opened the Fortune Academy as a residence for homeless men and women released from incarceration who are motivated to build constructive lives in the community. We are proud of the hundreds of men and women who have graduated from the Academy, and some of them now serve Fortune as staff members.

When we opened the Academy, we created a Community Advisory Board that helped keep us in touch with the needs of the community. As we talked about developing the empty lot behind the Academy, and creating more housing for our clients, they told us that there was an enormous unmet need for truly affordable housing for community members, especially those who needed apartments big enough for their families but were finding it harder and harder to afford such apartments in the neighborhood. We were convinced by what they said and decided to include affordable apartments for the community in our plans for the new building.

The Apartment Complex, located at 625 West 140<sup>th</sup> Street, was created to meet the housing needs of both (a) men and women working to rebuild their lives after criminal justice involvement, and (b) other individuals and families who needed a truly affordable apartment in which to live their lives and raise their families. The Apartment Complex has 114 apartments and provides mixed housing to people drawn from both groups. The Apartment Complex adjoins the Fortune Academy and will provide permanent housing to some of its graduates.

**We believe that the Apartment Complex will provide a very special community in which to live and to grow. It is a green building, designed to be environmentally responsible and to provide a healthy environment for those living in it. There will be a person staffing the front door 24/7 to make sure the Apartment Complex is safe as well as beautiful. We will be providing wireless internet free to all of our residents as part of our commitment to creating an environment that fosters growth. For the same reason, we will providing staff who will be available to help our residents access needed services or just be able to talk through a problem.**

**We are looking for responsible tenants who want to be part of a community, who will help an elderly neighbor carry groceries, who will give a smile and a "welcome home" to someone newly released from prison and living in the Academy, who is looking for a good place to put down roots and call home. If you think that sounds like you....if you think that this is a building that you would like to live in and a community that you want to be part of, we welcome you to apply for an apartment in this building.**

Exhibit B

The Fortune Society, Inc.  
Castle Gardens – Organizational Chart

