BLAINE COUNTY HOUSING AUTHORITY
Wednesday, July 16, 2025, 10:30 AM
115 Main Street South, Suite H, Hailey, Idaho 83333

AGENDA

PUBLIC PARTICIPATION INFORMATION
Public information on this meeting is posted outside City Hall.

We welcome you to watch Board Meetings via live stream.
You will find this option on our website at http://www.bcoha.org.

If you would like to comment on a public hearing agenda item, please select the best option for your participation:

- Join us via Zoom (please mute your device until called upon)
  Join the Webinar: https://zoom.us/j/95503161717
  Webinar ID: 955 0316 1717

- Address the Board in person at Ketchum City Hall or the Hailey City Hall dependent upon the meeting location.
- Submit your comments in writing at info@bcoha.org (by 24 hours prior to the meeting)
  This agenda is subject to revisions. All revisions will be underlined.

CALL TO ORDER: By Board Chairman Keith Perry
ROLL CALL: Pursuant to Idaho Code Section 74-204(4), all agenda items are action items, and a vote may be taken on these items.
COMMUNICATIONS FROM BLAINE COUNTY HOUSING AUTHORITY BOARD: Communications from the Board of Directors

1. Public Comment submitted
2. Public Comment in person

COMMUNICATIONS FROM THE LIASONS: Updates from the Liaisons on their jurisdictions

3. Liaison Reports

COMMUNICATIONS FROM THE STAFF: Updates from the Staff

4. Staff Update- Executive Director, Carissa Connelly

CONSENT AGENDA:
ALL ACTION ITEMS - The Board is asked to approve the following listed items by a single vote, except for any items that a board member asks to be removed from the Consent Agenda and considered separately.

5. Approval of the June 18, 2025, BCHA Board Meeting Minutes

6. Approval of the June 2025 Financial Reports

PUBLIC HEARING:

7. Recommendation to Adopt New Appreciation Formula- Executive Director, Carissa Connelly

NEW BUSINESS:

8. HOA Advocacy and Dues Relief Update- Housing Program & Policy Strategist, Rian Rooney

ADJOURNMENT:

From: Garrett Crane
To: pzcounter@co.blaine.id.us; martha.burke@haileycityhall.org; juan.martinez@haileycityhall.org; dustin.stone@haileycityhall.org; heidi.husbands@haileycityhall.org; kaz.thea@haileycityhall.org; lmollineaux@co.blaine.id.us; amccleary@co.blaine.id.us; Participate; mdavis@co.blaine.id.us
Cc: BCHA Info
Subject: Re: Blaine County Housing Authority
Date: Friday, July 4, 2025 7:31:03 AM

To whom it may concern,

I am writing as a concerned resident of Blaine County to highlight the immense challenges posed by the extraordinarily high cost of living, particularly housing. My expecting wife and I, both committed to working full-time in this valley and contributing to its economy, are currently living in a fifth wheel. This isn't a choice; it's a necessity because the housing market is simply unattainable. Beyond the astronomical housing costs, the price of food and basic necessities is also prohibitive. This situation is unsustainable for our local workforce. We see hundreds of dedicated individuals, who serve our businesses and community, forced to commute long distances because they cannot find housing here. The proliferation of short-term rentals significantly reduces available long-term housing, and the competitiveness from remote workers, who don't contribute to our local service economy, only exacerbates the problem. This dynamic makes it incredibly difficult for our local employers to recruit and retain staff. I implore you to prioritize and expedite all possible solutions for community housing across the county.

My wife and I love this valley, and our greatest hope is to raise our family right here. This marks the first time I've ever expressed such significant concerns, but the alarming trend of good people, who are deeply rooted in this community, being pushed out is heartbreaking. They love this place, but the constant struggle to afford basic living necessities, especially housing, is driving them away. We must act to prevent further loss of the very people who make this valley special.

Kind regards,

Garrett Crane

From:	Sarah Michael
To:	BCHA Info
Cc:	Janet Wygle; Tripp Hutchinson; Spencer Cordovano; Jade Riley
Subject:	BCHA Support for BCHA Evergreen Homeowners
Date:	Tuesday, July 15, 2025 7:11:39 AM
Attachments:	SMichael Emergency Housing Fund 6-24-2025 (1).docx

Dear BCHA Board Members,

I have been working with the homeowners of the Evergreen BCHA units who are going into debt because of the high cost of HOA dues and Special Assessments. On their behalf, please consider the following at your July 16, 2025 meeting.

I urge the BCHA Board to support pursuing grants for the residents at the Evergreen. This option was identified in the staff report on pages 74-78 of your July 16 agenda packet. These should be grants, not loans, as the long term appreciation of these BCHA Evergreen Deed Restricted homes may put these homeowners into debt if they are loans.

These funds should Not be conditional on relocating to the right-cost community home.

Also please pursue transition to Category Local in advance of sale to enable rent.

I hope that you will also ask the city of Ketchum to establish in its FY 2025-2026 Budget an Emergency Housing Fund of $68,000 for grants and loans to address this problem. This is an ongoing challenge and should have a budget line item to address it. This amount is justified based upon Rian Rooney's analysis and report at your June 18th meeting. If the funds are not needed, then they can be carried over and the amount modified. See the attached letter to the Ketchum City Council dated 6-24-2025.

Thank you for your consideration of these comments.

Sarah Michael

Sarah Michael
P.O. Box 3060
Sun Valley, ID 83353
(208) 721-1593

Sarah Michael
208-721-1593
Ms.sarahmichael@gmail.com

June 24, 2025

To: City of Ketchum, Mayor Bradshaw and City Council Members
From Sarah Michael, former BCHA Interim Executive Director and County Commissioner

Subject: Establish a $68,000 Annual Emergency Housing Fund for Ketchum BCHA Condo Owners for Extraordinary HOA Dues and Special Assessments

BCHA staff Rian Rooney and Carissa Connelly developed a staff report for the June 18, 2025, Housing Authority Board meeting which identified the potential of 32 out of the City of Ketchum's 78 condo owners who may be facing an inability to pay for HOA Dues and Special Assessments. Staff estimated that the potential financial gap for them could be $68,000 in 2025, and this amount could be recurring.

For the past year, the BCHA has been aware of specific homeowner financial challenges but so far, the staff has only recommended that the owners apply to local charities for funding assistance. No local or state organization can address this level of ongoing expenses. In 2025, one owner in the Evergreen building faces an $18,976.00 and another faces $16,591 bill for HOA dues, reserves and special assessments. You can do the math on how much these translate into monthly costs for two long time Ketchum residents living in Deed Restricted housing. Both continue to work well past retirement age to stay here. They need help now.

While the BCHA deliberates the problem, we urge the City of Ketchum to find funding now and add a $68,000 line item in the City's FY 26 Annual Budget to create an Emergency Housing Fund for existing BCHA homeowners that will provide direct grants and loans to keep them in their homes.

Assisting current Ketchum BCHA homeowners fits past and current City of Ketchum programs to maintain or increase affordable units in the city of Ketchum.

In February, the City of Ketchum purchased 3 condos for $2.4 million, which will be sold, "after the city conducts repairs on the building which are estimated to cost $75,000." In March, according to the Mt Express, the city committed $244,000 for the Lease to Locals program and now, in its place, the City is undertaking a new, three-year "light preservation program," which will offer current long-term-rental owners a cash incentive to keep offering their properties as long-term rentals for locals. A studio owner would receive an incentive of $6,000, an owner of a one-bedroom unit would receive $8,000, an owner of a two-bedroom unit would receive $10,000 and an owner of a three-bedroom unit would receive $12,000.

Keeping long term residents in their homes, I hope, will become one of the City's highest housing priorities in 2025 and in your FY 2026 Budget. Please establish a program now with a simple administrative application for emergency funds.

The only documentation should be proof of the dues, capital reserve fees, and the amount and duration of the special assessment. If the BCHA current homeowner's current income show that they are paying more than 30% of their annual income for housing, then grants should be provided to meet the emergency.

These hardships are ones that have been created by past BCHA actions but fortunately, the BCHA staff is recommending changes to future deed restrictions, so these exorbitant amounts won't be levied on deed restricted units in the future,

Thank you.

From:	Nancy Mendelsohn
To:	Keith Perry; BCHA Info; Carissa Connelly
Cc:	Nancy Mendelsohn
Subject:	Proposal on Valuing Deed-Restricted Housing for Reslae
Date:	Tuesday, July 15, 2025 12:06:34 AM

Dear Blaine County Housing Authority Board and Staff,

I am writing to express my thoughts on the recent proposal concerning the valuation method for appreciated deed-restricted housing for resale.

Firstly, I appreciate the effort to create a fair and sustainable housing market that accommodates all residents in our community. However, it is crucial that any valuation methods ensure that these properties remain affordable for future buyers *and a*t the same time, build an investment return for those parties whom invest in deed-restricted housing.

I have comments about the proposed methods for valuing deed-restricted housing:

1. **Make sure the formula and method is understood and understandable to the community the BCHA serves**. The BCHA has acknowledged that "buyer confusion and participant disputes" exist currently.
2. **Investment return matters.** If there is little financial incentive (increase in marketable value at time of resale) the incentive for deed restricted housing ownership is reduced. There is limited financial risk in renting. There are a variety of risks that come with deed restricted housing ownership.
3. Add to "the risk of traditional ownership" that **it can be very difficult to sell the deed restricted property in the future** (regardless of valuation methods) because of income and occupancy standards. This occurs regardless of the demand for affordable housing.
4. **Approved capital improvements made by the deed-restricted homeowner should be included in future sales prices**. Without that, there is very limited financial incentive for owners to upgrade and improve their homes.
5. **Consider the income restrictions, occupancy restrictions and the category designations** on deed-restricted housing and how those variables can limit the ability to value deed-restricted housing at prices that remain affordable for buyers and at the same time, build an investment return for owners.
6. **How does the change in valuation methods impact current deed-restricted homeowners currently in the BCHA program?** Any change in valuation methodology should be applied moving forward and not change historic understandings and agreements with the community the BCHA serves.

I urge the BCHA to consider strategies that balance the interests of current homeowners and future buyers, ensuring that any appreciation in property value and capital investments in the property, does not lead to a significant financial barrier for those seeking to enter the market and the limitations on investment return do not penalize those seeking to move from an affordable housing ownership situation to a market housing ownership situation.

Without the financial incentive of owning deed-restricted housing (increased market value over time- which has been the historical reality in this location) I see limited value in owning a deed-restricted housing unit over renting a unit in the BCHA inventory, unless an individual chooses to be in the BCHA program in ***perpetuity***. I believe it is as much the responsibility of the BCHA to move constituents out of affordable housing into market rate housing, as it is to provide affordable housing in the first place.

Thank you for considering my perspective on this matter and I hope the Board and staff of the BCHA will carefully consider the impact of their decision on the community they serve.

Sincerely,

Nancy Mendelsohn

July 16, 2025- Monthly Staff Update

These updates are meant to highlight new outputs or efforts and not reiterate regular responsibilities.

GOAL 1: BUILD ORGANIZATIONAL STRUCTURE + CAPACITY TO SERVE REGIONAL HOUSING OPPORTUNITIES + GAPS

- Continuing to train up on Homekeeper and Salesforce
- Continuing to update BCHA's Accounting Policies and Procedures Manual to reflect current practice and ensure alignment with accounting best practices and IHFA requirements (Heather, Jacklyn)
- Requested funding from City of Hailey during budget hearing (Board Commissioner Daryl)
- Met Hailey's Planning Director for coffee (Carissa)
- Presented budget request to County Commissioners (Carissa, Board Chair Keith)
- Conducted analysis of BCHA's hard costs to provide the services we do to assist with our requests to local governments for annual funding as well as to propose new fees to the BCHA Board during their July meeting (Heather, Carissa)
- Preparing response to IHFA's secondary compliance letter (Heather, Carissa)
- Submitted end-of-grant response to Hunger Coalition/Spur Foundation (Heather, Carissa)
- Planning brainstorming session with local non-profits on fundraising and community engagement (Carissa, Jacklyn)

GOAL 2: RECOMMEND + ADVOCATE FOR POLICY THAT PROMOTES HOUSING

- Continuing to work on Analysis of Impediments to Fair Housing Choice. Finalizing demographic and market analysis portions. Published survey and marketing materials for distribution. (Rian)
- Met with architect of Flying Hat Ranch annexation in Hailey to discuss community housing (Rian, Carissa)
- Submitted letter advocating for inclusion of community housing in Blackburn Subdivision in Blaine County (Rian, Carissa, Keith)

GOAL 3: EXPAND, COORDINATE, + IMPROVE SERVICES TO CREATE HOUSING STABILITY

- Change in BCHA office hours to accommodate evening. New hours will be:
    - Monday to Thursday 9 am to 4 pm
    - Evening appointments available (Saturday appointments as last resort, not advertised)
- Since the last Board meeting, three households (a total of five individuals) moved into Silvercreek. One family of four successfully transitioned to permanent housing and moved out. There have been no move-ins or move-outs at Lift Tower Lodge during this period. (Daniel)

- Attended a training session on "Eviction Legal Issues for Landlords" facilitated by the Institute of Applied Conflict Resolution and Mediation. Topics covered included: Landlord legal rights and responsibilities, the eviction process and legal framework and the benefits of mediation in housing-related conflicts. This training was by the Housing Mediation Project, provided at no cost to Blaine County landlords, tenants, and other housing stakeholders. (Daniel, Liz)

GOAL 4: INFORM, ENGAGE, COLLABORATE

- Scheduling education and social opportunity in Ketchum to discuss the Comprehensive Plan and explain how to provide public comment (Carissa)
- Reaching out to potential part-time contractors to lead community engagement (Carissa)
- Participated in the Housing and Homelessness Focus Group hosted by St. Luke's as part of their 2026 Community Health Needs Assessment. This initiative is conducted in collaboration with South Central Public Health District and Family Health Services. The focus group aims to gather insights to better understand local housing challenges and inform future planning and funding decisions. (Daniel, Liz)

GOAL 5: STEWARD/PRESERVE + EXPAND PORTFOLIO OF DEED RESTRICTED HOMES

<u>HOA Costs</u>

- Developing advocacy materials for approaching HOA Board at Residences at Evergreen and other high-cost developments about solutions for community homeowners. (Rian)
- Reviewing grant opportunities for seeding special assessment assistance fund (Rian)

<u>Process and data management</u>

- Creating process documents for recurrent processes & reviewing existing process documents (Team)
- Updating forms to reflect updated policies (Heather, Liz)
- Updating the Countywide Community Housing Inventory (Jacklyn)

<u>Data and application transition</u>

- HomeKeeper - Placed first handful of tenants using new application system. Continuing to gather feedback on how to improve systems and product (Rian, Heather, Liz)

<u>Application Review</u>

- Conducted 1st reviews on 2 full rental applications and following up on applications with missing data. (Liz)
- Assisted 16 applicants with in-person application and Common Intake Form submissions. (Liz)
- Conducting 2nd reviews on applications and qualifying them for purchases and rentals (Heather)

<u>Sale of Deed-Restricted Units</u>

- No BCHA units are currently for sale
- Working with City of Ketchum to get the Hyperborean Condos (three Category Local units) ready for sale – repairs, light remodeling, CC&R's, etc. (Carissa, Heather, Jacklyn, Anna)

Rental lease-up

- 2 one-bedrooms, Category 5 in Ketchum is available
- In the pipeline, 2 additional units likely available for rent in the next month:
    - Studio, Category 3 in Ketchum
    - Two-bedroom, Category 3 in Ketchum

Compliance

- Testified in court case against property owner with a community housing rental unit, who takes months to follow up with interested Applicants and has unreasonable, subjective rules. No verdict as of Friday, July 11. (Carissa)
- Working with legal team on enforcing compliance with two homeowners and three landlords (Liz, and Carissa)
- Completed annual compliance on 10 homeowners. (Liz)
- Working with 20 homeowners on annual compliance. (Liz)
- Completed annual rental re-certification with 5 renters (Liz)
- Working with 2 renters for their annual rental re-certification (Liz)
- Met with 2 renters to update the acknowledgment and acceptance of the BCHA policies (Liz, Jacklyn)

BLAINE COUNTY HOUSING AUTHORITY
Meeting Minutes
Wednesday, June 18, 2025, 10:30 AM
191 5th St W, Ketchum, ID 83333

CALL TO ORDER: By Board Chair Keith Perry *(00:00:11)*

ROLL CALL:
Keith Perry- Board Chair (via zoom)
Daryl Fauth- Treasurer
Sarah Seppa- Vice Chair
Jennifer Rangel- Board Member
Ana Torres- Board Member

ALSO PRESENT:
Carissa Connelly –Housing Director, BCHA Executive Director
Heather Nicolai –Housing Operations Manager
Liz Vargas —BCHA Program Administrator
Daniel Brown –BCHA Silvercreek Living Property Manager & Program Administrator
Jacklyn Highfill –Housing Administrative Assistant
Rian Rooney –Housing Fellow (via Zoom)
Tripp Hutchinson –City Councilmember, BCHA- Ketchum Liaison

COMMUNICATIONS FROM BCHA BOARD: (00:00:52)

1. Public Comments in person
    a. Sarah Michael (00:02:47)
    b. Susan Neaman (00:13:00)

COMMUNICATIONS FROM BCHA LIASONS: Updates from the Liaisons on their jurisdictions

2. Liaison Reports
    a. Tripp Hutchinson (00:18:22)

COMMUNICATIONS FROM THE STAFF:

3. Staff Update- Housing Director, Carissa Connelly (00:28:05)
4. Mission Moment- Liz Vargas, Program Administrator (00:36:17)

CONSENT AGENDA: (00:40:06)

5. Approval of May 21, 2025, BCHA Board Meeting Minutes
6. Approval of the May 2025 BCHA Financial Reports
7. Approval of the Exception Request for Ownership

MOTION TO APPROVE CONSENT AGENDA: (00:40:22)
MOVER: Sarah Seppa
SECONDER: Daryl Fauth
AYES: Keith Perry, Ana Torres, Jennifer Rangel, Sarah Seppa, Daryl Fauth
NAYS:
RESULT: ADOPTED

PUBLIC HEARING: (00:41:21)

9. Recommendation to Update and Adopt BCHA's Policies- Executive Director, Carissa Connelly
    a. Public Comment- Nancy Mendelsohn (01:49:12)
    -Jen Smith (01:54:47)

MOTION TO APPROVE RECOMMENDATION WITH EXCEPTIONS (Holding Section 4e & 5c until July Meeting) (02:09:23)
MOVER: Keith Perry
SECONDER: Jennifer Rangel
AYES: Keith Perry, Daryl Fauth, Ana Torres, Jennifer Rangel, Sarah Seppa
NAYS:
RESULT: ADOPTED

NEW BUSINESS: (02:11:16)

10. Guidance on HOA Dues and Assessments for BCHA Existing Community Homeowners- Housing Program & Policy Strategist, Rian Rooney

MOTION TO APPROVE UPDATED POLICY RECOMMENDATION (2:47:48)
MOVER: Sarah Seppa
SECONDER: Keith Perry
AYES: Keith Perry, Daryl Fauth, Ana Torres, Jennifer Rangel, Sarah Seppa
NAYS:
RESULT: ADOPTED

MEETING ADJOURNED (02:48:04)
MOVER: Jennifer Rangel
SECONDER: Keith Perry
AYES: Keith Perry, Ana Torres, Jennifer Rangel, Sarah Seppa, Daryl Fauth
NAYS:
RESULT: ADOPTED

Respectfully submitted by:

____
Carissa Connelly
City of Ketchum Housing Dir & BCHA Executive Dir

Approved by:

____
Keith Perry
BCHA Chair

BLAINE COUNTY HOUSING AUTHORITY

Financial Reports for period ending June 30, 2025

Prepared on

July 11, 2025

BLAINE COUNTY HOUSING AUTHORITY
Budget vs. Actuals: Budget FY25
October 2024 - June 2025

	Total			
	Actual	Budget	over Budget	% of Budget
Income				
4010 Sale of Real Estate - Elkhorn Rental to Ownership	219,661	180,000	39,661	122.03%
4050 City of Ketchum Contributions	357,487	358,432	-945	99.74%
4060 Blaine County Contributions		112,500	-112,500	0.00%
4070 CH Admin Fee	11,467	3,750	7,717	305.77%
4100 Rental Income			0	
4110 Silvercreek - Rental Income	254,725	365,183	-110,457	69.75%
4115 Silvercreek - Laundry Income	5,525	3,564	1,961	155.02%
Total 4110 Silvercreek - Rental Income	**$ 260,250**	**$ 368,747**	**-$ 108,496**	**70.58%**
4130 Elkhorn - Rental Income	6,750	5,190	1,560	130.06%
Total 4100 Rental Income	**$ 267,000**	**$ 373,937**	**-$ 106,936**	**71.40%**
4300 Grants	50,922	82,500	-31,578	61.72%
4600 Miscellaneous Income	749		749	
Total Income	**$ 907,286**	**$ 1,111,119**	**-$ 203,833**	**81.66%**
Gross Profit	**$ 907,286**	**$ 1,111,119**	**-$ 203,833**	**81.66%**
Expenses				
7100 Administrative Services			0	
7110 Financial Services	9,363	3,000	6,363	312.10%
7120 Bank Charge	171		171	
Total 7110 Financial Services	**$ 9,534**	**$ 3,000**	**$ 6,534**	**317.80%**
7130 Liability Insurance	5,277	32,020	-26,743	16.48%
7140 Staff/Board Development	4,087	2,250	1,837	181.65%
7150 Subscriptions	2,007	1,020	987	196.73%
Total 7100 Administrative Services	**$ 20,905**	**$ 38,290**	**-$ 17,386**	**54.59%**
7200 Managed Rental Costs			0	
7201 Property Management Systems	1,306		1,306	
7210 Silvercreek - Expenses			0	
7211 Silvercreek - Operations	141,877	105,925	35,952	133.94%
7212 Silvercreek - Rental Expense	421,654	371,250	50,404	113.58%
Total 7210 Silvercreek - Expenses	**$ 563,531**	**$ 477,175**	**$ 86,356**	**118.10%**
7230 Elkhorn Village Units			0	
7231 Elkhorn Village HOA Dues	8,644	10,360	-1,716	83.44%
7232 Elkhorn Village Repair & Maintenance	6,537	1,809	4,728	361.38%
Total 7230 Elkhorn Village Units	**$ 15,182**	**$ 12,169**	**$ 3,013**	**124.76%**
Total 7200 Managed Rental Costs	**$ 580,019**	**$ 489,344**	**$ 90,675**	**118.53%**
7400 Contract Labor			0	
7410 Admin - Contract Labor		7,500	-7,500	0.00%
7430 Application Review and Placement - Contract Labor	60,000	7,500	52,500	800.00%
7440 City of Ketchum Staffing Reimbursement	211,574	358,432	-146,859	59.03%
7450 Compliance - Contract Labor	12,400	18,558	-6,158	66.82%
7455 Legal Fees	12,047	15,000	-2,953	80.31%
Total 7450 Compliance - Contract Labor	**$ 24,447**	**$ 33,558**	**-$ 9,111**	**72.85%**
Total 7400 Contract Labor	**$ 296,021**	**$ 406,990**	**-$ 110,970**	**72.73%**
7500 Office expenses			0	
7510 Computer & Comm. Expenses	5,688	5,379	309	105.75%
7520 Postal and Delivery Services	181	232	-51	77.91%
7530 Furniture & Improvements	143	4,500	-4,357	3.17%
7540 Professional Services and Fees	125		125	
7550 Rent - BCHA Meriwether Office	8,670	8,483	187	102.20%
7560 Supplies	483	576	-93	83.90%
Total 7500 Office expenses	**$ 15,290**	**$ 19,170**	**-$ 3,880**	**79.76%**
7600 Program Expenses			0	

7610 Applications, Forms, & Data Management	12,079	9,574	2,505	126.17%
7630 Data and Analysis	37,613	75,000	-37,387	50.15%
7640 Mediation	36,387	37,500	-1,113	97.03%
7650 Lease-up and Sales	3,413	1,875	1,538	182.03%
7660 Printing and Reproduction	1,997	1,500	497	133.16%
7670 Translation & Interpretation	3,298	3,375	-77	97.73%
7680 Public Education & Partnership Engagement	1,300	28,500	-27,200	4.56%
Total 7600 Program Expenses	**$ 96,088**	**$ 157,324**	**-$ 61,235**	**61.08%**
Total Expenses	**$ 1,008,322**	**$ 1,111,119**	**-$ 102,797**	**90.75%**
Net Operating Income	**-$ 101,036**	**$ 0**	**-$ 101,036**	
Other Expenses				
8030 Reconciliation Discrepancies-1	149		149	
Total Other Expenses	**$ 149**	**$ 0**	**$ 149**	
Net Other Income	**-$ 149**	**$ 0**	**-$ 149**	
Net Income	**-$ 101,185**	**$ 0**	**-$ 101,186**	

BLAINE COUNTY HOUSING AUTHORITY
Profit and Loss YTD Comparison
October 2024 - June 2025

	Total			
	Oct 2024 - Jun 2025	Oct 2023 - Jun 2024 (PY)	Change	% Change
Income				
4010 Sale of Real Estate - Elkhorn Rental to Ownership	219,661		219,661	
4050 City of Ketchum Contributions	357,487		357,487	
4060 Blaine County Contributions		232,278	-232,278	-100.00%
4070 CH Admin Fee	11,467	1,735	9,732	561.05%
4100 Rental Income		0	0	
4110 Silvercreek - Rental Income	254,725	194,664	60,062	30.85%
4115 Silvercreek - Laundry Income	5,525	2,930	2,595	88.59%
Total 4110 Silvercreek - Rental Income	**$ 260,250**	**$ 197,593**	**$ 62,657**	**31.71%**
4120 Hi Country Motel - Rental Income		62,286	-62,286	-100.00%
4130 Elkhorn - Rental Income	6,750	11,950	-5,200	-43.51%
Total 4100 Rental Income	**$ 267,000**	**$ 271,829**	**-$ 4,829**	**-1.78%**
4300 Grants	50,922	126,789	-75,867	-59.84%
4400 Donations		20,000	-20,000	-100.00%
4600 Miscellaneous Income	749	5,871	-5,122	-87.24%
Total Income	**$ 907,286**	**$ 658,502**	**$ 248,785**	**37.78%**
Gross Profit	**$ 907,286**	**$ 658,502**	**$ 248,785**	**37.78%**
Expenses				
7100 Administrative Services		796	-796	-100.00%
7110 Financial Services	9,363	4,131	5,232	126.67%
7120 Bank Charge	171	193	-22	-11.35%
Total 7110 Financial Services	**$ 9,534**	**$ 4,324**	**$ 5,210**	**120.51%**
7130 Liability Insurance	5,277	5,798	-521	-8.99%
7140 Staff/Board Development	4,087	7,049	-2,962	-42.02%
7150 Subscriptions	2,007	1,219	788	64.61%
Total 7100 Administrative Services	**$ 20,905**	**$ 19,185**	**$ 1,719**	**8.96%**
7200 Managed Rental Costs		848	-848	-100.00%
7201 Property Management Systems	1,306		1,306	
7210 Silvercreek - Expenses			0	
7211 Silvercreek - Operations	141,877	66,191	75,686	114.34%
7212 Silvercreek - Rental Expense	421,654	114,435	307,219	268.46%
Total 7210 Silvercreek - Expenses	**$ 563,531**	**$ 180,627**	**$ 382,905**	**211.99%**
7220 Hi Country Motel - Rent paid for facilities		122,850	-122,850	-100.00%
7230 Elkhorn Village Units			0	
7231 Elkhorn Village HOA Dues	8,644	12,593	-3,949	-31.36%
7232 Elkhorn Village Repair & Maintenance	6,537	55	6,482	11786.00%
Total 7230 Elkhorn Village Units	**$ 15,182**	**$ 12,648**	**$ 2,533**	**20.03%**
Total 7200 Managed Rental Costs	**$ 580,019**	**$ 316,973**	**$ 263,046**	**82.99%**
7400 Contract Labor			0	
7420 Policy, Strategy and Management - Contract Labor		69,300	-69,300	-100.00%

7430 Application Review and Placement - Contract Labor	60,000	24,900	35,100	140.96%
7440 City of Ketchum Staffing Reimbursement	211,574	105,948	105,626	99.70%
7450 Compliance - Contract Labor	12,400	19,093	-6,693	-35.05%
7455 Legal Fees	12,047	18,380	-6,333	-34.46%
Total 7450 Compliance - Contract Labor	**$ 24,447**	**$ 37,472**	**-$ 13,025**	**-34.76%**
Total 7400 Contract Labor	**$ 296,021**	**$ 237,620**	**$ 58,401**	**24.58%**
7500 Office expenses		67	-67	-100.00%
7510 Computer & Comm. Expenses	5,688	12,605	-6,917	-54.87%
7520 Postal and Delivery Services	181	280	-99	-35.33%
7530 Furniture & Improvements	143		143	
7540 Professional Services and Fees	125		125	
7550 Rent - BCHA Meriwether Office	8,670	8,910	-241	-2.70%
7560 Supplies	483	1,144	-661	-57.76%
7570 Telephone & Internet		44	-44	-100.00%
Total 7500 Office expenses	**$ 15,290**	**$ 23,051**	**-$ 7,761**	**-33.67%**
7600 Program Expenses			0	
7610 Applications, Forms, & Data Management	12,079	13,490	-1,411	-10.46%
7620 Compliance		15	-15	-100.00%
7630 Data and Analysis	37,613	30,795	6,818	22.14%
7640 Mediation	36,387	25,454	10,934	42.96%
7650 Lease-up and Sales	3,413	1,696	1,717	101.26%
7655 Ads		466	-466	-100.00%
Total 7650 Lease-up and Sales	**$ 3,413**	**$ 2,162**	**$ 1,251**	**57.87%**
7660 Printing and Reproduction	1,997	2,053	-55	-2.68%
7670 Translation & Interpretation	3,298	3,959	-661	-16.69%
7680 Public Education & Partnership Engagement	1,300	9,193	-7,893	-85.86%
Total 7600 Program Expenses	**$ 96,088**	**$ 87,120**	**$ 8,968**	**10.29%**
Total Expenses	**$ 1,008,322**	**$ 683,949**	**$ 324,373**	**47.43%**
Net Operating Income	**-$ 101,036**	**-$ 25,447**	**-$ 75,589**	**-297.04%**
Other Expenses				
8030 Reconciliation Discrepancies-1	149		149	
Total Other Expenses	**$ 149**	**$ 0**	**$ 149**	
Net Other Income	**-$ 149**	**$ 0**	**-$ 149**	
Net Income	**-$ 101,185**	**-$ 25,447**	**-$ 75,738**	**-297.63%**

BLAINE COUNTY HOUSING AUTHORITY
Profit and Loss by Property
October 2024 - June 2025

	Elkhorn Village	Silver Creek Living	Total
Income			
4010 Sale of Real Estate - Elkhorn Rental to Ownership	219,661		219,661
4100 Rental Income			
4110 Silvercreek - Rental Income		254,725	254,725
4115 Silvercreek - Laundry Income		5,525	5,525
Total 4110 Silvercreek - Rental Income	**$ 0**	**$ 260,250**	**260,250**
4130 Elkhorn - Rental Income	6,750		6,750
Total 4100 Rental Income	**$ 6,750**	**$ 260,250**	**267,000**
Total Income	**$ 226,411**	**$ 260,250**	**486,661**
Gross Profit	**$ 226,411**	**$ 260,250**	**486,661**
Expenses			
7200 Managed Rental Costs			
7201 Property Management Systems		111	111
7210 Silvercreek - Expenses			
7211 Silvercreek - Operations		141,627	141,627
7212 Silvercreek - Rental Expense		421,654	421,654
Total 7210 Silvercreek - Expenses	**$ 0**	**$ 563,281**	**563,281**
7230 Elkhorn Village Units			
7231 Elkhorn Village HOA Dues	8,111		8,111
7232 Elkhorn Village Repair & Maintenance	6,537		6,537
Total 7230 Elkhorn Village Units	**$ 14,648**	**$ 0**	**14,648**
Total 7200 Managed Rental Costs	**$ 14,648**	**$ 563,392**	**578,041**
7500 Office expenses			
7510 Computer & Comm. Expenses		338	338
7520 Postal and Delivery Services		15	15
7560 Supplies		2	2
Total 7500 Office expenses	**$ 0**	**$ 355**	**355**
7600 Program Expenses			
7650 Lease-up and Sales	926		926
Total 7600 Program Expenses	**$ 926**	**$ 0**	**926**
Total Expenses	**$ 15,574**	**$ 563,747**	**579,322**
Net Operating Income	**$ 210,836**	**-$ 303,497**	**-92,661**
Net Income	**$ 210,836**	**-$ 303,497**	**-92,661**

BLAINE COUNTY HOUSING AUTHORITY
Balance Sheet Comparison
As of June 30, 2025

	Total			
	As of Jun 30, 2025	As of Jun 30, 2024 (PY)	Change	% Change
ASSETS				
Current Assets				
Bank Accounts				
1100 Cash in Bank	0	0	0	
1110 DL Evans Checking	112,476	50,703	61,773	121.83%
1120 Checking US BANK-1848	-142	-142	0	0.00%
Total 1100 Cash in Bank	**$ 112,333**	**$ 50,561**	**$ 61,773**	**122.17%**
Total Bank Accounts	**$ 112,333**	**$ 50,561**	**$ 61,773**	**122.17%**
Accounts Receivable				
1200 Accounts Receivable	0	251	-251	-100.00%
Total Accounts Receivable	**$ 0**	**$ 251**	**-$ 251**	**-100.00%**
Total Current Assets	**$ 112,333**	**$ 50,812**	**$ 61,522**	**121.08%**
TOTAL ASSETS	**$ 112,333**	**$ 50,812**	**$ 61,522**	**121.08%**
LIABILITIES AND EQUITY				
Liabilities				
Current Liabilities				
Accounts Payable				
2000 Accounts Payable	46,498	54,473	-7,975	-14.64%
Total Accounts Payable	**$ 46,498**	**$ 54,473**	**-$ 7,975**	**-14.64%**
Credit Cards				
2100 Visa - DL Evans	0	-670	670	100.00%
Total Credit Cards	**$ 0**	**-$ 670**	**$ 670**	**100.00%**
Total Current Liabilities	**$ 46,498**	**$ 53,803**	**-$ 7,305**	**-13.58%**
Total Liabilities	**$ 46,498**	**$ 53,803**	**-$ 7,305**	**-13.58%**
Equity				
3000 Opening Bal Equity	-313,390	-313,390	0	0.00%
3040 Retained Earnings	480,411	335,846	144,564	43.04%
Net Income	-101,185	-25,447	-75,738	-297.63%
Total Equity	**$ 65,835**	**-$ 2,991**	**$ 68,826**	**2300.99%**
TOTAL LIABILITIES AND EQUITY	**$ 112,333**	**$ 50,812**	**$ 61,522**	**121.08%**

BLAINE COUNTY HOUSING AUTHORITY

BOARD MEETING AGENDA MEMO

Meeting Date:	July 16, 2025	Staff Member:	Carissa Connelly
Agenda Item:	Public Hearing: Recommendation to Approve New Appreciation Formula		

Recommended Action:

Staff seek further guidance on the appreciation formula, unless the Board is prepared to make a motion to adopt a new formula.

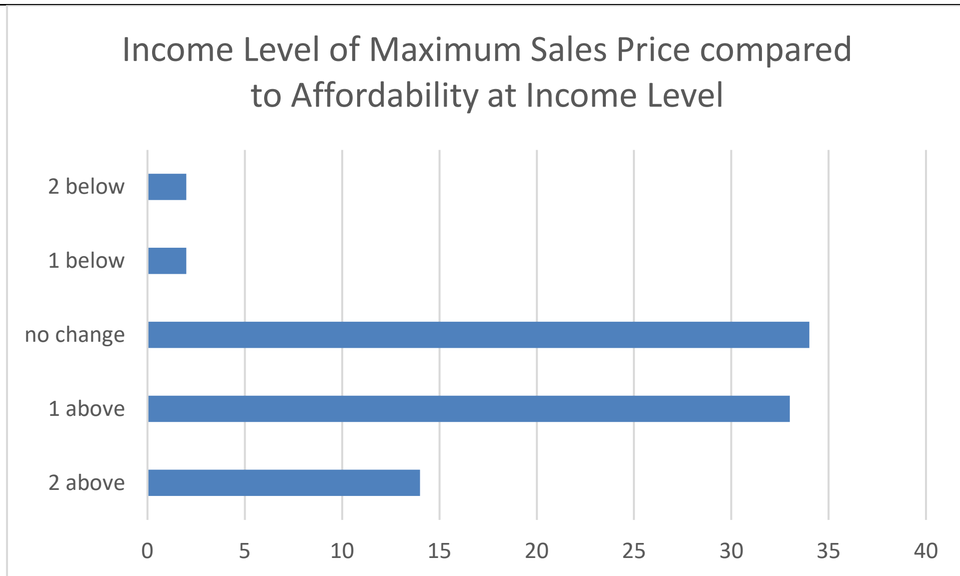
Policy Analysis and Background (non-consent items only):

CONTEXT

Currently, BCHA uses a formula that combines itemized, index, and fixed-rate methods to determine the Maximum Sales Price. The formula factors in the change in the Consumer Price Index since the time of the owner's purchase to determine appreciation, with an overall cap of 3% or 4% per year on average. The 3% cap applies to deed restrictions recorded since 2024, when the Board adopted and implemented a lower cap. Properties that transacted prior to 2024 have a 4% average annual cap. After this calculation is completed, approved capital improvement credits (itemized) are credited toward the price. This complexity causes confusion among program participants and can be challenging to administer.

Additionally, there is community and program participant confusion about the meaning of the Maximum Sales Price, as many people assume that the Maximum Sales Price is both the maximum and the minimum price, and buyers and sellers do not typically reduce it. Almost all homes sell at their Maximum Sales Price. This can cause challenges when the Maximum Sales Price of a unit is not affordable for the home's designated income level. In recent years, HOA fees and interest rates have triggered questions regarding ongoing affordability of community homes that BCHA is responsible for stewarding.

Currently, 56% of BCHA's ownership homes have Maximum Sales Prices above what would be considered affordable for that income level (using a mortgage-based formula, which assumes a 0% downpayment, the 12-month average interest rate and factors in HOA costs, taxes and utilities but not Capital Improvements). This analysis whether each home is affordable to the low end of the range of incomes within a given Category; an Income Category 4 (80 – 100% AMI) unit would need to have a Maximum Sales Price affordable to 80% AMI or below to be considered affordable to that income Category. This means that some homes do fall within affordability levels between 80 and 100% (e.g. 90%) AMI but are assessed as Category 5 (100% - 120% AMI) under this analysis (1 category above what they are assigned).



With 56% of BCHA's homes having a Maximum Sales Price above what is currently affordable to the income category, far fewer Applicants in that category can afford to purchase the home, since they need more equity (i.e. down payment) to substantially reduce debt. If a sale occurs to an Applicant with adequate equity at that price, that home will continue to be resold at an increasingly unaffordable price for that home's income category. BCHA has rarely seen sellers drop their asking price, or Applicants offer less than the Maximum Sales Price.

It is important to note that interest rates and HOA fees play an important role in this affordability analysis. With higher rates, more homes will fall out of their "affordable" category, and reduced rates will make more homes affordable.

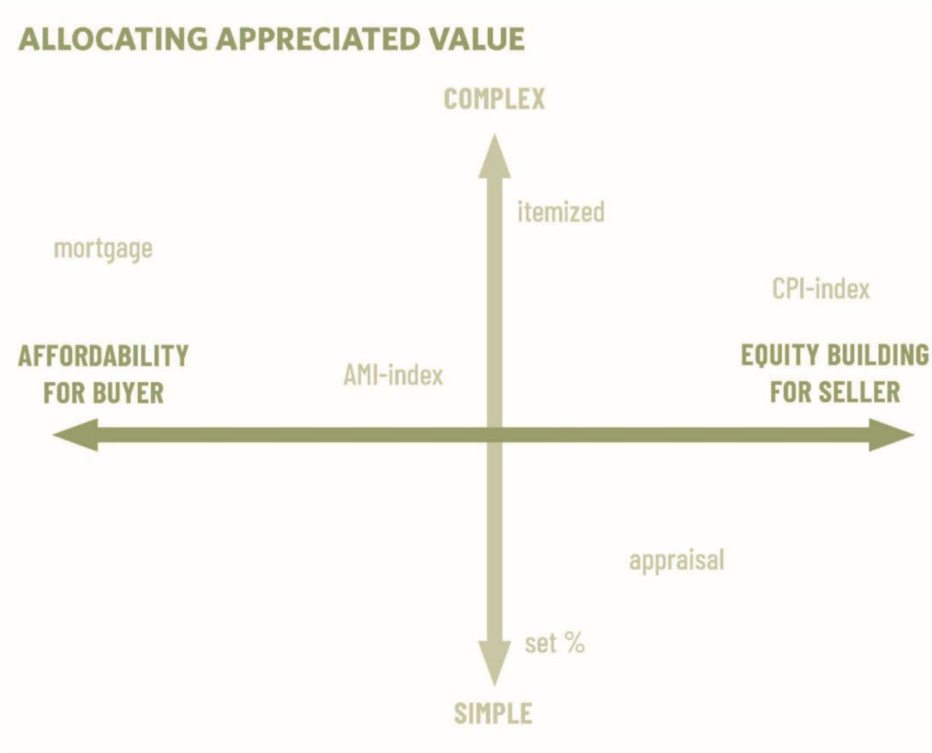
Staff also assessed whether the length of time owning the home impacted the difference between affordability and the Maximum Sales Price. There is no correlation between length of ownership and affordability; variation in affordability appears to be driven more by the difference in monthly HOA costs for the homeowner. HOA costs reduce what an owner can affordably pay toward a mortgage under the analysis.

At the April 16th Board meeting, the presentation and discussion introduced appreciation and the primary considerations. Generally, resale formulas should be based on the nature of local housing markets and the capacity of staff to administer such a program. Staff asked the Board for guidance on what BCHA's overriding priority is: preserving affordability over time or building wealth. Shared equity homeownership programs, like BCHA's, inherently fall between these two competing concepts.

The Board gave staff direction to focus further research on appreciation that preserves affordability over time, which narrows the discussion to four appreciation formula options:

1. Area Median Income (AMI) index: When the homeowner sells, they receive the amount initially paid for the home plus that initial price times the change in the AMI.
2. Fixed rate: Appreciation is determined by a set annual percentage calculated for each month of ownership. Long-term affordability is contingent on selecting a low annual appreciation rate.
3. Affordable housing cost / mortgage-based: Price is determined by what is "affordable" to buyers earning the target income level, given whatever interest rates, HOA costs, and other likely housing costs are.
4. Itemized: Appreciation is solely based on capital improvements.

Many long-standing organizations who use deed covenants or ground leases to manage affordable housing started off using mortgage-based and itemized (capital improvements) appreciation calculations because they are considered clear and reflect tangible inputs. Those organizations have since abandoned their use due to practicality. It is important to remember that all formulas, including the mortgage-based one with a floor, require equity building by "forcing savings" through paying down a mortgage.



POTENTIAL FORMULAS

<u>AMI-Index:</u> Any indexed formula adjusts the resale price by applying the percentage change from that index over the ownership period to the original purchase price. This AMI-Index method doesn't adjust for inflation, interest rates, or improvements.

<u>Fixed-Rate:</u> The simplest of all resale formulas and recommended by Grounded Solutions. It is the easiest to administer and to explain and is increasingly common. This method does not adjust to market conditions, inflation, interest rates, or improvements. Affordability at resale is generally determined by the rate selected, in that a lower rate, such as 1%, would be the closest to an affordable resale price.

<u>Mortgage-Based:</u> Price guaranteed to be affordable to the next buyer at a specified income, which incorporates changes in income levels, interest rates, and HOA fees. If BCHA were to instate an annual program fee, as is recommended to ensure long-term sustainability of the program, those costs could be integrated into the calculation. This method favors ongoing affordability over wealth generation, but the seller still builds wealth due to "forced saving" – i.e. no longer paying rent – and any appreciation at resale.

Mortgage-based formulas are highly dependent on interest rates, so fluctuate and impact the seller's net return as a result. The disadvantages of this formula can be mitigated by setting a floor and cap, such as not allowing the Maximum Sales Price to ever drop below the original purchase price. Once a floor is set, however, the home could become unaffordable to that income level under certain economic conditions (i.e. a spike in interest rates). For example, using the mortgage-based formula on a home priced to be affordable at 100% AMI that was purchased five years ago, with a floor, means reselling at 115% AMI. However, due to fluctuations in the market, a home purchased 10 years ago would be resold at 101% AMI.

A cap could be the lesser of the mortgage-based appreciation or a fixed-rate, similar to BCHA's current formula that caps CPI growth.

Itemized: Some organizations historically *only* appreciated based on Capital Improvements, also referred to as itemized formulas. Most organizations have moved away from this itemized calculation due to practicality, specifically the following challenges:

- Distinguishing between improvements and repairs
- Distinguishing between improvements for utility and unnecessary luxury
- Valuing actual improvements
- Potentially contentious process
- Administration and recordkeeping

Staff does not recommend using only an itemized method but could continue to utilize itemization in tandem with another method, consistent with current practice. The Board could (a) decide to continue allowing approved Capital Improvements to be credited on top of appreciation – as is current practice, (b) only allow major, appraisable improvements such as an additional garage or bedroom, or (c) not allow Capital Improvements to be credited to Maximum Sales Price. Staff will research what specifically constitutes appraisable improvements. The current, Board-approved definition of Capital Improvements follows option (a):

> *Unless otherwise defined in the Deed Covenants on the Community Housing unit, any fixture erected as a permanent improvement to real property that enhances the value of the property, excluding repair, maintenance costs, and standard depreciation when applicable. A fixture is any personal property attached to or installed on land or a structure thereon to become part of the real property. For Capital Improvements to be included in the Maximum Sales Price calculation, they must be approved by BCHA during annual review and not considered luxury or for a limited population group.*

Long-standing organizations argue that a homeowner should make repairs and improvements for the sake of their home and living standards. Since the mission is to maintain long-term affordable housing, adjusting for improvements is both at odds with that mission and is administratively complex. A counterpoint is to help off set the costs of special assessments that community homeowners in mixed-income buildings must pay, as those decisions are generally outside of their control and can be substantial costs.

ANALYSIS

Only the mortgage-based formula can guarantee long-term affordability at the designated income category. However, with the risk of the affordable price dropping below the original purchase price, staff would recommend creating a floor to ensure homeowners receive a return of the price they paid when they sell. Using the mortgage-based formula with a floor, the resale price can be more affordable at resale than if another formula were used, such as the fixed-rate formula. Here are 5- and 10-year scenarios for the three formulas (not including itemized), using historical Blaine County interest rates and income levels:

5-Year Formula Examples (2020-2025)

Affordability	Custom AMI Index		Mortgage Based Formula		Fixed Index 1%	
Initial Price	$	413,052	$	413,052	$	413,052
First Mortgage	$	392,400	$	392,400	$	392,400
Initial Affordability		100%		100%		100%
Resale Price	$	502,541	$	337,203	$	434,122
New Second Mortgage						
Affordability at Resale		**133%**		**100%**		**120%**
Additional Subsidy Needed		157,071				92,073
Asset Building						
Initial Investment	$	33,044	$	33,044	$	33,044
Homeowner's Net Return	**$**	**137,026**	**$**	**(23,353)**	**$**	**70,659**
Approx Rate of Return		33%		-193%		16%

This analysis highlights that, were the Mortgage-Based Formula used on a community home purchased five years ago and resold today without a floor, the Maximum Sales Price would mean a net loss to the owner of about $23,000. With a floor, a 100% AMI community home would have a Maximum Sales Price affordable to households earning 115% AMI. However, even with a floor, the Mortgage-Based Formula remains the most affordable option, while still producing a net return to the owner of $50,000 at resale after 5 years.

For reference, our current method would result in a Maximum Sales Price affordable at 129% AMI.

Alternative scenarios were also analyzed, with price spikes, housing busts, and interest rate spikes. With a fixed index, the base scenario and rate spike scenarios cause the resale price to be unaffordable – the extent of which is determined by the Fixed-Rate selected. Unfortunately, the model does not allow staff to adjust to a lower fixed rate (3% is used). As expected, the Mortgage-Based formula remains affordable regardless of mortgage rate fluctuations but has extreme variations in homeowner's net return. Creating a floor or ceiling would address those drastic fluctuations. Lastly, the AMI-index continues to have the worst affordability outcomes in certain scenarios.

5-Year Alternative Scenarios	Base Scenario	Static	Price Spike	Housing Price Bust	Rate Spike	Rate Spike - 5 yrs
Affordability at Resale						
Fixed Index 3%	129%	100%	94%	100%	136%	141%
*Mortgage Based Formula	100%	100%	100%	100%	100%	100%
Area Median Income Index	133%	100%	100%	100%	147%	147%
Homeowner's Net Return						
Fixed Index 3%	$114,036	$237,368	$237,368	$237,368	$237,368	$114,036
*Mortgage Based Formula	$ (23,353)	$237,368	$291,989	$237,368	$ 50,676	$ (61,317)
Area Median Income Index	$137,026	$237,368	$291,989	$237,368	$291,989	$137,026

*Doesn't include a floor or a ceiling

<u>10-Year Formula Examples (2015-2025)</u>

When looking at a purchase from 10 years ago, the Mortgage-Based Formula essentially remains affordable to households at 100% AMI, while the AMI-index and CPI-index continue to have the highest increase and the Mortgage-Based the lowest, relative to AMI needed to afford the resale price.

Affordability	Area Median Income Index		Mortgage Based Formula		Fixed Index 1%	
Initial Price	$	381,315	$	381,315	$	381,315
First Mortgage	$	362,250	$	362,250	$	362,250
Second Mortgage						
Initial Affordability		100%		100%		100%
Resale Price	$	512,456	$	381,315	$	421,209
Affordability at Resale		**125%**		**101%**		**108%**
Additional Subsidy Needed		128,489		3,905		41,804
Asset Building						
Initial Investment	$	30,505	$	30,505	$	30,505
Homeowner's Net Return	**$**	**211,688**	**$**	**84,481**	**$**	**123,179**
Approx Rate of Return		21%		11%		15%

Our current CPI-based method would produce a Maximum Sales Price affordable to 117% AMI.

Alternative scenarios over a 10-year period produce similar results to those described over the 5-year period:

10-Year Alternative Scenarios	Base Scenario	Static	Price Spike	Housing Price Bust	Rate Spike	Rate Spike - 5 yrs
Affordability at Resale						
Fixed Index 3%	125%	100%	94%	100%	127%	132%
Mortgage Based Formula	100%	100%	100%	100%	100%	100%
Area Median Income Index	125%	100%	100%	100%	137%	137%
Homeowner's Net Return						
Fixed Index 3%	$211,688	$211,688	$211,688	$211,688	$211,688	$101,142
*Mortgage Based Formula	$ 80,494	$211,688	$262,112	$211,688	$ 70,834	$ (34,852)
Area Median Income Index	$211,688	$211,688	$262,112	$211,688	$262,112	$122,365

*Doesn't include a floor or a ceiling

RECOMMENDATION

Staff recommend using either the Mortgage-Based Formula or a Fixed-Rate formula of 1%. If using a Mortgage-Based Formula, staff recommend a floor of the original purchase price and a ceiling of 2.5%. This method accounts for the range of HOA fees that most BCHA homes encounter in mixed-income buildings and maintains the greatest affordability over time. Alternatively, staff would support using a 1% Fixed-Rate formula since that is simple and the second-best formula for maintaining affordability. With regards to Capital Improvements, staff support maintaining the recently approved definition and will ensure staff training to lower the administrative challenge of determining which improvements to accept.

Whichever formula the Board adopts, staff recommend establishing a floor of the original purchase price.

BCHA'S COMMUNITY HOUSING ADMINISTRATIVE POLICIES

If the Board wants to continue the discussion on appreciation at another meeting, staff recommend adopting the remaining policies as are written here. These are written to defer to the deed covenant for the appreciation calculation, which the Board can adopt by resolution at a later date.

<u>Section 4. Community Housing Ownership, E. Calculation of Maximum Sales Price</u>:

1. For existing Community Homes, the Maximum Sales Price at resale is determined by the initial purchase price of the seller adjusted for the following:
    (a) Add allowable appreciation (as described in the recorded Deed Covenant).
    (b) Add BCHA-approved Capital Improvements.

2. For newly constructed and newly acquired income-restricted Community Homes: The sales price is determined by what is affordable to that income level based on interest rates, HOA fees, utilities and other housing costs.

Section 5. Developer Owners & Property Management, E. Calculation of Maximum Sales Price:

1. The sales price is determined by what is affordable to that income level based on interest rates, HOA fees, utilities, and other housing costs.

Attachments:

1. Staff Presentation, April 16, 2025
2. The CLT Technical Manual, 2011, Chapter 12 Resale Formula Design, Pg. 6-11 & 17-20
3. Resolution 2025-07 Recommendation to adopt BCHA's Community Housing Administrative Policies
4. Resolution 2025-10 Recommendation to adopt new Appreciation Formula______________

APPRECIATION WORKSHOP

April 16, 2024

BLAINE COUNTY
HOUSING AUTHORITY

- Why Shared Equity Homeownership
- Allocating Appreciated Value
- Local Context
- Determining Priorities

Why Shared Equity Homeownership

Allocating Appreciated Value

Local Context

Determining Priorities

PRIMARY DISCUSSION QUESTIONS

What is our overriding priority, to preserve affordability over time or help build wealth?

What is a fair balance between these two opposing goals?

BENEFITS OF TRADITIONAL OWNERSHIP

security of tenure

greater civic engagement and volunteerism

freedom to improve the home

build assets through forced savings + appreciation

primary way to access desireable locations

RISKS OF TRADITIONAL OWNERSHIP

financial

- home prices can be volative
- exposure to one asset class
- risk of foreclosure due to job loss or health crisis
- danger from unsafe mortgage products
- high transaction costs to buy or sell

may struggle to maintain the home

affordability and availability constraints

AFFORDABILITY GAP INCREASES OVER TIME

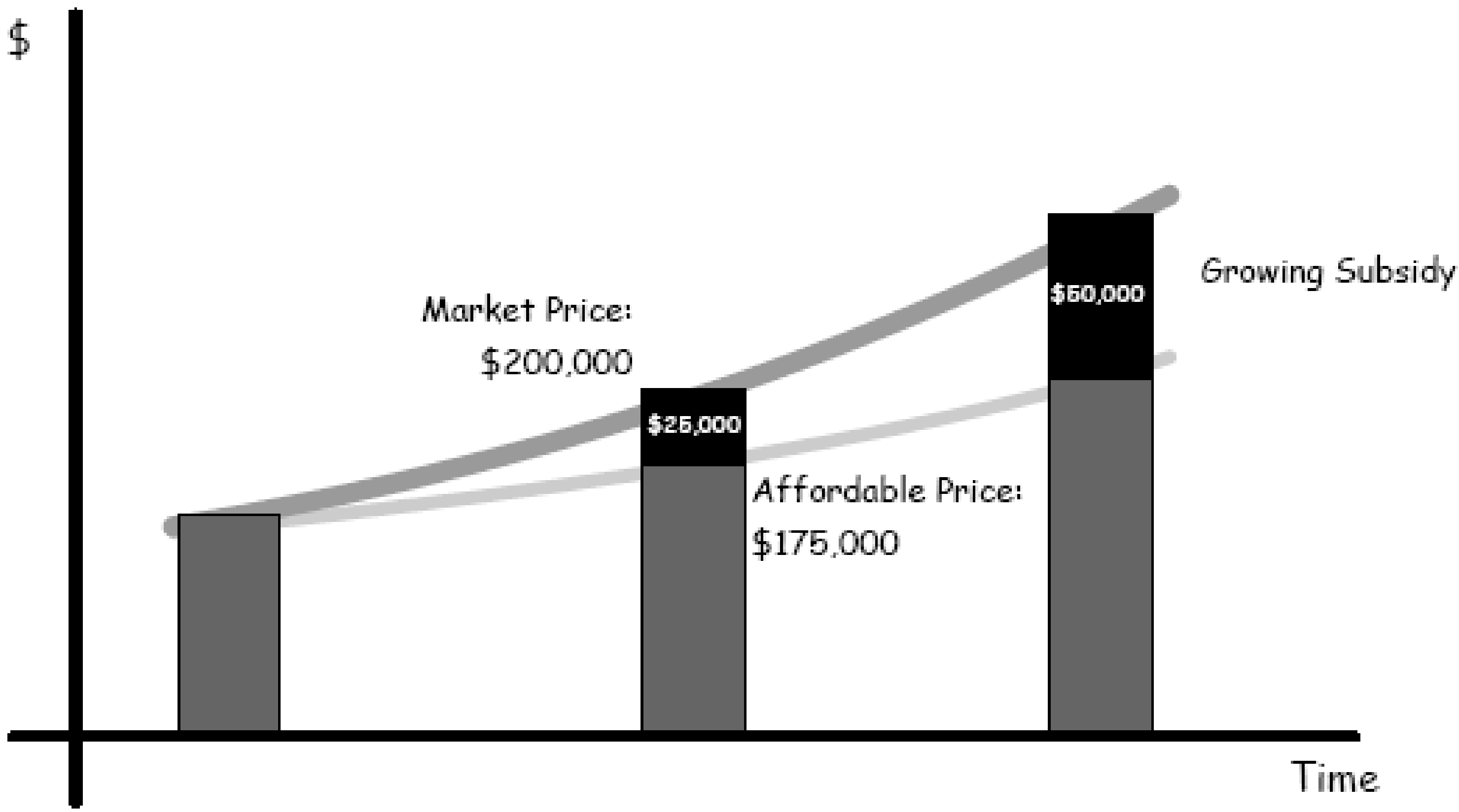
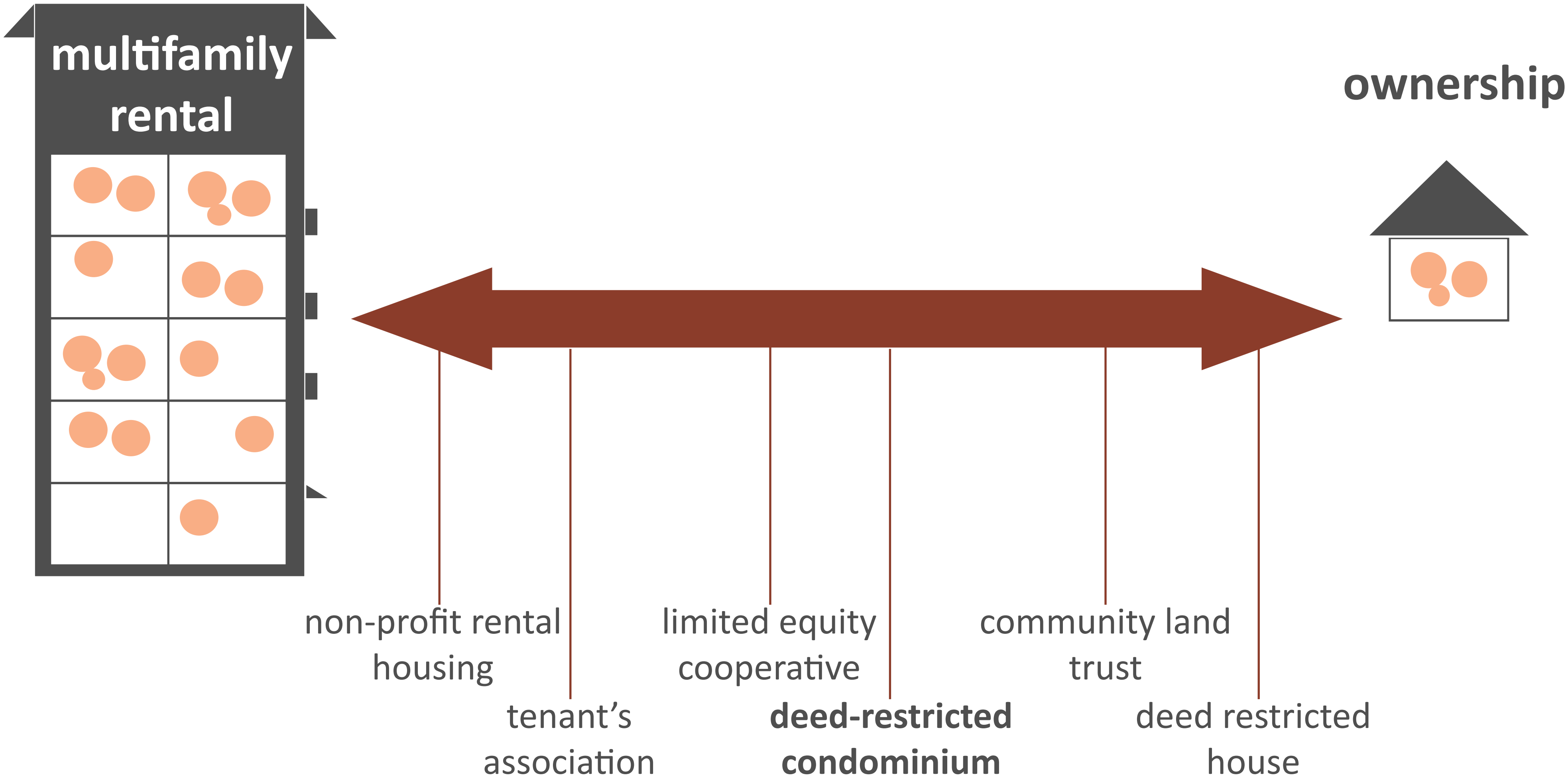


Figure 3: A growing affordability gap requires a growing level of subsidy.

Source: Rick Jacobus from Jacobus and Lubell. Preservation of Affordable Homeownership: A Continuum of Strategies (Center for Housing Policy, 2007)

SHARED EQUITY HOMEOWNERSHIP



1. enables homeownership for households who otherwise couldn't afford it

2. requires sharing appreciation between the owner and the 'community' to pass down value to subsequent homebuyers

FOR INDIVIDUAL HOUSEHOLDS: POTENTIAL TO RETAIN BENEFITS OF OWNERSHIP WHILE MITIGATING RISKS

retained benefits

security of tenure and right to modify

access to ideal locations to live

locks in housing costs + builds wealth

mitigation of risks

valuation gap absorbs risk of price declines

stewardship provides support post purchase

FOR THE COMMUNITY: BENEFITS OF OWNERSHIP WHILE MITIGATING RISKS

benefits

single unit helps one generation after another, stretching scarce resources to help more people

can lock-in affordability in areas with rising housing costs

challenges

requires subsidy or exchange of benefit (density bonus)

administrative complexity and cost

buyer confusion and participant dispute

equity concerns associated with limiting owners ability to build wealth (particularly with people of color)

- Why Shared Equity Homeownership
- **Allocating Appreciated Value**
- Local Context
- Determining Priorities

BASIS FOR ALLOCATING APPRECIATION

Grounded Solutions: “allocate appreciated value fairly - to it’s true source”

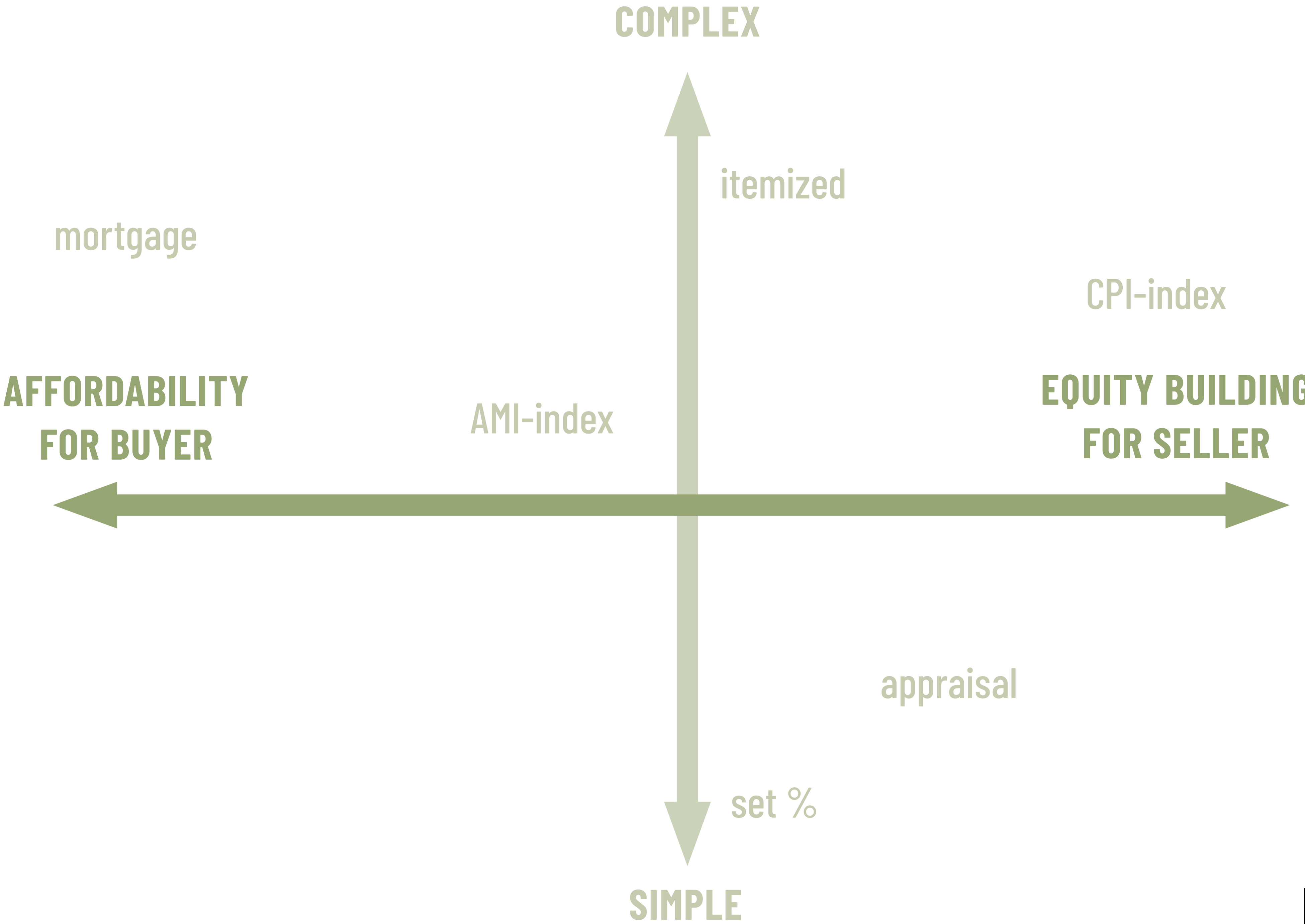
OWNER’S INVESTMENT

SELLER

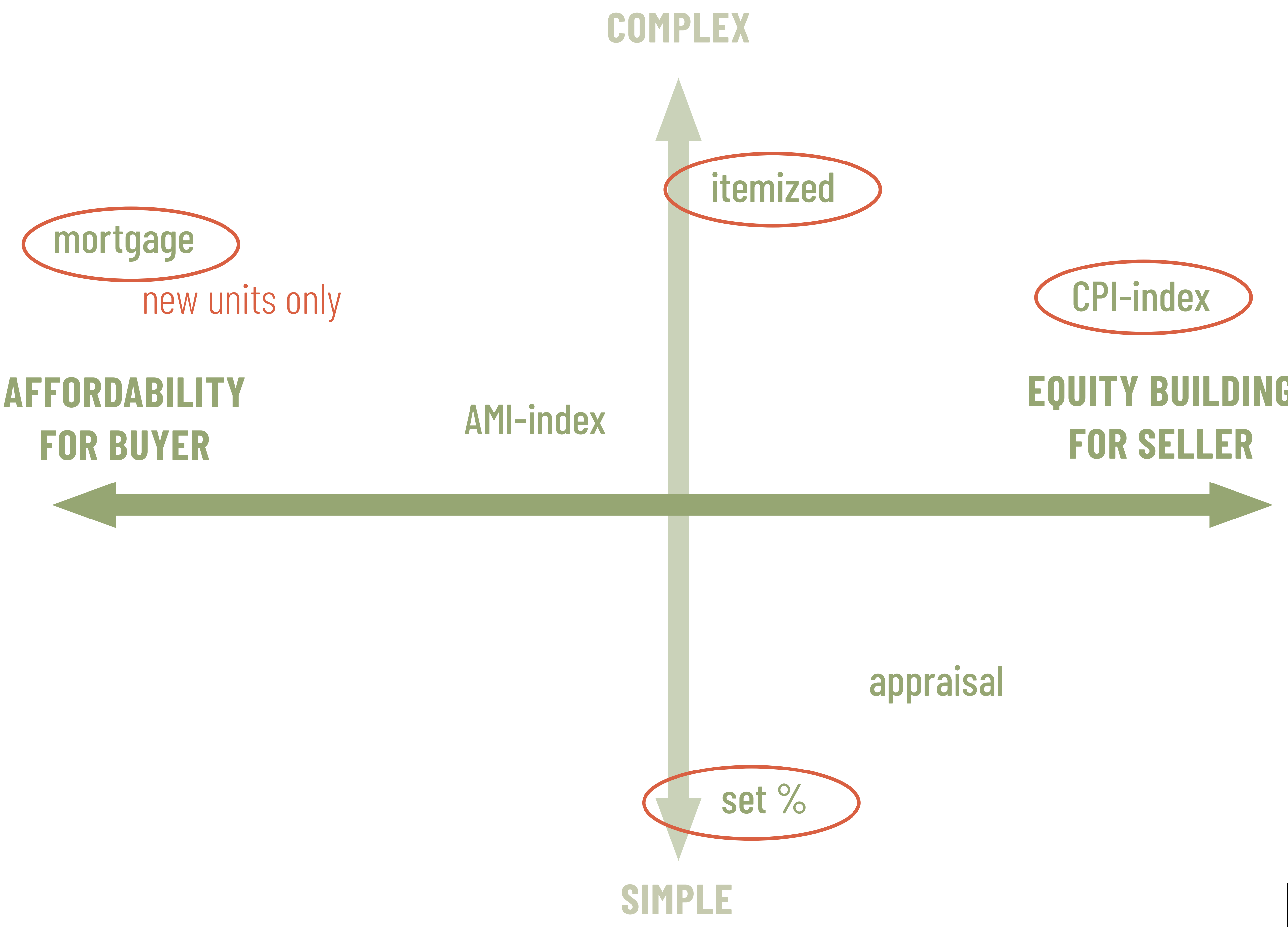
SOCIAL + ECONOMIC FACTORS

PROGRAM ADMINISTRATOR OR REMOVED FOR AFFORDABILITY

ALLOCATING APPRECIATED VALUE



COMPARING APPRECIATION FORMULAS (ROUGHLY)



Why Shared Equity Homeownership

Allocating Appreciated Value

Local Context

Determining Priorities

LOCAL CONSIDERATIONS

BCHA's PRACTICE

pre-2024	Lesser of CPI or 4% + improvements
2024+	Lesser of CPI or 3% + improvements

2000 TO 2023
compound annual growth rate

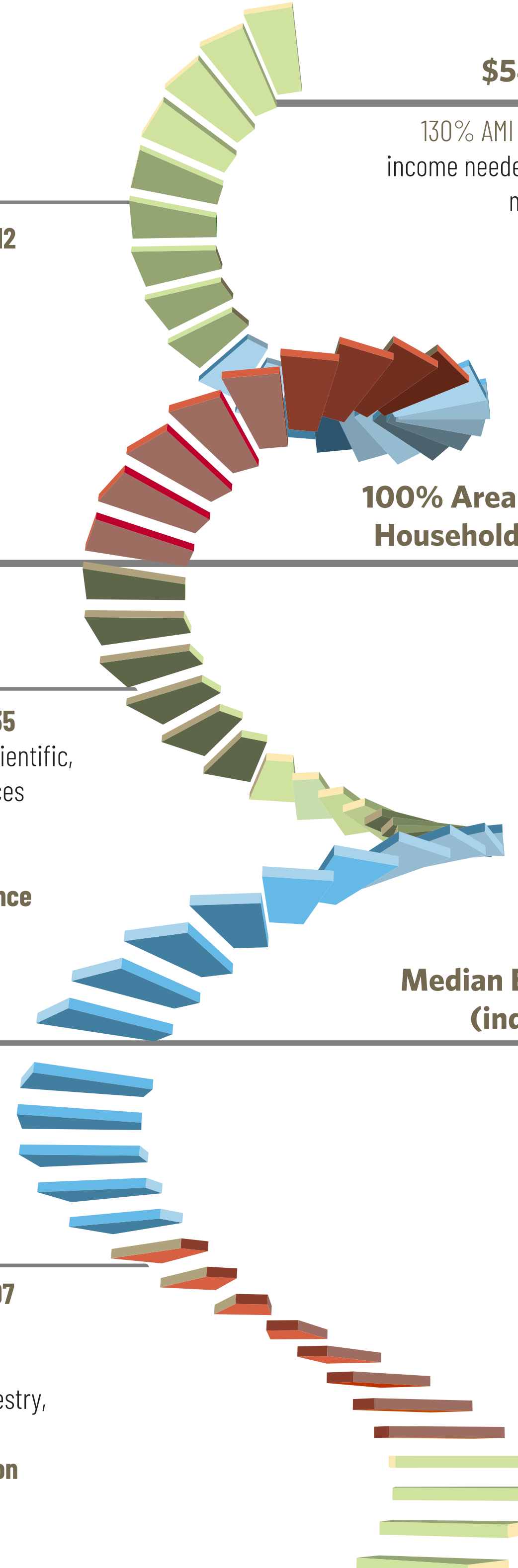
0.8%	Median Earnings (full-time, year-round)
1.3%	Area Median Income (AMI)
2.5%	Consumer Price Index (CPI)

2014 TO 2023
compound annual growth rate

13.5%	Median Sales Price, Multifamily Home

ONLY UPPER-INCOME HOUSEHOLDS CAN REALLY AFFORD THE 'MARKET'

2022 BLAINE COUNTY MEDIAN EARNINGS BY INDUSTRY



$54/hour

130% AMI - **$106,000** income needed to afford median rent

$48/hour

120% AMI - **$98,512**

100% Area Median Household Income

$81,794

- information

$32/hour

80% AMI - **$65,435**

- professional, scientific, technical services
- **education**
- **healthcare**
- **social assistance**
- transportation
- public admin

40% of households

Median Earnings (individual)

$47,919

- **recreation**
- **entertainment**
- construction
- administrative

$20/hour

50% AMI - **$40,897**

- manufacturing
- retail
- agriculture, forestry, fishing, hunting
- **accommodation**
- **food services**

Source: U.S. Census Bureau, ACS 5-Year Estimates, 2022

THE COMMUNITY IS GETTING OLDER AND WEALTHIER, SO AMI INCREASES AT A FASTER RATE THAN LOCAL WORKERS' EARNINGS

39.5 → 44.5

Blaine County median age (2010/2022)

+10

Ketchum

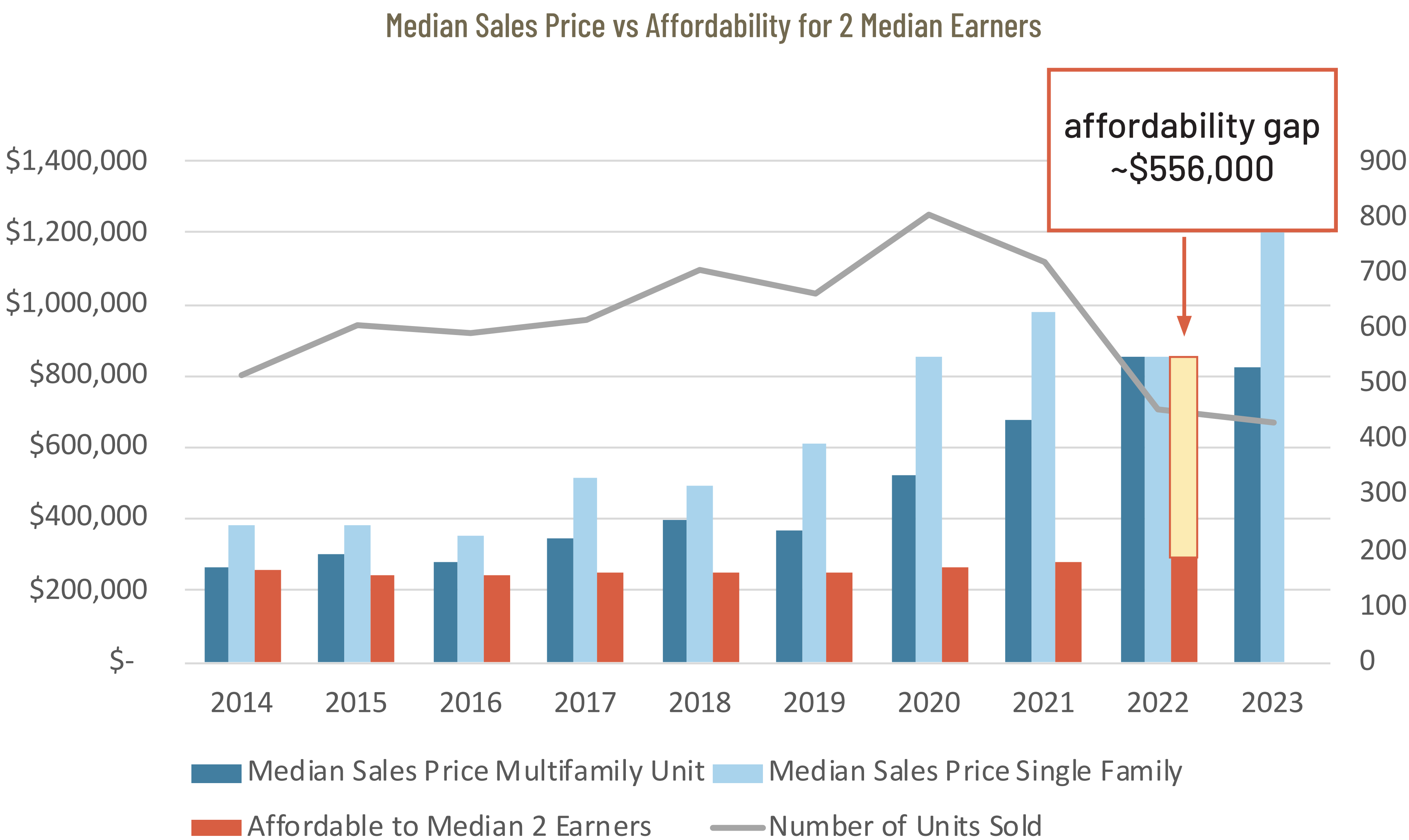
+21

Sun Valley

RESIDENT INCOME
(IN AVG ADJUSTED GROSS INCOME)

SOURCE: U.S. Internal Revenue Service; Economic & Planning Systems

HOUSING COSTS ARE INCREASING



Source: Blaine County Assessor; U.S. Census Bureau, American Community Survey Median Earnings by Industry, 2022

Why Shared Equity Homeownership

Allocating Appreciated Value

Local Context

Determining Priorities

POTENTIAL SECONDARY PRIORITIES

- LONG-TERM OCCUPANCY, AVOIDANCE OF QUICK RESALE
- PROMOTION OF HOMEOWNER MOBILITY
- INCENTIVES FOR SOUND MAINTENANCE
- INCENTIVES FOR USEFUL IMPROVEMENTS
- EASE OF COMPREHENSION
- EASE OF ADMINISTRATION
- LACK OF INTRUSIVENESS, SENSE OF OWNERSHIP
- AVOIDANCE OF DISPUTES

PRIMARY DISCUSSION QUESTIONS

What is our overriding priority, to preserve affordability over time or help build wealth?

What is a fair balance between these two opposing goals?

What is a fair return?

TO BE CONTINUED

BLAINE COUNTY
HOUSING AUTHORITY

Chapter 12
Resale Formula Design

Introduction

A CLT resale formula establishes an upper limit on the price for which a CLT home may be resold – whether it is sold back to the CLT or sold directly to another household. Once a CLT adopts such a formula, the usual expectation is that it will be written into all of the organization's ground leases and applied consistently to all of the organization's homes each time each home is sold. Classic CLT bylaws (following the model presented in Chapter 5A) require an elaborate process to change the resale formula, involving supermajority votes by both the membership and board of directors. Clearly the process of designing a formula that will have such long-term consequences is one of the most important and difficult tasks that a new CLT must undertake. Whatever formula is adopted will affect the specific rights and obligations of both the CLT and its many homeowners for generations to come.

Chapter 8, "Implementing Restrictions on Ownership," discusses the rationale for resale restrictions in general, as well as the CLT's method of implementing these restrictions through a ground lease. Chapter 9 discusses the legal enforceability of the CLT's preemptive right to repurchase a homeowner's home for a price determined by the resale formula established in the CLT ground lease. The purpose of the present chapter is to help new CLTs work through the many issues involved in designing their own formulas in accordance with their own purposes, preferences, and circumstances.

The chapter focuses on formulas designed to regulate the resale price of single, owner-occupied housing units – whether free-standing single-family homes, townhouses, or condominium units. Many, but not all, of the factors discussed will also apply to formulas designed for other types of CLT lessees, including housing co-ops (see Chapters 15-A and 15-B), and nonprofit service providers and businesses of various sorts (See Chapter16, "Non-Residential Ground Leases"). CLTs that anticipate leasing land to such entities may develop specialized formulas based on their specific goals and practical concerns.

Equity and Appreciation. A homeowner's equity is the value of the home *minus any debt* that encumbers the home – in other words, the amount of money that an owner can expect to receive upon the sale of the home after all debt secured by mortgages or other liens has been paid off. In the case of a just-purchased home, the owner's equity normally equals the amount of the down-payment, which is typically a small percentage of the total purchase price. As the owner makes monthly mortgage payments, her equity will increase (slowly at first, when payments consist mainly of interest; then more rapidly as an increasing portion of each payment is applied to principal).

In an unrestricted market situation, the owner's equity will also increase with any appreciation of the market value of the home. In fact, when a person buys a home by making a relatively small, down-payment and borrowing the balance of the cost, market appreciation can cause that person's equity to increase many-fold in a short period of time. For example, if a home is purchased with a 5% down-payment and appreciates by 5% in the first year (and if the owner is able to capture all of this appreciation), the equity that the owner purchased through the down-payment will increase in that year by 100%. This "leverage" – whereby an up-front investment of only a portion of the total value allows the investor to capture 100% of any appreciation of that total value – is an important consideration for real estate investors.

In limiting the resale price, a CLT resale formula limits the amount of market appreciation that can be claimed by the owner as equity. In practice, the terms "limited equity formula" and "limited appreciation formula" have sometimes been used interchangeably with the term "resale formula.

Theoretical Basis for Allocating Appreciation. Appreciation in the value of real estate can be caused by two basic factors. One source of appreciation is the dollars, materials, and labor that the owner invests in the home over time to develop or improve it. The other source is a set of social and economic factors that are beyond the control of the individual property owner – factors that can include changes in the level of private investment in the surrounding neighborhood; public investment in streets, sidewalks, streetlights, parks, schools; changes in transportation patterns, employment trends, or population in the surrounding region; changes in tax policies or land-use regulations, among many other factors that affect home prices.

To the extent that other practical considerations allow, CLTs try to allocate appreciated value fairly – to its true source. In other words, as far as possible, *value produced or purchased by the homeowner should be allocated to the homeowner and should add to the owner's equity. Value produced by other social and economic factors should be "retained by the CLT"* (in the form of a reduction in the resale price that will make the home more affordable for lower income residents of the community).

It should be emphasized that CLT resale formulas do not *guarantee* that a homeowner will receive all of the value that she would ideally be entitled to, or even all of the value that the resale formula would allow, just as the market does not guarantee this kind of return to conventional homeowners. The CLT's option to purchase the home for a limited price (the "purchase option price") is usually an option to purchase for a price that is the *lesser* of the price determined by the resale formula *or* the appraised value of the home at the time of resale (see Model Ground Lease, Section 10.8 – 10.10, depending on which version of Article 10 is used). Though a successful CLT may help to stabilize real estate prices in a community – and thereby help to maintain the market value of homes – it cannot promise that a home's market value will not be eroded by social, political, or market forces beyond the control of both the homeowner and the CLT. CLTs do not normally have the resources that would allow them to repurchase homes for prices higher than what they can expect to resell them for.

Goals in Designing a Formula

For all CLTs the primary goals in designing a CLT resale formula are (1) to ensure *fair access* to homeownership for subsequent lower income residents by preserving the affordability of the CLT home, and (2) to give the present homeowner a *fair return* on her investment when she resells her CLT home.

These goals are not mutually exclusive, but there is clearly a tension between them. Formulas that are most certain to give the outgoing homeowner a fair return are likely to run a higher risk of eroding the home's affordability for future homebuyers. Formulas that are most certain to preserve affordability run the risk of preventing a "fair" return. Each CLT must decide for itself what is fair and what is likely to preserve affordability, and must then design a formula in which these two essential concerns are reasonably balanced. In doing so, the CLT must also consider a number of important secondary goals. Different CLTs will assign different priorities to these secondary goals, but all should consider the full range of practical issues they raise. Possible secondary goals include the following.

- *Encouragement of long-term occupancy, avoidance of incentives for quick* resale. CLTs have a basic interest in promoting stable neighborhoods and in providing long-term security for residents of these neighborhoods. They do not intend to provide homeownership opportunities as a way for owners to turn a quick profit and make a fast exit.
- *Promotion of homeowner mobility*. When CLT homeowners wish to sell their homes – perhaps to take advantage of employment opportunities in another community – they have an interest in selling for a price high enough to allow them to purchase a home in their new community. Some people argue that, if a CLT is to provide permanent benefits for lower income people in an increasingly mobile society, it should allow resale prices high enough to allow continued homeownership for those who move away. Others, however, see this goal as inconsistent with the CLT's concern with long-term occupancy and neighborhood stability, or may see it as impractical in light of the primary goal of preserving the affordability of CLT homes.[1]
- *Incentives for sound maintenance. CLTs* do not want their resale formulas to pose economic disincentives to sound maintenance of the home. A formula that fails to reward an owner's investment in such maintenance – or fails to penalize poor maintenance – can increase the likelihood that the homes will deteriorate and that their future usefulness will erode.
- *Incentives for useful improvements.* In some situations, CLTs have reason to encourage owners to make useful improvements in their homes, and perhaps make other improvements on the leased land. Rural CLTs may want to encourage ecologically appropriate improvement of the land itself. Many CLTs want to encourage weatherization and other energy-saving improvements of existing homes. Some may want to encourage the expansion of smaller homes to accommodate larger families. In some urban situations, however, a CLT may decide that small residential lots are already used to the optimum and may not want to encourage substantial additions to existing homes. (A few CLTs have chosen not to reward – or even permit – improvements because they want homeowners to *move out* of their "starter homes" when their fortunes increase, making room for the next lower-income, first-time homebuyer.)
- *Ease of comprehension by those affected.* In an effort to allocate equity with perfect fairness, a CLT can develop a formula so complicated that it will be incomprehensible to potential or actual CLT homeowners – and perhaps to everyone except its creators. At some point it must be recognized that a formula that allocates value less precisely to its source but that is readily comprehensible may be preferable to one that is more intricately precise but less comprehensible.
- *Ease of administration.* Formulas that require extensive record-keeping and/or frequent, detailed assessments of the value of improvements to the home may be very fair in theory, but they may also be beyond the capacity of a CLT with limited staff to administer, accurately and consistently, for many homes over many years. Ease of monitoring, record-keeping, and documentation are important concerns.

- *Lack of intrusiveness; sense of ownership.* It is important that owners of resale-restricted homes feel that they are "real" owners, with a sense of privacy and control over their homes comparable to that of conventional homeowners. A formula that requires frequent inspections and prior approval of repairs and improvements can undermine this sense of ownership.
- *Avoidance of disputes*. All resale formulas involve a tension between the interests of the homeowner and the interests of the CLT and community. Disputes can easily arise from this tension, but occasions for dispute can be minimized to the extent that the formula does not require subjective, debatable judgements on the part of CLT personnel in order to determine the resale price.

Given these various and important concerns, it should be clear that there is no one perfect resale formula. A number of trade-offs – among potentially conflicting social goals, economic interests, and practical concerns – must be made in designing a formula. The process of deciding on these trade-offs involves hard, complicated choices, defining the rights and responsibilities of many people. A CLT that tries to avoid or minimize the difficulties of the process is likely to sow the seeds of future confusion and dispute. The process of designing a resale formula should be inclusive and deliberate. It cannot be hurried.

Base Price, Equity Build-Up, and Adjustments

Defining the base price. Almost all CLT resale formulas begin by stating a "base price," which the formula then adjusts by one method or another to arrive at the resale price. (The only type of formula that does *not* start with a base price is the rarely used and not recommended "mortgage-based" formula that is described below.)

The base price is the amount that the buyer actually pays for the home, including both the amount of the buyer's down payment and the amount of the repayable first mortgage loan that the buyer receives. It is the amount that can usually be called simply the "purchase price," but for our present purposes we will avoid that term because we want to avoid the confusion that results in those cases where what is called the "purchase price" for certain formal purposes actually includes not only the amount that the buyer herself pays but also some amount of subsidy that is treated as a deferred loan to the buyer. In referring to such cases we will use the term "settlement price" in order to be clear that the settlement price is *not* the base price – and therefore not the base on which a resale formula should rest.

As is emphasized in Chapter 19, "Subsidy Structure," the relationship between *price* and *subsidy* can be structured in two quite different ways. If the subsidy is committed directly and permanently to the CLT, it will directly and permanently reduce the price of the home for all homebuyers. However if the subsidy is structured as a deferred loan to the homebuyer, the amount of the subsidy will be included in the "settlement price" when, for instance, the price is stated in a "HUD 1 Settlement Statement." In this case, the subsidy results in a higher settlement price being affordable for a household of a given income because it reduces the household's monthly mortgage payments, but it does not reduce the settlement price itself. The first of these approaches, which "locks in" the subsidy, is *the* approach taken by CLTs whenever possible. The second approach is a fall-back method used by CLTs only when subsidy cannot be permanently locked in.

If a subsidy source insists on structuring a subsidy in the second way, as a deferred loan to the homebuyer, it is important that the CLT do two things. First, it should make every effort to see that the deferred loan will be fully assumable by the next homebuyer and is *not* eventually *forgivable* (turned into a grant to the first homeowner). Second, it should structure the resale formula in such a way that the resale price is not inflated by allowing the homeowner to earn a return on the subsidy (deferred loan) as well as on the base price. This can be accomplished by using the term "base price" (not "purchase price") in stating the resale formula and by defining this term explicitly as consisting of *only* the buyer's down payment and first mortgage amount.

Building equity by retiring debt. Not all of the base price paid by the owner represents owner's equity until all of that portion of the price that was borrowed by the owner has been repaid. At the time of purchase, the owner's equity consists of the down-payment, which may occasionally include not only the owner's cash investment but value contributed as sweat equity prior to the transfer of title. This equity will then increase as debt is retired. The normal assumption is that the amount of monthly equity build-up will be determined by the portion of that month's mortgage payment that is credited to principal (a small portion at first, when most of the payment goes to cover interest; a larger and larger portion as debt is retired). However, a simple application of this assumption may undermine affordability for subsequent owners in cases where interest has been subsidized in order to increase affordability for an initial owner.

High interest rates can be a major barrier to homeownership for lower-income people. This barrier may be reduced by below-market-rate mortgage financing for a family purchasing a CLT home. The "interest subsidy" represented by the lower rate will allow the family's monthly mortgage payments to be lower. It will also mean that a smaller portion of each monthly payment consists of interest, with a larger portion going to retire principal.

In such cases, CLTs must decide what portion of the retired debt should be credited to the purchaser as equity. If all repaid principal is credited as equity, the household with subsidized interest will build up equity faster than households paying the same monthly amount on mortgages at higher interest rates. The accelerated equity build-up raises both a question of fairness and a question of future affordability. If a household whose mortgage interest is subsidized is able to accumulate substantial equity through monthly payments of principal and then sells the home for at least the original price, the value of the interest subsidy will be removed – "privatized" – by the seller (except in the case of affordable loan programs like the USDA 502 direct loan program that have provisions for recapturing interest subsidy upon the sale of the home). If the CLT relies on interest subsidy to make a certain purchase price affordable for a homebuyer who could not otherwise afford that price, and if the interest subsidy is then captured by that homeowner, then the CLT will need to arrange another equally low-interest loan (additional interest subsidy) if the home is to be equally affordable for the next purchaser at that income level. Any CLT that relies on interest subsidy (or other forms of homebuyer-by-homebuyer subsidy) to make a home affordable, rather than establishing an affordable base price, is likely to face affordability problems in the future – unless the issue is addressed in the design of the resale formula.

Some CLTs address the problem by not crediting the full amount of debt retired in such situations as equity build-up. Instead, they establish a standard minimum interest rate (normally at or close to market rate), which is used to calculate the amount of interest the homeowner *would have* paid without the subsidy, which then allows a calculation of the amount of interest subsidy received during the time in question. This amount is then subtracted from the resale price, so that the value of the subsidy is passed on directly to the next buyer.[2]

Adjusting the base price to determine the resale price. Most of the questions that a CLT must address in designing a resale formula have to do with the way that the base price will be adjusted upward (or possibly downward) to arrive at the resale price. It is in deciding on the *method* for making these adjustments that the CLT must balance its two primary goals of fairness and affordability, while also taking into account its secondary goals.

In the next section of this chapter we will describe two methods that are quite rare among today's CLTs and that are generally not recommended, but that are useful to examine because they entail relatively direct, uncompromising efforts to achieve one or the other of the primary goals – to be as fair as possible in the case of "itemized formulas," and to ensure that affordability is preserved in all circumstances in the case of "mortgage-based" formulas. After reviewing these "theoretically pure" approaches, we will discuss the more commonly used types of formulas, which might be described as occupying the middle ground between the theoretically pure approaches.

Itemized and Mortgage-Based Formulas, Pure in Theory but Not Practical

Itemized Formulas. Itemized formulas determine the resale price by adding to or subtracting from the base price specific factors that increase or decrease the value of the homeowner's investment in the home. These formulas were relatively common among early CLTs but have generally been abandoned, even by those that initially adopted them. Nonetheless, it is important to understand how such formulas work, because they illustrate issues involved in efforts to base the homeowner's equity gain on a direct measurement of her actual investment over time, and because elements of these formulas find their ways into some more commonly used types of formulas.

Itemized formulas can vary widely in the factors that they itemize and in the ways that they deal with these factors. The factors (or "items") more commonly considered for inclusion are discussed here.

Value of Improvements. Value added to a home through improvements made or paid for by the owner can treated as additions to the resale price. The measurement of this value represents one of the most important – and most difficult – features of this type of formula. It is difficult because calculating the value of homeowner-initiated improvements depends on distinctions and decisions that are not easily made. Four types of difficulty should be noted.

One difficulty is the distinction between *replacements or repairs,* which are necessary to retain or restore the original value of the home, and *improvements,* which add value beyond the original value. This distinction is simple in principle but often complicated in practice. A huge variety of possible alterations must be classified as either repairs or improvements – and many are actually both. The replacement of a deteriorated single-pane window with a double pane, energy-efficient window is both a replacement and an improvement, as is the installation of a new roof in place of a roof that is now badly deteriorated but that was already half-way through its expected lifetime when the owner bought the home. Efforts to take all such circumstances into consideration when assigning value to an owner's improvements can be extremely complicated.

A second difficulty is the distinction between improvements that increase the *utility* of the home in an appropriate way (e.g., addition of a bedroom) and those that may be considered unnecessary *luxuries* and that may increase the purchase option price beyond the reach of lower income homebuyers. Should an owner be credited with equity for the value of a swimming pool installed in the backyard, or (to note an extreme example) the value of a marble bathtub with gold faucets? CLTs that have used resale formulas with improvement factors have usually tried to exclude such luxuries from the type of improvements that would will be allowed to increase the resale price of the home; nonetheless, defining exactly what is and is not a luxury is not easy.

A third difficulty is the question of *how improvements are actually to be valued*. Should the value be determined by what goes into the improvement (the owner's investment in materials and labor) or what comes out of the improvement (the resulting change in the market value of the home). With the former approach, it is relatively easy to determine the dollar value of the owner's investment if the owner pays a contractor for the full cost of an improvement, but if the owner does some or all of the work herself, or gets a friend to help her, how is the value of the labor to be assessed? The skill and productivity of do-it-yourselfers vary tremendously. But even if the dollar value of the investment can be measured exactly, it does not follow that the market value of the home is correspondingly increased. Resulting changes in market value can be calculated – with some approximation of accuracy – by professional appraisers, but the time and cost entailed in commissioning an appraisal for a specific improvement is substantial.

A fourth difficulty derives from the three factors discussed above. This difficulty is the *potentially contentious process* of approving and valuing improvements that will affect the resale price.

It should be noted that other types of formulas – including the common appraisal-based, fixed-rate and indexed formulas discussed in the next section – can also entail improvement factors, though usually these are limited to major, appraisable improvements, such as the construction of a garage or additional bedroom.

Maintenance, Repairs, and Depreciation. An itemized formula would not normally add the value of maintenance and repairs to the resale price unless it also subtracted a certain amount for depreciation. In general, value added through maintenance and repairs should roughly compensate for equal value lost through depreciation, so it is possible not to account for either factor in an itemized formula on the assumption that the two cancel each other out.

Penalties for Unusual Damage. Regardless of whether an itemized formula includes a standardized depreciation factor, it may provide a separate direct penalty to cover the cost of extreme damage to the home caused by the owner. Such penalties (which are sometimes added to other types of formulas as well) can provide important protection for the CLT in cases of outright destructiveness or irresponsibility by an owner. Because such a penalty can easily lead to a dispute between the CLT and the owner – or aggravate an already bad situation – it is especially important that very clear procedures be established for assessing the damage and imposing the penalty.

Inflation Adjustments. Itemized formulas can also include inflation factors. Monetary inflation – characterized by increased prices of goods and services generally, and therefore by reduced purchasing power of a dollar – can have a major effect on the value of any long-term investment. The common method of compensating for the effect of inflation is to increase the dollar amount of the owner's equity in proportion to an increase in one of the Consumer Price Indexes maintained by the federal Department of Labor – most often the Consumer Price

Index for Wage Earners for the region or metropolitan area in question. When the goal is just to adjust for inflation the value of what the homeowner has "earned," the inflation factor is applied only to the equity that the homeowner has accumulated over a given period of time. This is a very different practice – with very different results – from the practice entailed by "indexed formulas," which, as explained later in this chapter, apply the index to the base price rather than to the owner's equity.

Advantages of Itemized Formulas

- An "improvements factor" can give owners a direct means of recapturing the value that they add to their homes through improvements.
- An inflation adjustment can prevent the devaluation of the owner's earned equity – while not giving unfair leverage to an owner with a small amount of equity in a property.
- These formulas can be tailored to encourage and reward improvements that are useful to future, as well as current, residents.
- These formulas insulate resale prices from the fluctuations and speculative pressures of the housing market and the broader economy.

Disadvantages of Itemized Formulas

- These formulas can require difficult assessments of the value of improvements, particularly where the CLT must enforce fine distinctions between repairs and improvements, between luxury improvements and useful improvements, and between improvements that are properly done and those that are not.
- Accurate application of inflation adjustments to owner's equity can be fussy and time-consuming. If the inflation factor is to be compounded annually, the CLT must calculate the total amount of equity held from year to year, based on mortgage debt repayment as well as on the other factors introduced by the formula.
- Administration of these formulas makes very burdensome demands on limited CLT staff time. Extensive record-keeping and relatively complex periodic calculations are required, which can strain the CLT's administrative capacity to the limit – or can result in essential tasks being improperly done or left undone.
- The necessary judgments, calculations, and record-keeping can result in serious misunderstandings and disputes between CLT and homeowners.
- The CLT's ongoing role in determining what improvements will be allowed to add to the owner's equity and in assessing the value of these improvements can diminish the owner's sense of privacy and ownership.

Mortgage-based formulas. The more commonly used resale formulas aim at preserving affordability by limiting the price for which a home can be resold. However, they do not limit the interest rates that will also affect the affordability of the next buyer's monthly mortgage payment. An increase in these rates can undermine affordability. Mortgage-based formulas are the only formulas that directly address this problem. They establish the resale price not in terms of adjustments applied to a base price but in terms of the amount of mortgage financing a purchaser of a given income level will be able to afford at the then-current interest rate. By thus assuring affordable mortgage payments for the next buyer, however, they create potentially serious problems for the homeowner who must sell in a time of increased interest rates. For this reason they are rarely used. Nonetheless, it is useful to understand how they work.

Components of mortgage-based formulas. The designer of a mortgage-based formula must specify the following factors:

- The income level (as a percentage of area median income adjusted for a particular household size) for which affordable monthly payments are to be calculated.
- The components of the monthly housing cost to be considered in calculating affordability (the usual components being principal, interest, taxes, insurance and lease fee).
- The percentage of gross income that will be considered an "affordable" allocation for the monthly housing costs in question (stated either as a fixed percentage, e.g. 30%, or as the maximum percentage allowed at the time of resale by applicable home mortgage programs).
- The percentage of the resale price that is to be covered by mortgage financing (usually at least 95%).
- The type of mortgage (usually 30-year fixed-rate) for which monthly payments are to be calculated at the "current interest rate."
- The index or benchmark that will be used to determine the exact "current interest rate" for the type of mortgage in question for the time in question.

Method of calculation. It should be emphasized that when the resale price is established at exactly the amount that is "affordable" (i.e., the maximum amount "affordable") for a given income level, the price will be "*un*affordable" for any household with a lower income. This means that if the goal is to maintain affordability for households *below* 80% of AMI, the formula cannot establish the price at what is (just barely) affordable for households *at* 80% of AMI. To achieve such a goal, the formula must establish the price at what is affordable for some significantly lower percentage of AMI, say 60%. If a specific mortgage-based formula is designed to keep monthly payments affordable for, say, a four-person household with an income that is 60% of area median income, then the resale price would be calculated as follows.

1. The income, in dollars, for a 4-person household at 60% of AMI would be determined from the figures calculated and published by HUD for the MSA or county for the year in question. (For the purpose of illustration, let us say this amount is $30,000 per year, or $2500 per month.)
2. The amount that can be allocated affordably to housing costs each month is determined. (If the percentage used is 30%, then 30% of $2500 gives us $750 that can be applied to monthly housing costs.)
3. The portion of this monthly amount that can be used to service debt is determined by subtracting the amounts that must cover other costs. (If taxes for the year in question are $150 per month, insurance is $35 per month, and lease fee is $50 per month, for a monthly total of $235, then $515 per month remains available for debt service.)
4. The "current interest rate" is determined. (Say 6.5% for a 30-year fixed rate mortgage)
5. The amount of debt that can be serviced on these terms is determined through an amortization calculation. (The monthly amount of $515 will amortize a mortgage of $81,487 in 30 years at 6.5%)

6. The resale price is determined on the assumption that the mortgage amount is a specified percentage of the total price. (If the $81,487 mortgage is 95% of the price, the price will be $85,776.)

Advantages of Mortgage-Based Formulas.

- This is the only type of formula that can guarantee a given level of affordability upon resale to a household of a given income level, no matter what happens to interest rates – or to property tax rates or other monthly housing costs.
- The basic principle behind this kind of formula – to make sure that each successive buyer has monthly housing costs at the same level of affordability – is easy to grasp for public officials, mortgage lenders, and others directly involved in the buying and selling of homes.

Disadvantages of Mortgage-Based Formulas.

- Because these formulas base the resale price entirely on what works for the *buyer*, the price will have no necessary relationship to either the original base price or further investment in improvements by the owner; therefore, these formulas are much less likely than the other types of formulas to give the *seller* a fair return – and may easily give a return that is dramatically unfair. For instance, suppose the seller is someone who had purchased a home, as described in the example above, for $85,776, at a time when mortgage interest rates were at 6.5%. Suppose the home is then resold a few years later at a time when 60% of AMI for a 4-person household has increased by 5% to a monthly amount of $2625 – 30% of which would be $787.50 available for monthly housing costs. If the cost of taxes and insurance had also increased 5% and the lease fee had remained the same, then $543.25 would be available for monthly mortgage payments. Now suppose that mortgage interest rates have risen to 8.5%. At this rate, a buyer with an income at 60% of AMI can afford a mortgage of only $70,644, which, with a 5% down payment, would mean a resale price of $74,362. For the seller who had paid $85,776 the result would be a loss of $11,414, even if the home had been improved and had increased in market value. In effect, one lower-income household would be required to provide a substantial subsidy to another. The effect on the former owner is potentially disastrous. Conversely, if interest rates had dropped substantially, the seller could receive a windfall profit, even if the home was unimproved and poorly maintained.
- The fact that these formulas determine resale prices based on factors over which the seller has no control tends to distort the process by which an owner decides whether to sell and when to sell. If interest rates are high the owner may try to hang on until rates go down. Such an owner may be tempted to violate (or perhaps only nominally comply with) the CLT's restrictions on absentee ownership and subletting. In any case such an owner's mobility is diminished.
- Mortgage lenders have reason to object to a formula that could result in a resale price lower than the amount owed on the mortgage, unless an escape clause is added to protect the lender in such a situation.
- Government affordable housing programs with regulations requiring that resale restrictions allow the seller to receive a "fair return" may not approve this type of formula.

- It may be somewhat difficult to establish a clear index or benchmark as the determinant of the "current interest rate" to be used in calculating resale prices over the long run. Particular indices, as well as particular mortgage products, may come and go and change over time.
- Though the principle may be easy to grasp, homeowners are unlikely to be familiar with the specific calculations required to determine resale prices – adding to the owner's sense of uncertainty.

Clearly the disadvantages of such formulas must be seen as prohibitive if implemented in the manner described here. For those willing to accept yet another level of complication, it is possible to mitigate the most serious disadvantages by establishing upper and/or lower limits beyond which interest rate fluctuations will not be permitted to push resale prices. One way to set a minimum price would be to establish the resale price as the greater of the original base price or the mortgage-based price. However, this approach would not prevent the price of the home from being ratcheted steeply upward when interest rates dropped. The latter problem could be addressed by a more complicated formula that would establish both a minimum and a maximum price – perhaps by establishing minimum and maximum interest rates to be used in calculating resale prices. Any such adjustments, however, would undermine the mortgage-based formula's one advantage, its ability to preserve affordability in all circumstances.

Commonly Used Formulas

The more commonly used resale formulas fall between the extremes of the more theoretically pure itemized and mortgage-based formulas. None of them offers as complete a method of measuring a homeowner's earned equity as does the itemized formula. None of them offers as certain a method of preserving affordability as does the mortgage-based formula. All of them avoid, or at least moderate, the major practical disadvantages of the theoretically pure approaches, and all are easier to explain and implement. We will review in some detail the three basic types commonly used by CLTs.

- *Appraisal-based formulas,* including three subtypes, all of which adjust the price by allocating to the owner a specified percentage of market appreciation as measured by appraisals at the time of purchase and the time of resale.
- *Fixed-rate formulas,* which allow the price to increase by a fixed annual percentage.
- *Indexed formulas*, which allow the price to increase in proportion to changes in an index such as the Consumer Price Index or the median household income.

Appraisal-based formulas. Appraisal-based formulas adjust the resale price by adding to the base price a certain percentage of any increase in appraised market value. Rather than itemizing the factors that can cause increases or decreases in value, these formulas let the market measure changes in value. Any increase in value is then shared between the CLT and the homeowner on a specified basis.[3]

For the purpose of determining how much appreciation has occurred, these formulas establish an original market value that is *not* the base price paid by the homeowner but the appraised value of the homeowner's property at the time of purchase (with "homeowner's property" defined differently for different subtypes of appraisal-based formulas). It should be emphasized that we are talking here about appraisals of the market value that CLT homes *would* have *if* their market value were not restricted by the terms of the lease. If the resale formula were to require appraisals that discounted market value because of the restrictions imposed by the lease, then the resale price of the home would, in effect, be discounted twice – once by the appraisal and again by a formula that allowed the price to increase by only a portion of the appreciation reflected by the appraisal.

It should also be noted that the initial appraisal process used for appraisal-based formulas can also serve the purposes of the leasehold mortgage lender who will finance the home for the next purchaser; *however*, the lender will then proceed to calculate a "bottom line value" (the value of the improvements and leasehold interest in the land) that is different from the value that will be used in calculating the resale price. See Chapter 20, "Financing CLT Homes," for more information regarding the appraisal of the leasehold interest.

The basic idea behind all appraisal-based formulas is that the homeowner should receive a share of the appreciation of that part of the overall property that the homeowner has purchased. The original assumption was simply that what the homeowner has purchased is the improvements only, which are deeded to her, but not the land in which she has only a leasehold interest. In some respects, however, the reality is more complicated than this assumption suggests. Because of these complications there have come to be three subtypes of appraisal-based formula.

- *Improvements-only appraisal-based formulas*, which give the seller a share of the appreciation of the appraised value of just the improvements.
- *Simple appraisal-based formulas*, which give the seller a share of the appreciation of the appraised value of the whole property, including land as well as improvements (usually a smaller share than given by improvements-only formulas).
- *Compound appraisal-based formulas*, which give the seller a share of the appreciation of that portion of the value of the whole property that the base price actually covers.

We will review the specific advantages and disadvantages of these subtypes, but before doing so let us look at the overall advantages and disadvantages shared by all appraisal-based formulas.

Advantages of (All) Appraisal-Based Formulas

- These formulas allow homeowners to capture a modest amount of appreciated value, while preventing expensive improvements from pushing the resale price beyond the level of affordability (since the owner receives only a portion of the value added by improvements).
- These formulas avoid all of the difficulties involved in distinguishing repairs from improvements and assessing the value of improvements, and there is no need to intrude on the owner's privacy and sense of ownership to approve and evaluate improvements (though improvements may still be regulated for reasons unrelated to the resale formula).
- Because these formulas rely on professional appraisals, utilizing standard techniques for appraising market value, the CLT itself does not have to make difficult and potentially controversial assessments of value.
- Detailed record-keeping and fussy arithmetic are not required, relieving CLT personnel of burdensome tasks, and avoiding the confusion and conflict that can result from inaccurately or incompletely maintained records.

Disadvantages of (All) Appraisal-Based Formulas

- Appraisals entail significant time and expense. Homeowners cannot know exactly what resale price they will be permitted to receive unless or until an appraisal is completed.

- During periods of rapid market appreciation, these formulas may give an unduly high rate of return to owners who sell only a few years after having purchased with little or no down payment.
- These formulas do not distinguish between value added by the owner and value added by market factors beyond the owner's control. In most market situations, an owner who has made substantial improvements will recapture only a portion of what she has invested. There is therefore less incentive for making improvements, and perhaps less incentive for repairs and replacements as well.
- These formulas do not isolate that portion of apparent appreciation that results from monetary inflation. If the local real estate market is appreciating only at the rate of inflation, a long-term owner who receives only a portion of this apparent appreciation will receive less value than she has invested.

Improvements-only appraisal-based formulas. Most, if not all, of the CLTs that first adopted appraisal-based formulas adopted this "improvements-only" type, and it is the type that was illustrated in the previous versions of the Model Lease. Typically these formulas allocate something like 25% of the appreciated value of the improvements (but not the land) to the homeowner, though some allocate a higher percentage, and some adjust the percentage upward as a homeowner's tenure increases (e.g., a percentage ranging from 5% after 1 year to 30% after 30 years).

Improvements-only formulas are based on the assumption that the improvements are *the* property that the homeowner purchases – therefore the property in which the homeowner has a right to share in appreciation that is likely to derive, at east in part, from the owner's own efforts. If the market value of the underlying land increases, on the other hand, it is assumed that the appreciation has been generated by the surrounding real estate market, not by the owner of the improvements.

In clearly distinguishing between land value and improvement value, improvements-only formulas are solidly based on the fundamental CLT precept that land and improvements should be treated differently. Land tends necessarily to appreciate because it is a finite resource. The supply of land cannot be expanded to meet increasing demand, whereas the supply of housing units, as products of human industry, can always be increased. To be sure, housing is a "lumpy" commodity, which cannot be produced overnight and, once produced, cannot be shipped to wherever the demand exists, so local shortages do occur, but the supply does eventually catch up.

As compared to other types of appraisal-based formulas, improvements-only formulas have the important advantage of excluding increases in land value from the determination of resale prices. At least they do this in so far as the nature of real estate appraisals makes it possible to do so, but there are some limitations on what is possible in this respect.

The primary method of appraising owner-occupied homes is the "market comparison" method, by which a home is compared to more or less similar homes that have recently sold, for known prices, in the vicinity of the subject home. The sale prices of the "comparables" provide a base, from which value is added or subtracted as the subject property is compared, feature by feature, to these comparable properties.

When the value of a CLT home (improvements only) is appraised through a comparison with recently sold properties that include land as well as improvements, then, if a simple appraisal-based formula is used, the market value of the land must be subtracted from the prices of the comparables. Conceptually, this adjustment is one with which professional appraisers have no problem, since they are accustomed to adjusting market comparisons to account for differences in site value. However, these adjustments can be quite imprecise.

The precision of this method depends on the existence of relevant comparables for both land and improvements. The method is most dependable in situations such as recently developed suburban areas, where most homes *and most lots* can be closely and meaningfully compared. It is least dependable in low-income neighborhoods, which are typically affected by disinvestment or by complex patterns of disinvestment and reinvestment, with older buildings in widely varying conditions. In such neighborhoods, good comparables may be hard to find.

It can become particularly difficult to establish the value of *land* through the comparison method in disinvested neighborhoods. In such circumstances land may actually have a kind of negative market value. The “undesirable” location of a lot can reduce the value of a building on that lot to an amount substantially below the replacement cost of the building, so the land actually subtracts value from the building, rather than adding value to it. But an appraisal by the market comparison method in such a neighborhood will not assign a negative value to the lot. It will recognize the effect of the location on the overall value of the property, but it will do this, in effect, by reporting the value of the building itself as less than its replacement cost, while assigning a nominal positive value to the lot. If the neighborhood later becomes a more desirable place to live – perhaps through the neighborhood improvement efforts of the CLT itself – an appraisal will then show the building itself having *gained* substantial value. Really it is the land (location) that has gained value, but the appraisal may assign much or all of the increase to the building.

Even in less extreme market situations, it remains difficult for appraisers to distinguish precisely between the part of a property’s value that derives from the land and the part that derives from the improvements. This is one of the disadvantages of improvements-only formulas. Another disadvantage stems from the fact that, because most real estate transactions do not require anyone to separate the value of improvements from the value of the land, there is virtually no record of historical trends in the prices of improvements separate from land. There is therefore no precise way that a new CLT can test the way an improvements-only appraisal-based formula would have performed in the local market over past years, as can be done with other common types of formulas.

A final disadvantage of these formulas lies in the fact that the base price that the homebuyer pays is usually not the same as the appraised value of the improvements – which raises a question of fairness, especially in expensive markets where the homeowner may actually pay for a significant portion of the land value as well as the value of the improvements, as will be noted below in connection with the discussion of “compound appraisal-based” formulas.

Simple appraisal-based formulas. These formulas directly address the difficulties entailed in trying to separate the value of improvements from the value of land: they simply do not separate them. They measure the appreciation of the combined value of both land and improvements, and then allocate to the homeowner a percentage of this appreciated value that is normally smaller than would be assigned by an improvements-only formula in the same circumstances.

Because they eliminate one of the variables inherent in improvements-only formulas, these formulas are in fact simpler to apply, and it can be argued that, if the homeowner's share of appreciation is set at an appropriately low level, the simple formula will be as effective as improvements-only formulas in preserving affordability against rising land values. Another advantage is that, because reliable historical data is available regarding trends in home sale prices (land and improvements combined), it is possible for new CLTs to determine with some precision the effect that such a formula would have had on resale prices over past years.

In their simplicity these formulas abandon the significant distinction between the factors that may cause increases in the value of land and improvements. They may *limit* the effect of increasing land values, but they do not screen it out. Therefore, in an effort to preserve affordability against rising land values, they must allocate to the homeowner such a small percentage of overall appreciated value that there will be little economic incentive for preserving and enhancing the value of the improvements. The percentage may also be so low that, in any but the hottest real estate markets, resale prices will not keep up with inflation.

It should also be noted that, like improvements-only formulas, simple formulas do not take into consideration the percentage of a property's appraised value that the homeowner actually paid for through the base price. For this reason, the owner of a deeply subsidized home will receive a significantly higher rate of return than the owner whose base price covered most of the appraised value of the property. For instance, suppose a home that appraised for $100,000 is sold to one buyer for $90,000, while a home appraised for the same amount is sold to another buyer, requiring more subsidy, for $60,000. Suppose that over a certain period of time the appraised value of both homes increases to $150,000, and both homeowners receive a 20% share of the $50,000 appreciation. The purchaser of the less deeply subsidized home will receive a 11.11% return, over the time of her ownership, on the investment of $90,000. The purchaser of the more deeply subsidized home will receive a 16.67% return on the investment of $60,000. The lack of fairness here can be seen as a problem.

Compound appraisal-based formulas. What we have chosen to call "compound appraisal-based formulas" give homeowners a percentage of the appreciated value of that portion of the total property that they have actually paid for through the base price. These formulas are like simple appraisal-based formulas in that they begin with the appreciated value of *both* land and improvements. And they are like improvements-only formulas in that they give the homeowner a specified percentage of only a *part* of that overall appreciation – but a part defined not in terms of the distinction between the value of land and the value of improvements but in terms of the distinction between the value covered by the base price and the value covered by the subsidy.

The first step in implementing these formulas is to determine what percentage of the total value of land and improvements is covered by the base price – by dividing the base price by the appraised value of the total property at the time of purchase. At the time of resale, the amount of any appreciation for the total property is multiplied by this percentage to determine the amount by which the value of what the homeowner paid for has appreciated. The CLT then applies its "appreciation sharing percentage" to the resulting amount. For example, let's look again at the two homes described above, both of which appreciated in value from

$100,000 to $150,000. For the home originally purchased with a base price of $90,000, the base price covers 90% of the value. If the appreciation sharing percentage is then 25%, the seller would receive a share of appreciation equal to 25% of 90% of $50,000 – or $11,250 (thus a total resale price of $101,250). For the home originally purchased with a base price of $60,000, the base price covers 60% of the value. If the appreciation sharing percentage is then 25%, the seller would receive a share of appreciation equal to 25% of 60% of $50,000, or $7500 (thus a total resale price of $67,500). Both homeowners thus receive a 12.5% return on investment over the time of their ownership.

As this example illustrates, these formulas have the advantage of being fairer than simple appraisal based formulas, which provide a lower rate of return for those able to pay a higher base price (those needing less subsidy) than for those paying a lower base price (those needing more subsidy). It can also be said that these formulas are fairer than improvements-only formulas, which give a higher rate of return to those whose base price was less than the original value of the improvements alone, and a lower rate of return to those whose base price was greater than the value of the improvements alone (whose base price paid for a part of the cost of land).

Like simple appraisal-based formulas, compound appraisal-based formulas have the additional advantage of avoiding the imprecision and inconsistency entailed in distinguishing the value of improvements from the value of land. Also like simple appraisal-based formulas, these formulas have the disadvantage of allowing resale prices to include some portion of appreciated land value, which in hot real estate markets may undermine affordability.

As compared with both improvements-only and simple appraisal-based formulas, compound appraisal-based formulas have the disadvantage of being harder to explain, and, on a superficial level, more complicated to justify. Though these formulas are actually fairer than other appraisal-based formulas, it may still strike some people as unfair to give the homeowner only a "piece of a piece" of appreciated value.

Other variations of appraisal-based formulas. Some of the disadvantages of the several types of appraisal-based formulas discussed above can be addressed through other kinds of variations. Inevitably, these variations give up some of the simplicity that is the central advantage of appraisal-based formulas, but they may still be worth considering. One such variation is discussed below. Others are possible.

Appraisal-based formulas with capital improvement factors. These formulas combine certain features of itemized and appraisal-based formulas. Like most itemized formulas, they credit the homeowner with equity for the value of at least certain specified major improvements made at the owner's expense. Then they allocate to the homeowner a certain percentage of any additional appreciation, beyond the value of the owner's improvements, as determined by appraisals. For example, suppose a CLT homeowner has paid a base price of $80,000 for a home (improvements only) that appraised for $80,000 (land cost being subsidized), and has then made improvements (e.g., added a bedroom) that have been duly valued at $10,000. When she decides to sell the home, it is appraised at $120,000. If the CLT's formula allocates 25% of additional appreciation to the homeowner, the resale price would be calculated as follows: $80,000 base price, plus $10,000 in improvements, plus 25% of the $30,000 additional appreciation ($7500) equals a resale price of $97,500. If the formula had not included an improvement factor and she received a straight 25% of the total $40,000 appreciation, the resale price would have been $90,000. This example involves an improvements only appraisal-based formula, but other formulas can be varied in this way as well.

This type of variation avoids one of the major disadvantages of other appraisal-based formulas (failure to compensate owners directly for their direct investments in improvements), but in doing so it assumes one of the disadvantages of itemized formulas (the burden of defining and assessing the value of improvements). However, most of the CLTs that have adopted such formulas have kept this burden within manageable bounds by limiting the improvements for which equity can be earned to a specific list of useful, separately appraisable major improvements such as the addition of a bedroom or a garage.

Fixed-rate formulas. The simplest of all types of resale formulas, fixed-rate formulas adjust the resale price upward by applying what is in effect a fixed rate of interest on the base price (not the settlement price) from year to year. At any given time, a simple mathematical calculation will allow either the CLT or the homeowner, independently, to determine the then current purchase option price.

This type of formula has become increasingly common in recent years. The percentage rates applied in these formulas typically range from 2% to 3%. In most cases the rates are compounded annually – so that the rate is applied at the end of each "ownership year" to an amount equal to the original base price plus accumulated "interest" as of the beginning of that year.

Both the advantages and disadvantages of these formulas flow from the fixed and simple nature of the mechanism. They require neither the burdensome record-keeping and potential disagreements entailed by itemized formulas nor the expensive and time-consuming appraisals required by appraisal-based formulas. They make it easy not only to determine the present purchase option price but also to project what the price will be at any given time in the future. By the same token, there are potential disadvantages in the fact that these formulas do not establishing any particular relationship with either current market conditions or the homeowner's efforts to preserve or enhance the value of the home.

Advantages of Fixed-Rate Formulas

- These formulas are extremely easy to apply, involving no record keeping by the CLT and no difficult judgments.
- Since they do not depend on appraisals or other external events or conditions, they allow homeowners to know exactly what price they can receive for their homes at any given time – now or in the future.
- These formulas do not allow resale prices to be pushed upward beyond the intended level of affordability by spikes in the local housing market (as appraisal-based formulas may) or by sharp rises in consumer prices or wages (as indexed formulas may).
- These formulas recognize the homeowner's interest in receiving some return on her investment in the home, while limiting that return to a level likely to keep the home affordable for the next buyer.
- Unlike indexed formulas, fixed-rate formulas avoid the possible complications that can result from changes in the ways indexes are generated or published.

Disadvantages of Fixed-Rate Formulas

- Like the indexed formulas described below, fixed-rate formulas do not distinguish between "earned equity" and "unearned equity," since the purchase option prices they yield have no relationship to the degree to which the homeowner maintains or improves the home. They do not provide an economic incentive for sound maintenance.
- Like indexed formulas, these formulas guarantee a high rate of return for "highly leveraged" short-term owners, while providing only a limited return for long-term owners who have paid off their mortgages.
- In weak housing markets, these formulas can allow resale prices to increase faster than market prices, thereby diminishing the effect of the subsidy and making marketing more difficult.
- When the rate of inflation exceeds the fixed rate applied by these formulas, the real value of the resale price for the seller will be less than the original purchase price.

Indexed formulas. By "indexed formulas" we mean formulas that adjust the resale price (above or below the purchase price) by applying a single factor drawn from an index such as area median income or the Consumer Price Index. Indexed formulas were once rare among CLTs but have become relatively common. Such formulas – especially those that use area median income as the index – are also common among non-CLT resale-restricted homeownership programs.

Median-income-based formulas are sometimes a response to government program regulations requiring that homes subsidized through the program remain affordable for a certain number of years for households of a given income level. Since income levels are conventionally defined in terms of percentages of HUD's adjusted figures for area median income (AMI), the simplest way to achieve probable compliance with these regulations is to allow the resale price to increase beyond the purchase price only in proportion to increases in AMI. Thus, for instance, if an $80,000 purchase price is affordable for a family at 80% of AMI, and if AMI increases by 25% during the period of a family's ownership, the home may be resold for 25% more than the purchase price ($80,000 + $20,000 = $100,000) and still be presumed affordable (if mortgage interest rates do not rise) for a family at the now-increased 80-percent-of-AMI level. It should be emphasized that (except as noted in the following paragraph) the adjustment here is applied to the purchase price, not just to the owner's equity as in the case of the inflation adjustments included in some itemized formulas.

With both fixed-rate and indexed formulas, the relationship between the settlement price and the subsidy will have especially important consequences. As noted above in the section on "Defining the Base Price," subsidies that are structured as deferred loans or grants *to the homebuyer* are normally *included* in the settlement price – i.e., a market-rate price is made affordable for the buyer by assistance provided directly to the buyer, not by subsidizing the CLT's costs and thus reducing the price that must be charged to the buyer. In such situations, there is an important distinction to be noted between the application of the index to the settlement price (including the subsidy), and its application to the base price (the amount the buyer actually pays). Application of the index to the settlement price will result in a higher resale price than if the index is applied only to the base price.

In deciding what index to use the following questions are relevant.

- Does the index measure changes in the *cost* of goods (as in the case of CPI) or changes in the *income* of households (as in the case of AMI)?
- Is the index relevant for the *population* being served?
- Is the index relevant for the *area* being served?
- Is the index *consistent* from year to year?
- Is the index published with enough *frequency* and *reliability* to be available and current when needed?
- Is the index published by an *objective*, *reputable* public or private agency?
- Can the average person easily *understand* the index and, if necessary, easily *confirm* for herself that the CLT is using the correct index information?

Advantages of Indexed Formulas

- These formulas allow a reasonable return to the homeowner while limiting resale prices to a level that is likely, though not certain, to be affordable for other households at the same income level as the initial family.
- Though not as simple as fixed-rate formulas, these formulas are relatively simple and comprehensible and do not require subjective judgments by either CLT personnel or professional appraisers. Occasions for misunderstandings or disputes are minimized.
- Compared to appraisal-based formulas, these formulas are likely to provide a return to the homeowner that is more predictable and less drastically affected by the ups and downs of local real estate markets (though not as predictable as fixed-rate formulas).
- Information regarding common indexes is readily and continuously available, so it is relatively easy for a CLT to provide periodic reports of what the formula price of a home would be if the owner were to sell at that time.
- These formulas – particularly AMI-based formulas – should easily be approved under the guidelines of public subsidy programs with which a CLT may be working, without the need for complicated negotiations.
- Compared with fixed-rate formulas, these formulas – particularly CPI-based formulas – are more likely to allow the real value of resale prices to keep up with inflation.

Disadvantages of Indexed Formulas

- Because these formulas do not distinguish between value produced by the owner and value produced by other factors, they may not provide adequate incentive for maintenance and repairs – and may fail to provide a reasonable return on actual investment for owners who actually improve their homes.
- A formula that allows resale prices to rise at the same rate as area median income (or at the rate of the CPI) may not preserve real affordability for lower-income households. Low-income people often do not benefit from economic trends reflected by area-wide median income (particularly in the case of "Standard Metropolitan Statistical Areas" that include affluent suburbs as well as low-income neighborhoods). Resale prices pegged to median income may tend to widen the gap between *haves and have-nots.* Indexes, such as CPI, that reflect *costs* can have a similar effect, since increases in the costs bourn by low-income people can easily outstrip increases in their incomes.

- The leverage provided by these formulas is likely to yield an unduly high rate of return for short-term owners.
- In weak housing markets, these formulas can allow resale prices to increase faster than market prices, thereby diminishing the effect of the subsidy and making marketing more difficult.
- For the long term there is no guarantee that indexes will continue to be generated and published as they are now. Discontinuation or significant changes in an index would create major problems for CLTs relying on that index.

Testing Possible Formulas for Your Area

Testing the possible consequences of different types of formulas is obviously an important part of the formula design process. Those charged with designing a CLT's resale formula should test each specific formula that is considered by projecting its effect on resale prices for different homeowner situations in different hypothetical economic situations, including the economic situation that has prevailed in the immediate area over the past ten years or longer. For instance, they should try to answer the hypothetical question: if a home was purchased ten years ago for a given price that was affordable for a household of a given size at a given percentage of median income, and if home prices in the area have increased by a given percentage, and if median income has increased by a given percentage, and if interest rates have (or have not) increased or decreased by a given number of points, how would the affordability of the home compare with what it was ten years ago. The availability and reliability of the data needed to address such a question will vary from area to area, as well as from one type of data to another, but it should be possible to find relevant data, of most types, for most areas.

Sources of information. In general, HUD-adjusted median income data is available for all "metropolitan statistical areas" (MSAs) and all counties that are not part of an MSA. Be aware, however, that the year-by-year HUD adjustments involve interpolations or estimations of trends for years in between national census years. The decade-long cumulative effect of these interpolations is corrected when new census information becomes available, and in some cases the correction may create the appearance of a sudden one-year increase or decrease in median income. For this reason, apparent trends from one census year to the next will be more reliable than apparent trends for ten-year periods that bridge only a single census year.)

Information regarding changes in local and regional median home prices is generally available from local and regional associations of realtors. This information normally does not distinguish between land costs and the costs of improvement. If you want to test an improvements-only appraisal-based formula, you will need to estimate the percentage of the overall price that derives from the value of improvements rather than land. Local appraisers should be able to help you develop a reasonable estimate of the average percentage..

It is of course true that projections of *future* home prices based on information regarding *past* trends can sometimes be dramatically unreliable. Projections made in 2007, at the height of the "housing bubble," based on housing market trends over the previous ten years, were anything *but* reliable indicators of what turned out to be the collapse of home prices in many markets between 2007 and 2009. Nonetheless, it is important to have as much information as possible about historical trends – and to have year-to-year information as well as information about long-term trends. In other words, it is important to consider not only the affordability of homes purchased ten years ago and sold today but also the affordability of homes purchased and sold at various times within that ten year period where resale prices could be affected by shorter-term changes in the market.

Information regarding changes in the consumer price index is available from the US Bureau of Labor Statistics (www.bls.gov) for those wanting to test a CPI-based indexed formula (or wanting to check, for other types of formulas, the relative buying power of dollars received by a homeowner at resale as compared with dollars spent on the original purchase).

Burlington Associates interactive tool. All designers of resale formulas will want to make use of the "interactive resale formula comparison tool" that can be found in the Burlington Associates CLT Resource Center (www.burlingtonassociates.com/). The tool allows you to test various appraisal-based, indexed, "fixed-rate," and mortgage-based formulas over different "holding periods," under different economic conditions. For a given formula you can specify the cost of producing the home, the amount of subsidy to be applied, the length of time the home is owned by the initial buyer, and projected rates of median home price inflation (or deflation), median income inflation, and different interest rates. The tool will then calculate the initial purchase price and affordability level (percent of AMI for which the price is affordable), the resale price, the seller's equity upon resale, and the affordability level of the resale price.

The tool includes four identical calculators in side-by-side columns, so you can easily compare the results of four different formulas acting on the same basic assumptions about cost and economic trends. Another extremely useful feature is a link to sites providing historical data on median home price trends and median income trends for every MSA in the country.

The great virtue of this tool is that it makes it so easy to test the effects of multiple formulas under many different sets of circumstances – and you should make full use of this virtue. As the recent "bursting of the housing bubble" should remind all of us, we should consider the consequences of hypothetical circumstances that deviate significantly from past trends as well as circumstances that sustain past trends. The resale formula comparison tool makes it easy to look at all sorts of hypothetical situations. It also makes it easy to look at the effects of different approaches to subsidy allocation and pricing on the affordability (and marketability) of resale prices for different formulas in different circumstances. As emphasized in Chapter 19, "Project Planning and Pricing," initial pricing should provide enough "cushion" so that neither affordability nor marketability is likely to be wiped out by changes in market conditions.

Implementation

The specific concerns and responsibilities involved in implementing a resale formula will depend on the specific formula a CLT adopts and on other aspects of the relationship between the CLT and its homeowner-lessees. However, there are some basic concerns that are important for all CLTs.

Building consensus in support of the formula. The model Classic CLT Bylaws presented in Chapter 5-A require that the CLT's resale formula be approved by a two-thirds vote of the organization's membership as well as by its Board of Directors. It is important that this approval be based, as much as possible, on a real understanding of the issues and a real acceptance of the formula itself – not on blind faith that the board or committee members "must know what they're doing." A new CLT should involve as many people as possible, representing as many constituencies as possible, in the process of deciding on the formula.

A smaller committee will need to coordinate this process and do the careful background work needed to test the possible consequences of different types of formulas, but the committee should consult regularly with the membership. The pros and cons of alternative approaches should be explained, and feedback from the membership should be invited.

The fact that this will necessarily be a slow process should be seen as an advantage, rather than a burden. Price restrictions go against the grain of traditional American attitudes toward real estate. Your resale formula will almost certainly be questioned. As John Davis has written, "There will be skeptics, critics, and opponents aplenty *outside* of your organization, without fostering them on the inside as well. The process of adopting a limited equity formula should be gradual enough and inclusive enough to earn the full understanding and wholehearted support of most – if not all – of your members."[4]

Ensuring informed consent from homeowners. Informed consent is of course necessary if the terms of the ground lease, including the CLT's preemptive option, are to be legally enforceable. Informed consent is also essential if the CLT and its approach to resale-restricted ownership are to be accepted and supported in the community. Any suspicion that the CLT's homeowners are in some sense "duped" – that they do not really understand what they are doing when they purchase a home and enter into a ground lease agreement that limits the resale price of their home – can seriously undermine support for the organization.

The Model CLT Ground Lease provides a means of documenting informed consent through the "Letter of Agreement," which states the homeowner's own understanding and acceptance of the agreement, and the "Letter of Attorney's Acknowledgement," which confirms that an attorney has reviewed the lease and related documents with the homeowner. But the process of informing the homeowner about the nature of limited equity ownership must obviously begin well before the signing of documents – and before counsel discusses the actual documents with the homeowner. Explaining the nature of this "different kind of homeownership" is an important ongoing concern for all CLTs – from initial contacts with potential home-buyers, through orientation sessions for those interested in CLT homeownership, on through the "resident selection" process, and beyond.

It should also be emphasized that such efforts to ensure informed consent are important each time a CLT home is transferred to a new owner – not just the first time a home is sold by the CLT. CLTs should be careful not to neglect these efforts in situations where a home is resold directly to a household identified by the prior owner. In such cases the CLT should be sure not only that the buyer is income-qualified but that she fully understands and accepts the resale formula and other provisions of the ground lease. CLTs should also be sure that those who receive CLT homes through inheritance fully understand and accept these provisions. Letters of Agreement and Attorney's Acknowledgement are especially important in situations where a new homeowner has not been through a formal CLT orientation program with other potential CLT homeowners.

Every CLT should make sure that all personnel who may have occasion to explain the resale formula to prospective homebuyers are prepared to give fully accurate explanations. Because the task can seem dauntingly complicated, it can be very tempting to offer an over-simplified explanation, but over-simplification can be dangerous. For instance, potential buyers are being seriously misinformed if they are told, "The formula gives you back what you have invested in the home but not more than that," if in fact the CLT has an appraisal-based formula (or any type other than certain itemized formulas). If such a buyer eventually wants to sell and finds that the formula will give her back less than she has invested over time in improvements and repairs, she may come to the CLT and say, "But I was *told*…" At that point the CLT faces a serious problem – one that can easily be amplified into a public relations problem, if not a legal problem. When a CLT representative *cannot* respond to questions with a fully accurate explanation of the resale formula – and certain formulas indeed make this rather difficult – it is best to say, "It's a little complicated; we'll get someone to sit down and go over the details with you."

It is also important to provide carefully prepared written materials to accompany oral explanations of the formula. These materials should be clear and concise – but again not over-simplified – and should include examples of typical resales, showing how an actual resale price is arrived at. Every serious prospect for CLT homeownership should be given such materials.

Record-keeping. Though the nature of the records will vary, depending on the specific formula in effect, some form of record-keeping is essential to the implementation of all resale formulas. As has been noted in this chapter, itemized formulas can impose particularly heavy record-keeping burdens on a CLT, and it is important to evaluate the organization's capacity to bear the burden, consistently, over time, before adopting such a formula. Appraisal-based formulas require much less burdensome record-keeping, but it is still crucial to preserve the relevant documents – including the signed appraiser's report completed at the time of purchase (a copy of which should be attached to the ground lease). Generally, CLTs should remind themselves that they not only need to collect the information required to calculate the purchase option price at the time of resale, but must be able to document and preserve this information.

Reporting and retraining. Most CLT homeowners pay close attention to the resale formula in their ground lease at only two times: when they first purchase their home and when they later resell it. Years, even decades, may pass between these times. It is a mistake for a CLT to allow this period to pass without reminding its homeowners of the conditions and limits that are placed on the resale of their homes. The formulas used by some CLTs (fixed-rate and indexed formulas, in particular) allow the CLT to report periodically to its homeowners what the formula-based prices of their homes would be if they were to sell them at that time. This kind of reporting is an important way of reinforcing the homeowners' understanding of the limited-equity arrangement and, at the same time, a way of reassuring them that the CLT is fully accountable and attentive to their rights. It should greatly reduce the likelihood of misunderstandings or disputes at the time of resale. Even formulas that do not lend themselves to periodic reporting of what the current resale price would be (notably appraisal-based formulas) should be periodically reviewed with homeowners who are subject to them. It may be as important to offer long-time CLT homeowners an occasional "refresher course" in the details of their resale formula as it is to offer an introductory course to a first-time homebuyer who is considering the purchase of a CLT home.

Amending resale formulas. Classic CLT bylaws, as presented in Chapter 5-A, make it difficult to change a resale formula after it has been adopted. The balance of interests within the classic CLT board, the balance of powers between the CLT's membership and its board, and processes for amending either the CLT's bylaws or the resale formula itself, which require super-majorities of both the board and the membership – all of these make it difficult to amend a resale formula without a careful, deliberate process and broad-based eventual approval. The CLT is a model that was designed, in part, to avoid the mistakes made by earlier models of affordable housing where controls over resale prices were easily relaxed and, in many cases, eventually removed. Demanding as the amendment process may be, however, resale formulas can be amended, and a time may come when a CLT will have reason to consider altering its formula. Should that time arrive, a CLT should devote as much time and care to amending its formula as it devoted to creating and adopting that formula in the first place.

It should be noted that any changes in the resale formula cannot be unilaterally imposed on leases already in effect. The homeowners themselves must agree to have their leases amended to include the new resale formula. If any homeowners do not accept the new formula, the CLT will have different formulas in effect for different leaseholds. This is a state of affairs that CLTs should clearly try to avoid; nonetheless, it is possible that it will come to pass during a transition from one formula to another.

---

[1] Our discussion of the promotion of homeowner mobility has been limited to lateral mobility. It should be noted that some may express a concern with promoting vertical mobility as well, suggesting that CLT homeowners should be able to sell their homes for enough money to allow them to move into the traditional market or to "move up" to a more expensive home. Few people would argue against the idea that CLT homeownership can and should promote this kind of vertical progress over the long term, as an owner's equity increases through debt repayment and perhaps through improvements to the home, and as lower monthly housing costs promote savings. The question is how much equity the CLT homeowner should be allowed to claim from market appreciation that she herself did not cause. Many supporters of the CLT model would answer "none." Nearly all would answer "as little as possible," because every dollar of socially created appreciation claimed by a homeowner today makes housing less affordable for another low-income homebuyer tomorrow.

[2] As noted, the U.S. Department of Agriculture's "502 program," administered by Rural Housing Services, has provisions for recapturing interest subsidies out of any appreciated value at the time of resale. The definition of "appreciated value" employed by the 502 Program (which determines appreciated value based on an appraisal at the time of resale) had raised issues for CLTs, since CLT resale formulas can result in resale prices that are substantially less than the appraised value of the home. However, the Housing and Community Development Act of 1992 specifically provides that, for purposes of recapturing interest subsidy for CLT homes under the 502 Program, appreciated value is to be measured based not on appraised value but on the actual resale price under the CLT's formula.

[3] The "*appraisal-based*" price restrictions that are employed by certain programs to keep the resale prices of farms affordable for farmers are different from the "appraisal-based formulas" used by CLTs for residential property to determine the amount of appreciation to be shared between homeowner and CLT. These agricultural price restrictions, which may be embedded in ground leases or conservation easements that require agricultural use of the property, call

---

for appraisals of the as-restricted agricultural value of the property, which then *becomes* the purchase option price for the holder of the easement. For detailed information on agricultural price restrictions, see *Preserving Farms for Farmers: A Manual for Those Working to Keep Farms Affordable*, Equity Trust, Inc., 2009.

[4] John Emmeus Davis, unpublished monograph prepared for ICE in 1985.

RESOLUTION 2025-07
BEFORE THE BOARD OF COMMISSIONERS
OF THE BLAINE COUNTY HOUSING AUTHORITY
BLAINE COUNTY, IDAHO

A RESOLUTION OF THE BLAINE COUNTY HOUSING AUTHORITY BOARD OF COMMISSIONERS AUTHORIZING THE ADOPTION AND RECORDING OF THE UPDATED BLAINE COUNTY HOUSING AUTHORITY COMMUNITY HOUSING ADMINISTRATIVE POLICIES

WHEREAS, the BCHA administrative staff have developed a set of BCHA Community Housing Administrative Policies; and

WHEREAS, the purpose of the BCHA Community Housing Administrative Policies is to define and describe the process of renting, purchasing, or selling Community Homes within Blaine County; assisting government staff, the development community, applicants, and the public in understanding the priorities for and processes governing Community Housing development and administration in Blaine County; supporting the attainment of BCHA goals and supplementing land use and building codes used by the County and Cities; and assisting in the review of land use applications, establishment of affordable rental rates and sales prices, establishment of criteria for admission and occupancy, and development and prioritization of current and long-range community housing programs; and

WHEREAS, the BCHA administrative staff prepared and presented to the BCHA Board for its review and approval an updated version of BCHA Community Housing Administrative Policies; and

WHEREAS, the BCHA Board reviewed the updated policies and adopted the policies as BCHA's exclusive community housing policies on May 8, 2024; and

WHEREAS, BCHA administrative staff have determined that there could be greater clarity of processes, wording, and organizing of the document; and

WHEREAS, BCHA administrative staff sought confirmation by legal counsel that updating certain policies need to be updated to better align with BCHA's policy goals and relevant regulations; and

NOW, THEREFORE, be it resolved by the Board of Commissioners of the Blaine County Housing Authority, Blaine County, Idaho, as follows:

Section 1. The Blaine County Housing Authority Board of Commissioners approves adopting the updated BCHA Community Housing Policies on July 16, 2025, set forth in Exhibit A, attached and incorporated herein,

Section 2. The Blaine County Housing Authority Board of Commissioners authorizes the request to record the BCHA Community Housing Policies as adopted by this Board on July 16, 2025, set forth in Exhibit A, attached and incorporated herein, and directs the Executive Director to proceed with the recording of the BCHA Community Housing Policies as set forth in this Resolution.

[*This space left intentionally blank*]

DATED this ____day of ______, 2025

ATTEST:	BLAINE COUNTY HOUSING AUTHORITY BOARD OF COMMISSIONERS
_______________________________	______________________________________
Executive Director	Chair

RESOLUTION 2025-10
BEFORE THE BOARD OF COMMISSIONERS
OF THE BLAINE COUNTY HOUSING AUTHORITY
BLAINE COUNTY, IDAHO

A RESOLUTION OF THE BLAINE COUNTY HOUSING AUTHORITY BOARD OF COMMISSIONERS AUTHORIZING THE ADOPTION AND IMPLEMENTATION OF NEW APPRECIATION FORMULA,

____

WHEREAS, the BCHA administrative staff have reviewed historic trends regarding impact of current appreciation formula compared to other options; and

WHEREAS, 56% of BCHA's community homes currently have a Maximum Resale Price above affordable prices for the home's designated income category, as impacted by interest rates and HOA fees; and

WHEREAS, the BCHA administrative staff prepared and presented to the BCHA Board for its review and approval a variety of options and considerations regarding appreciation formulas and the impact on long-term affordability; and

[MORTGAGE-BASED] WHEREAS, the BCHA staff and Board have reviewed and selected the appreciation formula that most aligns with BCHA's mission of affordability; and

[FIXED-INDEX-BASED] WHEREAS, the BCHA staff and Board have reviewed and selected the appreciation formula that most aligns with BCHA's mission of affordability while also being simple to administer and explain to program participants; and

NOW, THEREFORE, be it resolved by the Board of Commissioners of the Blaine County Housing Authority, Blaine County, Idaho, as follows:

Section 1. The Blaine County Housing Authority Board of Commissioners approves adopting the appreciation formula of __________________________,

Section 2. The Blaine County Housing Authority Board of Commissioners authorizes the update to the deed covenant template and directs the Executive Director to proceed with implementing this change on resales of community housing ownership units, as set forth in this Resolution.

DATED this ____day of ______, 2025

ATTEST:	BLAINE COUNTY HOUSING AUTHORITY BOARD OF COMMISSIONERS
______________________________	_____________________________________
Executive Director	Chair

BLAINE COUNTY HOUSING AUTHORITY

BOARD MEETING AGENDA MEMO

Meeting Date:	July 16, 2025	Staff Member:	Rian Rooney
Agenda Item:	HOA Advocacy and Dues Relief Update		

Recommended Action:

Provide direction to staff on next steps for addressing costs for homeowners in the Residences at Evergreen and other community homeowners

Policy Analysis and Background (non-consent items only):

At the June BCHA Board meeting, staff provided an analysis and overview of the affordability challenges posed to some BCHA homeowners due to HOA costs, including both regular dues and special assessments. Staff outlined the newly adopted policies that will ensure that HOA costs for restricted BCHA ownership homes in new developments are kept affordable and described multiple potential solutions, and their challenges, for homes in existing developments.

Staff have acknowledged that BCHA is in part at fault for the HOA fee challenges, particularly with the Residences at Evergreen, both in terms of requiring a reduction in fees for community homeowners at the time of development entitlement and providing adequate community homeowner education on the risks and recommended budget. However, there are many unknowns about what has transpired and HOA costs have ballooned significantly in recent years. There are currently no Board members of staff who participated in BCHA prior to 2022, and at that time BCHA was tasked with stewarding its portfolio with extremely limited funds and staff. It is also important to note that organizations learn and improve processes over time, that this is an issue that BCHA is now mitigating in new community homes going forward, and that community homeowners voluntarily entered the program, purchased these homes and agreed to their restrictions.

Recognizing that both funding and staff capacity are limited, staff is taking a three-part approach to the issue in the near term:

1. Advocacy, Education, and Resources: Working directly with homeowners most acutely affected by affordability challenges to assist with resources and advocate directly to their Homeowners Associations.
2. Revolving Loan Fund: Working to establish an emergency relief revolving loan fund to help owners with special assessments and other short-term costs.
3. Ongoing Assistance to the Residences at Evergreen: Reviewing long-term, recurring funding assistance for Evergreen homeowners because their ongoing HOA dues and special assessment costs are an outlier in the BCHA portfolio.

Advocacy, Education, and Resources
Staff is finalizing a resource sheet for homeowners that includes information on HOA dues and CC&Rs – and who has authority to influence them – and financial assistance programs that can help with other costs, including utilities and medical expenses, with contact information, explanations, and links to the programs. This resource sheet also includes an explanation of key terms, information related to community homes, description of HOA decision-making processes (that BCHA has no authority to change CC&Rs), and the challenges of inequitable homeowners association financial obligations for community homeowners.

Additionally, staff is working to schedule a meeting with the HOA of the Residences at Evergreen, whose two community homeowners are experiencing the greatest financial hardship from HOA costs. The two community homeowners are currently responsible, together, for approximately 9.5% of the HOA costs of the 19-unit homeowners association. However, their combined assessed value represents only ~1.3% of the value of all condos at the Residences at Evergreen. Realigning the community home HOA costs to be reflective of their assessed, restricted value would result in an ~8.1% shift in overall costs to be distributed among the 17 unrestricted owners in the development. While this restructuring would be in alignment with the newly-adopted policies for community homes in new developments, staff will discuss a variety of options that could help lessen current burdens for these homeowners. Amending the HOA's Covenants, Conditions and Restrictions would require approval of 75% of the association members.

Revolving Loan Fund
Staff has identified grant opportunities to help seed an emergency loan fund to assist homeowners with HOA costs. Staff is working on applications to these opportunities. Due to the timelines on these grants, any awarded funds would not begin to be available for at least 3 months. Staff are also beginning outreach to local charitable organizations, including 100 Men Who Care, the SV Board of Realtors Foundation, and Spur to initiate conversations about this issue and seek funding.

Funds would be loaned to community homeowners for direct payments at 0% interest and paid back when the community homeowner sells their home. Developing this fund as a revolving loan will provide necessary assistance to owners while enabling funds to be redeployed when properties are sold to assist other owners and replenish the fund. With the potential scale of need, high costs of certain special assessments, and limited availability of funds, a 0% interest loan, rather than a grant, is a more sustainable solution for the organization.

Staff wish to emphasize that given the potential costs to assist all cost-burdened community homeowners with HOA-related costs, this fund would likely need to be targeted to assistance with limited, special assessment costs rather than to support ongoing, unaffordable dues obligations (estimated at $68,000 per year currently).

Assistance for the Residences at Evergreen
Staff recognize that the financial burdens faced by the community homeowners in the Residences at Evergreen are extreme and likely require other creative solutions and more significant financial support to address. Per Board direction, staff are prioritizing assistance for the Residences at Evergreen since the estimated percentage of their assumed income that goes to HOA fees is more than 20%, compared to the second highest estimated at 8-9%.

Based on information received from the owners, staff estimated an approximate gap amount that could be paid to support these owners and bring their monthly housing costs down to a reasonably affordable level until these homes are sold. Staff also determined that neither community homeowner is interested in selling in the near future. Note that if the Board wishes to pursue ongoing financial gap assistance with these owners, staff can work directly with them to better understand the full scope of housing costs and income to refine these figures.

Three-bedroom, 100% AMI (Category 4) community home
The three-bedroom home is currently paying $1023 per month in operating dues and capital reserves, and an additional $477 in special assessments through July 2026 to fund future capital maintenance (total $1,500/month). There have also been additional special assessments periodically in the Residences at Evergreen to fund specific projects, like a new boiler.

Under BCHA's current income limits, the affordable amount paid for a Category 4, three-bedroom ownership home would be $1,908 per month, inclusive of mortgage, utilities, taxes and HOA costs. This assumes a household size of 3.5 persons and income at the bottom of the Category 4 income range for that household. Given these assumptions, the owner of this home is currently paying more than 75% of the affordable housing cost amount toward HOA fees. The owner's mortgage and utilities cost an average of $1,700 per month, which leaves only $208 per month for HOA costs that are affordable. In this scenario, there is an approximately $1,292 gap between current HOA costs and costs that are reasonably estimated to be affordable to the owner per month.

This community homeowner's household size has decreased since they purchased the home, and they are now a single-person household. BCHA could approach Ketchum City Council to begin treating this home as Category Local, in which case the owner could rent rooms to one or more qualified locals regardless of the renters' income.

One-bedroom, 80% AMI (Category 3) community home
The one-bedroom home is currently paying a reported $856 per month dues and reserves and an additional $389 in special assessments through July 2026 (total $1,245/month).

Under BCHA's current income limits, the affordable amount paid for a Category 3, one-bedroom home would be $1,130 per month, inclusive of mortgage, utilities, taxes and HOA costs. The current HOA costs currently exceed the maximum affordable total housing costs by over $100 per month. This assumes a household size of 1.5 persons and income at the bottom of the Category 3 income range for that household. The owner's monthly mortgage payment and utility costs average $780 per month, which leaves only $350 per month for HOA costs that are affordable. In this scenario, there is approximately an $895 gap per month between current HOA costs and costs that are reasonably estimated to be affordable to the owner.

Since this is a one-bedroom home, allowing renter-roommates is trickier than with the other home. The community homeowner could request an exception to be able to rent the home during slack for fewer months than is mandated in the Policies. Staff believe that finding qualified local renters for such short time periods, and during slack, would be extremely challenging. If that is the direction the Board wants to take, staff can also request a transition of this community home to Category Local so that rent charged during that time period could be higher than is mandated per the home's current income level.

Next Steps
Under these estimates, to bring housing costs to affordable levels for both owners would cost approximately $2,200 per month ($26,400 per year), with the gap possibly escalating in future years, until the homes are sold. That cost would be about $6,600 for the remainder of this fiscal year. That number

could decrease to approximately $1,300 per month ($16,000 per year) after July 2026, when the current special assessment period ends, if all other relative costs remain at current levels. If the Board wants to move forward with funding these ongoing gaps, staff can work with the owners to collect additional financial and housing cost information and refine these figures. Depending on the level of assistance and what costs it is supporting, the Board can provide direction on whether these funds should come in the form of a no-interest loan to be repaid at sale or a grant.

Staff identified that there are sufficient funds for this expense (~$6,600) for the remainder of the fiscal year. Additional funding for the next fiscal year and any other community homeowners would need to be determined with the results of grant applications and during the upcoming fiscal year budget discussions.

The Board should also provide direction on whether their preferred direction is to encourage the community homeowners to transition to new community homes that better align with their ability to pay and then transition these homes to Category Local at sale. The community homeowner's initial application date would likely grant them priority to any home that becomes available in their current income level (which has likely decreased since they initially qualified).

The Board could also consider allowing either of these owners to rent their homes to a BCHA-qualified household at a higher income level and allowed rent than designated for the community home to ensure they are covering their HOA costs and mortgage with rental income.

Finally, providing ongoing assistance to these homes in perpetuity is not a sustainable scenario, so staff recommends preparing to reclassify these homes as Category Local when they are sold, opening them up to qualified local households with more income flexibility and a clearer assessment of what to budget for HOA fees. Staff can prepare a discussion with the Ketchum City Council to request approval to have these units reclassified in preparation for their next sale.

Recommended Steps for Homeowner Assistance:
Staff will apply for grants and additional funding to be used for a revolving loan fund and/or grant program for existing community homeowners. In addition, staff recommend the following steps for community homeowners who approach BCHA for assistance on HOA fees, to be reviewed on a case-by-case basis:

1. Anyone requesting funds must do a full income certification.
2. The community homeowner must demonstrate how their expenses and income do not align *because of* their HOA fees. BCHA staff may determine that, through financial counseling, the community homeowner's budget can be appropriately and adequately adjusted. For Evergreen community homeowners, staff recommend providing the necessary assistance for this fiscal year.
3. BCHA would meet with the HOA to request adjusting the CC&Rs to an affordable level for the community homeowners.
4. Depending on results from discussion with the HOA and whether the need is ongoing or short-term, BCHA would then provide funding, potentially conditional upon transitioning to a community home with expenses that align with their income. Their original application date would be used to determine their priority on the waitlist, per BCHA's policies.
5. BCHA would then pursue changing the income level of the community home.

Discussion questions:
<u>Residences at Evergreen</u>

- Pursue transition to Category Local in advance of sale to enable rent?
- Pursue no-interest loan or grant for Evergreen community homeowners?

- Should these funds be conditional on relocating to a right-size, right-cost community home? If so, for renters, BCHA provides a one-year transition period.

Other Community Homes

- If the Blaine County Housing Foundation is successful in receiving additional grant funding for this purpose, what qualifies community homeowners to be eligible?
- Pursue no-interest loan or grant for other community homeowners?
- Follow the steps outlined above?