Compensating and Incentivizing Homeowners while Preserving Affordability to Future Owners

An Analysis of Policy Options
Presented to the Madison Area Community Land Trust

April 29, 2008

Created by Professor Alexander's Community Economic Development class
University of Wisconsin Law School © April 2008

Class Project Team
Emily Gold
Katie Kislolek
Waladeen Norwood
Michael O'Callaghan
Blake Olson
Mark Schmitz
Bill Symes

Supervised by
Professor Lisa Alexander
DISCLAIMER

This guide is intended to provide Troy Gardens Homeowners' with answers to commonly held questions about homeownership at Troy Gardens. Law students at the University of Wisconsin Law School prepared this guide in consultation with Assistant Professor of Law, Lisa T. Alexander, and the Executive Director of the Madison Area Community Land Trust Greg Rosenberg. THIS DOCUMENT IS NOT INTENDED TO PROVIDE AND DOES NOT PROVIDE SPECIFIC LEGAL ADVICE. THEREFORE, YOU SHOULD CONSULT WITH YOUR ATTORNEY or LEGAL ADVISOR or A REPRESENTATIVE OF THE TROY GARDENS STAFF REGARDING ANY SPECIFIC ISSUE THAT PERTAINS TO YOUR SITUATION. YOU SHOULD ALSO CONSULT AN ATTORNEY OR LEGAL ADVISOR TO ENSURE THAT YOU ARE IN COMPLIANCE WITH ALL OF THE RULES AND REGULATIONS THAT APPLY TO YOUR SITUATION. ADDITIONALLY, ALWAYS LOOK TO THE KEY HOMEOWNERSHIP DOCUMENTS FOR SPECIFIC LANGUAGE AND ANY CHANGES IN POLICY.
# Table of Contents

Executive Summary.......................................................................................................................... 2

Introduction

How do capital improvements differ from ordinary maintenance?.................................................. 4

How does a capital improvement policy work with a resale formula?.............................................. 4

What should be the goals of a capital improvement credit policy?.................................................... 5

Major Components of a Capital Improvement Policy

What percentage of a capital improvement expense should accrue to homeowner’s equity?................. 6

Which improvements should qualify as capital improvements?....................................................... 6

Should a homeowner be required to get approval before beginning a capital improvement?............. 8

Should the size of the credit be based on what the homeowner spends or the appraised value of the improvement? .................................................................................................................. 8

Should the credit be capped at some amount in order to preserve affordability into the future? ........................................................................................................................................ 9

How should the credit be applied to the resale price calculation?................................................... 10

In which legal documents should the capital improvement credit be included?............................. 10

Recommendations for Madison Area Community Land Trust

Recommended policy components...................................................................................................... 11

Goals Matrix....................................................................................................................................... 13

Appendices

Appendix 1. Summary of capital improvement policies of various CLTs............................................ 14

Appendix 2. Documentation of other CLT Capital Improvement policies......................................... 17
CAPITAL IMPROVEMENT CREDITS IN A COMMUNITY LAND TRUST

Compensating and Incentivizing Homeowners While Preserving Affordability to Future Homeowners

Executive Summary

A capital improvement credit is a mechanism for Community Land Trusts (CLTs) to encourage their member homeowners to undertake significant improvements to their property by raising the formula price on resale restricted homes by the amount of the credit. Although there are many possible configurations, a policy should be drafted to reflect the goals of stewardship, fairness, and simplicity.

In considering a capital improvement policy, MACLT will need to answer the following questions:

Questions

- What percentage of a capital improvement project should be included in the credit?
- Which improvements should qualify as capital improvements?
- Should a homeowner be required to get approval before beginning a capital improvement?
- Should the size of the credit be based on what the homeowner spends or the appraised value of the improvement?
- Should the credit be capped at some amount in order to preserve affordability into the future?
- How should the credit be applied to the resale price calculation?
- In which legal documents should the policy be written?
Based on research of other CLT practices and in keeping with the goals of stewardship, fairness, and equity, the authors recommend the following provisions be included in a capital improvement policy for capital improvements:

**Recommendations**

- Credit homeowners with the increase in market value to the home resulting from the project.
- Require homeowners who wish to apply for the credit to obtain an appraisal before and after the project.
- Limit eligible projects by providing a list of pre-approved improvements and a process for submitting other proposed improvements to the board for approval if they will significantly add to the value of the home.
- Limit the amount of capital improvement credit that can be applied to any one home.
- Adopt the capital improvement policy as an amendment to the declaration of restrictive covenants.
- Adopt a *separate* retroactive policy for homeowners who have already undertaken significant improvements.

These recommendations are based on the information we have about MACLT and the assumptions we made regarding competing goals. While this report includes some specific recommendations, we acknowledge that MACLT may place different weights on the competing goals than the authors of this report did. A different balancing of goals may result in different choices by MACLT. The purpose of this document is to organize information in a way that, even if MACLT chooses not to follow its recommendation, the report can still guide the organization to make its own decision.
Introduction

How is a capital improvement different from regular maintenance?

Community land trusts usually distinguish capital improvement policies from regular maintenance requirements. Many CLTs require their members, whether they be homeowners or renters, to keep their homes in good repair. CLT members often need to spend money to paint interior walls, keep sinks and showers in good working order, or service major systems such as a furnace or air conditioner. Some CLTs even have programs designed to assist homeowners with this type of maintenance. These programs often take the form of a maintenance fund that members can apply to for reimbursement of their maintenance expenses. The OPAL land trust in Orcas Island, Washington, maintains such a fund.

Capital improvement policies, on the other hand, address the larger kinds of investments that are made from time to time to preserve the long term value of a home. These kinds of investments could potentially include replacing heating or cooling systems, upgrading flooring, replacing kitchen cabinets, finishing a basement, or even building an addition to the home. Among CLTs, there is wide variation in the kinds of projects covered by a capital improvement policy. The basic element that these policies usually share is the mechanism for compensating homeowners for these expenses. Instead of providing funds for a project or a cash reimbursement upon completion, a capital improvement policy provides the homeowner with a credit for a specified dollar value. When the homeowner sells the home at a later date, the capital improvement credit is taken into account in determining the resale price of the home. After taking the capital improvement credit into account, the homeowner is eligible to receive a higher price for the home than would otherwise be dictated by the formula.

How does the capital improvement credit affect the resale formula?

CLT resale formulas come in many different varieties. Some, like the one employed by Madison Area Community Land Trust at Troy Gardens, repay the homeowner the amount of his or her initial equity investment in the home, plus a percentage of the growth in market value of the home during the time that the homeowner lived there (twenty-five percent, in the case of Troy Gardens). In this way, the homeowner captures some of the benefit of increasing home prices, while the CLT preserves the ability to make the home available to a new tenant for considerably less than the market rate. This is commonly called an equity restricted resale formula.

But an equity restricted resale formula is, of course, not the only way to construct a resale formula. Some CLTs use a different model based on the replacement cost of a home:

"The lessee shall accept an offer from the Land Trust that equals the local replacement costs of improvements less depreciation, obsolescence and damage."

- Excerpted from lease agreement of CLT in Southern Berkshires
Under such a simplified resale formula, there is no need to separately compensate the homeowner for any significant improvements they may have made to the home. This approach has the benefit of simplicity, but it limits the ability of the land trust to keep the price of the home affordable. The CLT will pay roughly the same price that an insurer would pay for replacing the structure.

In contrast, CLTs which use an equity restricted resale model (like MACT at Troy Gardens) may need to develop detailed capital improvement policies that will encourage homeowners to perform valuable updates to the home while still ensuring the goals of the community land trust. The analysis in this report is meant to assist a Community Land Trust in performing that task.

What should be the goals of a capital improvement credit policy?

The goals of a capital improvement credit policy should be consistent with the goals of the land trust itself. Although this report does not attempt to comprehensively review the goals of any particular community land trust, it is helpful to keep in mind three overarching principles: stewardship, fairness, and simplicity. To varying degrees, these are the principles that the authors of this report view as driving the capital improvement policies of the community land trusts we studied.

Each component of a capital improvement policy will impact one or more of these goals in various ways. Often the goals will be in tension. For example, the more fair a policy is, the more complicated it might become as it takes more circumstances into consideration. It will assist decision-making to acknowledge these tensions and attempt to keep track of the implications of each policy option on these goals.

Goals

**Stewardship**
Encourage homeowners to actually perform improvements.

Ensure that land trust homes remain affordable to future owners.

Limit the risk of exposure to the land trust by not promising too much.

**Fairness**
Treat CLT homeowners like conventional homeowners whenever possible.

Treat each homeowner within the same land trust equitably.

**Simplicity**
Draft an easily understandable capital improvement policy to avoid misunderstandings.

Limit transaction costs for homeowners and CLTs when actually applying the capital improvement credit.
Major Components of a Capital Improvement Credit Policy

This section examines each of the questions that must be answered in constructing a working capital improvement credit policy within the framework of a community land trust. Although there is no single best answer to each question posed here, it is part of the process for a community land trust to arrive at an answer for each when drafting a capital improvement credit policy.

What percentage of a capital improvement project should be included in the credit?

Not every CLT credits the homeowner on a dollar for dollar basis. A dollar spent on a project does not necessarily equal a dollar earned in the form of a capital improvement credit.

This is true for conventional homeowners as well. For example, a homeowner who spends ten thousand dollars finishing his or her basement may find that the resale value of the home only increases by five or six thousand dollars.

The decision of what percentage to attribute to the homeowner’s credit must be made even if following an appraisal-based method. Whether to calculate the credit amount using expenditure or appraisal is addressed in a later section.

Of course, the higher the percentage of the project that accrues to the homeowner in the form of a capital improvement credit, the more likely that homeowner is to actually undertake the project. It is up to the CLT to balance the desire to incentivize land trust homeowners with other goals such as treating them like conventional homeowners and preserving the affordability of the property to future buyers.

Which improvements should qualify as capital improvements?

As with the other issues addressed in this report, there is not a single best answer to this question. Different land trusts choose to include different projects in their policies, but three general approaches are frequently employed: (1) anything goes; (2) value-added; or (3) pre-approved lists.

- **Anything goes approach.** This approach is characterized by circumstances wherein any home improvement could potentially qualify for a credit. The Whistler Housing Authority, for example, requires homeowners to submit proposed plans for an improvement and receipts of their expenses without specifying the types of improvements that qualify. It is up to the Authority to determine if the improvement credit will be approved. In a less structured policy, the San Francisco Redevelopment Agency looks at invoices and documentation for any home improvement projects, only once the...
owner decides to sell the home, to
determine how much the homeowner
should receive for the project. This
approach theoretically provides the least
protection to the affordability of the
house for future homeowners, as the
homeowners could spend as much as they
desired on improvements (subject to
some limits in other areas of the policies
discussed in more detail below).

But another troubling aspect of such an
approach is the potential for disputes
between the homeowner and the CLT
over which expenses should be covered.
Homeowners might be under the
impression that any money they spend on
their house will eventually be paid back to
them. These situations could be
especially difficult if they occur after the
project has been undertaken.

- **Value-added approach.** Under a
value added approach, only projects
which increase the value of the home
would be eligible for a credit. The
Champlain Housing Trust, in Burlington,
Vermont, looks at the amount of market
value added by the improvement, and
credits the homeowner with that entire
amount. Some CLTs use a modified
version of this approach. These CLTs take
the lesser of the value-added amount or a
set maximum amount. By placing an
upper limit on the potential for a
homeowner to recover his or her
investment, the CLT retains some control
over the magnitude of the improvement.
The Escambia County CLT gives the
homeowner the lesser of either 1- the
market value less the pre-construction
market value or 2 - some set maximum
amount.

- **Pre-approved list approach.** Some
CLTs publish lists of approved capital
improvements that will be eligible for
credits. These lists can either be exclusive
or not, at the discretion of the CLT. The
Kulshan Community Land Trust, in
Washington, is an example of an exclusive
version; homeowners are compensated
only for major systems, livable space or a
garage. The Escambia County CLT, in
Pensacola, and the Town of Eagle, in
Colorado, are examples of non-exclusive
versions. These two have lists of included
items, but allow for potential projects to
qualify for the credit that are not on the
list. Eagle gives ten examples of projects
that are included, and others must be met
with approval. The Escambia County CLT
provides a worksheet to guide
homeowners through the process.

Deciding which projects will qualify for
capital improvement credits is once again
an exercise in balancing the competing
goals of the CLT. Using a pre-approved
list is the clearest way to communicate
with homeowners, but it may prove
inflexible. A value-added approach may
be the most in sync with the goal of
stewardship, but it is also likely to be the
most complicated.
Should a homeowner be required to get approval before beginning a capital improvement?

Again, different CLTs take different approaches. These approaches range from CLTs that always require approval before homeowners undertake any projects, to CLTs that provide a worksheet to assist the homeowner in determining on his or her own behalf if the project is eligible for credit. Some CLTs even differentiate between interior and exterior projects when determining whether advance approval is necessary.

- **Prior approval always required.** The Thistle Community Land Trust, in Colorado, requires prior approval for all projects. If the homeowner fails to do so, he or she will not get a credit.

- **Checklist of steps to meet before construction.** Escambia County CLT uses a worksheet to guide the homeowner through the appraisal and approval process.

- **Interior or exterior projects.** The BCLT, in Vermont, requires a notification if the homeowner plans to do any work to exterior walls, roof and basement. Similarly, Burlington has a policy that applies to exterior surfaces as well.

Potentially, the credit could be given retroactively, although no CLTs examined in this report adopted such a provision in their policies. A major reason to disallow retroactive credit is that it may discourage homeowners from using the established process. Following the steps set forth by the CLT may involve added work for the homeowner, and he or she may circumvent the process if there is still a chance of getting credit.

On the other hand, granting a limited retroactive credit is probably necessary for MACLT to deal with some of its particular challenges. When homeowners at Troy Gardens were given the chance to opt for upgrades during the construction of their homes, the resale formula counted them as part of the initial investment in the home. Those homeowners may be able to capture nearly the full value of these upgrades at the time they resell their homes. Other MACLT homeowners may have made improvements very similar to those construction upgrades since they purchased their home.

It is possible to attempt to draft a capital improvement credit policy that would address not only future capital improvement projects, but also those that have already been undertaken. In the interest of treating all CLT landowners equitably, this may seem necessary.

It may be advisable, however, to address past capital improvements in a separate policy. In this way, a separate set of criteria could be applied to past improvement projects, in order to credit projects that very closely resembled construction upgrades. Going forward, future improvements could be required to conform to the new capital improvement policy that MACLT chooses to implement.

Should the size of the credit be based on what the homeowner spends or the appraised value of the improvement?

This question addresses what is likely the most substantive variation among capital improvement policies, and the CLTs reviewed as part of this report are split relatively evenly as to what the answer should be. Roughly half base the credit on the amount spent in completing the project.
The others utilize some sort of appraisal method to calculate how much value was added to the home by the project.

On one hand, giving a homeowner credit based on how much he or she spent on the project is simple and straightforward to execute. Drawbacks of this approach include the necessity to calculate sweat equity in a separate way. For example, a homeowner who hires someone to finish his or her basement will spend more than one who does the work on his or her own. Thus, under the expenditure method, they would receive different amounts of credit. This could be an unfair result, as the homeowners have each added the same amount of value to their homes. However, several CLTs follow this method:

- The San Francisco Redevelopment Agency looks at the expenditures of the homeowner to award the credit.

- The Kulshan Community Land Trust similarly looks at the expenditures but limits the scope to a fifty percent improvement to a major capital system.

The Town of Eagle is very similar to the above two examples, but this land trust takes into account sweat equity. The homeowner can add ten percent if no labor charge is included in the project.

On the other hand, the appraisal method treats CLT homeowners more like conventional homeowners. Typically an appraisal is required both before and after the project to determine how much the project actually added to the resale value of the home. The main drawback of this approach is the added cost and difficulty of obtaining appraisals. The cost of hiring an appraiser may discourage homeowners from undertaking projects because the value of the credit will be diminished by the costs of obtaining the appraisals.

- The Burlington CLT requires an appraisal before and after the project at the homeowner’s expense. The appraiser must be approved by the Vermont Home Mortgage Guarantee Board.

- The Champlain Housing Trust specifies that the appraisals must be well documented in order for the increased appraisal to be applied at the time of sale.

Should the credit be capped at some amount in order to preserve affordability into the future?

Caps of this nature are relatively common in capital improvement policies, and usually come in one of two forms: a limit for any one project and/or a limit on the total capital improvement credit that will be applied at the time of resale.

When the credit limit is based on a single project, it can be done in proportion to the cost of the home or project, or as a straight dollar limit. A straight dollar limit simply sets an amount over which the credit will not be granted. This is easy to enforce, but may discourage more elaborate projects unless the limit is quite high.

Interestingly, San Francisco also sets a lower limit which could discourage smaller projects. The San Francisco CLT limits the credit for any one project to between half a percent and ten percent of the original purchase price of the home.
The other main form of limitation, setting a total limit at the time of resale, is slightly more complex. The homeowner could do one very large project or many smaller projects with the same result to the resale value. The Burlington CLT limits the credit to no more than the difference between the formula price and an upper limit imposed by the state affordable housing program. The Whistler CLT also uses a total limit at time of resale. The Whistler CLT limits the amount of the improvement credit to $1000 per year owned. This allows the homeowner to continually invest in the home in proportion to the amount of time he or she lives there.

Finally, a limit that is commonly found in CLT capital improvement policies is demonstrated by the Escambia County CLT. Escambia explicitly limits the amount of capital improvement credit that can be applied to the resale price so that the formula price cannot exceed the market value of the home. While this may seem logical even without being stated, it may be helpful to the CLT to include such a limit in the policy, especially in the event that home values decrease. In that scenario, it is more likely that a homeowner may have more capital improvement than can actually be applied at the time of resale. An explicit statement in the capital improvement credit policy that addresses this situation will help to ensure that all parties understand this limitation.

How should the credit be applied to the resale price calculation?

The credit could either be paid separately before the resale formula is applied, or it could simply increase the potential maximum resale price.

Under a typical resale formula, if the home’s value appreciates enough, the distinction is moot. For example, consider a home initially purchased at $100,000, which appreciates to $150,000 before the homeowner intends to resell. If the value of the capital improvement credit is $10,000, the homeowner will get $10,000 added under either version. He or she will either get $10,000 up front or $10,000 will be added to the resale price.

On the other hand, if the home’s value does not appreciate significantly, there is a need to allocate the risk. If the credit is paid separately before the resale formula is applied, the risk is allocated to the CLT. No matter what the house would sell for, the CLT has to pay the credit improvement amount.

In the preceding example, assume that instead of appreciating significantly, the home’s value only increases to $105,000. Here the CLT would have to pay $10,000 to the homeowner, but the resale value would only increase by $5,000. Therefore, the CLT would lose money on this transaction. If the credit simply increases the potential maximum sale price, the price would be increased by $10,000, but it would still be limited by the market value. Therefore, the homeowner would bear the risk of the market much like a typical homeowner.

In which legal documents should the capital improvement credit be set forth?

The capital improvement credit could be an amendment to a recorded document or a separate contract. Current homeowners may prefer a separate contract that clearly sets forth the terms of the new capital improvement policy. This way, the current homeowner only needs to evaluate the small additional contract instead of having to reassess the entire recorded document to which the amendment attaches.

While having a separate contract might be less complex to current homeowners, it presents
other difficulties. For example, it may not be as legally sound as amending the recorded document. This may lead to problems in the future if the contract is not carefully attached at times of resale. Using an amendment to a recorded document solidifies the capital improvement policy more securely for future homeowners.

Troy Gardens’ resale formula is currently in the declaration of restrictive covenants. Any amendments to the policy are governed by section 3(b). This section explains that mortgage holders have the right to approve amendments to the policy. Homeowners would not likely be adverse to a capital improvements policy as it is in their best interests to be rewarded for investment in their homes. Therefore, it is simply a matter of time and effort to get them to approve the capital improvement amendment.

In the future, using an integrated resale price formula and capital improvement credit policy in the ground lease might be the best way to ensure continuity.

Recommendations for MACTL

The Goals Matrix

This report frames the process of drafting a capital improvement policy as answering a series of questions. The goals matrix that appears at the end of this section is an attempt to visually track the impact of each answer on the competing goals of stewardship, fairness, and simplicity. The shaded areas in the chart represent the decisions that arguably serve each goal better.

Although we have partially filled in the matrix with explanations in some areas, it can be a valuable exercise for the individuals involved in the decision making process to add their own comments to the matrix where they see a particular impact.

Our List of Recommendations

The following list of recommendations for a capital improvement credit policy is based on our research into the practices of other community land trusts and affordable housing organizations. It also reflects the authors’ balancing of goals. It is important to acknowledge that the MACTL community may choose to apply a different balance of those same goals to arrive at different conclusions.

We hope that these recommendations serve as a conversation starter and that this document will be helpful in focusing the discussion of how to best serve the entire land trust community.
RECOMMENDATIONS FOR MACLТ

1. *Credit homeowners with the total amount of the project.*

   This choice is simpler than establishing varying percentages for different projects. Future affordability can still be achieved by imposing a cap on the total amount of credit. This will probably be easier for all parties to understand.

2. *Require homeowners who wish to apply for the credit to obtain an appraisal before and after the project.*

   This is better than calculating the credit based on the amount spent on the project. It encourages only projects that result in added value, and establishes a neutral party to perform that evaluation. However, this requirement will result in added expense to the homeowner.

3. *Limit eligible projects by providing a list of pre-approved improvements and a process for submitting other proposed improvements to the board for approval if they will significantly add to the value of the home.*

   Not every improvement project that increases the market value of a home would necessarily be in keeping with the goals of a community land trust. This requirement allows the CLT to exercise some guidance over improvements, although it comes at the expense of homeowner autonomy. Additionally, a list of pre-approved improvements will be useful not only for homeowner’s quick reference, but will also streamline the approval process for many common projects.

4. *Limit the amount of capital improvement credit that can be applied to any one home.*

   This is the better method of ensuring that the affordability of CLT homes is preserved. It is also the easiest and most transparent way to communicate this limitation to homeowners. Because the actual limitation likely depends on a more detailed review of MACLТ’s situation, no specific dollar value is recommended here.

5. *Adopt the capital improvement policy as an amendment to the declaration of restrictive covenants.*

   This is the simplest way to ensure consistent application of the policy for all future projects.

6. *Address retroactive credit through a separate policy.*

   This allows for different criteria to be applied to past projects that were similar to upgrades made by some homeowners during construction. It allows for a simpler policy to be applied to future improvements.
APPENDIX 2
DOCUMENTATION OF OTHER CAPITAL IMPROVEMENT POLICIES

Kulshan Community Land Trust – Kulshan, WA
Sample Ground Lease.......................................................... 18

Burlington Community Land Trust- Burlington, VT
Excerpt from Sample Ground Lease..................................... 21

City of Lakes Community Land Trust – Minneapolis, MN
Sample Amendment to Ground Lease.................................. 25
Exhibit C – Summary of Capital Improvement Credit Amendment...................... 29

Division of Housing, Homeownership Program – Boulder, CO
Summary of Capital Improvement Credit Program.................... 31
Updates to Capital Improvement Credit Program....................... 35

Thistle Community Land Trust – Boulder, CO
Sample Capital Improvement Credit Application..................... 40

Local Employee Residence Program - Town of Eagle, CO
Excerpt from Sample Ground Lease..................................... 41

Champlain Housing Trust – Burlington, VT
Excerpt from Homeowner Handbook.................................... 42

Whistler Housing Authority- Whistler, BC
Summary of Capital Improvement Credit Program.................... 46
Sample Application.............................................................. 48

San Francisco Redevelopment Agency - San Francisco, CA
Loan Disclosure Form.......................................................... 49

Escambia County Community Land Trust – Pensacola, FL
Sample Ground Lease.......................................................... 51

Highland Park Community Land Trust – Lake County, IL
Sample Ground Lease.......................................................... 56
# Appendix 1

## Summary of Other CLT Capital Improvement Policies

<table>
<thead>
<tr>
<th>CLT</th>
<th>Capital Improvement Credits</th>
<th>Percentage</th>
<th>Qualifying Improvements</th>
<th>Approval</th>
<th>Expenditures/Approval</th>
<th>Caps</th>
<th>Legal Documentation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCLT, Burlington, Vermont</td>
<td>Yes</td>
<td>The entire difference between before and after appraisals subject to cap.</td>
<td>Notice to CLT.</td>
<td>Appraisal before and after at homeowner's expense by a mutually acceptable property appraiser that has been approved by the Vermont Home Mortgage Guarantee Board.</td>
<td>Yes, based on the value of the home overall.</td>
<td>Ground Lease, Articles 7.3 and 7.4</td>
<td></td>
</tr>
<tr>
<td>Comments</td>
<td>Capped by the current Vermont Housing Finance Agency maximum home purchase price for an existing single family lessor's option price. See article 7 of the ground lease for further explanation.</td>
<td>Have to notify lessor if do any improvements to the outside of exterior walls, roof and basement.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Francisco Redevelopment Agency, San Francisco, California</td>
<td>Yes</td>
<td>1. Permanent; 2. Lasts longer than 5 years; 3. Proper permits, approvals.</td>
<td>Expenditure. Invoices/documentation are reviewed prior to resale and credit is granted with a seven-percent depreciation per year.</td>
<td></td>
<td></td>
<td>0.5% to 10% of original purchase price.</td>
<td></td>
</tr>
<tr>
<td>Kulshan Community Land Trust, Kulshan, Washington</td>
<td>Yes, two parallel policies: one for capital systems (heating, plumbing, etc.), one for other improvements.</td>
<td></td>
<td>Expenditures that constitute 50 percent of the improved value of a major system. This is based only on standard industry rates and materials.</td>
<td>Approved required BEFORE.</td>
<td>Expenditures that constitute 50 percent of the improved value of a major system.</td>
<td>Ground Lease, Article 10.12</td>
<td></td>
</tr>
<tr>
<td>Capital Systems</td>
<td>100 percent</td>
<td></td>
<td></td>
<td>Expenditure based</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Capital Improvements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Ground Lease, Article 10.12</td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Description</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of Lakes</td>
<td>CLT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of Denver</td>
<td>CLT, land tax, maintenance, sewer fees, rent payments, exterior maintenance, interior maintenance, and other costs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of Boulder</td>
<td>BOOCLT, land tax, capital improvements, and other costs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of Eagle</td>
<td>YEA, land tax, capital improvements, and other costs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Summary of Capital Improvement Policies**

- The following examples are not exhaustive:
  - **Replacements:**
    - Roof, HVAC, windows, etc.
  - **Rehabilitation:**
    - House, kitchen, bathroom, etc.
  - **New Construction:**
    - Apartments, townhomes, etc.

- **Energy Efficiency Improvements:**
  - Lighting, insulation, weatherization, etc.
  - **Yield Improvement:**
    - Solar panels, wind turbines, etc.

- **Property Tax Exemptions:**
  - Homestead exemption, veterans exemption, etc.

- **Other Benefits:**
  - Reduced maintenance costs, increased property values, etc.
<table>
<thead>
<tr>
<th>CLT</th>
<th>Capital Improvement Credit</th>
<th>Percentage</th>
<th>Qualifying Improvements</th>
<th>Approval</th>
<th>Caps</th>
<th>Legal Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orange County Housing and Land Trust,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carboro, North Carolina</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stewardship fee based on insures that can</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>be used for capital maintenance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>When you sell you get an amount based on</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>what you purchased it for and your</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>investment basis and a set amount of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>appreciation. Any unused reserves gets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>passed on to the next lessee.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>You can get an appraisal but it doesn't</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>seem to affect the sales value.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ground lease.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Island Housing Trust, Martha's Vineyard,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michigan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Only if it adds a bedroom that can be</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>used as a bedroom or living space of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>more than one hundred square feet. This</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>can be expanded to other things at</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>lessee's discretion.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The purchase price plus added value.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bedrooms or an increase of over one</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>hundred feet of living space.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes. Approval for added value can extend</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>beyond the bedroom/living space.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appraisals before and after. The</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>homeowner must document well and get</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>an appraisal at sale. Then the CLT will</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>credit the value of improvements to you.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information found in trust owner handbook.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Champlain Housing Trust, Burlington,</td>
<td></td>
<td>100% added</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vermont</td>
<td></td>
<td>market value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes. Received when you sell or</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>refinance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whitfield Housing Authority, Whitfield,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Columbia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes. Added when you sell and doesn't get</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>appreciation.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The CLT provides a list of things that</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>are not included (common sense items).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes storage, reduce consumption,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>specific flooring, daylight upgrades.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Also this CLT provides a list of things</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>that are not included (common sense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>items).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes. Homeowner must get approval before</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and then submit receipts and allow the</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CLT to inspect.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No appraisal is required. The amount of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the credit is based on the amount you</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>spend, subject to what they think is</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>reasonable.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One thousand dollars per year that you</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>have owned the property.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Escambia County CLT, Pensacola, Florida</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market value less pre-construction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>market value.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited by a maximum amount.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The CLT provides a long list of generally</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>acceptable CLTs, as well as a worksheet</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>at the end that is more specific.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appraisal required before and after by a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>mutually acceptable property appraiser</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>approved by the Florida Real Estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appraisal Board.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes, Typical format.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value added limited by a maximum amount.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum amount is the current maximum</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>single family home purchase price less</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the option price.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ground lease.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
KULSHAN COMMUNITY LAND TRUST

HomeBuyer Driven Program

Ground Lease Agreement

(standard version ready for insertion of Lessee information)

Revised January 4, 2002
10.9 IF PURCHASE OPTION EXPIRES: If the Purchase Option has expired, Lessee may sell the improvements and assign the Lease to any Income-Qualified Person, for not more than the then applicable Purchase Option Price. If, six months after the expiration of the Purchase Option, the improvements still have not been sold, Lessee may sell the Improvements and assign the Lease, for not more than the then applicable Purchase Option Price, to any party regardless of whether that party is an Income-Qualified Person.

10.10 LESSOR’S POWER OF ATTORNEY TO CONDUCT SALE: In the event Lessor does not exercise its option to purchase as set forth above, and Lessee (a) is not then residing in the Improvements and (b) continues to hold the Improvements off sale but is unable to locate a buyer and execute a binding purchase and sale agreement within one (1) year of the giving of the Intent to Sell Notice, Lessee does hereby appoint Lessor as its attorney in fact to seek a buyer, negotiate a reasonable price that furthers the goals set forth in this Lease, sell the property, and distribute proceeds of sale, minus Lessor’s costs of sale and reletting and any other sums owed Lessee by Lessor.

10.11 PURCHASE OPTION PRICE: The Purchase Option Price shall be the lesser of (a) the value of the Improvements as determined by the Appraisal commissioned and conducted as provided in 10.5 above or (b) the price calculated in accordance with the formula described below (the Formula Price).

10.12 CALCULATION OF THE FORMULA PRICE: The Formula Price shall be equal to Lessee’s Purchase Price, as stated below, plus 1.50% compounded annually, plus Capital Systems Replacement Value, as stated below, plus Formula-eligible Capital Improvement Value, as stated below, plus 1.5% compounded annually from the time of Capital Improvement construction, minus Excessive Damage Value, as stated below.

Lessee’s Purchase Price: The parties agree that the Lessee’s Purchase Price for the Improvements existing on the leased premises as of the commencement of the term of this Lease is $___________.

Capital Systems Replacement Value: Credit will be considered for replacement of the roof, plumbing, foundation, electrical, heating and/or cooling unit(s) or sewer lines. Replacement is defined as having to install new product for at least fifty percent (50%) of the improved value of the system. Anything less than fifty percent (50%) replacement with new material will be considered a repair and thereby not eligible for consideration under this section. Allowances will be given for new materials and labor at standard construction grade. Upgrades to higher than standard materials and labor costs will be discounted to the industry standard costs. Lessor must be consulted before any replacements are made with an agreement reached between the Lessee and the Lessor or expected expenditures. Said agreement must be documented and signed by both parties with the agreement becoming a legal attachment to the lease. Notice must include any permits required by law for such replacements.
Kukshon Community Land Trust Model Ground Lease  January 4, 2002

Formula-eligible Capital Improvements: The Formula Price may be adjusted by the Lessor at the request of the Lessee to reflect capital improvements, valued at $5,000 or more, made to the Residence by the Lessee at Lessee’s expense. Such capital improvements shall be limited to the addition of livable space (bedroom, bathroom, finished basement, finished attic space, porch or deck) or the addition of a garage (either attached or detached). Except for Capital Systems Replacement, other construction on the Residence shall be considered maintenance rather than capital improvement. At Lessee’s request, the value of the capital improvement, as determined by sales receipts for materials used but excluding labor, or by a licensed contractor’s bid, may be added to the Lessee’s Formula Price to reflect the additional investment made by the Lessee. Lessee may, at Lessee’s expense, contract with a mutually acceptable and duly licensed Appraiser to conduct an appraisal of the capital improvements, and the appraised value of the capital improvements may be added to the Formula Price, as stated above.

Excessive Damage Value: Excessive damage is defined as damages beyond normal wear and tear. These damages would include holes in walls, damage to major systems, severely degenerated interior or exterior painted surfaces, damages as a result of un-repaired capital systems or missing essential household fixtures that were originally a part of the edifice. Determination of excessive damage value will be at the sole discretion of the Lessor and/or its agents. Lessee may appeal excessive damage determinations to the Lessor Board of Trustees within 7 days of the assessment.

The resale formula determines the maximum price for which a home can be sold and is NOT a guarantee of expected sale price.

10.13 QUALIFIED PURCHASER’S CHOICE OF NEW LEASE OR ASSIGNMENT OF EXISTING LEASE: An income qualified person who purchases the Improvements in accordance with the provisions of this Article 10 shall have the option of receiving either an assignment of this Lease from the seller, with the approval of Lessor, or a new Lease from Lessor, which new Lease shall be substantially the same as this Lease in the rights, benefits and obligations assigned to Lessee and Lessor.

ARTICLE 11: ASSIGNMENT AND SUBLEASE

Except as otherwise provided in Article 8 (including Exhibit H, Permitted Mortgages) and Article 10, Lessee shall not assign, sublease, sell or otherwise convey any of Lessee’s rights under this Lease without the prior written consent of the Lessor. Lessee agrees that Lessor shall have broad and full discretion to withhold such consent in order to further the mutual purposes and goals set forth in this Lease. If permission is granted, any assignment or sublease shall be subject to the following conditions:

a) Any such assignment or sublease shall be subject to all of the terms of this Lease.

b) In the case of a sublease, the rental or occupancy fee charged the sublessee shall not be more than that amount charged the Lessee by the Lessor, plus an amount approved by Lessor to cover costs to Lessee for the Improvements.
SAMPLE
Butington Community Land Trust, Inc.
SINGLE FAMILY GROUND LEASE AGREEMENT

Article I: Regulations for the Lessee's Occupancy, Use and Enjoyment
1.1 Incorporation

Article II: Leased Premises
2.1 Description
2.2 Reservations and Restrictions
2.3 Extraction of Resources

Article III: Duration of the Lease Agreement
3.1 Principal Term
3.2 Lessee's Perpetual Right to Renew
3.3 Procedure for Successive Renewals
3.4 Substitute Lessees

Article IV: Lessee's Use of Leased Premises
4.1 Use as a Primary Residence
4.2 Responsible Use
4.3 Responsible for Others
4.4 Occupancy
4.5 Subleases

Article V: Ground Lease Fee
5.1 Ground Lease Fee
5.2 Calculation of Debt Service Fee
5.3 Adjustments to Lease Fee During the Initial and Successive Renewal Terms
5.4 Other Charges and Assessments

Article VI: Taxes
6.1 Taxes
6.2 Taxes on Leased Premises
6.3 Payments in Event of Delinquency
6.4 Proof of Payment

Article VII: Improvements
7.1 Ownership
7.2 Housing Codes
7.3 Capital Improvements
7.4 Credit for Capital Improvements

Article IX: Forced Sale or Judicial Sale, Condemnation, and Eminent Domain
9.1 Effect of Forced Sale, Judicial Sale, Condemnation
9.2 Compensation

Article X: Mediation and Arbitration
10.1 Agreement to Mediate and Arbitrate
10.2 Mediation
10.3 Arbitration Procedures

Article XI: Provision for Perpetual Occupancy by Lessee

Article XII: Lessee's Indemnification of Lessor and Waiver

Article XIII: Insurance
13.1 Insurance Coverage of Premises
13.2 Bodily Injury Liability Insurance

Article XIV: Prohibition of Involuntary Assignment; Effect of Bankruptcy or Insolvency
14.1 Prohibition of Involuntary Assignment
14.2 Effect of Bankruptcy

Article XV: Lessor's Option to Purchase Improvements
15.1 Intent and Effect
15.2 Option
15.3 Period for Exercise
15.4 Severance

Article XVI: Waiver

Article XVII: Miscellaneous Provisions
17.1 Lessee's Right to Quiet Enjoyment
17.2 Notices
17.3 Invalid Provisions
17.4 Lessor's Right to Prosecute or Defend
17.5 Lessee's Membership in BCLT
17.6 Construction
SAMPLE

equipment in, upon, under or over the land, including, but without limiting the generality of the foregoing, all furnaces, boilers, engines, motors, compressors, tanks, fittings, piping, wiring, connections, conduits, ducts, equipment, partitions, screens, awnings, windows, doors, and blinds, together with any and all renewals and replacements thereof or additions thereto or substitutes therefor.

A description of the improvements owned by Lessee as of the date of execution of this Ground Lease Agreement is attached as Exhibit C and shall expressly limit the general items listed above. Prior to the execution of this Ground Lease Agreement, a certified market valuation of the Leased Premises and of all improvements thereon, described in Exhibits B and C, respectively, shall be obtained from a mutually acceptable property appraiser that has been approved by the Vermont Home Mortgage Guarantee Board. Values contributed by the Leased Premises and the improvements shall be indicated as separate figures. Copies of this certified appraisal shall be presented to the parties no later than the date of execution of this Ground Lease Agreement and the relevant appraised values will be recorded on the appropriate lines in Section 15.2 regarding the option price formula.

All such subsequently made or erected improvements shall be added to the description in Exhibit C as soon as is convenient, but in no case later than the dates of the successive renewals available under the Ground Lease Agreement at the sole discretion of the Lessee. The ease or difficulty of the removal of a given improvement or the remaining state of the land after such removal shall not affect Lessee's ownership of or title to such improvement.

7.2 HOUSING CODES: Any structures located on the Leased Premises must meet applicable federal, state, county and/or municipal regulations regarding such structures. Furthermore, each dwelling must have a sewage disposal system that meets Department of Public Health requirements.

7.3 CAPITAL IMPROVEMENTS:
A. Written Notice by Lessee: Whenever Lessee shall desire to undertake to construct any major improvements outside the planes of the exterior walls, roof, and basement of the existing structure or structures located on the Leased Premises, they must notify the Lessor in writing of their intentions. Such written notice shall include a plan describing fully the proposed construction and its potential impact on the Leased Premises and the surrounding lands.

B. Title: Lessee will own and have title vis-à-vis the Lessor to any improvements constructed on the Leased Premises.

C. Mechanics' and Suppliers' Liens: No lien for services, labor or materials resulting from Lessee's capital improvements shall attach to the Lessor's title to the Leased Premises described in Exhibit B or any other lands owned by Lessor, by reason of any construction undertaken by Lessee in, upon, under, or over the Leased Premises.

7.4 CREDIT FOR CAPITAL IMPROVEMENTS: In the event Lessor exercises its option to purchase the improvements located on the Leased Premises, as set forth in Article XV of this

BCLT Ground Lease Agreement page - 7
SAMPLE

A. Procedure,
1) Prior to undertaking construction or modification of any structure located on the Leased Premises for which Lessee desires to receive a Capital Improvement Credit, and at Lessee’s expense, a market appraisal of all structures located on the Leased Premises shall be performed by a mutually acceptable property appraiser that has been approved by the Vermont Home Mortgage Guarantee Board. The appraisal shall be conducted by analysis and comparison of comparable properties, disregarding the restrictions of this lease on the use and transfer of the Leased Premises and the improvements located thereon, and further disregarding restrictions set forth in Lessee’s Declaration(s) of Covenant of even date and recorded in the appropriate municipal or town land records. The appraisal shall include an estimate of value before construction or modification is undertaken (the “pre-construction market value”), and another estimate of value assuming the construction or modification is completed in accordance with brief written specifications furnished by Lessee (the “post-construction market value”). A copy of this appraisal shall be submitted to Lessor and attached to this lease as Exhibit D. This procedure shall be followed each time Lessee desires to receive a Capital Improvement Credit. Each appraisal shall be submitted to Lessor and attached to Exhibit D as Exhibit D-2, D-3, and so forth. The most recent attachment to Exhibit D shall be controlling for purposes of computing each successive credit.

2) Within fifteen (15) working days of Lessor’s receipt of the appraisal, Lessor shall provide Lessee with written notice of the Maximum Capital Improvement Credit to be allowed. A copy of this notice shall be attached to this lease as Exhibit E. This procedure shall be followed each time Lessee desires to receive a Capital Improvement Credit. A copy of each notice shall be attached to Exhibit E as Exhibit E-2, E-3, and so forth. The most recent attachment to Exhibit E shall be controlling for purposes of computing each successive credit.

3) Within sixty (60) days of substantial completion of construction or modifications, and at Lessee’s expense, a market appraisal of all structures on the Leased Premises shall be performed by a mutually acceptable property appraiser that has been approved by the Vermont Home Mortgage Guarantee Board. This appraisal may be a brief update of the appraisal performed before construction. A copy of this appraisal shall be submitted to Lessor and attached to this lease as Exhibit F. This procedure shall be followed each time Lessee desires to receive a Capital Improvement Credit. Each appraisal shall be submitted to Lessor and attached to Exhibit F as Exhibit F-2, F-3, and so forth. The most recent attachment to Exhibit F shall be controlling for purposes of computing each successive credit.

B. Definitions:
1) “Maximum Capital Improvement Credit” shall be the current Vermont Housing Finance Agency maximum home purchase price for an existing single family minus the Lessor’s Option price as though it were paid on or about the date of Lessor’s receipt of Exhibit D. If the Vermont
SAMPLE
Housing Finance Agency no longer exists or does not have a maximum home purchase price, some other comparable index shall be used.

C. Calculation of the Capital Improvement Credit
The Capital Improvement Credit shall be the LESSER of the following:

1) a) The market value of all structures as of or about the date of substantial completion of construction or modification as indicated by Exhibit F; less b) the pre-construction market value of all structures as indicated by Exhibit D; equals c) the value added by construction or modification. OR 2) The Maximum Capital Improvement Credit as indicated by Exhibit E. Lessee agrees that the Capital Improvement Credit as determined by the procedures and formulas described herein constitutes fair compensation for all construction or modifications to Lessee's property. In the event Lessor exercises its option to purchase the improvements pursuant to Article XV of this Ground Lease Agreement, Lessor agrees to include such Capital Improvement Credit in its option price provided the procedures set forth in this Section are followed and Exhibits D, E and F are in evidence.

ARTICLE VIII: TERMINATION

8.1 INITIATED BY LESSEE: Lessee may terminate this Ground Lease Agreement at any time and for any reason, provided that Lessee gives the Lessor written notice of intention to terminate at least one hundred twenty (120) days prior to the date upon which Lessee desires this Ground Lease Agreement to terminate. This written notice of intention to terminate shall also expressly state the Lessee's plans for disposition of the property it owns that is located on the premises.

The Lessee may choose either to: (1) exercise its right to remove said property pursuant to the conditions set forth in Section 8.5 below; or (2) sell said property in accordance with the resale procedure as set forth in Article XV below.

8.2 INITIATED BY LESSOR:
A. Grounds for Termination

Lessor may terminate this Ground Lease Agreement in the event that Lessee has intentionally violated any substantive provisions, conditions, restrictions, or reservations of the Ground Lease Agreement in such a manner as to negate or compromise the original mutually held goals of perpetual occupancy of the Leased Premises by and resale of the improvements located thereon among low and moderate income households that is the continuing foundation of the relationship between Lessor and Lessee. Termination of this Ground Lease Agreement by Lessor may also be based on the Lessee having:

1) Abused the leasehold premises by using them or by permitting them to be used in any manner seriously detrimental to the land itself or the surrounding community of people;

2) Failed to pay the monthly fee within ninety (90) days of its due date;

3) Failed to comply with the occupancy requirement of Section 4.4;

4) Failed to comply with any other material term of this Ground Lease Agreement;

BCLT Ground Lease Agreement page - 9
AMENDMENT TO GROUND LEASE
FOR CREDIT FOR
QUALIFIED CAPITAL IMPROVEMENTS

This Amendment to Ground Lease ("Amendment") is between The City of Lakes Community Land Trust ("CLCLT"), and __________________, (husband and wife/individual) ("Land Lessees") and is effective as of the _____ day of __________, 200__.

WITNESSETH

WHEREAS, CLCLT and Land Lessee entered into that certain Ground Lease dated the _______ ("Ground Lease"); and

WHEREAS, the Ground Lease is a lease of certain property legally described on attached Exhibit A ("Premises"); and

WHEREAS, Land Lessee is the owner of the Improvements located on the Premises, as defined in Exhibit A of the Ground Lease; and

WHEREAS, Exhibit E of the Ground Lease provides a mechanism by which to establish the Formula Price in order to calculate the appreciation in the value of the Improvements from the date of its purchase by Land Lessee through the date of its sale by Land Lessee; and

WHEREAS, CLCLT desires to encourage Land Lessee to make capital improvements to the Improvements; and

WHEREAS, CLCLT desires to include in the Formula Price the value of Qualified Capital Improvements (as hereinafter defined);

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

Definition of Qualified Capital Improvements: Qualified Capital Improvements means those certain improvements made to the Improvements on the Premises at Land Lessee’s expense which add significant value to the Improvements and which are capital in nature. Improvements which would qualify as Qualified Capital Improvements include, without limitation: the construction of additions, rooms, garages, bathrooms and kitchen remodeling. However, expenditures for maintenance, such as roof replacement, and the updating or replacement of appliances such as furnaces, water heaters and kitchen appliances, would not qualify as Qualified Capital Improvements herein. In order to qualify as Qualified Capital Improvements herein, Land Lessee must obtain the advance approval of CLCLT as described in Article 2 and Exhibit C hereto.
1. Procedure for CLCLT Approval of Qualified Capital Improvements:

A. Land Lessee’s Pre-Construction Submissions. Land Lessee shall submit to CLCLT for its approval, and at the expense of the Land Lessee, detailed plans, proposed financing and/or source of Qualified Capital Improvement funding and an itemization of the anticipated costs for the proposed Qualified Capital Improvements. Land Lessee, at Land Lessee’s sole expense, shall also submit to CLCLT an appraisal of the Improvements prepared by a qualified appraiser, who has been approved in advance by CLCLT, showing the market value of the Improvements prior to construction of the proposed Qualified Capital Improvements and an estimate of the market value of the Improvements assuming the construction of the proposed Qualified Capital Improvements are completed in conformance with the submitted plans. Within 20 days of receiving the referenced plans, anticipated costs and the appraisal of the proposed Qualified Capital Improvements, CLCLT shall notify Land Lessee of its approval or disapproval of the construction of the proposed Qualified Capital Improvements. CLCLT’s failure to respond to Land Lessee within the 20-day time period shall be deemed to constitute CLCLT’s approval of construction of the proposed Qualified Capital Improvements. Land Lessee shall follow Capital Improvements Procedure Policy (attached as Exhibit C to this Amendment to Ground Lease).

B. Land Lessee Credit for Qualified Capital Improvements. Based upon CLCLT’s approval and within 30 days after completion of the construction of the Qualified Capital Improvements, Land Lessee shall submit to CLCLT an appraisal showing the market value of the Improvements, which appraisal may be an update of the pre-construction appraisal prepared by the same appraiser discussed in Article 2(A) herein. Said appraisal shall also establish the difference in the market value of the Improvements based upon the value of the Improvements before construction of the Qualified Capital Improvements and after completion of the Qualified Capital Improvements, and that difference in the market values shall constitute the credit available to Land Lessee upon any sale by Land Lessee of the Improvements (“Land Lessee’s Credit for Qualified Capital Improvements”). The entire amount of Land Lessee’s Credit for Qualified Capital Improvements shall belong to Land Lessee upon any sale of the Improvements by Land Lessee, which amount shall be added to, and constitute a part of, the Formula Price, as that term is defined and calculated in Exhibit E of the Ground Lease. Qualified Capital Improvements are defined in the Capital Improvements Procedure Policy (attached as Exhibit C to this Amendment to Ground Lease).

C. Post-Construction Issues. If CLCLT objects to the appraisals or the value of the Qualified Capital Improvements as discussed in Article 2(B) herein within 20 days of CLCLT’s receipt of the post-construction appraisal, and CLCLT and Land Lessee cannot thereafter agree as to the value of Land Lessee’s Credit for Qualified Capital Improvements, then the dispute shall be resolved by arbitration as provided in Article 14 of the Ground Lease. CLCLT’s failure to object within the required 20 day time period shall be deemed to constitute CLCLT’s acceptance of the value of Land Lessee’s Credit for Qualified Capital Improvements. The appraisals referenced herein and the calculation
of the value of Land Lessee's Credit for Qualified Capital Improvements shall be attached hereto as Exhibit B. Each and every time Land Lessee proposes to undertake a Qualified Capital Improvement, Land Lessee shall follow the procedures contained herein and all appraisals and calculations of the value of Land Lessee's Credit for Qualified Capital Improvements subsequent to the completion of the initial Qualified Capital Improvements shall be attached hereto as Exhibit B-1, B-2, B-3, etc., as the case may be.

2. Limitations and Restrictions on Land Lessee's Credit for Qualified Capital Improvements:

A. Nothing in this Amendment shall relieve Land Lessee from the restrictions on the transfer, sale or disposition of the Improvements contained in the Ground Lease (see, specifically, Article 11). More specifically, in no event shall the Credit for Qualified Capital Improvements raise the resale price of the Improvements so that the Improvements are no longer affordable to an Income Qualified Buyer (as that term is defined in Article 11.2 of the Ground Lease) which means, generally, a household whose combined income does not exceed eighty percent (80%) of the median household income for the Twin Cities Standard Metropolitan Statistical Area.

B. If CLCLT reasonably believes that the value of Land Lessee's Credit for Qualified Improvements at the time of Land Lessee's proposal to sell the Improvements is less than the value of same at the time of the completion of construction of the Qualified Capital Improvements, CLCLT, at its expense, may obtain a new appraisal of the Improvements at the time of the proposed sale by Land Lessee of the Improvements. If this appraisal does, in fact, show that the value of the Land Lessee's Credit for Qualified Capital Improvements as computed herein is less than the value of same at the time of the proposed sale of the Improvements by Land Lessee vis-a-vis the time of completion of the Qualified Capital Improvements (due to, for example, deterioration, obsolescence, etc.), the value of Land Lessee's Credit for Qualified Capital Improvements as contained in the new appraisal shall be used for purposes of determining the Formula Price. Any disagreements in this regard that cannot be settled by negotiation between the parties shall be submitted to arbitration as provided in Article 14 of the Ground Lease.

3. Calculation of Amended Formula Price: The Amended Formula Price, which also constitutes the price at which CLCLT may purchase the Improvements pursuant to its option contained in the Ground Lease, shall be determined by adding Land Lessee's Share of Appreciation in Market Value of the Improvements (as calculated pursuant to Exhibit E of the Ground Lease) to Land Lessee's Purchase Price for the Improvements and Land Lessee's Credit for Qualified Capital Improvements. Following is a table for calculating the Amended Formula Price:

<table>
<thead>
<tr>
<th>Formula Price</th>
<th>$______</th>
</tr>
</thead>
<tbody>
<tr>
<td>(as determined pursuant to Exhibit E of the Ground Lease)</td>
<td></td>
</tr>
<tr>
<td>Plus Land Lessee's Credit for Qualified Capital Improvements</td>
<td>+$______</td>
</tr>
</tbody>
</table>
Equals Amended Formula Price

= $_____

(per this Amendment to Ground Lease for Credit for Qualified Capital Improvements)

4. Definitions. Capitalized terms not otherwise defined herein shall have the meanings accorded them in the Ground Lease.

5. Maintenance of Other Provisions. All other terms and conditions set forth in the Ground Lease shall remain in full force and effect.

THIS AMENDMENT TO GROUND LEASE is made and entered into by the parties hereto on the day and date shown immediately below their respective signatures.

CITY OF LAKES COMMUNITY LAND TRUST

By:________________________

Its: Executive Director

LAND LESSEE

By:________________________

By:________________________

STATE OF MINNESOTA

COUNTY OF HENNEPIN

The foregoing instrument was acknowledged before me this _______ by

Jeffrey A. Washburne, the Executive Director of the City of Lakes Community Land Trust, a
Minnesota non-profit corporation on behalf of the corporation.

Notary Public:

STATE OF MINNESOTA

COUNTY OF HENNEPIN

The foregoing instrument was acknowledged before me this _______ by

________________________, (husband and wife/individual), on their behalf.
EXHIBIT C

City of Lakes Community Land Trust
Qualified Capital Improvements Procedure Policy

Qualified Capital Improvements
Qualified Capital Improvements means those certain improvements made to the Improvements on the Premises at Land Lessee's expense which add significant value to the Improvements and which are capital in nature. However, expenditures for maintenance, such as roof replacement, and the updating or replacement of appliances such as furnaces, water heaters and kitchen appliances, would not qualify as Qualified Capital Improvements herein. The CLCLT has the right to approve/disapprove any proposed Capital Improvement. As a general rule, the CLCLT will approve proposed Capital Improvements provided the Homeowner follows the process outlined in this Exhibit, proposed funding of project is reasonable, and the proposed work does NOT significantly impact the future affordability of the property or be perceived as a luxury item.

Examples of generally accepted Qualified Capital Improvements:
- Kitchen remodel
- Bathroom remodel
- Build-out or conversion of a basement/attic to living space
- Garage
- Small addition to an existing home

Examples of proposed Qualified Capital Improvements not likely to be approved:
- Swimming pool, hot tub
- Deck/porch
- Major addition or alteration that would impact affordability
- Alterations to the structure that would reduce the number of bedrooms

Land Lessee Qualified Capital Improvement Steps

1. Submit the following pre-construction estimates to the CLCLT Project Director:
   a. Detailed plans of Capital Improvement(s) to property per contractor scope(s) and inclusive of detailed drawings.
   b. Budget of projected costs.
   c. Source(s) and amounts of Capital Improvement funding. If through a loan, CLCLT will want evidence that loan will amortize over fixed period of time with a defined end-date (MHFA Fix-up Fund, NRP Loans, etc.). The CLCLT reserves the right to require additional reserve funds of Homeowner.
   d. List of required City of Minneapolis permits to be requested.
   e. Name(s) of proposed contractor(s).
   f. If, in the event, licensed contractors are not required, the Homeowner will need to
demonstrate knowledge and experience of proposed Capital Improvement.
g. A pre- and post Capital Improvements appraisal conducted by a mutually accepted (Homeowner and CLCLT) Appraiser. The appraisal will be paid for by the Homeowner.

2. Once all items are submitted to the CLCLT Director, he/she will evaluate materials and make recommendation(s) to the CLCLT Project Development Committee.

3. The CLCLT Project Development Committee will respond within 20 days (from time that all requested items were received) of Homeowner Capital Improvement request.
   a. If approved, the Homeowner, CLCLT Project Director, and contractor(s) will meet to define timeline and process. Homeowner can move forward with the next steps.
   b. If not approved, the Homeowner has the option to appeal the CLCLT Board of Directors.

4. Homeowner can begin Qualified Capital Improvement construction.
   a. The CLCLT Project Director or designee will review work and progress on Capital Improvement work at agreed upon intervals of construction.
   b. Homeowner will be responsible for documenting all Qualified Capital Improvement work (invoices, scope of work, permits, approvals, etc.) and ensuring copies are made for CLCLT files.

5. The Homeowner will notify the CLCLT once Qualified Capital Improvement work is complete. All Qualified Capital Improvement work must be completed within one year of CLCLT approval.
Homeownership Capital Improvements Policy

October, 2004

These guidelines describe the Division of Housing's criteria for Eligible Capital Improvements for Homeowners of Permanently Affordable housing units. In some cases, the Permanently Affordable Housing Covenant has specific information regarding Capital Improvement Credits. When considering capital improvements, for which the Homeowner will request credit, please refer to the Covenant for each specific home to determine the requirements for that property and this policy.

In order to qualify as an Eligible Capital Improvement, each expenditure must be approved conditionally in advance by the City. The Homeowner must submit in advance to the City detailed plans for each proposed Eligible Capital Improvement and an itemization of the expected costs. The City will review the proposal and conditionally approve Eligible Capital Improvements within fourteen days.

If an item wears out prior to the determined life expectancy, approval from the Division of Housing staff must be obtained prior to the replacement of the item. Always contact the Division of Housing prior to replacement of existing worn items. Within fourteen days after review of the Capital Improvement request the City will notify the Homeowner in writing whether or not the proposed expenditure is approved conditionally as an Eligible Capital Improvement.

Remember that it may be necessary to obtain a permit for the work you intend to do. If you are building something new you will probably want to show your plans to a Project Specialist in Planning and Development Services at 1739 Broadway, 3rd floor, 303 441-1880. 441-1880.You may also check the following website: www.ci.boulder.co.us/buildingservices.

After a proposed Eligible Capital Improvement has been completed, the improvement and amount must receive final approval by the City as an Eligible Capital Improvement. It is recommended that within the same calendar year, during which the proposed Eligible Capital Improvement has been completed, the Homeowner submit to the City complete documentation showing all costs of the improvement.

- Submit a written request for capital improvement credit.
- Include an itemized receipt or bill of sale, complete with the seller's name, address, phone number and cancelled check. (Do not send original receipts, only copies)

Within fourteen days after the review of the Capital Improvement request the City will notify the Homeowner in writing about the eligibility of the Capital Improvement for credit.

If bartered goods or services were included in the cost, the Homeowner must submit an independent valuation of the value of those goods or services. If labor of the Homeowner, the Homeowner's spouse, domestic partner, children or parents for construction work is included within the cost, a detailed account of the work and time spent on the work shall be submitted along with two current estimates of the value of that work by at least two construction contractors licensed by the City. Homeowner labor will only be considered for credit if the request is received by Housing within twelve months of the time the work was completed.
Homeownership Capital Improvements Policy

The City shall have the right to inspect the Property at times that are mutually convenient to the City and the Homeowner to confirm the Eligible Capital Improvements have been completed in a workmanlike manner and the reasonable value of the improvement. If the City, in its reasonable discretion, is unsatisfied with the documentation provided by the Homeowner, it may base its determination of the value of the Improvements upon an estimation provided by an objective third party professional who is knowledgeable about local construction costs and practices. At the conclusion of this process the Division of Housing will send a written statement of approved Capital Improvement credit to the Homeowner.

Beginning January 1, 1998, the amount of Eligible Capital Improvements included within the calculations of the re-sale price limit may not exceed a total of $1,000 for the complete calendar year during which the Owner owned the Property. Thereafter the yearly limit shall be adjusted annually in an amount equal to the change in the Consumer Price Index-Urban area (CPI-U) or up to 3.5%, whichever is less. If the CPI-U realizes a decrease, the annual capital improvement credit amount will remain the same as the figure for the previous year. The Owner may include within the re-sale price limit for Eligible Capital Improvements an amount up to the total produced by adding together all of the yearly limits for each completed calendar year during which the Owner has owned the Property.

Generally, improvements eligible for capital improvement credit are those items which:

A. Add habitable rooms
B. Significantly reduce energy consumption
C. Replace old and deteriorated building components, such as the roof or furnace
D. Renovate a kitchen or bathroom to address health and safety issues

Improvements considered to be non-permanent or cosmetic are not eligible. Additionally, luxury and high-end items chosen over standard grades will not be eligible for capital improvement credits. The following improvements are normally considered to be of a permanent nature and may be added to the re-sale price (when they were not included in the original purchase price). The standard life expectancy is indicated in parenthesis.

Home Owners Association

Home Owners Association (HOA) dues are not an eligible capital improvement, however, eligible repairs or improvements made by the HOA to the housing unit may be eligible for capital improvement credit. If the Home Owners Association pays for an improvement, such as a worn out roof over the affordable housing unit, the total cost of the job may be prorated to determine the cost attributable to the roof over the affordable housing unit. A receipt, with a written request must be submitted, as explained above, for review and approval.

Eligible Capital improvements

1. Room additions, completion of unfinished areas into living areas
2. Insulation up to levels with a 7-year pay back according to the Boulder Green Points Program
3. Upgraded replacement of single-pane and failed thermo-pane windows (15 years)
Homeownership Capital Improvements Policy

4. Landscaping - including sod, shrubs or trees, landscaping rocks, retaining walls, perimeter fencing (within the 1st three years for new development only), when not provided by the developer.
5. Modifications needed to accommodate a person with a "disability" as defined in the Americans with Disability Act of 1990, 42 USC Section 12101, et seq., or in a successor United States statute.
6. Central air conditioning (20 years)
7. Ceiling fan
8. Refrigerator for homes without one

Eligible Maintenance Improvements
Credit for 50% of the cost of these improvements will be given

1. Permanent storage sheds
2. Replacement of worn bathroom vanities, built-in cabinets (20 years)
3. Replacement of worn kitchen cabinets, built-in permanent cabinets (20)
4. Repair of existing patios, porches and decks (20 years)
5. Replacement of worn floor coverings (10 years)
6. Hardwood floors (50 years)
7. Siding replacement (20 years)
8. Roof replacement (20 years)
9. Furnace replacement (20 years)
10. Water heaters (10 years)
11. Refrigerator (17 years)

Exception requests to this policy may be submitted to the Division of Housing and Human Services Staff and Homeownership Committee.

APPROVED POLICY GOVERNING THE CAPITAL IMPROVEMENT CREDITS FOR HOMEOWNERS OF PERMANENTLY AFFORDABLE HOUSING UNITS.

In witness whereof:

______________
John Pollak
Assistant Director of Housing & Human Services for Housing

______________
Janet Fulton
Asset Manager

Date
Date
## Homeownership Capital Improvements Policy

### CIP Chart

The CIP figure is compounded annually.

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI-U Index % increase</th>
<th>Maximum CIP amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Baseline year 0 increase</td>
<td>$1,000</td>
</tr>
<tr>
<td>1999</td>
<td>2.4%</td>
<td>$1,024</td>
</tr>
<tr>
<td>2000</td>
<td>2.9%</td>
<td>$1,054</td>
</tr>
<tr>
<td>2001</td>
<td>3.5%</td>
<td>$1,091</td>
</tr>
<tr>
<td>2002</td>
<td>3.5%</td>
<td>$1,129</td>
</tr>
<tr>
<td>2003</td>
<td>1.9%</td>
<td>$1,160</td>
</tr>
<tr>
<td>2004</td>
<td>1.1%</td>
<td>$1,163</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CITY OF BOULDER
DIVISION OF HOUSING

Homeownership Capital Improvements, Capital Updates
and Maintenance Policy

Effective January 1, 2008

Rationale and Intent

Permanently affordable homes have been constructed as complete and livable homes for households with limited, qualifying incomes and assets. As such, Capital Improvements for which credit at resale will be applied have been limited to ensure affordability for future homebuyers. The city also wants to ensure that older affordable homes remain attractive, to accomplish this, a Capital Updates policy for homes over 20 years old has been introduced. Commencing January 1, 2008, affordable homeowners will receive a yearly minimum appreciation of 1%, in return homeowners are expected to maintain their homes.

This policy describes the Division of Housing's criteria for eligible Capital Improvements and Capital Updates for Permanently Affordable housing units. The policy also describes requirements for homeowners to maintain their homes.

Capital Improvements:

Eligible Capital improvements

1. Improvements that permanently increase energy efficiency including, but not limited to:
   - Insulation that meets requirements of the Boulder Green Points Program.
   - Replacement of single-pane windows.

2. Improvements that increase habitable space. Finished basements must have at least one egress window and all improvements must conform to current city code requirements.

3. Cooling systems including: whole house fans, ceiling fans, non-portable evaporative coolers or if evaporative coolers are not allowed by the HOA, central air conditioning.

4. Flooring: replace carpet over 10 years old with hardwood (not laminate) or tile.
Improvements considered to be non-permanent or cosmetic are not eligible. Luxury and high-end items chosen over standard grades will only be eligible for capital improvement credit at the cost of standard grade items.

Beginning January 1, 2008, the maximum amount of Eligible Capital Improvements included within the calculations of the re-sale price limit is $25,000 during the period in which the Owner owns the Property. Approved Capital Improvement credits will be credited fully at the time of final approval. To be eligible for a credit, the total cost of the improvement must exceed $2,000 with the exception of cooling systems.

In order to qualify as an eligible Capital Improvement, it is mandatory that each proposed expenditure be approved in advance by the Division of Housing. The process for receiving credit is listed below.

**Capital Updates:** For a home to be eligible for a Capital Update credit it must be at least 20 years old.

**Eligible Capital Updates**

1. Renovation of kitchens and bathrooms that are at least 20 years old.

Updates considered to be non-permanent are not eligible. Luxury and high-end items will only be eligible for capital update credits at the cost of standard grade items. To be eligible for a credit, the total cost of the update must exceed $2,000.

Beginning January 1, 2008, the maximum amount of Eligible Capital Updates included within the calculations of the re-sale price limit is $25,000 during the period in which the Owner owns the Property. Approved Capital update credits will be credited fully at the time of final approval.

The credit for an update will depreciate over 20 years, with 75% of the Capital Update cost depreciated in equal amounts over the first 10 years; the remaining 25% will be depreciated in equal amounts over the remaining 10 years.

In order to qualify as an eligible Capital Update, it is mandatory that each proposed expenditure be approved in advance by the Division of Housing. The process for receiving credit is listed below.
How to receive Credit for Capital Improvements and Capital Updates

To ensure a credit for eligible Capital Improvements or Capital Updates, it is mandatory that each proposed expenditure be approved by the Division of Housing prior to commencement of any work. The process for requesting prior approval to ensure credit is:

1. Using the Capital Improvement/Capital Update form, submit a written request for approval of proposed Capital Improvement or Update.

2. Include an itemized estimate and detailed plans, complete with the contractor or supplier’s name, address and, phone number. (Do not send originals, only copies)

3. The Division of Housing will review the proposal and approve eligible Capital Improvements or Updates within fourteen days of receipt of a complete request.

4. Capital Improvements or Updates that have been approved must be completed within 6 months of approval or a new approval will be required.

5. After an Eligible Capital Improvement or Update has been completed, the improvement description and amount must be submitted to the Division of Housing for final approval within 4 weeks of completion of the work. The Homeowner must submit to the City an itemized receipt or bill of sale, complete with the contractor or supplier’s name, address, phone number and cancelled check (Do not send original receipts, only copies)

6. Within fourteen days of receipt of the final Capital Improvement or Update request the City will notify the Homeowner in writing of eligibility for credit.

7. All approved credits will be added to the maximum resale price immediately.

Remember that it may be necessary to obtain a permit for the work you intend to do. If you are building something new you will probably want to show your plans to a Project Specialist in Planning and Development Services at 1739 Broadway, 3rd floor, 303 441-1880. You may also check the following website: www.bouldercolorado.gov/buildingservices

If bartered goods or services were included in the cost, the Homeowner must submit an independent valuation of the value of those goods or services. If labor of the Homeowner, the Homeowner’s spouse, domestic partner, children or parents for construction work is included within the cost, a detailed account of the work and time spent on the work shall be submitted along with two current estimates of the value of that work by at least two construction contractors licensed by the City. Homeowner labor will only be considered for credit if the request is received by Housing within 4 weeks of the time the work was completed.
The City shall have the right to inspect the Property at times that are mutually convenient to the City and the Homeowner to confirm the Eligible Capital Improvements or Updates have been completed in a workmanlike manner and the reasonable value of the improvement. If the City, in its reasonable discretion, is unsatisfied with the documentation provided by the Homeowner, it may base its determination of the value of the Improvements upon an estimation provided by an objective third party professional who is knowledgeable about local construction costs and practices. At the conclusion of this process the Division of Housing will send a written statement of approved Capital Improvement or Update credit to the Homeowner.

**Maintenance of your home**

Homeowners receive appreciation of at least 1% annually. Homeowners are required to maintain their homes in "good, safe and habitable condition" by the covenant they have accepted.

To ensure adequate maintenance has been carried out, the following process will take place at time of resale.

1. Buyers will be required to have a professional inspection carried out by a Nationally Certified Inspector of their choice.

2. Homeowners must rectify inspection deficiencies except those considered to be minor cosmetic items, or reduce the resale price by the cost of repair.

3. The Division of Housing will determine in the case of dispute whether deficiencies are considered minor cosmetic items.

4. If the Homeowner refuses to correct inspection deficiencies and the Division of Housing determines they are items that need to be corrected by the Homeowner, the cost of repairs will be deducted from the maximum resale price. The Division of Housing may also apply an administration fee to ensure needed repairs are made.

**Home Owners Association Dues**

Home Owners Association (HOA) dues are not an eligible capital improvement.
APPROVED POLICY GOVERNING THE CAPITAL IMPROVEMENT CREDITS FOR HOMEOWNERS OF PERMANENTLY AFFORDABLE HOUSING UNITS.

In witness whereof:

John Pollak
Co-Director of Housing & Human Services.

Attest:

Jeff Yegian
Home Ownership Program Manager

Date
Thistle Community Land Trust (CLT)
Qualified Capital Improvement (QCI) Application

Name: __________________________ Date: ______________

Address: __________________________
Contact Phone: ______________________

Email: ____________________________

Scope/Description of Proposed Improvement (including timeline): __________________________

________________________
Estimated Work Start Date:

Contact Thistle Staff at x103 to schedule a walk-through; this is part of the improvement approval process.

Estimated Work Completion Date: __________________________

Building Permits: Building Permits are applied for in person in the city in which you live: 1739 Broadway, 3rd floor, Boulder (303-441-1880); 1290 S. Public Road, Lafayette (303-665-5588); Civic Center, 550 Kimbark Street, Longmont (303-651-8372).

Permits applied for: __________________________ Permits received: __________________________

(date) (date)

Items needed to begin application process (please attach):
Thistle staff will review your QCI application once all of the below items are received.

____ Copy of Homeowner’ Association’s Letter of Approval / Sign-off
____ Copy of Building Permit Application
____ Detailed Improvement Plans
____ List of Itemized Costs / Contractor’s Bid (two bids required if doing energy efficiency and/or accessibility work)

Items needed after preliminary approval and before work begins (please attach):
If your project meets the definition of a QCI and all of the below items are complete, Thistle will issue you a Project Start Letter.

____ Bid which will be used
____ Building Permit
____ Thistle walk-through

If you begin work before receiving approval from Thistle, you will not receive QCI credit for your improvement.

I hereby authorize Thistle Community Housing to release my QCI Application to my Homeowner’s Association, if applicable. Homeowner signature: __________________________ Date: __________________________

Thistle Community Housing
1845 Folsom Street, Boulder, CO 80302
Phone: (303) 443-0007  Fax: (303) 443-0098
www.thistlehousing.org

2005
Permitted Capital Improvements

The Town of Eagle encourages maintenance of a Local Employee Residence in good condition over time, while also balancing the need to assure there will be an ongoing of affordable housing for future residents. To that end, the selling owner may add the cost of certain capital improvements to the selling price of a Local Employee Residence during the time that the selling owner held title to the property. The cost of such permitted capital improvement shall not exceed 10% of the prior purchase price for each 10-year period (or fraction thereof) of the selling owner’s ownership of the property. Examples of Permitted Capital Improvements are:

1. The addition of a habitable room or storage space;
2. The finishing of uninhabitable space if it is converted into a habitable room;
3. The conversion of a carport into a completely enclosed garage;
4. The conversion of surface parking into a carport or garage (if allowed under the development/subdivision agreement);
5. Modifications or improvements to accommodate a person with a disability as defined in the Americans with Disabilities Act of 1990;
6. Improvements that reduce the consumption of energy;
7. Kitchen and bathroom renovations, including appliances and fixtures when a minimum of $2,000 in repairs has occurred and the kitchen/bathroom is at least 20 years old;
8. Replacement of the roof;
9. Replacement of the furnace;
10. Replacement of worn carpet of a similar grade and quality.

No other categories or types of expenditures may qualify as eligible capital improvements unless approved by the Town of Eagle. In order to receive credit for the capital improvements, a request must be submitted in writing prior to initiating the work. Plans for each capital improvement must be submitted at least twenty-one (21) days prior to initiating the work. Notification will be given to the owner within fourteen (14) days as to whether or not the proposal is conditionally approved. Upon completion of the work, copies of receipts must be submitted to the program administrator. A ten percent (10%) “sweat equity” credit may be added to the cost of the permitted capital improvements so long as no labor costs are included in the submitted receipts.

The value of the improvements will be added to the property in the year in which the improvements were completed. The year(s) in which eligible improvements are made will adjust the base value of the home from which a future home price will be established. Nothing in the deed restriction prohibits other improvements to the Local Employee Residence, however, credit will only be provided for approved capital improvements.
Table of Contents

Review of the Ground Lease and Covenant Page 2
Lease and Membership Fees Page 3
Taxes Page 3
Capital Improvement Credit Page 5
Homeowner’s Insurance Page 5
Refinances and Home Equity Loans Page 6
Selling Your Home Page 6
Ongoing HomeOwnership Center Services Page 7
CHT Loan Fund Page 7
Champlain Housing Trust Membership Page 7
Keeping in Touch with CHT Page 7
At the beginning of each calendar year, CHT will send all tax-paying leaseholders a statement of what they paid during the previous year. The payments will be broken out into what was applied to Taxes, Lease Fees, and any prior balances. It is important for leaseholders to keep current with the taxes paid to CHT, as they can only claim those taxes actually paid, when filing their Federal and State Income Tax forms. CHT will also send copies of the tax bills that correspond to the prior calendar year as reference. In an effort to make the filing of taxes for leaseholders more convenient, we will also send an informational letter describing how these statements affect your filing needs.

In Vermont, homeowners are required to file the form every year by April 15th to declare their residence as a Homestead. Each tax bill has a SPAN Number that identifies an individual property. If you receive only one tax bill for your home and the land it sits on, all of the information you need in included on that bill and you have a single SPAN Number. If you are being billed by CHT for taxes on the land under your home, there are two tax bills (one for land, one for home) thus there are two SPAN Numbers. CHT and the Tax Department have finally decided that the leaseholder is responsible for filing a Homestead Declaration form each year for the home only. Use the SPAN Number on the bill provided to you by either your town clerk's office or your mortgage lender. CHT is responsible for filing the form for the land portion, and will do so each year.

At the end of each January, CHT will send out a statement to all homeowners who have separate land tax bills, indicating the total amount of tax that you have paid so you can claim it on your Homestead Declaration. The Tax Department provides a line for you to indicate the amount of "Municipal Tax Allocated from Land Trust, Co-op, or Nonprofit Mobile Home Park," and one for "Education Tax Allocated from Land Trust, Co-op or Nonprofit Mobile Home Park." Remember that you can only claim the amount of tax you have actually paid to CHT.

**Taxes - Condos**

Taxes for condominium owners are billed to the homeowner directly and condominium owners only have one SPAN number to use when filing the Homestead Declaration form. Because there is no ownership of land involved in owning a condominium, filing the Homestead Declaration form is fairly straightforward. CHT has no involvement in this process with condo owners.

If you have questions about your taxes that relate to CHT, you can contact Josh Chant in the Accounting Department at 862-5536.

**Capital Improvement Credit**

Remember that if you are making significant improvements to your home, you should keep a record of the work you are doing. As it states in the documentation you signed at purchase, CHT has a capital improvement credit policy. If you add market value to your home by upgrading and improving it, you can get 100% credit for the
market value that you have added. If you do a major project, (like build an addition to or remodel your home), you should order a fair market “fee simple” appraisal of the value before you start the project. Then, immediately after the project is complete, you should have the appraiser return to determine the new value with the improvements. You will submit the two appraisals to CHT for our review, and we will determine your capital improvement credit. The increase in value will be credited to you when you sell or refinance, in addition to your share of the remaining appreciation as laid out in the formula in your agreement with CHT. We can refer you to appraisers in the area if you wish.

It is important to remember the distinction between the value of your improvement and what you may have spent on the improvement. That is to say; you may have spent $5,000 on an improvement; however it may only add $2,000 of value to your home. It is also important to remember that not every improvement will add market value to your home. Generally, a capital improvement is something that a subsequent buyer would pay extra for (for example, an extra bathroom). If you are doing small projects on your own over time, you should keep a file with “before” and “after” photos of your work, and receipts from materials and costs associated with the work. CHT does not reimburse for expenses, this is simply for the purpose of documenting the improvements. If you have good documentation of the work done on the home, CHT can ask the appraiser to review this at time of resale and try to establish a value for the improvements. We will credit you for capital improvements as established by the appraiser.

Homeowner's Insurance
You need to maintain homeowners insurance (sometimes called hazard insurance) on your home. If you own a Single Family Home, your insurance policy must list CHT as an “additional insured party.” If you get a grant from the Vermont Housing and Conservation Board (VHCB), you need to have VHCB listed as a “loss payee” on your policy. If you own a condominium, we ask that you request that CHT be listed as “additional insured” or “additional interest” on your policy, though not all insurance agents will honor this request. Remember that if you change insurance companies, you need to add us to your new policy as an “additional insured.” These measures assure CHT that your home is properly insured and that CHT will be notified if the insurance is cancelled or if there is an insurance claim on the home.

Refinances or Home Equity Loans
If you own a CHT Single Family Home or condominium, it is important to contact the Land Trust when you are thinking about refinancing or taking out a home equity loan. Not all lenders will refinance a Land Trust property and we can provide a referral list of lenders who have refinanced Land Trust homes. A CHT staff member will need to review your proposed loan and prepare documents for your closing. This process generally takes a few weeks and CHT does charge a fee of $225, plus legal fees. Remember, because you have agreed to share your appreciation with the land trust, you can only borrow against the share of the equity in the home.
HOMEOWNERSHIP
CAPITAL IMPROVEMENTS POLICY

The WHA’s Capital Improvements Policy is intended to help ensure that units in the Resident Restricted Housing inventory are kept in a well maintained, livable and functioning condition. Long term affordability is a primary component of these units for future residents and therefore luxury, high-end items chosen over standard upgrades will not be considered eligible for capital improvement credit. All upgrades must conform to RMOW building codes.

This policy pertains to the following resident restricted housing projects whose housing agreements were registered on title before June 12th 2006:

- Gondola Six
- Spunre Grove Townhouses
- Glaciers Ridge
- McKeever’s Place
- Millar’s Ridge (only if resale price formula has been placed on title)

For a capital improvement request to be considered, the following steps must be taken:

1. Prior to commencement of a capital improvement, an owner must complete and submit to the WHA the attached form: Request for Conditional Capital Improvement Credit.

2. WHA staff will review the capital improvement request and notify the owner in writing whether or not the proposed expenditure is approved conditionally as an eligible capital improvement.

3. Upon completion of the conditionally approved improvement, the owner must submit copies (not originals) of receipts to the WHA verifying the cost of the capital improvement.

4. The WHA (and/or RMOW staff) shall have the right to inspect the property at times that are mutually convenient to the WHA and the homeowner to confirm that the capital improvement has been completed in an appropriate manner and for a cost consistent with the costs outlined in the Request for Conditional Capital Improvement Credit.

5. Upon satisfaction that the improvement has been completed in an appropriate manner and consistent with the request, the WHA will send a written statement of approved capital improvement credit to the owner.

The maximum amount of eligible capital improvements that can be added to the resale price of the unit will be $1,000 per each year that the current owner has owned the property. This eligible amount may also be considered over a multi-year period, for example, $3,000 over five years. The approved eligible capital improvement credit will be added to the resale price of the property at the time of resale and will not accrue any appreciation value.
Capital Improvements

Capital improvements eligible for credit are items which conform to RMOW building standards and which can be categorized as one or more of the following:

A. Provide additional permanent storage space to the unit
B. Significantly reduce energy and/or water consumption in the unit
C. Add a conforming bathroom
D. Significantly reduce maintenance costs of the unit
E. Make a special request for approval to the WHA Board of Directors

Eligible Capital Improvements

Any upgrades made to a restricted unit must be consistent with RMOW building codes as well as any state-by-law pertinent to the respective property. The following capital improvements will be of a permanent nature and may be added to the current price, provided that they were not included in the original purchase price of the unit:

1. Additional permanent storage closets (ie. built-in cabinets)
2. Improvements which reduce energy consumption and/or water consumption
3. Flooring: wood, laminate, cork, slate, ceramic
4. Daylighting upgrades to increase natural light entering the unit

Improvements Not Eligible for Capital Improvement Credit

In general, items that do not meet criteria A, B, C, or D are not eligible for capital improvement credit. The following items are examples of improvements normally considered to be non-permanent or cosmetic, and credit will not be given for these types of items:

1. Interior or exterior painting
2. Additional fixtures or replacement of existing fixtures (kitchen, bathroom, light)
3. Wallpaper
4. Paneling on previously finished walls or ceilings
5. Removable shelving
6. Substitution of towel racks and other bathroom or kitchen accessories
7. Heated air or portable heaters
8. Window air-conditioners
9. Decks
10. Television antennas or satellite dishes
11. Replacement of window panes, hot water tanks, heating units
12. Conversion of existing area to another use (except for a bathroom)

THIS POLICY IS INTENDED TO REFLECT THE GOALS AND MANDATE OF THE WHA. IF AT ANY TIME IN THE FUTURE CHANGES IN MARKET CONDITIONS OR GATHERED EXPERIENCE RESULT IN THIS POLICY DEVIATING FROM ITS INTENDED USE THE WHA RESERVES THE RIGHT TO MAKE ANY REQUIRED CHANGES.

PERSONAL INFORMATION REQUESTED ON THIS FORM IS COLLECTED AND USED SOLELY FOR THE PURPOSE OF PROCESSING AND ADMINISTRATION OF THIS APPLICATION AS AUTHORIZED BY THE FREEDOM OF INFORMATION AND PROTECTION ACT.
Request for Conditional Capital Improvement Credit

RE: Civic Address: ________________, Whistler, BC (the "Property")

I / We ________________, registered owner(s) of the Property, request to the Whistler Housing Authority that the following capital improvements be considered for credit.

The following work proposed is an eligible capital improvement because it will:
(check all which apply)

☐ Add additional permanent storage space to the unit
☐ Significantly reduce energy and/or water consumption in the unit
☐ Add a conforming bathroom
☐ Significantly reduce maintenance costs of the unit
☐ Make a special request to the WHA Board of Directors

<table>
<thead>
<tr>
<th>Proposed Capital Improvement</th>
<th>Estimated date of work completed</th>
<th>Estimated cost of Capital Improvement</th>
<th>Name of person or company conducting the work</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Cost of Proposed Capital Improvements: ________________

Signature ________________________________ Date __________________

Please Confirm Your Contact Information:
Name ________________________________
Mailing Address _________________________
Phone ________________________________
Email ________________________________
LOAN DISCLOSURE INFORMATION

SAN FRANCISCO
REDEVELOPMENT AGENCY

LIMITED EQUITY
HOMEOWNERSHIP PROGRAM

Loan Disclosure Information

MAY 2005
depreciated by a factor of 7% per year from the date of the capital improvement’s completion.

**#3: Minimum Resale Value**

As described above, the resale affordable purchase price is subject to variable factors that fluctuate over time, such as mortgage interest rates, taxes, and insurance costs. Because of the variability of these factors, **owners assume some risk when they purchase their homes!** For example, if the interest rate used in the pricing calculation increases from the time of initial purchase to time of resale, and increases in AMI over that same time do not compensate for the interest rate increase, a resale affordable purchase price could actually be lower than the original price an owner paid. The Agency’s use of the 10-year rolling average of interest rates is intended to minimize the interest rate risk at resale, but there is no guarantee that the available interest rates or the 10-year average will not increase over time. To further minimize the risk owners take when they participate in the Program, the Agency will increase the applicable AMI level on a resale, up to 120% of AMI, when the original AMI level applicable to that home does not result in a resale affordable price high enough to pay off the original value of the first mortgage.

If, after making this adjustment to ensure first mortgage payoff, the resultant resale affordable price is still not high enough to return an owner’s original down payment funds and to cover standard closing expenses, the Agency will deposit funds into escrow to cover these expenses, as a credit to the owner.

The Agency’s goal is to ensure that owners in the Program will recover at least the original purchase price of their home, so that their sale proceeds equal, at a minimum, the
THIS GROUND LEASE AGREEMENT made and entered into this _____ day of
______________, 20___, by and between ESCAMBIA COUNTY
COMMUNITY LAND TRUST, INC. (henceforth ECCLT), Lessor, and
______________________________, Lessee.

WHEREAS, ECCLT is organized for the charitable purposes: of establishing
and maintaining affordable housing for low and moderate income
households; of providing access to land and decent housing; of conserving
land and natural resources by fostering responsible and perpetual occupancy;
and, of acquiring property for resale to low and moderate income households
to provide entry into the local homeownership marketplace which remains
foreclosed to them as a matter of limited financial resources;

AND WHEREAS, the goal of ECCLT is to stimulate the conveyance of
affordable and decent residential housing among low and moderate income
homeowners through the perpetual leasing of the ground under said housing;

AND WHEREAS, the Leased Premises described hereunder have been
purchased by ECCLT for good and valuable consideration in furtherance of
the goal of perpetual occupancy of the Leased Premises by and resale of the
improvements located thereon among low and moderate income households;

AND WHEREAS, the terms and conditions of this Ground Lease Agreement,
despite their unusual nature, have been freely accepted by the parties each
with the independent and informed advice of legal counsel, and exist in
furtherance of the goal of perpetual occupancy of the Leased Premises by
and resale of the improvements located thereon among low and moderate
income households;
or the remaining state of the land after such removal shall not affect Lessee's ownership of or title to such improvement.

7.2 HOUSING CODES: Any structures located on the Leased Premises must meet applicable federal, state, county and/or municipal regulations regarding such structures. Furthermore, each dwelling must have a sewage disposal system that meets Department of Public Health requirements.

7.3 CAPITAL IMPROVEMENTS:
A. Written Notice by Lessee: Whenever Lessee shall desire to undertake to construct any major improvements outside the planes of the exterior walls, roof, and basement of the existing structure or structures located on the Leased Premises, they must notify the Lessor in writing of their intentions. Such written notice shall include a plan describing fully the proposed construction and its potential impact on the Leased Premises and the surrounding lands.

B. Title: Lessee will own and have title vis-à-vis the Lessor to any improvements constructed on the Leased Premises.

C. Mechanics' and Suppliers' Liens: No lien for services, labor or materials resulting from Lessee's capital improvements shall attach to the Lessor's title to the Leased Premises described in Exhibit B or any other lands owned by Lessor, by reason of any construction undertaken by Lessee in, upon, under, or over the Leased Premises.

7.4 CREDIT FOR CAPITAL IMPROVEMENTS: In the event Lessor exercises its option to purchase the improvements located on the Leased Premises, as set forth in Article XV of this lease, Lessor agrees to pay, and Lessee agrees to accept a Capital Improvement Credit which shall be equal to the lesser of: 1) the value which each capital improvement adds to Lessee's property or, 2) a
Maximum Capital Improvement Credit computed pursuant to this Section 7.4.

A. Procedure.

1) Prior to undertaking construction or modification of any structure located on the Leased Premises for which Lessee desires to receive a Capital Improvement Credit, and at Lessee's expense, a market appraisal of all structures located on the Leased Premises shall be performed by a mutually acceptable property appraiser that has been approved by the Florida Real Estate Appraisal Board. The appraisal shall be conducted by analysis and comparison of comparable properties, disregarding the restrictions of this lease on the use and transfer of the Leased Premises and the improvements located thereon, and further disregarding restrictions set forth in Lessee's Declaration(s) of Covenant of even date and recorded in the appropriate municipal or town land records. The appraisal shall include an estimate of value before construction or modification is undertaken (the "pre-construction market value"), and another estimate of value assuming the construction or modification is completed in accordance with brief written specifications furnished by Lessee (the "post-construction market value"). A copy of this appraisal shall be submitted to Lessor and attached to this lease as Exhibit D. This procedure shall be followed each time Lessee desires to receive a Capital Improvement Credit. Each appraisal shall be submitted to Lessor and attached to Exhibit D as Exhibit D-2, D-3, and so forth. The most recent attachment to Exhibit D shall be controlling for purposes of computing each successive credit.

2) Within fifteen (15) working days of Lessor's receipt of the appraisal, Lessor shall provide Lessee with written notice of the Maximum Capital Improvement Credit to be allowed. A copy of this notice shall be attached to this lease as Exhibit E. This procedure shall be followed each time Lessee desires to receive a Capital Improvement Credit. A copy of each notice shall be attached to Exhibit E as Exhibit E-2, E-3, and so forth. The most recent...
attachment to Exhibit E shall be controlling for purposes of computing each successive credit.

3) Within sixty (60) days of substantial completion of construction or modifications, and at Lessee's expense, a market appraisal of all structures on the Leased Premises shall be performed by a mutually acceptable property appraiser that has been approved by the Florida Real Estate Appraisal Board. This appraisal may be a brief update of the appraisal performed before construction. A copy of this appraisal shall be submitted to Lessor and attached to this lease as Exhibit F. This procedure shall be followed each time Lessee desires to receive a Capital Improvement Credit. Each appraisal shall be submitted to Lessor and attached to Exhibit F as Exhibit F-2, F-3, and so forth. The most recent attachment to Exhibit F shall be controlling for purposes of computing each successive credit.

8. Definitions:

1) "Maximum Capital Improvement Credit" shall be the current Florida Housing Finance Corporation maximum home purchase price for an existing single family minus the Lessor's Option price as though it were paid on or about the date of Lessor's receipt of Exhibit D. If the Florida Housing Finance Corporation no longer exists or does not have a maximum home purchase price, some other comparable index shall be used.

C. Calculation of the Capital Improvement Credit

The Capital Improvement Credit shall be the LESSER of the following:

1) a) The market value of all structures on or about the date of substantial completion of construction or modification as indicated by Exhibit F; less, b) the pre-construction market value of all structures as indicated by Exhibit D; equals, c) the value added by construction or modification; OR 2) The Maximum Capital Improvement Credit as indicated by Exhibit E.
Lessee agrees that the Capital Improvement Credit as determined by the procedures and formulas described herein constitutes fair compensation for all construction or modifications to Lessee's property. In the event Lessor exercises its option to purchase the improvements pursuant to Article XV of this Ground Lease Agreement, Lessor agrees to include such Capital Improvement Credit in its option price provided the procedures set forth in this Section are followed and Exhibits D, E and F are in evidence.

THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK
The Highland Park Illinois Community Land Trust retains the land while selling homes at below-market value. The land is leased at a nominal cost to income-qualified buyers.

**Background**

The Highland Park Community Land Trust (HPICLT) is a private nonprofit organization that was created by, but is now independent of, the City of Highland Park. As a key recommendation in the city's Affordable Housing Plan, the land trust was established to own land and maintain long-term affordability on that land. After the Affordable Housing Plan was adopted in January 2001, the Housing Commission prepared a strategy for creating a land trust. The Highland Park City Council adopted a resolution approving this strategy and appointing a Community Land Trust Task Force, consisting of members of the public, to develop more detailed recommendations. The Council established the land trust through a resolution adopting the Task Force recommendation in March 2001. The HPICLT was fully operational by March 2003.

Initially, a pilot land trust program acquired and sold three housing units (two single-family and one condominium). Since its formal establishment in 2003, the land trust has built a successful, well-designed six-unit townhome development for families in late 2004, and has been acquiring single-family properties to redevelop and sell at below-market rates to income-qualified buyers. The land trust has completed a total of nine homes (six townhomes, two single-family, and one condominium), and is currently acquiring three scattered-site units.

**How it Works**

Properties are acquired through market purchase and land donations. The land trust retains the title to the land while selling homes on it at below-market value. The land is leased at a nominal cost to income-qualified buyers, who must earn at or below 115 percent of area median income (AMI) (approximately $86,710 in 2006), although priority is given to those earning at or below 80 percent AMI. (approximately $59,600 in 2006 for a family of four). Future affordability is maintained through a ground lease, which requires homes on the land to be either sold back to the land trust or to another income-qualified buyer. The resale

---

**Goal**
Build and preserve housing that is and will continue to be affordable to low and moderate-income families.

**Target**
Households earning at or below 115% AMI ($86,710 for a family of four in 2006), with priority given to those at or below 80% AMI ($59,600 for a family of four in 2006).

**Financing**
Annual amount depends on current private development activity. Development funding is provided on an annual basis. Sources typically include:
- Lake County
- Federal Home Loan Bank
- Illinois Housing Development Authority
- Operations funding sources typically include:
  - Highland Park Affordable Housing Trust Fund
  - Donations and grants

**Success**
3 units completed through pilot program (precursor to the land trust); 9 units completed since 2003.

**Lessons Learned**
Being able to control the land and future sales of affordable units allows Highland Park to ensure that homes created by the land trust remain affordable for the long term.
amount is determined by a formula (right) that provides a fair return on investment to the seller, but also ensures the property remains affordable to future purchasers.

Highland Park seniors who are looking to sell their property within the city are encouraged to sell to the land trust. The trust will purchase the property at a negotiated price, up to five percent over the appraised value. This five percent figure is not a guarantee, but rather an internal control for the acquisition of the property. As an additional incentive for senior citizens to sell to the land trust, they will receive preference on the waiting lists for properties created through the work of the land trust at the Highland Park Housing Commission.

To maintain a strong working relationship with the city, three of the nine land trust board members are appointed by the Highland Park mayor, at least one is a member of the Housing Commission, and another is a member of the City Council.

Financing

Start-up costs for the land trust were funded with resources from the Highland Park Affordable Housing Trust Fund. The trust fund and land trust were created together to provide financial support for affordable housing activities that address the needs of low and moderate-income individuals and families. As a private organization, the land trust now raises its own funds, as well as receives funding from the trust fund by application. For development purposes, the land trust receives money from traditional sources such as Lake County, the Federal Home Loan Bank, and Illinois Housing Development Authority. Operating costs are covered with resources from the trust fund, private donations, individuals, banks, and foundations.

The land trust is financing for development. Given its small staff size, the annual operating budget of the land trust has been roughly $150,000. The development budget is contingent upon the types of developments with which the land trust is involved. The total estimated cost for the three-unit scattered site acquisition and rehabilitation project it is currently working on is $1,053,000, including acquisition, rehabilitation, and soft costs such as insurance, utilities, and legal fees.

Highland Park's Community Land Trust received $70,000 from the City of Highland Park in the first year and $100,000 in its second year for operation expenses. For development expenses, the land trust received a grant for $235,000 from the city for its six-unit townhouse development, and $270,100 for its three-unit scattered site acquisition.
# Table of Contents

Executive Summary.................................................................................................................. 2

Introduction

> How do capital improvements differ from ordinary maintenance?................................. 4
> How does a capital improvement policy work with a resale formula?......................... 4
> What should be the goals of a capital improvement credit policy?.............................. 5

Major Components of a Capital Improvement Policy

> What percentage of a capital improvement expense should accrue to homeowner’s equity?.................................................................................................................. 6
> Which improvements should qualify as capital improvements?........................................ 6
> Should a homeowner be required to get approval before beginning a capital improvement?............................................................................................................. 8
> Should the size of the credit be based on what the homeowner spends or the appraised value of the improvement?............................................................... 8
> Should the credit be capped at some amount in order to preserve affordability into the future?..................................................................................................... 9
> How should the credit be applied to the resale price calculation?................................. 10
> In which legal documents should the capital improvement credit be included?........... 10

Recommendations for Madison Area Community Land Trust

> Recommended policy components................................................................................. 11
> Goals Matrix.................................................................................................................. 13

Appendices

> Appendix 1. Summary of capital improvement policies of various CLTs....................... 14
> Appendix 2. Documentation of other CLT Capital Improvement policies.................... 17
CAPITAL IMPROVEMENT CREDITS IN A COMMUNITY LAND TRUST

Compensating and Incentivizing Homeowners While Preserving Affordability to Future Homeowners

Executive Summary

A capital improvement credit is a mechanism for Community Land Trusts (CLTs) to encourage their member homeowners to undertake significant improvements to their property by raising the formula price on resale restricted homes by the amount of the credit. Although there are many possible configurations, a policy should be drafted to reflect the goals of *stewardship, fairness, and simplicity.*

In considering a capital improvement policy, MACLT will need to answer the following questions:

**Questions**

- What percentage of a capital improvement project should be included in the credit?
- Which improvements should qualify as capital improvements?
- Should a homeowner be required to get approval before beginning a capital improvement?
- Should the size of the credit be based on what the homeowner spends or the appraised value of the improvement?
- Should the credit be capped at some amount in order to preserve affordability into the future?
- How should the credit be applied to the resale price calculation?
- In which legal documents should the policy be written?
Based on research of other CLT practices and in keeping with the goals of stewardship, fairness, and equity, the authors recommend the following provisions be included in a capital improvement policy for capital improvements:

**Recommendations**

- Credit homeowners with the increase in market value to the home resulting from the project.

- Require homeowners who wish to apply for the credit to obtain an appraisal before and after the project.

- Limit eligible projects by providing a list of pre-approved improvements and a process for submitting other proposed improvements to the board for approval if they will significantly add to the value of the home.

- Limit the amount of capital improvement credit that can be applied to any one home.

- Adopt the capital improvement policy as an amendment to the declaration of restrictive covenants.

- Adopt a separate retroactive policy for homeowners who have already undertaken significant improvements.

These recommendations are based on the information we have about MACLT and the assumptions we made regarding competing goals. While this report includes some specific recommendations, we acknowledge that MACLT may place different weights on the competing goals than the authors of this report did. A different balancing of goals may result in different choices by MACLT. The purpose of this document is to organize information in a way that, even if MACLT chooses not to follow its recommendation, the report can still guide the organization to make its own decision.