

Summary and Results of Ground Lease Fees Discussion on January 21, 2009

1. John Davis introduced topic and reviewed agenda:
 - a. Homeowners are part of CLT membership and elect 1/3 of board - so folks who are served by CLT are actively involved in governing the CLT and you have an opportunity to make your voices heard.
 - Almost every change to bylaws, ground leases in CLTs across the country – comes from folks on board and/or membership saying that “we need to do this better”
 - b. There are many ways to approach this issue; we will consider several options and vote on our preferences.
 - This is not a binding vote, as it still needs to go to the full board for approval
 - Under the CLT model, decisions are made deliberately, which builds stability into the model – but means that decisions like this are made quickly.
2. John’s role is to give MACLT stakeholders a sense of their 230 fellow CLTs: how they approach this problem, what options for change they are considering.
3. How do CLTs across the country think about the fees that are charged to their homeowners? Three components (see below for more detail):
 - a. “Use Fee” to CLT
 - i. Every CLT charges a monthly fee to the homeowner for the right to live on and use the land under their home. This supports the CLT in performing its responsibility as owner of the land in dealing with the city and other funders, to manage resales, and to monitor and enforce provisions of the ground lease.
 - b. Land Taxes to City (in MACLT’s case, land taxes are not included in monthly ground lease fees)
 - c. Contribution to “Stewardship Fund”
 - i. This is similar to replacement reserve for condo associations – a fund set aside to ensure that money is available to replace the roof or other major repairs. MACLT does not have such a fund at this time.
 - d. OPAL CLT in Washington State, for example, charges a monthly lease fee that includes:
 - i. Use fee for CLT
 - ii. Monthly taxes on the land
 - iii. Replacement Reserve/Stewardship Fund
 - iv. They charge \$40 for use of land, pass along land tax bill to be paid separately, and charge an extra \$10 and put it into a replacement reserve for a total monthly charge of \$50.

4. A well-thought out ground lease fee Strikes a Balance between:
 - a. Sustaining a non-profit organization
 - b. Affordability to homeowners

The role of the board is to balance these two goals – how to satisfy both sides of the equation?

5. Some CLTs across US charge homeowners a “fee for service” which is not included in lease fee. This is designed to pay for specific services:
 - a. Periodic inspections of homes on a volunteer basis
 - b. Bookkeeping services to homeowner associations
 - c. Some CLTs will use own staff for repairs, plowing, etc
 - d. Rehab loan programs run by CLTs

- a. Ground Lease fees among other CLT’s around the country
 - g. No CLT charging less than \$10/month
 - h. 2002 UW study – MACLT was definitely at the high end
 - Since that time, CLT’s are moving closer to us; right now we are in the top 1/5th in the country.
 - i. How do CLTs decide on the amount of the lease fee?
 - What tends to happen is that CLT does its first project, figures out what an affordable lease fee would be (pull it out of the air, more or less), which is what they did in Burlington.
 - j. Several CLT lease fees are indexed to change in median income (automatic)
 - Some CLTs have discretionary right to increase lease fee (up to caps set up in the ground lease), but don’t choose to exercise it

- b. Comments/Questions
 - a. Do we have any fees for services in our CLT? (No)
 - b. In Burlington, condo fee is now \$110/month
 - c. Lease fee is for use of land for 98 years
 - Don’t have to pay that all up front (which is what happens in a purchase situation)
 - d. Until you get to about 200 units, ground lease fees will not cover all of the staff costs (and overhead) of stewardship responsibilities under ground lease
 - Getting to self-sustaining source of income to cover costs of stewardship
 - What if you don’t have 200 units, since most CLTs are smaller than that?
 - What is the fee assumption around this (cuz \$200 per month fee will get you to self-sustainability at way below 200 units)
 - e. Relationship depends upon success of homeowners as well as stability of CLT to perform its stewardship responsibilities
 - f. Ground lease fee as “early warning system”
 - When a homeowner gets in trouble, the first thing they stop paying is their ground lease fee

- g. Stewardship Fund fee – designed to promote savings for maintenance
 - What if you never use it? Can access some or all of it at time of resale

- h. Are ground lease fees always the same with income-restricted/resale restricted units versus market-rate units?
 - Common to charge two tiers of fees for restricted versus market rate
 - Also common to charge different tiers for detached (single family homes) versus multifamily (condos)

Discussion and Voting Results for Changes to Ground Lease Fees

Option #1: MACLT's current ground lease fee structure

- \$50/month per household for condos and \$75/month for single-family homes
- Land taxes not included in lease fees (although agreement with City Assessor results in lower property taxes)
- No stewardship fund at this time (condo fees serve this purpose to some extent)
- Do bookkeeping services for condo associations for no extra charge

Financial Effect on MACLT:

- Ground lease fees generate about \$42,000 in revenue for MACLT in 2009.
- That accounts for 20% of total operating costs

Questions/Comments on Option #1:

- Challenge at Troy Gardens – we have an immense amount of land to maintain – which we have to both rent and pay to maintain
 - Snow removal bill was \$11,000 last year
 - Have to do tasks ourselves because our condo dues don't cover the cost of everything related to maintaining the land
 - Finance committee says we are not paying enough money into replacement reserve - lower ground rent fees would enable us to pay more to that.
- Initial condo dues described to us when marketing homes was too low!
 - Finance committee has determined that we need to charge \$200 (including ground current ground rent) to cover all costs
 - We like it that market rate and income-restricted homeowners pay the same rate

Voting Results: 11 green dots, 11 red dots

Option #2: Proposal from Troy Gardens Condo Association

- Reduce ground lease fees to \$35/month per household for condos and \$50/month for single-family homes by April 2009.
- Reduce ground leases further to \$25/month for condos and \$40/month for single-family homes by April 2010.

Financial Effect on MACLT:

- In 2009, MACLT's revenue would be reduced by about \$8,500
- In 2010, MACLT's revenue would be reduced by about an additional \$8,800.
- Overall, MACLT's annual revenue would be reduced \$17,300 by 2010.

Questions/Comments on Option #2:

- \$40 would be in the middle nationally, \$25 would be in the lowest quintile (according to John)
- what is expectation around bookkeeping services with reduced ground rent (hadn't really thought about it yet)

Voting Results: 6 green dots, 10 red dots

Option #2 (A): Troy Gardens Cohousing proposed reductions in ground lease fees phased in over 2 years, starting in Jan. 2010 rather than April 2009.

Voting Results: 7 green dots, no red dots

Option #3: TG proposed changes, phased in over 3 years instead of 2

- Reduce ground lease fees to \$40/month per household for condos and \$65/month for single-family homes by April 2009.
- Reduce ground lease fees further to \$35/month per household for condos and \$50/month for single-family homes by January 2010.
- Reduce ground leases further to \$25/month for condos and \$40/month for single-family homes by January 2011.

Financial Effect on MACLT:

- In 2009, MACLT's revenue would be reduced by about \$4,400.
- In 2010, MACLT's revenue would be reduced by an additional \$7,700.
- In 2011, MACLT's revenue would be reduced by an additional \$7,700.
- Overall, MACLT's annual revenue would be reduced \$19,800 by 2011.

Questions/Comments on Option #3:

- As Treasurer – how do we replace that revenue, as ground lease fees are main source of steady income year to year? We don't make enough money through resales because deferred maintenance eats up fees we can charge to cover transaction costs at resale.

Voting Results: 4 green dots, 10 red dots

Option #4: Same Fees but with Home Maintenance/Stewardship Fund

- Keep ground lease fees at current levels (\$50/month for condos and \$75/month for single-family homes)
- Each household allocates a portion of their monthly fees to a separate fund held for home maintenance.
 - For example, single-family homeowners might allocate \$35 per month to their fund - and MACLT's revenue would be reduced accordingly.
 - Over time this fund would grow and the homeowner could draw on the money for home maintenance. When he or she sells the home, any remaining funds are returned to the seller at closing.

Financial Effect on MACLT:

- If \$15 of each MACLT homeowner's monthly ground lease fees were allocated to a Home Maintenance Fund, MACLT would receive \$11,500 less in revenue per year.

Questions/Comments on Option #4:

- Collect same amount of money, but uses will be different
- Same net reduction in revenues to CLT
- Hopefully will reduce deferred maintenance, which in turn reduces costs of repairs needed at resale (increased revenue for CLT from resales)

Voting Results: 10 green dots, 4 red dots

Option #5: Fee for Services

- Reduce ground lease fees to \$25/mo for condos and \$40/mo for single-family homes, phased in over 2-3 years.
- MACLT would charge homeowners and condo associations for bookkeeping and other services currently provided as part of ground lease fees.

- For example, Mary spends about 12 hours per month providing bookkeeping services for the two condo associations. At \$25/hour, that equals \$300/mo.
- MACLT would bill \$200 per month to TGCA and \$100 per month to ACCOA (or associations can contract to have that work done by someone else).
- Printing and postage fees would also be charged.

Financial Effect on MACLT:

- As noted in Option #3, MACLT’s annual revenue would be reduced \$19,800 by the end of the phase-in period.
- Revenue from bookkeeping services would equal \$3,600 if both condo associations hired MACLT.

Questions/Comments on Option #5:

- Concern that we should be cautious about doing the books ourselves (without a trained bookkeeper)
 - Most likely would hire that out to a professional bookkeeper
- What is the bookkeeping that CLT does for us
 - Pay all condo association bills, maintain bank accounts, reconcile bank statements, collect condo dues, etc.

Voting Results: 7 green dots, 1 red dot

Other Ideas suggested by attendees

- **Option #6:** Lease fee pegged to household income (sliding scale)
 - Would people be willing to submit tax returns to document?
 - Could we keep that income information confidential?

Voting Results: no green dots, 2 red dots

- **Option #7:** Lease fee as % of condo association’s operating budget

Voting Results: no green dots, no red dots

- **Option #8:** Option #2 but only one-step reduction (so lease fees would be \$35/month for condos and \$50/month for single family homes.

Voting Results: 3 green dots, no red dots

Other concerns/questions/discussion points:

1. Concerned that we are not talking about overall impact on the organization – that all we are talking about is lowering ground lease fees
2. How do we replace lost revenues? What happens if we don't fill the gap
3. Some issues about design of Troy Gardens created additional expense/problems:
 - a. Particularly about snow plowing – where do we put the snow??
 - b. More density would have made condo dues lower
 - c. For future projects – learn the lessons from Troy Gardens going forward
4. Concern that initial condo dues were not estimated correctly
 - a. Whatever we do – we need to look at that in regards to future projects to make sure we do project replacement reserves more accurately
5. A two-person office can't do the scale of projects we need to do to sustain the organization