District of Columbia Limited Equity Cooperative Task Force for 2018-2019
Final Report, October 2019

Contents

Task Force Members

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District of Columbia Act 22-338

To establish a Limited-Equity Cooperative Task Force to provide comprehensive policy recommendations, assist District residents and the District government with improving existing limited-equity cooperatives, establish new limited-equity cooperatives, and help 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 District of Columbia Council ("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 ("DHCD").

(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) DHCD 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

The Task Force members submit this report in the midst of a housing crisis. Washington, D.C. has the highest income inequality of any U.S. city, with the top 20 percent highest-earning families earning 29 times more than the 20 percent lowest-earning families; and with black families in the District 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 recent years.[2]

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. Of the many creative policies enacted over the years, one that has been around the longest is the Tenant Opportunity to Purchase Act (TOPA), which has enabled many tenant associations to collectively purchase their apartment buildings and convert them into limited-equity cooperatives (LECs). LECs allow members to buy a share in the cooperative for very low rates, and pay low monthly co-op fees; because they are collectively owned by their membership, members have a stake in their housing and in their neighborhoods.

Today, D.C. has approximately 4400 units of LEC housing in 99 co-op buildings. These units are spread across the city, though Ward 1 has historically been a center of LECs, and increasing numbers of LECs are now located in Ward 4. More than half of the city's LECs are located in "low-poverty neighborhoods" (neighborhoods in which fewer than 20% of households live in poverty). Many co-ops are located in gentrifying and gentrified neighborhoods, representing a form of stable homeownership that has allowed low- and moderate-income Washingtonians to stay in their homes as retail, services, and job opportunities come to their neighborhoods, and as their local public schools improve. Limited-equity cooperatives are a key part of the affordable housing landscape in the District of Columbia.

The District has supported the creation of LECs since 1979. According to recent data collected, most of DC's existing LECs were created between 1980 and 2009, with less than 20% created in the last 10 years. Now, with 40 years' experience with this housing form, we know a lot about how LECs work, what leads to their success, and what challenges they face. We know that LECs can preserve affordable housing and create lower cost housing and home-ownership

[1] https://www.dcfpi.org/all/income-inequality-dc-highest-country/
[2] https://ncrc.org/study-gentrification-and-cultural-displacement-most-intense-in-americas-largest-cities-and-absent-from-many-others/

opportunities for low-income residents. Despite all this, there continue to be roadblocks that prevent the creation of new LECs, and existing LECs may face challenges in accessing assistance to sustain themselves long-term. As housing prices continue to soar, and lower income residents find themselves squeezed into unaffordable housing or out of the District entirely, there is a renewed sense urgency. It’s time to take the lessons we’ve learned — as LEC members, tenant organizers, technical assistance providers, financing agents, lawyers, and city leaders — to dramatically scale up this housing form in the District. **To this end, we propose that the city establish a goal of increasing the number of LEC units in Washington, D.C. by 45% by 2025—from 4400 units to 6400 units.** If the city wants to support our existing LECs, 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 sixteen recommendations that will allow the city to build on its success in nurturing the development of LECs. 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 LEC model, and adopt these recommendations.

We have organized this report into two sections: the first section focuses on preserving existing LECs, while the second section focuses on creating new LECs. Perspectives from co-op members, who were interviewed as part of the Task Force’s work with co-op stakeholders, are interspersed throughout.

We note that a forthcoming study on DC’s LECs, sponsored by the Coalition for Nonprofit Housing and Economic Development (CNHED) and carried out by Dr. Kathryn Howell of Virginia Commonwealth University later this year should be reviewed and its recommendations followed as a counterpart to the recommendations of this Task Force. The CNHED LEC Study will provide a wealth of compiled data on co-ops in the District, an analysis of challenges and opportunities LECs face, and recommendations that should be utilized to inform any policies to support co-op development and sustainability in the future. The overall recommendation of this Task Force is that policy and decision makers utilize the data, findings and recommendations from the CNHED LEC Study to better support LECs in the District.

<u>Co-op voices:</u>
“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.”

Preserving Existing LECs

Recommendation #1:
Provide full property tax abatement for all LECs.

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 well performing LECs that house low-income families, similar to the exemptions provided to other low-income housing and social services providers. Co-ops not performing well, would need to put together a strategic performance plan with actionable steps towards implementation to qualify for the tax-exemption.

LECs may claim exemption from property taxes for their low-income ownership households if at least 50 percent of the dwelling units in the property are occupied by income eligible households.[3] 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.[4]

Many LECs provide housing to families below 50 percent and 30 percent of MFI 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.

Recommendation #2:
Provide an additional $5 million annually for CBOs that provide ongoing education and stewardship to LECs, in order to support no- and low-cost education and training for LEC boards and members. Areas of training to include the following: LEC structure and principles; legal documents for LECs; governance of LECs, 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:

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

Many training programs and educational resources are available for housing cooperatives across the United States. Accessing these educational resources and deploying them in the District is costly. Experience has demonstrated that consistent and ongoing education and training are necessary for successful LECs. Several existing local organizations provide education and training to LECs; however, they are under resourced. Therefore, many members and boards of LECs receive sporadic education or training needed to govern and manage their LEC. With a variety of technical service providers using different sources of educational resources, LEC boards do not receive consistent and ongoing technical assistance. There is currently no strategy for delivering standardized curriculum for education and training of LECs members and boards.

Education and training of LECs boards and members are essential for successful LECs. One of the cooperative principles is education, training and information, because experience has shown this is imperative to the longevity of LECs. Consistent education of members and their responsibilities helps generate 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 CBOs to provide education, training, and technical assistance on a variety of housing counseling needs. This assistance is provided on a first-come first-serve basis to District residents. Many LECs do not know they can access this type of technical assistance and instead often contact the DC Council for assistance.

Recommendation #3:
Develop a uniform Asset Management Scorecard, with the consultation and advice of CBOs, to gauge the success of LECs. As noted under Recommendation #2, LEC boards should receive training in how to use the Asset Management Scorecard, and can use it annually to self-assess and report.

Issue:
Asset management can be a daunting task for any residential real estate property, but it is a significant challenge for most LECs. Many LECs are self-managed by residents or cannot afford the services of a good management company. In many cases, the members and board of directors have limited 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 LECs. They are not familiar with good governance practices, nor do they know how to deal with self-governed LECs. The District 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 LECs, 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, and as board members volunteer their time on top of other commitments, there is often an issue of lack of time. The first step is to know what practices are needed and how to evaluate their effectiveness.

For those LECs that are not performing well, the scorecard will demonstrate areas they need to work on to increase their viability for all the residents. This should be followed-up with a strategic performance plan that will address their areas of need to improve their overall performance.

Recommendation #4:
Require training and expertise in cooperative management for property management companies. Areas of training should include the following: LEC structure and the LEC principles; legal documents for LECs; governance of LECs, including running elections and effective meetings; asset management, including finances and maintenance, reserves planning; and other aspects of property management.

Issue:
All LECs are owned and controlled by the people that live in and participate in the co-op through a volunteer board of directors. In the case of housing cooperatives, the board is comprised of people who 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 LECs 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 LEC principles, member education and LEC governance. Property management companies could benefit from a Continuing Education (CE) program about LEC management. Moreover, LEC and condominium associations on the whole would be better served if licensure requirements for property managers included course work relating to the management of LEC and condominium common interest communities.

Recommendation #5:
Ensure that LECs and individual members have access to affordable or pro bono legal services. Legal assistance is necessary for LECs, in terms of both initial development and ongoing issues. Legal assistance is also necessary for individual LEC members, specifically regarding the transfer of individual member shares, in order to preserve intergenerational resources and ease unit transition upon death of a member.

Issue:
Many LEC members are of low and moderate income and do not have the resources to engage legal services to create a will or do estate planning. In most District LECs, members can 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 LEC. Often after the member's death, asset distribution can be a challenge, which can negatively affect the LEC with unpaid carrying charges and legal costs. LECs would be stronger if their members had the proper legal documents at the time of a member's death, ensuring the timely transfer of housing units to the next generation.

Recommendation #6:
Connect existing translation and interpretation services offered through the DC Language Access Program with LECs, and ensure funding levels for the program are sufficient for LEC members.

Issue:
As the District 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 LEC 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.

Recommendation #7:
Designate DHCD as the agency responsible for coordinating all matters related to LECs. As part of this, DHCD should designate a point person who can connect the public with the staff with necessary expertise.

Issue:
The District of Columbia is home to LECs that provide 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 LECs when they require assistance with financing and/or technical assistance; LEC members are often unaware of the available resources to solve common issues throughout development and rehabilitation. When DC Council Members seek information about LECs or need to address issues on behalf of a constituent, no department has responsibility or authority to act.

In addition, DHCD might be better positioned to intervene when there are governance issues as it pertains to conflicts of interest, prudent use of the assets, or when federal, district or cooperative laws are not being followed.

Recommendation #8:
Develop a tool-kit of financial and technical resources for LECs to sustain the physical conditions of their buildings affordably long-term, and widely promote these tools, providing an

on-line resource site. Utilize tools such as small rental building and co-op repairs grants, affordable financing from DHCD and private lenders to provide good terms to co-ops for new renovations and/or refinancing. Include a resource list that provides contacts for co-op education, technical assistance, stewardship, and asset management services available to LECs, from a "Pool of Practitioners."

Issue:
Many existing LECs are in need of technical assistance and/or additional funding. A variety of resources are available to members of LECs but they are not organized in a central location and are not easily accessible. In particular, LECs formed in the 70s, 80s, and even 90s have buildings that have not had major repairs or renovations for 25-30 or more years are facing the need to finance improvements, and/or may have board and member turnover and be in need of additional training or technical assistance specifically geared toward LECs, National, regional and local organizations and practitioners (including attorneys, housing counselors, development consultants) with expertise in housing cooperatives can provide education, technical assistance, and valuable information on governance, asset management, and member relations. Many long-term LECs don't know where to start in finding this support—creating an on-line resource and promoting it, will help bridge that gap between practitioners and LECs. .

Recommendation #9:
Create a database through DHCD to collect LEC information annually. CBOs have gathered much of this data and could share it with DHCD.

Issue:
There is a significant need for data on LECs in the District. 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 District government departments and agencies, there is not a central repository, and information is not comprehensive in scope. LEC advocates and practitioners are at a disadvantage in designing programs to address systemic issues with LECs without current reliable data on the LEC stock.

Recommendation #10:
Create a group purchasing program for LECs in the District.

Issue:
As noted previously in this report, LECs are very effective at creating communities in occupied buildings and preserving affordability for their residents. At the same time, LECs often are small buildings without the purchasing power to negotiate better prices or to require a higher level of service from providers. There is a substantial need among LECs for better services, yet they have a limited number of providers willing to serve them for critical needs, such as property management, accounting, building maintenance and repair. Cooperative purchasing arrangements are a common tool for individual organizations, such as local governments, to join

together and achieve greater bargaining power. A similar model has been established in the District to increase the purchasing power of nonprofit organizations. Through their organization, nonprofits have achieved better pricing and terms of service for essential items, such as janitorial services, trash hauling, and electricity. A cooperative purchasing program would achieve more affordability and better services for LECs in the District.

Co-op voices:

"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."

"The whole intent was for affordable housing… But the cooperative angle also appealed to us because we could build community with people… 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."

Creating New LECs

(Note: By "new" we mean new LECs created either through conversion of existing buildings or through new construction.)

Recommendation #11:

Encourage broad support for LECs, with the goal of increasing the number of LEC units in the District by 45%--adding 2,000 new LEC units--by 2025.

Issue:

TOPA's enactment 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 base of support for LEC formation through policies, programs, and messaging will ensure that LECs will continue to be a viable ownership course available to District residents.

LECs in the District provide a number of distinct benefits, and 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 TOPA and prevents the displacement of low and moderate-income District residents. LECs are effective at creating and preserving a community in occupied buildings by bringing diverse groups of people 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.[5] Data from recent projects shows that LECs consistently preserve a high percentage of housing for extremely and very low income households, with a similar 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 percent of unit rents were preserved as affordable to people earning below 30 percent of the median family income (MFI), and approximately 30 percent of rents were preserved as affordable to people earning below 50 percent MFI (Source: Mi Casa, Inc.). In addition, most LECs 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, to stay, and to be invested in the homes. This asset (and related stability) can be passed on from generation to generation--parents can will their co-op membership to their children. 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.

Upon the completion of the LEC study by CNHED in the fall of 2019, the District should widely share its results in order to promote the benefits of LECs--such as the creation / preservation of diverse 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 increase the number of LEC units by 45% over the next five years, adding 400 new units a year, or a total of 2,000 new LEC units by 2025. This will support the city's current goals of producing 36,000 new units—12,000 of them affordable--through production and preservation.

Recommendation #12:
Establish minimum annual funding amounts needed to meet the goal of increasing the number of LEC units by 45% 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:

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

There is a significant need for additional funding for the preservation and production of LECs. Without comprehensive and reliable data, the exact amount of funding is unknown. And without the certainty of dependable funding, groups or tenant associations considering becoming LECs can easily be discouraged or dissuaded. Therefore, the District should 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) should be established based on the level of need and priority to be available (or set aside) annually. Technical assistance providers and housing counselors should 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, at least 2,000 of those should be LECs. Of the 12,000 units, we hope that there are multiple opportunities for low-income households to achieve homeownership, and LECs are one way to do that. The primary conduit for LEC creation is through TOPA acquisitions. The city needs to allocate sufficient dedicated funding or create a specific fund) to create these LEC units. Average acquisition costs currently at or above $120,000 per unit, plus an additional 25 percent of financing above acquisition costs needed to cover pre-development, closing costs, and critical repairs. Therefore, it is estimated the amount needed to fund the acquisition of 400 LEC units a year could be as much as $60 million in total sources. It is estimated that roughly one-third of the projects applying could sustain a loan through the Preservation Fund, leaving $40 million a year need from the DHCD First Right to Purchase Program for the acquisition of buildings to become LECs. Some portion of this amount could be staggered strategically across multiple years for co-ops formed with bridge loans and pre-funded interest. (Note: This does not include the cost to renovate buildings or complete construction.) The attached document, “Scoring Analysis of LECs,” illustrates the challenges of scoring LEC projects under the DHCD NOFA.

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 $116 million to meet projected affordable housing needs. The DC Fiscal Policy Institute estimates that the current level of funding is not enough to address the District’s affordable housing challenges over the next 10 years; rather, over $200 million a year in the HPTF is needed to meet and keep up with the current demand for affordable housing, especially 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. The attached document, “Examples of Project Costs and Financing Needs,” illustrates how typical LECs are financed.

Recommendation #13:
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; they either are unable to obtain funding or get it 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 expand upon existing and identify new sources of financing for LECs; for example, expand the pool of Community Development Financing Institutions that work with LECs; encourage philanthropic investments— and use other tools like crowd sourcing, land trust financing, investment pools and/or pooling projects, non-tax-credit bond financing, non-profit-private partnerships, increasing the number of coop units under inclusionary zoning tools, mixed LEC/ condo or rental developments—to fill the gap and increase the preservation and creation of LECs.

Recommendation #14:
Improve availability and usability of pre-development financing for LECs.

***Issue*:**
A key issue for new co-op viability is the need for predevelopment funding. There is a shortage of "seed" money available ("soft" recoverable grants)—especially at the very beginning of a co-op project—that will 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, or forgivable loans may allow low-income tenants to move ahead with their goal of forming a LEC and reassure them that they will not be liable 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 result in 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 (forgivable) no-interest loans and eliminating the one-for-one match and guarantee

requirement. The funds should be administered such that loans can close quickly, within 90 days of applying.

- 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 pre-development for new cooperative development. Such a fund could help provide “gap” funding about allowable loan-to-value from private loans for acquisition financing, and be used to ensure the development plan moves forward quickly after acquisition, making the difference between a feasible and infeasible project.

Recommendation #15:
Improve the availability and dependability of acquisition financing tools for LECs—including an open and sufficiently-funded First Right to Purchase Program, and facilitate the better use bridge acquisition loan funds provided by intermediary lenders (such as the Preservation Loan Fund) by providing a clear path forward for take-out of these loans.

Issue:
The District is unique as it has a long history of supporting preservation of affordable housing units through TOPA giving the residents of rental buildings the first option to purchase the property. The time constraints of the TOPA process, and the unpredictability of when buildings come up for sale, often make the formation of a LEC and obtaining the necessary financing a challenge. DHCD has historically addressed this through administering a First Right to Purchase Program (FRPP) which provides ongoing acquisition funding to buildings going the TOPA timeline that cannot wait for a competitive RFP. The program provides essential funding that can make the difference between projects moving forward to purchase and preserve affordability under TOPA—or not. Recently, the FRPP has been closed due to lack of funding, and there has been discussion of its disappearance. It is the conclusion of this Task Force that the FRPP’s continuation and adequate funding is absolutely essential to the development of new LECs under TOPA.

Given this, the acquisition funding process can be improved by giving tenant organizations forming LECs access to early reviews by both bridge lenders and the FRPP, consistent and available funding and more flexible criteria under the FRPP, and by giving priority to projects most in need of utilizing the FRPP in order to preserve affordability. For example: Give priority to providing FRPP acquisition funding to projects that have a significant percentage of incomes below 30 and 50 percent of MFI and Total Development Costs (TDCs) that are moderate to high-- at an estimated $265,000 per unit or more--will improve the process.

LECs that don’t fit into the prioritization criteria and cannot support a 125 percent loan-to-value 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 NOFA.

<u>Acquisition Financing key recommendations</u>**:**

- During the first 90 days all potential LECs formed under TOPA should have access to a Bridge Lender to identify the maximum supportable acquisition loan.
- The District Government should create prioritization criteria for acquisition funding in the FRPP.
- All new LECs should go through the FRPP.
- Based on the Bridge Lender and the FRPP review, provided a project is feasible given one or more possible conditions, a path forward will be laid out for each potential LEC, which can include:
    1. DHCD giving future commitments for acquisition take-out in later years under the FRPP.
    2. DHCD providing prioritization scoring criteria for take-out funding for LECs in the NOFA, especially those who have gone through the above-described process.
    3. The District Government providing additional support to increase the ability of projects to compete well in the DHCD NOFA through prioritization criteria and better funding of LECs.
    4. DHCD providing gap funding for the LECs’ acquisition interest (if going with a bridge lender) and pre-development phase.

Recommendation #16:
Improve the dependability and timing of take-out and rehabilitation financing for LECs.

Issue:
Currently, District LECs often have to wait three or more years between acquiring their buildings and completing their development plan and accessing rehabilitation financing. The current pattern of DHCD awards through the Consolidated RFP is that projects need to apply two or three times before receiving an award. In the current climate where maximizing the production of new and more units is primary, District LECs—more than often involving the preservation of small, affordable rental buildings (averaging 20-30 units) converted under TOPA—must compete directly with larger projects and the production of new units. Scoring changes shall be adjusted to award more points to homeownership TOPA projects, most of which are preservation projects. Furthermore, DHCD should create a separate NOFA for preservation projects and provide a scoring bonus for LECs. The District should 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) there are more categories where LECs can achieve points, and/or more points allocated to those categories.

The District should provide flexibility in the percentage of the HPTF beyond the currently-stated 66 percent for LECs. The task force's analysis on the needs of "most affordable" LECs shows that on average, 75-80 percent or more 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 should prioritize acquisition take-out for affordable buildings with bridge loans and make the Local Rent Supplement Program (LRSP) available for non-PSH units.

<u>Take-out and Rehabilitation Financing recommendations</u>**:**
- The HPTF 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 should be allocated to preservation projects, and preservation and new production projects should 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 percent to 100 percent.

<u>Co-op voices:</u>
"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."

"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."

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 residents will have to leave, and will not benefit from the expanded investment pouring into the city since the early 2000s. The District can better support truly affordable housing for District residents in many ways, but the LEC model is one we believe merits particular attention and support. LECs have proven to be affordable, stable housing that, because their members collectively own them, engender a sense of pride and more broadly contribute to neighborhood stability. The District's first LEC was created in 1979. Forty years later, it's time for us to bring together our decades of experience with this form of affordable homeownership, and re-commit to supporting it for District residents. If the city can commit to better supporting LECs, and to adding 2,000 new units to the number of LECs in the District by 2025, we will be off to a good start.