

## **Minutes of the Year-Round Housing Committee of CICA, Tuesday November 21, 2011 at 7:15 at the Parish House**

Present: Donna Damon, Mabel Doughty, Bob Earnest, Deb Hall, Beth Howe, Ruth Slagle, Erin Whetham and David Whiston.

Absent: John Wilson

### **1. 226 South Road**

Beth said that the subcommittee has been working on getting information and developing options about the sale of 226. We have not completely concluded that it should be sold, but we have been working under the assumption that it will be sold as an affordable house. So we have been looking at options for keeping it affordable, as well as practical things like its current value.

David said there are three models for keeping owner-occupied houses affordable over time. One is the community land trust model. The second is limited equity coops and the third is deed restrictions. The first has been tried on other islands but has not worked very well. Coops are largely for apartment buildings. So we are primarily looking at various kinds of deed restrictions.

The subcommittee is recommending applying a deed restriction to 226 that would provide appreciation both for the owner and for CICA. Appreciation would be calculated using a formula related to the increase in the cost of living rather than the increase of property values to set the price of the house when it is sold. Appraisals on the island are questionable because of the scarcity of comparables. In addition, if the market goes up again, it will also reflect the increase in the market price which may go up faster than incomes of moderate income islanders. Using the CPI or the increase in the Median Family Income would tie the sale price of the house to the increase in island incomes rather than the increase in housing values which, in the recent past, has been much higher. David said this is another area where CICA would need to be involved in the sale process.

Donna asked how long CICA would wait for the home-owner to find an affordable buyer before the house could go on the open market. She suggested 6 months. Beth said that many people now have houses on the market much longer than that. David said that CICA might have the right of first refusal when the house is sold, though he is not sure we want that.

Bob asked how long a deed restriction can apply. David said that 30 years might be realistic for a deed restriction. Beyond that, changes in housing dynamics are probably too hard to predict. Bob asked whether, if someone were to own the house for 31 years, then they would be able to sell it on the open market. Beth said that hopefully CICA would be around to be involved as an “active steward” of the property to help to find an eligible buyer, whether it was in 10 or in 30 years.

Also as an active steward of the property, CICA would be involved in sales of the house as an affordable one and would be using eligibility criteria similar to what we have now – income and connections to the island.

David said that the homeowner would have to live in the house as their primary residence, though renting it out in case of unusual circumstances, such as having to move while the house is on the market, could be allowed.

Someone asked what happens at the death of the owner. Could it be inherited by heirs who were not income eligible? Beth said they would still be bound by the deed, so that they could only take out the equity that had been calculated from the CPI or the AMI. David said some other places allow the house to be inherited by someone who has been living in it for at least a year – a partner or a child, for example -- regardless of the income.

David said there are issues about how the value of capital improvements to the house get counted when the house is sold. Would there be situations where CICA itself, as an active steward, might make improvements – a new roof, for example? Donna said that CICA should not be inspecting the house or interfering with the owner. Ruth agreed. David said that there might be some necessary things, like the roof, that might be too costly for the owner and CICA might consider having a stewardship fund to help. Bob asked what happens if the owner does not maintain the house? Ruth said that is part of home-ownership. David said that CICA would continue to have an interest in the property.

Another situation in which CICA might continue to play a role would be in making sure that their documents are drafted in ways that are acceptable to banks. CICA might also help potential buyers find financing. Some places also require approval of mortgages by the affordable housing group to insure that owners do not become over-extended and are not drawn into predatory lending.

Beth said the subcommittee has also met with Jane Leonard about 226. She says that on the open market she would offer the house at \$230,000 to \$235,000, with the expectation of selling it for about \$200,000.

David summarized that for selling 226 we have been thinking in terms of using our \$70,000 interest in the house to write down the offering price. Then we would use the CPI/MFI formula approach for calculating the yearly appreciation. We want to do some research on the relationship between the CPI and MFA. But the idea is to use whichever has had the greatest growth, in order to give the owner of the house the greatest appreciation within the growth of incomes.

Donna said she thought that no one would buy a house with restrictions like this. Who knows whether CICA will continue to exist. Bob said that we made an arrangement with the Town on SHR if CICA ceases to exist, since there is a deed restriction with MSHA about affordable rental for 30 years.

Deb said we are trying to keep owners from getting a windfall. Ruth said that there is nothing that says that someone who is income eligible to buy the house cannot get rich while they live in it. This is ok. But they still won't get more equity out of the house than the CPI or AMI. Deb said it would be important to be sure that an inheritor would be bound by the deed restriction when they do decide to sell.

Bob said that we could treat any ownership as a “sale” whether it was a plain sale or the death of the owner. We want to keep the house in the affordable. Beth said that it is important to attach the CICA subsidy to the house itself, so that the price only goes up by the CPI or the AMI. This would keep it affordable to moderate income buyers and CICA would retain the value of its subsidy.

Donna said that the owner should be able to add anything they want to the house – a new bedroom, a granny flat, or whatever. Beth said that she understood that one of the problems of Smalls Brook

was that the residents made a lot of improvements and their value was one of the factors that pushed the houses out of the affordable market. Donna said that if the owner spends \$100,000 on an improvement, and is limited to the increase in the CPI, then they will only make the improvement if they are willing to give the improvement to the next owner.

Mabel asked what happens to the appreciation if incomes in general go up? David said that that would be reflected in the CPI index.

David said that the subcommittee thinks it is time to go talk to Cito Selinger. We will have a clear proposal and will be able to explore some of the details that we have just been discussing with someone who had a good deal of experience with these options. He also said that the fears that people will not find the CPI/AMI index approach attractive enough may be over-anticipated. On Islesboro there is a fairly old affordable project where the houses sell for about \$60,000. The first owners got some appreciation when they sold, but current ones get none and do not seem to object. He and Donna discussed which project on Islesboro this is.

Bob said that putting 226 on the market in the spring when SHR will come on line will work better than trying to sell in the winter. Deb said that we want to have a plan that will give the owner equity in the house so that they will love it and give it good care. She thinks it will also be useful to have the plans for the deed restriction worked out before we talk to any prospective owners. Donna said that the more restrictive the deed restrictions are, the more skittish bankers will be about lending. Bob said that Liza had said that there are some bankers that are more receptive. Camden National may be one, but so may other small banks.

## **2. Review of the role of the Year-Round Housing Committee in decisions related to SHR project going forward.**

Beth introduced this as an issue of whether the Committee functions as a policy committee or a detailed building committee. There was silence. Bob broke the ice. He said that one of the issues appears to be how much information is shared about the details of the various bids. As a builder/contractor he said he is hesitant to share information about bids. In a small community having that information out in the public can be a slap in the face for some of the bidders. Deb said that if she were having Bob build a house for her, as the client, she would expect to have this information. Bob said that his approach to building and working with clients is different. He uses the initial design process to get agreement with the client on the cost of the house and then he would discuss with bidders how to get to that price.

Donna said that is a model for a private business. But this project is a public process. She said she had talked to John Wilson back in the summer when he was approaching builders to bid for the job of contractors. But then she didn't hear anything about what happened and didn't find out till considerably later that Bob had been chosen as the contractor. Several other people said that there had only been one other bid and that the bidders themselves had said that CICA should just hire Bob. Bob said he was sure that the decision about hiring the contractor had been discussed at a Housing Committee meeting. Donna said that for her it was a communication issue, not a matter of who was chosen. It was not a decision made by the Committee.

Mabel said that maybe the names of the bidders are not important, but the bids themselves are. Donna disagreed – if this were a Town project, there would be public bidding. The library and the Hall and Museum all had building committees that made the decisions. They did not hire an

architect to pick out the carpets and doors. At the Rec Center there was a committee that did this. She was not prepared to hire a whole suite of professionals for this project.

Bob said that the driver in the process was that we had to get things done quickly. Dale McCormack of MSHA said at the very beginning that the projects needed to be done quickly – shovels had to be in the ground by the beginning of last summer.

Donna raised the issue of the new ADA requirements. She had heard at the Island Institute that if we put the foundation in the project would be deemed to have started. Bob said that it is now too late to do the foundation this winter. We would have to build a roof over it to keep it from the winter weather. This would be expensive.

Deb asked whether, if we had to meet the ADA requirements, would we go back to Keiser. Bob said that meeting the ADA requirements would require a different design, probably not two stories. But we would have a problem getting a duplex then because the land that we can build on is narrow – just wide enough for the two-story building and the septic system. Deb and Donna asked what would be the cost of doing the design work again. Bob said he was not sure, but it would involve a new set of negotiations with MSHA and Keiser.

Donna asked if the driveway is done. Bob said it is not done yet but Wayne will finish it this fall. Mabel asked whether gravel from the site is being used in the driveway. Bob said MSHA had agreed to let them use it and it is being used.

Bob said that he has asked Norm Fecteau at MSHA whether the work we have done on the project already – the planning, the clearing of the site, the road and the well is enough for MSHA to consider us “started”. It is best to get a clear answer from them, since they are the ones who administer the program.

Beth said that she had a piece of good news. She opened an envelope from the Maine Community Foundation last week and out fell a check for \$6,000 from the Island Challenge Fund. Liza had worked with them to use that money for the island affordable housing projects, including us. Bob said it was not quite as much a surprise to him, but he thought from what Liza said that the extra money was coming from MSHA. It brings the grant total to \$356,000.

Deb said she thought that the money we asked MSHA for was \$400,000. Bob said that the original amount from MSHA was \$175,000 per unit or \$350,000. Deb said she had been unhappy that we did not stay within that amount when we said at the beginning that we could. Bob said that if the project had had a design phase and we had known all the MSHA structural requirements at the beginning we could have done that. What happened was that we looked at similar buildings from Keiser and KBS. We knew we needed to have a driveway, a septic system and a well but we thought there would be plenty of money for those things and the building. We went to both factories and were more impressed by Keiser. MSHA was pushing us along but they were just getting the specs prepared at the same time. Keiser did not see them till after we had chosen them as the builder. The MSHA specs made the costs higher.

He gave the example of the basements. You can't put a manufactured house on a slab, so he thought a crawl space would be the most economical option, costing about \$15,000. But then it turned out that it had to be insulated, waterproofed and fireproofed. That made it almost as

expensive as a full basement which would be 20,000. And MSHA was going to require us to have more storage space, so we ended up with basements. Deb summarized: it was an issue of our not knowing the MSHA specs at the beginning. Bob agreed that it would have been better to have started the design with the specs in hand. He said that the original \$350,000 building now costs \$390,000 with \$18,500 in construction contingency and rent-up funds that may not have to be spent. This makes the whole project \$89,000 more than the grant total.

Donna asked whether MSHA requires three bathrooms. Bob said they do not and we went to 2.5. Donna said that is a luxury; what if we went to 1.5 taking one out of the upstairs – lots of houses on Chebeague don't have that much. Bob said he did not see 2.5 as a luxury if you have a family with teenagers or more than two adults. Donna said we could use the bathroom for storage. Bob said we still need outdoor storage. Deb said that these are very grand houses for Chebeague. Donna said that it is no wonder that the State treasurer is investigating the cost of MSHA projects.

Deb said that now the proceeds of the rentals for SHR will have to be used to pay the mortgage. That means we can't explore other projects like having yurts. Bob asked if Deb had run those numbers. She said no. Bob said that John's estimate is that half of the rent of one of the units will have to be used to pay the mortgage. David said that in the end CICA will get \$356,000 in grant money and will have paid \$70,000 to \$80,000 of its own money for two three-bedroom homes. This is not a bad deal. However, MSHA is a pain. He left.

Bob summarized that island bidders had been chosen for all the subcontractors – carpentry, electrical and plumbing. Some, but not all of these bids were initially the lowest bids, but he talked with the island contractors about the other bids and they were able to lower the price.

### **3. Effect on SHR of new ADA requirements.**

This was discussed under 2.

### **4. Pet policy for rentals**

Beth suggested that this be taken up at another meeting.

Respectfully submitted,

Beth Howe