GOVERNMENT OF THE DISTRICT OF COLUMBIA

Minutes

October 17th, 2018
6:00 pm to 8:00 pm
John A. Wilson Building
1350 Pennsylvania Ave NW, Room #401
Washington, DC 20004

Attendance
Present: Paul Hazen, Louise Howells, Vernon Oakes, Lolita Ratchford, Ana Van Balen, Elin Zurbrigg
Absent: Sandra Butler-Truesdale, Grady Canady, Jade Hall, Amanda Huron, Janene Jackson, Risha Williams
Council Staff Present: Barry Weise
Guests Present: Judy Meima, Ramon Jacobson

Chairman Paul Hazen called the meeting to order at 6:10PM. Paul started the meeting by asking everyone to introduce themselves. He then asked for recommendations on people to invite for future meetings.

Agenda items
Review of the meeting agenda for approval consideration.

Review of meeting documents and reports.

- Louise requested an update on the Affordable Housing Preservation Strike Force
    - Ana & Ramon: Updates and brief overview on the Affordable Housing Preservation Fund and six recommendations made in the Strike Force report being implemented by DHCD.
- Elin: Updates on the 14 year progress since the Coalition of Nonprofit for Housing Economic Development's (CNHED) 2004 study of LECs in DC and recommendations for limited equity cooperatives
    - UHAB created a coalition to form an online platform sharing a map, database, directory of services, and the like to try to meet the needs of coop communities
        - Background on UHAB's research and database: http://www.uhab.org/coopresearch
        - Database/Map website: https://sixthprinciple.coop/

Guest speakers - Judy Meima and Ramon Jacobson
Judy Meima

- Judy gave an overview of the purpose of the task force and its focus in response to Council's request for a report with recommendations. She expressed how this results in working on a different but hybrid form of cooperatives, in which limited equity cooperatives (LECs) are collective in their resources and management.

- While real estate depends on the housing market, co-ops function variously off market situations. Judy gave a brief overview of the history of LECs through the perspectives of Mitchel Llama and UHAB in New York. In the District, there is a unique opportunity with TOPA to form LECs.
- Two unique challenges exist:
  1) Tenants/families of buildings who don't know each other must learn to finance under a short time period.
  2) Tenants don't have any financial resources and is difficult to attain more, even if a nonprofit consultant/developer is present who often comes with resources.
- Overarching views leads to two overall recommendations:
  1) How do we build an infrastructure for co-ops that addresses the needs of tenants?
  2) How do we give LECs a competitive edge in getting financial resources equal to their contribution to the affordability field?
- CNHED's 2004 study of LECs in DC and 14-year progress report demonstrate that:
  1) Co-op development for very low-income affordability is at the top of production.
  2) Co-ops make large contributions to long-term affordability with very little resources
- 3 Phases exist for LECs in the TOPA process.
  - Phase 1: Within a three month period, residents must go from not knowing each other to figuring out the finance to deciding if they will sell, pursue rights, and find financial resources.
  - Phase 2: Acquisition and finding financial resources. Because the Housing Preservation Trust Fund (HPTF) can only fund a maximum of 66% for each TOPA project, what will the HPTF have on funding for LECs? How can LISC solve the hybrid nature of LECs fit into market-based housing? Do we give them a competitive edge to the financial contributions that they can provide?
    - Recommendations to look at are stable infrastructure to fund co-ops: building capacity for the project, collective management, and other ways the city can support through financial assistance. The District's capacity to work with good properties/co-ops must be larger.
    - Adequate operating subsidies help some people who cannot maintain housing since some starting co-ops have mixed-income groups where higher income tenants help offset rents and provide subsidies for lower income tenants. But a project-based LRSP is needed for existing tenants. DHCD has included project-based subsidies focused only on permanent supportive housing through LRSP. Financing is limited for low-income tenants so how do we subsidize the rest?
  - Phase 3: Co-op management and maintaining housing.
    - Vernon: Whether co-ops are self-managed, shared, or can afford property management service, how can co-ops recover from the results of rogue management when there is bad governance? There must be better management. How would this type of better management look?
    - Louise: People must feel more empowered in their roles. What co-ops must do now is reach 66%. However, this is difficult because it is then harder to find funds to pay the rest.

Ramon

- Breakdown of 3 phases: Lifespan of co-ops

- 1) Pre-purchase 2) Acquisition 3) Management
- There needs to be more focus on the first phase. It is possible that there is enough attention on which tenants need help and which ones don't belong.
- The Preservation Fund functions differently from past loan committee processes in bridging the tenant purchase loans.
    - With the Preservation Fund, LISC can offer the same terms that were in past loans but now with more affordability and slightly better interest rates and higher amount of dollars so that capital repairs can be made.
    - With the trajectory of housing prices and the Preservation Fund, newly found co-ops are basically not paying their capital stack during the acquisition phase. In many cases, they are not paying the interest and letting it accumulate. This may not be the most strategic, but it is a bit of change from past processes.
- For the third phase, banks would lend loans on five year terms in the past but now after the financial crisis banks will only lend on three year terms. This creates problems for those seeking longer term financing.
    - LISC now has the capacity to do permanent financing. They created a bond to provide long-term capital allowing them to be the third phase lender.
    - The real challenge is paying to get subsidized, and if tenants are in debt who is going to make the loan and where is it going.
    - Co-ops and small buildings are at a disadvantage now because banks are not interested in lending smaller loans anymore. These types of loans don't add value to their portfolios.
    - Tenants can try to get their loans into a Fannie Mae product but this is very difficult to make into a long-term funding source because they are such small loans.
- Therefore, there is a "gap": Who will make the loans and who wants to make them?
    - A possible strategy is to create a $50 million bond? This could possibly help tenants with their household debt service.
- There are two things going unsaid throughout this whole process:
    1) Rent control is key in making this happen. Rental income is capped because there is rent control.
    2) In some cases, a gap exists for long-term existing residences. Someone moving in may have a voucher for the same unit to assist in handling the debt service better than the existing household residence but this doesn't displace anyone.
        - What the Strike Force maybe overlooked was coming up with rental subsidy for existing residences.
    - Elin and Judy made suggestions and remarks on rental subsidies for existing residences:
        - There should be a priority for not putting too many parameters in the process for providing subsidies, a weighted system that doesn't disqualify certain buildings but makes them hard to compete.
        - It would be important to give priority to those who are in high rent areas or gentrified areas that don't have too high rents yet but can still receive subsidies.
        - Implementing this can be potentially expensive. If all tenants volunteer to work a living wage or the government takes this on, the

District won't be providing enough operating subsidies to solve all the issues.
    - Policy may be the answer to how many limitations there are and how much can be done but there certainly is a need for existing residents.
    - The District needs to expand its restrictions and guidelines to close the gap. It may not take much to close the gap if it's supplemented and if some buildings get subsidies depending on existing residents.
- Assets are worth a lot in co-ops. While the market value and bridge loans are high, value of the assets go down when covenants are in place. This is a challenge when everything falls apart and the tenants could choose to sell if it weren't for the covenant. Tenant subsidies go to the household and the goal should be to have the covenants match the capital. Getting the LRSP earlier would be very helpful in getting past this challenge.
  - It is better to have a covenant but it should match how much capital is in the subsidies to households. Incentives are key and having more than one may encourage tenants to be more involved.
  - Vernon, Judy, Elin, Louise, and Ramon discussed asset management for co-ops and suggestions for management issues:
    - What can be done to bring everyone together when people go "rogue"?
    - Infrastructure is key. However, because services from organizations are on a small scale, the number of people providing technical assistance that want to do co-ops or housing counseling is relatively small. LECs are a hybrid but do they have the structure to support themselves? Not because they're dedicated but because they are given a challenge that is extremely difficult.
    - DHCD should add Community Based Organizations to the notifications list if co-ops are not listening to the DHCD asset management team.
    - Other times, this is not enough. There is not enough technical assistance out there. There must be ways to increase ongoing support on a regular basis.
    - Is there a way to increase shared value so people have incentive to be more attuned to how their asset is being managed? Living somewhere for 30 years and then leaving capital debt presents issues in equity. In these cases, an HPAP could give people incentives so when they sell they aren't leaving so much debt.

Discussion of Program Teams
- Paul asked for suggestions on how to operate the teams because there has been a lack of response from the appointed leaders.
  - Shared Financing
  - Stakeholders
  - Asset Management, Governance, Compliance
- New appointed team leaders
  - Lolita - Stakeholders
  - Elin - Financing
  - Vernon - Asset management

Review of work plan – (copies of work plan distributed for review)

Suggestions for future speakers to invite

- DC Housing Finance Agency representative
- Mitchel Llama representative from New York
- CNHED - Scott Bruton
- MANNA Inc. – Rozanne Look
- NASCO representative
    - Perspective from student housing cooperatives?
- Enterprise representative
    - Invitation to talk about what it looks like to have community-based organizations consider developing co-ops?
    - Maybe David Bowers?

Adjourned