Stewardship Standards *for* Homeownership Programs

Cornerstone Partnership
Keeping Homes Affordable & Communities Strong

NATIONAL
COMMUNITY LAND TRUST
NETWORK

ABOUT CORNERSTONE PARTNERSHIP

Cornerstone Partnership promotes strong, integrated communities where all people can afford a decent place to live & thrive. We provide expertise on policy & practice. We support a peer network for homeownership and inclusionary housing programs that preserve long-term affordability and community stability, helping more hard-working people buy homes today, maintain those homes, and keep them affordable in the future. Our members are practitioners, policy makers, advocates, consultants, and other housing professionals dedicated to helping families build assets while keeping communities affordable. Since our launch in October 2010, we have grown to over 1,000 members, including 18 national outreach partners. Cornerstone Partnership is a program of Capital Impact Partners.

ABOUT THE NATIONAL COMMUNITY LAND TRUST NETWORK

The National Community Land Trust (CLT) Network nurtures and sustains healthy and economically diverse communities by supporting the work of community based nonprofits and local entities that provide permanently affordable access to land, homes, and related resources. The Network plays a leadership role in sector development, research, capacity building and policy work. Since its inception in 2006 the Network has grown to over 160 dues-paying members representing community land trusts, inclusionary housing programs, local governments, and deed-restricted programs. In addition to housing, our members develop rural and urban agriculture projects, commercial spaces that serve local communities, affordable rental and cooperative housing projects, and conserve land or urban green spaces.

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INTRODUCTION

Across the country, hundreds of programs are working to support affordable homeownership for working families. Many programs are designed to provide a one-time boost for families, but a subset of these programs focus on preserving affordability over the long term. These programs use a variety of legal and financial structures, and while their affordability mechanisms may vary, they share the promise that today's public investment will provide ownership and asset-building opportunities to multiple generations of buyers. Deed-restricted housing, community land trusts, limited equity cooperatives, and shared-appreciation loans are some of the more common ways of achieving long-term affordable homeownership.

The ability of these models to deliver on their promises and grow to significant scale depends on the programs' ability to overcome a common set of challenges:

- Assuring that homeowners do not end up in predatory loans
- Protecting the public investment in the event of foreclosures
- Ensuring that buyers understand affordability restrictions, and that those restrictions are fair
- Avoiding confusion or misunderstandings when local programs have different requirements
- Planning and managing the cost of staffing for adequate monitoring and support

WHAT IS STEWARDSHIP?

Affordable homeownership stewardship is a set of practices designed to help households maximize wealth, while protecting the program and its community investment. Stewarded homeownership programs work with buyers before and after they purchase their homes to ensure that they are well-prepared for homeownership, financially responsible, and able to maintain the property. Stewarded programs also protect the community (or public) investment by monitoring the physical asset and enforcing program requirements over the long term.

ABOUT THE STEWARDSHIP STANDARDS

The Stewardship Standards for Homeownership (the "Standards") were developed collaboratively by a number of national organizations, practitioners, and experts for the purpose of providing an educational resource and measurable framework to help affordable homeownership programs achieve excellence and maximize impact. Cornerstone Partnership, an initiative of Capital Impact Partners, led the development of these standards in partnership with the National Community Land Trust Network. This project is supported through funding by the Ford Foundation.

Building on the foundation of Cornerstone Partnership's Stewardship Principles, the Standards reflect the principles' goals that programs be:

- Impact-Driven: Set and track goals that reflect community priorities
- Targeted: Focus on homebuyers who need help but are likely to succeed
- Balanced: Build wealth for homeowners while preserving the community interest
- Managed: Monitor the public investment to ensure long-term benefit
- Safe: Ensure sound mortgage financing
- Understandable: Educate homebuyers on program requirements

The Stewardship Standards for Homeownership are grouped according to the following six topics:

1. Program and Business Planning
2. Affordable Pricing
3. Mortgage Financing
4. Fair Housing and Homebuyer Selection
5. Resales
6. Support, Monitoring, and Enforcement

DEFINITIONS

Standard: A Standard is a requirement, established by general consent, which serves as a model of quality or attainment for the industry.

Practice: A Practice is a measurable or verifiable course of action performed to attain the standard.

Programs that meet all of the practices under each of the standards accomplish the goals of the standards.

REQUIRED VS. OPTIMAL STANDARDS

Within each program topic is a set of standards and practices that are considered the minimum necessary to operate an effective homeownership program. At the end of many topic sections, there are also several standards that are designated as "optimal standards." These standards reflect promising and/or emerging practices that high-performing practitioners are undertaking in the industry. These optimal standards are encouraged, but not required, for operating an effective homeownership program.

HOW TO USE THESE STANDARDS

The Standards are intended to help programs that provide long-term affordable homeownership opportunities to adopt best practices that will result in better outcomes and reduced risk for homebuyers, programs, and communities. While designed primarily for programs seeking to maintain long-term affordability, many of these standards will also be useful to practitioners operating traditional down payment assistance programs. We have tried to provide as many resources as possible to help programs implement these standards without having to "reinvent the wheel." Our goal is to help programs learn from each other and bring best practices to scale throughout the affordable homeownership industry.

The Standards are designed to be broad and encompassing for all program types; however, in instances where the standards are not universally applicable, we've highlighted program exclusions by affordability mechanism or program type. We've also pointed out some instances where these standards intersect with federal funding requirements, but the standards are intended as an enhancement to—and not a replacement for—any funding requirement.

Third-Party Entities

In long-term affordable homeownership programs, key homeownership administrative functions are sometimes carried out by multiple organizations. Common administrative functions include, but are not limited to: establishing the sales price, marketing the units, preparing buyers for homeownership, screening and selecting buyers, identifying lenders, managing resales, and monitoring and enforcing program requirements. While organizational relationships may vary, there is usually one entity that serves as the "primary steward," or the face of the program, and establishes relationships with homeowners, prospective buyers, lenders, and other key stakeholders. The primary steward usually has a contractual relationship with the other agencies responsible for administering parts of the program.

Programs should try to incorporate the Standards during the contracting process where possible. Programs that hire or rely on third-party entities to administer their homeownership activities can encourage these entities to meet the standards associated with the relevant activities by incorporating them into their request for proposals. Third-party entities that provide homeownership administration or monitoring activities on behalf of nonprofits or jurisdictions can include the relevant standards in the scope of services they offer or recommend. Examples of third-party entities include a developer, realtor, nonprofit, private company, or a local jurisdiction.

Limited Equity Cooperative Stewards

The Standards are designed to apply primarily to cooperative (co-op) stewarding organizations rather than to co-op corporations. However, since the standards are intended to help long-term affordable homeownership organizations adopt best practices, many standards may also be applicable to co-op corporations in their operations. Furthermore, meeting many standards and practices will require the coordination of both the steward and the co-op corporation in that the steward may establish a policy during the co-op conversion process (for example) but the co-op board of directors is responsible for implementation. In these cases, the co-op steward should also provide monitoring, training, and technical assistance to co-op leaders to ensure success.

1.

PROGRAM & BUSINESS PLANNING

Excellent programs have clearly stated and prioritized objectives; possess the capability, resources, and systems to meet their goals; and measure and report on outcomes.

1. PROGRAM & BUSINESS PLANNING

It is easier to run an efficient and successful program when there are systems in place to support program administration, manage resources, and track outcomes. When programs grow organically, they may skip critical steps in the planning process. It is important to stop and assess periodically to make sure the program design is meeting community needs and having the desired impact on the community.

Exclusions/Modifications: For co-op sponsors and stewards, Standard 1.6 should require that information be systematically tracked about co-op corporations.

Standard 1.1 Goals and Objectives

Clearly articulate program's goals and objectives.

In order to operate effectively, programs need to clearly state and prioritize their objectives. This helps them track successes, make necessary revisions to program design, and set budget priorities.

Required Practices

1.1.a. For each program, maintain a written statement of program goals and objectives, community served, and geographic area covered.

Clearly defined goals and objectives inform program design and serve as the basis for evaluating outcomes. Many funding sources will ask for this information on funding applications, even when programs are new. Goals and objectives change over time, so periodically reviewing and updating them is essential to staying focused on program priorities.

Resources

Model Identity Statement: [Page 4]

http://affordableownership.org/docs/business-and-program-planning-tool-pack/
A template providing sample language and a framework to help programs develop an identity statement.

Humboldt CLT 3-year Program Goals (Arcata, CA):

http://affordableownership.org/docs/three-year-program-goals/
Sample language of a three-year goals statement from Humboldt Community Land Trust.

CLT Manual "Who Will Be Served, Where, and How": [Chapter 2 pp. 54-56]

http://cltnetwork.org/wp-content/uploads/2014/01/MASTER-CLT-MANUAL.pdf#page=54

An excerpt from the National CLT Network Manual describing various factors that a CLT should consider when determining which community and geography to serve and how it intends to serve them. Many of these considerations may also apply to non-CLT homeownership programs.

Standard 1.2 Program Design Review

Periodically review and update program design.

As learning occurs and community needs change, programs must adapt. Programs that periodically review and update program design create an opportunity to implement improved practices and respond to changing market and community conditions.

Required Practices

1.2.a. At least every three years, evaluate your program's effectiveness at meeting community need and review your program design (e.g. program rules, policies, and procedures) to make sure it is current and reflects best practices.

At some point in time, most programs are faced with making changes to their program design, either because of changes in the market or community, or because their approach is not producing the desired results. Market and demographic changes, new funding sources, revised regulations, and organizational learning can all impact a program's approach. Reviewing program design on a scheduled basis ensures that the organization makes room for assessment and revision in the course of regular business.

"Just developing a plan every few years doesn't mean anything if there isn't a constant reference back to that and how it integrates to the organization's daily work and mission."

Resources

Homeownership Comprehensive Assessment:

http://www.affordableownership.org/docs/comprehensive-assessment/

A questionnaire designed to evaluate a homeownership program's various strengths and weaknesses.

Standard 1.3 Policies and Procedures

Adopt detailed policies and procedures to direct program operations.

Written operational guidelines ensure greater consistency in program implementation and preserve institutional knowledge about the program when staffing changes.

Required Practices

1.3.a. Maintain a written program administrative manual with a detailed description of all program components. Program manual should cover ALL of the following elements:

- **Funding Sources**
- **Pricing**
- **Marketing and outreach**
- **Application**
- **Homebuyer selection**
- **Allowable loan types**
- **Refinance provisions**
- **Monitoring and enforcement**
- **Resales**
- **Records maintenance**
- **Conflict of Interest Policy**

Written policies and procedures can avert conflict and trouble. A program administrative manual keeps all relevant policies in one place and reduces the tendency to act on memory or instinct. This manual, whether a binder or a separate electronic folder on the organization's computer system, should be readily accessible to all staff and updated regularly.

Resources

Long Island Housing Partnership (LIHP) Comprehensive Manual (Hauppage, NY):

http://affordableownership.org/docs/lihp-comprehensive-program-manual/

A policy and procedures manual for LIHP's homeownership program that details development through post-purchase stewardship procedures and includes considerations for developers and municipalities.

Homestead Community Land Trust Policy and Procedure Manual (Seattle, WA):

http://www.affordableownership.org/docs/policy-and-procedure-manual/

A policy and procedures manual from Homestead Community Land Trust homeownership program that includes policies on homeowner engagement, monitoring, capital improvements, and document retention.

Champlain Housing Trust Program Operations Manual, Table of Contents (Burlington, VT):

http://www.affordableownership.org/docs/program-manual-table-of-contents/

A comprehensive Table of Contents outlining Champlain Housing Trust's homeownership program policies and guidelines, including policies on resales, post-closing information management, financing, and stewardship. Interested parties should contact Champlain Housing Trust directly to access all or portions of the latest manual and templates.

Standard 1.4 Legal Counsel

Coordinate support from knowledgeable legal counsel.

Affordable homeownership program transactions can be very complex. Programs need access to knowledgeable legal counsel that has experience working with affordability restrictions, real estate contracts, homebuyer financing, and fair housing to review program policies and documents for compliance with federal, state, and local laws.

Required Practices

1.4.a. Identify legal counsel that is knowledgeable about affordable homeownership programs.

At some point, all programs will need access to legal counsel with specific knowledge about affordable homeownership programs, and should have a person or firm identified. This firm may be different from the general counsel retained for organizational or other real estate legal matters.

Tip: Ideally, programs would have legal counsel review all program policies and documents for compliance with all federal, state, and local laws.

"Because of the disclosures, purchase documents, and loan docs in affordable homeownership, counsel is essential."

Resources

Homestead Community Land Trust Outside Legal Counsel Policy: [Page 30]

http://www.affordableownership.org/docs/policy-and-procedure-manual/

A policy statement from Homestead Community Land Trust indicating that access to outside legal counsel will be maintained at all times.

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Standard 1.5 Conflict of Interest

Manage real and perceived conflicts of interest.

Managing conflicts of interest and perceived conflicts of interest can avert political disaster and promote community support. It is in the program's best interest to carefully manage perceived or real conflicts of interest in order to maintain credibility and legitimacy in the public eye.

Required Practices

1.5.a. Adopt and follow a written conflict of interest policy.

Conflicts of interest, whether real or perceived, can arise during project development, the selection and approval of homebuyers or borrowers, or the procurement of goods and services. This is particularly so when programs engaged in transactions are governed by professionals with ties to finance, insurance, construction, or other development entities that may have a transactional interest. Adopting and following a written conflict of interest policy creates transparency and promotes organization and program credibility. A program may develop a new policy specific to the program or may apply the same policies already in use for the organization.

Resources

Template Conflict of Interest Policy:

http://www.affordableownership.org/docs/sample-conflict-of-interest-policy/
A Conflict of Interest Policy template written for a nonprofit corporation and designed to be executed by the Board of Directors.

Standard 1.6 Information Tracking

Systematically track information on transactions, owners, borrowers, and homes.

In order to effectively manage affordable units over time, program staff must be able to securely store data and readily access information about prior transactions.

Required Practices

1.6.a. Maintain an electronic information management system under which program data is complete, secure, and easily accessible.

Given the long-term nature of homeownership, homebuyer loans, and affordability controls, programs need a reliable and secure system to track information on transactions, owners, and homes. Program information should be consistently filed and organized and the data should be readily accessible to program staff. Programs should avoid storing documents solely in paper files. An effective system performs both program management and program evaluation functions.

1.6.b. Collect and file sales and loan closing documents, using a checklist to make sure files are complete.

A comprehensive checklist that ensures sales and loan closing documents are retained for each buyer and property is essential to responding to owner and funder questions and managing resales. Examples of documents to collect include the final HUD-1, all recorded documents, an insurance certificate, Uniform Residential Loan Application (1003), title policy, and lender's appraisal.

Tip: Cornerstone Partnership has developed the HomeKeeper data management software program specifically to meet the needs of affordable homeownership programs.

Resources

HomeKeeper:

http://www.myhomekeeper.org

HomeKeeper is a Salesforce.com-based application designed to help program administrators improve their day-to-day operations, including collecting intake applications, screening buyers for eligibility, and managing the sales process.

Data Collection Checklist:

http://www.affordableownership.org/docs/data-collection-checklist/
A checklist providing a standardized list of data fields that programs can use to measure program impact and performance. The checklist covers data about the applicant, transaction, sale or resale, property, and other key procedures.

SAMPLE - Document Retention Policy:

http://www.affordableownership.org/docs/sample-document-retention-policy/
A Document Retention Policy template for retaining program files and documents.

Standard 1.7 Operating Budgets

Determine revenue needs and identify sources to meet those needs.

Programs that develop realistic operating budgets will understand whether they face a gap between what it costs to run the program and what the program anticipates earning from program- and development-related income. They are then positioned to prepare for funding shortfalls by identifying additional sources of revenue.

Required Practices

1.7.a. Develop a multi-year (at least two years) operating budget.

Having a program budget helps clarify the funding gap, if any, that will need to be filled to sustain the program. In addition to detailing the current year budget, programs should project operating revenues and expenses for at least the next two years. Ideally, the program budget should separate out staff time and resources allocated to homebuyer selection, unit monitoring, fundraising, marketing, and development/rehab/acquisition, if applicable.

Tip: Many forms of revenue are uncertain or unstable. Identify operating reserves in the organization and program operating budgets to demonstrate that the organization has the ability to maintain continuity in times of financial hardship.

Resources

CLT Manual "Financial Elements of Sustainability": [Chapter 24 pp 434-436]

http://cltnetwork.org/wp-content/uploads/2014/01/MASTER-CLT-MANUAL.pdf#page=434
An excerpt from the National CLT Network Manual describing key elements for long-term sustainability, including revenue types, cost controls, and reserves. Information is also applicable to non-CLT programs.

GrantSpace℠ - Budget Examples:

http://www.grantspace.org/tools/knowledge-base/Nonprofit-Management/Establishment/budget-examples
GrantSpace℠, a service of the Foundation Center, offers information and resources to support nonprofit fundraising and management. This resource article provides links to sample nonprofit budgets, templates, and guides.

Standard 1.8 Financial Systems

Systematically track revenues and expenditures, segregate restricted funds, and conduct periodic audits.

Programs with adequate financial management systems are less at risk of violating the requirements of their various funding sources and are more likely to maintain financial support for their programs.

Required Practices

1.8.a. Maintain a financial management system to track revenues and expenditures.

An effective financial management system allows programs to accurately keep track of money received, expenses incurred, and outstanding obligations. It is necessary for reporting purposes as well as day-to-day program management.

1.8.b. Demonstrate fund segregation in financial statements.

Segregating funds allows the organization to readily track and report on the status of specific funds. Some funding sources require their investment be segregated and reported separately in the organization's financial statements.

1.8.c. Conduct audits as required by funding sources, or at least every two years.

Regular audits measure the adequacy of procedures and documents and the effectiveness of program implementation. They are an invaluable tool to identify whether the organization and program has adequate and effective governance, risk management, and internal controls. Some funding sources will require an audit based on the amount of funding provided to the organization or program, and will usually include audit provisions in the funding agreement.

Resources

Nonprofit Accounting Basics - Internal Controls:

http://www.nonprofitaccountingbasics.org/reporting-operations/systems-procedures
Nonprofit Accounting Basics provides a comprehensive set of articles and tools about accounting and financial management. This resource article focuses on basic principles and tips that nonprofits should consider when developing systems and procedures for financial management.

Nonprofits Assistance Fund - Managing Restricted Funds:

https://nonprofitsassistancefund.org/resources/item/managing-restricted-funds
Nonprofits Assistance Fund's resource library provides nonprofit financial management reports, tools, and articles. This resource article defines unrestricted, temporarily restricted, and permanently restricted income, and provides nonprofits with tools to record, report, and manage contributed income and net assets.

National Council of Nonprofits - Audit Guide for Charitable Nonprofits:

http://www.councilofnonprofits.org/nonprofit-audit-guide
The National Council of Nonprofits' website provides links to nonprofit financial management resources on topics including budgeting, financial management policies, financial literacy for boards, cash flow, internal controls, and operating reserve policies. This resource article provides nonprofits with information about audit requirements in each state and offers tips and tools about how to prepare and manage the audit process.

OPTIMAL STANDARDS FOR HIGH PERFORMING PROGRAMS

Standard 1.9 Market Research

Document or reference market conditions that support the need for services.

Market research promotes effective program design, provides important information about the financial viability of the program, and is an important component of business planning. Organizations can often rely on market research prepared by third parties, including planning efforts by government agencies and market information compiled by knowledgeable real estate professionals. Program staff can also conduct research to collect detailed information on local income and housing prices, analyze the current levels of homebuyer affordability in the community, and gather information on other existing homeownership programs that share a target market. This analysis should be repeated periodically to ensure that the program continues to meet community needs.

Resources

Business and Program Planning Decision Guide, Section 2: Market Summary: [Page 6]

http://affordableownership.org/docs/business-and-program-planning-decision-guide/
A guide outlining factors that a homeownership program should consider in establishing its target market and sub-markets. It includes a worksheet outlining key data elements that staff should collect when researching the proposed market.

Standard 1.10 Client Feedback

Establish mechanism to solicit client feedback and incorporate feedback into program design.

Programs that solicit client feedback gain valuable and important insights into how program policies, design, and implementation look and feel to their clients. High-performing programs develop written policies and procedures to incorporate this feedback into the program's system for reviewing and updating program design. There are many methods for soliciting client feedback. Possible formats include an exit interview, exit survey completed at closing, or conducting program surveys or interviews post-closing. Many organizations find that informal discussions with clients and homeowners provide the most valuable feedback, and have a practice of sharing client stories in staff meetings and through staff reports.

Resources

Sample Exit Survey:

http://affordableownership.org/docs/exit-survey-questions/

A survey template designed to help program staff collect information from the seller of resale-restricted property, including questions about the home, household, transaction, and homeownership experience at the time of resale.

Community Development Corporation of Utah - Client Satisfaction Survey (Salt Lake City, UT):

http://www.affordableownership.org/docs/post-purchase-client-satisfaction-survey/

CDC of Utah's survey to collect data from homebuyers about their experiences purchasing a new home and completing their first-time homebuyer education course.

Standard 1.11 Community Awareness

Build community awareness and support by actively communicating goals and how services promote goals.

Programs that proactively reach out to the community are most effective at reaching their target markets and building support. Community outreach creates the political and policy environment necessary to further program and organization goals and secure funding. Many programs find a written community outreach plan helps them meet these goals. On-line and print communications that convey program goals and services are widely used by high-performing programs, along with participation in local housing fairs and other events that reach not only their target market, but the entire community.

Resources

Template and Sample Community Outreach Plan:

http://affordableownership.org/docs/template-and-sample-community-outreach-plan/

A template designed to help program staff develop a community outreach plan. Key elements include identifying the market issue, target audience, desired outcomes, implementation resources, and outreach tools.

National CLT Network Spitfire Communications Messaging Resources:

http://cltnetwork.org/?s=spitfire

Communication tools for developing messaging strategies. Resources include webinars, templates, and sample language developed by Spitfire Strategies on behalf of the National Community Land Trust Network.

Standard 1.12 Outcomes Measurement

Measure homebuyer activity and program impact.

Measuring program outcomes is essential to evaluating the success of a program in meeting its stated goals. High-performing organizations establish systems to measure and track key metrics, such as the number of families assisted, the number of new homeowners, the number of resales, resources invested, initial affordability levels, and affordability upon resale. In addition to measuring outcomes, high-performing programs also generate periodic reports for various audiences. These reports are used to build interest, support, and trust in the program.

Resources

HomeKeeper National Data HUB:

http://myhomekeeper.org/why-homekeeper/the-homekeeper-national-data-hub
Information about the HomeKeeper National Data Hub, a Salesforce.com platform that aggregates performance data from HomeKeeper members across the country. The Hub enables programs to calculate a standardized set of social impact metrics, prepare customized reports, and compare their performance against their peers.

Sample Entry Survey and Sample Exit Survey:

http://affordableownership.org/docs/sample-entry-survey/
http://affordableownership.org/docs/sample-exit-survey/
Surveys designed to help program staff gather information from the buyer of a resale-restricted property at the time of program entry and exit. The entry survey collects data on property, household, financing, housing type, and neighborhood quality at the time of program entry. The exit survey collects data on earned equity, housing type, and neighborhood quality at time of resale. Programs can use this before and after data to tell stories about how their shared-equity program impacts outcomes for individuals and families.

2.

AFFORDABLE PRICING

Excellent programs set home sales prices to be affordable to the target market, competitively below market rates, and with an eye to preserving affordability for future generations of homebuyers.

2. AFFORDABLE PRICING

Successfully pricing homes for sale is really more art than science. This is especially true for homes with resale restrictions. Pricing scenarios must factor in basic assumptions such as interest rates, housing costs, target household incomes, and minimum down payment requirements. They must ensure that the house is priced appropriately for the first family and, in conjunction with the program's resale formula, will remain affordable for future generations.

Exclusions/Modifications: Standard 2.2 does not apply to programs using subsidy recapture (shared appreciation mortgages, silent seconds, or other repayable loan types) mechanisms to preserve affordability.

Standard 2.1 Pricing Strategy Design

Identify program parameters and cost assumptions when designing an affordable pricing strategy.

Developing an effective pricing strategy requires careful planning and analysis. Identifying your program's funding source requirements, target market population, and housing cost assumptions ensures that a home is priced appropriately.

Required Practices

2.1.a. Maintain a written statement of income and affordability restrictions imposed by funding sources.

Programs are frequently bound by external restrictions defined by funders – in particular, public funding sources – over which they have no control. These restrictions may limit whom the program is able to serve.

2.1.b. Maintain a written statement of program target market, which may be lower than that imposed by funding sources.

Sometimes programs wish to serve a target market that is narrower than the one imposed by the funder. Programs should make sure their target market is clearly defined.

2.1.c. Clearly state assumptions.

Every pricing formula is based on a variety of assumptions, which vary among programs and geographic areas. At a minimum, pricing formula assumptions should include details about:

- Housing affordability ratio (typically 25 - 35% of gross household income. In some markets, households may have to pay a larger percentage of their income for housing costs.)
- Housing costs (taxes, insurance, HOA dues, maintenance costs, etc.)
- Loan product (interest rate, mortgage insurance)
- Down-payment (as a percentage of home price)
- Target household income

Tip: Consider using very conservative assumptions in the pricing formula to promote future affordability. Assuming higher interest rates, lower incomes, or higher condo or HOA fees can create a buffer to changing market conditions and increase future affordability. HOA fees in particular should be reviewed to make sure they're comparable to rates in other projects.

Tip: Consider using a target income of at least 10% below the maximum in order to create a wider window of affordability. Targeting the initial sales price to the lowest income buyer possible opens this window of opportunity for buyers with a range of incomes up to the eligibility cap. It also provides a cushion for future affordability.

Tip: Programs that use HOME subsidies are required to set a purchase price that does not exceed a certain percentage of the median purchase price as established by the U.S. Department of Housing and Urban Development (HUD). Programs that receive HOME subsidies will need to evaluate pricing in the context of these requirements.

Resources

SAMPLE – Eligibility Criteria Plan:

http://www.affordableownership.org/docs/sample-eligibilty-criteria/

A document outlining key elements and sample language to help programs develop eligibility criteria policies, including definitions of household income, first-time homebuyer status, down payment requirements, and examples of preference criteria. It also describes acceptable documentation for first-time homebuyer qualification.

City of Dublin, CA Initial Pricing Policy:

http://affordableownership.org/docs/dublin-ca-initial-pricing-policy/

Methodology for calculating initial sales price for affordable homes in the City of Dublin, CA. It includes an example of the calculation for a hypothetical development.

Affordable Pricing Decision Guide: [PAGE 7 & 8]

http://www.affordableownership.org/docs/affordable-pricing-decision-guide/

A description of policy issues and considerations that programs can utilize to establish an affordable price. A worksheet is provided to complete the calculation.

Pricing for Affordable Homeownership Programs Template:

http://www.affordableownership.org/docs/sample-pricing-template/

A template to help homeownership programs calculate the initial sales price of their homes by outlining key criteria used in a formula. This document includes an alternate calculation for programs that rely on subsidized or deferred loans.

Standard 2.2 Avoid Non-permanent Subsidies

Make home sales prices affordable to the target market without additional (non-permanent) outside subsidy

If additional subsidy, such as down payment assistance, is necessary in order to make the home affordable initially, then the home is unlikely to be affordable to future purchasers, particularly if those purchasers are not able to assume the loan.

Required Practices

2.2.a. Design a pricing formula that maintains affordability without the program needing to provide subsidy to future homebuyers.

Price homes to ensure initial affordability without direct subsidy to homebuyers or ensure that subsidy provided to the initial homebuyers can be assumed by future homebuyers.

Tip: Consider establishing reserves in the event that additional subsidy is needed to ensure future affordability.

Resources

National CLT Manual "Subsidy Structure": [Chapter 19 pp 374-376]

http://cltnetwork.org/wp-content/uploads/2014/01/MASTER-CLT-MANUAL.pdf#page=374
An excerpt from the National CLT Network Manual explaining the difference between permanent and homebuyer-by-homebuyer subsidies, and outlining potential issues using the latter. This information is applicable to non-CLT programs as well.

Standard 2.3 Market Comparison

Set home sales prices below comparable market rate homes.

In order to sell in a reasonable time frame, affordable homes must be priced far enough below market for buyers to make a rational economic choice to purchase the resale-restricted home rather than stretch to purchase a market rate home.

Required Practices

2.3.a. Compare the affordable base price to the price of comparable homes.

By comparing the affordable base price to the price of comparable homes, programs can ensure their homes are competitively priced and help avoid high holding costs while homes sit on the market.

Tip: Compare the monthly payment associated with the affordable base price to market rents in the area. While people are often willing to pay a premium to own their home and gain the security and other benefits of homeownership, it can be helpful to see just how high that premium is.

Tip: Compare the affordable base price to the appraised unrestricted value of the home. By collecting appraisals of the unrestricted value of homes, programs can ensure that homes are competitively priced and, in strong markets where unrestricted value exceeds development costs, track the additional value leveraged by the community investment.

OPTIMAL STANDARDS FOR HIGH PERFORMING PROGRAMS

Standard 2.4 Review and Update Pricing Formula

Periodically review and update pricing formula.

As market conditions change, programs must review and, if necessary, adjust their pricing formula to ensure ongoing affordability. Periodic review also allows programs to incorporate best practices and benefit from lessons learned. Ideally, programs would have a policy to review their pricing formula at least every five years or whenever there's a major change in market conditions.

> "We track the median income of our homebuyers, sales prices relative to appraised values, and sale prices relative to market rate sales to make sure there is a significant enough buffer between what is happening in the market and what we're doing. That way we can see if subsidy is being retained. We also track affordability based on different indices. So we've actually changed our formula four times…based on a growing awareness of what is changing in the market."

Standard 2.5 Back-up Strategy

Establish a strategy to address homes that do not sell within a reasonable timeframe.

If homes do not sell as anticipated, programs can suffer from unsustainable holding costs and delayed revenue. Ideally, programs would have written procedures to review pricing and marketing strategies and steps to move unsold homes (such as lowering the price, offering incentives, or increasing marketing). A written back-up sales strategy might include lease-to-own, a reserve fund to repurchase units languishing on the market, allowing units to sell to over-income buyer with the covenant in place, or allowing units to sell at market rate and recapturing the subsidy.

Tip: Programs that receive HOME subsidies are required to sell units within a specified number of months after construction completion. If not sold within this timeframe, the unit must be converted to permanent rental housing or the HOME investment must be repaid. Programs should work closely with the participating jurisdiction to ensure they understand required deadlines.

3.

3. MORTGAGE FINANCING

Excellent programs ensure that the buyers' home loans are appropriate and affordable, work with lenders to keep approvals and closings on track, and strive to protect against default and loss of affordable units.

3. MORTGAGE FINANCING

Some programs directly provide home purchase financing to their buyers, while many more play an advisory and oversight role, helping buyers locate and obtain appropriate financing for their home purchase. It is important for the loan approval process to be clear and fair, and for homebuyers to have a choice of safe loan products that fit within the affordable pricing model. It's also important for programs to prevent unauthorized refinancing or over-encumbrances of properties, and to have a plan to remedy this type of situation should it occur.

Exclusions/Modifications: Habitat for Humanity affiliates that have their own specialized products, policies, and procedures are exempt from Standard 3.3.

Standard 3.1 Review First Mortgage Loans

Review and approve first mortgage loans in a timely and consistent manner.

Written loan guidelines ensure that borrowers take out loans that fit within the affordable pricing model and are not predatory. It is important for programs to clearly explain the procedures for first mortgage review and approval. For some applicants, the lender approval process can be lengthy. Clearly stated response times avoid confusion among program staff and applicants about the applicants' rights to the unit. They also expedite home sales and ensure fairness and consistency.

Required Practices

3.1.a. Establish criteria for acceptable first mortgage loan products, including all of the following components:

- **Loan types allowed and expressly NOT allowed**
- **Interest rate, expressed as a percentage or tied to an index**
- **Term**
- **Discount and origination points**
- **Loan to value ratio**
- **Front and back end ratios**
- **Credit requirements**

Defining the parameters of acceptable first mortgage loan products ensures product consistency with t he affordable pricing model and assists buyers to find the right mortgage product.

3.1.b. Maintain written procedures for first mortgage loan review and approval, addressing all of the following components:

- **Required documents from homeowner and lender**
- **Authorization for program and lender to share information**
- **Response times for applicants to provide required documentation**
- **Timeframe for program review**
- **Review and approval fees (if any)**
- **When exceptions (if any) to program policies will be considered**

Written procedures for first mortgage loan review and approval expedite closings and build positive relationships with lenders and buyers. They also ensure fair and consistent treatment of buyers and lenders.

Tip: Programs may wish to consult the most recent mortgage rules issued by the Consumer Financial Protection Bureau (CFPB) to align the program's mortgage criteria with the CFPB's qualifying mortgage requirements.

Resources

SAMPLE – Permitted Mortgage & Refinancing Policy:

http://www.affordableownership.org/docs/sample-permitted-mortgage-refinancing-policy/
A document providing sample language for acquisition loan types allowed and disallowed and criteria for allowable refinancing and home equity loans. The document also includes a sample notice to lenders of program restrictions and post-closing documentation procedures.

City of San Francisco, CA – Homebuyer Loan Requirements:

http://affordableownership.org/docs/san-francisco-ca-homebuyer-loan-requirements/
Criteria established for financing of Below Market Rate (BMR) units through the Mayor's Office of Housing Inclusionary Housing BMR Program in San Francisco, CA. Included are acceptable ratios and a list of loan types allowed and disallowed (e.g. adjustable rate and balloon payment loans).

City of Boulder, CO Mortgage Policies:

https://www-static.bouldercolorado.gov/docs/Mortgage-Policy-1-201401091529.pdf

A document describing the City of Boulder, CO, policies for permitted mortgage loans. It includes general requirements, permitted purchase and refinance loans, home equity loans, and procedures for approval.

Standard 3.2 Review Subordinate Loans and Refinances

Review and approve subordinate mortgages, refinance loans, and home equity loans in a timely and consistent manner.

A clear loan review and approval process ensures that buyers do not borrow more than the restricted price of their home or enter into a predatory loan. Clearly stated procedures ensure fairness and consistency, improve response times, and avoid confusion among program staff and applicants about applicants' rights to borrow additional funds.

Required Practices

3.2.a. Establish criteria for acceptable subordinate loans, refinance loans, and home equity loans (if applicable), including all of the following components:

- **Acceptable reasons for loan request**
- **Maximum cash out (if any)**
- **Loan types allowed and expressly NOT allowed**
- **Interest rate, expressed as a percentage or tied to an index**
- **Term**
- **Discount and origination points**
- **Loan to value ratio**
- **Front and back end ratios**
- **Credit requirements**

Defining the parameters of acceptable loans ensures that buyers do not borrow more than the restricted price of their home or enter into a predatory loan.

3.2.b. Maintain written procedures for the review and approval of subordinate mortgages, refinance loans, and home equity loans, addressing all of the following components:

- **Required documents from homeowner and lender**
- **Authorization for program and lender to share information**
- **Response times for applicants to provide required documentation**
- **Timeframe for program review**
- **Review and approval fees (if any)**
- **When exceptions (if any) to program policies will be considered**

Written loan procedures build and support positive relationships with lenders and buyers. They also ensure institutional knowledge, and fair and consistent treatment of buyers and lenders.

Resources

SAMPLE – Permitted Mortgage & Refinancing Policy:

http://www.affordableownership.org/docs/sample-permitted-mortgage-refinancing-policy/

A document providing sample language for acquisition loan types allowed and disallowed and criteria for allowable refinancing and home equity loans. The document also includes a sample notice to lenders of program restrictions and post-closing documentation procedures.

SAMPLE- Refinance Loan Review Request & Compliance Form:

http://www.affordableownership.org/docs/sample-refinance-loan-review-request-compliance-form/

A sample form designed for homeowners who are requesting approval to refinance resale-restricted homes.

Chicago CLT First Mortgage & Refinancing Guidelines:

http://www.affordableownership.org/docs/first-mortgage-and-refinancing-guidelines/

A one-page document from the Chicago Community Land Trust providing guidelines to lenders, homebuyers, homeowners, and counseling agencies about the type of mortgage loans that are allowed and the circumstances under which refinancing is permitted.

Standard 3.3 Choice in Lending Products and Institutions

Ensure adequate choice of mortgage lending products and approved mortgage lending institutions.

While programs can and should determine acceptable loan types and work with approved lenders, they should strive to offer more than one lender and loan product. Making sure that borrowers have a wide choice of lenders and loan products within program parameters protects the program from accusations of unethical business dealings, expands the pool of potential buyers, and allows buyers to obtain loans that best suit their needs.

Required Practices

3.3.a. Identify at least two lenders that have mortgage loan products that meet program requirements. In markets where lenders are unwilling to make loans to homes within the program, document good faith efforts to identify and secure participating lenders (e.g. conversations, meetings).

Identifying lenders familiar and ready to work with the program can be a time-consuming and challenging process, yet it is well worth the effort to provide borrowers with as many lending options as possible. Multiple lenders promote healthy competition that leads to favorably priced products for buyers. Programs that direct buyers to multiple lender options also avoid the appearance of steering buyers to a specific lender.

Resources

Approved Lender List Template:

http://www.affordableownership.org/docs/sample-approved-lender-list/
A template designed to help programs list approved lenders and loan officers.

Standard 3.4 Legal Safeguards

Use legal safeguards to prevent unauthorized refinancing or over-encumbering property beyond affordable monthly payments and affordable resale price.

Written loan guidelines may not be enough to protect owners from predatory lending and safeguard affordable units from homeowners' over-borrowing. Refinance and home equity loan language in deed restrictions or ground leases can strengthen the program's ability to prevent unauthorized refinancing.

Required Practices

3.4.a. Include provisions in recorded legal documents (e.g. ground lease, deed of trust, land title, promissory note, regulatory and monitoring agreements, proprietary lease) that require program approval of refinancing or other encumbrances.

Provisions in legal documents requiring approval of refinancing or other encumbrances increase the likelihood that the program will have the opportunity to implement requirements and procedures that protect owners from predatory lending and over-borrowing.

Tip: Some programs have a procedure to check public records to monitor liens and encumbrances annually.

Resources

Model CLT Lease, Article 8, Financing: [Page 14, Article 8 Model Ground Lease]

http://cltnetwork.org/wp-content/uploads/2014/01/Model-Lease-01-2011.pdf
The National CLT Network Model Ground Lease detailing mortgage procedures for purchase and refinancing.

City of Watsonville, CA Refinance of First Mortgage Loan:

http://www.affordableownership.org/docs/watsonville-refinance-of-first-mortgage-loan/
An excerpt from the City of Watsonville, CA Regulatory Agreement describing city procedures for approving the refinancing of first mortgage loans.

Monterey County, CA Refinance of First Mortgage Loan:

http://www.affordableownership.org/docs/monterey-county-ca-refinancing/
An excerpt from Monterey County, CA's Resale Restriction Agreement detailing allowable refinancing criteria and permitted use of proceeds.

Standard 3.5 Notice of Nonpayment and Default

Create mechanisms to receive and respond to notification of nonpayment and default.

Early notification of default allows the program to take a proactive approach toward helping owners cure the default, provide foreclosure counseling and prevention resources, and preserve housing affordability long term. Written procedures for responding to a notice of nonpayment or default ensure the program responds effectively and consistently when defaults occur, and preserve institutional knowledge.

Required Practices

3.5.a. In states that allow for recorded requests for copies of notices of default, programs should record a Request for Notice for each unit in the program portfolio. In states that do not allow for recorded Requests for Notice, programs should document procedures for periodically checking with owners, lenders, and HOAs.

When the program is notified of default or nonpayment, it can help owners with financial counseling and foreclosure prevention. Even after a Notice of Default is recorded, the program can help the owner and also has an opportunity to preserve the affordable unit within the program and prevent loss through foreclosure.

3.5.b. Document procedures for responding to notices of default.

Having written procedures for responding to owner default provides guidance to program staff, preserves institutional knowledge when staff changes, and ensures fair and consistent treatment of owners.

Tip: A new Request for Notice must be recorded for each new loan and for any change of address of the organization receiving the notice.

Tip: Many programs have procedures to periodically check with lenders about buyers' loan status. This works especially well when the program has strong relationships with lenders and servicers.

Resources

City of Redmond, WA Notice of Default in Deed Covenant: [Page 14, Section 9.1]

http://cltnetwork.org/wp-content/uploads/2014/08/Deed-covenant-owner-occupied-Redmond.pdf

Section 9.1 of the City of Redmond, WA's resale covenant requiring that a request for copy of notice of default to be filed with the county recorder.

Fairfax County, VA Notice of Default Language in Affordable Covenant: [Page 7, Section F.]

http://cltnetwork.org/wp-content/uploads/2014/08/Affordable-Dwelling-Unit-deed-covenant-owner-occupied.pdf

Section F of Fairfax, VA affordable covenant requiring the lender to notify the county in the event of a delinquency or default on the deed of trust or mortgage.

Hello Housing Notice of Default Memo (San Francisco, CA):

http://www.affordableownership.org/docs/notice-of-default-memo/

A memo from the nonprofit Hello Housing describing best practice procedures that jurisdictions should undertake to protect a resale-restricted property upon receiving a Notice of Default letter.

Sample Permitted Mortgage Agreement:

http://www.affordableownership.org/docs/sample-permitted-mortgage-agreement/

An agreement between the Lender and Homeowner requiring the lender to notify the homeownership program in the event of a default on the mortgage, acceleration of the note, or acquisition of title.

Standard 3.6 Safeguard Investment

Establish rights to safeguard program's investment in the event of default or foreclosure.

By recording a right to cure default and first right of purchase in the event of foreclosure, programs have the opportunity to preserve the initial investment and the keep the affordable home in the program.

Required Practices

3.6.a. Include provision in recorded legal documents that the program has the right to cure default on the owner's behalf.

Curing default on an owner's behalf can preserve the home in the program. It can also provide an opportunity for the program to assist homeowners to improve their financial position so they can stay in the home.

3.6.b. Include program first right of refusal or first right to purchase in recorded legal documents.

When programs have the right to repurchase a program home, they can decide whether to exercise that right depending upon the organization, program, and unit status.

Tip: Some programs have found lenders willing to sign a Permitted Mortgage Agreement that gives the program ensured notification of 30-day, 60-day, and 90-day delinquencies by the lender.

> In our restrictive covenant we do have language to the effect that we should be notified in the event of foreclosure. Most of our lenders think that's impossible, but we have a very, very good relationship with our buyers. We've only ever had one person who went into default, but when she did, she came to us and let us know she was in trouble. I think keeping in touch with your people is very important, but other things are, too. In order to keep our properties, we must have something there to protect us from losing them.

Resources

Washington D.C. Rights of Purchase Clause in Inclusionary Development Covenant: [Page 9, Article 8]

http://cltnetwork.org/wp-content/uploads/2014/08/Deed-covenant-rental-and-owner-occupied-DC.pdf
Article 8 of the Washington, DC inclusionary development covenant describing notice of default and foreclosure procedures for the restricted homes. A right of purchase clause is in Section 8.4(b).

City of Redmond, WA Right of First Refusal Language in Deed Covenant: [Page 13, Section 9.2]

http://cltnetwork.org/wp-content/uploads/2014/08/Deed-covenant-owner-occupied-Redmond.pdf
Section 9 of the Redmond, WA deed covenant describing notice of default provisions and the city's right of first refusal to purchase the home prior to a trustee's sale or foreclosure.

National CLT Manual "Dealing with Mortgage Default and Foreclosure": [Chapter 25 pp 449–451]

http://cltnetwork.org/wp-content/uploads/2014/01/MASTER-CLT-MANUAL.pdf#page=449

An excerpt from the National CLT Network Manual providing information for a CLT faced with mortgage default and foreclosure. The section describes the difference between judicial and non-judicial foreclosure.

Chicago CLT Option to Purchase if Default (Chicago, IL):

http://affordableownership.org/docs/chicago-il-option-to-purchase-if-default/

An excerpt from Chicago Community Land Trust Restrictive Covenant describing an option to purchase in the event of a default by the homeowner.

City of San Francisco, CA Option to Purchase if Default:

http://affordableownership.org/docs/san-francisco-ca-option-to-purchase-if-default/

An excerpt from the City of San Francisco's Program Restriction and Option Agreement describing events of default and the process for the City to exercise its option to purchase in the event of a default.

City of Boston, MA, Option to Purchase in Default:

http://affordableownership.org/docs/boston-ma-option-to-purchase-in-default/

A detailed clause from the City of Boston, MA's Affordable Housing Covenant documenting the program's right to purchase the restricted home in the event of a default. This excerpt describes events that trigger the option, and the procedure for exercising the option.

OPTIMAL STANDARDS FOR HIGH PERFORMING PROGRAMS

Standard 3.7 Lender Cultivation and Approval

Cultivate and approve partner lending institutions/loan officers.

Knowledgeable and supportive lenders are invaluable to successful programs. Because they understand program restrictions, eligibility criteria, the application and approval process, and their responsibilities in the transaction, partner lenders expedite transactions and reduce the possibility that loans will fall through at the last minute. High-performing organizations maintain a written list of approved lenders and regularly reach out to educate and establish relationships with new lenders, which are then added to the list, creating a wide range of choices for buyers.

Resources

Advantages of First Mortgage Lending Flyer:

http://cltnetwork.org/wp-content/uploads/2014/01/Advantages-of-Mortgage-Lending-to-CLTs.pdf
A flyer describing the advantages for lenders in providing mortgage loans on CLT homes and including information on CLT performance.

4.

4. FAIR HOUSING & BUYER SELECTION

Excellent programs actively reach out to their target market, have an open and fair process to sell homes to qualified, informed buyers, and clearly explain the resale process to the seller and to prospective buyers.

4. FAIR HOUSING & BUYER SELECTION

When demand for program services is high, programs can assume they are meeting the needs of their community while inadvertently leaving out some segments of that community. Historically, not all groups have had the same access to homeownership. Programs that analyze the demographics and language needs of their communities can run inclusive programs that help rectify historic wrongs. Programs that require general homebuyer education, clearly explain all aspects of the buyer eligibility and selection process, and disclose all program restrictions and ongoing requirements will produce well-prepared buyers through an open and fair process.

Standard 4.1 Target Marketing

Take steps to reach program's target market and to affirmatively further Fair Housing policies.

When programs take deliberate steps to reach their target markets and work to affirmatively further Fair Housing policies, they are more likely to reach buyers from underserved and historically discriminated against populations, and, consequently, meet the needs of the whole community.

Required Practices

4.1.a. Maintain a written marketing plan that includes all of the following components:

- **Target market (income level, geographic region) and efforts to reach target market**
- **Groups least likely to apply and efforts to reach groups least likely to apply**
- **List of commercial media and advertising**
- **List of community contacts**
- **Description of staff training**
- **Description of how marketing performance is evaluated.**

Programs sometimes fail to reach their target populations, and the demographics of people served by the program do not always reflect the demographics of the community. A written marketing plan identifies the strategies that the program will use to reach out to diverse populations.

4.1.b. Include Fair Housing language and the Fair Housing logo on marketing collateral.

Use of Fair Housing language and the Fair Housing logo informs potential buyers and the community that the program encourages and supports participation by a diverse group of people. Programs that receive federal funding will often be required to include specified language in their marketing materials.

Tip: For projects of five or more HOME-assisted units, the Participating Jurisdiction will impose affirmative marketing requirements. These requirements may be more stringent than those the program normally follows.

Tip: Provide on-going Fair Housing training for all staff that conduct program marketing or interface with clients. Document when staff receives training.

Resources

Marketing and Outreach Plan Outline:

http://affordableownership.org/docs/sample-marketing-and-outreach-plan-outline/
A document outlining the key elements in a marketing plan for resale-restricted homes. Sections include project information, marketing strategies, selection preferences, waitlist procedures, and eligibility requirements.

Affirmative Marketing Plan Worksheet and Template:

http://www.affordableownership.org/docs/sample-affirmative-marketing-plan-worksheet-and-template/
A worksheet providing program staff with an outline of questions to consider when preparing an affirmative fair marketing plan for resale-restricted homes.

Ecumenical Association for Housing (EAH) Marketing Plan:

http://www.affordableownership.org/docs/marketing-plan-for-sale/
A marketing plan prepared by EAH for a project in Marin County, CA that includes a description of the buyer selection process, fair housing marketing plan, selection preferences, lottery, and buyer qualification.

State of Massachusetts Marketing Guidelines:

http://affordableownership.org/docs/state-of-mass-marketing-guidelines/
A document from the State of Massachusetts designed to help developers of affordable for-sale units prepare an Affirmative Fair Housing Marketing Plan that includes the process for resident selection.

Community Development Corporation of Utah, Affirmative Fair Marketing Plan (Salt Lake City, UT):

http://www.affordableownership.org/docs/affirmative-marketing-plan/
An Affirmative Fair Marketing plan prepared by the CDC of Utah to guide the organization's marketing and outreach efforts for all housing development activities undertaken throughout the State of Utah.

HUD Fair Housing Logo:

http://portal.hud.gov/hudportal/HUD?src=/library/bookshelf11/hudgraphics/fheologo
A link to Fair Housing graphics from HUD that can be used on marketing materials.

Standard 4.2 Limited English Proficiency

Don't limit program to English speakers.

Program materials available to non-English speakers increase the pool of potential buyers and the likelihood that the program will reach its target population and serve the community.

Required Practices

4.2.a. Conduct an analysis of language needs in the community at least every three years.

For a program to successfully provide materials and outreach to a broad range of potential participants, it must know the language needs of potential participants. Programs can identify language needs by reviewing census data and local community health and school district planning documents. The analysis of language needs in the community will identify the languages most commonly spoken and help prepare the program to gear outreach and materials to more commonly spoken languages.

4.2.b. Maintain a plan for marketing to and working with limited-English speakers.

An effective marketing plan will include strategies for reaching limited-English speakers. The plan should address how the program will respond to requests for interpretation and translation, and how the program will assist limited-English speakers in understanding the program.

Tip: Consider creating formal or informal relationships with organizations whose staff has a range of language skills. Refugee organizations, social service organizations, schools and universities, and places of worship often have a broad range of foreign-language speaking staff and volunteers. These organizations may also be willing to assist with targeted outreach. Programs should also consider including the cost of interpretation and translation services in the program's operating budget, particularly if outreach efforts could increase requests for these services.

Tip: Consider creating a database of foreign-language speaking staff who are willing to be contacted to provide translation assistance to persons with limited or no English proficiency who call or come to the office with questions.

Tip: Low-cost telephone interpretation services are available in many areas.

> “What we have done is try to encourage family members to provide translation for the general overview, but if someone is going through an actual purchase process for our program land lease documents, we would pay for an interpreter to be at that meeting. We also require the buyer to review documents with an attorney and we would pay for that as well.”

Resources

Champlain Housing Trust Limited English Proficiency (LEP) Procedures:

http://www.affordableownership.org/docs/limited-english-proficiency-household-procedures/
Champlain Housing Trust’s policies and procedures for serving Limited English Proficiency households, including details on when the agency will pay for translation services.

Standard 4.3 Homebuyer Education

Require buyers to complete general homebuyer education prior to purchasing a home.

Purchasing a home for the first time is a complex and daunting procedure. Homebuyer education helps prepare buyers and raise their awareness of and engagement in the process, which enables them to better succeed as homeowners in the long run.

Required Practices

4.3.a. Require and verify in writing that all buyers complete a general homebuyer education course prior to purchase.

General homebuyer education has been proven to reduce delinquency and foreclosure rates and help homebuyers succeed. This type of course is usually provided by the program or through third-party housing counseling agencies. Most courses will provide a certificate of completion.

> “We partner with 3 certified housing counseling agencies…[as] most of our funders require homebuyer education...They also support the selection process in terms of participating in those decisions.”

Tip: HUD sponsors housing counseling agencies throughout the country that can provide advice on buying a home, renting, defaults, foreclosures, and credit issues.

Resources

HUD Approved Housing Counseling Agencies:

http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm
A list of agencies for each state, which is searchable by type of counseling service, such as pre-purchase counseling or mortgage delinquency and default resolution counseling.

Standard 4.4 Plain Language Documentation

Explain eligibility criteria, selection process, and program restrictions clearly and in plain language.

Programs can avert political or legal problems and frustration on the part of applicants, buyers, and sellers with a transparent, fair, and consistent buyer selection process. Eligibility criteria must be fully explained to ensure initial and subsequent buyers are eligible to buy available homes and fall within the target market for the program. Clear eligibility criteria and transparent selection processes are also important to ensuring that buyers are aware of all program restrictions.

Note: The following practices apply to first sales and any subsequent resales.

Required Practices

4.4.a. In addition to a general homebuyer education course, require and verify in writing that all purchasers complete counseling and/or education specific to the particular program as part of the application process.

Purchasing a home with affordability and resale restrictions adds another layer of complexity to an already complex and daunting process. Education or individual counseling to explain program requirements helps buyers to make informed decisions about entering into the program.

4.4.b. Provide written information to initial and subsequent buyers regarding program restrictions, including all of the following components:

- **Plain language disclosure statement, reviewed with buyers in advance of closing**
- **Calculated example of price restrictions or recapture provision**
- **Post-closing requirements (e.g. periodic certification, documentation that will be required, and maintenance expectations)**

Written disclosures, signed by the buyer in advance of closing, provide evidence that the program has reviewed restrictions with the buyer. Examples of price restrictions or recapture provisions help buyers to understand how much return they might receive when they resell, and how that return will be calculated. Informing buyers up front about ongoing maintenance requirements, annual certifications, or any other ongoing post-closing requirements will make them more likely to cooperate or comply.

4.4.c. Provide written eligibility criteria to initial and subsequent buyers covering all of the following components:

- **Income calculation**
- **Treatment of assets**
- **Determination of household size**
- **Down payment requirements**
- **Credit score requirements**
- **Loan qualification requirements**
- **Allowable loan types**
- **First-time homebuyer requirements**

Buyers need to understand their eligibility for the program. Programs sometimes fail to fully explain who is eligible to buy the available homes or to ensure that buyers fall within the target market for the program. Written criteria ensure consistency and provide buyers with a reference when they have questions.

4.4.d. Provide written information about the buyer selection process to initial purchasers covering all of the following components:

- **Selection preferences, if any**
- **Methods by which applications will be ranked, processed, and approved**
- **Lottery procedures (if any)**
- **How program determines which home the applicant will purchase**

When the selection process and procedures are unclear, applicants can become frustrated and angry. Providing written criteria about the program's processes averts misunderstanding and creates trust.

> "It's extremely necessary to have these restrictions clear in plain language…at the end of the day if you're not explaining in a way that the buyer and the seller understand and can explain back to you and to whoever is in their network (family, friends) supporting them, the document isn't worth very much."

4.4.e. Provide sellers with written procedures on listing their home and identifying eligible buyers, including a description of anticipated costs.

When owners contact the program because they are ready to sell, written procedures provide them with the guidance they need to comply with home listing and buyer eligibility requirements. A description of typical sellers' costs reduces surprises when the home is sold.

Resources

Sample Eligibility Criteria:

http://www.affordableownership.org/docs/sample-eligibility-criteria/
Sample language and an outline to help program staff develop eligibility criteria, including defining acceptable documentation for income verification, first-time homebuyer status, and asset limits.

Sample Appropriate Units Policy and Definition of Household:

http://affordableownership.org/docs/sample-appropriate-units-policy-and-definition-of-household/
A sample policy for appropriate unit size, definition of a household, and verification methods for confirming household size.

City of Northborough, MA - Dunia Gardens Lottery and Application:

http://www.affordableownership.org/docs/northborough-ma-dunia-gardens-lottery-information/
A lottery and application packet from the City of Northborough, MA's Dunia Gardens project, including lottery procedures, description of its Affirmative Fair Housing Marketing Plan, and a Frequently Asked Questions section (FAQs).

Sample Resale Price Calculation Notice:

http://www.affordableownership.org/docs/sample-resale-price-calculation-notice/
Sample language to remind homeowners about the resale price restrictions in their Resale Agreement, including examples of how a resale price formula is calculated.

Mandela Gateway Townhomes Supplemental Information Packet (Oakland, CA):

http://www.affordableownership.org/docs/supplemental-information-packet/
An information packet for prospective applicants for the Mandela Gateway Townhomes project in Oakland, CA, including information about eligibility requirements, financing options, and resale restrictions.

Humboldt Community Development Land Trust Homebuyer Manual, (Arcata, CA):

http://www.affordableownership.org/docs/homebuyer-manual/

A manual from the Humboldt Community Development Land Trust in Arcata, CA, providing an overview of the agency's homeownership opportunities, eligibility criteria, and application process to prospective buyers of new and existing CLT homes.

Standard 4.5 Application Review Process

Implement a review process so that applicants who were not approved or are deemed ineligible by the program may request a second review of the circumstances under which their application was denied.

Program applicants who are found ineligible sometimes erroneously conclude that they were rejected due to their race or membership in some other legally protected category. A review process demonstrates openness and protects the program from accusations of unfairness.

> "Sometimes things come up -- fraud, higher income, or other undisclosed information. If somebody thinks we've calculated wrong or disagrees, we'll sit down with them. The front end is clear, but sometimes it does get dicey if there is disagreement. We give them a fair opportunity."

Required Practices

4.5.a. Maintain a written review process including all of the following components:

- **Who will make final decision (e.g. hearing officer, ED, board, city council)**
- **How to initiate a review (e.g. upon written request)**
- **Timeframe for filing and consideration (e.g. within how many days)**
- **Whether applicant will have opportunity to meet with organization or present additional information**
- **Whether subsequent reviews are possible**

Strong relationships with buyers and a willingness to discuss the application process are most often enough to help ineligible applicants understand the reasons behind a denial. Still, program staff may make mistakes and overlook information. A formal review process with written policies and procedures will help ensure that those applicants who believe they may have been treated unfairly have an opportunity to feel thoroughly heard.

4.5.b. Notify ineligible applicants in writing and provide a copy of the process for requesting a review.

When applicants know that they have an opportunity to request a review of their application, it increases the likelihood that they will view the program as transparent.

“To have the full faith and trust of the community, I think it’s vital to have a (review) policy. It adds to the legitimacy of what we do, even if it is never used.”

Resources

Sample Appeals Policy:

http://www.affordableownership.org/docs/sample-appeals-policy/

A sample policy statement providing programs with guidance on structuring their appeals process.

City of Mountain View, CA Appeals Process:

http://affordableownership.org/docs/city-of-mountain-view-appeals-process/

Language from the City of Mountain View, CA program's administrative guidelines describing the program's appeals procedure.

City of Lakes Community Land Trust– Appeals Procedure (Minneapolis, MN):

http://affordableownership.org/docs/city-of-lakes-community-land-trust-appeals-procedure/

Language from the City of Lakes Community Land Trust's program manual describing its appeals procedure.

Standard 4.6 Selection Preferences

Consult with legal counsel or Fair Housing agency to ensure eligibility criteria and selection preferences (if any) comply with Fair Housing laws.

Selection preferences in some jurisdictions have been found to violate Fair Housing laws. Reviewing criteria with legal counsel or a Fair Housing agency can help programs understand the risks associated with certain types of preferences, and to structure a selection process that does not have a discriminatory impact on any protected classes.

> “Our staff is educated on fair housing and we know what the laws are. But we get asked by partners to do things that are not consistent with fair housing practices. It might be good to have [this standard] in place so we can have a more teaching type of conversation with our partners.”

Required Practices

4.6.a. If programs have selection preferences of any kind or eligibility requirements based on residency, consult with an attorney or fair housing agency to understand whether these requirements or preferences might conflict with Fair Housing laws.

Programs may be inadvertently at odds with Fair Housing regulations through the use of residency-based eligibility requirements or certain selection preferences, but selection preferences can also further important program objectives. Programs should take steps to understand the risks so they can meet their objectives while maintaining a selection process that is not discriminatory.

“Our funder wanted us to preference buyers from certain neighborhoods and Fair Housing said that would be a violation. We had to go back to our funder and say that was not going to work. I think it is good practice to check and not just go with what the funders say.”

Resources

Local Preference and Fair Housing Webinar Slides, August 2012:

http://www.affordableownership.org/docs/local-preference-fair-housing/

Slides from a Cornerstone Partnership webinar providing an overview of U.S. Fair Housing policy, example case studies, and strategies for developing local preference policy structures. The slides feature eight policy case studies from across the country, including the State of Massachusetts; New York, NY; Bloomington, IN; San Francisco, CA; and Long Beach, CA.

5.

RESALES

Excellent programs maintain affordability to the target market over time, resell affordable homes in an open, equitable, understandable manner, and clearly explain the resale process to buyers and sellers.

5. RESALES

It costs more to produce a new affordable unit than to preserve an existing one. Resale restrictions are the preeminent way programs keep homes affordable for future generations, but resales are tricky transactions. The resale formula put in place—regardless of the number of years ago—needs to produce an affordable price, and the sellers, as well as the buyers, need to clearly understand the process and costs involved. Furthermore, the condition of the home can be an issue if homes are not well-maintained over time. Care must be taken to prevent the loss of affordable homes from program portfolios.

Exclusions/Modifications: Resale standard 5.1, 5.2, and 5.3 only apply to programs selling homes with resale price restrictions. They do not apply to programs that use subsidy recapture (shared appreciation mortgages, silent seconds, or other repayable loan types) mechanisms to preserve affordability. In addition, programs that do not provide credits for capital improvements are exempt from Standard 5.5.

For co-op sponsors and stewards, Standard 5.4 should also be modified to require that provisions be in place for annual co-op maintenance and repair requirements, specifically for common spaces and systems (roof, boiler, hallways, etc.).

Standard 5.1 Adopting a Resale Formula

Adopt a resale formula that preserves affordability under a wide range of economic conditions while also providing asset-building opportunities for homeowners.

Resale formulas can be confusing and difficult to calculate, and they may not always result in long-term affordability in changing market conditions. It is important for programs to select resale formulas that meet a variety of program goals, such as long-term affordability, wealth building, ease of administration, and funder priorities.

Required Practices

5.1.a. Use one or a combination of these resale formula models to suit your market conditions:

- **Area Median Income Index Formula**
- **Fixed-Index Formula**
- **Consumer Price Index Formula**
- **Housing Market Index Formula**
- **Appraisal-based Formula**

Effective resale formulas preserve affordability under a wide range of circumstances and offer asset-building opportunities to homeowners. These five resale formula models preserve affordability and build wealth in proven ways in some markets, but no formula is perfect. The formula chosen for the program should be based on current and projected market factors.

Tip: Programs that use HOME funding need to be aware of HUD requirements related to resale formulas. Participating Jurisdictions must establish written resale and/or recapture provisions and obtain approval by HUD prior to commitment of funds. Early discussions with the HOME Participating Jurisdictions will help programs understand the constraints of HOME resale requirements and help them to promote appropriate language in Consolidated and Annual Action Plans.

Resources

Resale Formula Options:

http://www.affordableownership.org/docs/resale-formula-options/

A guide providing definitions, pros/cons, and examples of how to calculate key resale formulas used in resale restricted housing.

Resale Formula Comparison Tools:

http://www.affordableownership.org/docs/resale-formula-comparison-tool/

A set of interactive online tools enabling programs to compare the results of several of the most common affordable housing resale formulas. These tools compare the extent to which a formula preserves affordability for subsequent homebuyers, while simultaneously showing the extent of homeowner asset building and allowing for quick adjustments in assumptions about unknown variables, such as the rate of future home price appreciation, interest rates, etc.

Sample Resale Formulas: Sample language and calculations from programs that use the index-based, fixed rate, and appraisal-based formulas.

City of Boulder, CO:

http://affordableownership.org/docs/boulder-co-resale-formula/

An index-based formula used by the City of Boulder that allows the buyer to use the Area Median Income or Consumer Price Index.

Kulshan CLT, Bellingham, WA:

http://www.affordableownership.org/docs/bellingham-wa-kulshan-clt-resale-calculation/

A fixed rate formula used by Kulshan CLT that uses a rate of 1.5% per year to calculate resale price.

Champlain Housing Trust, Burlington, VT:

http://affordableownership.org/docs/bclt-resale-calculation-example/

An appraisal-based formula used by the Champlain Housing Trust.

CLT Manual "Resale Formula Design": [Chapter 12 p 242 – 266]

http://cltnetwork.org/wp-content/uploads/2014/01/MASTER-CLT-MANUAL.pdf#page=242

A chapter of the National CLT Network manual providing detailed descriptions of different methods for a determining resale price, and the advantages and disadvantages of these methods.

Resale Formulas, Sales, and Resales of Resale-Restricted Homes – Decision Guide:

http://affordableownership.org/docs/resale-formula-and-sales-resales-decision-guide/

A decision guide providing programs with key questions and issues to consider when designing or overseeing the initial sales and resales of resale-restricted homes in an affordable homeownership program.

Resale Formula and Sales & Resales of Resale-Restricted Homes – Assessment:

http://affordableownership.org/docs/resale-formula-and-sales-resales-assessment/

A tool designed for consultants to assess the extent to which a program applies high-impact practices in designing or overseeing the initial sales and resales of resale-restricted homes. Practitioners may also use this tool for program self-assessment.

Standard 5.2 Resale Formula Effectiveness

Evaluate the effectiveness of a program's resale formula in preserving affordability over time.

Different resale formulas work better in different types of markets. Programs must evaluate and, if necessary, adjust their resale formulas over time in order to maintain affordability and preserve units in the program portfolio.

Required Practices

5.2.a. Track and evaluate affordability of resales every three years and modify the formula if necessary.

Tracking resale affordability makes it possible for programs to evaluate whether affordability is being preserved. Programs should adopt written procedures that describe how frequently they evaluate the effectiveness of their resale formulas and what steps they will take to modify the formula if necessary.

> “We've gone through the process of making changes along the way when things weren't working, so I think it's an ongoing evaluation process to ensure that the next resale goes more smoothly.”

Resources

Resale Formulas, Sales, and Resales of Resale-Restricted Homes – Decision Guide:

http://affordableownership.org/docs/resale-formula-and-sales-resales-decision-guide/

A decision guide providing programs with key questions and issues to consider when designing or overseeing the initial sales and resales of resale-restricted homes in an affordable homeownership program.

Resale Formula and Sales & Resales of Resale-Restricted Homes – Assessment:

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A tool designed for consultants to assess the extent to which a program applies high-impact practices in designing or overseeing the initial sales and resales of resale-restricted homes. Practitioners may also use this tool for program self-assessment.

Standard 5.3 Unit Retention

Strive to retain affordable units in the program portfolio and have provisions in place to recapture the community investment if a unit is sold out of the program.

When homeowners are unable to sell their homes, they can be stuck with unsustainable holding costs. Some programs allow homes to sell out of the program if a buyer cannot be found within a reasonable timeframe, but a lost affordable unit can be hard to replace. In cases where homes are allowed to sell out of the program, the initial subsidy should not be lost in favor of an unreasonable gain to the seller. Recapturing initial subsidies when homes are sold out of the program allows the program to reinvest the subsidy in additional affordable housing opportunities.

Required Practices

5.3.a. Include provisions in recorded legal documents (e.g. ground lease, deed of trust, land title, promissory note, regulatory agreement) to prevent loss of affordable units.

Provisions should ensure that resale restrictions are only removed in foreclosure and provide the program with a first purchase option to preserve homes in the program portfolio and protect the public investment.

5.3.b. Include provisions in recorded legal documents for public equity recapture if unit is sold out of the program.

Provisions that ensure public equity is recaptured reduce the likelihood of unreasonable gain to the seller and allow the program to reinvest the subsidy in additional affordable housing opportunities. Some programs also capture a share the home's appreciation when that home is sold out of the program.

Tip: Some programs have resale restrictions that survive foreclosure and have successfully gone to court to keep these provisions in place.

Tip: Programs that receive HOME funding will be required to repay the subsidy to the Participating Jurisdiction if the unit is sold out of the program before the expiration of the affordability period. It's particularly important for programs to consider maintaining a reserve account to prepare for this risk. Programs are exempt from this requirement if they operate in a declining housing market where a unit's value has depreciated to the point that there is insufficient equity to repay the public subsidy.

Resources

Chicago Community Land Trust Option to Purchase if Default (Chicago, IL):

http://affordableownership.org/docs/chicago-il-option-to-purchase-if-default/

Chicago Community Land Trust's covenant describing the program's option to purchase in the event of a homeowner default.

City of Boston, MA and Boston Redevelopment Authority Option to Purchase if Default:

http://affordableownership.org/docs/boston-ma-option-to-purchase-in-default/

An excerpt from a Boston, MA deed rider detailing the Redevelopment Authority's option to purchase when the homebuyer defaults.

Monterey County, CA Option to Purchase:

http://affordableownership.org/docs/monterey-county-ca-buyers-occupancy-and-resale-restriction-agreement/

A buyer occupancy and resale restriction agreement that includes an option-to-purchase clause from Monterey County, CA.

Standard 5.4 Home Maintenance and Repair

Have provisions in place for home maintenance and repair requirements upon resale.

Owners of resale-restricted units may feel they have no incentive to maintain or repair their units if the selling price is based solely on a resale formula that does not take into consideration the condition of the home. Degradation of the affordable housing stock can negatively impact the neighborhood, as well as the political viability of the program, and make resales more difficult and time consuming. It is in the program's interest to ensure that homes are in good condition when they transfer to new owners.

Required Practices

5.4.a. Maintain written criteria, including all of the following components:

- **Acceptable condition of home upon resale**
- **Responsibility for making required repairs prior to resale**
- **Process for inspecting homes prior to transfer to ensure required repairs are made**

When acceptable home-condition criteria are established in writing and the program states the resale inspection process and responsibility for repairs, both the affordable housing stock and the integrity of the program are preserved. Not all programs require that homes meet certain criteria upon resale; however, clarifying in writing who is responsible for the condition of the home upon resale can protect the program from unrealistic expectations on the part of the seller.

5.4.b. Include deductions for damages or needed repairs in the resale formula, if applicable.

When homeowners are responsible for home condition, including deductions for damages or needed repairs, the resale formula can ensure that homes are in acceptable condition upon resale.

Tip: Some programs provide a maintenance schedule as part of their post-purchase stewardship. This can help keep the homeowner informed of what needs to be maintained over the years and a clear guide on how to do so.

Tip (Warning): Several programs receiving HOME subsidies have found that their damage deduction policies conflict with federal interpretations of a fair return on investment. Programs should work closely with the Participating Jurisdiction to ensure that their policies do not conflict with federal guidelines.

Resources

SAMPLE – Maintenance Policy:

http://affordableownership.org/docs/sample-maintenance-policy/
A sample maintenance policy describing minimum housing conditions, maintenance cost responsibilities, and provisions for inspections and excessive damages.

Standard 5.5 Capital Improvement Credits

Capital improvement credits, if any, are clearly explained and defined and include measures to mitigate impacts on long-term affordability.

Programs may credit sellers for capital improvements upon resale as an incentive for homeowners to maintain and improve their units. Credits for capital improvements also allow homeowners to recoup some of the money they have invested in their homes. When providing credits for capital improvements, programs must balance credits with preserving long-term affordability. To ensure this balance, the program should carefully consider and define which types of improvements will be credited.

Required Practices

5.5.a. Maintain a written policy regarding capital improvements, including all of the following components:

- **Types of improvements eligible for credit**
- **Approval requirements**
- **Documentation requirements**
- **Procedure for claiming credit**

- **Formula for calculating value of improvement (appraised value, cost depreciated, etc.)**
- **Limit or ceiling on credits**

When programs provide credits for capital improvements, a written policy that clearly describes the types of credits and the process for documenting and approving credits ensures that only those improvements intended for credit are credited. Written policies also guide owners in prioritizing improvements and maintaining documentation.

5.5.b. Maintain a written policy to ensure that the resale price, including credits for capital improvements, remains affordable to the target market.

Credits for capital improvements should be tracked in the program's information management system. Information on capital improvements credits should be incorporated into the resale formula evaluation process to help preserve affordability of program homes.

Tip: HOME regulations require that HOME-assisted homebuyers receive a "fair return on investment," which must factor in capital improvements. Programs using HOME funding will need to align the program's capital improvement policy with the Participating Jurisdiction's description of what will constitute a capital improvement for purposes of determining fair return on investment.

Resources

SAMPLE – Improvements Policy:

http://affordableownership.org/docs/sample-improvements-policy/
A sample improvements policy defining capital improvements and discussing provisions for post-purchase construction and alteration, as well as how to calculate credits for those improvements.

Capital Improvement Options for Indexed Resale Formulas:

http://affordableownership.org/docs/capital-improvement-options-memo/
A memo outlining various options for offering capital improvements credits in shared equity programs with index-based resale formulas.

Champlain Housing Trust Capital Improvements Flier (Burlington, VT):

http://www.affordableownership.org/docs/capital-improvements-flier/

A plain-language flyer developed by the Champlain Housing Trust explaining its capital improvement credits policy to homeowners.

Homestead Community Land Trust Capital Improvements Policy (Seattle, WA):

http://www.affordableownership.org/docs/capital-improvements-policy/

A sample capital improvements policy from Homestead Community Land Trust, including a listing of eligible systems allowable for replacement/upgrade and an improvement/upgrade schedule.

OPTIMAL STANDARDS FOR HIGH PERFORMING PROGRAMS

Standard 5.6 Tracking Equity

Track and communicate to homeowners the difference between purchase price and resale price.

High performing programs meet the dual goals of community benefit (creating long-term affordable units) and wealth building for homebuyer families. When programs measure and track how much equity homeowners accumulate, they can evaluate their success at wealth building, promote program success, and adjust for shortfalls if necessary. High performing programs with indexed resale formulas are able to communicate the difference between purchase price and resale price at any time. Some programs have resale price calculators on their websites.

6.

SUPPORT, MONITORING, & ENFORCEMENT

Excellent programs keep in touch with their buyers for as long as they own their homes to promote homeowners' success, ensure program requirements are met, and react to program violations in a timely manner.

6. SUPPORT, MONITORING, & ENFORCEMENT

Many programs are so focused on putting buyers into homes that they never reconnect with these homeowners to check on how they're doing. Yet post-purchase support can make all the difference between success and failure for the homeowner, and between preservation and loss of affordable units for the program. By keeping in touch, programs can give homeowners the ongoing tools to succeed, help new homeowners avoid common pitfalls, and identify problems early while they are still fixable. With guidelines to monitor and enforce program violations consistently and equitably, programs are able to ensure program requirements are remembered and met over time, and maintain the condition of the housing stock for future generations of buyers.

Exclusions/Modifications: For co-op sponsors and stewards, Standard 6.3 should be modified so that co-op sponsors and stewards regularly communicate requirements and restrictions to co-op leaders, who in-turn should be encouraged to deliver this information to shareholders. Also, while the standard remains the same, the practices in Standard 6.4 should be modified so that the monitoring and enforcement plan components include a statement of cooperative compliance documentation and identification of potential program violations such as lack of annual elections or adopted budget, nonpayment of mortgage or taxes, and unauthorized sales.

Standard 6.1 Primary Steward

Clearly identify the agency that will serve as the primary point of contact for homeowners over the long term and will coordinate ongoing monitoring, support, and enforcement.

There are often multiple public and private agencies involved in the development and sale of affordable units, and it is not always clear which one is responsible for post-purchase support and monitoring. With a designated primary point of contact, homeowners know whom to call when they have questions.

Required Practices

6.1.a. Identify and communicate to homeowners the single public or nonprofit agency to serve as the "primary steward" of the public investment over the long term.

New homebuyers should be told whom to contact when they have questions or wish to sell their home, and who will be contacting them to monitor program requirements. Ideally, this information would be given more than once and in a way that is easy for the homeowner to find.

Tip: Include this information in all correspondence with the homeowner.

Standard 6.2 Post-purchase Policy and Requirements

Provide buyers with clear, detailed information on post-purchase policies and requirements.

Owners are expected to comply with a number of post-purchase requirements, some of which may be in recorded documents and others in agreements between the program and homebuyers. Often buyers are unaware of or forget some of these requirements. Having them clearly spelled out in one place makes it easier for buyers to know and understand the requirements, and easier for programs to defend themselves against claims that buyers were not adequately informed.

Required Practices

6.2.a. Provide a homebuyer program manual, in accord with all legal agreements between the homeowner and program, detailing program policies or requirements. Manual should cover all the following topics:

- **Occupancy and occupancy changes**
- **Subletting**
- **Required intervention for homeowners delinquent on mortgage (e.g. enter financial counseling, required meeting)**
- **Home equity lines of credit or refinancing**
- **Maintenance and capital improvements**
- **Accessing and using repair funds (if any)**

- **Temporary decrease, waiver, or suspension of ground lease fees/program fees (if any)**
- **Fees associated with delinquent or partial payments of ground lease fees/program fees (if any)**

In the excitement of purchasing a home, buyers might overlook program restrictions and requirements. A homebuyer manual helps homeowners understand program requirements.

Tip: In addition to pre-purchase classes and one-on-one meetings, some programs require that prospective homeowners complete an open-book test based on the manual to promote homeowner understanding and familiarize them with the manual.

"You get a car and a manual comes with it. It tells you all the things you need to do and how often to maintain the car. The same thing can be developed for a home."

Resources

City of Boulder, CO Homeowner Resources:

https://bouldercolorado.gov/homeownership/are-you-an-affordable-homeowner

Boulder's website, targeted at homeowners, providing a number of homeowner resources, including an online homeowner's manual and procedures for marketing and selling the home.

Standard 6.3 Homeowner Communications

Regularly communicate program restrictions and requirements for maintaining compliance to homeowners.

Programs must navigate and balance their role in ensuring program requirements are met, protecting donors' and public investment, keeping homes affordable and empowering homeowners. In the long term, allocating resources to existing owners is just as important as bringing new buyers into the program. Regular communication to homeowners reinforces pre-purchase education, reminds homeowners of their responsibilities, and ensures the program is taking steps to promote compliance.

Required Practices

6.3.a. Send annual letter, newsletter, or e-blast to homeowners explaining their responsibilities related to program restrictions and requirements (e.g. occupancy, insurance, capital improvements, repairs, and maintenance).

Owners of resale-restricted homes are usually first-time homebuyers and might lack the knowledge and experience to succeed. Annual communication reminds homeowners of their responsibilities, and letters can also serve as a way for programs to elicit changes of address and returned letters for selective follow up.

6.3.b. Verify evidence of owner occupancy annually.

In high-cost markets, owners of affordable ownership units sometimes relocate and convert their homes into income-generating rentals. By requiring evidence of owner occupancy annually, program staff can make sure the community investment in the homes is serving its intent.

Tip: In addition to evidence of owner occupancy, many programs require proof of insurance annually. Programs communicate with homeowners through a variety of channels, from formal correspondence to newsletters or e-blasts. Some programs visit with homeowners, periodically drive by properties, or review public records to verify continued ownership.

Resources

Kushlan CLT Annual Homeowner Letter:

http://affordableownership.org/docs/kulshan-community-land-trust-annual-homeowner-letter/
A sample annual letter that Kushan Community Land Trust sends to stay connected to homeowners, inform them about the equity they've accrued, and remind them about conducing maintenance and repairs.

Sample Owner Occupancy Certification Form:

http://affordableownership.org/docs/sample-owner-occupancy-certification-form/
A sample owner occupancy certification form that programs can customize and mail annually to homeowners.

Proud Ground – Annual Owner Survey (Portland, OR):

http://www.affordableownership.org/docs/annual-owner-survey/
Proud Ground's homeowner survey form that includes questions on homeowner satisfaction, civic engagement, and post-purchase support.

Standard 6.4 Compliance Monitoring

Monitor compliance and respond to potential violations.

Consistent monitoring and enforcement of program requirements helps preserve affordable homes as long-term assets for future generations of homeowners. A monitoring and enforcement plan maintains institutional knowledge of the program, promotes consistent monitoring and uniform treatment of violations, and protects the program's assets and interests.

Required Practices

6.4.a. Maintain written monitoring and enforcement plan that includes all of the following components:

- **Identification of method and frequency of monitoring**
- **Statement of required homeowner compliance documentation**
- **Procedure for following up to those who don't respond initially**

- **Identification of potential program violations (non-owner occupancy, unauthorized renting, unauthorized liens, over-encumbrance, unauthorized title transfer, etc.)**
- **Identification of conditions that would trigger a site visit**
- **Process for responding to violations**
- **Statement of possible repercussions for violations**
- **Procedures for following up to violations**

The monitoring and enforcement plan lays out the steps that the program will take to ensure homeowners are in compliance with all program requirements. Monitoring and enforcement procedures should be shared with homeowners so they are clear about how the program will enforce requirements and handle violations.

> “The point is maintaining integrity and not having units sold to ineligible people because you’re not paying attention.”

Resources

Monitoring, Support, & Enforcement – Decision Guide:

http://affordableownership.org/docs/monitoring-support-enforcement-decision-guide/
A guide which highlights issues for a program to consider when designing and implementing an ongoing monitoring, support, and enforcement program.

Monitoring, Support & Enforcement – Tool Pack:

http://affordableownership.org/docs/monitoring-support-enforcement-tool-pack/
A comprehensive tool kit, including sample monitoring procedures, a sample enforcement plan, and an owner occupancy certification form.

New Jersey Enforcement Plan:

http://www.affordableownership.org/docs/new-jersey-model-enforcement-plan/
An enforcement plan from the New Jersey Council of Affordable Housing that details procedures for a municipality to take in the event of violations of resale or occupancy restrictions.

Community Development Corporation of Utah Enforcement Plan:

http://www.affordableownership.org/docs/enforcement-plan/

An enforcement plan from the CDC of Utah that details enforcement procedures for violations, including unauthorized renting, unauthorized refinancing, failure to maintain the home, unpaid taxes and insurance, and illegal activity.

OPTIMAL STANDARDS FOR HIGH PERFORMING PROGRAMS

Standard 6.5 Post-purchase Support

Offer post-purchase support to homeowners.

Owners of resale-restricted homes are usually first-time homebuyers and might lack the knowledge and experience to succeed. Post-purchase support gives owners a place to go when they have problems or need information. Some programs have found that offering ongoing education about home maintenance and financing/refinancing seems to help avoid problems with poor maintenance and predatory lending. Ideally, programs will reach out to homeowners with information about the array of post-purchase supports, including:

- Homeowner education
- Financial counseling
- Home maintenance and repair workshops
- Loss mitigation
- Home repair loans, grants, or savings programs

Some programs also provide a maintenance reserve fund. Those that do should provide policies and procedures for lending or granting funds to homeowners, including eligible repairs or improvements, application requirements, and repayment requirements.

> "If we allow affordable housing to be in a state of disrepair it brings down values…and gives a bad name to affordable housing."

Resources

Sample Post Purchase Support Activities:

http://www.affordableownership.org/docs/sample-post-purchase-support-activites/
A list of possible kinds of post-purchase support that a program could offer to homeowners.

National CLT Manual "Support for Homeowners": [Chapter 23 pp 424-428]

http://cltnetwork.org/wp-content/uploads/2014/01/MASTER-CLT-MANUAL.pdf#page=424
An excerpt from the National CLT Network Manual explaining ways to support homeowners with financial issues and with home maintenance, repairs, and improvement.

APPENDIX

Standards and Practices Summary

APPENDIX

STANDARDS AND PRACTICES SUMMARY

#	TITLE	STANDARD
1. PROGRAM & BUSINESS PLANNING		
1.1	**Goals and Objectives**	**Clearly articulate program's goals and objectives.**
1.1.a	For each program, maintain a written statement of program goals and objectives, community served, and geographic area covered.	
1.2	**Program Design Review**	**Periodically review and update program design.**
1.2.a	At least every three years, evaluate your program's effectiveness at meeting community need and review your program design (e.g. program rules, policies, and procedures) to make sure it is current and reflects best practices.	
1.3	**Policies and Procedures**	**Adopt detailed policies and procedures to direct program operations.**
1.3.a	Maintain a written program administrative manual with a detailed description of all program components. Program manual should cover all of the following elements: • Funding Sources • Pricing • Marketing and outreach • Application • Homebuyer selection • Allowable loan types • Refinance provisions • Monitoring and enforcement • Resales • Records maintenance • Conflict of Interest policy	

#	TITLE	STANDARD
1.4	**Legal Counsel**	**Coordinate support from knowledge-able legal counsel.**
1.4.a.	Identify legal counsel that is knowledgeable about affordable homeownership programs.	
1.5	**Conflict of Interest**	**Manage real and perceived conflicts of interest.**
1.5.a	Adopt and follow a written conflict of interest policy.	
1.6	**Information Tracking**	**Systematically track information on transactions, owners, borrowers, and homes.**
1.6.a	Maintain an electronic information management system under which program data is complete, secure, and easily accessible.	
1.6.b	Collect and file sales and loan closing documents, using a checklist to make sure files are complete.	
1.7	**Operating Budgets**	**Determine revenue needs and identify sources to meet those needs.**
1.7.a	Develop a multi-year (at least two years) operating budget.	
1.8	**Financial Systems**	**Systematically track revenues and expenditures, segregate restricted funds, and conduct periodic audits.**
1.8.a	Maintain a financial management system to track revenues and expenditures.	
1.8.b	Demonstrate fund segregation in financial statements.	

#	TITLE	STANDARD
1.8 c	Conduct audits as required by funding sources, or at least every two years.	
OPTIMAL STANDARDS		
1.9	Market Research	Document or reference market conditions that support the need for services.
1.10	Client Feedback	Establish mechanism to solicit client feedback and incorporate feedback into program design.
1.11	Community Awareness	Build community awareness and support by actively communicating goals and how services promote goals.
1.12	Outcomes Measurement	Measure homebuyer activity and program impact.
2. AFFORDABLE PRICING		
2.1	**Pricing Strategy Design**	**Identify program parameters and cost assumptions when designing an affordable pricing strategy.**
2.1.a	Maintain a written statement of income and affordability restrictions imposed by funding sources.	
2.1.b	Maintain a written statement of program target market, which may be lower than that imposed by funding sources.	
2.1.c	Clearly state assumptions.	

#	TITLE	STANDARD
2.2	**Avoid Non-permanent Subsidies**	**Make home sales prices affordable to the target market without additional (non-permanent) outside subsidy.**
2.2.a	Design a pricing formula that maintains affordability without the program needing to provide subsidy to future homebuyers.	
2.3	**Market Comparison**	**Set home sales prices below comparable market rate homes.**
2.3.a	Compare the affordable base price to the price of comparable homes.	
OPTIMAL STANDARDS		
2.4	Review and Update Pricing Formula	Periodically review and update pricing formula.
2.5	Back-up Strategy	Establish a strategy to address homes that do not sell within a reasonable timeframe.
3. MORTGAGE FINANCING		
3.1	**Review First Mortgage Loans**	**Review and approve first mortgage loans in a timely and consistent manner.**
3.1.a	Establish criteria for acceptable first mortgage loan products, including all of the following components: • Loan types allowed and expressly NOT allowed • Interest rate, expressed as a percentage or tied to an index • Term • Discount and origination points • Loan to value ratio • Front and back end ratio • Credit requirements	

#	TITLE	STANDARD
3.1.b	Maintain written procedures for first mortgage loan review and approval, addressing all of the following components: • Required documents from homeowner and lender • Authorization for program and lender to share information • Response times for applicants to provide required documentation • Timeframe for program review • Review and approval fees (if any) • When exceptions (if any) to program policies will be considered	
3.2	**Review Subordinate Loans and Refinances**	**Review and approve subordinate mortgages, refinance loans, and home equity loans in a timely and consistent manner.**
3.2.a	Establish criteria for acceptable subordinate loans, refinance loans, and home equity loans (if applicable), including all of the following components: • Acceptable reasons for loan request • Maximum cash out (if any) • Loan types allowed and expressly NOT allowed • Interest rate, expressed as a percentage or tied to an index • Term • Discount and origination points • Loan to value ratio • Front and back end ratio • Credit requirements	
3.2.b	Maintain written procedures for the review and approval of subordinate mortgages, refinance loans, and home equity loans, addressing all of the following components: • Required documents from homeowner and lender • Authorization for program and lender to share information • Response times for applicants to provide required documentation • Timeframe for program review • Review and approval fees (if any) • When exceptions (if any) to program policies will be considered	

#	TITLE	STANDARD
3.3	**Choice in Lending Products and Institutions**	**Ensure adequate choice of mortgage lending products and approved mortgage lending institutions.**
3.3.a	Identify at least two lenders that have mortgage loan products that meet program requirements. In markets where lenders are unwilling to make loans to homes within the program, document good faith efforts to identify and secure participating lenders (e.g. conversations, meetings).	
3.4	**Legal Safeguards**	**Use legal safeguards to prevent unauthorized refinancing or over-encumbering property beyond affordable monthly payments and affordable resale price.**
3.4.a	Include provisions in recorded legal documents (e.g. ground lease, deed of trust, land title, promissory note, regulatory and monitoring agreements, proprietary lease) that require program approval of refinancing or other encumbrances.	
3.5	**Notice of Nonpayment and Default**	**Create mechanisms to receive and respond to notification of nonpayment and default.**
3.5.a	In states that allow for recorded requests for copies of notices of default, programs should record a Request for Notice for each unit in the program portfolio. In states that do not allow for recorded Requests for Notice, programs should document procedures for periodically checking with owners, lenders, and HOAs.	
3.5.b	Document procedures for responding to notices of default.	
3.6	**Safeguard Investment**	**Establish rights to safeguard program's investment in the event of default or foreclosure.**
3.6.a	Include provision in recorded legal documents that the program has the right to cure default on the owner's behalf.	
3.6.b	Include program first right of refusal or first right to purchase in recorded legal documents.	

#	TITLE	STANDARD
OPTIMAL STANDARD		
3.7	Lender Cultivation and Approval	Cultivate and approve partner lending institutions/loan officers.
4. FAIR HOUSING & BUYER SELECTION		
4.1	**Target Marketing**	**Take steps to reach program's target market and to affirmatively further Fair Housing policies.**
4.1.a	Maintain a written marketing plan that includes all of the following components: • Target market (income level, geographic region) and efforts to reach target market • Groups least likely to apply and efforts to reach groups least likely to apply • List of commercial media and advertising • List of community contacts • Description of staff training • Description of how marketing performance is evaluated.	
4.1.b.	Include Fair Housing language and the Fair Housing logo on marketing collateral.	
4.2	**Limited English Proficiency**	**Don't limit program to English speakers.**
4.2.a	Conduct an analysis of language needs in the community at least every three years.	
4.2.b	Maintain a plan for marketing to and working with limited-English speakers.	
4.3	**Homebuyer Education**	**Require buyers to complete general homebuyer education prior to purchasing a home.**

#	TITLE	STANDARD
4.3.a	Require and verify in writing that all buyers complete a general homebuyer education course prior to purchase.	
4.4	**Plain Language Documentation**	**Explain eligibility criteria, selection process, and program restrictions clearly and in plain language.**
4.4.a	In addition to a general homebuyer education course, require and verify in writing that all purchasers complete counseling and/or education specific to the particular program as part of the application process.	
4.4.b	Provide written information to initial and subsequent buyers regarding program restrictions, including all of the following components: • Plain language disclosure statement, reviewed with buyers in advance of closing • Calculated example of price restrictions or recapture provision • Post-closing requirements (e.g. periodic certification, documentation that will be required, and maintenance expectations)	
4.4.c	Provide written eligibility criteria to initial and subsequent buyers covering all of the following components: • Income calculation • Treatment of assets • Determination of household size • Down payment requirements • Credit score requirements • Loan qualification requirements • Allowable loan types • First-time homebuyer requirements	

#	TITLE	STANDARD
4.4.d	Provide written information about the buyer selection process to initial purchasers covering all of the following components: • Selection preferences, if any • Methods by which applications will be ranked, processed, and approved • Lottery procedures (if any) • How program determines which home the applicant will purchase	
4.4.e	Provide sellers with written procedures on listing their home and identifying eligible buyers, including a description of anticipated costs.	
4.5	**Application Review Process**	**Implement a review process so that applicants who were not approved or are deemed ineligible by the program may request a second review of the circumstances under which their application was denied.**
4.5.a	Maintain a written review process including all of the following components: • Who will make final decision (e.g. hearing officer, ED, board, city council) • How to initiate a review request (e.g. upon written request) • Timeframe for filing and consideration (e.g. within how many days) • Whether applicant will have opportunity to meet with organization or present additional information • Whether subsequent reviews are possible	
4.5.b	Notify ineligible applicants in writing and provide a copy of the process for requesting a review.	
4.6	**Selection Preferences**	**Consult with legal counsel or Fair Housing agency to ensure eligibility criteria and selection preferences (if any) comply with Fair Housing laws.**
4.6.a	If programs have selection preferences of any kind or eligibility requirements based on residency, consult with an attorney or fair housing agency to understand whether these requirements or preferences might conflict with Fair Housing laws.	

#	TITLE	STANDARD
5. RESALES		
5.1	**Adopting a Resale Formula**	**Adopt a resale formula that preserves affordability under a wide range of economic conditions while also providing asset-building opportunities for homeowners.**
5.1.a	Use one or a combination of these resale formula models to suit your market conditions: • Area Median Income Index Formula • Fixed-Index Formula • Consumer Price Index Formula • Housing Market Index Formula • Appraisal-based Formula	
5.2	**Resale Formula Effectiveness**	**Evaluate the effectiveness of a program's resale formula in preserving affordability over time.**
5.2.a	Track and evaluate affordability of resales every three years and modify the formula if necessary.	
5.3	**Unit Retention**	**Strive to retain affordable units in the program portfolio and have provisions in place to recapture the community investment if a unit is sold out of the program.**
5.3.a	Include provisions in recorded legal documents (e.g. ground lease, deed of trust, land title, promissory note, regulatory agreement) to prevent loss of affordable units.	
5.3.b	Include provisions in recorded legal documents for public equity recapture if unit is sold out of the program.	

#	TITLE	STANDARD
5.4	**Home Maintenance and Repair**	**Have provisions in place for home maintenance and repair requirements upon resale.**
5.4.a	Maintain written criteria, including all of the following components: • Acceptable condition of home upon resale • Responsibility for making required repairs prior to resale • Process for inspecting homes prior to transfer to ensure required repairs are made	
5.4.b	Include deductions for damages or needed repairs in the resale formula, if applicable.	
5.5	**Capital Improvement Credits**	**Credits improvement credits, if any, are clearly explained and defined and include measures to mitigate impacts on long-term affordability.**
5.5.a	Maintain a written policy regarding capital improvements, including all of the following components: • Types of improvements eligible for credit • Approval requirements • Documentation requirements • Procedure for claiming credit • Formula for calculating value of improvement (appraised value, cost depreciated, etc.) • Limit or ceiling on credits	
5.5.b	Maintain a written policy to ensure that the resale price, including credits for capital improvements, remains affordable to the target market.	
OPTIMAL STANDARD		
5.6	Tracking Equity	Track and communicate to homeowners the difference between purchase price and resale price.

#	TITLE	STANDARD
6. SUPPORT, MONITORING, & ENFORCEMENT		
6.1	**Primary Steward**	**Clearly identify the agency that will serve as the primary point of contact for homeowners over the long term and will coordinate ongoing monitoring, support, and enforcement.**
6.1.a	Identify and communicate to homeowners the single public or nonprofit agency to serve as the "primary steward" of the public investment over the long term.	
6.2	**Post-purchase Policy and Requirements**	**Provide buyers with clear, detailed information on post-purchase policies and requirements.**
6.2.a	Provide a homebuyer program manual, in accord with all legal agreements between the homeowner and program, detailing program policies or requirements. Manual should cover the following topics: • Occupancy and occupancy changes • Subletting • Required intervention for homeowners delinquent on mortgage (e.g. enter financial counseling, required meeting) • Home equity lines of credit or refinancing • Maintenance and capital improvements • Accessing and using repair funds (if any) • Temporary decrease, waiver, or suspension of ground lease fees/program fees (if any) • Fees associated with delinquent or partial payments of ground lease fees/program fees (if any)	
6.3	**Homeowner Communications**	**Regularly communicate program restrictions and requirements for maintaining compliance to homeowners.**
6.3.a	Send annual letter, newsletter, or e-blast to homeowners explaining their responsibilities related to program restrictions and requirements (e.g. occupancy, insurance, capital improvements, repairs, and maintenance).	

#	TITLE	STANDARD
6.3.b	Verify evidence of owner occupancy annually.	
6.4	**Compliance Monitoring**	**Monitor compliance and respond to potential violations.**
6.4.a	Maintain written monitoring and enforcement plan that includes all of the following components: • Identification of method and frequency of monitoring • Statement of required homeowner compliance documentation • Procedure for following up to those who don't respond initially • Identification of potential program violations (non-owner occupancy, unauthorized renting, unauthorized liens, over-encumbrance, unauthorized title transfer, etc.) • Identification of conditions that would trigger a site visit • Process for responding to violations • Statement of possible repercussions for violations • Procedures for following up to violations	
OPTIMAL STANDARD		
6.5	Post-purchase Support	Offer post-purchase support to homeowners.

STANDARDS & PRACTICES SUMMARY

LICENSING INFORMATION

Lifting Up What Works

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Delivering on the Promise of Inclusionary Housing:

Best Practices in Administration and Monitoring

by Rick Jacobus

I. Delivering on the Promise of Inclusionary Housing

Inclusionary housing is a tool used by local jurisdictions throughout the country to increase the amount of affordable or workforce housing. Inclusionary housing programs (sometimes called inclusionary zoning) create a framework within which developers of market rate housing are either required or encouraged to develop some housing that is affordable to households that otherwise would not be able to afford to rent or purchase the housing being developed. Inclusionary housing has been growing in popularity throughout the country, especially in areas with high housing costs. Inclusionary housing has tremendous potential to contribute significantly to the nation's supply of affordable housing.

However, to deliver on that potential, inclusionary housing programs must be well run. In the past, some jurisdictions have adopted inclusionary housing ordinances with the expectation that market rate housing developers would then produce affordable housing with little involvement from the public sector. Experience has shown, however, that inclusionary housing programs, like any other housing program, require a certain level of ongoing administration and oversight in order to effectively produce and preserve affordable housing opportunities. When these administrative responsibilities come as a surprise, program managers often find it difficult to respond to developer needs and to track and monitor the affordable units that are produced. Failure to provide adequate staffing and systems for ongoing administration can result in loss of affordable units either directly through illegal sales, subletting, or foreclosure or indirectly by undermining public support for the inclusionary housing program.

There have been a small number of well publicized cases where understaffed local governments have literally lost track of affordable units after requiring developers to produce them. Beginning in the late 1970s the California Coastal Commission began requiring developers in coastal Orange County to make 25 to 35 percent of any new housing affordable to low- or moderate-income buyers. These state mandated units were entrusted to the Orange County Housing Authority for administrative oversight. However, the program provided no funding for monitoring and oversight and by the early 1980s the Housing Authority was responsible for over 800 such units. The workload became so burdensome that housing authority staff were unable to dedicate the time necessary to identify new buyers and began regularly releasing units from restrictions rather than exercise its option to purchase the units at an affordable price. By 1983 the Housing Authority had released 132 units from restrictions and only purchased 22 units. The Authority Board voted to terminate the program and release the remaining units. The state intervened and assigned responsibility to another agency, which experienced similar problems and released an additional 25 units. It was only when the state provided grant funding to a third administrative entity (nearly 20 years after the first units were sold) that monitoring and enforcement received real attention. By then, however, the damage was done and a judge ruled that many of

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the remaining deed restrictions were unenforceable because enforcement had been so mismanaged.[1]

In a more recent example, two county supervisors in Santa Barbara County, California, made headlines in 2006 when they called for the end of the county's 25-year-old inclusionary housing program after a program audit estimated that as many as a quarter of the county's 400 inclusionary homeowners were illegally using their homes for rental income, nine homes had been lost through foreclosure and several owners had taken out mortgages far in excess of their homes restricted value.[2] The county was able to restructure the program and eliminate many of the problems but the program remains understaffed with a single staff person responsible for coordinating new developments and monitoring a portfolio of nearly 500 existing units.

The administrative responsibilities can seem daunting when they have not been anticipated. However, there is no reason that proper administration has to be a burden on local government. Jurisdictions that have been administering inclusionary housing programs for decades have developed a number of successful approaches to staffing these programs and many have been able to identify scalable revenue sources that cover (or help cover) the cost of monitoring and administering inclusionary units even as the number of units in a program grows.

This paper outlines several of the most common tasks associated with ongoing administration of inclusionary housing programs and describes some of the common approaches to staffing and paying for implementation.

The administrative workload varies tremendously from one program to another based, largely, on the many program design choices that local governments make. While describing all of these choices is beyond the scope of this paper, the description of administrative roles necessarily provides some overview of the choices that have the greatest impact on the administrative workload.

II. Key Administrative Responsibilities

The specific requirements for ongoing administration of any particular inclusionary housing program will depend on the specific requirements and policy goals of the program. However, there are a number of common administrative requirements that many programs share. Some of the most significant requirements are described below:

For inclusionary homeownership projects:

1. Overseeing **production** of new affordable housing units
2. **Pricing** units so that they are affordable, initially and at resale
3. **Marketing** inclusionary housing opportunities to eligible residents
4. **Educating** potential buyers about ownership and program requirements
5. **Screening and selecting** buyers who meet eligibility standards
6. Ensuring that buyers have access to appropriate **financing**
7. **Monitoring** units to ensure owner occupancy and payment of taxes and insurance
8. Managing the process of **resale** from one owner to the next
9. **Enforcement** of requirements (as necessary)

Inclusionary rental projects generally require less intensive ongoing administration but will frequently include:

- Overseeing **production** of new affordable housing units
- **Pricing** (setting rents) so that they are affordable, initially and over time
- **Marketing** inclusionary housing opportunities to eligible residents
- **Monitoring** units to ensure owner occupancy and payment of taxes and insurance

1. Production

The design, placement, and timing of affordable units require especially careful attention during the development phase of inclusionary projects. While requiring that affordable units be identical to market rate units can be infeasible in luxury projects, program administrators must ensure that affordable units are comparable in external appearance and that the interior size, finish quality, and amenities are appropriate. One California developer notoriously offered affordable ownership units for sale without kitchen cabinets. Similarly, the economic impact of the inclusionary requirement will be less if the affordable units don't occupy the most desirable locations within a project (like those with the best views) but programs are sometimes careful to ensure that lower-income residents are not relegated to one, less desirable, portion of the overall site. Many jurisdictions also negotiate the timing of affordable units within a project's several phases. Developers who complete and sell market rate units before completing affordable units may have little or no incentive to ever build the affordable units. While the local inclusionary ordinance may set standards related to these issues, it is difficult for policymakers to foresee every reasonable accommodation that a developer may require. Even when the ordinance is clear, these and other issues require active involvement of program staff prior to and during development.

A joint report published in 2005 by the Nonprofit Housing Association of Northern California and the California Homebuilders Association cited flexibility in implementation as a key to success in inclusionary housing programs.[3] Flexibility means that, while the inclusionary housing/inclusionary zoning ordinance may spell out many specific requirements, local governments will nonetheless spend significant time supporting projects through the approval and development process and working closely with developers to ensure that they understand the requirements and implement them in appropriate ways. In many cases, staff will engage in detailed negotiations with developers related to the implementation of specific requirements or the application of discretionary local incentives such as fee waivers, density bonuses, or even investment of local affordable housing funds.

One common practice is to require developers to create an *affordable housing plan* that details how affordable units will be integrated into a project and how they will be controlled over time. The City of Salinas, for example, provides developers with sample plans for either ownership or rental projects. Each template includes a description of the project and a proposal describing how the developer will satisfy the city's inclusionary requirements including:

- The percentage of total housing units that will be affordable
- The mix of income levels that units will be affordable to
- The affordable rents or prices
- The unit sizes and number of bedrooms of affordable units
- A description of the comparability of affordable and market units in terms of size and amenities
- A map of unit locations within the project
- A schedule for completion and sale or leasing of the affordable units relative to market rate units
- A description of the mechanisms that will be used to preserve affordability of ownership units
- A plan for marketing the units and criteria to be used for selection of residents.

Developers in Salinas must submit these plans along with their first application for planning approval for any new residential project covered by the towns inclusionary ordinance. The affordable housing plan is then considered along with other project plans and approved by either the planning commission or city council depending on the project. Once the terms of this plan are approved, the key provisions are incorporated into an affordable housing agreement that is recorded against the property prior to subdivision of the property or approval of any building permits.

Polly Marshall and Barbara Kautz[4] argue that such a formal agreement makes it easier to later enforce detailed requirements related to timing, design, and location of affordable units than if these same requirements were simply listed as conditions of approval. And when developers subdivide larger parcels for sale to other developers, there is a risk that buyers may be unaware of affordable housing commitments that the master developer made. A recorded agreement ensures that all future buyers are legally notified of these requirements. Marshall and Kautz also suggest that these agreements authorize staff to work out details and make minor changes to the agreement without requiring approval from the planning commission or city council.

2. Pricing

Setting affordable rents and prices:

Inclusionary housing programs generally require developers to make units affordable to residents earning no more than some target percentage of median income. One program might, for example, require that 10 percent of total units be affordable to households earning less than 80 percent of median while another program might require 5 percent of units be affordable to households earning less than 80 percent and another 5 percent be affordable to households earning less than 120 percent. In order for developers to meet these requirements the program must provide detailed guidance on what counts as affordable. Generally, programs expect rents or sales prices that allow residents to pay no more than 30 percent or 35 percent of their monthly income for their housing costs but programs differ in which expenses they include in this calculation. Some programs provide developers with a formula for this calculation while others simply offer a schedule of affordable rents and affordable housing prices. For example, while it may be easier for a program manager to simply tell developers to include homeowner's insurance costs in their affordable sales price calculation, reasonable people might disagree about the appropriate estimate for insurance costs and the developer has a strong incentive to include the lowest possible estimate. By providing this estimate and performing the affordability calculation themselves, program managers can insure consistent and fair pricing.

Resale pricing: Most inclusionary homeownership programs establish mechanisms for preserving affordability of inclusionary units over time after the initial homebuyers sell. Before the first sale of a restricted unit, the program must establish a formula (the *resale formula*) that clearly spells out how equity will be shared. Then at the time of sale, the program manager must apply this formula and calculate either the maximum resale price or the repayment amount on a shared appreciation loan. There is great variety in these formulas but most are fairly simple to calculate, especially in comparison with the initial pricing formula. Some programs tie the resale price to a published index like the Consumer Price Index (CPI) or Area Median Income (AMI), which requires the program manager to look up the relevant index and multiply the change in the index by the initial purchase price. Other formulas require a market appraisal of the home and compare this value to an initial appraised market value to determine the total appreciation that is then split according to the formula. While an appraisal can take a week or more to complete, the process of calculating the resale price is generally quite simple.

***Capital improvements*:** Most, though certainly not all shared equity homeownership programs offer homeowners who make significant capital improvements to their home some credit for the cost of those improvements at the time of resale. This generally means increasing the maximum resale price slightly above what would otherwise be the formula price. However this is easier said than done. Determining the appropriate value for capital improvements can become a significant administrative challenge. Some programs allow a credit for the full documented cost of any improvement. But when a unit is sold years after an improvement is made, full cost will generally greatly overstate the value of the improvement. For this reason, some programs impose a depreciation schedule that reduces the credit over time. The appropriate schedule is different for different types of improvements, necessitating a detailed policy or significant time negotiating value with each homeowner. Other programs require separate appraisal of improvements at the time of sale but this adds a significant expense and because appraisers can be inconsistent in the valuation of minor improvements this approach makes it difficult for homeowners to know whether they will be compensated for their investment. In addition, because large credits for improvements could push an affordable home out of reach of the target households, many programs take steps to prevent homeowners from "over improving" their units. This generally requires additional administrative work, either approving individual improvements in advance of construction or developing detailed policies that distinguish between luxury improvements and those that add to the use or life of the home.

3. Marketing

When affordable housing units are a scarce resource, communities place a high priority on ensuring that all eligible households have an equal opportunity to access the housing. Program managers ensure fair marketing either by educating and monitoring developers or by participating directly in the marketing of inclusionary units.

Rental: For the most part, owners of rental properties are able to rely on their existing property management companies to effectively market any affordable units.Nonetheless, some programs offer assistance to these companies to ensure fair access to affordable units. Fairfax County, Virginia's Affordable Dwelling Unit program, for example, relies on property owners to market affordable rental units but the county maintains standards for fair marketing and offers voluntary trainings for the leasing staff who market these units.

***Ownership*:** While some programs rely on sellers to find their own buyers, there are compelling reasons that centralized and professional marketing of affordable homes is important. Marketing below market rate homeownership opportunities presents some specialized challenges. When homes sell at affordable prices far below the local market price, it is generally not difficult to find willing buyers, even when there are strict resale price restrictions. When shared equity units are in such high demand, program managers, rightly, worry that homeowners or developers will sell to friends or relatives, unfairly denying other eligible households an opportunity to participate in the program. In some cases sellers may even be tempted to accept side payments from eager buyers. However, when affordable homes are priced only slightly below market, it can be more difficult to locate buyers. Homeowners selling their affordable homes may need help finding buyers and explaining the benefits of the program. For these reasons many programs take on significant responsibility for marketing of affordable homes.

Common tasks include:

- Performing general outreach to potential buyers on an ongoing basis
- Managing a waiting list or interest list of eligible applicants who understand the tradeoffs involved in affordable homeownership
- Marketing new development projects both to the existing waiting list and the general public
- Marketing individual units at the time of resale
- Educating the real estate community about the nature of the program and available units.

For new development projects with multiple affordable ownership units, it is common for a jurisdiction to require developers to draft affirmative marketing plans that outline the steps that will be taken to ensure that all eligible households in the area have an equal opportunity to apply for the units.

4. Home Buyer Education

There are two distinct types of homebuyer education that can be key to the success of inclusionary homeownership programs. Many programs provide (or arrange for provision of) general homebuyer education that covers basic household finance, the home buying process, credit repair, understanding mortgages and, in some cases, even basic home maintenance. The second type of buyer education is designed to ensure that homebuyers understand the specific terms and conditions of the program that they are buying into. Below market rate homeownership is still a new idea in most parts of the country and buyers generally don't come into the process with any understanding of the unique set of rights and responsibilities associated with their program. Many programs offer workshops that orient prospective buyers to the goals of the program and walk them through the key provisions of the program's legal documents. This training often takes the form of a one-to-two hour small group orientation session but it can also be delivered as a one-on-one meeting with buyers before they sign any legal documents. In addition to workshops many programs develop written material, sometimes in multiple languages, that clearly explain restrictions in simple terms.

This program specific buyer education is essential not only to ensure that buyers all know what they are buying but it can play an important role in later enforcement of any restrictions. The basic fairness of resale price restrictions rely on informed consent from homeowners. Individual households each evaluate the tradeoffs and decide whether the program makes sense for them. Later, if they complain that the resale formula is unfair, it is easy to point out their failure to complain at the time of purchase. However, if, as they purchased they truly didn't have the opportunity to ask questions and understand the formula (and other restrictions) it becomes harder to enforce those same restrictions. Elected officials and courts[5] have released homeowners from restrictions when, in spite of clear legal documents, owners were able to argue that they didn't understand what they were signing.

5. Screening/Selection

***Screening for eligibility*:** Every affordable housing program limits the pool of eligible applicants in some way. These limits are intended to ensure that scarce housing resources serve the intended beneficiaries. They may be created by the program itself or imposed by outside funding sources that are key to implementation of the program. Most programs have clear income limits. Households whose income exceeds those limits are not eligible to buy homes or rent apartments in the program. Some programs set different income limits for different units. Other common criteria include minimum age of the applicant, household size, and credit history. Homeownership programs also commonly consider level of non-housing debt, ability to qualify for a mortgage, and first time homebuyer status. Some programs also impose minimum income limits or limits on the buyer's housing cost burden (i.e., the percentage of their income that they can spend on their housing costs). Others impose asset limits to prevent households with high wealth but low incomes from occupying affordable units.

Regardless of the specific criteria, every program relies on someone to collect appropriate documentation from buyers, review that documentation and determine whether each applicant meets the eligibility requirements for the unit in question. Some programs require developers to collect and review this material, others require only that they collect it and forward it to the jurisdiction for review while other programs ask applicants to submit materials directly to the program administrator.

***Selection*:** In communities where affordable homeownership units are in high demand, programs often rely on lotteries or similar systems to select buyers from among the pool of eligible applicants. Coordinating a fair and transparent selection process reduces the burden of responding to inquiries and complaints and provides some measure of protection from fair housing lawsuits. Where there is less demand, lotteries may seem unnecessary. Often affordable units are sold to the first applicant who meets all the eligibility criteria. This can also be a fair process so long as the unit was marketed broadly to the full diversity of potential applicants.

In either case, however, it is important that the process for selection be fair and transparent. Even where programs rely on developers to manage selection, it remains a responsibility of the program to ensure that the process used for selection is consistent with fair housing goals and conducted in a fair manner.

6. Financing/Refinancing

Limiting eligible financing products: Many inclusionary housing programs require that the program approve any loan product used for home purchase or refinancing. When programs impose resale price restrictions, this review is essential to ensure that buyers borrow no more than the maximum resale price. Many programs are also seeking to prevent buyers from being taken advantage of by predatory lenders. Some programs limit buyers to 30-year fixed rate loans in order to avoid the potential financial problems of adjustable rate mortgages. Whatever the program's financing limits, they must be developed thoughtfully in consultation with lenders, communicated to potential buyers and then someone must review loan documents prior to each sale or refinancing to ensure that they are consistent with the policy. This is not generally a time consuming process but it does require some experience to catch potential problems.

Securing lender approval: At the same time, mortgage lenders who make loans to buyers of affordable homes have to understand the program's restrictions to ensure that their interests are adequately protected. Program managers must regularly work with local mortgage lenders to ensure that there is an adequate pool of potential lenders who are willing to finance price-restricted homes.

Once a program is approved by one or more lenders and these loan products are approved by the program, most buyers can use these loans without significant ongoing administrative work. However, when either the lenders or the inclusionary homeownership program change their rules, program managers must again spend time renegotiating agreements with program lenders.

7. Monitoring

Most inclusionary housing programs require that homeowners occupy their units as their primary residence. Many also require that owners maintain a certain level of homeowner's insurance, pay homeowner association fees, taxes, and other assessments on time. These requirements, which are essential to the mission of preserving the units as affordable housing, are only effective if they are accompanied by some level of ongoing monitoring.

An increasingly common practice is for program managers to contact each homeowner on an annual basis and request proof of owner occupancy. Contra Costa County, California, sends each of their 200 resale price restricted homeowners a letter annually reminding owners of restrictions relevant to their home. Homeowners are required to send back a form declaring under penalty of perjury that they are occupying their home, a copy of their homeowner's insurance policy, and a copy of a recent utility bill. County staff report that, while most owners respond in a timely manner, considerable staff time is spent collecting responses from a small number who fail to respond (including many who are in full compliance). In addition to these forms, county staff regularly review land records to ensure that no new liens have been recorded against restricted properties.

8. Resale Management

One of the most time consuming tasks of post purchase administration of homeownership units is managing resales to ensure that every home is transferred to another income-eligible household for no more than the formula-determined price. Some programs provide extensive marketing services at the time of resale (see section above on marketing) while others simply monitor the process to ensure that the sales conform with program rules. Every program must screen and certify eligibility of potential buyers and ensure that buyers are selected in a fair manor (see screening and selection above). Beyond marketing, selecting, and screening buyers, program managers must respond to homeowner's notices; maintain regular communication with homeowners, brokers, and title companies; coordinate and review home inspections and appraisals of the unit; and work with outgoing homeowners to determine any credits for improvements or deductions for damage and deferred maintenance. In many cases, minor (or more significant) repairs must be performed before units are ready for sale and administrators must either coordinate this work directly or encourage homeowners to complete the work. The program manager must calculate the limited resale price and provide clear documentation of the calculation to all parties. Administrators must also work with title companies to ensure that homes actually sell for no more than the appropriate price and that program legal documents are executed by the new buyers and properly recorded. Sharon Decico of the Bedminster Hills Housing Corporation in Bedminster, New Jersey, manages approximately 70 resales per year and reports that each takes approximately 20 hours of staff time. Kara Douglas of Contra Costa County, California, estimates that each resale requires between 21 and 52 hours and costs the agency anywhere from $500 to $20,000 in fees to outside contractors (home inspectors, brokers, title, and escrow fees). Occasionally resales with unusual circumstances may require much more staff time.

Programs that are structured as shared appreciation loans, rather than resale price restrictions, may face fewer responsibilities at the time of sale. Managers of these programs, rather than calculating a resale price, calculate a loan payoff amount including the program's share of equity based on the market sale price of the home. While this process can be much quicker, it is important to note that loan funds recaptured in this way are generally segregated in a housing trust fund or other account and must eventually be reinvested in another comparable ownership opportunity. Finding and evaluating reinvestment opportunities and then identifying and selecting eligible buyers for the new units is comparable to the tasks associated with reselling a resale price restricted unit. In fact, a growing number of shared appreciation loan programs are incorporating an option to purchase the unit at market value. This option allows the program managers to choose to reinvest the public equity[6] in the same unit rather than search for another unit.

9. Enforcement

While most homeowners will use their units responsibly and sell them according to the rules of the program when they decide to move, some owners will inevitably attempt to take advantage of the program. Common problems for homeownership units are illegal subletting of assisted units, refinancing for more than the restricted resale price, sale of a unit for more than the affordable price, or sale to an ineligible buyer. In addition, homeowners who experience financial problems may default on their mortgage, forcing program managers to take action to either avoid foreclosure of the property by the mortgage lender or to preserve affordability after foreclosure. Enforcement issues are far less common with inclusionary rental housing, but program managers must be prepared to take steps to ensure continued compliance with affordable rent restrictions whenever rental properties are sold or refinanced.

The first, and most important step in enforcement actually takes place long before the first inclusionary units are developed. Preparing and properly executing strong legal documents that anticipate potential violations can dramatically reduce the likelihood that legal action will later prove necessary and can reduce the cost of later enforcement. Many communities are reluctant to invest in the development of quality legal documents but money saved initially may be lost many times over when problems arise later. Development of these legal documents is a complex and rapidly changing process and it is important to work with experienced attorneys not only in drafting affordable housing restrictions but enforcing those documents in court.

When things go well, staff spend little time on enforcement but one complex violation or foreclosure can consume significant staff and legal time for several months or longer. In order to effectively preserve affordability over the long term, programs need to plan for and budget staff time for occasional problems of this type. While there is no comprehensive data on how frequently enforcement actions are necessary, anecdotal evidence suggests that legal action may be a regular necessity even though it is relatively rare. In 2004, Palo Alto conducted a comprehensive evaluation of the status of its 179 restricted ownership units and found some kind of compliance problem with nearly 30 percent of the units.[7] Many of these problems were minor (i.e., unreported changes in family composition) but some were serious violations such as illegal subletting or second mortgages that exceeded the city's restricted resale price. Over the program's 33-year history, Palo Alto has experienced five situations where homeowners went into foreclosure after borrowing more than the restricted prices of their units. In each case, close staff attention and significant legal costs were necessary to preserve the affordability of the units. Recognizing that these extreme cases can be very expensive, Palo Alto decided to double the level of their day-to-day administrative and monitoring staff with the expectation that more regular monitoring would reduce the need for costly enforcement after the fact.

When the value of the public investment in a unit is relatively low, the costs of legal action may be greater than the benefit. But as the value of the public investment grows, it quickly becomes more cost effective to take action to protect the public subsidy even if that action is expensive. At the same time, the greater the difference between the restricted price and the market value of a property, the greater the incentive for homeowners to try to get around restrictions. For these reasons, communities where inclusionary units sell at prices far below market can expect greater enforcement costs than those where units sell for prices closer to market values.

Juliet Cox, a California attorney who is regularly called on to litigate enforcement actions for local inclusionary housing programs, suggests that policymakers consider money spent on enforcement as additional investment in the affordability of their housing. Sometimes, she suggests, it might be less expensive for jurisdictions to impose less stringent rules than to spend money regularly taking legal action against homeowners. "I would rather see that extra money go to the homeowners where it can do some good, than to lawyers." And clearly the more restrictive programs face more significant enforcement costs, though when public subsidy levels are high, even if occasional enforcement is expensive, the extra cost might not justify relaxing the rules for every unit.

III. Staffing Administration and Monitoring

There are a number of options for structuring the delivery of the services described above. No two programs are quite the same. However basic stewardship of inclusionary housing units can be accomplished through any combination of the following five strategies.

Program of local government: The local housing or planning department takes on ongoing responsibility for oversight and administration. Fairfax County, Virginia's inclusionary housing program, for example, has created 1,400 affordable homeownership and about 900 affordable rental units. The county's Redevelopment and Housing Authority employs the equivalent of three full-time staff provide post occupancy monitoring and support for the ownership units. These staff members provide training to developers, manage a waiting list, screen potential buyers, and coordinate lotteries. After homeowners purchase, the county staff annually verify occupancy, respond to refinance requests, and support owners in marketing units at resale. An additional staff person in a different division of the authority spends about half of their time monitoring the inclusionary rental units, verifying tenant eligibility, and providing training and support to the managers of these rental properties. A profile of Fairfax County's program is included in Appendix I.

Multi-jurisdiction collaboration: Several local jurisdictions work together to form a joint powers authority, nonprofit, or similar structure with which they each contract for ongoing stewardship of inclusionary units. In the late 1980s, the jurisdictions in Napa County, California, came together to create the Napa Valley Housing Authority under a joint powers agreement. The jurisdictions individually contracted with this authority to administer a range of housing programs including four local inclusionary housing programs. By combining all of their smaller programs under one agency they were able to hire dedicated staff and streamline administration. Shared staffing has also strengthened their programs because they are able to share regulatory documents and lessons learned. A profile of the Napa Valley Housing Authority is included in Appendix I.

Private company: Some local governments contract with realtors or other local companies to perform key ongoing oversight and administration functions on a fee for service basis. For example, Lafayette, Colorado, adopted an inclusionary housing ordinance in 2004 that has led to the creation of 70 homeownership units and 60 rental units. Because the small community has limited local government staff, the city identified a private contractor to oversee their inclusionary portfolio. The administrator manages an interest list, provides training to developers on marketing and selection, reviews applicant eligibility, monitors ongoing occupancy, and provides support and oversight when homeowners resell their homes.

Nonprofit housing agency: A local nonprofit housing organization plays an ongoing stewardship role either through a fee for service contract with local government or as a requirement for receiving project subsidy. For example, when the Town of Mammoth Lakes, California, began considering inclusionary housing in 2002, local policymakers considered creating a housing authority inside local government but ultimately decided that an independent nonprofit agency could be more effective. The town helped to create Mammoth Lakes Housing (MLH) a nonprofit that is partnering with private developers to create affordable units that meet the requirements of the town's affordable housing mitigation regulations, which apply to new commercial as well as residential development. Mammoth Lakes Housing has served as a joint venture partner (co-owner) in some but not all affordable rental developments and contracts with the town to perform long-term monitoring and support services for deed restricted ownership units created through the towns programs. And while MLH has no authority to approve a developer's affordable housing plan, their annual contract with the town requires the nonprofit to work with potential developers to create housing plans that will meet the town's needs. A detailed profile of Mammoth Lakes Housing is included in Appendix I.

Community land trust: A community land trust (CLT) is a special type of organization that holds title to land under affordable housing in order to play a permanent stewardship role monitoring and preserving affordability. For example, the Orange

Community Housing and Land Trust plays a key role in the administration of the inclusionary housing program for the Town of Chapel Hill, North Carolina. The town negotiates affordable housing requirements and encourages private developers to work with the land trust to produce their affordable units. The private developers build the units and sell them to the land trust at an affordable price. The land trust then takes on the responsibility for finding eligible buyers. The land trust sells the buyers the homes only, retaining ownership to the land. A 99-year ground lease gives buyers long-term control over the land but allows the land trust to ensure that the homes remain affordable. The market rate developers pay the land trust a marketing fee and homeowners pay a monthly ground rent that supports the organization's ongoing administration and monitoring costs. A detailed profile of the Orange Community Housing and Land Trust is included in Appendix I.

IV. Staffing Ongoing Administration

Every inclusionary housing program requires some level of ongoing staffing.[8] Table 1 shows the results of an informal survey of staffing for nine inclusionary housing programs. While the exact requirements are quite different depending on the specific roles that a given program plays in program implementation, it is clear that the greater the number of units monitored, the greater the staffing requirement. It is also clear that there are significant economies of scale. Smaller programs require significantly more staff per unit monitored. Palo Alto, California's 269 units are managed by a staff of approximately 1.25 (215 units per FTE) while Montgomery County, Maryland's 2,799 units require 6.5 FTE (430 units per FTE). Program managers consistently report that monitoring rental units is far less staff intensive than monitoring homeownership. In Fairfax County, Virginia, a half time staff person manages 900 rental units while oversight of 1,400 ownership units requires three full-time staff people (467 units per full time equivalent (FTE)). The New Jersey Housing and Mortgage Finance Agency's Housing Affordability Service has a staff of 10 to monitor 5,000 ownership units (500 units per FTE) while a single person oversees 1,000 rental units.

Many program managers report that their programs are significantly understaffed. For example Denver, Colorado, has a single staff person responsible for monitoring and supporting 700 inclusionary ownership units. City staff estimate that three full-time staff would be more appropriate if the program budget allowed. And at 700 units per FTE, Denver does in fact seem to be well above the norm. With three staff they would have 233 units per FTE, which would place them toward the low end of the range.

Based on the experience of this small sample of jurisdictions it seems that policymakers would be wise to plan for staffing of one full-time equivalent for every 150 to 400 homeownership units and one FTE for every 600 to 1,000 rental units.

Table 1: Number of units monitored per full time equivalent staff

Municipality	*Estimated Units Monitored*	Staffing	Est. Units Per FTE	Est. Ownership Units/FTE
Somerville, MA	41 ownership, 10 rental	6 staff work partial time on inclusionary housing	17.0	16.4
Fairfax County, VA	1,400 ownership, 900 rental	Roughly 3.5 FTE	657.1	466.7
Lafayette, CO	70 ownership, 60 rental in the pipeline	1 part time contractor + partial time from one city administrator	173.3	93.3
Boston, MA	600 total, tenure split unknown	4 FTEs	150.0	133.3
Palo Alto, CA	169 ownership, 100 rental	1 FTE on contract, city staff dedicate some time to resales	215.2	135.2
Denver, CO	700 ownership, no rental	1 FTE	700.0	700.00
Montgomery County, MD	1,976 ownership, 823 rental	About 6 FTEs for ownership, 1 part-time on inclusionary rental	430.6	329.3
Santa Barbara, CA	453 ownership, a few rental	1 FTE	475.0	453.0
West Sacramento, CA	80 ownership, 220 rental	9 department staff assist the program - amount of time unknown	75.0	26.7

V. Paying for Administration and Monitoring

One of the most pressing challenges that inclusionary housing programs face is funding administration. Inclusionary housing programs pay for ongoing administration with revenues from a wide range of different sources. Table 2 highlights some of the advantages and disadvantages of the more common sources. A surprising number of programs have been developed without adequate thought to the ongoing cost of administration. As a result many programs rely on local government's general budget or limited local affordable housing funds to pay for the ongoing administration and monitoring of inclusionary units.

For small programs this may be appropriate but, as the number of units in a program grows, the staffing needs can be expected to grow and the revenue for staffing needs to grow at the same pace if the program is going to succeed. This is especially true for programs that are expecting to preserve long-term affordability of ownership units. When affordability controls last for 50 years or longer, each year's new developments add permanently to the ongoing cost of administration. For this reason, a growing number of programs are developing fee structures that generate a revenue stream that will grow with the program.

Table 2: Common sources of program revenue

Source	Advantages	Disadvantages
Local Government General Funds	Regular and reliable	As program grows, growing admin budget must compete with other local needs
Permit Fees *Ex: many programs pay for the cost of negotiating and overseeing development of inclusionary units with funds generated through planning and zoning permit fees*	Developers of inclusionary units directly pay for the cost of monitoring and enforcing the program requirements	These fees can add significantly to the cost of development making it more difficult for developers to meet inclusionary requirements and earn appropriate profits
Local Housing Funds *Ex: Federal HOME or CDBG, Local housing trust funds, redevelopment funds, Inclusionary in lieu fees.*	Most programs allow funds to be spent for staffing and administration	Using these funds to administer previously produced units reduces funds available to create new affordable housing opportunities; available funding is not likely to grow as the program staffing needs grow
Sales/Resale Fees Ex: Some programs charge a fee of 1-4% of the sales price for each unit sold or resold through the program	Ties revenue to the most time consuming tasks, fee income will grow as the demand on staff time grows	This approach passes part of the cost of administration on to the homeowners, reducing their return when they sell
Application Fees Santa Barbara County, CA charges a $25 fee with every application for their affordable ownership units	Ties revenues to another time consuming task, reviewing applications for eligibility	This approach passes costs on to applicants who may never benefit from the program
Ongoing Administration Fees Ex: Salinas, CA charges owners of rental units $40-60 per year for monitoring. This is less common for ownership but Chicago charges deed restricted homeowners a fee of $25 per month	Provides a regular and dedicated source of revenue which grows along with the need.	These monthly fees add to resident's monthly housing costs and reduce their borrowing power which ultimately increases the subsidy necessary to make a unit affordable to a given family.
Ground Lease Fees Ex: Community Land Trusts regularly charge a monthly land rent to help defray administration and monitoring costs	Same as administration fees above	Same as administration fees above

The two primary sources of scalable revenue are resale/marketing fees and monthly administration fees. Programs that take on the lead role in marketing restricted units frequently charge sellers a fee between 1 percent and 4 percent of the sales price to cover administrative expenses. This fee is generally well below the 6 percent commission that owners would pay a private realtor for similar service. Even some programs that expect sellers to engage realtors will charge more modest administrative fees at resale. The state of New Jersey requires all jurisdictions to produce affordable housing units and has created uniform housing affordability controls to ensure that these units are kept affordable over time. The uniform controls require each jurisdiction to identify an administrative agent for their affordable units. Recognizing that administrative capacity was uneven across the state, New Jersey created the Housing Affordability Service (HAS), a quasi-public entity within the New Jersey Housing and Mortgage Finance Agency. The HAS serves as the default administrative agent for jurisdictions that don't identify a different agent and currently oversees 5,000 resale price restricted affordable homeownership units on behalf of 70 municipalities. The agency is funded through a variety of fees but, because most of their responsibilities relate to resale of affordable units, they receive much of their revenue from resale fees. HAS charges a fee of 3 percent of the affordable resale price when they are asked to coordinate marketing and 1.25 percent when they are only screening buyers and certifying that the seller has complied with the state's affirmative marketing requirements.

Agencies that monitor affordability of rental housing often charge monthly monitoring fees. For some reason these fees are less commonly applied to affordable homeownership units. The notable exception is community land trusts, which generally charge a monthly ground lease fee. While this fee is technically rent for the CLT's land, the fees are almost always set far below the comparable market rent and are used to offset some of the CLT's costs of administration and monitoring. These fees generally range from $25 to $100 for single-family homeownership units. This regular source of revenue, combined with other sources such as resale fees, can provide significant financial stability to the program. Thistle Community Housing in Boulder, Colorado, for example, reports that 32 percent of the cost of running their community land trust program is paid by ground lease fees. Although Thistle only charges an average lease fee of $30 per month, over $75,000 per year is generated by the 211 units of resale-restricted, owner-occupied housing currently under Thistle's stewardship.[9]

With the appropriate combination of fees, it is not unreasonable for a community to expect an inclusionary housing program to sustain itself primarily through dedicated revenue sources. However, setting these fees requires careful planning to ensure that revenues are sufficient given the specific demands on the staff and local market conditions. And, even with careful planning, communities should expect that time and experience may lead to adjustments in program fees.

V. Conclusion

Inclusionary housing is a promising strategy for creating much needed affordable housing opportunities. In a time of declining federal investment in affordable housing, inclusionary housing represents one of the few avenues available to local governments to expand their stock of affordable housing.

There is considerable debate about whether the cost of producing affordable units is passed on to market rate homeowners in the form of higher home prices, or to land owners in the form of lower land prices, or simply retained by developers in the form of lower profits. In many communities, local government incentives like density bonuses, fee waivers, or even direct affordable housing subsidies help greatly reduce the impact on the private market but one way or another, each affordable unit has a cost.

Therefore whenever an inclusionary affordable housing unit is sold or rented at a below market price, it is important to recognize that significant resources (both public and private) have been invested to make that unit affordable, resources that could have been put to other important uses. It would be unfair to the many parties who make this affordability possible not to treat these units as a scarce public resource and to take appropriate steps to preserve and protect these public assets.

Like every other public asset, inclusionary affordable housing units must be managed and monitored over time. These responsibilities should not be an afterthought. Ongoing active stewardship should be planed as a central part of every inclusionary housing program. While specific responsibilities will differ from place to place, every program will require staff to work with developers to produce affordable units and either coordinate or monitor marketing and screening efforts. Every program will require staff, on an ongoing basis, to monitor inclusionary units and, for ownership units, to support the refinancing and resales that will occasionally occur. Every program will eventually experience some enforcement challenge that will require significant staff time. And while most programs takes steps to try to minimize the staffing needs, there does not appear to be any way around some level of sustained staffing. The trend among more established programs appears to be in the direction of more (rather than less) active roles.

Rather than attempting to avoid the need for ongoing administration, programs should simply be designed from the start with the need for ongoing active stewardship in mind. Every program should plan for staffing (either direct or though a subcontractor) at a level that is appropriate to the specific tasks that the program has committed to perform and should allow for staffing levels to increase over time as the number of units in the program grows. The key to this scalability appears to be the mechanisms that are selected for funding ongoing program administration. To the extent practical, ongoing administrative costs should be paid with fees tied closely to the housing units themselves so that as the demand for staff time grows, the resources will grow at the same pace.

While the cost of properly administering and monitoring inclusionary housing programs can be surprising, there is no reason to see these costs as prohibitive. Relative to the resources being invested in creating inclusionary affordable housing, the cost of monitoring and sustaining that housing is very modest, even for the most intensive programs. This modest ongoing expense may be the key to preserving the value of that larger investment in the production of inclusionary affordable housing. Without ongoing active stewardship, inclusionary housing can provide only temporary relief from our housing crisis. But inclusionary housing has the potential to do so much more. Well staffed and adequately funded programs can offer economically integrated affordable housing for generations to come. And this long-term impact is essential if inclusionary housing is to truly deliver on its promise.

Appendix I: Program Profiles[10]

Fairfax County, Virginia, Affordable Dwelling Unit Program Administered by County Staff

Fairfax County, Virginia instituted an inclusionary zoning ordinance in 1989 that requires that developments with 50 units or more to provide 6.25 percent to 12.5 percent of units at prices that are affordable to households earning 70 percent or less of the Washington, DC area median income. The Affordable Dwelling Unit (ADU) program has created about 2,300 units so far, including 1,400 ownership units and about 900 rental units. These units are monitored and administered by the Fairfax County Redevelopment and Housing Authority. The term of affordability, protected by a covenant, ranges from 15 to 50 years as Fairfax has amended its ordinance over time to require longer terms of affordability.

The responsibility for marketing and leasing rental units lies with the property owners who provide monthly rent reports as well as new tenant income documentation to county staff for verification. The county supports owners of developments with inclusionary rental units by providing voluntary trainings to leasing staff. These trainings address the requirements of the program, the process of income verification, and necessary documentation. In addition, county staff provides support as needed to representatives of any rental project that includes ADU units. Administration of the rental portion of the ADU program is staffed by a single person who dedicates less than half of his time to this program. He reports that if the time and resources were available, the program would benefit from increased monitoring of the units.

The homeownership units in the ADU program are administered and monitored by the Homeownership and Relocation Branch. The administration of the 1,400 ADU ownership units requires roughly three full-time equivalent positions as well as a portion of the time of the branch manager. These staff market affordable units, manage a waiting list of eligible buyers, execute the random selection process, prepare relevant legal documents, and manage the sale of the home. While county staff verify the income eligibility of potential homebuyers prior to closing, the ADU program requires pre-approval for a mortgage from lenders. Fairfax County staff find that this requirement helps to limit the amount of staff time spent on income verification as lender information is usually accurate, although it must always be verified.

After the initial sale of the home, ADU staff monitor occupancy of units through annual mailings, although any follow up investigation that may be necessary would be undertaken by staff in the Zoning Department. ADU staff receives and approves refinancing requests, as well as notice of intent to sell. Staff support homeowners in resale of the home by providing the same services as those listed above for initial sale. ADU staff do not physically inspect the unit, but request that buyers get a certified home inspection prior to agreeing to purchase the unit. If there is damage to elements of the home specifically mentioned in the covenant, for example the heating system, then the seller is required to repair these elements before sale. To date the county has not experienced significant problems with inadequate maintenance of the homes. A larger problem has been owners who have refinanced their homes for more than the resale value with no means of paying off the debt. This has occurred when homeowners have refinanced without consent of the county and lenders have not been aware of the deed restrictions.

Fairfax County representatives believe that administering the rental and homeownership portions of the ADU program from separate departments works well. Managing the homeownership units is far more time consuming, particularly because resales, which average 2 percent per year, take so much time and the work cannot be planned for in advance. In general the ADU program has adequate staff to meet the responsibilities, but in times when there have been mass resales all at once, the ADU program receives assistance from other agency staff.

The cost of administering the ADU program is unknown because the branches which administer the program also have additional responsibilities. The county collects a resale fee of 1.5 percent of the sales price of the home, but these fees do not cover the full costs of administration. Additional funding is provided from the county's Homeownership Assistance Program.

Shared Administration of Affordable Housing Programs in Napa County, California

Housing Authority of the City of Napa (HACN) is a city agency that administers all of the affordable housing programs for the municipality. It also administers the vast majority of affordable housing programs of other municipalities in the county because of an arrangement stemming from the late 1980s. At that time, the jurisdictions in the County of Napa created the Napa Valley Housing Authority (NVHA) under a joint powers agreement. NVHA was initially be staffed by County of Napa employees but when the first director left, NVHA decided to contract with Housing Authority of the City of Napa to administer all affordable housing programs in the county. From 1996 to 2006 there was a single contract between NVHA and City of Napa Housing Authority. Service provided by HACN to Napa County and the Cities of American Canyon, St. Helena, Calistoga, and the Town of Yountville included:

- Assist with creation of housing policy and drafting the housing element for each jurisdiction
- Administering and monitoring restricted affordable units, rental and homeownership
- Monitoring and operating farm worker housing
- Administering affordable and first-time home buyer loan programs.

Currently, the City of Napa Housing Authority monitors and administers nearly 3,000 affordable units. Roughly 2,000 of these units are in the city's own portfolio, while the remainder come from various programs in the surrounding jurisdictions.

The primary programs for making homeownership affordable to lower-income households include:

- Shared equity loan program for downpayment assistance
- Short term loan program with recapture
- Resale-restricted units developed through inclusionary housing policies[11]

In addition, the city of Napa has started to include a purchase option on all of the units that are supported by the two loan programs. This provision is intended to help the city keep these units available for first-time buyers, although there will be no price restrictions on the units. Staff report that each of these affordable homeownership programs have their own little quirks that make monitoring and administration time consuming and challenging. Currently, there is 1.25 full-time equivalent (FTE) staff who monitor all of the homeownership units, which include about 200 resale restricted units; the balance are supported by the two loan programs. Staff indicate that 1.5 or 2 full time staff might be more appropriate given the level of these monitoring responsibilities because resales and refinancing requests in particular take a lot of staff time.

Even though staff are responsible for reinvesting the municipality's equity share from the loan programs and are not responsible for identifying new buyers for resale restricted units, it still seems that each resale restricted unit takes a bit more time to monitor than the loan programs. For resale restricted properties municipal representatives are not responsible for marketing and identifying buyers, but they do maintain a database of interested applicants and will try to send interested, qualified households to the sellers of resale restricted units. Nevertheless the process of calculating the resale price, verifying the income of potential homebuyers, and assessing continued owner occupancy are time consuming aspects. Additionally, the responsibility of responding to refinance requests, ensuring that homes are not over-financed, and dealing with the issues related to homeowners who were able to refinance their homes for more than the resale restricted price takes significant staff time.

HACN staff reported that they and the participating jurisdictions all benefited from having a single contract that resulted from the joint powers agreement. The administrators knew everything that everyone else was doing and could easily pull from that knowledge to improve programs for other jurisdictions. For example, administrators could use the regulatory documents from one city as a template for another city instead of having to expend resources for lawyers to draft new documents. There is an efficiency of scale that comes from having a central office administer all of the programs. Yet, while the concept of a joint powers agency for this purpose is good, this specific agency and the resulting contracts may not have been structured in a sustainable fashion. The county of Napa is in the process of reestablishing a staffed housing agency. Ownership and management of all of the county's farm worker housing will transfer to this agency.[12] And the Napa Valley Housing Authority is dissolving, although the HACN intends to continue to administer the majority of affordable housing programs in the county. Local jurisdictions are now entering into contracts directly with the HACN to administer affordable housing programs.

The joint powers agency is dissolving because separate contracts with the two housing authorities cost more money than a single direct contract with HACN. The municipalities decided that there was no real benefit to paying the additional costs to have the joint powers agency. Although most of the responsibilities were contracted out, the NVHA had to have insurance, audits, boards, etc., all of which had to be paid collectively by the municipal governments.

Town of Mammoth Lakes, CA Relies on Local Housing Nonprofit

Mammoth Lakes Housing (MLH) was created by the Town of Mammoth Lakes to help it meet the pressing need for affordable and workforce housing. The organization was launched in 2003 with three grants of $67,000 each from the Town of Mammoth, and two local resort management companies, the Mammoth Mountain Ski Area and the Intrawest Mammoth Corporation. In 2002, Mammoth Lakes voters approved an increase in the Transient Occupancy Tax (TOT) with the condition that a portion of the funds be used for the creation of affordable housing. This tax generates approximately $250,000 annually to fund a local housing trust fund. The town also recently adopted affordable housing mitigation regulations that require developers of new housing, hotels, resorts, or commercial real estate to develop new affordable housing units as part of these projects. The number of affordable units is calculated based on the total number of housing units, hotel rooms, or commercial square footage developed. The new funding together with the expected volume of affordable units created through the mitigation ordinance created an obvious need for a new administrative and oversight capacity.

Prior to launching Mammoth Lakes Housing the town considered creating a housing authority or hiring a housing coordinator within local government to oversee these programs. Ultimately the town decided that a local nonprofit would be a more efficient alternative. In the resolution providing initial funding for MLH, the town notes that "it was determined that government run housing authorities tend to be bureaucratic and are often too hamstrung by government regulations to act quickly, decisively, and in an innovative fashion. The town therefore opted to assist in the creation of a non-profit housing corporation to facilitate affordable housing by, among other things, developing innovative, locally-based initiatives and programs that work hand in hand with private sector efforts to address housing needs."[13]

MLH has an unusually close relationship with local government. The town of Mammoth Lakes contracts with MLH to provide a number of services including monitoring of their entire portfolio of resale price restricted housing, collecting data on housing needs, working with private developers to insure compliance with the housing mitigation ordinance and otherwise assisting the town in meeting its housing goals. In 2005 MLH received $126,000 under its contract with the town to support the provision of these services.

MLH's contract with the town includes a wide range of broadly defined services including:

- Maintaining documentation of housing needs data as required for state and federal reporting requirements
- Administering and monitoring deed restricted housing
- Assisting with other regulatory requirements of the town
- Surveying local builders, developers, and realtors and collecting other data regarding the sale and rental of residential properties
- Preparing regular written reports to assist the town in compliance with the provisions of the town's housing element

While the contract is intentionally open ended, in practice, Mammoth Lakes Housing acts as the housing arm of the town in many respects. The town looks to MLH to develop housing strategies, identify potential projects, and plan for the allocation of its housing trust fund dollars. MLH works closely with any developer proposing new housing to help the developer to understand and meet its obligations under the housing mitigation ordinance. The mitigation ordinance spells out specific formulas for determining a developer's affordable housing obligations and requires that these obligations be satisfied through onsite production of new housing, however, the ordinance also allows the town to approve alternative mitigation proposals. While MLH has no official authority to review these alternative proposals, in practice, MLH negotiates specific alternatives with developers and has identified several situations where the town's interests are better served by allowing developers to meet their obligations through land dedication or payment of in lieu fees. In these cases, MLH has worked out detailed proposals jointly with the proposing developers and jointly presented them to the town for approval. MLH is compensated for its investment of staff time in these negotiations through its annual service contract with the town.

The Town of Mammoth Lakes appoints two of the five directors of the organization, Mono County appoints one director, and the remaining two board seats are filled by vote of the three public sector directors.

Orange Community Housing and Land Trust Stewards Chapel Hill's Inclusionary Units

From the organization's inception, the Orange Community Housing and Land Trust was seen by the region's local governments (Town of Chapel Hill, Orange County, and the Town of Carrboro, North Carolina) as a partner in developing and maintaining affordable homeownership opportunities. In 2007, OCHLT had 128 affordable homes under its stewardship, and 102 of these homes had been acquired by the land trust as a result of the Town of Chapel Hill, North Carolina's inclusionary zoning policy, which strongly encourages developers to partner with OCHLT. The town effectively relies on the CLT to monitor the affordability, occupancy, and maintenance of units created because of the inclusionary policy.

In this system, the developer will contract with OCHLT to purchase the units and subsequently sell the improvements to a qualified household. OCHLT negotiates a marketing fee of $2,000 to $3,000 per unit to cover the marketing and sales costs. For all units in the OCHLT portfolio, staff are responsible for marketing the homes to eligible buyers, maintaining a waiting list of interested households, educating households about the land trust model of homeownership, and monitoring the ground lease requirements. At resale, OCHLT will assist sellers to identify an eligible buyer and enter into a ground lease with the subsequent owner.

There are currently six full-time staff positions at OCHLT: executive director, sales and marketing manager, construction manager, office manager, sales and marketing associate, and land trust project manager. A full-time property manager is expected to be hired within the year. The organization started out with three employees: the executive director, project manager, and office manager. After the first fourteen houses were built, they took on a sales and marketing manager. After Chapel Hill adopted an inclusionary housing policy, half of OCHLT's time became dedicated to sales and marketing of the units so they hired a part-time sales associate. As the number of units in the portfolio grew, this part-time position became full time. OCHLT now has two full-time staff for marketing, sales, and resales of units.

OCHLT has an organizational operating budget of roughly $475,000. In recent years over 60 percent of operating funds has come from the three local governments in the region that OCHLT serves. OCHLT generates about 4 percent of the operating fund through monthly ground lease fees of $11 to $22 per unit and another 3 percent of the budget from resale fees. All new owners are also expected to pay into a fund for long-term maintenance of the units, which varies from $49 to $127 per month depending on the type of unit. These funds will not cover all maintenance, but can be applied to major repairs or replacements of such things as roofing, repainting, replacing HVAC, floor coverings, and hot water heaters. The monthly maintenance fees are included in subsidy calculations so that the additional expense does not negatively impact the affordability of the unit.

Notes

[1]Orange County Grand Jury 2003-2004, "Has Orange County Given Away the Farm? Addressing Problems Associated with Orange County Housing Authority Invalid Releases of Resale Restrictions on California Coastal Commission Affordable Housing Units", (http://www.ocgrandjury.org/pdfs/givenawayfarm.pdf (accessed October 23, 2007).
[2]Martha Sadler "Housing Scandal Redux," Santa Barbara Independent, July 27, 2006.
[3]*On Common Ground: Joint Principles on Inclusionary Housing Policies*. Nonprofit Housing Association of Northern California and the Home Builders Association of Northern California, July 2005.
[4]Polly V. Marshall and Barbara E. Kautz, Ensuring Continued Affordability in Homeownership Programs, Goldfarb & Lipman LLP, Institute for Local Government, May 1, 2006.
[5]In 2005 the Orange County Superior Court ruled that deed restrictions recorded by the California Coastal Commission to protect affordability of condominiums in the Niguel Beach development in Dana Point, California, were unenforceable because, among other things, resale price restrictions were not adequately explained to the buyers. See Dan Weikel "Ruling Backs Condo Owners," *Los Angeles Times*, April 13, 2005.
[6]In many cases, repurchasing units at market prices may require additional public investment beyond the recaptured loan principal and shared appreciation.
[7]*City of Palo Alto Below Market Rate Housing Program Economic/Policy Analysis and Recommendations*, Keyser Marston Associates and Anderson Associates, March 2007.
[8]The City of Mountain View, CA, has developed a flexible inclusionary housing program that allows developers of ownership housing to pay in-lieu fees under most circumstances. Since the program was adopted in 1999, Mountain View has collected nearly $6 million in such fees, which it uses to subsidize affordable rental projects developed by local nonprofit developers. However, the City has found that the collection of in-lieu fees also includes substantial administrative costs and challenges in monitoring and collecting fees. Additional staff resources have been required to manage their BMR program including coordinating investment of the collected funds into new affordable rental projects.
[9]John Davis, Rick Jacobus and Maureen Hickey. *Municipal Support for Community Land Trusts*, (Cambridge, MA: Lincoln Institute for Land Policy, forthcoming).
[10]Profiles by Maureen Hickey, Burlington Associates in Community Development.
[11]The cities of American Canyon, Calistoga, and Napa as well as the town of Yountville have adopted inclusionary housing programs. All together, there are roughly 200 price-restricted units.
[12]The issue that led to the dissolution of the Napa Valley Housing Authority is related to the development and management of farm worker housing in the county and not the administration of the other affordable housing programs.
[13]Town of Mammoth Lakes, May 21, 2003, Stephen B. Julian, Town Manager.

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The City–CLT Partnership

Municipal Support for Community Land Trusts

JOHN EMMEUS DAVIS AND RICK JACOBUS

Policy Focus Report • Lincoln Institute of Land Policy

The City–CLT Partnership
Municipal Support for Community Land Trusts

Policy Focus Report Series
The policy focus report series is published by the Lincoln Institute of Land Policy to address timely public policy issues relating to land use, land markets, and property taxation. Each report is designed to bridge the gap between theory and practice by combining research findings, case studies, and contributions from scholars in a variety of academic disciplines, and from professional practitioners, local officials, and citizens in diverse communities.

About this Report
While community land trusts (CLTs) have existed since the 1980s, their numbers started to increase rapidly over the last 10 years as local governments contributed their support. Among other accomplishments, these public–private partnerships have helped to expand the nation's stock of permanently affordable homeownership housing. This report is intended to provide guidance to local officials about the most effective ways to invest in CLT startups, projects, and operations to achieve this end.

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ON THE COVER

Resale-restricted homes at Arbolera de Vida are part of a planned community developed by the Sawmill Community Land Trust, Albuquerque, New Mexico.

Executive Summary

The community land trust (CLT) movement is young but expanding rapidly. Nearly 20 CLTs are started every year as either new nonprofits or as programs or subsidiaries of existing organizations. Fueling this proliferation is a dramatic increase in local government investment and involvement. Over the past decade, growing numbers of cities and counties have chosen not only to support existing CLTs, but also to start new ones, actively guiding their development and sponsoring their affordable housing initiatives.

Two key policy needs are driving this new interest in CLTs, particularly in jurisdictions that put a social priority on promoting homeownership for lower-income families and a fiscal priority on protecting the public's investment in affordable housing.

- ***Long-term preservation of subsidies.*** With local governments now assuming greater responsibility for creating affordable housing, policy makers must find ways to ensure that their investments have a sustained impact. CLT ownership of the land, along with durable affordability controls over the resale of any housing built on that land, ensures that municipally subsidized homes remain available for lower-income homebuyers for generations to come.

- ***Long-term stewardship of housing.*** Preserving affordability requires long-term monitoring and enforcement, an administrative burden that local governments are neither equipped for nor generally interested in taking on. CLTs are well positioned to play this stewardship role by administering the municipality's eligibility, affordability, and occupancy controls, while also "backstopping" lower-income owners to protect subsidized homes against loss through deferred maintenance or mortgage foreclosure.

Municipal support comes in a variety of forms, depending on how well established the CLT is. For example, local governments may offer administrative or financial support during the planning and startup phase, followed by donations of city-owned land and grants or low-interest loans for developing and financing projects. They may help a CLT acquire and preserve housing provided by private developers to comply with inclusionary zoning, density bonuses, and other mandates or concessions. As the CLT builds its portfolio, municipalities may provide capacity grants to help support its operations. Finally, local jurisdictions may assist CLTs by revising their tax assessment practices to ensure fair treatment of resale-restricted homes built on their lands.

As welcome as their support has been, local governments may inadvertently structure CLT funding and oversight in ways that undermine the effectiveness of the very model they are attempting to support. The challenge lies in finding the most constructive ways of putting municipal resources to work in pursuit of common objectives.

Troy Gardens, a project of the Madison (Wisconsin) Area Community Land Trust, integrates green-space preservation and community farming with the construction of affordable housing.

Based on a review of three dozen municipal programs and in-depth interviews with local officials and CLT practitioners, this report describes the mechanisms and methods that cities across the country are using to structure their investment in CLT startups, projects, and operations. In addition to describing the full range of options for providing municipal support, the report highlights specific model practices for rendering that assistance. These practices have the most potential to balance the interests of all parties by:

- protecting the public's investment in affordable housing;
- expanding and preserving access to homeownership for households excluded from the market;
- stabilizing neighborhoods buffeted by cycles of disinvestment or reinvestment; and
- ensuring accountability to funders, taxpayers, and the communities served by the CLT.

The city–CLT relationship continues to evolve. This report ends with a discussion of three emerging trends: shifts in the city's role from supporter to instigator, and from participant to governor; and a deepening of the CLT's primary role as a steward of affordable housing created with municipal assistance. While posing new challenges, these changes also present new opportunities for tomorrow's city–CLT partnerships.

This report is drawn from the authors' recent Lincoln Institute working paper, *Building Better City–CLT Partnerships: A Program Manual for Municipalities and Community Land Trusts*, which provides an extensive discussion of the best—and worst—ways for cities to support CLTs.

CHAPTER 1

Introducing the CLT

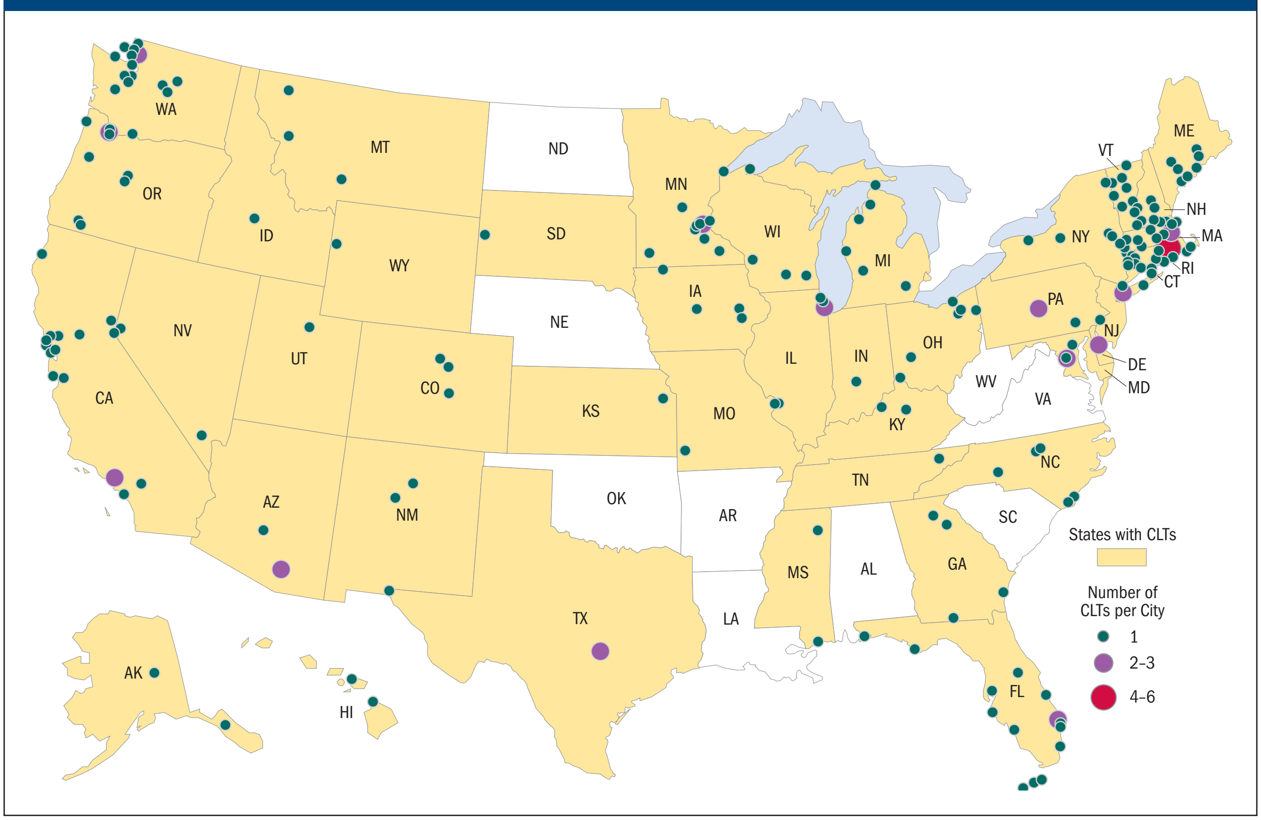
In the early 1980s only a handful of community land trusts existed in the United States—nearly all located in rural areas. By 2008, more than 200 CLT programs were operating in 41 states and the District of Columbia, with a growing number of new CLTs added each year (see figure 1). Now located predominantly in cities, towns, and suburbs, these CLTs are holding land, developing housing, revitalizing neighborhoods, stewarding assets, and recapturing publicly generated value for the benefit of future generations.

HOW COMMUNITY LAND TRUSTS WORK

A community land trust is a nonprofit organization formed to hold title to land to preserve its long-term availability for affordable housing and other community uses. A land trust typically receives public or private donations of land or uses government subsidies to purchase land on which housing can be built. The homes are sold to lower-income families, but the CLT retains ownership of the land and provides long-term ground leases to homebuyers. The CLT also retains a long-term option to repurchase the homes at a formula-driven price when homeowners later decide to move (see box 1).

FIGURE 1

CLTs Now Exist in 41 States and the District of Columbia



Source: Produced by Yesim Sungu-Eryilmaz for the National CLT Academy, 2008.

BOX 1

Ten Key Features of the Classic Community Land Trust

1. **Nonprofit, tax-exempt corporation.** A community land trust is an independent, nonprofit corporation that is chartered in the state where it is located. Most CLTs are started from scratch, but some are grafted onto existing nonprofit corporations. Most CLTs target their activities and resources toward charitable goals such as providing housing for low-income people and redeveloping blighted neighborhoods, and are therefore eligible for 501(c)(3) designation.
2. **Dual ownership.** The CLT acquires multiple parcels of land throughout a targeted geographic area with the intention of retaining ownership permanently. The parcels do not need to be contiguous. Any buildings already located or later constructed on the land are sold to individual homeowners, condo owners, cooperative housing corporations, nonprofit developers of rental housing, or other nonprofit, governmental, or for-profit entities.
3. **Leased land.** CLTs provide for the exclusive use of their land by the owners of any buildings located thereon. Parcels of land are conveyed to individual homeowners (or the owners of other types of residential or commercial structures) through long-term ground leases.
4. **Perpetual affordability.** By design and by intent, the CLT is committed to preserving the affordability of housing and other structures on its land. The CLT retains an option to repurchase any structures located upon its land if their owners choose to sell. The resale price is set by a formula in the ground lease providing current owners a fair return on their investments and future buyers fair access to housing at an affordable price.
5. **Perpetual responsibility.** As the owner of the underlying land and of an option to repurchase any buildings located on that land, the CLT has an abiding interest in what happens to these structures and to the people who occupy them. The ground lease requires owner-occupancy and responsible use of the premises. If buildings become hazardous, the CLT has the right to force repairs. If property owners default on their mortgages, the CLT has the right to cure the default, forestalling foreclosure.
6. **Open, place-based membership.** The CLT operates within the boundaries of a targeted area. It is guided by, and accountable to, the people who call this locale their home. Any adult who resides on the CLT's land or within the area the CLT deems as its "community" can become a voting member. The community may comprise a single neighborhood, multiple neighborhoods, or even an entire town, city, or county.
7. **Community control.** Voting members who either live on the CLT's land or reside in the CLT's targeted area nominate and elect two-thirds of a CLT's board of directors.
8. **Tripartite governance.** The board of directors of the classic CLT has three parts, each with an equal number of seats. One-third represents the interests of people who lease land from the CLT; one-third represents the interests of residents of the surrounding community who do not lease CLT land; and one-third is made up of public officials, local funders, nonprofit providers of housing or social services, and other individuals presumed to speak for the public interest.
9. **Expansionist program.** CLTs are committed to an active acquisition and development program that is aimed at expanding their holdings of land and increasing the supply of affordable housing and other structures under their stewardship.
10. **Flexible development.** While land is always the key ingredient, the types of projects that CLTs pursue and the roles they play in developing the projects vary widely. Many CLTs do development with their own staff, while others delegate this responsibility to partners. Some focus on a single type and tenure of housing, while others develop housing of many types and tenures. Other CLTs focus more broadly on comprehensive community development.

Source: Davis (2007)

The “classic” CLT balances the multiple interests of homeowners, neighborhood residents, and the city as a whole in serving as the steward for an expanding stock of permanently affordable, owner-occupied housing. Homeowners leasing and living on the CLT’s land (leaseholder representatives), residents of the CLT’s service area (general representatives), and individuals representing the public interest (which may include municipal officials) each make up a third of a typical board of directors. This tripartite structure ensures that different land-based interests will be heard, with no single set of interests allowed to dominate.

On an operational level, CLTs take on a range of responsibilities for developing and stewarding their lands. Some focus on creating only homeownership units, while others take advantage of the model’s flexibility to develop rental housing, mobile home parks, commercial space, and other community facilities. Most CLTs initiate and oversee development projects with their own staff, but others confine their efforts to assembling land and preserving the affordability of any buildings located upon it.

In their capacity as stewards, CLTs provide the oversight necessary to ensure that subsidized units remain affordable, that occupants are income-eligible, and that units are kept in good repair. Because they retain permanent ownership of the land under housing and other structural improvements, CLTs are closely connected to the homes and to the households that live in them. And as the landowner, the CLT collects a modest monthly ground lease from every homeowner, allowing the CLT to monitor its assets, protect its investment, and support residents who experience financial difficulties.

Although specific stewardship roles differ from one community to the next, nearly every CLT performs the following tasks:

- assembling and managing land;
- ensuring that owner-occupied homes remain affordably priced;
- marketing the homes through a fair and transparent process;
- educating prospective buyers about the rights and responsibilities of owning a resale-restricted home;
- selecting income-eligible buyers for the homes;
- monitoring and enforcing homeowner compliance with contractual controls over the occupancy, subletting, financing, repair, and improvement of their homes;
- verifying that homeowners maintain property insurance and pay all taxes;
- managing resales to ensure that homes are transferred to other income-eligible households for no more than the formula-determined price; and
- intervening in cases of a homeowner’s mortgage default.

Most CLTs initially rely on grants from local governments, private foundations, or other donors to pay for stewardship functions. As its portfolio of land and resale-restricted housing expands, however, the CLT can generate ground lease fees, resale fees, and other income to support the costs of managing the affordable housing stock. With growth, the revenues available for stewardship also increase, allowing the CLT to make a permanent commitment to monitoring and supporting homes located on its land.

HOW CLTS EXPAND HOMEOWNERSHIP

Many municipalities have long operated homeownership programs that provide direct assistance to lower-income buyers. This approach usually involves either an outright grant or a no-interest or deferred-interest loan—typically structured as a second mortgage—to reduce monthly mortgage payments to the point where the buyer can afford to purchase a market-priced home.

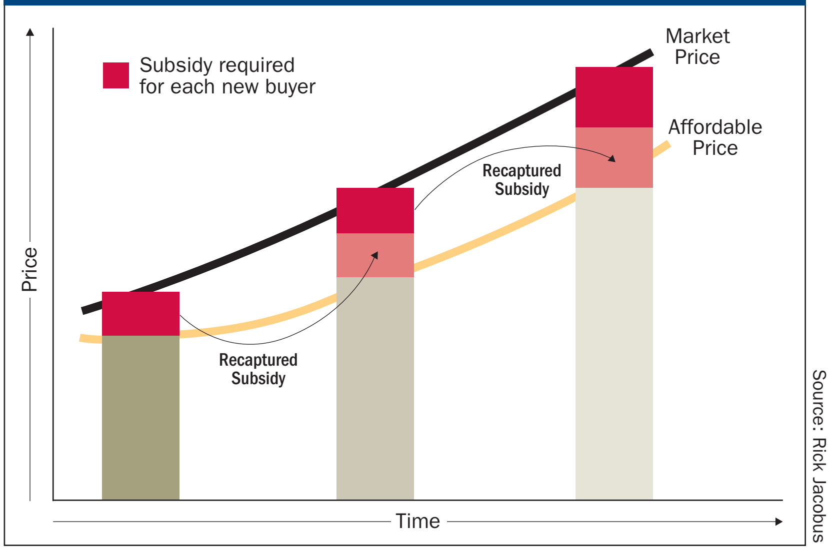
The CLT model is built around a different approach that uses the same subsidy—typically given to the CLT rather than to the homebuyer—to reduce the purchase price of the home to an affordable level. Over the long term, the effect of the two approaches differs dramatically. The traditional subsidy temporarily creates affordable payments, while the CLT model permanently creates affordable housing.

In real estate markets where housing prices rise faster than household incomes, the level of traditional subsidy that each successive homebuyer needs to afford market-priced housing increases steadily (see figure 2a). Even if homeowners are required to repay most or even all of the subsidy when they sell, an additional subsidy is usually necessary to fill the affordability gap that continues to widen during their occupancy (see figure 2b). The next generation of lower-income buyers is likely to need far larger subsidies than those required to lift the first households into homeownership.

FIGURE 2a
In Markets Where Home Prices Outpace Incomes, the Affordability Gap Continues to Grow . . .

If housing prices rise faster than household incomes, the affordability gap widens. As a result, it takes an ever-larger subsidy to keep a home affordable. Programs providing loans or grants to homebuyers must constantly increase the level of subsidy to keep pace with the growing gap between market and affordable prices.

FIGURE 2b
. . . Even When Homeowners Are Required to Repay the Subsidy at Sale



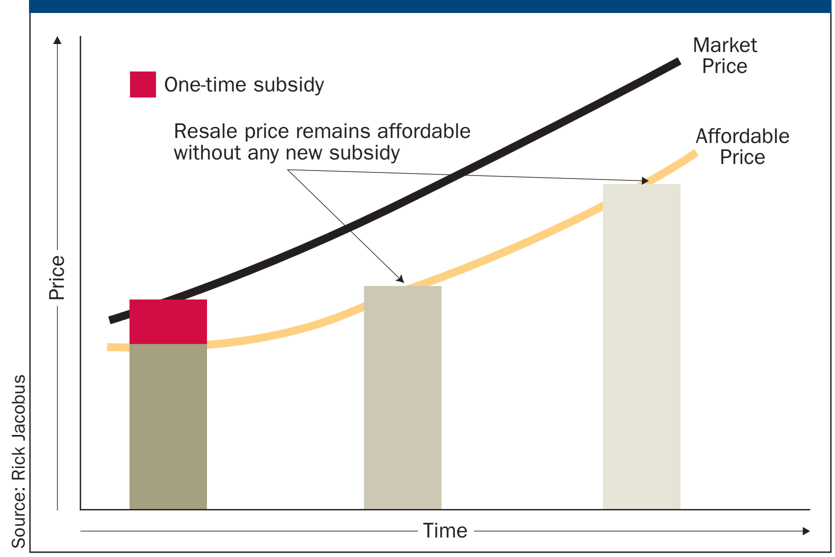
Recapturing the original subsidy and reinvesting it in new loans to other lower-income households does not prevent the affordability gap from growing. An ever-larger subsidy is still needed to help subsequent generations of homebuyers if prices continue to rise faster than incomes.

The CLT strategy, in contrast, is to invest in creating a stock of permanently affordable, owner-occupied housing (see figure 3). The CLT uses the public (and private) funds to acquire land and perhaps to cover other costs of housing development. As a result, it can sell homes at prices that lower-income households can afford without a second loan or other special financing. If they decide to move, the initial buyers must sell the subsidized homes for a formula-driven price that other lower-income homebuyers can afford. By maintaining ownership of land across multiple sales of the house, the CLT can usually keep homes affordable for many years without the need for additional infusions of public capital. But because it cannot control other factors that influence housing costs—such as rising insurance or utility costs, property taxes, and/or mortgage interest rates—no CLT can absolutely guarantee it will never need an additional subsidy. It can, however, assure its municipal partner that any further subsidy will always be substantially less than what would be required without the CLT's resale controls.

Table 1 compares the performance of two types of subsidies: (1) a homebuyer loan in the form of a silent second mortgage where the funds are to be repaid at resale without interest; and (2) a CLT subsidy in which the resale price may not exceed the initial (affordable) purchase price plus an adjustment based on the annual change in the area median income (AMI). The home is assumed to have a value of $250,000 in a market where a family in the target income range can afford to pay only $200,000.

Bridging the affordability gap at the time of initial sale entails a $50,000 subsidy regardless of the option selected. When the first owner sells, however, the two approaches differ in how well they preserve the value of the public investment and how large a return the seller realizes on his/her investment. The first homebuyer's net proceeds following the sale in the

FIGURE 3
The CLT Model Limits the Rate of Increase in Resale Prices, Keeping Homes Affordable Over Time



A one-time subsidy in a CLT home lowers its initial sale price to an affordable level and then limits the rate at which the price can rise over time. This strategy helps to increase the stock of permanently affordable housing.

seventh year are greatest under the loan program, although the CLT-subsidized owner also walks away with assets of just over $56,000. This represents a 21 percent annual return for the CLT homeowner, given an initial investment of about $15,000 (3 percent down and 3 percent closing costs).

There are good fiscal reasons for limiting the amount of equity a homeowner may remove from a subsidized property at resale. In the case of the homebuyer loan, ensuring the continued affordability of this one home would require a public investment totaling $820,000 over 30 years. If the initial subsidy were instead invested through a CLT, the same house could serve the same number of homebuyers at the same targeted income for the same period of time for a total municipal investment over 30 years of only $50,000.

TABLE 1
Performance of Alternative Subsidies Over Time

Initial Sale	**Homebuyer Loan (No Interest)**	**CLT Model (AMI Index)**
Initial market value	$250,000	$250,000
Subsidy	50,000	50,000
Initial sale price	250,000	200,000
Resale in Year 7		
Sale price	375,000	245,000
Repay first mortgage	(174,051)	(174,051)
Repay public subsidy	(50,000)	0
Sales costs (6%)	(22,500)	(14,700)
Seller's net proceeds	**128,449**	**56,249**
Affordable price to next buyer	245,000	245,000
Recaptured subsidy	50,000	0
Additional subsidy required	**80,000**	**0**
Total subsidy for next buyer	130,000	0
Resale in Year 14		
Sale price	565,000	303,000
Additional subsidy required	**132,000**	**0**
Resale in Year 21		
Sale price	850,000	372,000
Additional subsidy required	**216,000**	**0**
Resale in Year 28		
Sale price	1,278,000	458,000
Additional subsidy required	**342,000**	0
Total subsidy invested over 30 years for 5 families	**$820,000**	**$50,000**

Note: Data assume 6 percent annual home price inflation, 3 percent annual income inflation, and stable interest rates.
Source: Jacobus and Lubell (2007)

EFFECTIVE CITY–CLT PARTNERSHIPS

When investing public funds and delegating responsibilities to a nonprofit organization like a CLT, local jurisdictions have legitimate concerns about how their resources will be used and how their partners will perform. Supporting a CLT to expand and preserve a stock of permanently affordable, owner-occupied housing raises crucial questions. How effective will the CLT be in managing this growing inventory of land and housing? Will the CLT's beneficiaries succeed in their venture into homeownership? Will the CLT itself survive?

Based on analysis of selected city–CLT partnerships across the country, it is clear that there are many effective methods and mechanisms to support the projects and operations of a community land trust while also providing prudent municipal oversight of performance. This report presents many options for local government assistance during a CLT's startup, early growth, and mature phases of development, as well as for taxation and regulation of CLT land and homes. Highlighted within each set of options are "model practices" that offer the greatest promise for creating CLTs that are accountable, productive, and sustainable. The report concludes with a discussion of how cities and CLTs are changing the roles they play in their partnership to preserve affordable homeownership.

CHAPTER 2

Supporting CLT Startups

Until recently, most municipalities were willing to commit significant resources to a CLT's projects and operations only *after* the land trust had been established. Today, many jurisdictions either take the lead in creating the CLT or become closely involved soon after neighborhood leaders begin the planning process. Given their early participation and investment in CLT projects, local governments have begun to pay closer attention to the decisions and tasks that lay the foundation for the land trust's success (see box 2).

The critical period in a CLT's startup phase is the year immediately preceding incorporation and the first two years of operation. Local governments can bring a full range of support to the table during this phase, from playing a modest role in publicizing the shared goals of the CLT to making major investments in its portfolio and operations.

Introducing an Unfamiliar Model

In some cities, municipal staff have taken the lead in researching community land trusts and then educating political leaders and the wider community about the model. In Portland, for example, the Bureau of Housing and Community Development originated the idea for a CLT and arranged for CLT practitioners from other cities to participate in local forums for nonprofits and housing activists. In Burlington, members of the city's Community and Economic Development Office organized a series of public information sessions about CLTs. In

The Daniels family enjoys having a yard at their Portland Community Land Trust home in Portland, Oregon.

BOX 2

Building a CLT from the Ground Up: A Startup Checklist

Key Decisions Before Incorporation

- **Beneficiaries.** Who will the CLT serve?
- **Geographic service area.** Where will the CLT operate?
- **Development.** What kinds of housing or other structures will be developed on the CLT's land, and what roles will the CLT play in the development process?
- **Governance.** How will the governing board be structured and selected? Will the CLT have membership? If so, what role(s) will the members play?
- **Resources.** Where will the CLT find funding to pay for projects and operations?

Essential Tasks Before Incorporation

- Assign responsibility for key decisions about CLT structure, service area, beneficiaries, and activities.
- Begin outreach to community residents and key stakeholders.
- Evaluate housing market conditions, optimal prices, and likely demand for units serving the target population.
- Estimate the availability and sufficiency of public and private resources for land acquisition, housing development, housing subsidies, and CLT operations.
- Conduct legal research as needed.
- Prepare documents establishing the CLT and institutionalizing its structure and governance.

Formative Tasks After Incorporation

- Seat and orient the CLT's first board of directors.
- Design the ground lease and resale formula.
- Create an outreach plan and materials for building CLT membership and for educating the broader community.
- Develop and implement homebuyer selection and orientation programs.
- Create a three-year plan for bringing the CLT's portfolio to scale, including a staffing plan, operating budget, policies and procedures, and housing development goals.
- Apply for 501(c)(3) designation as a tax-exempt charitable organization.
- Review municipal and state programs for compatibility with the CLT model and negotiate modifications to expand access to funding sources.
- Negotiate property tax treatment for the CLT's resale-restricted, owner-occupied housing with the local assessor.
- Build relationships with private financial institutions in preparation for mortgaging of CLT housing.
- Develop job descriptions for staff and complete a hiring process.

Chicago, a senior official in the Department of Housing teamed up with a program officer from the MacArthur Foundation to commission a report on the CLT model, and then followed up with individual briefings for foundation staff and various city officials.

Participating in the Planning Process

In many jurisdictions, elected officials and/or municipal staff have taken an active part in planning the CLT. Officials from the Town of Chapel Hill and surrounding Orange County, for example, sat on the advisory committee that created that region's CLT. In Irvine, the mayor and a city council member served on the CLT's planning committee and first board of directors. Irvine's mayor was also the board's first chair. In Chicago, the housing commissioner was part of the advisory committee that created the CLT and now sits on the CLT's board of directors.

MODEL PRACTICE

Early and Ongoing Participation of Community and Municipality

Among the many tasks involved in starting a CLT, none is more important than systematically introducing the model to a wide array of constituencies. The municipal agencies to which the CLT must look for project funding, regulatory approvals, and equitable taxation are a high priority for any campaign of outreach, education, and organizing. It is equally important, however, to reach out to the individuals and institutions that call the CLT's service area their home, as well as to other nonprofit organizations serving the same population. For many of these individuals and groups, these outreach efforts will likely be their first introduction to the CLT model.

Municipalities may resist working with neighborhood activists who are known critics of city hall, or they may simply be reluctant to relinquish control over a fledgling organization that will receive a major commitment of public resources. Particularly if the CLT depends on a municipality's resources and is dominated by its priorities, some of the model's democratic components can be lost. For example, municipal participants may invite nongovernmental constituencies into the process only after critical decisions have been made, or worse, attempt to eliminate community members from the board altogether.

Full participation of both the community and the municipality is essential to create the transparency necessary to make this unconventional model of tenure a success. Including community residents and prospective CLT homebuyers is especially important because they can help the CLT mitigate opposition to its projects, build a market for its homes, and win acceptance among public funders, private lenders, and the community at large.

Staffing the Startup

Municipal employees have sometimes taken responsibility for convening meetings and staffing the CLT's advisory committee and/or governing board. On occasion, they also have assumed primary responsibility for administering the CLT and serving as de facto staff in the early years. For example, the first executive director of the Chicago CLT is a municipal employee working out of the Department of Housing. A city attorney is also providing invaluable legal advice as the CLT's first projects get under way. In Delray Beach, the Community Redevelopment Agency staffs the newly founded CLT.

Contracting for Expert Assistance

Several cities and counties have taken the lead and borne the cost of hiring consultants to assist with planning the CLT. Burlington, Chicago, Delray Beach, Highland Park, Irvine, Phoenix, Portland, San Bernardino County, and Sarasota have contracted with consultants for a wide range of CLT-related services, including advice on organizational development, ground lease issues, project feasibility, and business planning.

Providing Startup Financing

In several cases, municipalities have provided grants to support the planning and incorporation of the CLT. For example, the City Council of Burlington approved a $200,000 startup grant in 1984 for the Burlington Community Land Trust (now the Champlain Housing Trust). In 2003, Hennepin County made a $25,000 grant to fund the research and planning that went into creating the City of Lakes CLT in Minneapolis. In 2006, the Town of Truckee entered into a $45,000 contract for services with the Workforce Housing Association of Truckee–Tahoe to launch a community land trust program.

Retooling Existing Programs

Most cities turn to existing programs and resources to find support for fledgling CLTs. In some cases, this has meant adapting the CLT to existing regulations designed to meet the needs of traditional homeownership subsidy programs. In others, officials have carefully assessed the compatibility of existing housing and community development programs with the CLT model and made modifications where necessary. In Chicago, for example, the housing department made changes in its programs to ensure the new CLT had access to municipal resources. City staff also met with the Cook County tax assessor and secured a commitment to tax CLT homes on the basis of their permanently restricted resale value. Both Portland and Chapel Hill amended their homebuyer assistance programs to allow CLTs to retain public subsidies in CLT homes, requiring no repayment of this municipal investment.

MODEL PRACTICE

Coordination Among Municipal Programs

If two government agencies intend to routinely support a CLT's projects, it makes sense to ensure that their grant and loan agreements, liens, and covenants are consistent with one another. The Community Housing Trust of Sarasota County, for example, worked with the County and City of Sarasota to develop a grant agreement for project development that was acceptable to both. In North Carolina, the Orange Community Housing and Land Trust developed a restrictive covenant that satisfies the administrative needs of both Orange County and the Town of Chapel Hill, allowing the CLT to layer funding from the two sources without regulatory conflicts.

Sawmill Community Land Trust works to protect local residents from gentrification by bringing affordable housing to the heart of Albuquerque, New Mexico.

Committing Multiyear Operational Funds

A few municipalities have gone far beyond a one-time startup grant to cover much of a CLT's costs during its first few years of operation. Sarasota County, for example, pledged annual operating grants of $250,000 for the first four years to enable the Community Housing Trust of Sarasota County to build organizational capacity, develop a homeownership program, and launch its first projects. The City of Chicago (with a grant from the MacArthur Foundation) is covering the cost of staffing the new CLT and will pay for overhead and administrative costs during its first few years.

Committing Project Funding and/or Municipal Property

As an inducement for starting a CLT and a means of quickly establishing the CLT's credibility, some municipalities have made an early commitment to building the trust's portfolio. These commitments may come in the form of equity investments or low-interest loans for a CLT's projects, conveyance of publicly owned lands, or conveyance of publicly owned or publicly mandated housing units. In Delray Beach, for example, the Community Redevelopment Agency pledged to convey vacant parcels of land it owned to the CLT. Irvine plans to place most of the inclusionary housing units constructed in future years into the CLT's portfolio. The city's redevelopment agency also intends to donate land and provide funding for the CLT's project developments.

Similarly, community land trusts in Syracuse and Albuquerque were established in part because of the transfer of large parcels of city-owned land for redevelopment. More recently, the city council of Washington, DC, committed $10 million in public funds to help subsidize the first 1,000 units of resale-restricted, owner-occupied housing developed by City First Homes, a District-wide CLT that plans to eventually create 10,000 units of affordable housing.

CHAPTER 3
Building the CLT Portfolio

Like every nonprofit developer, CLTs face significant challenges in acquiring land and constructing or rehabilitating housing that can be sold at an affordable price to households of modest means. Municipalities have used a variety of strategies to support CLTs during this early growth phase, including donations of publicly owned land and buildings, loans and grants for land acquisition and residential development, dedication of inclusionary housing units, and/or waiver of requirements and fees that add to the cost of housing production.

Donation of Land and Buildings

Municipalities can subsidize a CLT's projects by reaching into their own inventory, either donating land and buildings to the land trust or selling the properties at a discount. These assets may include surplus properties acquired in anticipation of highway extensions or school expansions that never happened, as well as decommissioned airports, firehouses, and other outdated facilities. Municipalities can also convey city-owned residential properties acquired through tax foreclosures or blighted properties purchased for redevelopment.

For example, the City of Syracuse deeded 12.5 acres of vacant land to Jubilee Homes, a nonprofit developer jointly controlled by the city and the Time of Jubilee CLT. When each single-family house constructed on the site was sold, the underlying land was conveyed to the CLT. The Delray Beach Community Redevelopment Authority conveyed parcels of land at

The Manabos are new members of the Kulshan Community Land Trust in Bellingham, Washington.

Dudley Village was developed by Dorchester Bay Economic Development Corporation to provide 50 affordable housing units for the Dudley Neighbors, Inc. community land trust in the Roxbury neighborhood of Boston, Massachusetts.

a discounted price to the Delray Beach CLT for infill housing. The Cuyahoga CLT built homes on tax-foreclosed parcels of land conveyed by the City of Cleveland. Multnomah County conveyed tax-foreclosed lands to the Portland CLT, on which the PCLT has constructed limited-equity homes.

Burlington donated a decommissioned firehouse to the Champlain Housing Trust for conversion into temporary housing for homeless families. Boston donated roughly 30 acres of blighted and abandoned property to Dudley Neighbors, Inc., a CLT affiliated with the Dudley Street Neighborhood Initiative. This donation helped DNI develop 155 units of affordable housing, rehabilitate a commercial building, and add open space to the community.

Loans and Grants

Many municipalities provide direct cash subsidies to CLTs to lower the price of their single-family houses or condominiums. Subsidies may be structured as grants or as deferred-payment, forgivable loans. Most development loans from local governments function exactly like grants in that they are interest-free, require no monthly payments, and are forgiven if the CLT successfully completes and monitors the project for a specified period. Loans may give a municipality more options for enforcement if the CLT fails to perform as agreed. The tradeoff for this added security is that loans can complicate homebuyer financing and require significantly more upfront legal work for both the CLT and the municipality.

Minneapolis, for example, provides interest-free, deferred loans with a 30-year term to the City of Lakes CLT. The loans are forgiven at maturity as long as the CLT consistently meets the city's performance standards. Many other CLTs—including those in Albuquerque, Burlington, Highland Park, Lawrence, Orange County, Portland, Sarasota County, and Washington, DC—have also received grants or no-interest loans from local jurisdictions. The most common sources of CLT project grants are pass-through HOME and CDBG funds, along with municipal revenues administered by local housing trust funds. In one case, Burlington, the municipality loaned employee pension funds to a local CLT for the development of resale-restricted homes.

Inclusionary Housing

A growing number of municipalities strongly encourage, if not require, the inclusion of affordable units in market-rate developments (see box 3). Private developers are often eager to find a means of meeting these long-term affordability requirements without having to monitor and report on the inclusionary units they build. A CLT is perfectly positioned to be the long-term steward for these housing resources, given that it already fulfills these responsibilities for other resale-restricted units in its portfolio. CLT oversight is also in the jurisdiction's best interest because many for-profit development companies dissolve after they complete their projects.

In most cases, developers build the inclusionary units and then turn the homes over to the CLT. Petaluma, for example, has encouraged developers of several subdivisions to meet its city-mandated inclusionary requirements by conveying homes to the Housing Land Trust of Sonoma County. Under these agreements, developers sell the homes to CLT-selected buyers and simultaneously donate the land under the homes to the land trust. In Burlington, the Champlain Housing Trust (CHT) manages over 100 owner-occupied condominiums built under the city's inclusionary zoning ordinance. Because the units are in mixed-income

BOX 3

A Town-Brokered Partnership for Inclusionary Housing

When the Centex Corporation, one of the country's largest private home builders, proposed a 200-unit townhouse development in Chapel Hill, the town strongly requested that the proposed project have an affordable component and encouraged Centex to work with the Orange Community Housing and Land Trust (OCHLT) to preserve the affordability of the homes. Centex agreed to sell 30 units to OCHLT at a below-market price.

For its part, OCHLT agreed to market the units during the construction period and to buy them from Centex after qualified buyers had obtained financing. The developer paid a $2,500–3,000 fee to OCHLT for marketing and selling the affordable units. The project's market-rate units were sized at approximately 2,000 square feet, with prices ranging from $230,000 to $275,000. OCHLT worked closely with Centex to design somewhat smaller but similarly high-quality units that OCHLT could sell for $90,000 to $105,000. This involved considerable negotiation around both the mix and pricing of units, with compromises reached on both issues.

Partnerships between private developers and CLTs have proven to be a workable and effective strategy for creating affordable housing. OCHLT Executive Director Robert Dowling is quick to point out, however, that the partnership between Centex and OCHLT would never have happened without the town's involvement.

The City's Edge Condominiums were developed by the Champlain Housing Trust as part of a larger mixed-use development in Burlington, Vermont.

buildings, the developers do not transfer land to the trust, but instead record covenants against the unit deeds that allow CHT to repurchase the condos at affordable prices when owners move.

Regulatory Concessions

Municipalities sometimes support development of CLT homes by reducing or waiving application and impact fees, relaxing zoning requirements for parking or lot coverage, and offering other regulatory concessions. Since this regulatory relief increases the project's profitability, it is another form of local government subsidy to the housing developer. The public value created through this relief should therefore be preserved over time, just as cash subsidies are.

Some jurisdictions provide relief and incentives only to developers that promise long-term or permanent affordability of the units. Burlington, for example, reduces or waives impact fees for newly constructed homes with lasting affordability controls. The more affordable the home and the longer the period of affordability, the greater is the reduction in fees. The City of Bellingham offers a 50-percent density bonus to developers who agree to keep all units permanently affordable to income-qualified buyers. The city may also adjust zoning requirements for minimum lot size, street frontage, setbacks, parking, and usable open space.

CHAPTER 4

Sustaining CLT Operations

As a CLT undertakes projects and builds a portfolio of resale-restricted units, it can begin to generate an increasing share of its operating revenues from development fees, marketing fees, lease fees, and other project-related income. And once the CLT has established a track record, it can often attract foundation funding, corporate grants, and individual donations. A number of older CLTs have in fact reached a scale in their holdings and operations—a "sustainability threshold"—where they generate sufficient income to cover the cost of their stewardship responsibilities. It is important to note, however, that even mature CLTs may continue to depend on external support from local governments or private foundations. Once a CLT's portfolio grows to a certain size, though, this support can be directed toward new programs or projects rather than toward the stewardship of existing affordable housing.

North Missoula Community Development Corporation used HOME and TIF funds to build Clark Fork Commons in Missoula, Montana.

In contrast to project development subsidies, external support for CLT operations is used for general organizational and administrative expenses such as staff salaries, office rent, supplies, and program costs not directly related to a specific housing development. While the mix varies greatly state by state, city by city, and even CLT by CLT, the most common sources of operating support are local government funds, private contributions, and revenues from development projects.

Grants from Local Government

Many local governments provide general operating grants to CLTs, while others provide support for specific programs such as home-buyer outreach and education. Funds may come from a variety of sources.

- ***Community Development Block Grants.*** CLTs often receive operating grants out of a local government's allocation of federal CDBG funds. The City of Albuquerque, for example, provides Sawmill CLT with annual grants of $200,000 from CDBG monies that can be used for staff salaries, predevelopment work, and building organizational capacity.

- ***HOME capacity grants.*** Many CLTs are designated as Community Housing Development Organizations (CHDOs) and receive capacity grants out a local government's annual allocation from the federal HOME Investment Partnership Program. CHDO operating grants are a common source of support for CLTs across the country. Homestead CLT in Seattle, for example, receives $30,000 in CHDO funding from the King County HOME program.

- ***Local housing trust funds.*** In some cases, municipalities use housing trust fund revenues to support actual projects and to build the capacity of nonprofit housing developers such as CLTs. The City of Highland Park, for example, provides annual grants of $100,000 from its Affordable Housing Trust Fund to support operations of the Highland Park CLT. The housing trust fund in Burlington, which is capitalized through a 1-percent add-on to the city's property tax rate, distributes annual "capacity grants" that may be used to support the staffing, training, planning, fundraising, or ongoing operations of nonprofit corporations that develop permanently affordable housing.

- ***Other municipal sources.*** City or county general funds, housing bond proceeds, and tax increment financing (TIF) revenues may provide additional support for CLT operations. For example, the Delray Beach Community Redevelopment Agency has committed a portion of its TIF revenues to cover the annual operating expenses of the Delray Beach CLT.

MODEL PRACTICE

Multiyear Funding Commitments

With a commitment for a particular level of external support, a CLT can be more aggressive in its growth plans, develop new programs more quickly, and offer more stable jobs (thereby attracting more qualified staff). Predictable multiyear funding can also help a CLT secure other public and private revenues, leveraging the municipality's investment many times over.

Under this arrangement, municipal officials and CLT staff should meet each year to discuss progress, identify mutual goals for the coming year, and set the amount of the grant renewal. If the CLT is not performing as promised or if sufficient funds are not available, the municipality can reduce the amount of the grant. Similarly, if the CLT exceeds expectations or makes a convincing case for more funding, the municipality can increase the grant beyond the initial commitment. The City of Albuquerque's five-year plan, for example, provides CDBG funds to the Sawmill CLT for operating support. The city initially allocated $150,000 per year to the CLT, but increased the amount to $200,000 in 2007 because of both the CLT's project success and its operational needs.

Donations from Private Sources

As a 510(c)(3) charitable organization, a CLT can generally leverage public sector investment with private tax-deductible contributions. In a national survey of CLTs conducted by the Lincoln Institute in 2006, half of the 119 respondents reported receiving private donations (Sungu-Eryilmaz and Greenstein 2007). A smaller unpublished survey conducted the same year by Jeff Corey of the Northern Communities CLT in Duluth and Jeff Washburne of the City of Lakes CLT in Minneapolis found that CLTs received between 10 percent and 70 percent of their operating revenue from private sources such as the following.

- ***Foundation grants.*** Community foundations, family foundations, and larger grant-making foundations with an interest in affordable housing are frequent CLT contributors. While a few provide ongoing, unrestricted operating funds, foundations usually tie their grants to specific outcomes or programs. The California Community Foundation, for example, recognized how rapidly rising land costs were eroding its ability to support affordable housing in the Los Angeles region and founded the Community Foundation Land Trust. Its contribution of $3.8 million can be used for operations and initial projects.

- ***Corporate contributions.*** Corporate donors tend to fall into one of three categories: housing industry players, including banks, mortgage lenders, and secondary market institutions; large local employers with an interest in expanding the supply of workforce housing; and other civic leaders who support the CLT in exchange for high-profile recognition.

- ***Individual donations.*** Some CLTs direct ongoing fundraising efforts at the local community. Although time-consuming, these programs can generate significant revenue and build important community goodwill. In fact, some small CLTs, such as the Community Land Trust Association of West Marin (CLAM) in Point Reyes Station, raise the majority of their annual operating budgets from individual donations. Among the CLTs consulted for this report, however, local fundraising accounted for an average of only 5 percent of operating revenue.

Revenues from Project Development

The majority of CLTs collect fees for each unit of affordable housing they help to develop. Development fees may be structured as a flat amount per unit or as a percentage of total development costs. The City of Madison, for example, allows the Madison Area CLT to take a developer fee of up to 15 percent of a project's total costs.

CLTs that are not directly involved in housing development often provide comprehensive marketing services that include everything from outreach to potential homebuyers to working with local lenders to help applicants qualify for mortgages. Some charge a per-unit fee for these services that typically amounts to no more than 3 percent of the sales price. Other CLTs collect a flat fee for every home sold. The City of Lakes CLT in Minneapolis, for example, charges a marketing fee of $2,500 per unit regardless of the selling price.

Revenues from Ongoing Operations

CLTs also generate operating income from a number of internal sources, which steadily increase as their portfolios of land and housing grow larger.

- ***Ground lease fees.*** A CLT's ground lease fees are its most reliable revenue source. While a few CLTs now charge as much as $100 per month, these fees tend to be in the $25–50 range, set well below the market value of the leasehold to keep the homes affordable. Even at this low price, however, CLTs with multiple properties in their portfolios can realize significant revenues from this source. Thistle Community Housing in Boulder, for example, reports that ground lease fees averaging $30 a month on its 211 resale-restricted, owner-occupied units cover almost a third of the cost of running its CLT program.

- ***Lease reissuance/resale fees.*** An increasing number of CLTs collect fees when units change hands, using these revenues to defray some of the costs of managing the transfer. In some cases, the fee is charged to the sellers, reducing their proceeds in the same way a broker's commission would. In other cases, the fee is added to the resale price, increasing the cost of the home to the next buyer. OPAL CLT on Orcus Island, for example, charges a 1-percent fee to both the buyers and sellers of a home, netting the CLT a 2-percent fee on each resale.

- ***Membership dues.*** Area residents who support the CLT generally pay annual membership dues ranging from $1 to $50. Although membership income is a small factor in most CLT budgets, it can provide a predictable source of revenue that grows steadily as an organization matures. With more than 4,000 members, the Champlain Housing Trust in Burlington collects over $70,000 in membership fees annually, covering about 5 percent of its operating budget.

- ***Fee-for-service income.*** Some CLTs earn fees for performing specific services such as educating prospective homebuyers, packaging loans for local mortgage lenders, and monitoring local inclusionary housing units on behalf of a city or county.

OPAL Community Land Trust built these two new homes on donated land near the village center of Eastsound, Orcus Island, Washington.

CHAPTER 5

Taxing CLT Property

Given that the price of CLT homes is determined by formula and not by the market, local tax assessments can significantly affect the affordability of CLT homes (see box 4). If property taxes are high at the time of purchase, CLTs may need to either increase the subsidy to homebuyers or serve homebuyers with higher incomes. If property taxes rise during their tenure, owners have less of their limited income available to cover other household expenses, including maintenance. As a result, CLT homes can become steadily less affordable and less sustainable.

State judicial, legislative, and administrative guidelines regulate the taxation of CLT properties, although local assessors often retain wide discretion in interpreting and applying these guidelines. Few standardized policies and procedures exist for valuing and taxing CLT homes, however, resulting in great variation from one jurisdiction to another, both across and within states.

Given that a municipality and a CLT have a common interest in the continuing affordability of resale-restricted, owner-occupied housing, they also have a common interest in equitable taxation. Nevertheless, owners of CLT homes often pay more than their fair share of local property taxes because assessors do not take into account the durable restrictions that significantly reduce the property's marketability and profitability. Similarly, assessors often overlook the fact that CLT land is leased out for 99 years for monthly fees that are typically far below the market rate of the leasehold.

BOX 4
Impact of Property Taxes on Affordability

Consider the case where a CLT has received enough grant support from a municipality to remove from its sale price the entire cost of the underlying land and a portion of the cost of construction. This enables the CLT to sell a house having a market value of $210,000 for the relatively affordable price of $85,000. If the CLT restricts the resale price of this house, using a formula that allows the homeowner to pocket 25 percent of the appreciated market value when the property is resold, the maximum price of the unit will be $116,804 after seven years of occupancy (assuming market appreciation of 7 percent annually).

	Market Value of the CLT House	Restricted Resale Price of the CLT House
Initial Purchase	$210,000	$85,000
End of Year 1	$224,700	$88,675
End of Year 2	$240,429	$92,607
End of Year 3	$257,259	$96,815
End of Year 4	$275,267	$101,317
End of Year 5	$294,536	$106,134
End of Year 6	$315,154	$111,288
End of Year 7	$337,215	$116,804

The home's market value, however, will have reached $337,215 by the end of Year 7. If the municipal assessment does not take account of either the initial below-market purchase price or the permanently restricted resale price, the owner of this CLT house will be forced to pay property taxes not only on the $116,804 of value to which she has title, but also on $220,411 of value that she does not own and can never claim. A house that was *made* more affordable by the municipality's subsidy and *kept* more affordable by the CLT's resale restrictions is therefore made less and less affordable by the municipality's taxation policy.

Tax policy can thus be an enormous barrier to the expansion of resale-restricted housing, especially where the market value of residential real estate is rising rapidly and property taxes are keeping pace. At a certain point, no matter how affordable the purchase price of a CLT home may once have been, taxes that are pegged to a property's market value rather than to its restricted resale price will eventually render the cost of holding the home unaffordable for households of modest means.

To preserve the affordability of their units, many CLTs have successfully persuaded local assessors to value and tax CLT homes differently than market-rate homes. Equitable taxation of CLT property relates to three basic issues: (1) the value of a resale-restricted CLT home when first entered on the local tax rolls; (2) the value of land owned by the CLT when first entered on the tax rolls; and (3) the revaluation of a CLT home over time.

Valuation of CLT Homes

A growing number of state and municipal officials now recognize that taxing resale-restricted homes at their market value is contrary to the community's interest in creating and maintaining affordable homeownership opportunities. Even among these jurisdictions, though, the calculation of assessments varies widely. In Boulder County and Los Angeles County, the assessed value of CLT homes when entered on the tax rolls is the (heavily subsidized) purchase price that lower-income households pay. In Orange County, North Carolina, in contrast, the assessor typically values CLT properties at about $10,000 more than the initial purchase price, but provides no specific formula for the calculation. In Burlington, the assessed value of the owner-occupied homes in the Champlain Housing Trust's portfolio is set at 37 percent below the market value of a similar property.

MODEL PRACTICE

Fair Taxation of CLT Homes

The assessed value of any buildings located on CLT land should reflect the permanent restrictions that the ground lease imposes on their use and resale. Assessed values should therefore be lower than those of similar but unencumbered buildings. Given that a buyer would not reasonably pay more than the CLT's formula price for a restricted unit, this price is generally the best indicator of the "fair value" of a CLT home.

When levying taxes on properties developed by the Highland Park CLT, for example, Moraine Township recognizes that the resale restrictions significantly reduce the market value of CLT lands and homes. The township's official assessment policy notes that affordable properties with resale control mechanisms are not comparable to market-rate properties because of these restrictions. CLT properties are therefore assessed at a level that reflects their resale-restricted value, which is much lower than their market value. It is the established policy of the Moraine Township that assessments of CLT homes are based upon the net sales price to the buyers.

The Temple townhouses were the first new condominium project of the Highland Park Illinois Community Land Trust.

Valuation of CLT Land

Apart from the homes themselves, there is a question of how land owned by the CLT should be valued and taxed. Most CLTs enter into long-term ground leases that severely limit their ability to change the use of the land or to collect significant income from it. In addition, most CLTs charge only a nominal fee for using their land, a fee that is pegged to the affordability of the homes rather than to the appraised value of the land. Indeed, in most housing markets, the CLT's ground lease fee is set far below what a market rent would be. This is a conscious decision, motivated by the CLT's charitable mission to help lower-income people become homeowners.

Taking into account the enduring use of the leased land and the below-market revenues it generates, many jurisdictions assess CLT land considerably below market value. In Delray Beach, for example, the assessor has determined that the land beneath the resale-restricted homes of the Delray Beach CLT has no value at all because it has been turned over indefinitely to CLT homeowners for a nominal lease fee. More commonly, assessors see the land as having some (although greatly reduced) residual value. A typical approach is to value CLT land based on the stream of income that it produces from the lease fees paid by the homeowners who reside on the land.

MODEL PRACTICE
Fair Taxation of CLT Land

The assessed value of CLT land should not exceed the net present value of the income stream generated by monthly fees collected over the term of the lease. Since ground lease fees are usually far below market rents, the value of CLT land should also be far below market levels. In addition, the land valuation should only increase as ground lease payments increase. In Madison, the value of land under CLT homes is capped at $18,000, the approximate net present value of the monthly ground lease fees over the 99-year term. In Multnomah County, the tax assessor considers the net present value of ground lease payments for each parcel held by the Portland CLT. Land assessments increase only if the monthly ground lease fee increases.

Revaluation of CLT Homes over Time

If assessments of CLT homes are based on the initially affordable sales prices, but then are allowed to increase at the same rate as prices for market-rate properties, CLT homeowners will eventually have to pay taxes on values far above the restricted resale prices. Given that the resale price of a CLT home will nearly always rise more slowly than the resale price of a comparable market-rate home, many local assessors peg their periodic reassessments of CLT property to the maximum price contractually permitted by the CLT's resale formula.

Winner of the 2007 AARP and NAHB Livable Communities Award, the mixed-income housing at Troy Gardens developed by the Madison (Wisconsin) Area Community Land Trust is green-built, fully accessible, and clustered to preserve open space.

This 3-bedroom, active solar modular duplex, located in Lafayette, Colorado, is a property of Thistle Community Housing.

MODEL PRACTICE

Fair Taxation of Increased Home Values

Post-purchase adjustments to the assessments of CLT homes should take the CLT's long-term price controls into account. Ideally, assessors should base the maximum price of a CLT home on the resale formula in the ground lease and then adjust the assessed value accordingly. Boulder County taxes the homes of its local CLT, Thistle Community Housing, according to the current price that each unit would realize if sold under the terms of the ground lease. Each year, Thistle recalculates the resale prices for the homes in its portfolio and submits the figures to the county assessor. Dudley Neighbors, Inc., has negotiated a similar arrangement with the tax assessor in Boston.

The assessor in Madison uses a variant of this approach. The Madison Area CLT allows its homeowners to keep 25 percent of the home's appreciation upon resale. The city assessor enters the homes on the tax rolls at their original purchase prices and then adjusts the prices annually at a rate equal to 25 percent of the appreciation of comparable market-rate homes.

CHAPTER 6

Regulating CLT Activities

When municipalities delegate responsibility for the stewardship of resale-restricted, owner-occupied housing to a CLT, they must still "watch the watcher." Under normal conditions, local government can take a hands-off approach, leaving the routine tasks of monitoring and enforcing use and resale restrictions to the CLT. In extreme cases, however, the municipality may need to remind the CLT of its contractual obligations or even take legal action to compel the CLT to perform as promised. Municipalities typically attempt to protect themselves against three types of performance failure.

- ***Failure to protect the occupancy and condition of assisted homes.*** The municipality depends on the CLT to monitor and enforce the terms of the ground lease so that assisted homes remain owner-occupied and in good repair. These requirements include ensuring that CLT homeowners pay their taxes, comply with local zoning and building codes, and carry insurance on their homes.

- ***Failure to preserve the affordability of assisted homes.*** The CLT is also responsible for ensuring that homes are sold only to income-eligible buyers for the formula-determined price. Allowing municipally assisted homes to sell for more than the formula price or to be bought by households earning more than the eligibility standard usually violates the terms of the CLT's grant or loan agreement with the municipality.

- ***Dissolution of the CLT.*** Failure of a CLT should not jeopardize either the security of leaseholders or the affordability of their subsidized homes. Under the terms of virtually all CLT ground leases, the sale or transfer of a CLT's land (whether voluntary or involuntary) does not disturb the lease. Some municipal sponsors require a dissolving CLT to transfer its land to another nonprofit with an affordable housing mission or to the municipality itself.

Municipal Performance Requirements

When a local government gives project or operating support to a CLT, the grant or loan agreement ordinarily specifies the CLT's responsibilities. Every municipality has its own list of performance requirements, which can be short or long, general or specific, flexible or rigid. The CLT activities most commonly subject to municipal oversight include the following.

- ***Developing CLT homes.*** The municipality may require the CLT to perform such development-related tasks as coordinating site acquisition, securing planning approvals and building permits, participating in project design, obtaining financing, and overseeing construction of new units.

- ***Marketing CLT homes.*** Cities, counties, and towns that invest in a CLT's homeownership projects often require the CLT to market the homes in an open and transparent way, in compliance with federal, state, and local fair housing laws. This is to ensure that all income-eligible citizens have an equal chance to learn about and apply for these publicly assisted homes.

Durham Community Land Trustees in Durham, North Carolina, is expanding its portfolio to include rental and green units, like these passive solar apartments in the Brite Horizon development.

- ***Selecting prospective homebuyers.*** While most municipalities rely on CLTs to choose the households that will have an opportunity to purchase homes, some require the CLT to submit the selection criteria for approval before marketing begins. Most local governments rely on the CLT to verify that applicants meet the selection criteria, although some require documentation of eligibility either before closing or later as part of an annual report.

- ***Initial pricing of CLT homes.*** Most municipalities allow the CLT to set initial prices consistent with local guidelines. Some cities, such as Bellingham, review every transaction before closing to ensure that homes are sold at an affordable price. Other cities, such as Madison, set their own maximum prices for affordable ownership units.

MODEL PRACTICE

Adequate Spread Between Home Prices and Income Eligibility Criteria

A necessary and important distinction must be made between the percentage of area median income (AMI) used to set the price of a CLT home and the percentage of AMI used to determine the eligibility of a homebuyer. For example, homes that must be sold to buyers earning no more than 80 percent of AMI might be priced to be affordable to a household earning 70 percent of AMI. Setting these maximums with a 10-percent spread increases the pool of prospective homebuyers.

- ***Monitoring and enforcing homeowner compliance.*** Ideally municipal officials choose to regulate CLT homeowners indirectly through the CLT ground lease. The ground lease contains restrictions to ensure the homes are used in ways that conform to the goals of the municipality's affordable homeownership program. The CLT is required by the municipality to monitor compliance with the lease and report any violations.

- ***Maintaining affordability.*** A CLT's resale formula is clearly spelled out in the ground lease and, in some cases, repeated in the municipality's loan or grant agreements. Occasionally, municipal officials become involved in designing or amending the resale formula for consistency with existing housing programs or goals. Most municipalities are not, however, involved in the transfer of individual homes, relying instead on the CLT to ensure they sell at affordable prices.

MODEL PRACTICE

Backup Notice to the Municipality

Under the terms of the model CLT ground lease, homeowners must notify the CLT whenever they decide to sell. The lease also gives the CLT a time-limited option to purchase the home at the formula price. Some municipalities, fearing the CLT might fail to act during this critical period, have suggested that CLT homeowners notify the municipality as well as the CLT. Taking a blended approach, the City of Santa Monica requires owners of CLT homes to notify the city of their intent to sell and to offer the city an option to purchase their homes at the formula price—but only if the CLT fails to respond to the homeowner's first notice.

- ***Maintaining CLT homes.*** For affordable homes to meet the needs of future generations, the units must be maintained properly and upgraded periodically. CLTs can encourage good practices by educating homebuyers about maintenance; monitoring and enforcing the maintenance provisions of the lease; arranging for home maintenance financing for CLT homeowners; and, in some cases, coordinating repairs at the time of unit transfers.

MODEL PRACTICE

Regulating the CLT, Not the Homeowner

Some municipalities record covenants or deed restrictions against CLT homes, supplementing provisions in the regulatory agreements already executed with the CLT. Homeowners are then regulated by both the CLT's ground lease and the municipality's covenant. At best, these double documents contain similar provisions. At worst, they contain requirements that are confusing or contradictory.

Municipalities can protect the public's interest in CLT homes by including all of the provisions for assisted housing in the ground lease alone. Setting up this arrangement can involve considerable time, however, because the municipality must first identify all requirements imposed by its ordinances, regulations, and funding sources and then work with the CLT to ensure that the ground lease contains the appropriate language. Over the long term this framework is far easier to understand and administer because the municipality regulates the performance of only one entity, the CLT. This approach also has the advantage of simplifying resales, since the ground lease is the only document that needs to be amended.

Legal Agreements for Protecting Municipal Interests

Loan agreements, grant agreements, or covenants used by local governments typically require the CLT to monitor leases, enforce occupancy restrictions, and protect the affordability of CLT homes in the event of resale, refinancing, default, or foreclosure. Sometimes these agreements include contingencies in the event of the CLT's failure to perform these essential tasks. Municipalities may also use these agreements, along with other mechanisms, to prevent the sale of a CLT's land or to deal with the dissolution of the corporation. The instruments that municipalities most commonly use to regulate CLTs are:

- grants with no remedy for failure to perform;
- grants requiring repayment of funds in the event of default;
- grants secured with covenants or deed restrictions;
- loans secured by liens on CLT land; or
- purchase options that allow the municipality to buy CLT land in the event of default.

Regardless of the approach used, the legal documents typically include the following provisions to protect the municipality's interests without jeopardizing either the homeowners' access to mortgage financing or their security of tenure.

- ***Performance standards.*** To be effective enforcement tools, loan documents must be clear about what the CLT is supposed to do. The CLT's obligations might include complying with fair housing laws, conducting an open marketing process, monitoring owner occupancy, and enforcing provisions of the CLT lease.

- ***Events of default.*** The loan documents should spell out the circumstances that constitute a CLT's default. These might include failure to meet any of the municipality's performance standards, as well as any attempt by the CLT to sell its land or to dissolve its corporation.

- ***Opportunity to cure.*** The loan documents should outline a process through which the CLT receives notice from the municipality of any default and has an opportunity to cure the problem before the local government takes further action.

- ***Remedies.*** In the rare situation where a problem goes unresolved, the regulatory documents should outline the jurisdiction's possible remedies. While repayment of loan funds may be an appropriate

The Bell family owns a home in partnership with the Kulshan Community Land Trust in Bellingham, Washington.

option in some situations, jurisdictions should have other choices, including the right to ask a court to require the CLT to perform specific actions in enforcing its own ground lease and in meeting its contractual obligations to the municipality.

- ***Nondisturbance of the ground lease.*** The regulatory documents should clearly state that, if the municipality takes possession of the land, the CLT ground lease will survive the transfer and the municipality will recognize the rights of the homeowners and their lenders.

None of these provisions has proven to be a barrier to obtaining private financing for CLT homes. The practice that has sometimes caused problems, though, is structuring a subsidy in the form of a loan secured by a government lien on the CLT's land. Liens create complications for homebuyers and add very little security for the municipality. In addition, loans recorded against the CLT's land must be treated as liabilities on the CLT's balance sheet. Moreover, the land securing the loans is generally booked at a greatly reduced value because of the CLT's long-term lease, further damaging the CLT's financial position.

MODEL PRACTICE

Grants Secured by Covenants

Many CLTs and their municipal partners have concluded that grant agreements, supplemented with covenants or deed restrictions, provide the best way to protect the municipality's interests. A number of municipalities have used these mechanisms to provide a range of options for curing a CLT's failures.

Orange County, North Carolina, for example, provided housing bond funds and HOME funds to the Orange Community Housing and Land Trust for a 32-unit development in Chapel Hill. Orange County and OCHLT executed both a development agreement stating the CLT's project development responsibilities and a grant agreement detailing its long-term obligations in maintaining the occupancy and affordability of the units. The county then required OCHLT to record a declaration of restrictive covenants that secures performance of the requirements contained in the other two documents; requires OCHLT to preserve affordability of the units through a 99-year ground lease; and declares both the county and the Town of Chapel Hill to be "third party beneficiaries of and successors to each and every remedy intended to assure the long-term affordability of the housing."

CHAPTER 7

Trends in City–CLT Partnerships

Over the past decade, the relationship between municipalities and community land trusts has shifted from adversarial to collaborative as the two have joined in partnerships to achieve their common goals. In the years ahead, their working relationship may evolve even more significantly as cities play a more dominant role in the startup and operation of CLTs, and as CLTs become more focused on stewardship than on development. While holding special promise for bringing CLTs to scale, these trends challenge the ways in which the model has been structured, championed, and applied for most of its history (see box 5).

FROM CITY-AS-SUPPORTER TO CITY-AS-INSTIGATOR

In the past, the initiative for organizing a CLT nearly always came from individuals or organizations outside of local government. If municipal officials participated at all, they were drawn into the process after local community members had made most of the key organizational decisions for setting up the CLT.

Today, a municipality is just as likely to be the driving force behind a CLT as it is to be an impartial lender or grantmaker. Municipal officials in Highland Park, Irvine, and Chicago, for example, took the lead in evaluating the feasibility of a new CLT, introducing this unfamiliar model to the public and providing staff to plan and organize the startup process.

Municipal leadership clearly brings several advantages to the new organization. In particular, local government sponsorship often provides direct access to both federal and local subsidies to acquire land and build housing. Municipal employees may staff the new CLT, further speeding development of the CLT's first projects. Moreover, municipal sponsorship often results in the CLT becoming a favored beneficiary of inclusionary zoning, density bonuses, or other regulatory measures that require private developers to provide affordable units.

CLTs formed by local government face a special set of challenges, however. Winning popular acceptance for a new CLT may be difficult when a municipal sponsor has neither the staff to run a participatory planning process nor the street-level credibility to attract grassroots leaders. Especially in neighborhoods scarred by urban renewal or municipal neglect, residents may regard a CLT started by local government with suspicion and leave the program with little support in the larger community.

Municipally sponsored CLTs also tend to focus only on housing, ignoring the model's potential for holding lands, developing projects, and mobilizing constituencies for nonresidential activities. Particularly when a local government starts a CLT expressly to enhance the effectiveness and longevity of its affordable housing investments, it is unlikely to take a more comprehensive approach to community development and community empowerment.

BOX 5

Major Trends in Affordable Housing Policy and City–CLT Partnerships, 1980–2008

Federal Housing Policy	State and Local Housing Policy	City–CLT Partnerships
• Reduction in federal funding for affordable housing and community development.	• Creation of state and local housing trust funds, capitalized through nonfederal funding sources.	• Expanded number of CLTs working in partnership with local government instead of in opposition to municipal policies and plans.
• Devolution of authority and responsibility for housing and community development programs from the federal government to state and local governments.	• Expanded use of regulatory mandates such as inclusionary zoning and growth management controls that require developers to produce affordable housing.	• Expanded number of cities playing a lead role in starting CLTs instead of waiting for new CLTs to emerge from the community.
• Expanded use of tax credits instead of grants in subsidizing production of affordable housing.	• Expanded use of regulatory incentives such as streamlining, density bonuses, and fee waivers that reward developers for producing affordable housing.	• Expanded number of cities playing a more dominant role in governing CLTs.
• Expansion of capacity funding and technical assistance for Community Housing Development Organizations (including CLTs).	• Wider commitment to preserving the affordability of owner-occupied housing created through the investment of public funds or the exercise of public powers.	• Expanded number of CLTs focusing on stewardship, acting on a city's behalf to monitor and enforce long-term controls over affordability.

FROM CITY-AS-PARTICIPANT TO CITY-AS-GOVERNOR

A more serious challenge for municipally sponsored CLTs is getting government to let go. Having controlled the startup process, some in city hall may want to remain involved by governing the organization as well.

From the earliest days of the CLT movement, most land trusts included at least one local government employee or elected official within the one-third of board members designated as public representatives. These officials were usually nominated and appointed by the rest of the CLT's directors, who were themselves elected by CLT members. Municipal representatives were seldom appointed by a mayor or city council, and were not authorized to speak on the municipality's behalf. Their role was simply to serve as an informal conduit for the flow of information between the CLT and the city.

In recent years, the number of seats reserved for municipal representatives has increased and the power to decide who fills the seats has passed to municipal authorities outside of the CLT. In a growing number of CLTs, all of the public representatives on the board are both affiliated with and appointed by a local government. Even so, more public representative seats on a CLT's board does not necessarily translate into municipal control, especially if the seats are split among several municipalities or among multiple departments within the same municipality. In the cases of the Champlain Housing Trust and the Orange Community Housing and Land Trust, for example, municipal officials occupy a third of the seats on the governing boards, but the representatives come from four different towns in those regions.

In a few recent cases, however, the municipality plays a more dominant role. The City of Irvine, for instance, appointed every member of the initial board of the Irvine Community Land Trust and has retained the right to appoint a third of the seats on all future boards. The Chicago CLT, an initiative of the City of Chicago, has a classic three-part governing board, but the mayor and city council appoint every member. As an even more extreme example of municipal control, the City of Flagstaff operates a CLT as an internal program with no separate identity from local government.

In some places, greater municipal involvement in governance may be a practical and productive strategy, either as a temporary arrangement until the CLT is firmly established or as a permanent alternative to the classic community-based structure. However, the consensus among most practitioners who staff, assist, or fund CLTs is that community land trusts are more successful when they are structured and perceived as somewhat independent of their municipal sponsors. Too close an affiliation with local government may create trouble for the CLT in marketing its homes, diversifying its funding, and retaining its community base.

How much separation a CLT should have from its supporting municipality and how accountable a CLT should be to local residents relative to local government are open questions. The classic CLT provides a very specific organizational recipe: (1) a corporate membership open to any adult resident of the CLT's service area; (2) a governing board composed of equal numbers of lessees, corporate members who are not lessees, and any other category of persons described in the CLT's bylaws; and (3) direct election of a majority of the board by the CLT's members. This structure reflects both the federal definition of a community land trust adopted by Congress in 1992 and the definition of the classic CLT model approved by the National CLT Network in 2006.

Many of today's CLTs do not match this definition. Recognizing this reality, the National CLT Network has opened its membership to land trusts that are variants of the classic model. For example, an organization is eligible to join the network even if it lacks a voting membership, "as long as some structure exists to ensure the board's accountability to the residents of its service area." In addition, there is no barrier to membership in the National CLT Network if the CLT is sponsored by local government—even if more than a third of the seats are taken by municipal appointees or employees.

This signals a shift in the company that older CLTs have been willing to keep, as well as a major change in what it means to be a CLT. Is there some point between being completely independent of and completely controlled by local government where a CLT can no longer be considered a *community* land trust? More practically, is there some point where the ability to succeed as a CLT is undermined by too tight a municipal rein over its assets and operations, or too dominant a municipal presence on the CLT's board? These are questions that the CLT Network, CLT practitioners, and municipal officials will wrestle with for years to come.

FROM CLT-AS-DEVELOPER TO CLT-AS-STEWARD

Most CLTs play the role and perform the tasks of a real estate developer, using their own employees to initiate, manage, and market newly constructed or rehabilitated housing. Some CLTs have spearheaded nonresidential projects as well, including development of commercial buildings, nonprofit incubators, and community centers.

Development is not the CLT's forté, however. Nothing in the model's distinctive approach to ownership, organization, and operation makes real estate development easier or cheaper to do. Indeed, nothing makes a CLT a better developer than any other nonprofit or for-profit entity that has municipal support to produce affordable housing or other community facilities. Instead, the model's real strength lies in protecting a municipality's investment and a community's assets, and in preserving access to land and housing for people of modest means. It is in the period after a project is developed that a CLT makes its most durable and distinctive contribution to a community's well-being (see box 6).

This is not to say that CLTs have wrongly become developers. The organizers of local CLTs eagerly and reasonably took on the developer's role when offered, for example, a once-in-a-lifetime chance to develop a sizable parcel of city-owned land (as in Albuquerque); or priority access to municipal or state funding for the construction of affordable housing (as in Burlington); or millions of dollars from local employers to build starter homes for working families (as in Rochester).

The Highland Park Illinois Community Land Trust preserved this 3-bedroom, 2-bath bungalow for a low-income family.

BOX 6

Another Strength of CLTs: Preventing Foreclosures

The municipal rationale for supporting CLTs has long focused on permanent affordability—the model's effectiveness in ensuring that homes made affordable today will remain affordable tomorrow. Until recently, much less attention has been paid to permanent responsibility i.e., the CLT's durable commitment to backstop the security and success of its first-time homeowners.

The mounting crisis in the U.S. mortgage market has turned the spotlight toward the latter aspect of stewardship. In December 2007, the National Community Land Trust Network surveyed 49 CLTs (nearly a quarter of the nation's total), evaluating the number of mortgage defaults and foreclosures in their portfolios from the time of their founding to the present. Within this small but typical subpopulation of 3,115 residential mortgages, CLTs had intervened 108 times to cure a default before it could result in foreclosure. Nationally, there were only 19 reported cases of foreclosure or transfer of a deed in lieu of foreclosure, a foreclosure rate of 0.6 percent over the entire organizational lifetime of the CLTs. In only 12 of these foreclosures did a lower-income homeowner actually lose his or her home, and in just three cases was a foreclosed property eventually lost from a CLT's portfolio.

In other situations, CLT organizers only reluctantly became housing developers after concluding they had no other choice. In Gloucester, Albany, and Cincinnati, for example, private developers were not building anything that residents could afford and nonprofit developers were doing little to fill the gap. The CLTs saw no other way to serve their communities than to be developers of last resort.

In several other cities, including Portland, Cleveland, and Boston, CLTs had originally intended to confine their activities to stewardship. Existing community development corporations were supposed to be responsible for development, and the CLTs were to preserve the long-term affordability of whatever housing was created. In reality, this seldom happened and the CLTs had to do more development than they had intended.

Whether by choice or by default, real estate development is likely to remain a CLT activity. Nevertheless, a countertrend is emerging as a number of newer CLTs confine their activities to managing land and the affordable housing stock. The CLT-as-steward is slowly becoming a more prominent part of the national landscape.

Indeed, CLTs are being pushed in this direction by the need to distinguish themselves from other nonprofit developers of affordable housing in what has become, in some jurisdictions, a very crowded field. Instead of competing for project subsidies, some CLTs have found a more sustainable niche by specializing in stewardship, an activity that other nonprofits are less willing or less suited to do.

The Montano–Pero family bought their first home in the Hawk Ridge Development of the Northern Communities Land Trust in Duluth, Minnesota.

In other jurisdictions, CLTs are being pulled toward stewardship by the vacuum created by a seismic shift in public policy. Municipal funding for affordable housing—and municipal mandates or incentives for inclusionary housing—once focused almost exclusively on the front end of the development process. It seemed achievement enough to expand the supply of affordably priced or affordably financed housing, with little concern for what happened to the occupancy, condition, and affordability of the homes after they were purchased.

This is no longer the prevailing attitude. Municipal officials have increasingly come to accept the policy prescription that, when public assets or public powers are used to create affordably priced, owner-occupied housing, something must be done to preserve those units for lower-income people for years to come. A growing number of local governments have also recognized that the CLT is one of the most effective and sustainable options for monitoring and enforcing long-term controls over the use and resale of publicly assisted owner-occupied housing.

Of course, serving as a municipality's designated steward is not without challenges. As CLTs discovered in the past when they agreed to leave development entirely in the hands of local community development corporations, allowing others to control the property pipeline can sometimes result in the CLT receiving only a trickle of land and housing—or only those assets no one else wants. Furthermore, when CLTs are not involved in the process of designing and developing the homes, they can find themselves marketing, managing, and stewarding a product no one wants to buy.

Getting government to pay for stewardship can be an even more serious obstacle. Public officials at all levels tend to be more receptive to covering the costs of constructing and financing owner-occupied housing than to covering the costs of monitoring the occupancy, maintaining the condition, and managing the resale of the units once they are built. If CLTs are to forego the fees they now receive from developing housing, they must find other sources of revenue to cover their stewardship costs—either operating subsidies provided by local government or internal fees generated by their own portfolios.

Concentrating on stewardship requires no recasting of the classic CLT. In fact, it might be argued that stewardship, not development, is what the CLT model was always about. The evolving municipal roles in instigating and governing CLTs stretch the model beyond the boundaries within which it was initially conceived and structured. But the role of steward draws the CLT back to its original mission of shepherding resources that a community invests and of capturing values that a community creates. Making stewardship its principal activity brings the model full circle, refocusing the CLT on what it does best.

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Web Resources

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www.burlingtonassociates.com

E.F. Schumacher Society
www.schumachersociety.org

Equity Trust, Inc.
www.equitytrust.org

National Community Land Trust Network
www.cltnetwork.org

National Housing Conference
www.nhc.org/housing/sharedequity

National Housing Institute
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The City–CLT Partnership

Municipal Support for Community Land Trusts

The community land trust (CLT) movement is young but expanding rapidly, with nearly 20 CLTs started every year. Fueling this growth is a dramatic increase in local government investment and involvement, particularly in jurisdictions that put a social priority on promoting homeownership for lower-income families and a fiscal priority on protecting the public's investment in affordable housing.

Municipal support for CLTs may come at different phases of a CLT's growth and take a variety of forms, from administrative staffing at startup, to donations of city-owned land and grants or loans for project development, to capacity grants to help support operations. Local jurisdictions may also assist CLTs by revising their tax assessment practices to ensure fair treatment of resale-restricted homes.

Based on a review of dozens of municipal programs as well as interviews with local officials and CLT practitioners across the country, this report offers a range of options for putting public resources to best use when partnering with CLTs. Also identified are model practices for rendering that assistance in ways that balance the interests of all parties—protecting the public's investment in affordable housing; expanding and preserving access to homeownership for households excluded from the market; stabilizing neighborhoods buffeted by cycles of disinvestment or reinvestment; and ensuring accountability to funders, taxpayers, and the communities the CLT serves.

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Business Plan
for the
Irvine Community Land Trust

Adopted July 25, 2007

Prepared by

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CivicStone

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Executive Summary

The Irvine Community Land Trust (ICLT) is being created to address affordable housing needs, both homeownership and rental, in the City of Irvine (City). It will function to preserve the numerous affordable housing units that will be created as result of public policies. The ICLT will enable the City to use its housing funds effectively and leverage them with other funds to create additional affordable housing units, as the City strives to meet its overall affordable housing goal of 9,700 units by 2025.

The ICLT is organized as an independent, public benefit corporation in the State of California. It has received 501 (c) 3 status from the Internal Revenue Service and is governed by a seven-member Board of Directors.

The ICLT will advance the cause of affordable housing by developing new units in partnership with external housing development entities. The ICLT will be involved in at least three distinct types of development projects including: inclusionary homeownership units, affordable homeownership units on donated land, and affordable rental units on land which the ICLT identifies and acquires in partnership with the City.

The ICLT will provide at least 375 new homeownership opportunities for households earning 80- 120 percent of Area Median Income (AMI) within five years. ICLT may also provide ownership opportunities for households above 120% of AMI. In this time period, the ICLT will also provide 375 new rental opportunities for households earning 30 - 80 percent of AMI. Development of these units will require financial assistance from multiple sources including the Irvine Redevelopment Agency (RDA); land donations from The Lennar Corporation and The Irvine Company; Federal Community Development Block Grant and HOME funds; Low Income Housing Tax Credit investment; multifamily bond financing; and State sources such as Multifamily Housing Program, CalHome and BEGIN programs; and the City's in-lieu fees. Additional sources of development assistance may also be needed.

Initial staffing of the ICLT will be provided by existing staff in the City's Housing Division, but it is anticipated that the ICLT will begin to hire independent staff in 2008. The planned staff positions are one Executive Director, one to two Homeownership Program Managers, and one Administrative Assistant.

The City has provided a seed grant of $250,000 to the ICLT to cover initial start-up costs and operating expenses in the first two years of operation. Once development and sale of units begins in 2008, it is expected that the ICLT will generate annual revenue which exceeds its estimated operating expenses. Operating revenue will be generated in the form of marketing fees, lease initiation fees (development-related revenue), ground lease fees, and lease re-issuance fees (post-occupancy revenue). These revenue sources will be sufficient to cover the operating expenses of the organization, assuming that the ICLT meets the projected development timeline.

Introduction

In 2005, the City of Irvine (City) contracted with CivicStone, Inc., affordable housing consultants, to develop a housing strategy for the City. As part of the process, a Housing Task Force was established to review the consultants' recommendations and help develop an implementation plan for the future provision and preservation of affordable housing in the City. The City acknowledged and understood the incredible development opportunity of the recently annexed former El Toro Marine Base and wanted to identify strategies to address local affordable housing needs. Additionally, it was important to find ways to avoid a repetition of the current situation in the City in which a significant number of affordable housing units, created through the City's inclusionary housing efforts, have been and are continuing to be lost to the market due to expiring affordability restrictions. In response, the Housing Task Force recommended the creation of the ICLT to maintain permanent affordability of any new affordable units generated as a result of the City's inclusionary housing ordinance or from funds associated with the newly-established Orange County Great Park Redevelopment Project area. The Irvine City Council unanimously approved this housing strategy in March 2006.

The ICLT will function to preserve the value of the public asset of numerous affordable housing units which will be created as result of local policies. The ICLT will enable the City to use its housing funds effectively and leverage them with other funds to create additional affordable housing units as the City strives to meet its overall affordable housing goal of 9,700 units by 2025. Finally, and of significant importance, the ICLT will also ensure that all of the housing in its portfolio will remain permanently affordable for future generations.

Housing Needs Assessment

The increasing cost of housing in the City of Irvine is making it extremely challenging for residents and employees to locate housing opportunities, both ownership and rental, that do not overly strain a household's budget. This is a growing problem throughout the State, but the issue is exacerbated in certain areas, including the City of Irvine. While the median home price in 2005 was $538,770 in California and $707,000 in Orange County, the median home price in the

City of Irvine as of January 2006 was $800,000.[1] Similarly, rental rates have been increasing dramatically over the past decade while rental vacancy rates have been decreasing. In comparison with surrounding cities, Irvine has developed a considerable supply of existing affordable rental apartments (4,440), yet a significant number of these units are nearing the end of their affordability restrictions and are consequently scheduled to convert to market rate within the next decade.

Mission and Vision of the Irvine Community Land Trust:

The Mission Statement for the Irvine Community Land Trust is as follows:

> *"The Irvine Community Land Trust was created by the City of Irvine to provide secure, high-quality affordable housing. The Irvine Community Land Trust will achieve its mission through the operation of a nonprofit community land trust, securing and retaining title to land on which permanently affordable rental, ownership and special needs housing will be constructed and maintained for the benefit of income-eligible families."*

The Vision Statement for the Irvine Community Land Trust is as follows:

> *"By the year 2025, the Irvine Community Land Trust will have created approximately 5,000 units of permanently affordable housing in the City of Irvine, contributing more than 50 percent of the City's 2025 goal of 9,700 affordable units. In addition, the Irvine Community Land Trust will conduct a monitoring program and provide stewardship for these units, insuring high-quality construction, design, sustainability, maintenance and permanent affordability. ICLT will achieve self sufficiency by ensuring that fees and other earned income are sufficient to support the organization's ongoing operating costs."*

Program Structure and Governance

The ICLT is organized as an independent, public benefit nonprofit corporation in the State of California. While ICLT is expected to maintain a strong relationship with the City of Irvine,

[1] Figures from Housing Strategy Report and Implementation Plan, 2006. City of Irvine and Irvine Redevelopment Agency.

ICLT is a fully independent organization and not an agency or department of the City or Redevelopment Agency.

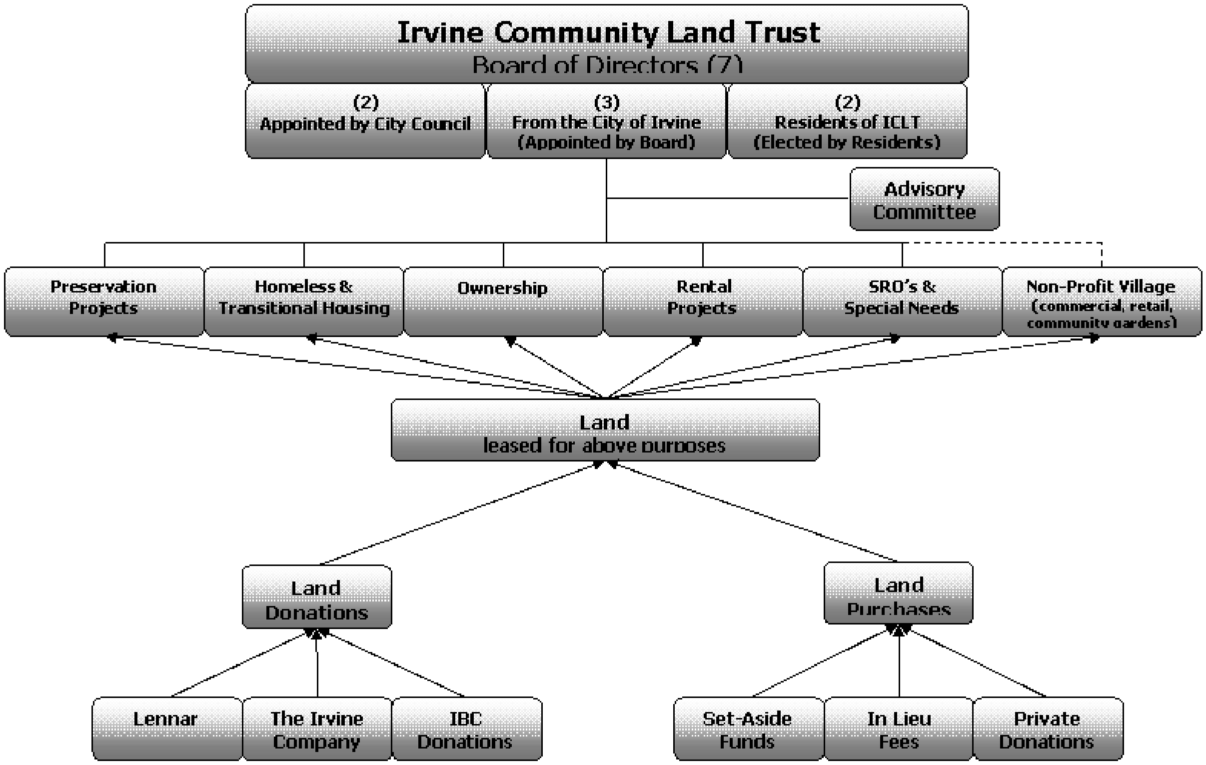
Tax-Exempt Status

In March 2006, the ICLT applied to the Internal Revenue Service for recognition as a 501(c) 3 non-profit corporation with the provision of affordable housing as one of its purposes. This status was granted in March 2007 and allows the ICLT to receive donated land from the City and private developers, access specific funding sources, and provide tax benefits for private charitable donations to the organization.

Governance and Board Structure

The ICLT is governed by a seven-member Board of Directors. All members of the initial board were appointed by the City Council. The board structure includes two City Council representatives, three community representatives, and two resident representatives. Future resident representatives will eventually be elected by the residents of ICLT developments. Similarly, community representatives will eventually be elected by the ICLT Board, while the Council representatives will always be appointed by the City Council.

This graphic illustrates the basic organizational structure of the Irvine Community Land Trust.



Five Year Program Goals

The initial goals for the Irvine Community Land Trust include:

- Creating homeownership opportunities for at least 375 families through a mix of inclusionary units and new development undertaken in partnership with housing developers.

- Creating affordable rental opportunities for at least 375 low or very low-income households through partnerships with housing developers.

- Hiring permanent staff including an Executive Director, two Homeownership Managers, and an Administrative Assistant.

- Developing a community land trust ground lease and deed restrictions as well as other supporting legal and financing documents necessary to preserve those homes as permanently affordable.

- Developing a set of policies and procedures related to screening and selecting buyers for community land trust homes and assisting those buyers in obtaining private mortgage financing.

- Developing a system of regular orientation and education events and materials to ensure that potential homebuyers fully understand the unique characteristics of the community land trust model.

Roles and Responsibilities

The ICLT will assist the City of Irvine and the Irvine Redevelopment Agency in the provision of affordable housing by assuming responsibility for a number of roles. In addition to undertaking project development in partnership with the City and existing housing development corporations, the ICLT will monitor the continued affordability of the units over time. The ICLT will have general organizational roles related to the maintenance of affordability and the growth of the organization. Specific project development roles related to distinct developments of varying types are described in detail below.

General Roles

Marketing Units:

The ICLT will market the affordable housing units widely throughout the City and County. The ICLT will develop and manage a central interest list to market units in its development projects. The ICLT will also refer eligible buyers or prospective tenants to developers that are producing affordable units independent of the ICLT.

Eligibility Screening and Waiting List Management:

The ICLT will serve as the central point of intake for low- and moderate-income tenants as well as potential homebuyers seeking affordable housing opportunities in Irvine. The ICLT will develop policies and procedures necessary to insure that units are made available to eligible applicants in a fair manner. ICLT will also create a fair system for offering priority to applicants who live or work in Orange County. The ICLT will develop clear resident selection and eligibility criteria and ensure that applicants meet the eligibility requirements before participating in the lottery or unit interest list. The ICLT will oversee a lottery system to select homebuyers from the pool of eligible households for the initial sale of all newly-developed units. For resale of individual units, potential homebuyers will be selected from an interest list managed by the ICLT.

Homebuyer Education:

The ICLT will deliver, or contract to deliver, specialized homebuyer education to eligible residents who are preparing to purchase a home. This education and orientation will ensure that prospective buyers understand the specific restrictions involved with purchasing a community land trust home.

Monitoring Compliance:

A primary role for the ICLT will be to monitor compliance with the restrictions and responsibilities imposed by the ground lease and/or deed restrictions associated with ICLT units. This monitoring will apply both to individual homeowners and to housing corporations, which lease land for affordable rental housing. The ICLT will ensure that individual units are sold to eligible households at the restricted price. The ICLT will also ensure that subsequent purchasers of affordable rental developments maintain the affordability of these units.

Policy Development:

The ICLT will advise the City of Irvine on the development of affordable housing policies, especially policies related to the ongoing management and oversight of affordable units.

Advocacy and Education:

The ICLT will be responsible for promoting the community land trust model and educating the community about its benefits. A specific focus of education will be private mortgage lenders and secondary market institutions which may need increased understanding of the community land trust model in order to provide financing for ownership units.

Project Development Strategy

While the specific circumstances for every development project will be unique and will require the ICLT to play a different set of roles, the ICLT will participate in three distinct “types” of developments.

- Inclusionary Homeownership
- Land Donation Ownership Developments
- Rental Developments

While there will be differences between specific developments of any given type, the ICLT’s general roles, responsibilities and mechanisms for compensation will be similar for developments of each type. A general outline of the roles and responsibilities that the ICLT would expect to assume for each type of development is described below. Any of the development types described below may incorporate units designed for special needs populations including seniors or disabled residents. In the future, the ICLT may be involved in the preservation of existing affordable units via purchase and/or the development of projects dedicated specifically to special needs housing such as homeless shelters, transitional housing, disabled or senior assisted-living developments.

Development Type: Inclusionary Homeownership

Overview

In 2003, the City of Irvine passed an ordinance that requires that 15 percent of all new residential development be made available to low- or moderate-income households at affordable prices. It is anticipated that application of this ordinance will contribute 3,189 new affordable units by 2025. A number of these units are expected to transfer to the ICLT portfolio for continued monitoring of the affordability restrictions.

A developer of a market-rate condominium development will make a percentage of the units available at affordable prices through the ICLT. The ICLT will bring local knowledge and relationships to the partnership and rely on the developer to manage the financing, development and construction. The ICLT will often play a lead role in marketing the affordable units, providing homebuyer education, and screening buyers for eligibility. In most cases, the ICLT will enter into an assignable Purchase and Sales Agreement with the developer allowing this role to be implemented by the ICLT. In some cases, the City and the ICLT will agree that the developer should retain responsibility for marketing the affordable units within these mixed-income developments and the ICLT would enter into a more limited contract with the developer to screen buyers for eligibility for a more limited fee.

The ICLT will play a long-term monitoring role for these units, many of which will likely be encumbered with deed restrictions as opposed to a ground lease. In most other respects the deed restrictions and ground leases will contain similar provisions. Like the ground leases, these deed restrictions will contain provisions giving the ICLT an assignable option to purchase each unit when a homeowner decides to sell. At that point, the ICLT will identify a subsequent income-eligible buyer and coordinate sale from one owner to another at the formula price. The ICLT will charge sellers a resale management fee for each successful transaction.

Financing strategy

Units will be sold at affordable prices, which may be less than their development costs. Affordable units will benefit from internal subsidies resulting from inclusionary requirements.

Homebuyers would provide small down payments of three to five percent and finance the remainder of the purchase price with traditional mortgages from private lenders. In some cases, buyers might receive down payment assistance from local or state government in addition to benefiting from below-market purchase prices.

Legal Structure

Whenever practical, the ICLT would hold title to the land, sell the homes subject to a ground lease, and play a permanent role in protecting the affordability of the homes. But given that most of these inclusionary units will be part of a multi-story building, it will likely be more effective for the ICLT to secure the affordability through the use of deed restrictions; in either case the restrictions and requirements, as well as the ICLT's monitoring role, should be the same.

Development Related Revenue:

The ICLT's primary compensation for developments of this type will be project marketing fees, which will likely be calculated at three percent of the below-market sales price.

Post Occupancy Revenue:

For Ground Lease developments, homeowners will pay a modest monthly *Ground Lease Fee* (initially projected at $50) to the ICLT to help cover administration costs; however, for units not encumbered with a Ground Lease, there will be no lease fee.

Upon resale, the ICLT will charge sellers a *Lease Re-issuance Fee*. This fee will be equal to two percent of the sale price of the home. This fee will cover the cost of services related to identifying and screening buyers, and ensuring compliance with local program requirements. It is unlikely that there will be many sales of these homes during the first five years, but eventually the ICLT would expect approximately six percent of the units to sell each year, generating more substantial annual fees. The annual level of these fees would rise along with the limited resale prices of the homes.

Development Type: Land Donation Homeownership

Overview:

In addition to participating in the affordable component of mixed-income inclusionary developments, the ICLT will be involved in developing projects which are entirely affordable homeownership units to be built on donated land. The Irvine Company has agreed to donate land to the ICLT as a means of meeting its inclusionary housing requirement for residential development, and The Lennar Corporation has proposed a 60-acre land donation as part of its amendment to the Heritage Fields land use entitlements in the Orange County Great Park Redevelopment Project area. The City of Irvine is currently negotiating a similar land donation concept if the overlay plan is not amended.

In these developments, the ICLT expects to receive parcels of land that have been entitled for housing development and have been improved such that the site is provided with utilities and other necessary services. The ICLT will work with the City to select an appropriate development partner to develop homeownership developments. In some cases, the ICLT may also receive parcels without entitlement and improvements and will work with the City and the development partner to prepare the parcel for development.

There may be situations where, rather than leasing land to a developer who builds on its own account, the ICLT will directly contract with a turnkey developer to produce the units, but this approach is not anticipated at this time. Therefore, as a standard practice, the ICLT will generally lease the land to the development partner.

Land Donation Homeownership units will generally serve buyers earning less than 120 percent of median income. All of these developments will involve community land trust ground leases, whether the units are townhouses, mid-rise or stacked condominiums, because the ICLT will own the land underneath all of the units. The ICLT may also develop a small percentage of units between 120 and 180 percent of area median income to provide affordable homeownership opportunities for households who cannot afford market-rate units.

The ICLT will need to participate actively in the development process, work with the development partner to conceptualize the project and perhaps help secure financing. The ICLT may work with a broker to market the units and contract with an existing nonprofit agency to provide homebuyer education. The ICLT will be responsible for post-purchase monitoring and resale support.

Financing Strategy:

These developments may often include investment of development subsidies from the City's inclusionary in-lieu fees or Redevelopment Agency Housing Set Aside funds. Certain developments of this type may also receive Federal Community Development Block Grant (CDBG) and HOME funds or state affordable housing bond funds such as CalHome or BEGIN.

Legal Structure:

In this type of project, the ICLT will work with the City to acquire or secure the donated land and select a development partner. The ICLT will lease the land to the developer during the construction phase in exchange for a nominal lease fee. The development partner will undertake construction of the homes.

The ICLT will enter into an assignable purchase and sales agreement with the developer which allows the ICLT to market the units, identify eligible buyers, and assign the right to purchase the homes to these buyers. Buyers will purchase the improvement directly from the developer and simultaneously execute a 99-year ground lease with the ICLT.

Development Related Revenue:

For each sale, the ICLT will charge the developer a marketing fee of approximately 3 percent of the affordable sales price.

Post Occupancy Revenue:

Homeowners will pay a modest monthly *Ground Lease Fee* (Initially $50) to ICLT to help cover administration costs. It is anticipated that the ground lease fee will increase annually, and such increases will be tied to the rate of inflation.

Upon resale, ICLT will charge sellers a *Lease Re-issuance Fee* for its services in identifying and screening buyers, and insuring compliance with local program requirements. This fee will be equal to two percent of the sale price of the home.

Development Type: Affordable Rental

Overview:

The ICLT will partner with experienced housing developers (for-profit or nonprofit) to develop high quality, well designed multi-family rental housing developments financed with public funding sources such as low-income housing tax credits and tax-exempt bonds. The ICLT will bring local knowledge and relationships to these partnerships and rely on the partner to manage the financing, development and construction of these developments.

The ICLT's development role will be limited and the ICLT will work with the City to identify and acquire a site. Together, they will identify a developer and the ICLT may play an initial role in the development by helping to develop a project concept to ensure that the development will meet local housing needs and priorities.

The ICLT will hold title to the land during construction and will charge a modest land lease fee (which may be deferred until project completion). After project completion, the ICLT will assist the City in monitoring affordability for these rental developments. The ICLT will charge these developments a nominal annual ground lease fee to help support this function. The ICLT, by holding title to the land, will ensure that these rental properties remain permanently affordable through any future transitions in ownership (especially after the expiration of public funding affordability requirements).

Units in developments of this type are likely to be occupied by and affordable to households earning less than 80 percent of Area Median Income by local requirement and 60 percent of Area Median Income for public funding sources (tax credit and tax exempt bond financing).

Financing strategy

These developments will require public funding sources such as nine percent or four percent Low- Income Housing Tax Credits, bond financing, Redevelopment Housing Set Aside funds, and additional money from state sources such as the Multi-family Housing Program.

Legal Structure

The ICLT will be the owner of the land under these developments. The buildings will be owned by limited partnerships with the development partners serving as a Managing General Partner and the ICLT possibly serving as co-general partner. The Ground Lease will provide the ICLT with an option to purchase the development should the building owner ever wish to sell as well as a right to approve any significant refinancing of the project.

Development Related Revenue:

The ICLT will not collect any development-related revenue from this development type because the ICLT will not be involved in the construction, marketing and rent up of these units except to the extent it provides developers with the ICLT's waiting list.

Post Occupancy Revenue

The ICLT would charge these developments a small fee per unit per year (estimated at $300/unit) to support its involvement in property management oversight. This fee could be structured as a ground rent or as an asset management fee.

Sources of Development Assistance

In addition to the significant benefit of receiving donated land from The Lennar Corporation, The Irvine Company, the Irvine Redevelopment Agency, and other private entities, the ICLT may need to compile development funding from a number of sources including:

- Federal CDBG and HOME
- Redevelopment Housing Set-Aside Funds

- Inclusionary In-Lieu Fees
- Low Income Housing Tax Credits
- Tax exempt bond financing
- Multifamily Housing Program (MHP)
- Affordable Housing Program of the Federal Home Loan Bank (AHP)

These funds will be contributed to specific developments to ensure affordability and maintain the financial sustainability of the ICLT.

Federal Community Development Block Grant and HOME Programs:

The HOME and Community Development Block Grant (CDBG) programs administered by the United States Department of Housing and Urban Development (HUD) are two of the most common sources for affordable housing subsidies throughout the country. Both programs involve grants from HUD to local "Participating Jurisdictions," which make local allocation decisions according to local needs. The City of Irvine is a Participating Jurisdiction and receives both HOME and CDBG allocations annually. The ICLT, as a nonprofit organization, is eligible to apply for these funds. Additionally, as the ICLT gains development and operational experience, it may aply for designation as a Community Housing Development Organization (CHDO). As a CHDO, it will be able to seek funding for operational costs and increase its capacity to develop projects.

Redevelopment Agency Housing Set Aside Funds:

Tax increment is derived from the increased value of property created by the investments of private property owners. As the City of Irvine has recently created the Orange County Great Park Redevelopment Project area on the former El Toro Marine Base, the Redevelopment Agency has the ability to use tax increment financing and a portion of this must be directed to affordable housing. At least 20 percent of the tax increment funds generated from redevelopment project areas must be used to increase, improve and preserve the community's supply of affordable housing. Preliminary estimates project that the Orange County Great Park

Redevelopment Project area will generate about $72 million in housing set-aside funds over the next 10 years.[2]

Inclusionary In-Lieu Fees:

Under the City of Irvine's Inclusionary Housing Ordinance, developers have the option of paying a fee to the City in lieu of developing an affordable unit. Decisions regarding the investment of these fees will remain under the authority of the City of Irvine but the ICLT will work with the City to ensure that developments in which these fees are invested remain permanently affordable.

Federal Low Income Housing Tax Credits/Tax Exempt Bonds:

Low Income Housing Tax Credits provide the most important source of investment for affordable rental housing development. There are two types of LIHTC financed developments commonly known as nine percent and four percent credits. The more generous nine percent credits are awarded on a competitive basis while the four percent credits are generally available for any eligible development which is financed with tax exempt multifamily bonds. Given the competitive nature of the nine percent tax credits program and the specific site requirements incorporated into the scoring system, it may be that fewer of these projects will be developed in ICLT's service area in the immediate future. However, developers of projects that will be competitive will be encouraged to apply for the nine percent tax credits. The noncompetitive four percent credits, together with tax-exempt bonds, will provide a more reliable financing mechanism for rental developments in the area.

CalHome Program:

The CalHome program, administered by the California Department of Housing and Community Development, is the State's primary funding mechanism for affordable homeownership development. The program provides grants to local jurisdictions or nonprofit recipients which may be used to support pre-development work on developments targeting eligible households or make deferred payment loans to eligible homebuyers earning less than 80 percent of area median income.

[2] It may be necessary for the redevelopment agency to issue bonds, which would be repaid from tax increment received by the agency, because project development subsidy may be needed before all of the tax increment revenues are realized.

BEGIN Program:

The Building Equity and Growth in Neighborhoods (BEGIN) Program provides grants to cities and counties that offer regulatory incentives, or reduce and remove regulatory barriers, to encourage the development of affordable housing. Examples of these incentives include density bonuses in excess of those required by state law, reductions in parking and setback requirements, and other relaxed building or development standards. The BEGIN program provides up to $30,000 per home. The BEGIN program provides smaller loans than the basic CalHome program, but the funds are awarded to every eligible development on a first-come, first-serve basis rather than being awarded through a competition. BEGIN is one of the few funding sources that can be used for units serving moderate-income households (up to 120 percent of AMI).

Multifamily Housing Program

The Multifamily Housing Program (MHP), administered by the California Department of Housing and Community Development (HCD), is the State's primary funding source for development of affordable rental housing for lower-income households. Deferred payment loans with 55-year terms are made to local governments and for-profit and non-profit entities that are developing affordable rental housing. MHP funds are typically allocated through two Notices of Funding Availability issued by HCD each year.

Affordable Housing Program (AHP):

Affordable Housing Program (AHP) is administered by the Federal Home Loan Bank. This program provides grants and subsidized loans for both affordable homeownership and rental units on a competitive basis. The grants are most often used as gap financing, but they can also be used for down payment or closing cost assistance. Applications must be submitted by Federal Home Loan Bank members.

Orange County Housing Trust:

Orange County Housing Trust is a new entity administered by Neighborhood Housing Services of Orange County which offers financial assistance to help meet the need for affordable housing in Orange County. The Trust offers low interest second mortgages to qualified first-time homebuyers and downpayment grants to members of the Orange County workforce. The Trust also offers below market predevelopment loans to developers of affordable and workforce housing.

Potential Partners and Competitors

Marketing and Education:

The *Affordable Housing Clearinghouse* is a network of lenders, community groups, and public agencies dedicated to the creation of quality affordable housing through creative financing and education strategies. The Clearinghouse provides flexible mortgage products to low- and moderate-income families as well as providing homebuyer education and credit counseling. The ICLT may also be able to partner with the Affordable Housing Clearinghouse to educate lenders about the community land trust model and identify lenders willing to make leasehold mortgages.

Neighborhood Housing Services of Orange County (NHSOC) is a NeighborWorks organization which operates a homeownership center that provides homebuyer education and credit counseling for first-time homebuyers. The NHSOC program offers a comprehensive homeownership education and counseling program which includes outreach, pre- and post-purchase counseling, and foreclosure intervention counseling. NHSOC also administers down payment assistance programs which may be of use to potential ICLT homebuyers. NHSOC also manages the *Orange County Housing Trust*.

The ICLT could partner with either of the above organizations to facilitate homebuyer education and counseling services.

Fannie Mae is a government-sponsored, publicly-traded entity which works to make mortgage financing available to a broad range of American homebuyers. While Fannie Mae does not directly lend to homebuyers, it works with mortgage lenders to ensure adequate access to capital for homeowner lending. Fannie Mae recognizes the community land trust model and is willing to purchase community land trust related mortgage products from lenders under certain conditions. In other communities, Fannie Mae has been helpful in educating local lenders about the community land trust model and supporting homebuyer training.

Project Development:

Habitat for Humanity of Orange County builds homeownership units for lower-income families through sweat equity and volunteer labor. Habitat has completed a small development in Irvine and is interested in doing more.

Jamboree Housing Corporation is a nonprofit housing development company that builds, preserves, and maintains affordable rental and ownership housing for lower-income families, seniors and others in the Orange County area and throughout California. Jamboree seeks to serve primarily households earning less than 80 percent of the county median income.

BRIDGE Housing is one of the leading nonprofit affordable housing developers in California. It develops and operates both rental and ownership housing for lower-income families throughout the state. It has offices in both San Francisco and San Diego and has recently opened an office in Los Angeles.

The ICLT could partner with any of the above housing developers or other developers such as National Community Renaissance (CORE- formerly Southern California Housing Development Corporation) and Irvine Housing Opportunities who work in the area to develop the new housing that is part of the projected ICLT portfolio.

Post-Purchase Monitoring and Support:

Many organizations which provide homebuyer education also provide financial fitness workshops and credit counseling. These organizations may be appropriate in playing a supportive role with regards to avoiding homeowner mortgage default, but they are not likely to be able or interested in participating in monitoring the homes for owner occupancy. There are currently no other organizations in the area that are able to provide comprehensive post-purchase monitoring and support services to lower-income homebuyers. The ICLT will fulfill this currently unmet need.

Potential Competitors:

The ICLT is presently the sole community land trust in Orange County. Given that the ICLT was established by the City of Irvine to help implement its housing strategy and its model is to partner with other nonprofit and for-profit affordable housing developers, it is unlikely (but not impossible) that the ICLT will encounter any serious competition in the City of Irvine.

However, the Board of Directors may decide to explore affordable housing development opportunities in other areas in Orange County, both with other incorporated cities and with the County of Orange as well as redevelopment agencies and housing authorities throughout the county. In these circumstances, the ICLT may find itself in competition with other nonprofits with a similar mission. The ICLT has a competitive advantage with regards to homeownership as it can offer permanent affordability; its only direct competition would be entities who are offering a similar model such as the limited-equity cooperative model or the Habitat for Humanity model which, in some cases, also includes a resale formula to maintain permanent homeownership affordability. Nevertheless, it is likely that the ICLT model would be attractive to other Orange County cities and the County. On the other hand, this perceived competitive advantage disappears when applied to the affordable rental market, where semi-permanent and permanent affordability through nonprofit ownership is common due to the structure and funding requirements of these developments. Therefore, when and if the ICLT explores opportunities outside of the City of Irvine, permanently affordable homeownership is most likely to be its strength.

Staff Development Strategy

The ICLT will eventually hire independent staff. During the organizational development period and until the ICLT has obtained land and is ready to begin project development activities, City staff are serving as initial ICLT staff. It is recommended that the ICLT request that the City continue its in-kind support by designating the City's Housing Manager to serve as ICLT's initial staff, with assistance from other City staff as needed, until such time the Executive Director is hired.

It is expected that a full-time Executive Director will be hired in 2008. The first Homeownership Program Manager will be hired in the later 2008. By 2011, there will likely be a need to hire a second, full-time Homeownership Program Manager. Finally, an Administrative Assistant is expected to be hired halfway through 2009. An outline of the basic responsibilities of each staff position is detailed below.

Executive Director

The Executive Director will work with the board to set the general direction of the organization, coordinate the overall development and communications strategies, and oversee the work of each of the other staff members.

Key Responsibilities:

- Lead the organization's advocacy efforts, assisting the board and other local policymakers to understand the impact and potential of various programs, policies and projects.
- Coordinate key administrative functions including budgeting, finance, personnel, office management and board development.
- Lead membership development and fundraising efforts with support from the administrative assistant, when hired.
- Oversee implementation and regular updates to the ICLT's business plan, coordinate ICLT's real estate development strategy and manage overall growth.
- Play a hands-on role in development projects, especially the initial projects, serving as the point person for negotiations with the City and project development partners, as well as other local jurisdictions if projects are developed outside the City's corporate boundaries.
- Participate in establishment of policies and systems related to homebuyer selection, training, marketing and compliance monitoring of for sale homes.
- Serve as the public face of the organization, representing the ICLT at public hearings and other community events.

- Coordinate education of the general public with respect to housing issues and affordability, especially the need for homeownership opportunities for lower-median and moderate-income families.
- Maintain contact with the media about such issues as the ability of the ICLT to address this housing need.
- Advocate with local agencies for public policy which could enhance the position or usability of the community land trust model.

Homeownership Program Manager

The Homeownership Program Manager will be the primary director of the ICLT's Homeowner outreach and training, marketing and regulatory compliance program for affordable for-sale housing developments. Ideally, this staff person would have (or work toward obtaining) a real estate brokers license so that the ICLT would not need to contract with a broker on each transaction.

Key Responsibilities:

- Implement a communications and marketing strategy to identify potential buyers of affordable homes.
- Maintain a database system for tracking interested households for all affordable ownership and rental units anywhere in the region and to provide a development specific waiting list/applicant list for individual developments.
- Deliver or contract for delivery, a multi-session homebuyer orientation program including training on resale controls, and ground leases/deed restrictions.
- Ensure that individual homebuyers fully understand all resale restrictions.
- Serve as the point of contact with all potential buyers.
- Coordinate marketing meetings, walkthroughs and any other marketing/outreach events.
- Coordinate the homebuyer selection process, insuring compliance with ICLT selection policies and any requirements of local jurisdictions or other funders.
- Support homebuyers in obtaining mortgage financing from private lenders.
- Coordinate collection of all buyer documentation necessary to certify homebuyer eligibility to local jurisdictions and any state or federal agencies.

- Work with local realtors and title companies to transfer completed affordable homes to selected buyers.

Administrative Assistant

The Administrative Assistant will provide general administrative support and will serve as the primary coordinator for all aspects of the organizational fundraising, communications and advocacy strategies.

Key Responsibilities:

- Provide administrative support to the Executive Director and other staff as appropriate.
- Coordinate ongoing communication with existing and prospective members.
- Support the Executive Director in membership development and fundraising efforts.
- Coordinate preparation of Board and Committee agendas, minutes etc.
- Collect reports and certifications from rental development partners

Real Estate Brokers

(As needed)

Initially the ICLT may contract with a licensed real estate broker to supplement staff marketing efforts. The ICLT may seek to enter into a contract with realtors to provide a limited set of services related to the transfer of property. The services of a realtor should not be necessary to reach potential buyers, and it should not be necessary to offer traditional broker commissions because ICLT staff will be managing the central waiting list. The ICLT will negotiate a specific set of services on a fixed fee or percent of sales basis and will seek the most competative contractor but this set of services is not expected to cost more than two percent of the sales price. This fee will be paid to the broker by the ICLT from the marketing fee it will collect for each unit sold.

Development Pipeline

In the first five years, the ICLT will plan to develop at least 750 new housing units, a mix of rental and ownership. It is expected that the ICLT will begin to bring homeownership units online beginning in 2008 and that rental units will be available starting in 2009.

Homeownership

Initially, 12 inclusionary homeownership units, targeting median income households, will be developed by a market-rate developer to meet the City's inclusionary housing requirement; these are the only inclusionary units in the pipeline for the first five years of ICLT operation. In 2008, the ICLT also plans to have 80 units of the Land Donation Homeownership Development type available for sale. In 2009 and 2010, an additional 90 homeownership units developed on donated land will become available for purchase. In 2011, 103 more homeownership units will be ready for purchase. In total, the ICLT will introduce 375 new affordable homeownership units to the market. The timing of development of ownership units will depend on the timing of land/unit donation to ICLT, and therefore, may vary from the projections above.

Rental

The ICLT will start introducing new rental units starting in 2009. It is expected that 125 new units will become available each year over the three year period from 2009 -2011. In total, 375 new rental units will be developed.

Cumulative Units	2007	2008	2009	2010	2011
Rental					
Tax Credit Rental	0	0	125	250	375
Subtotal	**0**	**0**	**125**	**250**	**375**
Ownership					
Inclusionary Ownership	0	12	12	12	12
Land Dedication Ownership	0	80	170	260	363
Subtotal	**0**	**92**	**182**	**272**	**375**
TOTAL	**0**	**92**	**307**	**522**	**750**

Operating Budget

It is anticipated that by 2011, the ICLT will have sold sufficient homes to generate enough income from development-related and post-occupancy fees to sustain the organization's operating costs. The City has provided a seed grant of $250,000 via the Irvine Redevelopment Agency to cover initial start-up costs and operating expenses for the first couple years until a threshold number of units have been sold.

Sources of Operating Revenue

After the first year, the ICLT will pay for its expenses from both development-related revenue and post-occupancy revenue. The following snapshot details the estimated annual revenues from each source for the first five years of operation. (The entire operating budget is included in Appendix A.)

REVENUE	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Estimated Year	2007	2008	2009	2010	2011
Start Up and Project Revenue - Break Even Scenario					
Grants/Contracts					
City of Irvine - Start Up (in kind)	250,000	-	-	-	-
Foundation Grants	2,400				
Total Grants/Contracts	***252,400***	***-***	***-***	***-***	***-***
Development Related Revenue					
Development Fees	-	-	-	-	-
Marketing Fees	-	639,120	611,245	611,245	699,536
Lease Initiation Fees	-	23,000	22,500	22,500	25,750
Total Development Fees	***-***	***662,120***	***633,745***	***633,745***	***725,286***
Post Occupancy Revenue					
Ground Lease Fees	-	55,200	146,700	231,000	337,500
Lease Reissuance Fees	-	25,991	50,440	70,633	102,872
Other Property Mgt. Income	-	-	-	-	-
Total Post Occupancy Fees	***-***	***81,191***	***197,140***	***301,633***	***440,372***
Total Start Up and Project Revenue	**252,400**	**743,311**	**830,886**	**935,378**	**1,165,658**
Net Income (Shortfall)	**154,400**	**27,345**	**26,963**	**79,688**	**90,112**
Fund Balance	154,400	181,745	208,708	288,396	378,508

An overview of each revenue source is provided below.

Development Related Revenue:

- Marketing Fees: In the first 5 years, marketing fees will be the major source of operating revenue for the ICLT. A marketing fee equal to three percent of the affordable sales price will be charged for each new unit sold through the ICLT. A portion of this fee will initially be used to compensate a broker working with the program, but the program will realize net proceeds of approximately one percent of sales prices.

- Lease Initiation Fees: A one-time fee of $250 will be charged to homebuyers to cover part of the administrative costs of initiating the ground lease.

Post Occupancy Revenue:

- Ground Lease Fees: Each ICLT homeowner will pay a monthly ground lease fee. The operating budget is based on the assumption of a $50 per month Ground Lease Fee. While these fees may be the most reliable source of revenue, the small number of initial ICLT homes and the need to keep the fee relatively low to facilitate affordability means that the ICLT will not be able to rely on ground lease fees to cover a significant portion of the cost of operating the program in the initial years. However, by 2011, income from ground lease fees is expected to be over $337,000 per year which will support a large portion of projected operating expenses.

- Lease Re-issuance Fees: The ICLT will charge outgoing homeowners a fee of up to two percent of the restricted sales price. This charge will be used to defray some of the costs of overseeing the transfer of ownership from one low-income homeowner to another. Once there is a significant portfolio of ICLT homes, these fees can provide an ongoing source of revenue, but the ICLT is unlikely to earn significant re-issuance fees during the first five years.

With the fee structure and development pipeline described above, the ICLT will generate revenues that exceed the program's operating costs over a five-year period.

Operating Expenses

The most significant operating expenses will be personnel costs and fees associated with sales, including real estate broker contracts. A snapshot on the following page provides details on the estimated expenses.

EXPENSES	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
	2007	*2008*	*2009*	*2010*	*2011*
Time Projections					
Executive Director	0%	100%	100%	100%	100%
Homeownership Program Manager	0%	50%	100%	100%	200%
Administrative Assistant		0%	50%	100%	100%
Total Staffing (FTE)	**0%**	**150%**	**250%**	**300%**	**400%**
Personnel					
Executive Director	-	124,848	127,345	129,892	132,490
Homeownership Program Manager	-	44,217	90,203	92,007	187,694
Administrative Assistant	-	-	26,530	54,122	55,204
Subtotal Personnel	**-**	**169,065**	**244,078**	**276,020**	**375,387**
Fringe Benefits	-	37,194	53,697	60,724	82,585
Total Personnel	**-**	**206,259**	**297,775**	**336,745**	**457,973**
Office and Administration					
Indirect/Overhead (Office, Phone, etc.)	-	50,720	73,223	82,806	112,616
Accounting/Payroll/HR	-	16,907	24,408	27,602	37,539
Startup Costs	30,000	15,000			
Other	3,000	1,000	1,020	1,040	1,061
Total	**33,000**	**83,626**	**98,651**	**111,448**	**151,216**
Project/Program Related Expenses					
Broker Fees and Other Sales Costs	-	426,080	407,497	407,497	466,358
Non Project Legal	25,000				
Project Consultants	40,000	-	-	-	
Other Project Expenses	-	-	-	-	-
Total Project Expenses	**65,000**	**426,080**	**407,497**	**407,497**	**466,358**
TOTAL EXPENSES	**98,000**	**715,965**	**803,923**	**855,690**	**1,075,547**

In 2008, personnel costs will total approximately $206,000. In 2009 and 2010, when both the Executive Director and a Homeownership Program Manager are expected to be working full-time, supported by an Administrative Assistant, personnel costs will be around $300,000 per year. In 2011, a second Homeownership Program Manager will be needed increasing total personnel costs to roughly $458,000.

The other significant expense will be broker fees and other sales costs which are estimated at roughly two percent of the affordable sales price of each unit. These fees will be in the range of $400,000 per year depending on the number of homeownership units expected to be sold in a given year.

Expenses for office and administrative overhead, including supplies, rent, accounting and human resources services, ramp up from roughly $33,000 in 2007 and will increase annually as the organization brings on more staff. In 2009, office and administration overhead costs are expected to be roughly $100,000. By 2011, these expenses will costs slightly more than $150,000 per year.

Conclusion

The ICLT will provide a much-needed service to the City of Irvine by facilitating the creation of and monitoring the long term affordability of new permanent affordable homeownership and rental units which are produced with the benefit of public assistance or as a result of the City's inclusionary housing policy. The ICLT is expected to be able to sustain its own operating expenses through development-related revenue and post-occupancy revenue once units have been developed and sold. Until that time the ICLT will be able to cover its expenses through grants and fee revenue assuming that:

- The City of Irvine provides the $250,000 grant to cover start-up and operating costs before fees can be collected.
- At least 12 inclusionary homeownership units are marketed and sold by the ICLT in the second year of operation.
- New homeownership developments, totaling at least 363 units, can be completed in the first five years.
- New multi-family rental developments, totaling at least 375 units, can be completed in the first five years.

Business Plan

Workforce Housing Association of Truckee Tahoe

September 2005

Prepared by
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Burlington Associates in Community Development

With funding provided by:
North Lake Tahoe Resort Association
The Town of Truckee
Placer County

CONTENTS

Executive Summary

The Truckee Tahoe region faces one of the nation's most extreme housing markets. High prices, driven primarily by demand for vacation and second homes, have forced many of the area's lower-income workers to live hours away from their places of work, while more and more middle-income families have chosen to leave the region entirely in search of affordable homeownership. These trends leave many businesses, along with government and service agencies, unable to fill key positions, and they threaten the long-term economic health of the region. Local jurisdictions have responded with an appropriate set of new measures designed to alleviate the problem, but the challenge is clearly greater than what local government can handle alone.

The ***Workforce Housing Association of Truckee Tahoe*** (WHATT) was formed in 2002 to bring the region's leading employers together in order to support efforts to facilitate development of affordable workforce housing. WHATT has become an effective advocate and has repeatedly been asked to play a more active role in specific affordable housing projects. In order to evaluate whether there was a role for it to play in development projects that was both necessary and sustainable, WHATT undertook a comprehensive analysis of the housing needs and its own organizational capacity. This Business Plan presents the result of that analysis and outlines an aggressive strategy for WHATT to expand its scope dramatically in order to fill several of the key gaps in the local environment and provide the active development leadership necessary to increase the local supply of affordable housing.

Local jurisdictions are currently taking important steps that will greatly expand the resources available for developing affordable housing in the region, but the lack of local capacity to direct these projects imposes a significant limitation on the region's ability to put these new resources to work quickly. While outside development companies are available and qualified to manage most aspects of the development process, this plan proposes that WHATT grow into a new set of roles to serve as the local development partner on these projects for the following tasks:

- Help both developers and local governments to identify needs and conceptualize appropriate projects.
- Support project approval.
- Coordinate outreach to and screening of potential buyers or tenants.
- Serve as co-owner and long-term steward of the region's scarce affordable housing resources.

This plan describes an entirely new kind of organization, one that is not unprecedented but that is uniquely designed to fill the existing gaps in local capacity while taking full advantage of local resources to meet urgent workforce housing needs.

The Housing Crisis

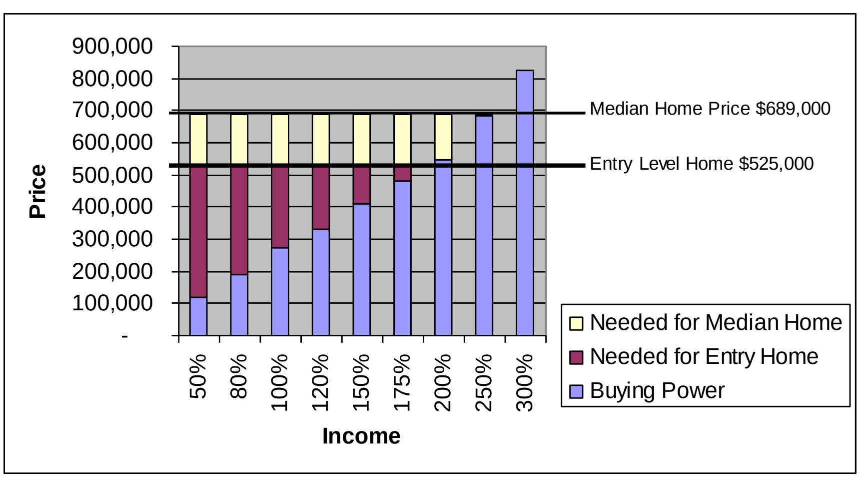
Like virtually every community in California, the Truckee Tahoe region is experiencing an affordable housing crisis. Home prices and rents have risen far beyond the means of the local workforce. But even in the state with the greatest challenges to affordability, the Truckee Tahoe area's situation is extreme. As one of the world's most beautiful spots—and located a short drive from the San Francisco Bay Area—Lake Tahoe is a natural location for vacation homes and resorts. Full-year residents compete for housing against wealthy outsiders seeking second homes. At the same time, unlike many other second-home communities, the Truckee Tahoe region is also a major employment center. The resorts, which, together with several large casinos, function as year-round international vacation destinations, and the many smaller businesses, including motels, restaurants, and retail shops that serve the guests, require an enormous year-round workforce of relatively low-wage workers. Environmental protections essential to maintaining the region's extraordinary beauty even further limit the options for housing the local workforce. This combination of environmental protections, vacation homes limiting the supply of housing, and employment growth increasing demand creates what must be one of the most intense housing markets in the country.

Gaps in the Housing Market

Recent planning studies in both Truckee and Placer County have identified the need for more than 1,800 new housing units to meet projected demand. A significant amount of housing is currently being built, but most is being developed for ownership by high-income residents or as vacation or second homes for nonresidents. The majority of the identified need, however, is for units affordable to low- and moderate-income households, though in the current market affordability challenges extend all the way up to households earning as much as 200 percent of the median income.

In the rental market, local households earning less than the median income are likely to face challenges in finding adequate rental housing at affordable prices. While units in apartment buildings rent at levels that make them affordable to households earning approximately 80 percent of the Area Median Income, the region has very few multi-family apartment buildings. Most existing rental housing is in the form of single-family homes, which are more expense and therefore affordable only to families earning approximately 100 percent of median income or more.

Figure 1: Homeownership Affordability Gap, Truckee



The local homeownership market is even more extreme. With prices rising by more than 25 percent annually for several years, only the highest-income segment of local households can afford to buy a house. Households earning less than approximately 200 percent of median are increasingly finding themselves priced out of the market. Households earning as much as 120 percent of median income ($79,000) still face an affordability gap of almost $200,000 (that is, they would need an additional $200,000 to buy an appropriate unit at current prices). The greatest need, then, is for the following types of housing:

- Rental housing appropriate for the seasonal workforce, especially smaller units in multi-family buildings.
- Affordable rental housing appropriate for families earning less than 80 percent of median income.
- Permanently affordable homeownership for households earning between 80 and 120 percent of median income.
- Additional ownership options that meet the needs of households earning more than 120 percent of median income.

Impact of the Housing Crisis

Addressing this challenge is essential to the long-term future of the region. Housing costs force many low wage workers to live as far away as Reno where rents and home prices are more affordable and commute back to the Truckee Tahoe region to work. These long commutes are difficult under good conditions and impossible during heavy snow, making these employees less reliable and contributing to unnecessarily high turnover as skilled workers find employment closer to their homes. Local utilities and public safety agencies report that their ability to respond to emergencies is hampered by the fact that many employees live far outside the area. Workers who live outside the area are not likely to be spending their income in Truckee Tahoe businesses, which makes it more difficult for essential community serving businesses to survive and provide year-round services. Each low or moderate-income worker that relocates outside the area reduces local economic activity as their discretionary spending is not available to recycle throughout the local economy.

Over the longer term, the instability created by these housing conditions makes it difficult for businesses to grow and invest in the development of local workers. As workers gain experience and skills, they frequently seek employment where housing is more affordable. In order to develop a year-round economy that sustains the local community, the region needs workers at all income levels to set down roots and commit to raising their families here. The region needs skilled workers to grow into management positions at local firms, and it needs experienced people to decide to open new businesses in the community. Many community institutions, from little league to neighborhood watch, suffer from the gradual loss of year-round residents willing to invest in the community. Over time, for the region to succeed economically (even as a vacation destination), it has to be a place that some people call home and build a year-round community. For that to happen, the region must offer a much greater range of housing options than it currently does.

Rising to the Challenge

The Truckee Tahoe region is not the only resort community to face this type of dramatic housing market challenge. Other areas, such as Aspen and Mammoth Lakes, have recognized that maintaining a supply of affordable housing is essential to long-term economic and community health and have developed innovative programs that have dramatically increased the availability of housing for the local workforce. Taking up this challenge, local leaders in the Truckee Tahoe region have begun taking a series of proactive steps designed to produce new housing that will be affordable at all income levels.

Both Truckee and Placer County have recently established redevelopment areas that promise to generate millions of dollars in new housing subsidy funds. Both jurisdictions have committed to adopting inclusionary and employee housing ordinances that will generate hundreds of new affordable units over the next few years. As the region's leading advocate for affordable housing, WHATT has been partnering with local governments to encourage these new policies and to identify and support specific development projects. But the success of all these initial efforts has made it increasingly clear that there is much more to be done.

Lack of Local Capacity

While several important projects are now underway, neither the Town of Truckee nor Placer County currently have the staffing necessary to initiate and coordinate affordable housing development projects. Instead, both jurisdictions have been successful in attracting outside developers to undertake large-scale affordable housing projects. This is an excellent short-term strategy that promises to produce hundreds of new affordable rental and ownership units very quickly. However, it is a reactive rather than a proactive strategy; it relies on private corporations or nonprofits with statewide or even multi-state service areas to initiate new projects and essentially craft the region's housing strategy. In the short term, these developers need more local support and oversight. Over the long term, regional developers are unlikely to play the same role for the many smaller infill projects that will be necessary to meet regional housing goals once the existing supply of large sites have all been developed. In the long run, the region needs its own nonprofit affordable housing development organization.

Thanks in part to WHATT's efforts to raise public awareness of the issues, there is a growing consensus throughout the Truckee Tahoe region that creation of new workforce housing is essential for any future economic growth. A local survey found broad agreement that workforce housing was a top priority for the area, that the problem is too big for local governments to solve alone, and that any solution would require the public and private sectors to work together. Surprisingly, however, only 38 percent favored creation of a public housing authority, while 45 percent expressed opposition to that idea.[1]

[1] Eastern Placer County Community Survey, 2004 Mailback Survey Results, RRC Associates for the North Lake Tahoe Resort Association. Respondents were asked whether they "support," "do not support" or are "uncertain" about a list of potential solutions including "Creation of a housing authority that would oversee housing programs, provide administrative support for funding, and potentially oversee land acquisition, construction, and ongoing operations of new housing."

A New Kind of Organization

It is in response to this strategic challenge that WHATT is proposing to build a new capacity to play a unique role between the normal functions of local government and the private sector. In the recent past, affordable housing has been considered the sole responsibility of government agencies. Many government-run housing programs have been criticized as inefficient and bureaucratic, but even where they have been unusually innovative and entrepreneurial, local governments have been unable to respond to the scale of the workforce housing need on their own. As the housing crisis has grown, it has become increasingly clear that government has to work more closely with the private sector to respond to the growing need. Strategies such as inclusionary and workforce housing programs are creating incentives for private homebuilders to work with local communities in meeting important housing goals. But these new partnerships require specialized skills and significant flexibility on both sides of the table. Local governments are increasingly called upon to act quickly to buy land, enter into development partnerships, borrow funds, and participate in limited but crucial aspects of the real estate development process. A growing number of local government agencies are concluding that, while this kind of flexibility is essential, it is not something that government agencies are especially well suited for.

A locally controlled **nonprofit housing development corporation,** on the other hand, can more effectively and efficiently play these key roles, allowing the local government to take full advantage of the power of these public-private partnerships without taking on a development role itself. For the developers, a nonprofit partner offers a more nimble, less bureaucratic partner, which nonetheless has close relationships with local government and can effectively broker deals that represent the needs of the local community. This kind of partnership can save the developer considerable time and help to reduce some of the most significant political risks associated with large-scale development projects.

Purpose of this Plan

While the need for a local nonprofit to participate in affordable housing projects has become quite obvious to most local leaders, the specific roles for that organization, the best organizational and governance structure for that entity, and the mechanisms for sustaining the organization over the long term are far from obvious. There are many models to choose from. WHATT commissioned this Business Plan in order to identify a realistic strategy for expanding the local housing development capacity, provide a road map for the growth of that capacity within the organization, and help focus the efforts of WHATT’s private and government partners.

While the Business Plan addresses a wide range of different issues, the central questions it seeks to answer include the following:

- What are the most promising opportunities for production of affordable housing in the region?
- Why does the region need a nonprofit development entity in order to take advantage of these opportunities?

- What roles must WHATT be prepared to play in order to make these projects happen?
- What staffing level must WHATT have in order to play these specific roles?
- Are these roles sustainable over the long term—how much money will be needed and where will it come from?
- Is the likely volume of affordable housing development in the region sufficient to justify WHATT's expansion into these new roles and to support efficient provision of these services?

This plan has been developed with an unprecedented level of involvement from local community stakeholders, including residents, businesses, public agencies and private real estate development companies. WHATT convened a development committee that included several WHATT board members, local employers, a representative of the North Lake Tahoe Resort Association (NLTRA), a private homebuilder, a local banker, a realtor, an affordable housing technical assistance provider from the California Coalition for Rural Housing, the Placer County Housing Program Coordinator and the Mayor of Truckee. With funding from the Town of Truckee and the NLTRA, WHATT contracted with Rick Jacobus of Burlington Associates to facilitate a planning process and draft the plan. The development committee met during the summer of 2005 to evaluate project development opportunities, consider potential roles and responsibilities for WHATT, identify staffing and funding strategies, evaluate the impact of the proposed changes on WHATT's organizational governance, and review the overall business development strategy. At the same time, Burlington Associates conducted interviews with local lenders, government officials, for-profit and nonprofit real estate developers, and 18 nonprofit housing organizations throughout the country to identify precedents for the type of organization that WHATT is proposing to become. The plan considers the following three key strategies:

- Real estate development strategy
- Organizational development strategy
- Financial strategy

Real Estate Development Strategy

Real Estate development is famously opportunity-driven, and it is not possible to know in advance what specific opportunities WHATT will need to respond to. However, there are certain factors, such as the availability of land and the supply of housing subsidies, that will clearly constrain the types of workforce housing projects that are likely to succeed in the region over the next decade. More than anything else, two key observations dictate WHATT's long-term strategy. First, inclusionary housing requirements are likely to generate a very high volume of large-scale affordable housing projects in the immediate future; and second, this volume will not continue over the longer term.

Given the affordability crisis, it is ironic to note that the region is undergoing a housing development boom. There are hundreds of new homes under construction in the region at this moment. However, unlike other communities where large numbers of housing units are being constructed, the Truckee Tahoe region's housing shortage is not likely to be relieved by all the new construction. Over 70 percent of new homes constructed in

Truckee in 2004 were sold as second homes[2]. The present building boom is being driven by the extremely high prices at which vacation homes can be sold, not by local demand. The more luxury housing is built the less land is available for workforce housing. The limited supply of land will be one of the most important constraints on development of new affordable housing in the region for the foreseeable future.

In the short term, inclusionary and employee housing ordinances are likely to ensure that a significant volume of land is available for affordable housing. Over the longer term, the current pace of development is not likely to continue, and large affordable projects will be more difficult to achieve. Very high land prices, steep terrain, environmentally sensitive sites, and environmental controls strictly limit the number of remaining sites where significant numbers of housing units can be built. The community needs to be proactive in securing land specifically for affordable housing projects and in ensuring that inclusionary units meet local needs today and remain affordable over the very long term.

WHATT is fortunate to have a number of strong potential housing development partners; for this reason it should *not* be necessary for WHATT to build the capacity that would be necessary to undertake large-scale housing projects alone. It is likely that all of WHATT's initial development projects will be undertaken in partnership with experienced private or nonprofit developers. However, a number of key roles essential to the successful development of affordable housing are not currently being played by any local entity and are too costly for—or not the core competency of—the developers:

- Finding, training and qualifying buyers for affordable ownership units.
- Identifying sites for new rental and ownership projects.
- Coordinating local support for projects during the entitlement phase.
- Providing local oversight and monitoring to ensure that both rental and ownership properties continue to be well maintained and affordable over the very long term.
- Screening tenants and overseeing property management of small infill rental projects (including the many that may be required in mixed-use projects under proposed employee housing ordinances.)

Project Types

WHATT has identified four distinct types of projects that it is likely to participate in. Each type will require WHATT to have specific skills and staffing and play a different set of roles.

Inclusionary Homeownership Projects: WHATT will partner with private housing developers to build for-sale affordable housing as part of larger market-rate developments where the developer faces an inclusionary housing requirement. Relying on the partner to manage the financing, development and construction, WHATT will play a lead role in marketing the affordable units, providing homebuyer education, and screening buyers for eligibility. These

[2] Interview with Tony Lashbrook, Truckee Town Manager, July 22nd, 2005

ownership units will generally serve households between 80 percent and 120 percent of area median income.

100 Percent Affordable Homeownership Projects: WHATT may initiate development of entirely affordable for-sale projects. For example, WHATT might identify a site appropriate for construction of affordable townhomes and bring in an outside developer to build them. For projects of this type, many of the roles and functions of WHATT and the development partner will be similar to the inclusionary ownership type above, but the project will rely more heavily on direct public subsidy, and WHATT will play a more active role in defining and initiating the project and securing the essential public funding.

Tax Credit Rental Projects: WHATT will partner with experienced housing developers (for-profit or nonprofit) to develop larger rental housing projects financed with low-income housing tax credits and tax-exempt bonds. WHATT will bring local knowledge and relationships to these partnerships and rely on the partner to manage the financing, development, and construction.

Infill/Conversion Rental Projects: As WHATT's development capacity grows, the organization will seek to partner with local developers to undertake smaller rental projects. These projects may involve conversion of existing motels or rental properties or construction of new buildings on available infill lots. Because of the smaller size (and presumably smaller developer fees) WHATT is less likely to be able to attract an outside developer with experience in developing affordable housing. For these smaller rental projects, WHATT will need to play a greater role in project development (especially securing public subsidies and entitlements) and in asset management (by serving as the long-term owner of the property and directly overseeing a property management company).

Over time, WHATT will likely identify other types of projects that it may participate in, including small rental projects incorporated into mixed-use developments and homeownership projects meant for households earning more than 120 percent of median income.

Identified Projects

WHATT has been approached by private developers and local jurisdictions seeking its participation in several currently planned projects. Specific roles for WHATT in any given project will require negotiation with the developers and local government agencies and WHATT has refrained from initiating those negotiations pending completion of this business plan. However WHATT has identified 14 projects that are currently in the development or planning stages in which WHATT could potentially play a meaningful role. These projects together are likely to produce over 600 units of affordable housing.

Table 1: Potential Projects Currently Identified

Name	Type	Affordable Units
Gray's Crossing – Ownership	Inclusionary Ownership	133
Gray's Crossing – Rental	Tax Credit Rental	92
Spring Creek	Inclusionary Ownership	30
Truckee Townhomes	Inclusionary Ownership	7
Stoneridge Townhomes	Inclusionary Ownership	11
Tahoe Boca Estates	Inclusionary Ownership	~30
Silverwood	Inclusionary Ownership	~14
Sierra Bluffs	Inclusionary Ownership	7
Cedar Grove – Ownership	100 Percent Affordable Ownership	52
Cedar Grove – Rental	Tax Credit Rental	100
Alder Drive – Ownership	100 Percent Affordable Ownership	~30
Alder Drive – Rental	Tax Credit Rental	At least 32
School District Site	Unknown	~50
IVGID Sites	Infill Rental	~30
TOTAL		**~618**

Changing Project Mix

WHATT will focus initially on the more limited roles outlined for Tax Credit rental and inclusionary homeownership projects. WHATT will build capacity relatively quickly to serve as the initiator (but not the primary developer) of 100 percent affordable ownership projects while gradually building the project management capacity to play a much greater role as co-developer of infill/conversion rental projects. While these smaller projects are important to the organization's future, its immediate focus will be on playing key roles in larger projects and building its long-term management and oversight capacity. When appropriate, WHATT will develop a strategy for participation in new affordable units produced under any Employee Housing Ordinance and will begin crafting a strategy for serving households above 120 percent of median income as soon as possible.

Table 2: Likely Project Mix by Income Category

Income Category	Rental	Ownership
Above 120% of AMI		
80% to 120%		
50% to 80%		
30% to 50%		
Below 30% of AMI		

Darker shade represents greater focus of effort

Over time, the types of projects envisioned will allow WHATT to respond to a very wide range of local housing needs. WHATT expects to participate in projects that serve households with incomes that range all the way from 30 percent of Area Median Income to as high as 200 percent. Nonetheless, given the project opportunities and available resources, WHATT expects that the majority of projects that it participates in will serve households between 50 percent and 120 percent of median income, with households below 80 percent primarily served through rental housing and those above 80 percent primarily through homeownership.

Organizational Development Strategy

In order to play the crucial roles outlined above, WHATT will need to undergo some significant changes in both staffing structure and governance. These changes must be made fairly quickly but must also be managed very intentionally in order to not jeopardize the organization's existing assets. WHATT has been very successful as an advocacy organization and must retain its capacity to perform these functions even as it builds several new capacities.

Growth in Staffing

The immediate hiring of an **Executive Assistant** will be necessary to free up sufficient time for the Executive Director to take a more hands-on role in crafting a development strategy and negotiating project development partnerships. In addition, WHATT will move as soon as possible to hire a high-level, experienced **Homebuyer Services Director** in order to step immediately into a key role in marketing affordable for-sale homes, screening buyers, and monitoring compliance with affordability restrictions. Once WHATT has successfully executed a number of Development Agreements, it will retain one or more **Project Development Consultants** who will support the organization in evaluating projects, negotiating partnerships and meeting its development responsibilities for these projects. As WHATT's project development responsibilities grow, WHATT will hire a **Project Development Associate** to provide support to the Executive Director and reduce the organization's reliance on development consultants. Over time, as increasing numbers of projects require WHATT to play more of a leadership role in the development phase (especially infill rental projects in partnership with developers that are not affordable housing specialists), WHATT will hire an experienced **Project Development Director**.

Evolving Governance

While WHATT was founded by local employers to advocate for the creation of additional affordable housing in the region, as the organization has grown to play a more central role in the development of housing strategies in Truckee and Eastern Placer County, the organization has come to serve a broader constituency. A growing portion of WHATT's dues-paying members are local residents or community organizations. As WHATT takes on a more direct role in the production of affordable housing, the organization will need to build new mechanisms for accountability to this broader constituency while maintaining its close ties to the local business community, which are clearly one of the organization's key assets. Among other steps, WHATT will amend its corporate bylaws to ensure that 1/3 of board seats are filled at all times by low-income individuals or representatives of organizations that server low-income people.

Financial Strategy

In order to sustain the increased staffing suggested here, WHATT will need to enlarge its sources of operating income by approximately $400,000 annually. While this is a dramatic expansion for a small, young nonprofit organization, it is reasonable to expect that much of the extra cost can be born by the projects the organization will become involved in. The plan outlines a strategy for WHATT to earn the necessary revenue through a combination of grants, contracts, and project development and other fees, including from the following sources:

- Membership Dues
- Project Developer Fees
- Marketing and Compliance Fees
- Local Government Service Contracts
- Ground Rental Fees
- Resale Fees for Affordable Homes
- Property Management Fees
- Start-Up and Operating Grants

The actual level of income that will be generated from any specific source will depend on the outcome of project-specific negotiations with developers and local government agencies. Without prejudging the outcome of these negotiations it is impossible to predict accurately the precise distribution of revenue among these sources. However, in order to test the likelihood of generating the necessary revenue given what's in the current pipeline of development, WHATT has prepared a number of hypothetical development scenarios that correspond closely to real projects currently underway.

The scenario exercise makes it clear that the resources are available to support and sustain WHATT's growth into the roles outlined in this plan. While limited land and local subsidy do constrain the overall level of affordable housing production in the region, WHATT only needs to participate in a meaningful way in a moderate percentage of the currently identified projects in order to support a staff of five full-time employees. WHATT has identified specific projects that are likely to be completed over the next five to ten years that will result in production of approximately 618 new affordable housing units. Of course, some of these planned projects may not happen, others will be delayed, and still others may happen with no significant role for WHATT. However other projects, not currently identified, will surely also be undertaken. The scenario exercise shows that if WHATT can participate in the development of 317 units of housing over the next ten years (155 over the first five years), it will be possible for the organization to grow to and sustain a staff of five full-time professionals, based on two assumptions: that sufficient start-up operating funds can be secured to carry the organization through to the point when project fees begin to be realized, and that WHATT can secure modest annual operating contracts with local jurisdictions. This "break-even" scenario is well below the likely number of affordable housing units that will be developed in the area over this period of time. In order to generate the necessary development revenue, it calls for WHATT to play a role in production of the equivalent of only 51 percent of what's currently in the project pipeline, including 210 for-sale units (58 percent of identified potential) and 107 rental units (42 percent of identified potential) over a ten year period.

The scenario also estimates (roughly) the magnitude of local, state and federal subsidy necessary for each type of project. Most important, the hypothetical projects projected in the break-even scenario would require approximately $9.8 million in local redevelopment funds over the 10-year period. While this is a large number, it represents only 43 percent of the total housing set-aside funds likely to be generated by the two redevelopment areas over the same period. Because the projected demand for redevelopment funds exceeds the total available in Truckee alone, WHATT will need to participate in projects in both jurisdictions in order to meet this break-even projection. The scenario requires $10.7 million in HOME or CDBG funds over the 10-year period, less than the total that the local jurisdictions could expect to receive based on recent experience. Another $5.9 million in state subsidy from the CalHOME/BEGIN and MHP programs would also be necessary under this scenario. This is a realistic number per unit and on an annual aggregate basis, but assumes that these or similar state housing funds continue to be available after 2007, when the current Proposition 46 funds expire.

Conclusion

The Truckee Tahoe region has one of the nation's most "unaffordable" housing markets. Critical housing challenges have become a major drain on the region's overall economic health, but regional leaders have been taking strong proactive steps. Inclusionary Housing and Employee Housing Ordinances will create a large number of homes permanently affordable to households earning a wide range of incomes. Two relatively new redevelopment areas are set to generate millions of dollars in local housing funds that can leverage state and federal programs to support development of additional affordable projects—both rental and ownership. But, today the region critically lacks capacity to support and manage the large volume of new affordable housing development that is already beginning as a result of these efforts. Local government agencies are understaffed relative to the number of projects in the pipeline and there are no local nonprofit agencies ready to take on critical tasks in development projects. This plan calls for WHATT to step into this void and act immediately to undertake significant new roles and take leadership in creating more than 150 units of affordable housing over a five-year period.

WHATT faces a unique set of circumstances that create an unprecedented opportunity to foster a local housing development nonprofit. While many community-based nonprofit developers have grown slowly, starting with small projects (two to five units) and only gradually taking on larger developments, WHATT has the opportunity to do the opposite. A number of large projects are already underway in the area, to which WHATT can immediately add significant value. By playing an advocacy and support role and participating in project planning and entitlement for both rental and ownership projects, WHATT can help ensure that these projects meet local needs and facilitate more rapid approval. By coordinating marketing and sales of affordable ownership units, WHATT can centralize this specialized function and allow both the developers and the local jurisdictions to access economies of scale that would otherwise not be available to them. Over time, by playing these limited roles in large projects, WHATT can develop the internal capacity necessary to play a more hands-on development role in the kinds of smaller infill projects that the region will need to undertake eventually to meet the growing housing crisis. This strategy allows WHATT to take full advantage of all of the strengths and experience that existing regional affordable housing developers, both private and nonprofit, can bring to the Truckee Tahoe region while focusing its efforts on building capacity to play just those roles for which outside developers are not well equipped.

Housing Need Analysis

Like most parts of California, the Truckee Tahoe region has experienced housing shortages and rising housing costs throughout the late 1990s and early 21st century. A 2004 survey conducted by the North Lake Tahoe Resort Association found that 55 percent of Eastern Placer County residents were dissatisfied with the variety of local housing choices and only 20 percent were satisfied. Both renters and owners and people at all income levels identified the shortage of workforce housing as a top priority. Eighty-five percent of residents agreed that there was too little workforce housing available locally and 43 percent felt that there was too little multi-family housing. Sixty percent of residents indicated that workforce housing was either the most serious, or one of the most serious problems in Eastern Placer County.[3]

This analysis considers the portion of the Tahoe region that includes the Town of Truckee, in Nevada County, and the eastern part of Placer County, including the communities of Kings Beach, Tahoe Vista, and Tahoe City, as well as the resort areas of Sugar Bowl, Northstar, Squaw Valley, and Alpine Meadows. Housing conditions vary across this region, but affordable housing shortages exist to varying degrees in each area.

Characteristics of the Truckee Tahoe Housing Market

As in the case of all housing shortfalls, Truckee Tahoe's shortages are driven, broadly, by an imbalance between housing supply and demand. However, the Truckee Tahoe area has a number of distinct characteristics, due to its nature as a vacation destination, which impact the type and extent of housing need in the area.

Tourist Economy

The local economy is dominated by tourism. The region has long been a year round resort destination, but nonetheless experiences dramatic variation in the types and number of jobs available between the winter and summer peaks and the lowest levels in October, the depth of the off-season (by some estimates, there is a fluctuation of 3,265 jobs in the Truckee region, much of which is in the service and retail sectors).[4] A consequence of this pattern is the prevalence of low-wage jobs (the resorts offer starting salaries of $7-8 per hour), driving demand for housing affordable to lower-wage working households. Workers directly employed in the resort industry, as well as in a range of related industries, including dining, retail, lodging, transportation, and others, are all relatively low-paid and reliant on work that is seasonal in nature. Obviously, these variations in the economy, which result in highly variable employment levels throughout the year, also result in lower overall annual incomes for workers in these industries. In the Truckee area, for example, 80 percent of seasonal workers are low or very-low income; the

[3] Eastern Placer County Community Survey, 2004 Mailback Survey Results, RRC Associates for the North Lake Tahoe Resort Association.
[4] Bay Area Economics, *Draft Truckee Seasonal Worker Housing Study*, 2004.

majority earns less than $35,000 annually, and an estimated 54 percent of seasonal workers are overburdened by housing costs.[5] While income data for seasonal workers in other areas is unavailable, these numbers are probably representative of conditions for seasonal workers in the area as a whole.

While a significant portion of the workforce relies on seasonal work, recent studies indicate that these workers are not necessarily seasonal residents. Some workers do migrate to and from the area, but a majority of seasonal workers live in the area year round, seeking alternative employment in the off-season.

Seasonal Housing Market

Tahoe's nature as a tourist destination also results in a large portion of local housing devoted to vacation rentals and leases, in use during the tourist seasons, and often held off the long-term ownership or rental market. In addition, Truckee Tahoe has become a popular location for vacation homes, second homes for owners who live elsewhere for the majority of the year. Both these trends result in a significant amount of local housing unavailable for long-term occupancy. Between 1997 and 2002, vacation home sales made up more than 2/3 of home sales in the North Lake Tahoe and Truckee market. Depending on location, an estimated 50-70 percent of all units in the region are held off the long-term housing market.[6]

Aging Community

Finally, the aging of the population and the influx of well-off baby boomers have resulted in an increasing population of older residents with relatively high incomes, which has increased the price of ownership housing and decreased overall housing available for other segments of the market.

Figure 2 shows the change in population distribution between 1990 and 2000 for both Truckee and the Tahoe County Census Division in Eastern Placer County. While the Truckee population grew significantly, most of the growth occurred in the 45 to 59 year old age group. Importantly, in both Truckee and Eastern Placer County the 25 to 44 age group grew far more slowly than the overall population. This is a crucial age group for the health of the local economy. Overall the older and younger adult segments are growing while the middle is declining as a share of the total population. It appears that older households relocating to the area have essentially pushed out the 25 to 44 year old households by bidding up housing prices to a level beyond their reach.

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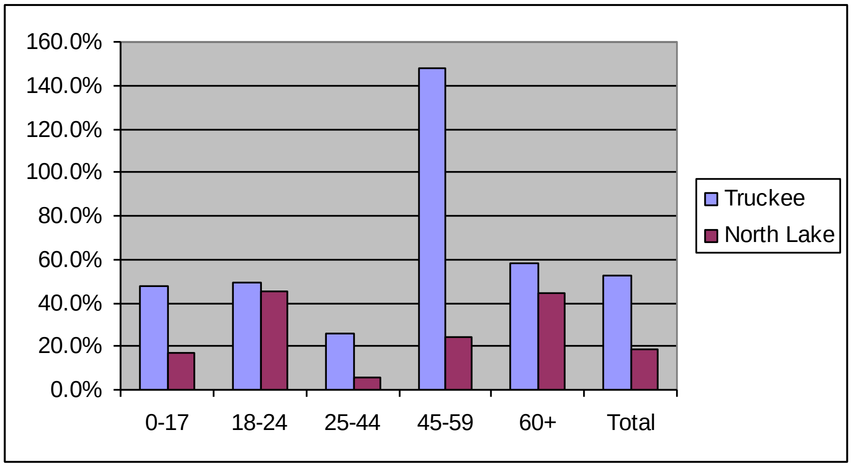
[5] Ibid.

[6] Research and Consulting Services, Inc., *Proposed Cedar Grove Project Affordable Housing Demand Review*, 2004.

Figure 2: Population Growth by Age Group, 1990 to 2000



Source: US Census bureau, 2000

Housing Market Conditions

Rental Housing

Rental prices in the area are also high, although as is currently the case in most parts of California, they tend to be more affordable than homeownership costs. A recent study by Bay Area Economics estimated average rents for apartments in multifamily buildings in September 2003 at $800/month for 1-bedroom units and $900-1,050 for 2-bedroom units.[7] At these prices, a 1-bedroom apartment was affordable for a two-person, low-income (80 percent of AMI) household, earning $37,750 annually, and a four-person low-income household could afford a two-bedroom apartment.

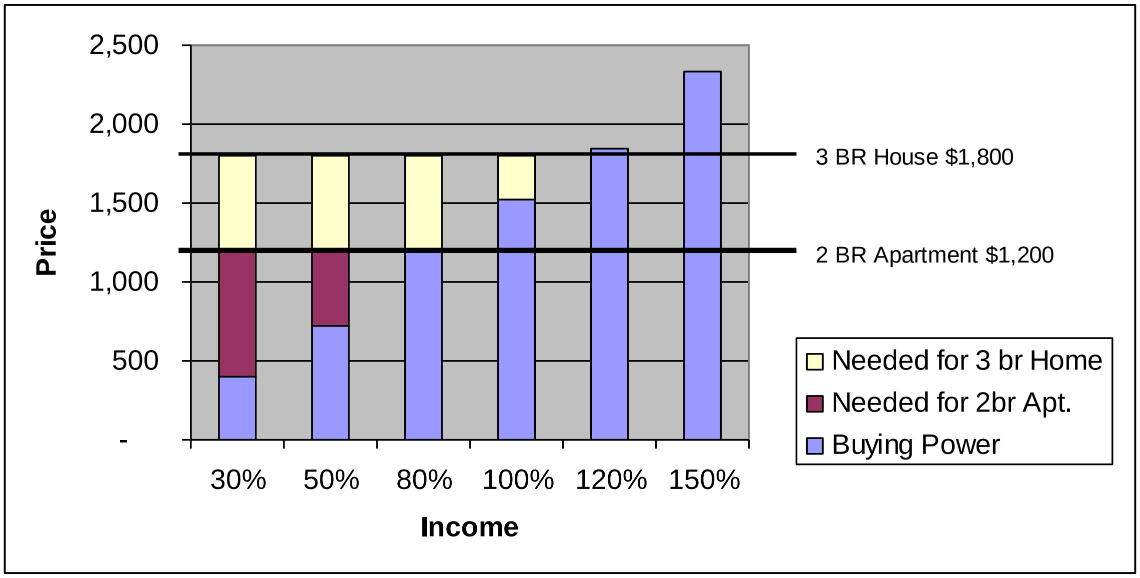
Single-family rental units, however, which comprise much of the market, were less affordable. The same study estimated single-family unit rents at $1400 for a 2-bedroom home, and $1600 for a 3-bedroom unit. These prices were not out of reach for families earning above the median income. The study found that 2-bedroom units were "marginally affordable" for a three-person household earning 120 percent of AMI or above, and affordable for a four-person 120 percent AMI household; similarly, a 3-bedroom apartment was marginally affordable for a four-person household at 120 percent AMI, and affordable for a five-person household. However, they are much less affordable for lower income households.

Based on anecdotal evidence, WHATT projects that rents have risen somewhat faster than incomes since 2003. Figure 3 illustrates the approximate affordability of rental housing options for four person households in Truckee during 2005. Assuming that rents for 2-bedroom apartments in multi-unit buildings have risen to $1200 per month, these units would be affordable to four person households earning 80 percent of Area Median Income. However, while HUD and HCD consider a 2-bedroom unit adequate for a four-

[7] Bay Area Economics, *Truckee Affordable Housing Land Use Evaluation Study*, 2004.

person household, many of these families seek 3-bedroom units, and the limited supply of apartment buildings leaves many with no choice but to rent a single-family home. Assuming a 3-bedroom home now rents for approximately $1,800, an 80 percent of AMI household would need to spend 44 percent of their income to afford such a unit. These 3-bedroom rental houses would, however, be affordable for four-person households earning 100 percent of median. Below 80 percent of median, even minimal housing is unaffordable.

Figure 3: Truckee Rental Affordability Gap



These affordability levels also vary by location, and by income level: in 2000, 60 percent of residents with incomes at or below $50,000 in the Lake Tahoe part of Placer County paid more than 30 percent of income on rent, and in Tahoe Vista, nearly 80 percent of residents overpaid for rent. In Placer County as a whole, 75 percent of households earning less than $20,000 annually (a typical salary for a resort industry employee) paid more than 35 percent of income on rent.[8] In addition, while rents do tend to be somewhat more affordable than ownership options, the supply of rental housing in the area is limited.

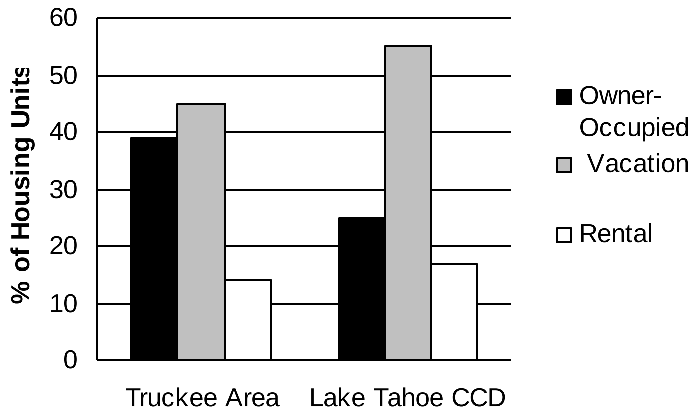
Supply of Rental Units

A significant portion of Truckee Tahoe Area housing is vacation housing. Of the remainder, most is ownership housing: as of 2000, 39 percent of homes in the Truckee area were owner occupied, while 45 percent were vacation homes, and only 14 percent were rental units; in the Lake Tahoe Census County Division, which includes Tahoe Vista, and King's Beach, 25 percent were owner occupied, 55 percent were vacation homes, and only 17 percent were rental units.[9] Clearly, rentals make up a relatively small portion of the market. Predictably, most units are single-family detached: in Placer

[8] Research and Consulting Services, Inc, op. cit.
[9] U.S. Decennial Census, 2000, Summary File 3, Tracts 12.01 and 12.02.

County, for example, 85 percent of housing is single-family detached, and 86 percent of the units built in Truckee between 1998 and 2002 were also single-family detached.[10]

Figure 4: Housing Tenure



Source: U.S. Decennial Census, 2000; Fred Consulting Services, Inc., 2002

Vacancy Rates

Overall shortages of housing at all levels are reflected in low vacancy rates in most of these areas: in Truckee, the overall vacancy rate was 3 percent in 2000,[11] and in Placer County, the vacancy rate was 1 percent for ownership units and 5.3 percent for rental units, with the rental vacancy rate falling to 3 percent in 2001.[12] While there has been significant construction activity in the region, most of the housing built has been single-family detached or condominium units, and most of this has been targeted to the seasonal market. Creation of multi-family and rental units has been relatively minimal, and there has been very little new housing targeted to the lowest income segments of the population.

Ownership Housing

Ownership prices in the Truckee Tahoe area have risen rapidly, driven by the demand noted above, from vacationers, second home buyers, and from overall shortages of available housing. More detail on prices and affordability of ownership housing in various parts of the region are shown below.

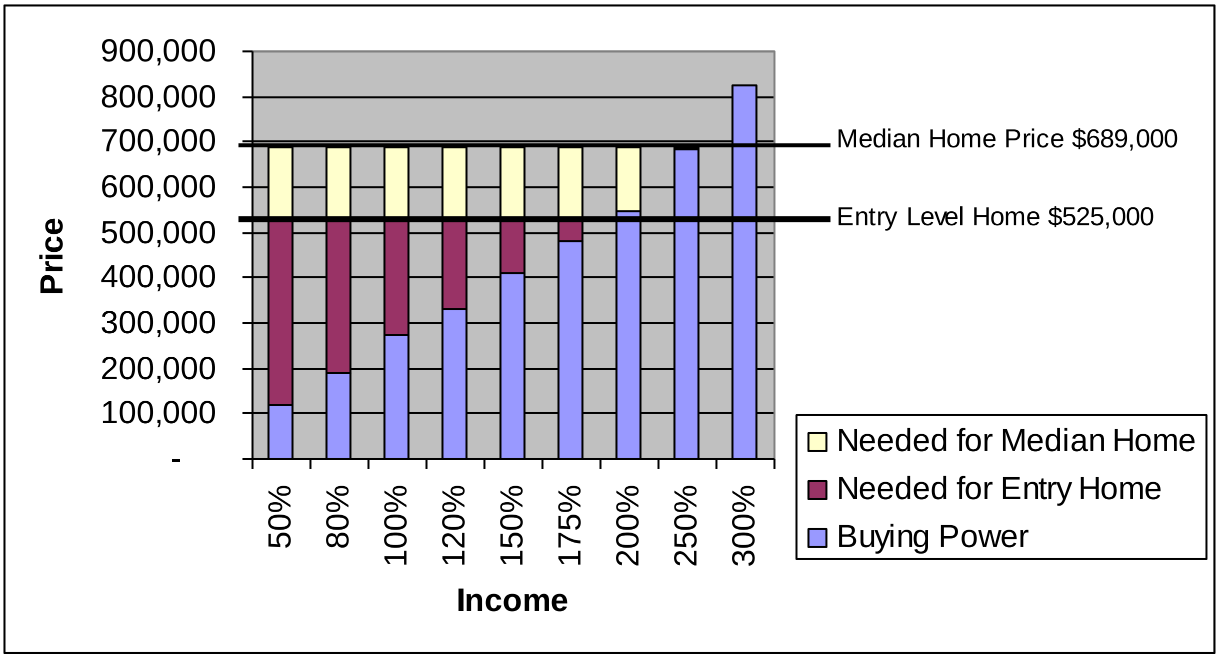
Truckee

In June of 2005, the Tahoe Sierra Board of Realtors reported that the median home price in Truckee had risen to $689,000, a 32 percent increase from the same point in 2004. A household paying 35 percent of their income for housing costs (principal, interest, taxes

[10] Fred Consulting, op. cit.
[11] Fred Consulting, op. cit.
[12] Placer County Planning Department, *Placer County Housing Element,* 2003.

and insurance)[13] would need to earn approximately $161,000 (250 percent of the Truckee Median Income) in order to afford the median priced house. Of course, half of all houses sell for less than the median. In June of 2005, the median condo price in Truckee was $517,000, a 39 percent increase from June of 2004. While condos are considerably more affordable then single-family homes, their supply is limited; in the first half of 2005, only 44 condos were sold in Truckee. A household earning exactly the median income would be able to afford a house that cost approximately $275,000 while a household earning 120 percent of median could afford about $330,000. However, of the nearly 300 residential properties listed for sale in March of 2005 in the entire Tahoe Sierra Board of Realtors service area, only 27 (9 percent) were listed for $500,000 or less. Many of these were 1-bedroom condos. Households need to be able to pay something close to $525,000 to enter the homeownership market in Truckee. Figure 5 shows the affordability gap that households at various income levels face relative to this threshold.

Figure 5: Truckee Homeownership Affordability Gap



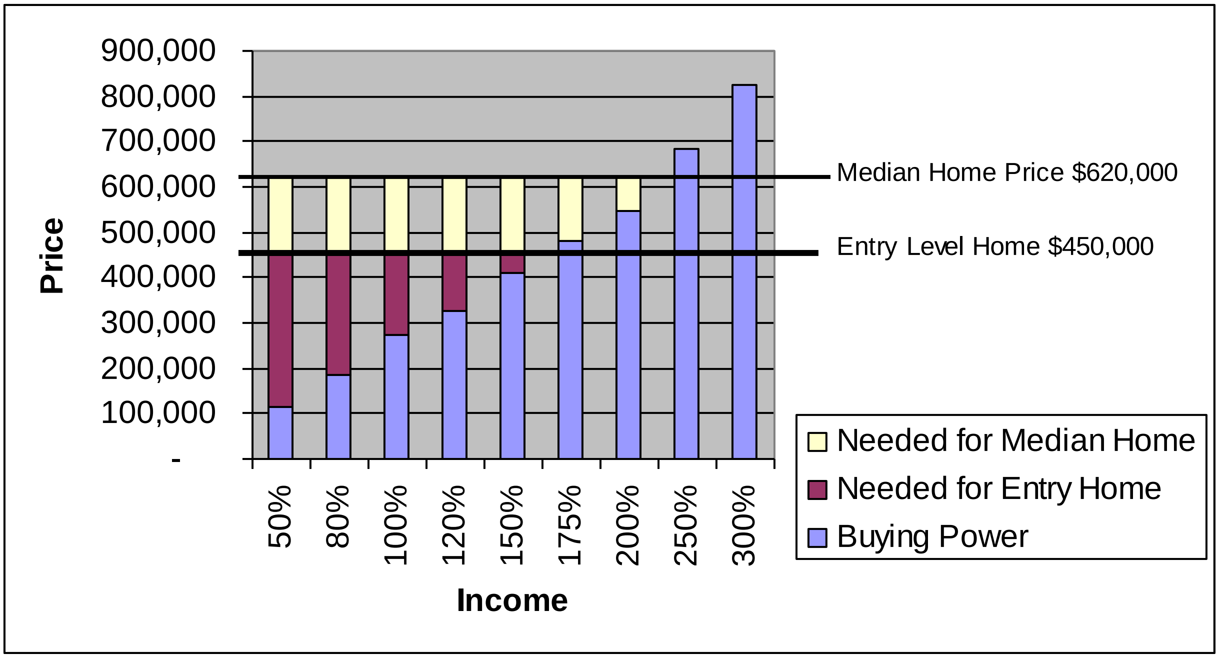
North Tahoe/Eastern Placer County

Prices for houses in the North Shore are now slightly lower than in Truckee. In June of 2005 the median single-family price was $620,000 while the median condo price was $447,000. There is no published median income for just the eastern portion of Placer County. The overall Placer County median income for 2005 is $64,100, slightly lower than Truckee's $64,500. Nonetheless, households in Eastern Placer County need to earn

[13] Assuming a 5% downpayment, 6% mortgage interest rate, 1.2% of purchase price for taxes and 2% of purchase price for annual property insurance. Buyers with larger downpayments, etc., will be able to afford higher prices. Many buyers will succeed in financing purchases that require more than 35% of their monthly income for these costs.

close to 175 percent of AMI to enter the housing market at today's prices. Households earning 120 percent can only afford to pay about $327,000, while a basic entry level home is likely to cost approximately $125,000 more.

Figure 6: North Tahoe Homeownership Affordability Gap



Summary Of Housing Need

Based on state growth projections, the Bay Area Economics study estimated the Town of Truckee's total housing need between 2001 and 2008 at over 1000 units. (222 units for very-low income households, 285 for low-income households, 357 for moderate-incomes, and 177 for above moderate incomes).[14] As of 2005, there was an estimated shortage in the North Lake Tahoe portion of Placer County of more than 800 housing units affordable for low and moderate-income households.

Types of Need

While there are shortages of virtually all types of housing, the above figures highlight several key areas of housing need.

Seasonal Workforce Housing. There is a significant need for housing affordable to the working households that support the core of the Truckee Tahoe Area's industry. Between 1990 and 2000, over 1,400 new workers were added in the area, but only 818 non-seasonal units were created, none of which had long-term affordability restrictions, and only 25 of which were rental units.[15]

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[14] Bay Area Economics, *Truckee Affordable Housing Land Use Evaluation Study*.
[15] Ibid.

Seasonal housing demand projections through 2015 estimate a need for 250 more housing units in the Town of Truckee, and 370 additional units in the immediate Truckee area; 50 percent of the demand over the next decade will be very-low income households, 30 percent low-income, and 20 percent moderate-income or above. Of the seasonal workers currently in the Truckee area, 80 percent are low or very low-income, and 87 percent are single; again, these figures are probably representative of seasonal workers throughout the Truckee Tahoe area.[16] Thus, seasonal worker housing demand is primarily for smaller ownership units or rental units, targeted to smaller, lower-income households.

Rental Housing. As indicated above, most housing created in the Truckee Tahoe Region in the past decade has been single-family detached housing, and most has been devoted to ownership or seasonal vacation use. There is a need for greater production of rental housing, to meet local demand (an estimated 80 percent of seasonal workers are renters, reinforcing the need for additional rental housing targeted to these households), and to create housing affordable to households that cannot afford even the lowest ownership prices.

Households earning less than 80 percent of median income face serious challenges in finding any suitable housing in the Truckee Tahoe Region. Market rents are generally only affordable to households earning above 80 percent of median, and households earning under 100 percent of median are unlikely to be able to afford the unit sizes and amenities that the same households could afford in most other parts of the state. Households earning 50 percent of median or less face very serious cost burdens in the current rental market. The very limited supply of rental properties, especially of multi-family rentals, means that even many of those households that could potentially afford market rents are unable to locate rentals locally and have no choice but to seek housing in other communities.

Ownership Housing: Households earning more than 80 percent of median have some choices within the rental market, but many of these families would prefer to own homes and they have very few affordable ownership options in the Truckee Tahoe Region. Households earning less than 175 to 200 percent of median income face serious challenges finding ownership housing in this market. While some households will choose to spend significantly more than 35 percent of their monthly income in order to attain ownership, the supply of units is still quite limited and families below 120 percent of median cannot expect to compete for the limited supply against higher income local residents and second home buyers from outside the area. Much of the housing stock that has traditionally provided housing to year round residents has recently been converted to vacation or second home use. Many families choose to leave the area solely due to high ownership housing costs and the relative decline of the 25 to 44 year old age group is evidence of the long term economic impact of the region's limited housing options.

Above Moderate Housing Needs: Truckee Tahoe's housing crisis is not limited to those below the traditional threshold for public support. Families earning as much as 200 percent of the Area Median Income experience difficulty finding housing in this market.

[16] Bay Area Economics, *Truckee Seasonal Worker Study*.

It is difficult for some outside the region to see the needs of families earning as much as $130,000 annually as being relevant to public policy, but the challenges that these above moderate income families face may have a disproportionate impact on the regional economy. While low wage workers clearly suffer more as they are forced to pay higher percentages of their income for housing or commute greater distances, area employers report that it is the higher wage positions that they are unable to fill. A household with two wage earners each earning $40,000 will earn more than 120 percent of the area median income. People at this wage level perform important functions serving as teachers, firefighters, police officers, store managers, technicians and many professional jobs. But these households are often willing to relocate to other communities where homeownership options are more affordable. Young people come to the area, filling relatively low wage positions, but as they develop skills and experience and increase their pay, they begin to form families, and frequently they leave the area in search of lower housing prices. This "brain drain" makes it difficult for businesses to grow; it prevents talented local workers from settling in the area and opening their own businesses. The long-term health of the regional economy requires that there be a range of housing options, including ownership choices for people earning more than 120 percent of median.

Real Estate Development Strategy

WHATT Development will focus primarily on the production of new "workforce housing." "Workforce housing" is defined as housing that provides permanent residence for year round workers employed in the Truckee Tahoe region. WHATT will actively seek a mix of project types in order to serve this full range of income levels. This population will include single individuals, couples and families with children. In order to adequately provide for the housing needs of this population, the area must offer affordable units in a variety of housing styles available for both rental and ownership. While WHATT may participate in other types of projects over time, WHATT does not currently expect to develop seasonal worker housing, senior housing, transitional housing, or housing for special needs populations.

WHATT will consider projects located anywhere in Eastern Placer County (above 5000 feet), the Town of Truckee or unincorporated parts of Eastern Nevada County and the western portion of Washoe County, Nevada. However, WHATT will initially focus its efforts on the Town of Truckee and Eastern Placer County.

Even with this focus, WHATT might choose a number of very different development strategies ranging from building individual single family homes on small infill, to conversion of existing motels to rental properties, to large low income housing tax credit rental projects, to participation in inclusionary development of affordable homeownership units in newly constructed subdivisions. Each of these strategies would further the general goal of increasing the supply of workforce housing. The type of organization that WHATT becomes will largely be determined by the types of projects it participates in, and the role it plays in those projects. An organization focused on building small rental projects would look very different from one that specialized in partnering with private homebuilders on large subdivision developments.

While the specific staffing and even the organizational governance and legal structure must be developed with the specific project mix in mind, it is impossible to know in advance what specific projects WHATT will participate in. Real Estate development is necessarily opportunity driven. While WHATT faces choices in its project selection, it cannot make those choices in a vacuum. WHATT's choices will be influenced by the set of opportunities that present themselves, and highly constrained by factors like the availability of land for development and the availability of local, state and federal housing subsidy funds. These choices will also be heavily influenced by WHATT's own organizational assets and needs: WHATT will necessarily choose projects that allow it to build on its existing strengths and that provide the income necessary for the organization to sustain itself. What follows is a detailed analysis of the organization's current assets and some of the more significant constraints that will influence the types of projects that WHATT will participate in.

WHATT's Existing Assets

WHATT was formed in 2002 by local employers with a primary focus of advocating for development, entitlement and construction of workforce housing serving the Truckee Tahoe region. Since then, WHATT has become the region's leading advocate for affordable housing and has built strong relationships with local government agencies, elected officials and private real estate developers. Through this process, WHATT has developed a number of key assets that have led many of its partners to encourage WHATT to undertake a more active role in development projects, these include:

Employer Participation: WHATT was formed with the goal of encouraging local employers to participate in efforts to grow the supply of workforce housing throughout the region. WHATT currently has 75 local businesses that pay annual membership dues. Contributions from employer members have been the primary source of revenue sustaining WHATT's successful advocacy efforts to date.

Established Role in Housing Advocacy: WHATT has focused significant effort on building broad awareness of the range of housing issues, and local stakeholders credit WHATT's work with creating an environment that is more supportive of policies that will lead to new affordable housing. WHATT has participated directly in crafting several specific local ordinances including inclusionary housing and employee housing ordinances in Truckee and Placer County. WHATT has earned the respect and trust of both housing advocates and developers by pragmatically focusing on policy changes that will make housing development easier and more efficient, while insuring that new projects serve the full range of local incomes.

Strong Relationships with Local Government: WHATT has been directly involved in housing advocacy efforts in both the Town of Truckee and Eastern Placer County. WHATT has built strong and constructive relationships with staff and elected officials in both jurisdictions.

Strong Relationships with Real Estate Developers: WHATT has coordinated crucial community support on behalf of a number of development projects that have been seeking planning approval in both Truckee and Eastern Placer County. WHATT has worked closely with the developers of these projects to ensure that community concerns are adequately addressed, and in the process, has established constructive relationships with these developers. WHATT has proven to them that it can balance a variety of community interests without losing sight of the developers' many constraints, or making unrealistic demands.

Active and Diverse Board: WHATT's 13-member board of Directors includes representatives of some of the largest local employers including Northstar-at-Tahoe, the Truckee Tahoe Lumber Company and the Tahoe Truckee Unified School District as well as local business organizations including the North Lake

Tahoe Resort Association, the Contractor's Association of Truckee Tahoe and the Truckee Donner Chamber of Commerce. WHATT's board members are actively involved in WHATT's advocacy work, serving on various committees and participating in public hearings. In addition, Board members have taken active leadership in evaluating the potential for WHATT to expand into more development roles including leading the development of this Business Plan.

Respected Staff Leadership: Rachelle Pellissier, WHATT's Executive Director was a founder of the organization and has become the public face of WHATT. Rachelle has come to be seen as the community's leading advocate for affordable housing. Rachelle has built personal relationships with local government staff, elected officials, major employers, and low-income advocates. The growing consensus that WHATT should expand to play a role in development projects is surely a reflection of Rachelle's success in building this unusually broad alliance. Prior to joining WHATT, Rachelle worked for the Truckee Donner Chamber of Commerce. She has a background in real estate property management for both commercial and residential properties and has an inactive California Real Estate License.

Potential Partners and Competitors

WHATT's specific roles in any real estate projects may be constrained by the existing landscape of organizations and institutions that WHATT might partner with, contract for services from or potentially compete with. This section identifies community organizations, nonprofit corporations, local government agencies, and private firms that might potentially play key roles in the development of affordable housing in the Truckee Tahoe Region.

Advocacy and Organizing: There is currently no other organization active in Truckee or Eastern Placer County specifically advocating for affordable housing. The North Lake Tahoe Resort Association and the Truckee Donner Chamber of Commerce have been important partners for WHATT in its advocacy work and from time to time, the Tahoe Sierra Board of Realtors has also been an ally.

Project Development: Mercy Housing is currently the only nonprofit affordable housing developer active in the region. Mercy has completed and currently manages 1 project though they have no new projects under development at the moment. There are a number of private developers actively planning or building housing in WHATT's service area. These include developers with affordable housing experience such as AF Evans Company, Holliday Development, Pacific Communities and Affordable Housing Development Corporation, as well as luxury/resort developers with limited affordable housing experience, such as East West Partners. It is likely that these large outside developers will only be able to participate in larger projects. There are a number of smaller local developers who would consider smaller projects, but these companies lack experience with the specific financing and regulatory requirements of affordable housing.

Marketing and Education: There is no local organization providing homebuyer education, credit counseling, loan prequalification, loan packaging or marketing services for affordable homeownership projects. The Home Loan Counseling Center, based in Sacramento has contracted with Placer County to offer homebuyer education workshops at times in the past. There are several property management companies that currently operate affordable housing projects in Truckee including marketing available units to prospective tenants. Mercy Housing has contracted with Placer County to administer their HOME funded first time homebuyer program, serving the eastern portion of the county. Mercy provides marketing and outreach services as well as coordinating workshops and underwriting first time homebuyer loans. Placer County also contracts with Willdan, a private engineering firm based in Anaheim, CA for administration, marketing and loan packaging for single family rehabilitation loans including those it funds in Kings Beach.

Post Purchase Monitoring and Support: Currently the Placer County and Truckee Redevelopment Agencies are each responsible for monitoring their homeowner resale restrictions, insuring occupancy and reporting to the State regarding compliance with redevelopment law, density bonus law, and State HOME or CDBG requirements. Both jurisdictions report that they lack adequate staffing for this function, and both have expressed interest in contracting with a third party such as WHATT to provide these services.

Community Land Trust Ground Leases

A Community Land Trust is an organization that exists to serve as the long-term steward of land and to protect the long-term affordability of housing that is produced with scarce subsidy resources. There are 190 Community Land Trusts (CLTs) in the United States. Typically a CLT buys or receives donated land and builds housing, selling the homes but retaining long term ownership of the land. CLTs enter into very long term (99 year) ground leases which give homeowners most of the rights and responsibilities of traditional homeowners but the CLT ground lease generally limits the resale price of CLT homes. Because the buyers don't have to finance the land cost (and frequently benefit from other subsidies) they are expected to pass that benefit along to subsequent buyers by selling at a reduced price. In this sense, the CLT ground lease functions much like a deed restriction, spelling out the homeowner's rights and responsibilities, and attempting to balance the interests of sellers and future potential buyers. Unlike a deed restriction, a CLT ground lease provides for the CLT to play an active and ongoing role in management of the community asset that is created when permanently affordable homes are built. CLTs typically charge a modest monthly ground rent to support the provision of support to homeowners on an ongoing basis, and especially at the time of resale.

WHATT's business model involves participation in the entire range of local affordable housing, both rental and ownership. In some cases, WHATT expects that affordable for sale homes will be sold subject to Community Land Trust Ground leases. In these projects, WHATT will act as a Land Trust, maintaining long-term ownership of the land under these homes, and playing a permanent role in protecting their affordability. However, WHATT does not expect that the Ground Lease will be the appropriate mechanism for every project with which it might potentially be involved. Whatever mechanisms are used to preserve and monitor affordability will need to be developed in close partnership with local jurisdictions, and it is unlikely that any one mechanism will be appropriate in every circumstance. Regardless of the specific legal and financial structure, WHATT should be able to play the same monitoring, stewardship and long-term oversight role.

Resales: Currently Placer County and Truckee are responsible for monitoring the resale of deed restricted homeownership units that they have assisted, and insuring that homes resell at the restricted price, or that public funds are recaptured at the time of sale. Placer County has a single Housing Specialist who serves the whole county and performs this function along with many others. The Town of Truckee had been contracting with the Nevada County Housing Department for similar services but recently hired an independent consultant, Joanne Anders, to perform these services.

Property Management: There are several private property management firms that manage rental properties in the area including a small number with experience managing affordable rental properties and many others that specialize in management of vacation rentals. It is likely that WHATT's development partners for any new tax credit rental property will bring in a management firm with which they have experience working. However, for smaller, non tax credit units, there does not appear to be any local management company with affordable housing experience.

Conclusion: WHATT is fortunate to have a number of strong potential housing development partners, and for this reason it should ***not*** be necessary for WHATT to build the capacity that would be necessary to undertake large scale housing projects alone. It is likely that all of WHATT's initial development projects will be undertaken in partnership with experienced private or nonprofit developers. However there are a number of key roles that are essential to the successful development of affordable housing that are not currently being played by any entity. These include:

- Finding, training and qualifying buyers for affordable ownership units
- Identifying sites for new rental and ownership projects
- Coordinating local support for projects during the entitlement phase
- Providing local oversight and monitoring to ensure that both rental and ownership properties continue to be well maintained and affordable over the very long term
- Screening tenants and overseeing property management of small, infill rental projects (including the many that may be developed in mixed-use projects required under employee housing ordinances, if approved)

Key Constraints

WHATT's ability to initiate development that meets the full range of community needs will be constrained by several key factors including the very limited supply of developable land, the limited supply of housing subsidies, the availability of mortgage financing.

Supply of Developable Properties

Any development of new affordable housing in the region will be limited by the availability of vacant land or underutilized properties. Most of the land that is within easy reach of utilities has already been developed. The Tahoe Regional Planning Agency imposes strict development limits on available land within the Lake Tahoe basin further limiting an already tight land supply. In addition, organizations like Tahoe Conservancy are actively acquiring available land for purposes of conversion to open space, further limiting the land available for housing development.

<u>Vacant Land for New Construction</u>

Truckee

The California Statewide Infill Study,[17] conducted at the Institute for Urban and Regional Development (IURD) at UC Berkeley with funding from the California Business, Transportation, and Housing Agency, identified 112 vacant or underutalized parcels within the Town of Truckee. This data set does not identify the current zoning for these parcels, or whether sufficient utilities and other infrastructure is available at the site to support housing development; however it provides a rough sense of the total supply of potential development sites and the distribution of sizes.

Table 3: Vacant and Underutilized Parcels by Size

Size	Number of Parcels		Total Acres	
10 Acres or Larger	21	19%	609	67%
5 to 10 Acres	27	24%	176	19%
2.5 to 5 acres	16	14%	59	7%
Less than 2.5 Acres	48	43%	61	7%
Total	112		906	

Source: Institute for Urban and Regional Development, California Statewide Infill Study at www.infill.org

Truckee's Affordable Housing Land Use Evaluation Study[18] provided a more focused inventory of potential sites for immediate development as affordable housing. The study looked only at lots located in parts of Truckee that are currently zoned for high-density

[17] Institute of Urban and Regional Development, UC Berkeley, Infill Parcel Locator at www.infill.org. Underutalized parcels were identified based on the ratio of land value to building value in the county assessor's database. Generally, building values should exceed the value of the underlying land;, parcels where the building is worth less than the land are generally considered "underutilized."
[18] Bay Area Economics…

residential development, and have easy access to necessary infrastructure. The study identified 13 vacant or underutilized parcels that met these criteria. Bay Area Economics estimated that if these parcels were developed at approximately 10 units per acre, they could provide a total of 938 units of affordable housing.

This inventory included only 5 parcels larger than 2.5 acres. The five large parcels account for 796 of the projected units (85 percent of the total). The remaining 8 sites are all between 1 and 2.5 acres, and all but two currently contain existing single-family homes. These parcels are included in the list of potential development sites (Attachment A).

Secondary Units: Much of the Town of Truckee has been built at residential densities well below the density that would be allowed by current zoning. For this reason, the Town has appropriately identified the potential for development of secondary housing units on many of the existing single-family residential lots. While this strategy might produce significant numbers of new housing units, many of which will, at least initially, be rented at affordable prices, it is unlikely that WHATT could play any meaningful role in the development or management of these units. While it may be possible to create some kind of program, the difficulties involved in managing scattered units make it unlikely that any public funds will directly subsidize the production of these secondary units, or that they will be maintained permanently as affordable housing.

Inclusionary Housing Requirements: The portions of Truckee that fall within the Redevelopment area are covered by inclusionary requirements which ensure that 15 percent of any new housing development will be affordable to low and moderate income households. The Town of Truckee has committed in its general plan to expanding this requirement to all development anywhere in the Town. The Town is expected to adopt an Inclusionary Ordinance describing the program in more detail in the near future. Less formally, the Town has been requiring production of affordable units as part of its approval of nearly all recent large housing projects.

Employee Housing Ordinance: The Town also committed in its General Plan Housing Element to enact an Employee Housing Ordinance designed to ensure a jobs-housing balance. The ordinance will require that developers of commercial or industrial properties help meet the housing needs created when new jobs are created, either by developing on site housing units or, in some cases, through land dedication or payment of an in lieu fee. The Town expects that this new requirement will result in significant numbers of new affordable housing units being developed, many as part of mixed-use commercial projects.

Whether or not the inclusionary or employee housing requirements are formalized into law, WHATT can reasonably expect that approximately 10 to 15 percent of all new housing developed in Truckee in coming years will be set aside as affordable in addition to new affordable units produced as part of new commercial development. Any ordinance in Truckee is likely to include strong incentives for developers to build these affordable units on site, or to dedicate land for the affordable units. Either way, private market rate development is likely to produce a growing supply of land for production of affordable housing. Given other market conditions, this is likely to be the most significant source of land for development of affordable housing in the area.

Eastern Placer County

There has been no systematic study of available land in Eastern Placer County comparable to the Affordable Housing Land Use Study completed by the Town of Truckee. Placer County did commission a development site study in 1999,[19] which identified a number of specific sites with potential for development of affordable housing. It is clear, however, that there are far fewer sites available for housing development in Eastern Placer County than in Truckee. Limited land, increased competition from resort/hotel uses, and strict development limits imposed by the Tahoe Regional Planning Agency (TRPA) will make identification of sites for housing development challenging in the Tahoe basin portion of Eastern Placer County. Nonetheless a number of significant development opportunity parcels have been identified. Attachment A lists several development sites in Eastern Placer County, which may be appropriate for affordable housing.

Inclusionary Housing Ordinance: Placer County also has adopted inclusionary requirements for projects located within their redevelopment areas, and is also likely to adopt an Employee Housing Ordinance that includes an inclusionary housing requirement for all new housing development in the near future. A draft ordinance has been developed, and is considered likely to pass.

Employee Housing Ordinance: The draft Employee Housing Ordinance will require development of workforce housing in conjunction with any new retail, commercial, recreational or industrial facilities, in addition to requiring affordable units in new housing projects. Developers of non-residential projects will be required to provide housing sufficient to house 50 percent of the projected number of employees that will work on the site. Developers will be expected to meet these requirements by building housing on site or off site, or through dedication of land. In some circumstances the requirements could be satisfied through payment of an in lieu fee.

Tahoe Regional Planning Agency: The Tahoe Regional Planning Agency (TRPA) is a unique regional agency established by Federal Compact for the State of California and State of Nevada. TRPA's adopted Code of Ordinances establishes specific regulations and thresholds to bring the region into conformance with the threshold standards for water quality, air quality, soil conservation, wildlife habitat, vegetation, noise, recreation and scenic resources. TRPA constrains development in the area through strict restrictions on zoning, land coverage, density, subdivision and building allocations. Obtaining entitlements from TRPA requires significant expenditures to assess and mitigate environmental and social impact in areas including water and air quality, soils and geology, wildlife, scenic resources, cultural and historic resources, storm water management and lighting. TRPA does not provide incentives such as waiving fees or

[19] Placer County Redevelopment Agency, Vacant Land Study.

fast tracking workforce housing projects, and the lead-time for approvals is significantly longer than in other regions. TRPA does provide other incentives. The largest is in the form of bonus units for affordable housing which removes the requirement to acquire limited building rights and then compete for limited building allocations issued each year. TRPA will only allow parcels designated for affordable housing to be annexed into community plan areas in order to take advantage of higher density zoning within those plans. It also allows for greater density for affordable housing priced at 80 percent of AMI or below. A number of TRPA ordinances inadvertently limit the development of certain workforce housing types, in particular, moderate-income home ownership, by not allowing the subdivision of land for moderate-income housing. WHATT has been working with the Lake Tahoe Housing Coalition, an affiliation of housing groups, concerned citizens, land owners and developers, through TRPA Local Government Committee (a sub committee of the TRPA Governing Board), to adopt a set of changes to the TRPA Code of Ordinances with the specific intent of removing barriers and creating incentives for the development of workforce housing in the basin.

Renovations/Conversions

There are currently very few multi-family residential properties in either Truckee or Eastern Placer County. Of these, several are already publicly subsidized, affordable rental properties. As an alternative to building new housing units, it would be possible to acquire (and presumably renovate) some of the remaining market rate rental properties, preserving them as affordable housing for the long term. Another potential conversion strategy involves converting existing motels into multi-family rental properties. While there are very few existing apartment buildings, there are many more motels in the area. Conversion would be complicated but might represent one of the few strategies for acquiring sites for affordable housing, especially within the Tahoe basin. TRPA regulations provide incentives for conversion of existing motels to affordable housing.

Conclusion: Supply of Developable Land

The limited supply of land will be one of the most important constraints on development of new affordable housing in the region for the foreseeable future. Very high land prices, steep terrain, and environmentally sensitive sites and environmental controls strictly limit the number of remaining sites where significant numbers of housing units can be built. However, the local jurisdictions have been taking appropriate steps to ensure that, as these remaining sites are developed, they include affordable housing. In the short term, inclusionary and workforce housing ordinances are likely to ensure that a significant volume of land is available for affordable housing. Over the longer term, the current pace of development is not likely to continue, and large affordable projects will be more difficult to achieve. However, there will continue to be a great many smaller infill project opportunities, especially in Truckee, where the absence of TRPA regulation makes infill projects that increase the overall density of a site feasible. The supply of smaller project sites outside of Truckee will be largely dependant on the success of changes in the TRPA regulations intended to encourage development of affordable housing. Modest changes in the TRPA rules could result in significant numbers of new affordable housing projects in the Tahoe Basin.

The rapidly diminishing supply of land for housing has another important consequence for WHATT. The growing recognition that the housing that is being built today may be the last, brings an increased attention to the need to preserve those affordable units that are produced, to ensure that they remain affordable for future generations. If land was unlimited, there would be far less need to protect these affordable units. While the limited land supply limits the number of potential projects that WHATT might participate in, it also creates a permanent opportunity for WHATT to play a role as steward of that land that is set aside for affordable housing.

Supply of Capital for Project Financing

Another key constraint on WHATT's development strategy will be the availability of affordable housing subsidies and loan funds to support affordable housing development projects. While both inclusionary housing requirements and "voluntary" affordable housing commitments made by private developers may allow WHATT to participate in the development of some affordable units without any direct public subsidy, most affordable housing development in the region is likely to require some level of public sector investment. The pace of development that WHATT is able to undertake will be greatly influenced by the availability of these funds. Attachment B provides a detailed assessment of the potential availability of several local, state and federal funding sources for projects in WHATT's service area. While housing subsidy funds are scarce, WHATT can expect that funds from the following sources will be available to finance appropriate projects in the regions:

Truckee and Placer County Redevelopment Agencies:

The Truckee Redevelopment Agency generates approximately $1.3 million per year in tax increment funds of which 20 percent ($260,000) is set aside for affordable housing. The Town expects the tax increment to grow at a rate of approximately 30 percent annually.[20] The North Lake Redevelopment Area managed by the Placer County Redevelopment Agency is expected to generate $3.5 million in tax increment in 2005/06 including $712,021 in housing set aside funds. Between 2002 and 2003, the last year for which actual receipts are available, the North Lake tax increment grew by 25 percent though the County projects future growth at 11 percent annually.[21] Together, these redevelopment areas generate nearly $1 million in housing funds today, and even if they grow far more slowly than expected, the total housing funds will likely double over the next 5 years.

Table 4: Redevelopment Housing Set Aside Projections, 2005 to 2010

Redevelopment Agency	Growth Rate	2005/06	2006/07	2008/08	2008/09	2009/10
Truckee	30%	260,000	338,000	439,400	571,220	742,586
Placer County (North Lake RDA)	11%	712,021	790,343	877,281	973,782	1,080,898
Total Annual Housing Set Aside		**972,021**	**1,128,343**	**1,316,681**	**1,545,002**	**1,823,484**

[20] Interview with Tony Lashbrook, Truckee Town Manager, July 22nd, 2005.
[21] Placer County Redevelopment Agency, North Lake Tahoe Implementation Strategy Midterm Report, September 2003.

Federal HOME and CDBG Programs:
The HOME and Community Development Block Grant (CDBG) programs administered by the US Department of Housing and Urban Development (HUD) are two of the most common sources for affordable housing subsidies throughout the country. Both programs involve "Block Grants' from HUD to local "Participating Jurisdictions" which make local allocation decisions according to local needs. Neither Truckee nor Placer County is currently a HUD Participating Jurisdiction. Projects that are not located within a local Participating Jurisdiction (PJ) are nonetheless eligible for HOME and CDBG funds through the "State PJ" which, in California, is the Department of Housing and Community Development (HCD). In recent years, both Truckee and Placer County have been successful in competing for HOME and CDBG funds. HUD requires that the State set aside a portion of HOME funds for projects sponsored by certified Community Housing Development Organizations (CHDOs). The presence of a local organization that qualified as a CHDO might help the region access a greater share of HOME funds.

It is important to note that the HUD budget has been an ongoing source of conflict in Congress, and has been cut over recent years. There is reason to believe that these cuts could be even more significant in the near future.

Federal Low Income Housing Tax Credits/Tax Exempt Bonds:
Low Income Housing Tax Credits provide the most important source of subsidy for affordable rental housing development. There are two types of LIHTC financed projects: 9 percent and 4 percent credits. The more generous 9 percent credits are awarded on a competitive basis while the 4 percent credits are generally available for any eligible project. While it may be possible to find sites that would be competitive for 9 percent tax credits, especially in Truckee, it is unlikely that very many of these projects will be developed in WHATT's service area in the immediate future given the competitive nature of the program and the specific site requirements incorporated into the scoring system. The noncompetitive 4 percent credits together with tax-exempt bonds will provide a more reliable financing mechanism for rental projects in the area. However, because these credits are less generous, the rate at which these projects are completed will be more directly limited by the availability of local and state subsidy sources.

CalHOME Program:
The CalHome program administered by the California Department of Housing and Community Development is the State's primary funding mechanism for affordable homeownership development. Funds are awarded through a competitive Notice of Funding Availability (NOFA) process, generally twice per year. The program provides grants of up to $500,000 per project, which a local jurisdiction or nonprofit recipient may use to make deferred payment loans to eligible homebuyers earning below 80 percent of the area median income. The CalHome program is funded with the proceeds of bonds authorized by California voters with Proposition 46. These funds will only be available through 2007 unless a new source of State housing funds is approved.

BEGIN Program:

The Building Equity and Growth in Neighborhoods (BEGIN) Program is the newest component of the CalHome Program. It was created in 2002 and received $72 million from Proposition 46. BEGIN provides grants to cities and counties that provide regulatory incentives, or reduce and remove regulatory barriers, to encourage the development of affordable housing. Examples of these incentives include density bonuses in excess of those required by state law, reductions in parking and setback requirements, and other relaxed building or development standards. The BEGIN program provides up to $30,000 per home. The begin program provides smaller loans than the basic CalHome program, but the funds are awarded to every eligible project on a first come, first serve basis rather than being awarded through a competition. BEGIN is one of the few subsidy sources that can be used for moderate-income units (up to 120 percent of AMI).

MHP Program:

The State of California's major program for rental housing is called the Multi Family Housing Program (MHP). MHP provides 55-year loans for new construction of affordable rental housing. The loans accrue interest at 3 percent annually but only require payment of .42 percent annual interest – meaning that at the end of the loan term, the borrower will owe more than was initially borrowed. MHP provides between $30,000 and $70,000 per unit depending on the affordability level proposed. Funds are awarded through a competitive Notice of Funding Availability (NOFA) process, generally twice per year. Like the CalHome program, MHP funds are currently only available through 2007.

California Housing Finance Agency:

CalHFA was created in 1975 for the sole purpose of providing low cost financing for both rental and ownership housing. CalHFA's primary home ownership program is its first mortgage loans, which are funded by mortgage revenue bonds. Because the interest on the bonds that fund these loans is exempt from both state and federal income taxes, the interest rates CalHFA charges its borrowers is generally 1 to 1.5 percentage points lower than the rates on a conventional first mortgage. In addition, CalHFA operates a number of Second Loan programs which provide low or no cost loans to help buyers with downpayment costs. Like the CalHOME program and the MHP program, several of the CalHFA second loan programs are funded with Prop 46 funds which will not be available after 2007 unless the legislature or voters take action to create a new source of housing funds. CalHFA mortgage revenue bonds do not require similar reauthorization and are likely to be available for every eligible project for the foreseeable future.

Private Banks

In addition to public subsidy sources, WHATT will need access to private loan capital for a number of different purposes including, potentially, site acquisition loans, predevelopment loans, construction loans and permanent mortgage loans for multi-family rental properties. In addition, WHATT's homebuyers will need access to home mortgage loans from private lenders.

Private Banks are likely to provide site acquisition and construction financing as well as permanent mortgages for rental properties and homebuyer loans. Thanks in part to the Community Reinvestment Act, banks have discovered that financing affordable housing can be good business and there is currently a very competitive market throughout California for these loans. Locally, Plumas Bank is in the process of developing a workforce housing loan product and regularly provides land acquisition and construction loans on local housing projects. WHATT's relative lack of experience and its lack of sizable assets would make it difficult for a bank to loan directly to WHATT initially. Plumas Bank regularly requires borrowers for real estate development loans to have significant assets on their corporate balance sheet and frequently to secure personal guarantees. Nonetheless, the bank expressed an interest in working with WHATT and an understanding that high impact affordable housing loans would require flexibility on the Bank's part[22]. However, WHATT may need a guarantee from a local jurisdiction or development partner in order to access site acquisition or construction financing. For initial projects, WHATT is likely to rely on development partners to access construction financing.

First Time Homebuyer Loans: A number of private institutions offer home loans on competitive terms and would be interested in financing WHATT's buyers. Lenders active in the area include Plumas Bank, US Bank, Wells Fargo, Bank of the West, Colonial Bank and Bank of America.

It will be essential that any lender financing WHATTs homebuyers understand and consent to any ground lease, deed restrictions and/or resale price restrictions. Among the locally active lenders, Wells Fargo and Bank of America have originated Community Land Trust home loans in other parts of the country, and both work with Fannie Mae which has reviewed the CLT ground lease, and approved it for use with all of their mortgage products. There is no reason to anticipate difficulties in obtaining mortgage financing for WHATT's homebuyers, but attention will need to be paid to any lender concerns prior to closing on the first for sale units.

Community Development Financial Institutions:
Community Development Financial Institutions (CDFIs) are lending institutions specifically created to invest in affordable housing and other community projects. CDFIs generally offer short-term loans at below market interest rates to nonprofit organizations that might have difficulty qualifying for traditional financing. While a Bank may be unable to lend to WHATT for site acquisition and predevelopment costs, there are a number of CDFIs that routinely make such loans. CDFIs that serve WHATT's region include the Nehemiah Community Reinvestment Fund, The Northern California Community Loan Fund, Mercy Housing Loan Fund, and the Low Income Investment Fund.

Other Potential Sources:
In addition to the sources identified above, there are a number of additional potential sources of subsidy that are unlikely to be immediately available, but may eventually play

[22] Interview with Maya Schnider, Plumas Bank, September 7, 2005.

an important role in local housing projects. Many jurisdictions throughout the state have established designated revenue streams to fund local Housing Trust Funds, and the State offers a matching grant program as an inducement to the establishment of these funds. Two of the most common sources of revenue for these Trust Funds are Real Estate Transfer Taxes and Transient Occupancy Taxes. In addition, WHATT may seek donations or discount sales of land from individuals or local institutions interested in supporting its goal of developing workforce housing for area residents.

Conclusion – Access to Capital for Project Financing

Availability of public subsidy will be a key constraint on the pace of affordable housing development, but significant local, state and federal resources are likely to be available. The region's ability to take advantage of State and Federal sources will be limited by the availability of local resources, which will be required as match/gap financing. The two recently established redevelopment areas generate only limited housing funds at this point. However, as the area's tax base grows, the housing set aside funds generated will grow significantly and will create a growing pool of local funds for affordable housing projects, which should ensure a regular pipeline of projects for the foreseeable future.

Table 5: Summary of Project Financing Sources

Source	$ Volume	Likely to Continue?
Local Redevelopment Agencies	$1 million per year.	Significant growth (20 to 30% annually) likely
Low Income Housing Tax Credits	Limited by project/site availability	Stable
HOME/CDBG	$500,000 to $2,000,000 annually	Threatened by Federal budget cuts
CalHome	Up to $500,000 per project	Available through 2007, may or may not be refunded.
BEGIN	$30,000 per eligible unit	Available through 2007, may or may not be refunded.
MHP	$30,000 to $70,000 per unit	Available through 2007, may or may not be refunded.
CalHFA – First mortgages	Unlimited	Stable
CalHFA – Second Loan Programs	Up to 3% of purchase price	Some funded with Prop 46 funds. May be limited after 2007
Private Banks	Unlimited	Stable
Community Development Financial Institutions	Generally smaller shorter term loans (less than $1 million per project)	Stable and likely to grow.

Table 5 summarizes the sources described above. Some of the sources that will be most important to WHATT are stable and growing, but others, especially those funded by Proposition 46, are threatened and will not be available unless the legislature or voters take action to identify a new source to fund these programs. Table 6 shows that WHATT should have a number of options for financing each of its likely capital needs. However, if the State does not replace the Proposition 46 funds, competition for other sources will increase significantly.

Table 6: Potential Project Sources by Use

	Redevelopment Agencies	HOME	CDBG	Low Income Housing Tax Credits	Tax Exempt Bonds	CalHOME	BEGIN	Multi Family Housing Pgm	CalHFA	Private Bank Loans	Community Development Financial Institutions
Homeownership Projects	x	x				x	x		x	x	x
Rental Projects	x	x	x	x	x			x	x	x	x
Site Acquisition	x	x	x			x		x			x
Site Improvement/infrastructure	x		x					x			
Predevelopment	x	x	x								x
Construction	x	x	x		x	x		x			x
Permanent Subsidy (loans/grants/equity)	x	x	x	x		x		x			
MultiFamily Mortgage Loans			x		x				x	x	
Homebuyer First Mortgages									x	x	
Downpayment Assistance/deferred Loans	x	x	x			x	x		x		

Project Development Roles

While the specific circumstances for every project will be unique and will require WHATT to play a different set of roles, WHATT envisions participation in four distinct "types" of projects.

- Inclusionary Homeownership
- 100 Percent Affordable Ownership
- Tax Credit Rental
- Infill/conversion Rental

While there will be significant differences between projects of any given type, WHATT's general roles and responsibilities and mechanisms for compensation will be similar for projects of each type, but will certainly be quite different between types. For Example, WHATT will play a very different kind of role in tax credit rental projects, than in inclusionary ownership projects. Each project type is described below with a general outline of the types of roles and responsibilities that WHATT would expect to take on for each type of project, an analysis of the likely volume of potential projects over time, and an assessment of the advantages and disadvantages of each type of project. The skills and systems that WHATT develops in order to play these roles in these project types may also allow the organization to participate in other types of projects.

Project Type: Inclusionary Homeownership

Overview

WHATT will partner with private housing developers to build for sale housing projects as part of larger market rate developments where the developer faces an inclusionary housing requirement. WHATT would bring local knowledge and relationships to the partnership and rely on the partner to manage the financing, development and construction. WHATT would play a lead role in marketing the affordable units, providing homebuyer education and screening buyers for eligibility. These ownership units will generally serve households between 80 percent and 120 percent of area median income.

Financing strategy

Units will be sold at affordable prices, which may be less than their development costs. Affordable units will benefit from internal subsidies resulting from inclusionary requirements. (In some cases subsidy may come in the form of land dedication or in lieu fees provided by the builder of market rate homes.) Homebuyers would provide small (3-5 percent) down payments and finance the remainder of the purchase price with traditional 30-year mortgages from private lenders. In some cases, buyers might receive down payment assistance from local or state government in addition to benefiting from below market purchase prices.

Legal Structure

Whenever practical, WHATT would hold title to the land, sell the homes subject to a Land Lease, and play a permanent role in protecting the affordability of the homes. In some circumstances, it may be more effective for WHATT to secure the affordability through the use of deed restrictions; in either case the restrictions and requirements should be the same.

Roles for WHATT

Project Development: This type of project will be initiated by the private developer with WHATT playing a supporting role in the conceptualization of the project by providing input on issues such as development density, unit sizes and amenities, site planning, etc. WHATT will:

- Support the developer in feasibility analysis.
- Manage a process for obtaining community input on project design (Business community and residential community).
- Provide guidance on project entitlement process.
- Make recommendations and referrals to local professional service firms.
- Support the developer through the entitlement process by meeting with local stakeholders to identify potential problems and coordinating support at public hearings, and by providing informal guidance to the developer on likely local concerns.
- Help the developer establish affordable prices appropriate for different income levels and unit configurations.

Marketing and Education: WHATT will be the primary coordinator of marketing, sales and homebuyer education for the affordable units. WHATT will:

- Develop a Marketing and Resident Selection Plan for the project with input from the Developer, local government and local homebuyers.
- Coordinate outreach to low and moderate income potential buyers and to local employers to ensure that the local workforce is aware of the project.
- Market available units through local businesses for purchase by their employees.
- Arrange for and potentially deliver homebuyer education workshops covering general homeownership and credit issues along with special training related to the provisions of local resale restrictions and ground lease.
- Assist buyers in identifying mortgage lenders and qualifying for loans.
- Screen applicants to ensure that their income and other characteristics meet standards imposed by inclusionary housing, density bonus and other local jurisdiction requirements, and provide all necessary documentation to local jurisdictions.
- Coordinate selection of buyers including any waitlist, lottery or other selection methods.
- Develop a Land Trust Ground Lease that protects the occupancy and affordability of the homes over the very long term and ensure that this lease meets the requirements of the local jurisdiction, private lenders and secondary market entities such as Fannie Mae, CalHFA, and local homebuyers.

- Work with a local realtor and title company to manage sales of affordable units to selected buyers.

Post Purchase Monitoring and Support: After the homes have been sold, WHATT will play a monitoring role, overseeing the units and reporting on their status to local jurisdictions. WHATT will:

- Verify that homes remain owner occupied and that homeowners maintain proper insurance coverage and pay all property taxes.
- Step in, in the event of a loan default, to either assist the owner to resolve the problem or identify another qualified low or moderate-income buyer in order to avoid foreclosure and possible loss of affordability.

Resale Management: When a homeowner decides to move, they will notify WHATT, which will then manage the process of identifying a new qualified buyer and transferring ownership of the home at an affordable price. (The lease or deed restriction will provide WHATT with an assignable option to purchase the home at this formula price.) WHATT will:

- Calculate the limited equity resale value of the home according to a formula included in the ground lease, and notify both the selling homeowner and the local jurisdiction.
- Coordinate communication with the seller and address any questions about the resale process.
- Coordinate a property inspection to identify excessive damages or necessary repairs.
- Maintain a mailing list of interested buyers and, upon receipt of notice that a homeowner intends to sell, attempt to identify an income-qualified buyer.
- Coordinate homebuyer education for this prospective buyer including training on the specific resale price restrictions.
- Work with the Title Company and Realtor, as needed, to transfer ownership of the house from the seller to the new buyer.
- Provide documentation to the local jurisdiction to verify that the home was transferred to a qualified buyer at an affordable price.

Development Related Revenue:

Project Development Fees – WHATT's primary compensation for projects of this type will be project marketing fees which will likely be calculated as a percentage of the below market sales price. In some circumstances, WHATT may also charge a fee for its participation in project development and entitlement, but this would more likely be a flat fee or hourly charge than a share of the project developer fee. In addition, WHATT expects to contract with the appropriate local jurisdiction to provide services related to eligibility screening, managing waiting lists, etc.

Post Occupancy Revenue:

Ground Lease Fees: For Ground Lease projects, homeowners will pay a modest monthly ground rent ($25 to $100) to WHATT to help cover administration costs.

Lease Reissuance Fees: Upon resale, WHATT will charge sellers a fee of between 2 and 4 percent of the sale price of the home for its services in identifying and screening buyers, and insuring compliance with local program requirements. It is unlikely that there will be many sales of these homes during the first 5 years, eventually WHATT would expect approximately 6 percent of the units to sell each year generating more substantial annual fees. The annual level of these fees would rise along with the limited resale prices of the homes.

Potential pipeline of projects of this type

The Town of Truckee is currently undergoing a building boom. The relatively large number of sizable new homeownership projects in various stages of development today present a unique opportunity for WHATT to offer these services at a significant scale immediately. Over the longer term, the limited supply of large development sites indicates that this pace of inclusionary development is unlikely to be sustained.

WHATT has identified the following projects that are currently planned or proposed in which it might potentially play some or all of the roles outlined above:

Gray's Crossing – Ownership: East West Partners is leading the development of a nearly 750 acre site in Truckee which will include over 600 housing units, a golf course, community "village center" and public trails. The developer's agreement with the Town requires them to provide 92 affordable rental units (described under the tax credit rental project type below) and 133 affordable ownership units. Fifty-nine affordable "cottage" units are expected to be completed in late 2006 or early 2007, and another 74 affordable for sale units (likely to be developed as townhouses) will be completed by early 2008. The Project Manager for this project has participated in WHATT's business planning process, and has expressed an interest in having WHATT play a role in the sale of these units.

Spring Creek: The Mancuso family, developers of this project, have proposed construction of 66 factory built, for sale units, of which they would sell 30 to moderate income buyers.

Truckee Townhomes: The Developer of this recently approved, 35-unit townhome project has committed to the Town of Truckee that they will create 7 affordable units.

Stoneridge Townhouses: This 76 unit project, approved in 2005, will include 11 affordable for sale units.

Tahoe Boca Estates: This project is currently being planned to include 250 detached single family homes. Specific affordable housing requirements have yet to be negotiated with the Town of Truckee, but a percentage of the units will likely be made affordable.

Silverwood: The Developer of this project has proposed to build a combination of townhouses and detached single-family homes totaling 94 homes. Project approval will likely require affordability restrictions for approximately 15 percent of these homes.

Sierra Bluffs: This 45 unit single-family home development currently in the planning stages will likely include 6 or 7 affordable units.

Advantages
Both the local housing staff and private developers active in the area immediately identified a key role for WHATT in inclusionary homeownership projects. There is a clear unmet need in the community related to the initial marketing, buyer qualification and training for these units. Neither Truckee nor Placer County currently has the necessary staff to play this role effectively and yet projects are currently underway that require someone to play this type of role. Local inclusionary housing programs have the potential to generate permanently affordable ownership units, but the programs are not likely to succeed without someone playing this important monitoring and enforcement role. While the skills and systems related to this role are specialized, it will not be difficult for WHATT to expand immediately into this role. Given the large number of inclusionary units currently in the pipeline, this project type would offer WHATT an immediate way to participate in the development of large numbers of homes, while it builds capacity to play a more hands-on development role in other project types.

Disadvantages
For this type of project, WHATT will rely on the initiative of private developers. While WHATT can respond to these inclusionary opportunities as they arise, WHATT will not be able to *cause* these projects to happen and will have little influence over the pace at which they happen. WHATT's role in these projects will be limited and focused primarily on marketing and supporting homebuyers. This role will not necessarily build the organization's capacity to participate directly in the development process.

Project Type: 100 Percent Affordable Homeownership

Overview

In addition to participating in the affordable component of mixed-income inclusionary projects, WHATT may choose to initiate development of entirely affordable for sale projects. For example, WHATT might identify a site appropriate for construction of affordable townhomes and bring in an outside developer to build them. For projects of this type, many of the roles and functions of WHATT and the development partner will be similar to the Inclusionary ownership type above, but the project will rely more heavily on direct public subsidy, and WHATT will likely play a more active role in defining and initiating the project and securing the essential public funding.

Financing strategy

This type of project will require piecing together financing from a number of different sources. Local housing funds (from redevelopment housing set aside, in lieu fees, or HOME/CDBG program income accounts) will be essential to the feasibility of the project. These funds might be leveraged with CalHOME or BEGIN funds from the State, and possibly with funds from the Federal Home Loan Bank's Affordable Housing Program. In addition, first time home buyers may be able to access below market first mortgages and downpayment loans from the California Housing Finance Agency (CalHFA).

Legal Structure

Once again, WHATT will serve as the long-term fee owner of the land, entering into 99-year ground leases with individual homebuyers. In this type of project WHATT might acquire or option the land prior to selecting a development partner. Once a partner is selected, WHATT might lease the land to the developer during construction. However, for reasons of liability and to simplify the subdivision process, WHATT might obtain an option on a property and assign that option to the developer once one is selected, and then buy the land from the developer after construction, at the time that the home is sold to the homeowner.

Roles for WHATT Development

Project Development: For this type of project, WHATT will play all the same roles that it played in an inclusionary project (described above), but rather than relying on developers to bring forth projects, WHATT will staff the process of site identification, and will have a much larger role in project conceptualization. WHATT will:

- Negotiate with private or public landowners to obtain site control.
- Lead the process of securing public subsidy for the project, presumably through one of the two local redevelopment agencies.
- Select a development partner to lead the design, entitlement and construction phases of the project, either informally or through a formal RFP process.
- Play all of the entitlement and project support roles identified above for inclusionary ownership projects.

Marketing and Education: WHATT's role in marketing and education for a 100 percent affordable homeownership project would be the same as for an inclusionary homeownership project.

Asset Management: WHATT would also play essentially the same asset management roles here as in an inclusionary project, however the layering of several public subsidy sources would significantly increase WHATT's reporting and monitoring responsibilities.

Development Related Revenue
WHATT would expect to receive a significant share of project development fees in addition to the marketing and buyer support fees that it might receive in a similar inclusionary project. The specific share of the development fee that WHATT would receive would vary depending on the stage in the process at which the development partner was brought into the project, and the extent of WHATT's role in obtaining site control.

Post Occupancy Revenue
WHATT would charge homeowners a modest monthly ground lease fee to help cover administration costs as well as lease reissuance fees as described above.

Potential pipeline of projects of this type
The number of projects of this type will be significantly limited both by the supply of land and the local housing subsidies. This use will compete with tax credit rental projects for limited local redevelopment funds. Both projects will absolutely require some local funding to be feasible. Because there is no federal source for homeownership projects comparable to the Low Income Housing Tax Credits, local funds "go further" in rental projects. Homeownership projects are likely to require greater levels of local subsidy per unit while serving higher income households. However, the site requirements for tax credit rental projects will be greater than those for homeownership projects (sites will need to be larger, closer to services, etc.). Therefore, to some extent, the number of tax credit projects identified will be a key limiting factor on WHATT's ability to develop ownership projects. The more sites appropriate for tax credit rental projects are secured, the less local redevelopment funding will be available for homeownership projects.

There is one project currently underway and two key development sites identified, for which WHATT might be able to play this type of role.

Cedar Grove: Affordable Housing Development Corporation, a private developer of affordable housing, has been working closely with the Placer County Redevelopment Agency to develop this project in Tahoe Vista. Current plans call for 152 units, all of which would be affordable. Most of the units will likely be tax credit rentals, but current plans call for 52 to be sold as affordable ownership units. While it is too late for WHATT to play a formal role in initiating this project, WHATT has already provided significant public support to the project, and could potentially negotiate a role in selling the affordable ownership units.

Alder Drive: This 9-acre site, part of the larger Gray's Crossing project, is scheduled to be donated to the Town of Truckee for the purpose of developing affordable housing. To date, the Town has not identified a specific development strategy for the site, and has expressed an interest in having WHATT play a formal role in crafting such a strategy and identifying development partners to execute it. The Town has applied for a State Infrastructure grant that would require at least 32 units of affordable rental housing be developed on the site, but it is likely that a portion of the remainder of the site would be used for affordable ownership housing as well.

School District Site: Less immediately, this 10-acre site in Kings Beach has been identified as an appropriate location for affordable housing. The site currently falls outside the TRPA Community Plan Area which may prevent its development, but WHATT may be able to work with TRPA to make the site available for development, provided that is it used only for affordable housing. For this to happen, WHATT would need to play a proactive role, working closely with the Placer County Redevelopment Agency to craft a development strategy and negotiate development partnerships. Ultimate development of the site would likely focus on ownership housing possibly with a preference for School District Personnel.

Advantages
WHATT will play a far more proactive role in these projects than it will in the inclusionary ownership or tax credit projects, while still leveraging the existing capacity of outside developers. By playing a leadership role in securing project subsidies, WHATT can build its existing strong relationships with local government agencies into a significant capacity that adds real value in the development phase. In exchange for this greater responsibility, WHATT can expect to receive a greater share of project development fees without taking on sole responsibility for high-risk projects.

Disadvantages
Partnerships are inherently inefficient. Even if WHATT plays a key role in staffing the development process, any fees that it charges to the project will reduce the fees available to the development partner. For smaller projects, it will be difficult for two organizations to split very limited fees, and still each cover their real costs. WHATT will need to articulate its role very clearly and ensure that its contributions to the project are proportionate to its share of the fee while simultaneously avoiding the situation where it "picks up the slack" for the development partner without proper compensation.

Project Type: Tax Credit Rental

Overview

WHATT will partner with experienced housing developers (for profit or nonprofit) to develop larger rental housing projects financed with low-income housing tax credits and tax-exempt bonds. WHATT will bring local knowledge and relationships to these partnerships and rely on the partner to manage the financing, development and construction.

Financing strategy

These projects will require 4 percent Low Income Housing Tax Credits, tax-exempt bond financing, and grants from the California Housing and Community Development Department (HCD) under both the HOME and Community Development Block Grant programs. WHATT will seek local subsidy funds (primarily from local redevelopment agencies) for land acquisition, and would lease the land to the tax credit limited partnership whenever appropriate.

Legal Structure

WHATT will be the fee owner of the land under these projects. The buildings will be owned by limited partnerships with the development partners serving as Managing General Partner and WHATT serving as co-general partner.

Roles for WHATT Development

Project Development: WHATT will play a limited but important role in project development including:

- Participate in site identification and initial conceptualization of project.
- Support developer in feasibility analysis.
- Manage a process for obtaining community input on project design.
- Support the developer through the entitlement process by meeting with local stakeholders to identify potential problems, coordinating support at public hearings, and by providing informal guidance to the developer on likely local concerns.

Marketing and Education: WHATT would provide input into Marketing and Resident Selection Plans prepared by the development partner and would coordinate community outreach and notification of the available affordable units including outreach through local employers. WHATT will:

- Provide a local office where application material would be available.
- Answer basic questions from applicants (referring to the partner as necessary).
- Collect and timestamp completed applications. (*The Developer would screen applicants for eligibility and coordinate the actual selection of residents.)*

Asset Management: WHATT will play a very limited role in ongoing operation of the projects during the 15-year tax credit compliance period. WHATT will:

- Participate in selection and ongoing oversight of a qualified Property Management firm, and development of the annual project operating budget.
- Hold fee ownership to the land, with a 15-year master lease to the Limited Partnership, and formula driven purchase option for building at the end of 15 years.
- Develop plans for transition of ownership of the property after the 15-year compliance period, which would ensure continued affordability and quality management.

Development Related Revenue
WHATT would expect to receive a modest percentage of project development fees in exchange for its role in development and marketing.

Post Occupancy Revenue
WHATT would charge these projects a small per unit, per year fee, to support its involvement in property management oversight. This fee could be structured as a ground rent or as an asset management fee.

Potential pipeline of projects of this type
The shortage of larger, centrally located sites will be the primary limitation on the number of tax credit projects completed in the region. These projects will also require considerable local and state financing, in addition to the Federal tax credits and bond proceeds.

Several specific projects are already underway in the region in which WHATT could play a role.

Gray's Crossing – rental: East West Partners, the master developer of the Gray's Crossing project (see above) committed to the Town of Truckee that it would provide 92 units of rental housing affordable to low income households. East West has contracted with Pacific Communities, an experienced private developer of tax credit rental housing to develop this portion of the project. Pacific has developed plans for the project and is currently in the process of applying for tax credits. WHATT has been involved in advocacy for this project and could still negotiate a small ongoing role.

Alder Drive: The Town of Truckee has control of an additional 9-acre parcel within the Gray's Crossing site which is likely to be developed to include at least 32 units of affordable rental housing. Pacific Communities has expressed an interest in partnering with WHATT to develop this portion of the project.

Cedar Grove: Affordable Housing Development Corporation is developing a 100 unit tax credit rental project in Kings Beach. It may be too late for WHATT to play much of a role in this project.

Advantages

This project type provides one of the only mechanisms through which WHATT will be able to provide housing for lower income households. It is likely that most newly constructed affordable rental housing developed in WHATT's service area will be subsidized, in part, through Low Income Housing Tax Credits. This source requires a complex legal and financial structure; there are a number of effective developers who are specialists in this type of project, and are available to undertake projects in the Truckee Tahoe region. Therefore, there is no need for WHATT to develop the capacity to lead development of tax credit rental properties. However, none of these developers are based in the local area and there is a widespread perception that some level of local involvement will strengthen the projects, making community acceptance and entitlement easier, and leading to projects that better meet local needs.

WHATT can play an important role in identifying properties, conceptualizing projects, building local support for them, and serving as local "eyes and ears" once projects are completed, but the fees that WHATT charges for these services must be kept to a level that will not negatively impact project financial feasibility. While WHATT's participation will make projects more likely to happen, and may help them happen more quickly, the roles described above will not dramatically reduce the workload of the lead developer.

Disadvantages

A tax credit limited partnership in which WHATT played a co-general partner role, but did not serve as Managing General Partner, would not be eligible for exemption from property taxation unless the Managing General Partner was also a 501(c)3 tax exempt corporation.[23] If WHATT were to play a more active role in ongoing management of the partnership, it would be possible to receive this "welfare exemption" from property taxes without another nonprofit partner. However, initially WHATT's lack of development experience may make financing projects in which WHATT is the true managing partner infeasible.

A number of nonprofits have been accused of "selling" their tax-exempt status to private developers, seeking this property tax exemption without really serving as manager of the partnership. If WHATT participates in these partnerships, it will need to be sure that its roles are clearly identified, that it actually performs the services identified, and that it is compensated only in proportion to the real services that it provides to the project.

[23] California State Board Of Equalization, Assessors' Handbook, Section 267: Welfare, Church, And Religious Exemptions, October 2004.

Project Type: Infill/Conversion Rental

Overview

As WHATT's development capacity grows, the organization will seek to partner with local developers to undertake smaller rental projects. These projects may involve conversion of existing motels or rental properties or construction of new buildings on available infill lots. Any rental project that would be too small to work well with tax credit financing (approximately 35 units or less) could fit in this category. Because of the smaller size (and presumably smaller fees), WHATT is less likely to be able to attract an outside developer with affordable housing development experience. For these smaller rental projects, WHATT will need to play a greater role in project development (especially securing public subsidies and entitlements), and in asset management (by serving as the long term owner of the property and directly overseeing a property management company).

Financing strategy

Redevelopment housing set aside and other local funds will be key to the feasibility of any projects of this type. In addition, HOME and CDBG funds, and the State MHP program would be likely sources of financing. However these projects are not likely to receive substantially more subsidy per unit than these state sources typically provide to tax credit financed projects, so the extra subsidy will need to come from local sources.

Legal Structure

WHATT will ultimately need to serve as the owner of both the land and buildings for this type of project. During the development phase, WHATT will enter into a joint venture (LLC or Limited Partnership) with a private developer who will sell their interest to WHATT upon completion of construction. WHATT and the Developer will share financial risks related to cost overruns, delays, etc.

Roles for WHATT Development

Project Development: Because of the expectation that WHATT will not be able to partner with an experienced developer of affordable housing on this type of project, WHATT will necessarily have to play a more active "co-developer" role. WHATT will expect its development partner to lead project development, but will likely be much more involved in aspects of the project such as design, development of planning documents, feasibility analysis and the development of materials necessary to secure project entitlements, including TRPA approval if necessary. WHATT will:

- Play a lead role in coordinating with local government agencies, both for entitlements and for project subsidies.
- Prepare grant and loan applications.
- Negotiate regulatory agreements, deeds of trust and other agreements with local and state agencies that fund the project.
- Participate in all aspects of the project development, and in all major decisions.

Marketing and Education: WHATT will coordinate all marketing and resident selection activities, oversee the marketing budget and coordinate the process of eligibility screening and leasing through an experienced management firm.

Asset Management: After construction, WHATT will own the buildings and contract with an experienced rental property management firm to handle the day-to-day operations. WHATT will oversee the management company and will also have additional responsibilities related to project bookkeeping, preparation of tax returns, government compliance/reporting, and planning for maintenance and capital improvements.

Development Related Revenue

WHATT will expect an even split of project development fees in addition to billing the project for marketing services.

Post Occupancy Revenue

WHATT will receive monthly rents from which its management company would pay project expenses and debt. It is *not* likely that affordable rents would initially allow for significant net revenue to WHATT, but the project could be expected to contribute a modest amount monthly to cover WHATT's bookkeeping and administration costs.

Potential pipeline of projects of this type

There are considerably more sites available locally for this type of project than the other types described above. Conversion or reuse of sites within the Lake Tahoe Basin will be constrained by TRPA requirements. However TRPA does provide some incentive for conversion of existing motels to affordable housing. This type of project will rely on local housing funds more than the other types. Local redevelopment agencies may prioritize funding to projects that offer greater leverage (i.e. more state and federal resources). However, as local tax increment grows, the housing fund balances for each of the two local redevelopment agencies may grow faster than the demand generated by large projects.

IVGID Sites: The Incline Village General Improvement District, a community organization focused on improving the quality of life in Incline Village, NV, has approached WHATT about participation in the development of three 1-acre parcels. These parcels might be developed as either rental or ownership, but would likely be too small to take advantage of the Low Income Housing Tax Credits.

Advantages

While larger projects are clearly more economically efficient, there is a very limited supply of large sites within WHATT's service area. The region will not be able to meet its housing needs without facilitating development on smaller sites. In addition, there is considerable community sentiment that smaller affordable projects will "fit in" better than large developments. For these reasons, WHATT will ultimately need to have a small lot strategy even if that strategy is more expensive per unit created, and requires more staff capacity on WHATT's part.

Disadvantages
Even if development fees are set at the same or a higher percentage of total development cost, a smaller project necessarily generates a smaller total developer fee. However, staffing costs are not necessarily lower for smaller projects. Community opposition, construction delays or other factors can lead to cost overruns that exceed the budgeted development fee, leaving no source to pay for staff time invested. As WHATT increases its development responsibilities and its reliance on development fees, it necessarily increases its risk. WHATT's continuing community advocacy role will be crucial to building local support necessary for the success of these smaller projects.

Property management is also risky. Even with a professional management company, the project owner takes on significant staffing responsibilities and liabilities. It is common for owners of small rehabilitation projects to discover several years after completion of construction that additional work is needed beyond the scope of the initial project. At this point, however, it may be too late to increase rents or borrow additional funds to make necessary repairs.

Other Project Types

Employee Housing: Both Truckee and Placer County are in the process of drafting Employee Housing requirements that would ensure that developers of new commercial projects help to construct housing to meet the increased need resulting from the creation of new jobs. It is not currently clear exactly how either ordinance will be structured. There will likely be incentives or requirements that lead some developers to build onsite employee housing, especially as part of mixed-use retail projects. There may also be circumstances under which developers can dedicate land or pay in lieu fees to meet their obligations under these ordinances. If these ordinances are passed, it is likely that WHATT would play a role in implementation of the programs that leveraged the capacities described for the other project types above. However, it is too soon to forecast exactly what the most helpful role for WHATT would be. If developers dedicate land or pay fees, WHATT could help aggregate those resources, putting together project development teams to undertake infill/conversion type projects with the Employee Housing Ordinance, providing essentially a financing source. However if commercial developers build the housing on site, the local jurisdictions will need help in monitoring these small scattered rental projects, qualifying residents, and reporting on the program. Developers too, may seek WHATT's assistance in identifying eligible tenants, and insuring that third party property management companies operate affordable housing portions of these projects in compliance with the local requirements. As these ordinances near completion, WHATT will evaluate its options and identify an ideal set of roles similar to the project descriptions provided above.

Above Moderate Housing: The region's housing needs do not stop with the income levels traditionally served by affordable housing programs. Many of the region's households earning above 120 percent of Area median income face serious housing challenges, and the difficulty that these households have in finding housing in the local market create significant economic problems for the region. Ultimately, WHATT will need a proactive strategy for serving these households, especially by providing a greater range of homeownership options. However, because the existing subsidy sources do not serve households above 120 percent of median, serving this segment of the market will require greater creativity and perhaps even risk on WHATT's part. Given the immediate opportunities related to projects serving households below 120 percent of median and WHATT's lack of development experience, WHATT's initial projects are not likely to target this income group; however, once implementation of this business plan is underway, the WHATT board will convene a series of meetings to develop a strategy for serving the housing needs of families earning above moderate incomes.

Summary of Development Strategy

Table 7: Potential Projects Currently Identified

Name	Type	Affordable Units
Gray's Crossing – Ownership	Inclusionary Ownership	133
Gray's Crossing – Rental	Tax Credit Rental	92
Spring Creek	Inclusionary Ownership	30
Truckee Townhomes	Inclusionary Ownership	7
Stoneridge Townhomes	Inclusionary Ownership	11
Tahoe Boca Estates	Inclusionary Ownership	~30
Silverwood	Inclusionary Ownership	~14
Sierra Bluffs	Inclusionary Ownership	7
Cedar Grove – Ownership	100% Affordable Ownership	52
Cedar Grove – Rental	Tax Credit Rental	100
Alder Drive – Ownership	100% Affordable Ownership	~30
Alder Drive – Rental	Tax Credit Rental	At least 32
School District Site	Unknown	~50
IVGID Sites	Infill Rental	~30
TOTAL		**~618**

Project Mix:

The very significant pipeline of affordable housing projects already underway within its service area creates an immediate and pressing need for WHATT to expand into a more formal role in supporting specific development projects. The current volume of production, especially in Truckee, creates a situation where the short term needs and long term needs are quite different. In the short term, WHATT must quickly prepare to fill the existing need for someone to coordinate the sale of affordable homes and to support outside developers through the entitlement process. In the longer term, WHATT will need to grow its project management capacity to play more of a leadership role in the smaller projects that will become an increasingly important part of the regional housing strategy once the last large sites are built out. In both cases, WHATT must build a scalable long-term capacity to oversee the affordability, monitor compliance and ensure quality management of the region's scarce affordable housing stock.

WHATT will focus initially on the more limited roles outlined for Tax Credit rental and inclusionary homeownership projects. WHATT will build capacity relatively quickly to serve as the initiator (but not the primary developer) of 100 percent affordable ownership projects while gradually building the project management capacity to play a much greater role as co-developer of infill/conversion rental projects. While these smaller projects are important to the organization's future, WHATT will avoid immediately launching any of these small projects that could prevent the organization from successfully playing key roles in larger projects and building its long term management and oversight capacity. When appropriate, WHATT will develop a strategy for participation in new affordable units produced under any Employee Housing Ordinance, and will begin crafting a strategy for serving households above 120 percent of median income as soon as possible.

Over time, the types of projects envisioned will allow WHATT to respond to a very wide range of local housing needs. In time, WHATT expects to participate in projects that serve households with incomes that range all the way from 30 percent of Area Median Income up to as high as 200 percent. Nonetheless, given the project opportunities and available resources, WHATT expects that the majority of projects that it participates in will serve households between 50 percent and 120 percent of median, with households below 80 percent primarily served through rental housing and those above 80 percent primarily through homeownership.

Table 8: Likely Project Mix by Income Category

Income Category	Rental	Ownership
Above 120% of AMI		
80% to 120%		
50% to 80%		
30% to 50%		
Below 30% of AMI		

Darker shade represents greater focus of effort

Core Competencies: The key skills and capacity necessary for WHATT to succeed in these projects include:

> **Marketing**: WHATT will need to become the primary local resource for identifying qualified low and moderate-income homebuyers and tenants. WHATT will need to develop systems for notifying local employers, employees and residents about the availability of affordable units and managing an ongoing waiting list/interest list. In addition, WHATT will need to develop a number of systems related to managing the sale of affordable homes to eligible buyers.

Eligibility Screening: WHATT will need to become expert in the specific requirements of local inclusionary and employee housing ordinances, as well as those of Redevelopment and other likely funding sources. WHATT will need to develop systems for tracking the specific requirements of each funding source for any given unit, and collecting the necessary documentation to verify that applicants meet the unit requirements.

Advocacy: WHATT will need to maintain its existing capacity to participate in multiple program/policy development efforts in multiple jurisdictions simultaneously. WHATT will need to continue to have both staff and Board members available to participate over time in committees and public hearings, and to provide ongoing leadership in forming local housing policies.

Project Planning and Entitlements: WHATT currently participates in project entitlement process but will need to expand its capacity to play an active role in project conceptualization, and to help staff community outreach for specific projects.

Project Financing/Public Subsidies: WHATT will need to develop expertise in the application process and project requirements of a number of public subsidy sources, especially local redevelopment funds, Federal HOME and CDBG funds and State programs such as CalHOME/BEGIN and CalHFA.

Compliance Monitoring: WHATT will need to develop lasting systems for tracking affordability and occupancy requirements for both rental and ownership units over the very long term, and producing reports for local jurisdictions about the status of projects that they have supported.

Resale Management: WHATT will need ongoing staffing and systems in order to respond quickly when owners of resale restricted homes decide to sell. WHATT will need the capacity to find and educate potential buyers and manage ongoing communication with sellers.

Property Management Oversight: WHATT will need some expertise in rental property management and will need to create systems to monitor the performance of professional property management companies.

Organizational Development Strategy

In order to play the crucial roles outlined above, WHATT will need to undergo some significant changes in both staffing structure and governance. These changes must be made fairly quickly but must also be managed very intentionally in order to not jeopardize the organization's existing assets. WHATT has been very successful as an advocacy organization, and must retain its capacity to perform these functions even as it builds out several new capacities.

Staffing Development Nonprofits

In order to evaluate the necessary staffing level and likely positions, WHATT conducted interviews with 9 other nonprofit housing development organizations, focusing especially on those working rural or resort areas and those that partner with other developers on a significant percentage of their projects. Detailed profiles based on these interviews are attached as Attachment C. None of the organizations profiled play quite the same mix of roles that WHATT is proposing but, taken together they provide a reality check on WHATT's goals, demonstrating that what WHATT is proposing is fairly consistent with the scale of operations for comparable organizations that are successfully developing affordable housing in similar environments.

Table 9: Summary of Organizational Profiles

Organization	Units	Staff FTE	Annual Budget (aprox.)	Staff Positions
Jackson Hole Community Housing Trust *Jackson Hole, WY*	84	4	$400,000	Executive Director, Program Coordinator, Communications and Marketing Director (fundraising), C&M Assistant.
Mammoth Lakes Housing *Mammoth Lakes, CA*	Start Up	3	Aprox. $300,000	Executive Director, Executive Assistant, Program/Project Manager, Intern. (Homebuyer program manager to be hired soon.)
North Valley Catholic Social Services *Northern, CA (6 County Area)*	166	4 in Housing	$9,000,000 total	Housing Director, Housing Specialist, Property Manager, Housing Technician
Northern Communities Community Land Trust *Duluth, MN*	97	5	$370,000	Executive Director, Assistant Director, Office Manager, Accountant, Outreach Director
OPAL Community Land Trust *Orcas Island, WA*	63	3	$100,000	Executive Director (1FTE) Office Manager: (.8), Housing Manager (.5), Project Manager (.5) Communications Specialist (.2), Housing Assistant (.2)
Orange Community Housing and Land Trust *Chapel Hill, NC*	110	6	$345,000	Executive Director, Sales and Marketing Manager, Construction Manager, Office Manager, Sales and Marketing Associate, and Land Trust Project Manager
Rural Nevada Development Corporation *Nevada Statewide*		8 - 4 in housing	$650,000 total	Executive Director, Housing Project Managers, Accountant
Stanco Affordable Housing *Stanislaus County, CA*	63	3	$560,000	Executive Director, Property Manager, Office Assistant
Self Help Home Improvement Project *Redding, CA*	54	22 - 6 in housing pgm.	$440,000 housing program only	Construction Supervisor (2), Loan Packager, Construction Bookkeeper, Construction superintendent, Program Manager/Land Developer

Staff Development Strategy

The immediate hiring of an **Executive Assistant** will be necessary to free up sufficient time for the Executive Director to take a more hands-on role in crafting a development strategy and negotiating project development partnerships. In addition, WHATT will move as soon as possible to hire a high level, experienced **Housing Services Director** in order to step immediately into a key role in marketing affordable units, screening residents for eligibility and monitoring compliance with affordability restrictions. Once WHATT has successfully executed a number of Development Agreements, one or more **Project Development Consultants** will be retained; as WHATT's project development responsibilities under these agreements grows, WHATT will hire a **Project Development Associate** to provide support to the Executive Director, and reduce the organization's reliance on development consultants. Over time, as WHATT becomes involved in more projects that require it to play more of a leadership role in the development phase (especially infill rental projects in partnership with developers that are not affordable housing specialists), an experienced **Project Development Director** will be hired.

Key responsibilities of each position are outlined below.

Executive Director

(Existing Position)

The Executive Director will work with the board to set the general direction of the organization, coordinate the overall development and communications strategies, and will oversee the work of each of the other staff members.

Key Responsibilities:

- Coordinate key administrative functions including budgeting, finance, personnel, office management and board development.
- Lead the organization's advocacy efforts, assisting the board and other local policymakers to understand the impact and potential of various programs, policies and projects.
- Lead membership development and fundraising efforts with support from the Executive Assistant.
- Oversee implementation and regular updates to WHATT's business plan, coordinate WHATT's real estate development strategy and manage overall growth.
- Play a hands-on role in development projects, especially the initial projects, serving as the point person for negotiations with project development partners and local jurisdictions.
- Participate in establishment of policies and systems related to homebuyer selection, training, marketing and compliance monitoring of for sale homes.
- Serve as the public face of the organization, representing WHATT at public hearings and other community events.

Executive Assistant

(Hired Immediately)

The Executive Assistant will provide general administrative support and will serve as the primary coordinator for membership development and aspects of the organizational fundraising, communications and advocacy strategies.

Key Responsibilities:

- Provide administrative support to the Executive Director and other staff as appropriate.
- Coordinate ongoing communication with existing and prospective members.
- Support the Executive Director in membership development and fundraising efforts.
- Coordinate the annual WHATT Affordable Housing Summit and other community events.
- Coordinate preparation of Board and Committee agendas, minutes etc.

Housing Services Director

(Hired immediately upon execution of first Development Agreements)

The Housing Services Director will be the primary manager of WHATT's Homeowner outreach and training, marketing and regulatory compliance program for affordable for sale housing projects. In addition, this position coordinates marketing of rental units and tenant screening for smaller rental properties. Ideally this staff person would have (or work toward obtaining) a real estate brokers license so that WHATT would not need to contract with a broker on each transaction.

Key Responsibilities:

- Develop draft policies related to marketing, waitlist management, buyer screening and resident selection for approval by the WHATT board and local jurisdiction partners.
- Craft a communications and marketing strategy to identify potential buyers of affordable homes.
- Develop a database system for tracking interested households for all affordable ownership and rental units anywhere in the region and to provide a project specific waiting list/applicant list for individual projects.
- Develop and either deliver, or contract for delivery, a multi-session homebuyer orientation program including training on resale controls, and ground leases/deed restrictions.
- Ensure that individual homebuyers fully understand all resale restrictions.
- Serve as the point of contact with all potential buyers.
- Coordinate marketing meetings, walkthroughs and any other marketing/outreach events.
- Coordinate the homebuyer selection process, insuring compliance with WHATT selection policies and any requirements of local jurisdictions or other funders.
- Support homebuyers in obtaining mortgage financing from private lenders.

- Coordinate collection of all buyer documentation necessary to certify homebuyer eligibility to local jurisdictions and any state or federal agencies.
- Work with local realtors and title companies to transfer completed affordable homes to selected buyers.

Project Development Director

(Hired within approximately 3 years, when the project development workload justifies a full time position)

The Project Development Director will oversee implementation of WHATT's real estate development strategy and will have primary responsibility for fulfilling WHATT's development responsibilities.

Key Responsibilities:

- Work with Executive Director and Board to craft a proactive affordable housing development strategy.
- Coordinate site selection and evaluation of potential projects.
- Work with local jurisdictions to identify potential resources necessary for project development, and develop preliminary financial projections.
- Coordinate selection of development partners, either through competitive RFP process or direct negotiations.
- Negotiate development partnerships.
- Represent WHATT and broader community interests in the Project Development Team.
- Coordinate community involvement in the entitlement process, and ensure that community concerns are addressed in development proposals.
- Support or lead development of applications for public funding for potential projects.
- Provide project management direction, budgeting and project coordination for projects where WHATT has a lead development role.
- Monitor project risks and progress, and report regularly to the WHATT board and to local jurisdictions as appropriate.

Development Associate

(Hired as soon as practical)

The Development Associate will provide support to the Executive Director and Project Development Consultants (or Project Development Director), and will coordinate selected aspects of WHATT's real estate development efforts.

Key Responsibilities:

- Assist the Executive Director in implementing WHATT's Real Estate Development responsibilities.
- Facilitate ongoing communication with project partners, local jurisdictions, consultants and other project stakeholders.
- Participate in project development team meetings.
- Manage consultant contracts, coordinate payments, etc.

- Coordinate, with assistance from Executive Director, WHATT's participation in entitlement process for partnership projects.

Consultants:

Project Development Consultant

(As needed)
The Project Development Consultant(s) will play a lead role in identifying potential projects, facilitating the initial project concepts, identifying project partners and negotiating partnership agreements, and will help WHATT to meet its development and entitlement support responsibilities in those projects. WHATT will rely on consultants with experience in housing development to participate in initial projects, at least until the volume of project development work warrants hiring of a Project Development Director.

Program Development Consultant

(As needed)
The Program Development Consultant(s) will assist WHATT in developing the policies, procedures and internal systems necessary to succeed quickly in the program roles identified for WHATT in this plan, especially those related to marketing and homebuyer qualification. This support is not likely to be necessary beyond the initial year or two.

Realtor

(As needed)
A real estate broker's license is required for any person who sells more than eight homes in any year. Nonprofits that sell many affordable homes typically sponsor a staff member in obtaining a real estate license. Rachelle Pellissier, WHATT's Executive Director has a currently inactive California Real Estate License. Until WHATT has a licensed staff member, it will require the services of a licensed broker, but it will seek to enter into an hourly consulting contract with this agent for a very limited set of services related to the transfer of property. In most cases, affordable homes should be selling at prices very far below market price; the services of a Realtor should not be necessary to reach potential buyers, and it should not be necessary to offer traditional broker commissions.

Board Structure, Governance and Community Accountability

While WHATT was founded by local employers to advocate for the creation of additional affordable housing in the region, as the organization has grown to play a more central role in the development of housing strategies in Truckee and Eastern Placer County, WHATT has come to serve a broader constituency. A growing portion of WHATT's dues paying members are local residents or community organizations. As WHATT takes on a more direct role in the production of affordable housing, the organization will need to build new mechanisms for accountability to this broader constituency while maintaining its close ties to the local business community, which is clearly one of the organization's key assets. WHATT will revise its organizational

Bylaws to ensure low-income representation and representation by local jurisdictions on its Board of Directors.

Community Accountability and CHDO Designation

A number of the projects that WHATT is likely to participate in will benefit from favorable financing or outright grants from the US Department of Housing and Urban Development's HOME program. The HOME program provides set aside funds for nonprofit Community Housing Development Organizations (CHDOs) that meet certain standards. WHATT's current organizational structure would not allow it to qualify as a CHDO. WHATT will need to make a number of changes to its bylaws in order to qualify as a CHDO, including adding a provision insuring that at least one third of the seats on the WHATT board will be filled by low-income individuals, residents of low-income areas or representatives of organizations that serve low-income people. In order to identify CHDO eligible board members that can participate effectively on the WHATT Board and actively represent the interests of the community, WHATT will work with existing community organizations including:

- Truckee Tahoe Community Foundation
- Family Resource Centers of Kings Beach and Truckee
- The Boys and Girls Club of North Lake Tahoe
- Tahoe Woman's Services
- Community Collaborative or Tahoe Truckee
- Sierra Nevada Children's Services

In addition, to qualify as a CHDO, WHATT will need to adopt policies that ensure that it will seek formal input from low-income community residents on its development projects and priorities. Mechanisms for community input might include the organization's existing annual Housing Summit. While these changes are simple to implement they involve a significant change in the "culture" of the organization and the changes will need to be implemented in a way that ensures the ongoing involvement of supporters, including employers and other community members.

To the extent that WHATT utilizes Community Land Trust (CLT) ground leases in homeownership projects, it will eventually become important to include leaseholders (the homeowners who live on land that WHATT owns) in the organizational governance, either by setting aside some of the Board seats for leaseholders, or by organizing some alternative forum for leaseholder oversight of programs and procedures related to homeownership units. Experience shows that maintaining the trust of these homeowners is essential, especially at the time of resale, when conflict with sellers can be costly and time consuming. CLTs across the country have found that reserving a minority (typically one third) of the board seats for leaseholders helps build the necessary trust. Three years after the sale of the first homes on leased land, WHATT will convene a working group to review the organizational structure, bylaws and consider whether any changes are appropriate to ensure adequate accountability to leaseholders.

Tax-Exempt Status

WHATT is currently recognized as a 501(c)3 nonprofit corporation with development of affordable housing as one of its purposes. The new development roles outlined in this business plan should generally be consistent with the organization's existing tax-exempt status. The bylaws changes necessary for CHDO status should not require any additional communication with the IRS. If, at some point in the future, WHATT undertakes development of a more significant percentage of above moderate-income housing, an attorney will be consulted to ensure that those projects are structured in such a way that the organization's tax-exempt status is not jeopardized. In the mean time, the roles outlined above should not require any change in the organization's tax-exempt status.

Financial Strategy

Without completing negotiation of initial projects, it is impossible to accurately predict the precise level of project revenues that WHATT will realize over the next few years. However, given the range of roles that WHATT is likely to play, it is possible to project the staffing need and associated payroll and overhead costs. The 5-year operating projections below outline in some detail the expenses that WHATT is reasonably likely to incur, present projected growth in WHATT's existing revenue sources, and identify the new revenue that will be necessary to support WHATT's expansion into development roles. Without prejudging (and potentially influencing) the specific project negotiations, it is not possible to provide detailed revenue projections. However, the hypothetical project development projections attached as Attachment E provide at least one realistic scenario, thus providing a reality check on the feasibility of WHATT's earning the required development related income. While operating projections show a very significant increase in WHATT's total revenue, the attached scenarios clearly demonstrate that such an expansion is very likely to occur given the specific projects currently underway in the region and the roles that WHATT will likely play in those projects.

Operating Expenses:

In order to provide the services outlined in this plan, WHATT will need to grow its staff and incur significant increases in annual administrative costs including opening an office in a central location. WHATT expects its annual operating expenses to grow from their current level (just above $100,000) to over $300,000 immediately, with gradual growth to over $500,000 as additional projects are undertaken and positions are phased in. Table 10 identifies a number of immediate one-time start-up costs associated with opening of a central WHATT office.

Table 11 provides rough estimates for office and administrative expenses over a five-year period. Many of these expenses, such as insurance or staff development costs, will grow in proportion to the level of staffing, while others will remain constant, growing only in proportion to general inflation.

Table 10: Start Up Expenses

Start Up Expenses	Year 1
Office Furniture	5750
Phones, Copier, Fax	6000
Computers	3000
Total	**14750**

Table 11: Office and Administrative Costs

Ongoing Office/Admin Expenses		Year 1	Year 2	Year 3	Year 4	Year 5
Office Rent (1200 ft @ $1.50)	2%	21,600	22,032	22,473	22,922	23,381
Furniture, Equipment, Computers	3% Plus	1,500	2,060	2,122	2,732	2,814
Utilities	3%	7,200	7,416	7,638	7,868	8,104
Insurance	3% Plus	2,400	3,296	3,395	4,371	4,502
Office Supplies	3%	1,200	1,236	1,273	1,311	1,351
Stationary, Letterhead, etc.	2%	600	612	624	637	649
Marketing, PR, Website	3%	3,600	3,708	3,819	3,934	4,052
Professional Fees, Accounting	3%	3,000	3,090	3,183	3,278	3,377
Employee Travel	3% Plus	500	687	707	911	938
Staff Development, Conferences	3% Plus	2,000	2,747	2,829	3,642	3,752
Payroll Processing	3% Plus	1,200	1,648	1,697	2,185	2,251
Total		**44,800**	**48,531**	**49,761**	**53,791**	**55,169**

Table 12 provides a five-year projection of WHATT's operating expenses including staffing, administration, consultants and other project specific expenses.

Table 12: Five-year Operating Expense Projections

EXPENSES		Year 1	Year 2	Year 3	Year 4	Year 5
Personnel	Base					
Executive Director	80,000	80,000	83,200	86,528	89,989	93,589
Project Development Director	74,500				83,802	87,154
Development Associate	38,000		39,520	41,101	42,745	44,455
Homebuyer Services Director	62,000	62,000	64,480	67,059	69,742	72,531
Executive Assistant	42,000	42,000	43,680	45,427	47,244	49,134
Subtotal Personnel		**184,000**	**230,880**	**240,115**	**333,522**	**346,863**
Fringe Benefits	19%	34,960	43,867	45,622	63,369	65,904
Total Personnel		**218,960**	**274,747**	**285,737**	**396,891**	**412,767**
Office and Administration						
Start Up Expenses		14,750				
Rent, phones, copies, insurance, etc.		44,800	48,531	49,761	53,791	55,169
Total		**44,800**	**48,531**	**49,761**	**53,791**	**55,169**
Project Related Expenses						
Project Development Consultants		15,000	40,000	40,000	10,000	10,000
Program Development Consultants		15,000	10,000		10,000	
Other Project Expenses		-	10,000	10,000	10,000	10,000
Total Project Expenses		**30,000**	**60,000**	**50,000**	**30,000**	**20,000**
TOTAL EXPENSES		**293,760**	**383,279**	**385,498**	**480,682**	**487,936**
REVENUE						
Current Revenue Sources	Growth Rate					
WHATT Membership	5%	85,000	89,250	93,713	98,398	103,318
Other Fundraising	5%	6,000	6,300	6,615	6,946	7,293
Subtotal Current Sources		**91,000**	**95,550**	**100,328**	**105,344**	**110,611**
Gap - Required Start Up and Project Revenues		**202,760**	**287,729**	**285,170**	**375,338**	**377,325**

Sources of Operating Revenue

Table 12 also provides estimates for incremental growth in WHATT's current revenue sources (principally membership dues), and a projection of the Start-up and Project Revenues that WHATT will need to secure in order to cover the identified expenses. In order to undertake this expansion in roles, WHATT will need to secure between $230,000 and $400,000 annually in new revenue.

WHATT has held informal discussions with several developers and both the Town of Truckee and Placer County about specific roles that WHATT might play in several large projects currently under development in the area. However, WHATT has refrained from initiating formal negotiations to finalize WHATT's role and fee structure in these projects pending the completion of this business plan. WHATT has developed a confidential set of revenue scenarios that show that WHATT can reasonably expect to earn revenues sufficient to sustain this level of staffing and overhead, if it can participate in a modest percentage of the identified potential projects.

WHATT has identified specific revenue sources for each of the development roles identified above. WHATT will generate operating revenue from a combination of four distinct types of sources:

- Membership dues from local businesses, community organizations, and individuals.
- Contract with local jurisdictions to provide specific services related to meeting the jurisdictions' housing goals.
- Project Development Fees, marketing fees and other fees earned through the successful completion of housing projects.
- Post occupancy fees such as ground lease fees, management fees and resale fees.

Current Revenue Sources

Membership Dues:

WHATT currently has 75 companies or individuals that pay annual dues to sustain the organization. For the 2005-06 fiscal year, membership dues are expected to total $86,850. This represents a 15 percent increase from the previous fiscal year. Between the 2003 and 2004 fiscal years, dues revenue grew by 25 percent. While WHATT may not be able to sustain that rate of growth, the current membership represents only a small fraction of the employers who benefit from WHATT's advocacy efforts. With ongoing effort, WHATT is likely to be able to sustain and grow this source of income. Membership income represented 83 percent of total revenue in the 2004-05 fiscal year, but only 60 percent of expected revenue for 2005-06.

Other Fundraising

In addition to member dues, WHATT receives some nonmember donations and earns some program fees. In 2005 WHATT received a $50,000 grant for business planning purposes.

Development Related Revenue

Developer Fees

To whatever extent WHATT plays a meaningful role in the development phase of a project, WHATT will expect to receive a share of the overall fee. Development fees vary significantly by product type but are generally calculated as a percentage of the total project development cost (typically 10 to 15 percent). WHATT's share of this fee will be negotiated on a project-by-project basis and will be proportional to the level of responsibility and share of project risk that WHATT takes on. Initially WHATT expects to receive only a small share (10 to 20 percent) of fees for Tax Credit Rental Projects, and a much higher share (approximately 50 percent) for small infill rental projects. For homeownership projects where WHATT played a development role, WHATT might expect between 15 and 25 percent of the development fee. WHATT is likely to participate in a number of Inclusionary for sale projects where WHATTs role in development is primarily limited to marketing and managing affordability restrictions and limited support through the entitlements process. In these cases, WHATT might not receive any share of development fees, instead charging the project a marketing fee. To the extent that WHATT brings site control to a partnership, or participates in projects located within the TRPA jurisdiction where local knowledge is especially important, WHATT would expect a higher share of development fees.

Developer fees are generally considered "at risk" during the development phase. The fees are earned when the project is completed on time and on budget, but may be reduced in the event of cost overruns. In addition, many affordable housing developers are required to "defer" significant portions of their developer fees – receiving them from annual net income in future years, rather than in a lump sum at close of construction. To the extent that WHATT receives development fees, its share will need to be "at risk" alongside the development partner's. In some cases, WHATT may be able to negotiate arrangements where its development fee is tied more closely to WHATT's performance, and WHATT is somewhat isolated from construction cost overruns and other risks beyond its control.

Examples:
As part of the process of developing this Business Plan, WHATT conducted interviews with nonprofit and for profit developers in order to identify relevant real world examples of the roles that nonprofits play in development partnerships and the fees that they receive in these partnerships. A set of profiles based on these interviews are attached as Attachment D.

- **Rural Nevada Development Corporation** has partnered with Pacific Communities, a for profit developer specializing in affordable housing development on five separate tax credit rental projects. RNDC typically receives **between 10 percent and 30 percent** of whatever developer fee is available after construction is completed. RNDC participates in all aspects of the development, but relies on Pacific to play the lead role in every area. RNDC's nonprofit and CHDO status facilitates access to important financing sources. The projects are spread throughout the state of Nevada and RNDC does not bring local knowledge of each local community to the process.

Marketing and Compliance Fees:

A major initial role for WHATT will be coordination of the marketing and sale of affordable homeownership units (both inclusionary and 100 percent affordable projects). For the most part, the developers of these projects are unfamiliar with the affordability and eligibility requirements imposed by local and state government agencies, and are not equipped to provide screening and education to buyers. WHATT will provide a comprehensive set of services to these projects including marketing and outreach, managing waiting lists/lotteries, screening potential buyers for eligibility, coordinating homebuyer orientation and counseling, and working with local lenders to qualify low and moderate income buyers for mortgages. WHATT will charge a per unit fee for this set of services. The fee may be different for individual projects based on the size of the project and the complexity of the financing sources utilized. Typically a real estate agent would charge a fee of 6 percent of sales price to perform similar services. Nonprofit agencies that perform these services for affordable projects typically charge no more than 3 percent of the sales price.

There is a potential overlap between development and marketing fees charged to projects and fee for service contracts with local jurisdictions. WHATT cannot charge twice for the same services but there is more than one reasonable way to split these costs. In some communities, local governments provide (or contract for) homebuyer support and qualification services for affordable homeownership projects while other jurisdictions require developers to provide (or contract for) most of these services. Neither Truckee nor Placer County have clearly delineated developer responsibilities in this regard. It is likely that WHATT will receive both contract revenue from local jurisdictions and marketing or development fees from project developers, but the exact level of each will have to result from a more detailed set of negotiations between WHATT, the local jurisdictions and the development partners.

WHATT may play a far more limited role in supporting the marketing efforts of rental housing developers, and would expect to earn more modest marketing fees in these projects.

Examples:

- **Realtors** typically charge developers up to **6 percent** of sales price for marketing and coordinating sales of homes.
- Placer County contracts with **Mercy Housing** to provide a set of services for scattered site homebuyer assistance loans including marketing, education, buyer qualification and loan packaging. Mercy receives **$5,750** per unit for playing

these roles in addition to a flat administration fee for providing reporting and other administrative services.

- Placer County pays **Willdan**, a private engineering firm, a fee of **$5,267** per unit for administration and loan processing for homebuyer rehabilitation loans throughout the County.
- The **Portland Community Land Trust** in Portland Oregon manages the sales of single-family homes on behalf of seven different nonprofit homebuilder partners charging each project a marketing fee of **$3,000 to $4,000** per unit.

Post Occupancy Fees:

Ground Lease Fees

Each homeowner will pay a monthly ground lease fee. While these fees may be WHATT's most reliable source of revenue, the small numbers of initial CLT homes and the need to keep the fee relatively low to facilitate affordability means that WHATT will not be able to rely on ground lease fees to cover a significant portion of the cost of operating the program in the initial years. Higher monthly ground lease fees make more of a contribution to the organization's operating costs, but money that families pay in lease fees is not available to support their mortgage. Therefore, the higher the lease fee, the more subsidy is required to make the same house affordable to families at a given income level.

Lease Re-issuance Fees

Because the resale formula tends to hold the price of most CLT homes far below their market value, many CLTs are able to add a small charge to the resale price without compromising the home's affordability, when these limited equity homes change hands. This charge is used by the CLT to defray some of its own costs of overseeing the transfer of ownership from one low-income homeowner to another. Once there is a significant portfolio of CLT homes these fees can provide a sizable source of ongoing revenue, but WHATT is unlikely to earn any of these re-issuance fees during the first five years.

Examples:

- The **Burlington Community Land Trust** in Burlington, Vermont charges a fee of **6 percent** of the sales price of affordable homes in exchange for marketing and coordinating the transfer of limited equity homes.
- **OPAL** on Orcas Island, Washington charges a **2 percent** fee for similar services; 1 percent is paid by the seller as a marketing fee, and 1 percent by the new buyer as a closing cost.

Management Fees:

The initial rental projects are likely to be larger tax credit financed projects developed in partnership with an experienced affordable housing developer. These projects will be managed by an experienced professional management company, and at least initially, WHATT will play only a limited role in overseeing the property management company, relying on the development partner to serve as the Managing General Partner of the partnership and provide direct supervision of the management company. In the future, as WHATT undertakes smaller infill rental projects, it will need to be prepared to partner with developers that lack experience in managing affordable housing, and WHATT will need to be prepared to play a more active role in management oversight. Nonetheless WHATT will continue to seek professional property management services, but will expect to receive some level of property/asset management fees.

Operating Grants/Contracts

Local Government Service Contracts:

Neither the Town of Truckee nor Placer County currently has sufficient staff to perform all of the functions necessary to support the current pipeline of affordable housing development in their respective jurisdictions. Both staff and elected officials from each jurisdiction have expressed interest in contracting with WHATT to perform services. WHATTs effective leadership on housing issues has placed it in a strong position to negotiate ongoing service contracts with each jurisdiction, and to raise a substantial portion of its annual operating costs in this manner. The specific services included in each contract will need to be negotiated individually, but ideally WHATT would play a broad role supporting each in meeting its housing goals, and in crafting effective partnerships with outside developers. WHATT will ask each jurisdiction to help support its efforts to identify new affordable projects and to negotiate development partnerships. Under this type of contract, WHATT might produce preliminary project materials and coordinate solicitation of specific development proposals from outside developers. In addition, each jurisdiction has expressed interest in contracting with WHATT for homebuyer screening, homeowner support and training, and ongoing affordability monitoring for ownership projects.

Examples:

- Placer County entered into a **$38,500** contract with **Mercy Housing** to administer a HOME grant and Redevelopment funds set aside for First Time Homebuyer Loans. In addition to preparing individual loans for which Mercy is compensated on a per unit basis, Mercy receives a total of $15,500 in administrative funds to maintain an applicant database, prepare reports, respond to information requests, and provide other administrative services, including applying to the state for an increase in the maximum sales price for supported units, and helping the County to compile new funding applications.
- The Town of Mammoth Lakes contracts with **Mammoth Lakes Housing**, a local nonprofit, for a comprehensive set of services including management and oversight of existing deed restricted homes, coordination of the local inclusionary housing program, assistance in administering a local housing trust fund, administering a centralized waiting list for affordable ownership and rental units, and participation in key development projects. The annual contract for these services is **$126,000**. MLH also receives project development and marketing fees from projects it helps staff.

Private Operating Grants

Private Foundations also provide a regular source of ongoing support to housing nonprofits around the country. One key challenge is that many foundations have geographic areas of service, and a remote area like Truckee Tahoe is served by fewer foundations than more urban communities are. Regional banks such as Wells Fargo and Bank of America have each provided significant grants to support CHDOs in other communities. Those banks that are most active in underwriting home loans in the local area are most likely to see value in supporting the program. Once projects are underway, WHATT will actively seek operating grants from participating banks.

The S.H. Cowell Foundation has made a significant ongoing commitment to funding community efforts in Kings Beach and has invited WHATT to apply for start up operating funds to support the expansion of roles outlined in this Business Plan.

Individual donors

Many CHDOs, like other community organizations, are able to raise contributions from individuals to help support their operating costs. In some cases, they have also been successful in securing donations of land from socially motivated individuals or institutions. Raising large amounts of money from individual donors requires significant staffing support. It is unlikely that individual donations will represent a large percentage of operating support for WHATT during the first five years, but over time, individual donations should become a more significant source of operating support.

Break-even Analysis:

WHATT has developed a set of project development scenarios to evaluate the impact of various fee structures and assumptions about the rate at which projects are completed. The scenarios imagine a set of hypothetical but realistic projects corresponding to the project types described above. The scenario exercise makes it clear that the resources are available to support and sustain WHATT's growth into the roles outlined in this plan. While limited land and local subsidy do constrain the overall level of affordable housing production in the region, WHATT only needs to participate in a meaningful way in a moderate percentage of the currently identified projects in order to support a staff of five full-time employees. WHATT has identified specific projects that are likely to be completed over the next five to ten years that will result in production of approximately 618 new affordable housing units. Of course, some of these planned projects may not happen, others will be delayed, and still others may happen with no significant role for WHATT. However other projects, not currently identified, will surely also be undertaken. The scenario exercise shows that if WHATT can participate in the development of 317 units of housing over the next ten years (155 over the first five years), it will be possible for the organization to grow to and sustain a staff of five full-time professionals, based on two assumptions: that sufficient start-up operating funds can be secured to carry the organization through to the point when project fees begin to be realized, and that WHATT can secure modest annual operating contracts with local jurisdictions. This "break-even" scenario is well below the likely number of affordable housing units that will be developed in the area over this period of time. In order to generate the necessary development revenue, it calls for WHATT to play a role in production of the equivalent of only 51 percent of what's currently in the project pipeline, including 210 for-sale units (58 percent of identified potential) and 107 rental units (42 percent of identified potential) over a ten year period.

The scenario also estimates (roughly) the magnitude of local, state and federal subsidy necessary for each type of project. Most important, the hypothetical projects shown in the break-even scenario would require approximately $9.8 million in local redevelopment funds over the 10-year period. While this is a large number, it represents only 43 percent of the total housing set-aside funds likely to be generated by the two redevelopment areas over the same period. Because the projected demand for redevelopment funds exceeds the total available in Truckee alone, WHATT will need to participate in projects in both jurisdictions in order to meet this break-even projection. The scenario requires $10.7 million in HOME or CDBG funds over the 10-year period, less than the total that the local jurisdictions could expect to receive based on recent experience. Another $5.9 million in state subsidy from the CalHOME/BEGIN and MHP programs would also be necessary under this scenario. This is a realistic number per unit and on an annual aggregate basis, but assumes that these or similar state housing funds continue to be available after 2007, when the current Proposition 46 funds expire. If this source is not renewed or replaced, this conservative break-even scenario may not be feasible.

Of course, over time new projects will be identified in spite of the constraints and WHATT may ultimately be able to participate in a far larger number of units over the next 10 years. And in fact, the longer-term health of the organization requires WHATT to do more than break even over the short term. As WHATT grows into more of a project management role and becomes relatively more dependant on project development fees it will face greater and greater risk related to the timing of project completion. Development companies typically earn project fees on an irregular and sometimes unpredictable schedule, and must be prepared to operate for several years without fee income whenever projects are delayed. For nonprofit developers the only way to sustain the organization through years between project completions is by funding healthy operating reserves.

WHATT expects to be able to exceed the project production schedule required for the break-even scenario. To some extent, increased production will require increased staffing (particularly consulting). However, if WHATT is, as expected, able to secure contracts to participate in a larger volume of projects over the next few years, WHATT would expect to generate net income to capitalize an "***Opportunity Investment Fund***," which would be used to carry the organization through inevitable periods when development revenue is delayed and to fund acquisition and project specific predevelopment expenses for future projects.

Conclusion

Risks

This plan is realistic and in fact conservative in many respects, but nonetheless there are a number of factors that could make it more difficult for WHATT to implement this strategy:

Project Fees: The break-even scenario makes certain assumptions about the level of fees that WHATT would earn for playing the roles described above. The assumptions incorporated in the break even scenario are conservative in that they are well below the levels charged by comparable organizations identified in the project profiles (see Attachments C and D). However, none of the profiled projects are perfect comparisons, and there is a chance that WHATT would need to accept lower overall fee levels per project, and play a more limited role in each type of project. If combined fees were lower than anticipated on a per unit basis, WHATT would need to participate in a greater share of the projects in order to support this staffing level.

Production Pipeline: The break-even scenario also assumes a certain level of production (units per year), which may not come to pass. Regulatory, environmental, market or other project specific challenges could result in some or all of the identified projects being permanently infeasible. Alternatively, some change in the political or organizational landscape could mean that there will be no meaningful role for WHATT in these projects, even though they move forward. In this case, WHATT would not be able to implement the staffing plan described in this Business Plan. WHATT should be able to adequately protect itself against this unlikely situation by securing contracts for a significant percentage of the units called for in the break-even scenario, before committing to hiring new staff. Several of the projects, including Gray's Crossing, Spring Creek and Cedar Grove are currently at or very near the appropriate stage for WHATT to negotiate binding service contracts. If WHATT is unable to secure the anticipated roles in these initial projects, it will need to delay hiring of new staff positions until additional contracts or partnerships are secured.

Project Delays: WHATT's strategy requires immediate action to build capacity to participate in the entitlement and marketing of projects that are currently under development. If WHATT is going to play a role at all in these large projects, it must act quickly. However, if these initial projects are subsequently delayed for long periods of time and other large projects are not completed in the mean time, WHATT would have difficulty sustaining the necessary staffing. Prior to hiring the Housing Services Director, WHATT must be confident that at least one large ownership project is likely to be completed within 18 months.

Local Housing Policies: WHATT's business strategy has been crafted in response to the specific needs and opportunities created by recent positive changes in the local housing policy environment, but WHATT's ability to implement this business plan requires continuing progress in establishing local programs and policies favorable to the development of affordable housing, including:

> **Inclusionary Requirements:** Both Truckee and Placer County are considered likely to pass ordinances that would require new affordable housing production in conjunction with all new housing and commercial real estate. Because both jurisdictions are already effectively requiring developers to include affordable units, WHATT's plan does not rely on any particular timeline for passage of these ordinances. However, if inclusionary ordinances are not ultimately successful, and the local jurisdictions do not continue their current practice of informally requiring inclusionary units in new market rate projects, WHATT would likely be involved in development of far fewer units (especially ownership units), and would need to revise its projected staffing need. WHATT could still play important and self-sustaining roles in non-inclusionary projects but the organization would need to operate at a smaller scale and it would be more difficult to sustain the organization between projects.
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> **Tahoe Basin**: Especially in the Lake Tahoe Basin, WHATT's ability to develop affordable housing will require increased proactive leadership on the part of both the Placer County Redevelopment Agency and the Tahoe Regional Planning Agency. WHATT has been working closely with both agencies and important progress has been made, but TRPA will need to complete modifications to their Code, and the redevelopment Agency will need to take aggressive steps (including, potentially, the use of eminent domain) if new projects are to be feasible in the Tahoe Basin.

Loss of Focus: WHATT has built a strong reputation as an advocate for affordable housing, and in playing an increasingly important role helping to craft a set of local policies that will result in development of new housing. This plan calls for WHATT to take on *several* new and challenging roles. There is a risk that by becoming more involved in development, that WHATT could loose its focus and ultimately weaken, rather than strengthen, its position as an advocate. Similarly, there is a risk that the demands of any one project (or project type) could overwhelm the young organization, making it difficult to execute its new responsibilities in new projects. The staffing plan outlined above is intended to vest leadership responsibility for different aspects of the organization with different senior staff members, but the WHATT Board will need to pay close attention to the staff work plan and ensure that the Executive Director, especially, has the support necessary to continue to play important advocacy roles while overseeing the other functions. It will be especially important that the Executive Director not become the primary staff person leading any development project.

Staff Recruitment: One of the most important challenges that WHATT faces in implementation of this plan will be the recruitment of skilled staff. Ironically, the local housing market will likely be a major barrier. While there may be qualified local candidates, WHATT will need to look outside of the area especially for the

Housing Services Director and the Project Development Director, and housing costs will be a major concern for any outside candidates. Over the short term, WHATT can rely on consultants until it fills these key positions, but over the longer term, If WHATT is unable to attract skilled staff, it cannot proceed with this plan; there is no fall back strategy that would allow WHATT to participate in development projects without skilled staff.

State Housing Funds: California Voters approved Proposition 46 in 2002 to create a source of funding for a number of housing programs. Financing for any non-inclusionary affordable housing projects that WHATT participates in is likely to require access to one or more of these Prop 46 funded programs. The funding authorized by Prop 46 will not be available after 2007 unless the legislature or voters authorize issuance of a new bond or identify an alternative funding mechanism. Efforts are currently underway to create a permanent source of revenue for a State Housing Trust fund, but there is no way to know whether they will be successful. WHATT's ability to undertake projects beyond the inclusionary projects will depend to some extent on the success of these efforts. If new state resources are not secured, WHATT's rate of production will likely be lower than anticipated.

Start Up Funding: Over the medium term, WHATT is in a strong position to negotiate partnerships with developers and contracts with local jurisdictions that are self-sustaining. The fees associated with the new project development roles described above will be sufficient to more than cover the associated costs. However, the development and marketing fees that make up a large portion of WHATT's likely revenue will generally be earned at the time of project completion. In order to earn those fees, WHATT needs to expand its staff immediately. While WHATT *may* be able to borrow funds to pay for staff in anticipation of relatively secure future fees, the nature of development organizations is that the fees from each completed project are generally needed to support staffing for the *next* project. If these fees have to be used to repay loans, the organization is unlikely to be sustainable over the long term. One time start up grants, by paying for operating costs for the first two years, will essentially capitalize the organization for the very long term by allowing it to invest future project revenues into additional projects. If WHATT is unable to obtain start up grants, it will not undertake this business plan.

Milestones

4^{th} Quarter of 2005

- Business Plan approved by WHATT Board.
- Business Plan and proposed roles reviewed with Placer County, Truckee and North Lake Tahoe Resort Association.
- Gray's Crossing deal structure agreed upon between WHATT, the Town of Truckee and East/West Partners.
- Minimum of $300,000 in start up funds secured from public and private sources.
- 2005 membership goals achieved.
- Changes to WHATT by-laws necessary to qualify as a CHDO approved by Board.

First Quarter of 2006

- Executive Director Job Description modified/staff positions finalized.
- WHATT Development office opened.
- Executive Assistant hired.
- Contract finalized with the Town of Truckee and East/West Partners.
- Business Plan revised based on constituent feedback and impact of initial negotiations.
- Year one Annual Work Plan approved by WHATT Board of Directors.

Second Quarter of 2006

- Agreement signed for the Spring Creek project with the developer and the Town of Truckee.
- Necessary board seats/members added to comply with revised by-laws.
- Obtain CHDO status from State of California.
- Housing Services Director Hired.
- MOU negotiated with Placer County.

Remainder of 2006

- Convene committee to develop strategy for above moderate-income housing.
- Board retreat to build capacity for new board and revisit business plan.
- Approve strategy for responding to needs created by employee housing ordinance, if necessary.
- First sale of Gray's Crossing home.

Later

- Approve above moderate-income housing strategy.
- Hire Project Development Director once sufficient volume of development work has been identified.
- Three years after the sale of the first homes on leased land, WHATT will convene a working group to review the organizational structure, bylaws and consider whether any changes are appropriate to ensure adequate accountability to leaseholders.

Conclusion

The Truckee Tahoe region has one of the nation's most "unaffordable" housing markets. Critical housing challenges have become a major drain on the region's overall economic health, but regional leaders have been taking strong proactive steps. Inclusionary Housing and Employee Housing Ordinances will create a large number of homes permanently affordable to households earning a wide range of incomes. Two relatively new redevelopment areas are set to generate millions of dollars in local housing funds that can leverage state and federal programs to support development of additional affordable projects—both rental and ownership. But, today the region critically lacks capacity to support and manage the large volume of new affordable housing development that is already beginning as a result of these efforts. Local government agencies are understaffed relative to the number of projects in the pipeline and there are no local nonprofit agencies ready to take on critical tasks in development projects. This plan calls for WHATT to step into this void and act immediately to undertake significant new roles and take leadership in creating more than 150 units of affordable housing over a five-year period.

WHATT faces a unique set of circumstances that create an unprecedented opportunity to foster a local housing development nonprofit. While many community-based nonprofit developers have grown slowly, starting with small projects (two to five units) and only gradually taking on larger developments, WHATT has the opportunity to do the opposite. A number of large projects are already underway in the area, to which WHATT can immediately add significant value. By playing an advocacy and support role and participating in project planning and entitlement for both rental and ownership projects, WHATT can help ensure that these projects meet local needs and facilitate more rapid approval. By coordinating marketing and sales of affordable ownership units, WHATT can centralize this specialized function and allow both the developers and the local jurisdictions to access economies of scale that would otherwise not be available to them. Over time, by playing these limited roles in large projects, WHATT can develop the internal capacity necessary to play a more hands-on development role in the kinds of smaller infill projects that the region will need to undertake eventually to meet the growing housing crisis. This strategy allows WHATT to take full advantage of all of the strengths and experience that California's existing regional affordable housing developers, both private and nonprofit, can bring to the Truckee Tahoe region while focusing its efforts on building capacity to play just those roles for which outside developers are not well equipped.

Attachments

A. Potential Development Sites
B. Key Sources of Project Financing
C. Organizational Profiles
D. Project Partnership Profiles
E. Break Even Analysis – CONFIDENTIAL – Not for Distribution