District of Columbia Limited Equity Cooperative Task Force for 2018-2019
Preliminary Recommendation Report May 2019

Contents

Task Force Members

Paul Hazen, *Chair*, U.S. Overseas Cooperative Development Council
Jade Hall, Housing Counseling Services
Louise Howells, University of the District of Columbia David A, Clarke School of Law
Amanda Huron, University of the District of Columbia
Vernon Oakes, Oakes Management Inc.
Lolita Ratchford, Ella Jo Baker Intentional Community Cooperative
Risha Williams, DC Housing Finance Agency (DCHFA)
Ana Van Balen, Department of Housing and Community Development (DHCD)
Elin Zurbrigg, Mi Casa, Inc.

District of Columbia Act 22-338

To establish a Limited-Equity Cooperative Task Force to provide comprehensive policy recommendations to assist District residents and the District government with improving existing limited-equity cooperatives, establishing new limited-equity cooperatives, and helping all limited-equity cooperatives succeed and prosper.

BE IT ENACTED BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this act may be cited as the "Limited-Equity Cooperative Task Force Act of 2018".

Sec. 2. Definitions.
For the purposes of this act, the term

(1) "Cooperative" means an association, whether incorporated or unincorporated, organized for the purpose of owning and operating residential real property in the District of Columbia, the shareholders or members of which, by reason of their ownership of a stock or membership certificate, a proprietary lease, or other evidence of membership, are entitled to occupy a dwelling unit pursuant to the terms of a proprietary lease or occupancy agreement.

(2) "Limited-equity cooperative" or "LEC" means a cooperative required by a government agency or nonprofit organization to limit the resale price of membership shares for the purpose of keeping the housing affordable to incoming members that are low- and moderate-income.

Sec. 3. Establishment of Limited-Equity Cooperative Task Force.
There is established a Limited-Equity Cooperative Task Force ("Task Force") to provide the Council with comprehensive policy recommendations on how the District can assist in the formation of new LECs and help existing LECs succeed.

Sec. 4. Membership.
(a) The composition of the Task Force shall be as follows:

(1) Three residents, each of whom is currently a board member of an LEC in the District; provided, that no 2 residents shall be from the board of the same LEC.

(2) One representative from a community-based organization that provides training, counseling, and client advocacy services to low- to moderate-income residents.

(3) One representative from a property management company that manages cooperatives in the District.

(4) One representative from a development company that develops cooperatives in the District.

(5) One representative from a financial entity that specializes in the financing of LECs.

(6) One attorney with experience working with LECs.

(7) One individual who has conducted significant research on LECs in the District and elsewhere in the United States.

(8) Other representatives appointed by the Chairperson of the Committee on Housing and Neighborhood Revitalization.

(9) One representative from the Department of Housing and Community Development.

(10) One representative from the District of Columbia Housing Finance Agency.

(b) The Chairperson of the Council Committee on Housing and Neighborhood Revitalization shall appoint the:

(1) Chair of the Task Force; and

(2) Task Force representatives designated in subsection (a) (1) through (8) of this section.

(c) The members of the Task Force shall serve without compensation and shall either reside or work in the District.

(d) Meetings of the Task Force shall be open to the public.

(e) The Department of Housing and Community Development shall provide administrative support to the Task Force.

Sec. 5. Duties of the Task Force.

Within 180 days after the appointment of all members, the Task Force shall submit to the Council a comprehensive report on:

(1) Policy and legislative recommendations related to how the District can help stabilize, strengthen, and preserve existing LECs, as well as how the District can best support the formation of new LECs;

(2) Funding options and sources to assist in the formation of new LECs and to provide technical support and assistance to LEC members and LEC boards in the District;

(3) How to establish appropriate government oversight to ensure that LEC boards have the necessary financial and structural management resources to help them succeed and prosper; and

(4) Any other identified needs or requirements for the successful formation and preservation of LECs in the District.

Sec. 6. Sunset.

This act shall expire upon the Task Force submitting the report required pursuant to section 5 to the Council.

Sec. 7. Fiscal impact statement.

The Council adopts the fiscal impact statement in the committee report as the fiscal impact statement required by section 4a of the General Legislative Procedures Act of 1975, approved October 16, 2006 (120 Stat. 2038; D.C. Official Code § 1-301.47a).

Sec. 8. Effective date.

This act shall take effect following approval by the Mayor (or in the event of veto by the Mayor, action by the Council to override the veto), a 30-day period of congressional review as provided in section 602(c)(1) of the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 813; D.C. Official Code § 1-206.02(c)(1)), and publication in the District of Columbia Register.

Introduction

We submit this report in the midst of a housing crisis. Like other cities around the U.S. and around the world, Washington, D.C. is experiencing an economic boom, with infusions of new residents and investment capital. Our city is in better economic condition that it has been in decades. Yet the city's rapid growth is revealing sharp inequality among District residents. D.C. has the highest income inequality of any U.S. city, with the 20% highest-earning families taking in 29 times the 20% lowest-earning families; and with black families in D.C. earning less than a third of white families overall.[1] A 2019 report from the National Community Reinvestment Coalition found that Washington, D.C. had the highest percentage of gentrifying neighborhoods of any U.S. city, with over 20,000 people displaced in

[1] https://www.dcfpi.org/all/income-inequality-dc-highest-country/

recent years.[2] District residents are deeply concerned about the displacement of long-term, low- and moderate-income residents from their neighborhoods, and from the city as a whole, with concerns about housing outpacing concerns about schools, crime, and Metro.[3] As public schools are remodeled, library hours are extended, universal pre-K is coming online, and neighborhoods are receiving new retail investment, the question remains: who will be able to enjoy the fruits of our revitalized city?

DC is experiencing marked growth to accommodate an influx of new residents, including an increase in the overall supply of rental housing--however this growth has been at the highest end of the rent range. Between 2005 and 2015, rental housing with monthly rents of $1,500 or more (in constant 2015 dollars) has more than doubled (from 30,400 to 75,700 units), while apartments renting for under $1,000 a month have dropped by a third (from 69,000 to 46,000). In addition, the District has lost over half the units renting between $500-800 per month--units that would be affordable to households with annual incomes between $20,000 and $32,000. District leaders, like city leaders around the world, are grappling with the question of how to provide truly affordable housing in the midst of an economic boom. Yet Washington, D.C. has been at the forefront of enacting innovative affordable housing policy since the first Home Rule government was sworn into office in 1975. Our city government created Rent Control as one of its very first acts, and followed up with many other policies designed to help poor and working people have a stable and safe home in this city. Of the many creative policies enacted over the years, one of the longest has been the Tenant Opportunity to Purchase Act, or TOPA, which has enabled many tenant associations to collectively purchase their apartment buildings and convert them into limited-equity cooperatives. Limited-equity cooperatives allow members to buy in for very low rates, and pay low monthly fees; because they are collectively owned by their membership, members have a stake in their housing and in their neighborhoods.

The District has supported the creation of limited-equity cooperatives since 1979. We know how co-ops work, what leads to their success, and what challenges they face. Now, with 40 years' experience with this housing form, and a renewed sense urgency as housing prices continue to soar, it's time to take the lessons we've learned — as co-op members, tenant organizers, technical assistance providers, financing agents, lawyers, and city leaders — to dramatically scale up this housing form in the District of Columbia. **To this end, we propose that the city establish a goal of doubling the number of LEC units in Washington, D.C. by 2025.** If the city wants to support our existing limited-equity cooperatives, and encourage tenant associations to create their own long-term, affordable, stable housing, then we need to significantly increase the support we provide to tenant associations seeking to convert to cooperative, as well as to existing cooperatives.

In this report, we outline a set of recommendations that will allow the city to build on its success in nurturing the development of limited-equity cooperatives. If city leaders are truly concerned about addressing our affordable housing crisis and the ongoing displacement of low- and moderate-income residents, we urge them to support the cooperative model, and adopt these recommendations.

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[2] https://ncrc.org/study-gentrification-and-cultural-displacement-most-intense-in-americas-largest-cities-and-absent-from-many-others/

[3] https://www.washingtonpost.com/local/dc-politics/wealthy-dc-residents-blame-wealthy-dc-residents-for-citys-spiking-housing-costs-poll-finds/2017/07/01/5b0dbbda-5c3e-11e7-9fc6-c7ef4bc58d13_story.html?utm_term=.14d34b8fb72e

We note that the below recommendations should be considered preliminary, as we are awaiting the results of a study on D.C's limited-equity co-ops, funded by the Coalition for Nonprofit Housing and Economic Development (CNHED), and carried out by Dr. Kathryn Howell of Virginia Commonwealth University. The purpose of that study is to collect data on existing LECs in D.C., in order to better inform policy moving forward. That study should be completed by September 2019, at which point we will fold the results into this report. Our final recommendations will be available by October 1, 2019.

Co-op voices:

With funding from the city and technical assistance from local non-profits, D.C. tenants have been able to create their own housing cooperatives that have been sustainable over the long-term, as this co-op members describes:

"I was the first one to move into the building — that was in 1988. In about 1994, the building was foreclosed on, and we were told about the first right to purchase for tenants. So we decided to find out about that. So we heard of this organization WISH, Washington Inner-City Self Help. We got with them, and we formed a tenants association. That was the first step in our trying to become a co-op. We got loans from the D.C. government — a 1% loan, and a 3% loan. We became owners in 1996…

"We came together, we paid our rent every month, we did everything we were supposed to do. We paid off our building by 2016. So in twenty years, our co-op was completely paid for… After we paid for the building and everything, of course we weren't paying as much rent as we had been paying, but we decided that we were each going to pay a certain amount of money each month, and from that, we were able to start doing some renovations on the building, and we paid cash… We're going to continue to keep collecting money every month, and improving our building."

Policy Action Items

Action Item #1:

Encourage broad support for LECs, with the goal of doubling the number of LEC units in the District by 2025.

Issue:

LECs in the District provide a unique form of ownership that results in preserving affordable housing across a wide range of income levels, and providing resident control. The formation of LECs ties in inherently with the purpose/goals of the District's TOPA and preventing the displacement of low and moderate-income DC residents. LECs are effective at creating and preserving a community in occupied buildings through bringing diverse groups of people to together around common interests and goals—to purchase, improve building conditions, and preserve future affordability. LECs provide relative stability of rents; one study found that the average LEC carrying charge was less than half the HUD-determined Fair Market Rents for D.C. neighborhoods.[4] Data from recent projects shows that LECs consistently preserve a high percentage of housing for extremely and very low income households, with a similar

[4] Huron, Amanda (2018). *Carving out the Commons: Tenant Organizing and Housing Cooperatives in Washington, D.C.* Minneapolis: University of Minnesota Press.

amount of public investment to Low Income Housing Tax Credit Projects (LIHTCs), and for a longer term. A summary of one developer's pipeline of over 600 LEC units developed under TOPA over the last 15 years, shows than on average over 40% of unit rents were preserved as affordable to people earning below 30% AMI, and approximately 30% of rents were preserved as affordable to people earning below 50% AMI (Source: Mi Casa, Inc.). In addition, most LECs that have been formed in the last 20 years in DC have longer affordability requirements (40 years) than LIHTC projects (30 years). They create a form of financial mobility and provide a type of ownership when individual ownership is out of reach. Members are owners, so they are more likely to care for and maintain their units; and members are more likely to stay and be more invested in the homes. In addition to providing a mechanism to create and preserve affordable housing, LECs encourage community participation, civic pride and leadership, and a sense of shared purpose between neighbors.

The enactment of the Tenant Opportunity to Purchase Act (TOPA) created a mechanism for groups of tenants in the District to form LECs in order to purchase their buildings. However, support for the development of LECs in the District has been variable, depending on political climate and the priorities of the current administration, real estate trends, and available funding. Increasing a stable based of support for LEC formation through policies, programs, and messaging will ensure that limited equity co-ops will continue to be a viable ownership course available to District residents.

Upon the completion of the LEC study by the Coalition for Nonprofit Housing and Economic Development (CNHED) in the fall of 2019, the District should widely share the results of the study, and promote the benefits of LECs, including the creation and preservation of communities, prevention of displacement, housing for households across varying income levels, a unique type of homeownership, and increased financial literacy and capacity. The city should work to double the number of co-operative units over the next 5 years, adding 600 new co-op units a year, or a total of 3,000 new LEC units by 2025. This will support the city's current goals of producing 36,000 new units through production and preservation.

Action Item #2:
Require training and expertise in cooperative management for property management companies. Areas of training should include the following: cooperative structure and the cooperative principles; legal documents for co-ops; governance of co-ops, including running elections and effective meetings; asset management, including finances and maintenance; and other aspects of property management.

Issue:
All cooperatives are owned and controlled by the people that use the cooperative through a volunteer board of directors. In the case of housing cooperatives, the board is comprised of people that live together in a community, and this communal living can present challenges for asset management. Property management companies often don't understand the dynamics of cooperatives and the need for good governance and member involvement. To properly manage LECs and work with a board of directors, property management companies need the knowledge of cooperative principles, member education and cooperative governance. Property management companies could benefit from a Continuing Education (CE) program about cooperative management. Moreover, cooperative and condominium associations on the whole would be better served if licensure requirements for property managers included course work relating to the management of cooperative and condominium common interest communities.

Action Item #3:
Designate DHCD as the agency responsible for coordinating all matters related to LECs. As part of this, DHCD should designate a point person on all matters related to LECs, who can connect the public with the staff with necessary expertise.

Issue:
The District of Columbia is home to more than 100 LECs providing housing to thousands of people. Many different District Government Departments and Agencies' programs and regulations impact LECs and their members. No one person or Department has the responsibility to assist cooperatives when they require assistance with financing and/or technical assistance, they are often unaware of the available resources to solve common issues throughout development and rehabilitation. When DC Council Members seek information about cooperatives or need to address issues on behalf of a constituent no Department has responsibility or authority to act.

Action Item #4:
Provide full property tax abatement for cooperatives.

Issue:
The District Government provides ongoing property tax exemption for a variety of charitable, religious and educational organizations that serve the community. However, D.C. law limits property tax exemptions for LECs to a five-year period. The property tax exemption should be reviewed and modified to provide ongoing tax exemption for LECs that house low-income families, similar to the exemptions provided to other low-income housing and social services providers.

LECs may claim exemption from property taxes for their low-income ownership households if at least 50% of the dwelling units in the property are occupied by income eligible households.[5] The value of the tax exemption received for a unit is passed along to the low-income household as a credit. The exemption remains in effect only until the end of the fifth tax year following the year in which a unit was transferred to the household and only so long as the same household remains an owner and occupant in the property. In contrast, D.C. Law has historically provided tax abatement without accompanying time limits for federally subsidized low-income multifamily rental, cooperative, and condominium housing.[6]

Many LECs provide housing to families below 50% and 30% of AMI without the benefit of operating subsidies or voucher programs. Because LEC households tend to be stable and remain in their homes for periods that extend beyond five years, the households and the LEC will experience a financial setback at the end of the tax exemption period. A permanent tax exemption program would provide much needed ongoing support for LECs that provide affordable housing to low, very low, and extremely low income households.

[5] D.C. Code 47-1002(21); 47-3503(c)
[6] D.C. Code 47-1002(20)

Action Item #5:

Provide funding to support no- and low-cost education and training for cooperative boards and members and provide an additional $5 million annually for CBOs that provide ongoing cooperative education or stewardship to LECs. Areas of training should include the following: cooperative structure and the cooperative principles; legal documents for co-ops; governance of co-ops, including running elections and effective meetings; asset management, including finances and maintenance, as well as the use of an Asset Management Scorecard; and other aspects of property management.

Issue:

There are many training programs and educational resources available for housing cooperatives across the United States. Accessing these educational resources and deploying them in D.C. is costly. Experience has demonstrated that consistent and ongoing education and training are necessary for successful LECs. There are several existing local organizations that provide education and training to LECs, however they are under resourced and therefore many members and Boards of LECs receive sporadic education or training needed to govern and manage their cooperative. With a variety technical service providers using different sources of educational resources LECs Board do not receive consistent and ongoing technical assistance. There is not a strategy for delivering standardized curriculum for education and training of LECs members and boards.

Education and training of LECs boards and members is essential for successful LECs. One of the Cooperative Principles is Education, Training and Information, because experience has shown that this is imperative to the longevity of cooperatives. Consistent education of members and their responsibilities ensures an active involved membership. A well-trained Board of Directors will ensure good governance and effective serves for the membership. It is estimated that District government now provides $1.5 million annually to CBO's to provide education, training and technical assistance on a variety of housing counseling needs. This provided assistance on a first come first serve basis to DC residents, Many cooperatives do not know they can access the type of technical assistance they require and often contact the DC Council for assistance.

Co-op voices:

Co-op members say the City could better support co-ops by 1) increasing funding for organizations that provide tenants associations and cooperatives with technical assistance, 2) providing tax abatement for co-ops, and 3) doing more to support education and training for co-op members and management companies:

"One of the ways I think the City Council could support the co-ops is to make sure that there are people in place to help. Like I said, we had an organization that walked us all the way through the process."

"I do feel that limited-equity co-ops should get more support from the D.C. government. Tax abatements would be helpful. Looking at the property taxes and also taxes that are charged when members go to settlement. If those could be abated, that would help. Also, if there's any way that the D.C. government could work with the federal government to either fund or to provide education, to provide any help for management, that would be helpful as well."

"We need to be able to have government agencies understand and know how to sustain housing for low and moderate-income people. Especially, particularly, cooperatives."

Administrative Action Items

Action Item #1*:*
Develop a uniform Asset Management Scorecard, with the consultation and advice of CBOs, to gauge the success of limited equity housing cooperatives. As noted under Policy Action Item #5, co-op boards should receive training in how to utilize the Asset Management Scorecard.

Issue:
Asset management can be a daunting task for any residential real estate property, but it is a significant challenge for most limited equity housing cooperatives. Many LECs are self-managed by residents of the property or cannot afford the services of a management company. In many cases, the members and Board of Directors do not have the training or experience with managing a LEC or dealing with a management company. Many management companies do not have the resources or experience to address the issues of a LEC. They are not familiar with good governance practices, nor do they know how to deal with self-governed cooperatives. The DC government has not invested adequate resources in the enabling environment to encourage the best practices in asset management of LECs.

The best practices of asset management of LECs are well known. The Task Force has compiled a list of best practices for co-ops, attached to this document (document title: "Functions of Asset Management"). But best practices are often difficult to implement. Most LECs do not have access to the wealth of knowledge of best practices and the tools for their implementation. The first step is to know what practices are needed and how to evaluate their effectiveness.

Action Item #2:
Ensure that limited-equity co-ops and individual members have access to affordable or pro bono legal services. Legal assistance is necessary for co-ops, in terms of both initial development and ongoing issues. Legal assistance is also necessary for individual co-op members, specifically with regards to transfer of individual member shares, in order to preserve intergenerational resources and ease unit transition upon death of a member.

Issue:
Many members of LECs are low and moderate income and do not have the resources to engage legal services to create a will or estate planning. In most D.C. LECs, members are allowed to will their shares upon their death. This provides the opportunity the transfer of a critical resource across generations, but can also lead to legal and administrative challenges for the cooperative. Often after the death of a member, the distribution of the deceased's assets can be a challenge, and this can negatively affect the cooperative with unpaid carrying charges and legal costs. LECs would be stronger if their members had the proper legal documents at the time of death ensuring the timely transfer of housing units to the next generation.

Action Item #3:
Connect existing translation and interpretation services offered through the DC Language Access Program with cooperatives, and ensure funding levels for the program are sufficient for LEC residents.

Issue:

As D.C. welcomes more residents from other countries and becomes more ethnically and culturally diverse, the membership of LECs is also diversifying. The increasing number of languages spoken at LECs makes member training in the responsibilities of cooperative membership more difficult. Volunteer Board Directors often do not have the language skills necessary to communicate to people without English as their first language. Member education is an important aspect of a successful LEC, and without it, members can be placed at a disadvantage in the housing cooperative.

Action Item #4:

Create an online resource that lists educational, technical assistance, stewardship, and asset management services available to cooperatives, from a 'Pool of Practitioners'.

Issue:

There are a variety of resources available to members of LECs, but they are not organized in a central location and they are not easily accessible. There are national, regional and local organizations with expertise in housing cooperatives that provide education, training and technical assistance that could provide valuable information on governance, asset management and member relations.

Action Item #5:

Create a database through DHCD to collect cooperative information annually. CBOs have gathered much of this data and could share it with DHCD.

Issue:

There is a significant need for data on housing cooperatives in D.C. Without current data, it is difficult for policy makers and others to address the needs of LECs and their members. While there is anecdotal information available through several D.C. departments and agencies, there is not a central repository, and information is not comprehensive in scope. Housing cooperative advocates and practitioners are at a disadvantage in designing programs to address systemic issues with LECs without current reliable data on the housing cooperative stock.

Co-op voices:

Cooperatives are not just about affordable housing — they also give residents control over their dwelling spaces and allow them to participate in decisions around their housing. But one of the ongoing challenges facing limited-equity co-ops is ensuring that members have sufficient education and training to maintain their housing over the long-term:

"And that's one of the good things about cooperatives, is that it teaches you to be better citizens. We learn governance. We learn the importance of doing stuff for ourselves. So one of the benefits of a cooperative is people become more involved with their community as a result, they learn how to get involved with each other, help each other out."

"The cooperative principle #5 [of continuing education] is one of the major challenges that we have with cooperatives. Because in my experience I've found that when an apartment building is converted to a cooperative, usually it is just the quote unquote board with the information about what a cooperative is, and they get to be the group that runs everything. They get to be like the landlord. And the other folks in the cooperative still have a tenant mentality. Because the observance of principle #5, continuing education, is not used, so that everybody will understand and learn how to work together."

Financing Action Items

Action Item #1:
Establish minimum annual funding amounts needed in order to meet the goal to double the number of LEC units by 2025. A higher prioritization of very affordable LECs, acquisition take-outs, and construction funding in the Notice of Funding Availability (NOFA) scoring is needed to increase the number of LECs in the District.

Issue:
There is a significant need for additional funding for the preservation and production of LECs. Without comprehensive and reliable data, the exact amount is not known. Therefore, D.C. shall work with LEC practitioners to identify the amount of funds needed annually to support LEC and TOPA acquisitions, based on goals for preservation, average number of recent LECs formed, and a range of potential for preservation. Funding source(s) shall be established based on the level of need and priority to be available (or set aside) annually. TA providers and housing counselors shall receive more funding in order to provide more outreach and education to residents receiving TOPA notices. Of the 12,000 affordable units the city plans to develop, 3000 of those should be LECs. The primary conduit for LEC creation is through TOPA acquisitions. The city needs to allocate sufficient dedicated funding (or say more clearly as a specific fund) to create these LEC units. With average acquisition costs currently at or above $120,000 per unit, plus an additional 25% of financing above acquisition costs needed to cover pre-development, closing costs, and critical repairs, it is estimated that the amount needed to fund the acquisition of 600 units a year of LECs could be as much as $90 million. It is estimated that roughly one-third of the projects applying could sustain a loan through the Preservation Fund, leaving $60 million a year need from the DHCD First Right to Purchase Program for the acquisition of buildings to become LECs. (Note: This does not include the cost to renovate buildings or complete construction.)

As costs continue to increase, increases must be made in overall funding for affordable housing and allocations to preservation projects and to support LEC development. The District should develop a plan to incrementally increase the annual Housing Production Trust Fund (HPTF) budget beyond $130 million to meet projected affordable housing need. The DC Fiscal Policy Institute estimates that the current level of funding is not enough to address DC's affordable housing challenges over the next 10 years, and that over $200 million a year in the HPTF is needed to meet and keep up with the current demand for affordable housing, especially to meet the demands at the lowest income levels. The task force suggests that the District establish funding source(s) based on the level of need and priority to be available (or set aside) annually.

Action Item #2*:*
Develop other viable sources for financing new LECs outside of and in coordination with DHCD.

Issue:
LECs that serve low- and moderate-income people often are not eligible for financing from lenders in the private sector and either is not able to obtain funding or it comes at a high cost. DHCD does provide funding, but many LECs do not score well in the NOFA, and thus cannot obtain financing. There is a need to build in existing and identify new sources of financing for co-ops--e.g., expand the pool of Community Development Financing Institutions that work with LECs; encourage philanthropic investments; and utilize other tools like crowd sourcing, land trust financing, investment pools and/or pooling projects, non tax-credit bond financing, non-profit-private partnerships--to fill the gap and increase the preservation and creation of LECs.

Action Item #3*:*
Improve availability and usability of pre-development financing for LECs.

Issue**:**

A key is the need for predevelopment funding. There is a shortage of "seed" money available ("soft" recoverable grants) that could ensure residents complete due diligence needed to develop a plan that includes building renovation, and can move forward with completion of studies, plans, and professional assistance needed to submit a competitive application for funding. Recoverable grants allow low-income tenants to move ahead with their goal of forming a cooperative and reassure them that they will not be liable when they are at a point before they can get a committed take-out loan.

The early stages of LECs under TOPA can be a challenge to the LEC members and many give up on the process because of rising costs. These barriers prevent the successful development of the LEC and the loss of affordable housing units. The highly affordable LECs often cannot pay interim interest and need access to flexible funding from DHCD to provide gap funding for the LECs' interest and predevelopment phase or to fill in the gap in the Loan-To-Value (LTV) required. Another barrier is that this funding is considered as hard funding sources or as public subsidy.

Pre-Development Financing key recommendations**:**
- DHCD "seed money" fund should be fully funded as authorized by the DC Council by providing soft loans up to $100,000 and outsource the program to an intermediary lender.
- The Oramenta Newsome Pre-Development loans should be reformed by providing soft loans and eliminating the one-for-one match and guarantee requirement.
- The District should expand the source and type of funding for recoverable grants through public and private philanthropy.
- The District Government should create a revolving loan fund with soft loans of up to $250,000 for new cooperative development.

Action Item #4:
Improve acquisition financing for LECs.

Issue:
The District is unique as it has a long history of supporting preservation of affordable housing units through the Tenant Opportunity to Purchase Act (TOPA) giving the residents of rental buildings the first option to purchase the property. The time constraints of the TOPA process often make the formation of a cooperative and obtaining the necessary financing a challenge. The acquisition process can be improved by giving the organizations forming LECs access to a bridge lender and a fairer criteria under First Right to Purchase Program (FRPP). For example: Give priority to providing FRPP acquisition funding to projects which have a significant percentage of incomes below 30 and 50 percent of Median Family Income and Total Development Costs (TDCs) that are moderate to high as an estimated $265,000 per unit will improve the process.

LECs that don't fit into the prioritization criteria and cannot support a 125 percent private acquisition loan could go through bridge and mini permanent loans with additional support to increase the ability of these projects to compete well in the DHCD Notice of Funding Availability (NOFA)

<u>Acquisition Financing key recommendations</u>**:**
- The first 90 days all potential LECs formed under (TOPA) should have access to a Bridge Lender to identify the maximum supportable acquisition loan.
- All new LECs shall go through the First Right to Purchase Program (FRPP).
- The District Department of Housing and Community Development's (DHCD) should give future commitments for acquisition take-out in later years under the FRPP.
- The District Government should create prioritization criteria for acquisition funding in the FRPP.
- The District Government should provide additional support to increase the ability of projects to compete well in the DHCD Notice of Funding Availability (NOFA) through prioritization criteria.
- The District Government should provide gap funding for the LECs' interest and pre-development phase.

Action Item #5:
Improve take-out and rehabilitation financing for LECs.

Issue:
Scoring changes shall be adjusted to award more points to homeownership TOPA projects, most of which are preservation projects. Furthermore, DHCD shall create a separate NOFA for preservation projects and provide a scoring bonus for LECs. The District shall ensure that LECs can compete through appropriate scoring for this type of project. As currently structured in the Consolidated RFP scoring system, the possible 5 points allocated to TOPA preservation projects are outmatched by the variety of points that can be awarded to newly constructed projects. LECs developed under TOPA are existing buildings occupied by existing tenants and achieve the prevention of displacement and preserve affordability. However, they are not able to achieve the many specialty point categories that newly constructed projects can be awarded. These points would provide Permanent Supportive Housing (PSH), reconfigure units to provide large units, provide artists or senior housing, and meet the maximum required subsidy to complete the

project. Therefore, LECs can better compete in the NOFA if either: 1) points that LECs are not capable of achieving are removed from the total point calculation, and/or 2) if there are more categories where LECs can will achieve points, and/or more points allocated to those categories.

The District shall provide flexibility in the percentage of the HPTF beyond the current 66 percent. The Task Force's analysis on the needs of "most affordable" LECs shows that on average, more than 75 percent of each project's funding must come from public funds in order to complete and stabilize through renovation. The task force also suggests an alternative option to consider the FRPP neither as a "hard" funding source nor in the HPTF's subsidy count. Moreover, the District shall prioritize acquisition take-out for affordable buildings with bridge loans and make the Local Rent Supplement Program (LRSP) available for non-Permanent Supportive Housing (PSH) units.

<u>Take-out and Rehabilitation Financing</u>**:**
- The Housing Production Trust Fund should be funded at $200 million.
- More scoring points should be awarded for homeownership TOPA projects, and a separate NOFA for housing preservation projects should be created, with a scoring bonus for LECs.
- A minimum of 40 percent of each round of NOFA awards shall be allocated to preservation projects, and preservation and new production projects shall be segregated into separate evaluation pools with separate scoring criteria, with additional points for LECs.
- Maintain flexibility in the level of HPTF funding allowed in financing LECs, ranging from 66% to 100%.

<u>Co-op Voices:</u>
Historically, tenants associations have used a variety of federal and local funding sources — including D.C.'s Home Purchase Assistance Program, or HPAP — to finance purchase and enable members to purchase shares in the cooperative:

"We maintained a blanket mortgage at that time… Although our costs did increase… most members were able to stay. And some of that was because of help from HUD, with Section 8 slots… Other programs helped as well, [like] D.C. HPAP, the Home Purchase Assistance Program. Initially our shares were $1000, and some people needed help for that. So they were able to get $500 from HPAP, and put in $500 of their own money."

Conclusion

The city of Washington, D.C. is facing hard choices. We have an expanded budget, but our needs are great, across many sectors of life. Housing, however, is fundamental. Without the ability to afford to live in this city, low- and moderate-income people will have to leave, and will therefore not benefit from all the investment being poured into the city. There are many ways the city can better support truly affordable housing for District residents. But the limited-equity co-op model is one we believe merits particular attention and support. These co-ops have proven to be affordable, stable housing that, because their members collectively own them, engender a sense of pride and contribute to neighborhood stability more broadly. The District's first limited-equity co-op was created in 1979. Forty years later, it's time for us to bring together our decades of experience with this housing form, and re-commit to supporting this form of affordable homeownership for District residents. If the city can commit to doubling the number of LEC units in the District by 2025, we will be off to a good start.

Co-op voices:

City investment in limited-equity co-ops over the past several decades has created stable, affordable housing in neighborhoods where rents have risen, and that today are filled with amenities:

"When I testified in front of the D.C. Council in the early '90s, I let them know how important co-ops were to us. Because rent was going up. We couldn't really be able to afford a lot of things back then unless we had someone to help us out financially. So I just let them know that it was really important for us to have a co-op."

"The whole intent was for affordable housing… But the cooperative angle also appealed to us because we could build community with people, with activists who were trying to make a difference in D.C. We could build community, as well as provide ourselves with decent living, in terms of not having to pay 50% of our income for housing. And I think it really bears out now, 15 years later, we could not be able to afford to live in that neighborhood of Columbia Heights now, had we not formed that co-op. Because you can't get even a studio for less than $1500."

"Our buildings are in Glover Park, which is a wonderful, quiet residential area. We're a half a block from extensive woods, and about five blocks from Wisconsin Avenue, with the restaurants, shops, pharmacy, post office, and most of the conveniences that you want to have in a neighborhood. We feel very fortunate to still be viable, and to still have affordable housing."