

***Creating Self - Sufficiency for
Limited Equity Housing Cooperative Owners***

Final Report and Assessment of CED Project

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INTRODUCTION

The purpose of this report is to document my experiences in preparing a plan that uses a Community Economic Development (CED) strategy for preserving and sustaining Limited Equity Housing Cooperatives (LEHC) as affordable housing for low-income people in the District of Columbia.

It covers the following topics:

- The Project Description describes how the project was designed
- Background provides information about conditions that produced the problem addressed by this project
- The Problem Statement gives a succinct definition of the problem and potential consequences
- The Goal Statement offers the solution identified by the project
- Statement of Objectives spells out the steps taken to accomplish the goal
- Output Expectations and Input Expectations lists, planned activities and results
- Project Change explains changes made and reasons
- Problems Facing LEHC expresses the current status of LEHC
- Lesson Learned provides evaluation of the lessons drawn from assessment of the project
- Next Steps identifies future direction
- Conclusion summarizes value and benefits of project

In developing this project, the CED Program's course work gave me focus, clarification and direction. The majority of my classes applied directly to this project.

Even though this report is a product of sixteen months of intense study of Community Economic Development, it represent only a fraction of the vast amount of knowledge and confidence I have gained from my participation in this program. It is my hope that this report will be useful to others who may be confronted with similar issues and concerns.

PROJECT DESCRIPTION

This project was designed as a course of action to help ameliorate the harmful impact of government cut backs of affordable housing subsidies. It outlines a plan for creating an income generating business for subsidy dependent owners of Limited Equity Housing Cooperatives.

This plan had two-phases to it:

- Phase I - Research and design
- Phase II - Funding and Implementation

This report summarizes my efforts in developing the first phase of this project. The core of the plan is captured in the attached business plan and funding inquiry.

BACKGROUND

Despite all of the talk about economic expansion during the last seven years, low-income residents of the District of Columbia continue to face a future of worsening conditions.¹ Fifteen percent of the population,² higher than the national rate,³ lives in poverty. "One-third of the city's children live in poverty."⁴

Poor residents experience a severe shortage of affordable housing. "Twenty percent of renters pay 70 percent of their income on housing."⁵

About two thirds of the housing stock in the District of Columbia is rental. During the early 1980s, low-income people were driven from their homes and neighborhood as one apartment building after another converted to high-income condominiums or luxury rentals.

The government's response to this widespread practice of displacing low income renters was to pass a law, the Rental Housing Conversion and Sales Act of 1980, giving tenants the first right to purchase a building when the owner puts it up for sale or "discontinuous of use" as a rental property.

This law, along with creative financing and deep subsidies helped stabilize the displacement process and made available to tenants the opportunity to own their buildings as a group and gain some control of their housing.

The outgrowth of this law was a proliferation of Limited Equity Housing Cooperatives. A Limited Equity Housing Cooperative (LEHC) is a form of collective ownership of a property, usually a multi-family property. The owners purchase shares in a corporation that owns the

property. The LEHC structure restricts the resale value of the share, therefore limiting the amount of profit that can be made when the share is sold. Today, there is an estimate of 12,000 units of LEHC in the District of Columbia.⁶

The LEHC is a unique form of ownership. It provides low-income people with an opportunity to participate in the "American Dream" of home ownership, which for most poor people is an unattainable goal.⁷ "Limited equity cooperatives are "... valuable vehicles for extending home ownership and empowerment opportunities for low income households."⁸ In most instances, they:

- Help improve the living conditions of the owners;
- Provide owners with control over their housing circumstance;
- Give owners a sense of community, a greater degree of empowerment and
- Receive an eligibility to deduct from their income taxes their share of the interest paid on the mortgage and real estate taxes.

However, while LEHCs do provide low-income people with a more stable environment and more control of their housing situation, they restrict the individual's ability to benefit economically from equity appreciation. Also, in most instances, the low-income owner is dependent upon heavy governmental subsidies in order to maintain the financial security of their corporation.

Government subsidies, like project based Section 8, and individual certificates or vouchers, are so under attack by legislators that their availability is uncertain and temporary. In the District of Columbia, a large number of LEHCs either use project based subsidy or their low-income owners are heavily dependent of some amount of government assistance. This arrangement makes the continued financial well being of the LEHCs uncertain and unpredictable. Dependence on subsidies erodes the self-sustaining nature of the housing cooperative. Even though the low-income owners' immediate living conditions have been improved, the threat of a setback always looms imminent.

With more than 100 LEHCs and an estimate of 12,000 units in the District of Columbia,⁹ owners have a unique opportunity to create sustainable cooperative businesses for themselves and other members. They are in a position to provide most of the services needed by their properties. One 27-unit LEHC spends a minimum of \$5,000 a year just on janitorial service.¹⁰ This example offers a small glimpse of the potential within the LEHC community. There are

other economic or business advantages presented to LEHC owners, which could raise their income levels. At the same time, they could provide the LEHCs with the independence they need to continue to be an alternative to an unsteady housing market and the opportunity for home ownership for people with very low incomes.

My project proposes the following:

- The development of a sustainable worker-owned janitorial cleaning cooperative that would provide a substantial number of jobs for LEHC owners;
- That the ownership of the business be held by individual shareholders of LEHCs and;
- That the targeted market of the janitorial and cleaning business be LEHCs

PROBLEM STATEMENT

The problem statement was the following:

If no solution is found in the next four to eight years and the trend of government cut-backs of aid to low income people continues, then a substantial number of LEHCs will experience the following problems:

- Financial collapse of the corporation
- Dissolution of the LEHC
- Owners will lose control of their housing situation
- A possible loss of units from the affordable housing stock
- Possible increases in homelessness

GOAL STATEMENT

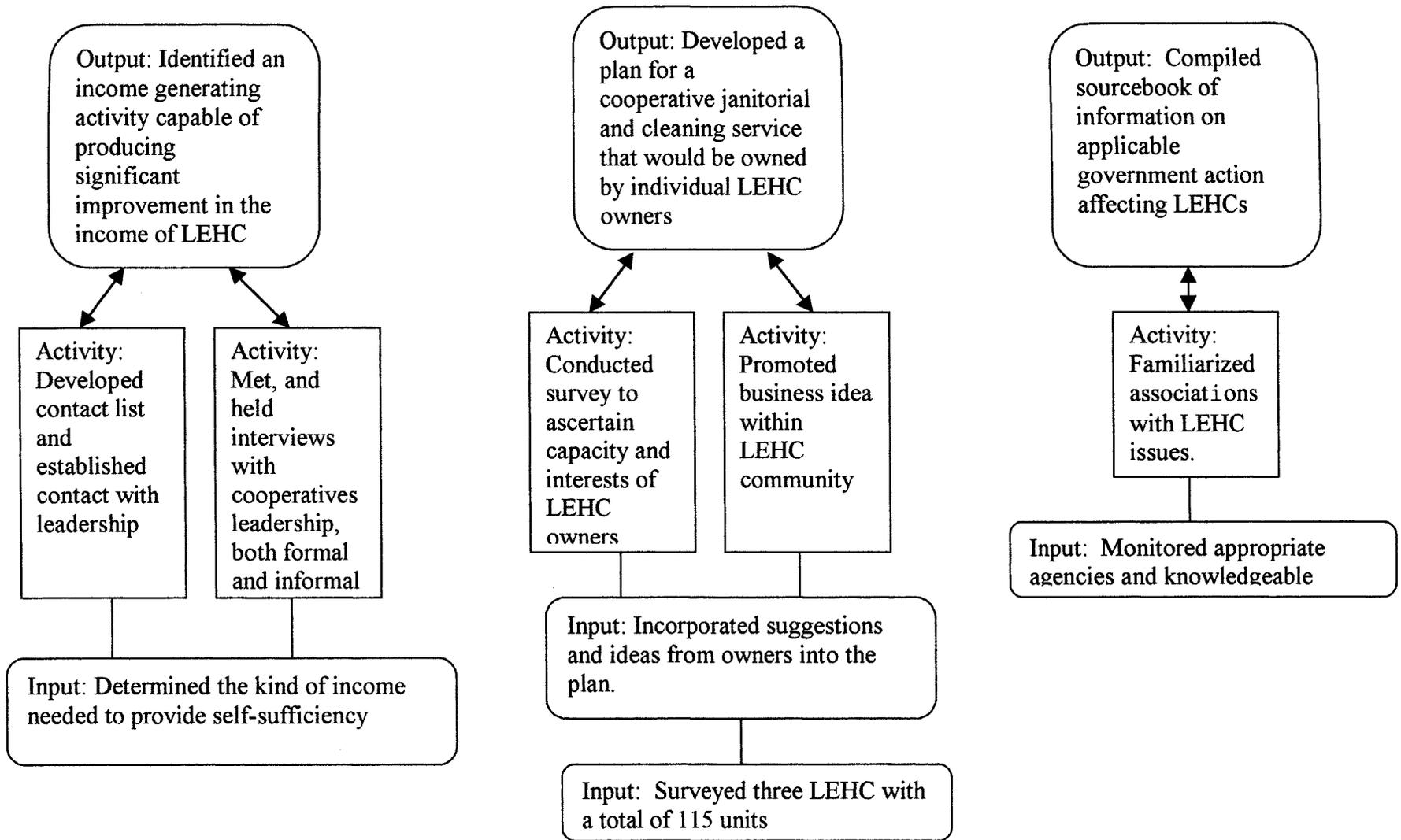
The goal of the project was:

To develop a plan for the creation of a sustainable income generating source sufficient enough for LEHC owners' to eliminate dependence on government subsidies.

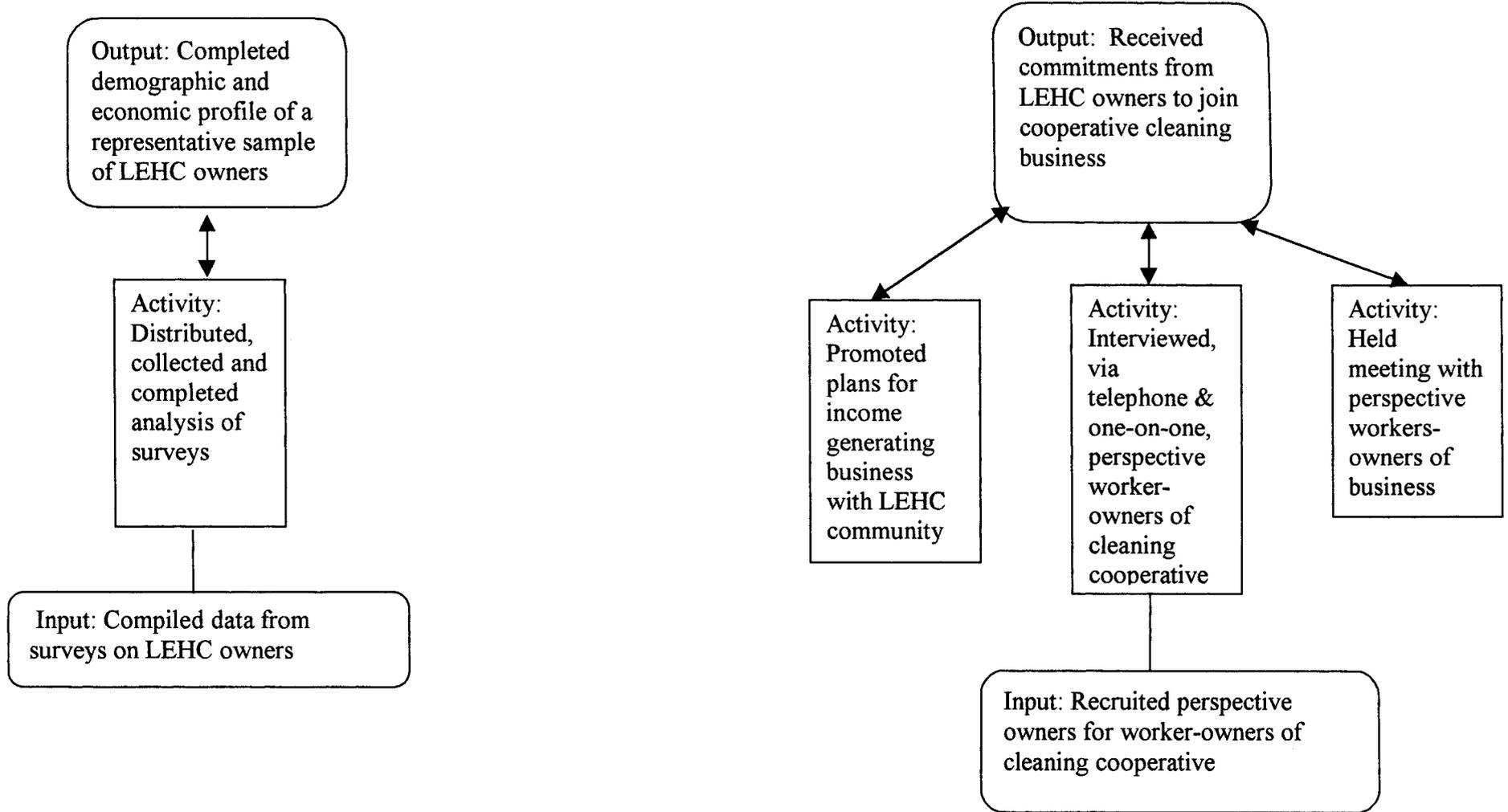
STATEMENT OF OBJECTIVES

- ① To identify a sustainable cooperative business opportunity for LEHC owners
- ② To initiate an information campaign to increase awareness of the need to eliminate dependence on government subsidies and create a positive climate for the creation and participation in a cooperative owned cleaning and janitorial business
- ③ To develop plans for an ongoing cooperative business training program for owners-employees and perspective owners

Output, Input, Activities & Results



Output, Input, Activities & Results



PROJECT CHANGE

Over the course of the program, I found it necessary to re-evaluate and modify my original project mission. Initially, my desire was to create a cleaning cooperative before I finished the program. I quickly learned it was unrealistic, for some of the following reasons:

- Lack of organizational infrastructure and support;
- Course work helped me realize that I did not have enough knowledge or experience to take on such a project without organizational support.
- I was seriously hampered by the financial crisis of my job;

During the course of this program, the organization lost all of its funding, board and staff except me;

- The lack of an organizational structure to work in;

The final mission to implementing the project in two stages worked to my advantage. It challenged me to be realistic.

LESSONS LEARNED

- Dramatically fewer units of LEHC are being developed in D.C. because of the unwillingness of lenders to finance them and the paucity of government subsidies.
- There is no centralized record keeping or tracking of LEHC in D.C.

OTHER LESSONS LEARNED

Because of the in-depth examination of all aspects of CED projects coupled with my organization's financial crisis, I understand the necessity for a balancing of the economic component of development with the human element. My professional experience has been focused primarily on the people aspect of development.

I have learned the hard lesson that CED sustainability requires equal attention to the "C" and "E". Other valuable lessons learned from this experience include an understanding of the

significant role Community Economic Development plays in democratizing local economies, particularly through worker-owned and community-owned and controlled enterprises.

Community Economic Development is a valuable vehicle for helping to combat poverty and its devastating impact on poor people and their communities.

This project and program strengthened my belief that an economic cooperation movement, led by those who are directly affected by poverty, can play a critical role in its elimination.

Learning to identify physical and human assets of a community, as well as its strengths and weaknesses, have helped develop my competence in organization and community capacity building and sustainability.

This project and the CED Program in general have given me the confidence to pursue fully my participation, as a CED practitioner, in the cooperation movement.

NEXT STEPS

- Solidify the momentum and knowledge gained from completing this project
 - Continue study and research
 - Sharpen skills and techniques
 - Through workshops, classes and seminars
- Strengthen the weaknesses in this project
 - Include more LEHCs owners' involvement
- Use the project as a foundation to launch the cleaning cooperative

CONCLUSION:

Because I understand “empower” to mean, to “give power or authority, to enable”, I recognize that cooperative development is a vehicle of Community Economic Development for empowering low-income communities to bring about change in their lives. Worker – owned cooperatives are unique in the opportunities they provide low-income people.

Economic participation:

- Allows a greater number of people to become entrepreneurs
- Source of jobs that keep money circulating in the community
- Equitable share in the fruit of their labor
- Control over working conditions
- Stabilize employment
- Personal assets building

Human Growth Potential:

- Because the role of the worker-owned cooperative is holistic or circular, it provides an opportunity to expand the worker-owner's knowledge of business, laws, management, etc.
- Personally rewarding
- Requires leadership development and enhancement

1

Editorial, "The Income Gap," The Washington Post 2 Oct. 1997: A14.

2

D C Action for Children, What's in it for Kids? (District of Columbia: 1998) 7.

3

Barbara Vobejda and Clay Chandler, "Household Income Rise Again," The Washington Post 30 Sept. 1997: A1.

4

Editorial, "A Bill of Rights for Our Children" The Washington Post 5 Dec. 1999: B08.

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Brad German, "Living On The Edge," Builder July 1990: 55.

6

Ann Mariano, "Values Rise for D.C. Co-ops, Fall for Single-Family Homes Over Two-Year Span," The Washington Post 11 Mar. 1995: E6.

7

McAuley Institute, Unlocking The Door II: a Call to Action (District of Columbia: The Women Task Force, 1993)7.

8

Barbara Lynne Ronnow-Bunker, "Limited Equity Cooperatives: A Multiple-Site Case Study of Resident Perceptions and Patterns of Participation," diss., The George Washington University, District of Columbia, 1998 9.

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"L" Street Cooperative contract with Centennial One, Inc. Nov. 1993.

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3. DC Action for Children, What's in it for Kids? (District of Columbia: 1998) 7

4. Barbara Vobejda and Clay Chandler, "Household Income Rise Again," The Washington Post 30 Sept. 1997: A1

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7. McAuley Institute Unlocking The Door II: A Call to Action (District of Columbia: The Women Task Force, 1993) 7

8. Barbara Lynne Ronnow-Bunker, "Limited Equity Cooperatives: A Multiple-Site Case Study of Resident Perceptions and Patterns of Participation," diss., The George Washington University, District of Columbia, 1998, 9

9. "L" Street Cooperative's contract with Centennial One, Inc., Nov. 1993