

OPAL Community Land Trust
Future Direction and Next Steps
November 2014

Introduction

In 2015, OPAL will come to the end of its current initiative to move and renovate homes for ownership by low and moderate income households. The grant funding that has been critical for this program's viability will be fully spent. While OPAL will continue to look for opportunities to move and renovate homes with private financing, the amount of fundraising needed for each house will limit the scale of this activity in the future.

By the end of 2015, OPAL will have built, moved or renovated 103 houses as ownership homes, and 29 rental apartments.

In order to plan for the future, OPAL's board and staff have spent the past six months examining options for OPAL's direction over the next few years. Since the summer, half of each board meeting was dedicated to examining a community need that OPAL has the capacity and competency to address: senior housing, new ownership housing, new rental housing, more stewardship activities, starting a community loan fund. The conversations continued at OPAL's annual board and staff retreat held November 1 and 3.

This paper starts with a brief summary of the decisions the OPAL board has made to date, and then provides background on each of the topics.

OPAL's board has made the following broad decisions:

1. For Senior Housing, OPAL will:
 - a. Continue when building new housing to design for accessibility and aging in place (for example, design for Wild Rose Meadow);
 - b. Continue to provide housing for people who work as caregivers and provide services necessary for the elderly to thrive on Orcas;
 - c. Assist existing OPAL homeowners (with older houses that are not accessible) with securing financing and technical assistance to modify their homes for accessibility and aging in place;
 - d. Be open to taking ownership of the Longhouse if the non-profit organization that operates the Longhouse ever wishes to transfer ownership of that property;
 - e. Engage in community conversations about other options being explored for the community.

2. For New Ownership Housing, OPAL will:
 - a. Not actively pursue new construction for the time being (beyond the additional houses in the pipeline to be moved and renovated);
 - b. Continue to steward the property OPAL owns near Orcas Ferry Landing for future development of housing. This is not the right time to pursue the design and development of a project on this property, because of a lack of state grant funding for ownership housing.
 - c. Quietly engage ideas, such as housing for young farmers, who may also wish to farm a portion of the land.

3. For New Rental Housing, OPAL will:
 - a. Actively pursue the possibility of new construction. Our hope is that a project could develop that would provide a mix of housing styles (attached and detached), sizes (one-bedroom to four-bedroom), and be priced for a range of income levels (low to middle).
 - b. Emphasize designs for energy efficiency, building durability, universal access (to allow for multiple needs, including aging in place) and access to common open space.
 - c. Actively engage employers in the conversation about project goals and design, as many larger employers (OPALCO, the school, the county) are struggling to recruit employees because of a lack of access to affordable and stable housing.

4. For OPAL's role in stewardship, the board and staff decided to increase services slightly in order to attend to some pressing needs. The group set the following priorities for the next 12-18 months:
 - a. Build the Stewardship Endowment – goal is \$3 million by 2020;
 - b. Provide support for the Bonnie Brae neighborhood to re-invent and re-invigorate its neighborhood governance and to develop a sustainable plan for forestry management;
 - c. Help homeowners obtain financing and technical support to modify their homes for aging in place;
 - d. Revise the capital replacement reserve studies for at least three neighborhoods;
 - e. Support the Opal Commons neighborhood with revising its CC&Rs;
 - f. Support residents who wish to host gatherings and community building activities.

5. For launching a new Community Loan Fund, OPAL will:
 - a. Pursue funding and complete a business plan to test the viability of such a loan fund that would provide a vehicle for local investors to lend to local borrowers who are low risk, but still unable to obtain bank financing because of non-traditional credit or income.
 - b. The business plan will examine the options of the loan fund making loans to:
 - i. Continue the work of Michael Brennan in making loans for mortgages, home repair or renovation loan, and non-profit capital facilities, and/or;
 - ii. Small businesses to start-up or expand;
 - iii. Non-profits needing a line of credit;
 - iv. Individuals who seek educational advancement that would benefit the local community (certification for home health aide, EMT, paramedic, etc.)
 - c. If the business plan is viable, OPAL will incubate the creation of such a fund only if another organization partners with OPAL. The OPAL board believes that to be successful, the loan fund must have a broader base in the community and must appeal to a wider audience than would be possible if this initiative moved forward solely as a project of OPAL's.

Background on Each Topic

Senior Housing:

Paul Losleben has written a very informative paper on the demographic trends in the islands. Summarized briefly, the paper illustrates that:

- The percentage of seniors living on Orcas is about double that on the mainland.
- As people age, their ability to live independently generally decreases. Options taken when elderly people need help are:
 - Live independently with some in-home assistance, or increasing reliance on public services for emergencies (Fire Department, Senior Services, etc.);
 - Downsize to a location with built-in services (that may or may not change as abilities change);
 - Assisted Living – it is estimated that about 7.3% of seniors need some help with at least one Activity of Daily Living (bathing, dressing, toileting, mobility, eating).
- The only housing that is specifically designed to serve seniors on Orcas is:
 - Longhouse: non-profit with 16 apartments for disabled individuals or seniors with low incomes;
 - Orcas Loving Care: Licensed adult family home with capacity for 5 residents.
- The 2010 census identifies 4.8% of Orcas seniors live below the poverty line (\$10,896 for a single person or \$14,712 for a couple). This means there are between 25 and 75 seniors on the island living with this level of income.

When OPAL designed the Wild Rose Meadow neighborhood, we intentionally designed all the houses for accessibility and aging in place. Each home has a ground-floor bedroom, and bathrooms that can easily be retrofitted with grab-bars and accommodate wheelchairs or walkers. As a result, the neighborhood was diverse from the start, with young families, singles, elderly and disabled owners. Residents like that diversity.

OPAL's older neighborhoods, especially Opal Commons and Bonnie Brae, were constructed to minimize impact on the land, and therefore many of them have just one bathroom on the second floor. Some homeowners have modified their houses, putting half baths on the first floor, and others wish to do so in order to remain in their homes. The method for financing such modifications varies based on household incomes and access to friends or acquaintances capable of carrying out the work.

Ownership Housing on land owned by OPAL near Orcas Ferry Landing:

OPAL acquired a six acre property near the Orcas Ferry Landing in January 2007. The property is currently in two parcels, and, using the county's Rural Residential Cluster zoning could be developed for up to 12 homes. In recent years, the OPAL board has thought that a lower number of houses – perhaps 8 homes is a better fit.

OPAL has done some preliminary work to identify development options for the property, including:

1. Completing a survey of property boundaries and significant features;
2. Completing a preliminary wetlands analysis that indicates some wetlands exist and will need

- to be considered when developing a site plan;
3. Completing a civil engineer's analysis of work required to improve the Orcas Landing, Inc. water system to accommodate up to 18 additional homes (with excess not used by OPAL available for others);

OPAL has not pursued developing this property for a variety of reasons:

1. At the time we acquired the property, we were in the middle of developing Wild Rose Meadow, and did not have the capacity to develop both.
2. By the time we finished paying off the loans for Wild Rose Meadow in 2012, we were in the midst of moving houses, which was a less expensive option than new development, AND the Washington State Housing Trust Fund was basically not funding homeownership projects (OPAL was just about the only homeownership project funded in the 2012 round, because the HTF needed to meet its rural quota).
3. The property will be expensive to develop because:
 - a. It has wetlands that need to be re-surveyed in accordance with the county's new Critical Areas Ordinance);
 - b. The existing Class A water system is not inclined toward expansion. OPAL will have to pay for all expenses to upgrade the system (perhaps even beyond the costs needed for the number of houses that OPAL wants to develop);
 - c. The sewer district now requires that new development in that area join the sewer and so OPAL will have to extend a line up the hill;
 - d. While there are a number of neighbors who are supportive of OPAL, and want housing for workers in the area, there are others who do not want the property to be developed.

OPAL has considered the idea of selling the property, but has not pursued it, because the property is currently valued about below what OPAL paid for it. In addition, many of us continue to believe that in the long-term, this property is a very beneficial location, being right next to the ferry landing, where residents could easily commute to Friday Harbor, or work at the Landing.

Rental Housing:

OPAL has experience with developing and managing two rental projects. The financing for each project results in different operating models. Summarized briefly:

- Reddick – built by OPAL – first occupied in 2004:
 - 7 apartments with rents ranging from \$465 - \$700, including sewer, water and garbage. Electric is metered separately.
 - Apartments were funded by private donors and the WA State Housing Trust Fund. The only on-going subsidy is the zero interest rate loan from WA State. The only compliance supervision is with WA State, and that is generally more helpful than burdensome.
 - OPAL staff members manage these apartments.
- Lavender Hollow – built by Wally Gudgell and partners using Federal Low Income Housing Tax Credits – first occupied in 1991 – OPAL purchased in 2011 and renovated:
 - 22 apartments (3 four-plexes and 5 duplexes) with rents ranging from \$100 to

- \$750, depending on income level;
- OPAL's purchase and renovation were funded by a grant from WA State, and operations are funded by a 1% loan from USDA, as well as subsidized rent payments for up to 17 of the 22 rental tenants. Financing from USDA comes with significant regulatory and compliance requirements.
- To cost effectively comply with these requirements, OPAL has hired Ad-West Realty, a property management company that specializes in USDA funded projects (and also manages the Longhouse as well as a number of properties in Friday Harbor).
- Some additional information:
 - Many of the 22 residents would more than likely be either homeless or living in sub-standard housing if it weren't for the rental assistance available through Lavender Hollow. Of the residents, 11 are disabled, 5 are seniors.
 - The average length of residency for units receiving >60% rent subsidy is nine years.
 - There are four residents that have lived at Lavender Hollow for over 10 years and one for 18 years.

Stewardship of Existing OPAL properties:

In recent years, OPAL has increased the amount of time that staff have invested in stewardship activities, and, as a result, improved the level of service. In the past two years, we have, among other services:

1. Posted to a dedicated website documents that are frequently requested by homeowners;
2. Prevented four foreclosures by intervening in time to sell the house to eligible purchasers;
3. Assisted homeowners with refinancing or budgeting to navigate difficult times;
4. Served as Executor for the estate of a deceased homeowner;
5. Facilitated a record number of resales, finding new homebuyers for each one;
6. Facilitated neighborhood meetings to mediate difficulties between neighbors, train homeowner association leaders in effective meeting facilitation, and re-invigorate neighborhood decision-making;
7. Shared resources and costs, and provided workshops on home maintenance;

And yet, the demand for assistance continues. Homeowners have asked for additional support and guidance, and OPAL staff members believe there may be some value in being more pro-active in some instances. Examples include:

1. The Bonnie Brae neighborhood wishes to revise its CC&Rs and decision-making process, and wants help with maintaining the 8 acres of forested land around their neighborhood;
2. Homeowners in Opal Commons and Bonnie Brae wish to adapt their homes—and possibly establish support systems—for aging in place.
3. Some homeowners have persistently violated CC&Rs, which is demoralizing to neighbors, and neighborhood efforts at achieving compliance have been ineffective.

4. Some homeowners are struggling with the costs of adequately maintaining their homes.
5. Neighborhood reserve studies need to be updated and refreshed as planning tools.
6. OPAL staff members are supportive of households in trouble, but OPAL does not actively lead positive community building activities.

Community Loan Fund:

One year ago—in November 2013—OPAL and OICF collaborated to form a task force to examine the viability of starting a loan fund that would provide financing to people who are a good credit risk, but who are not able to get a loan from a bank. Michael Brennan has been doing this type of lending privately on Orcas for about 20 years. Michael wants to slow down and transition toward retirement.

Allen Smith consolidated the work group's thinking into the following vision and description of Michael Brennan's impact through his years of lending on Orcas:

Toward a Community Loan Fund

There is an adage that banks only want to lend to those who can prove that they don't need the money. That is an overstatement, but like many hyperboles it hides a grain of truth. Particularly in these uncertain economic times, conventional banks are risk averse. This means that many islanders who might be sound borrowers, but lack documentation or a credit history, are unable to secure bank financing for their homes or small businesses.

The Case of Michael Brennan

One Orcas islander, Michael Brennan, has been helping to fill that gap. Using his own resources he today has more than sixty loans outstanding. Over the past 20 years, he has made over 230 loans. These are mostly mortgage loans, secured by the property, although he has also lent to small businesses and to individual homeowners looking to maintain their homes. He makes his own loan decisions, based on his subjective judgment of a borrower's credit worthiness, and has rarely been proved wrong in those judgments. Michael is an investor, not a benefactor. He charges interest on his loans that, while affordable, is slightly higher than market rates. He lives on what his loans yield.

Michael's loans generally begin with a telephone call, and he regularly gets at least two of these calls each week. Someone, it could be a former borrower, a mortgage broker, a friend, or even a banker, has suggested that the caller contact Michael. Usually, the reason for referring the potential borrower to Michael is because the candidate cannot document income sources or history sufficiently for a bank to risk a loan, or because the loan is for a "non-bankable" purpose, such as acquiring vacant land.

The loans are typically secured by real estate, amortized over thirty years, with a balloon payment due in five years. It is not uncommon for borrowers to renew a loan when it expires. Michael, because he is but one person investing his own money, is much less demanding than a bank of documentation and forms. He has no loan committee or investors to please, and can make decisions using whatever subjective criteria he wants. Often, he knows the borrower and simply trusts his or her character; sometimes, he admittedly attends to rumors about a person's character; occasionally, he asks for income tax records or real estate appraisals. His decisions

can be quick, with funds becoming available in days, rather than weeks. He has made a few mistakes over the years, and has been forced to write off some loans and foreclose on a few properties. Some of these bad loans could have been avoided by more rigorous up-front screening, but most were due to unforeseen and unforeseeable changes in the borrower's personal situation (such as a health crisis), or in the wider economy (such as the crash of 2008).

Michael did not set out to be a one-man community loan fund. His first loan was to a group of friends who needed to acquire their building if they were to continue offering healing arts services to the Orcas community. And it grew from there—by word-of-mouth. He loves the Orcas community, but altruism alone is not what motivates him. He is an investor who chooses to invest a portion of his assets locally.

It is impossible to quantify what impact Michael and his loans have had on the community, but anecdotes abound. Without him, a number of small shops and bistros in Eastsound would not be there; any number of young singles and families would have been unable to afford life here and left Orcas; and, some island non-profits (the recipients of several Brennan loans) would have been forced to scale back their plans.

Michael is but one person, has been doing this a long time, and is anxious for others to step in as he retires. These could be individuals prepared to continue in Michael's footsteps. Or, it could be something more institutional, with a scale and resources greater than Michael's. By all accounts, the demand is there (remember those two unsolicited calls that Michael fields each week), the question is how to meet that need.

Two Visions

Community loan funds can take many forms. They can be very personal and informal; in Port Townsend the "fund" is nothing more than a group of individual investors who loosely coordinate their lending activities. In other places the loan funds are substantial institutions with operations that span entire states, have assets in the hundreds of millions, support large staffs, and draw business partners from the *Fortune 500*. Looking to our own community, and projecting a decade or two into the future, it is possible to imagine at least two models for a community loan fund that stand somewhere between these two extremes. For lack of better names, these can for now be called the *Financing Arm Model* and the *Community Partnership Model*.

The Financing Arm (FA) Model: In the mid-twentieth century, General Motors created a financing arm, General Motors Acceptance Corporation (GMAC) to help its customers buy GM products. One can imagine a similar strategy for the Orcas (initially) and wider San Juan County (later) affordable housing community—an arm, say, of OPAL that is funded by private investors, as well as by grants and donations, with a mission to help OPAL achieve *its* mission of bringing permanently affordable housing to Orcas. Because of the nature of its funding, the FA could grant loans up and down the income scale; it would not be shackled to the "80% (or 50%) of AMI" limits imposed by the government. Growth of an FA institution could be through partnering with additional affordable housing providers on Orcas or other islands, or by expanding loan offerings beyond home mortgages to home repair loans, small business loans, or even micro loans.

One intriguing potential in this model is to create *partnerships* with (one or more) local banks.

In return for bank investments, grants, and referrals, the FA could extend its stewardship mission to include preparing FA borrowers to become bank loan customers by the end of the five-year loan period—the FA becomes a “boot camp” of sorts for future bank customers. In addition to this stream of new customers, the bank also gets the CRA credits that commercial financial institutions covet.

The Community Partnership (CP) Model: Where the mission of the FA entity is to finance affordable housing, the mission of a CP entity would be more generally to help build a more healthy community—including, but not limited to, affordable housing. A CP institution might underwrite loans to island non-profits or individuals providing health care, transportation, senior-care, or other services to the community. It could also, of course, provide mortgage or home repair loans to individuals without access to banks. A mature CP entity would look much like the “textbook” Community Development Financial Institution (CDFI) generally described online. Governance would be provided by a board specifically selected to represent a cross-section of community interests. As it grows, the CP may expand its financial product offerings, expand its partnerships with other non-profits, and add new members/investors.

At birth, the two models (and hybrids of the two models) could look very similar, and for that reason it may not be necessary to commit to one or the other at the outset. Either could apply for CDFI certification, and either could start under OPAL’s organizational wing.