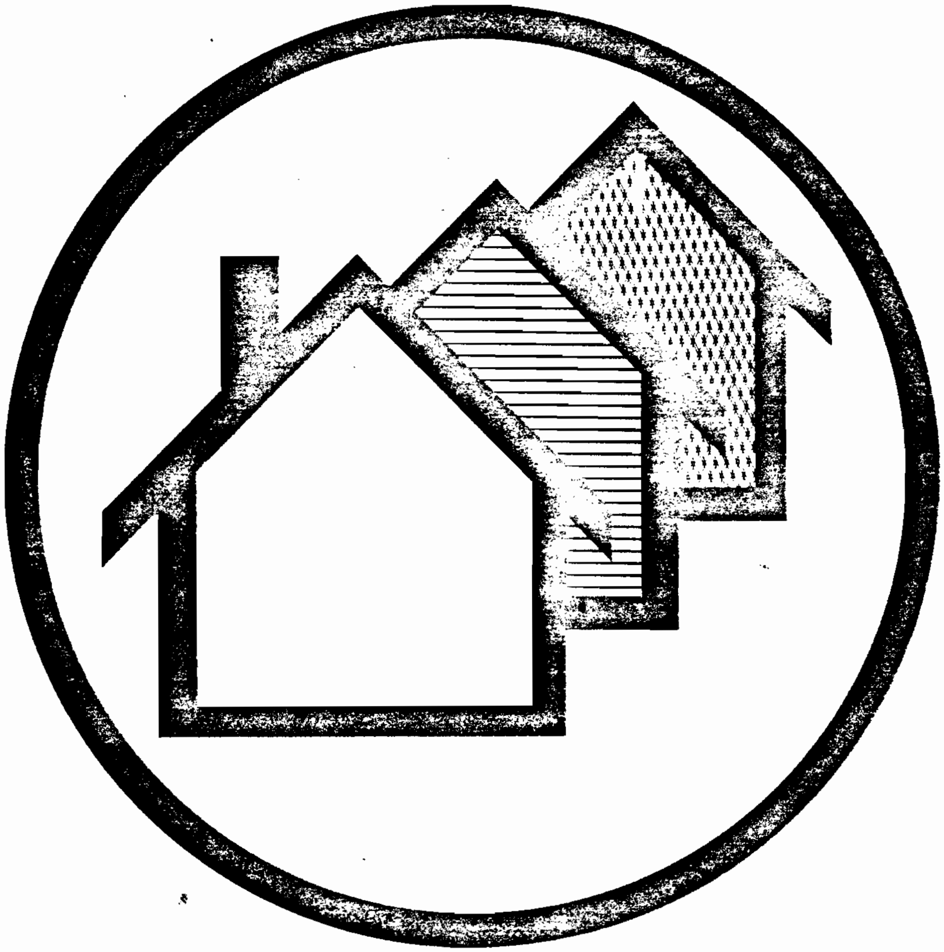
U.S. Department of Housing and Urban Development
Office of Policy Development and Research



COOPERATIVE HOUSING

The Rural Cooperative Housing Demonstration Program: Observations and Assessments

Battelle
Columbus Laboratories

FOREWORD

The Rural Cooperative Housing Demonstration program was undertaken as an effort sponsored by the Office of Policy Development and Research of the U.S. Department of Housing and Urban Development, with the assessment of the program being an effort of Battelle's Columbus Division. Throughout the conduct of this work, the basic question pursued was whether small, self-managed cooperative housing presented a viable alternative for low-income rural families. While it had been demonstrated before this program that this form of housing was feasible, a more critical issue was really involved. Specifically, is it possible to convene a group of experienced housing specialists and, with appropriate training and materials, develop a delivery system which would enhance the process?

This assessment had to consider many different structural and operational features of the delivery system, and derive from these features some generally transferable results.

The development of cooperative housing involves a complex weave of actors who represent a variety of interests and agendas. To understand the individual processes and activities, and to place them in a context which accounts for different environemnts, the assessment rests on the results of many interviews and observations, the reading of voluminous monthly reports from all the participants in the program, and visits with interested parties, ranging from Federal agency representatives to the cooperators themselves.

No project of this magnitude (including both the demonstration and the assessment) could be carried out with the efforts and cooperation of a group of dedicated workers. Their inputs and insights have been invaluable, and the contributions of their time and talents are gratefully acknowledged.

Special thanks are due to the following people and organizations who have given so generously of their time, who have pursued cooperative housing with an almost evangelical zeal, and who have provided thoughtful comments on the manuscript.

U.S. Department of Housing and Urban Development: Terrence Connell and Harold Williams

Rural America:Cheryl Keepers, Ervan Buenemann, Jeanine Kleimo and Thomas Payne.

Rural Community Assistance Corporation: William French, Martin Zone, and Ellen Reed

Self-Help Enterprises: Jerry Leggitt

National Council of La Raza: Kathy Hansen, Mark van Brunt, and Donald Conrad

Tierra del Sol: Rose Garcia and Tina Padilla-King

Federation of Southern Cooperatives: Cleo Askew

Northern Cooperative Resources: Russell Hahn and William Batko

Taos Housing Authority: Horacio Trujillo

While they have provided a variety of experiences, anecdotes and horror stories, the assimilation, sifting, and interpretation has been solely the responsibility of the authors of this Final Report.

TABLE OF CONTENTS

THE RURAL COOPERATIVE HOUSING DEMONSTRATION PROGRAM:
OBSERVATIONS AND ASSESSMENT

by

J. J. Duga and T. R. Martineau

December, 1982

SUMMARY

Cooperative housing--as has been practiced for many years in urban settings--is a concept which provides an alternative to either rental or outright ownership of property. Faced with less-than-desirable living conditions and the insecurity of potential eviction, many cooperatives were developed over the past several decades in and around major industrial centers of the East and Midwest. Much of our present knowledge regarding cooperative housing has come from that urban experience.

However, more recent efforts have been directed toward the development of cooperatives for an entirely different segment of the population: the rural low-income family. Acting under provisions of selected home mortgage programs within the Farmers Home Administration (FmHA), cooperative housing projects were created to ease the plight of farm workers in California, thus providing the impetus and experience which grew into the Rural Cooperative Housing Demonstration (RCHD) program.

The early experiences of the California organizations demonstrated most effectively that the development of cooperative housing is a long and tedious effort. It requires an understanding of cooperative principles which go beyond those of the more familiar growing, selling, and distribution cooperatives that are common in agriculture. And it requires that such understanding be attained not only by the cooperators themselves but also by the cognizant lending institutions and other parties of interest.

Because of the complexity of the process, the developers of the RCHD recognized that the realization of cooperative housing might be accelerated by the use of formalized technical assistance, this being provided by specialists well versed in community organization, the process of housing development, and the application of the provisions of FmHA (and other) loan programs. Thus was born the concept of the Technical Service Organization (TSO), an entity or individual who could assist the target clientele in the attainment of their housing goals.

Clearly, the TSO is the key to the development of any single cooperative housing project. All else being equal, an effective TSO operation assists in covering all aspects of the activity, from the initial stage of creating a housing cooperative to the final stage of (self-managed)

cooperative housing. (It is essential to make the distinction between a housing cooperative--which is, in reality, a means to an end, a group of participants aiming toward an eventual structural entity--and coopertive housing, the finished and occupied physical plant itself).

The RCHD was designed to determine whether a loosely-knit federation of TSOs could have an impact on the delivery of cooperative housing. Could the presence and activities of the TSO serve to accelerate the process? Would the resultant ultimate structure maintain its physical and operational integrity? Would the product--including both the housing and the participants--represent a long-term, economically viable institution? And would the collection of TSOs, operating in different parts of the country, with differing types of clients, and with different environments, provide mutual assistance through the sharing of experiences and approaches.

The assessment of this activity resulted in several principal findings relative to the concept of cooperative housing, the roles of the TSOs, the efficacy of the network (with its central coordinator), and the major impediments to progress. Briefly, it must be emphasized that under the right conditions, cooperative housing for low-income rural families can and does work.

Furthermore, the TSO role is essential, but it must be exercised by institutions or individuals who are truly professional. They must be able to teach, to have full knowledge of what is permitted under existing programs and rules, and be able to relate both to their clients (the cooperators) and the representatives of cognizant lending agencies.

As operated under the RCHD program, the network concept never reached its full potential, partly because of the size of the consortium of TSOs and their highly individualized styles, and partly because the advocacy efforts of the central coordinator were not well matched with the existing political and budgetary thrusts in Washington.

In many respects, the impediments to the development of cooperative housing have come from the major lending institutions, principally FmHA. As is evidenced by the case histories of the individual cooperatives, almost all barriers were traceable to interactions with FmHA. However, it must be emphasized that not all such complaints are valid or one-sided. Given the budgetary constraints, a change in Administration during the program, an insufficient appreciation of cooperative housing principles (as opposed to the more conventional home ownership or rental programs), and an often overzealous enthusiasm of the TSOs and cooperators, it is not surprising that all did not go smoothly.

It is appropriate to restate the earlier comment, "all else being equal", for in actual practice, all else is never equal. The RCHD showed clearly that many problems arise during the arduous path from potential client identification to the operation of a working cooperative housing project. Viability, from the economic point of view is dependent upon the extent to which family income (both earned and subsidized) is sufficient to prevent foreclosure, to cover operating and maintenance costs, and to protect the integrity of the structures and investment. And viability, from a non-economic point of view, is dependent upon the extent to which the cooperators accept the responsibilities which are attendant to this form of housing. Are they willing and able to provide the necessary leadership and talents? Are they satisfied with a limited-equity holding in return for control over their housing? Are they willing to sacrifice individual goals and desires for community needs? And from both points of view, one must ask whether there are optimum sizes and designs for cooperative housing.

The great variability in "success" of the housing cooperatives and of cooperative housing derives from all of these issues. This form of housing is not a panacea. It will not solve the problems of all the rural low-income families. It will not replace conventional rental and public housing programs. And no single approach or clientele will fully satisfy the interests of the cooperators and the lending institutions alike.

However, it has been determined that the process can have a positive impact on the parties of interest, and that further efforts should be pursued.

The assessment undertaken here, with its supporting documents appended, should be viewed as a qualitative and judgemental observation of the RCHD. It is not an evaluation based upon masses of data and statistical manipulations. It shows what has happened and identifies generalizations relative to various elements and characteristics of the program. And it points to possible future considerations which should be viewed by Federal agencies, non-Federal public institutions, and private sector interests.

Regardless of the source of construction financing, any future efforts in cooperative housing (urban or rural, independent of family incomes) should be developed within the framework of a cash-flow plan that permits a long-term assessment of the financial stability. The approach must consider the various options (e.g., self-management and maintenance vs. contracted services, energy-efficient designs, mixes of families and talents, etc.) that are consistent with the clientele, and realistic expectations of the manner in which that clientele will change over time. Finally, the cash flow model should include consideration of the necessary and reasonable packaging or overhead fees that would cover the costs of any TSO-type activity.

There is considerble uncertainty as to whether near-future Federal programs (through FmHA, the Department of Housing and Urban Development, the Department of Labor, the Department of the Interior, or other agencies) will permit and provide for the cooperative housing option. Regardless of what the Federal posture may be, there are potential roles for other construction financing modes, including State government initiatives (e.g., housing construction bonds) and efforts within the private sector (e.g., individual, corporate, or institutional funding). In all of these cases, the decision to invest will rest largely on the expected return--an estimate of which must be derived from the cost model considerations noted above--and the extent to which a strong and capable TSO-type approach can be undertaken.

The full report contains a more detailed exposition and assessment of the principal findings of the RCHD, with three appendices: (1) a comparison of the RCHD and other technical assistance networks, with guidance regarding operational factors that influence success; (2) detailed case studies of the cooperatives initiated under the RCHD program; and (3) a discussion of private sector syndication options for cooperative financing.

THE RURAL COOPERATIVE HOUSING DEMONSTRATION PROGRAM: OBSERVATIONS AND ASSESSMENT

by

J. J. Duga and T. R. Martineau

December, 1982

INTRODUCTION

Housing--safe, sanitary, reliable, adequate housing--remains a major need across many segments of American society. Urban, suburban, and rural areas alike suffer from a shortage of housing which meets even the most basic needs for shelter, which provides sufficient protection from the elements, and which satisfies the minimum standards that are established throughout the country.

Even where adequate housing exists, there are signifcant problems which relate to initial affordability, to skyrocketing operation and management costs, to uncertainities inherent in access to housing stock, and to the long-term physical integrity of structures. While these types of problems are not confined to any particular setting, they are especially severe with regard to housing for low-income rural families. Whether one is speaking of farm laborers in California, Florida, or Oklahoma; or retirees and craftsmen in New England; or miscellaneous low-income rural workers in any part of the country, the problems are similar: adequate housing remains a pervasive and high-priority issue, one which is fraught with conflict and one which exacerbates other social concerns.

There is no simple answer to the housing problems which face low income rural families, any more so than there is a straightforward resolution of urban housing dilemmas. There are, however, some promising alternatives to traditional housing modes. Specifically, the concept of cooperative housing has received renewed attention as it applies to non-urban areas.

Over the past few years, a body of literature has been developed which traces the experiences of several rural cooperatives, and which provides general background for either potential developers or potential cooperators.* The literature cites numerous examples drawn from early American history, from the observations on European housing programs, and from developments in urban cooperatives in major U.S. cities. In many respects, the earlier literature review sets the stage for new actions and directions in rural cooperative housing; it defines many of the most pertinent issues and problem areas; and--most important--it serves to centralize and focus attention on the possibilities that can exist, provided that operational and institutional problems can be resolved.

In the context of the present discussion, perhaps one of the most important contributions to this literature is the work of Bornedave.** It is not so much a question of whether Bornedane's book is complete or definitive; it is more important to note that his research and activities set the stage for what has become the Rural Cooperative Housing Demonstration (RCHD) program. The RCHD--which is the focus ot this assessment report, and of which more will be said in the ensuing paragraphs--represents an effort at creating a systematic approach to cooperative housing delivery. And it is most significant to note, as seen in both Bornedave's writings and in the earlier

---

* Reference to this literature and the implications from a number of separate experiences is available in an earlier report "Past Practices in the Development of Cooperative Housing in the United States and an Analysis of Their Implications for Rural Areas", Battelle Columbus Division, Columbus, Ohio (1981).

** J. R. Bordenave, Of the People, By the People, For the People: Cooperative Housing for Rural America, Rural Community Assistance Corporation, Sacremento (1979).

Battelle review, that one can draw the unqualified conclusion that low-income rural housing cooperatives can work!

Given that endorsement, one must very quickly add that the creation of such a cooperative is not an automatic process. It is not one that is free from very difficult barriers. It does not proceed in a straightforward manner. And it is not a concept that is well understood by all the parties who might be involved.

The basic purposes of this report and its appendices are to review the rationale for the RCHD, to provide an accounting of the individual activities and projects pursued during the conduct of the demonstration, to discuss some of the major issues and barriers, and to make some suggestions relative to possible future actions. To this end, the report is written in such descriptive fashion so as to address Federal, state, local, or regional government entities, or private sector institutions--including investor groups, foundations, and industry--who have interest, responsibilities, or opportunities in such housing programs.

Cooperative housing for low income rural families is not a panacea: it is an option. It is not for everyone, for it embodies operational factors that place great responsibilities upon the parties involved. It requires a far greater effort to achieve ultimate goals, yet it has the potential for offering more than mere housing. A cooperative is more than an economic entity; it is also a social and institutional entity. And, as will be seen in later portions of this report, a cooperative involves processes well beyond those associated with other housing modes. The manner in which these processes flow--or do not flow--forms a theme which will be seen to thread throughout this report.

Background and Approach to the Assessment

The assessment of the Rural Cooperative Housing Demonstration (RCHD) was undertaken by the Battelle Columbus Division with the objectives of:

- providing an overview of the process
- collecting information relative to the roles of the participants

- examining those factors which enhanced or impeded the attainment of RCHD goals, and
- placing the findings in a context which can support the policy-making apparatus of Federal and non-Federal government agencies and the private sector.

As both public and private sector organizations consider housing needs (rural or urban, and low- or middle-income), a great number of questions and conflicts are raised. Some questions are purely investment-oriented: what form of housing construction, management, and ownership provides the most and safest return on investment?

Other questions are "top-down" socially-oriented: what is the nature of basic social responsibility to assist in housing for those who cannot afford even the minimum standards?

Other questions are "bottom-up" socially-oriented: does the availability of safe and decent housing have positive social impacts on the residents and on their contribution to the community?

And other questions touch upon the broader economic impact to the nation: given a significant focused input to a depressed construction industry, what are the direct and indirect benefits to other sectors of the economy?

These questions are not directly addressed in this study. However, the RCHD and its assessment serves to raise the issue of cooperative housing as a factor to be considered--along with other approaches--within the context of those questions. Effort should be directed toward the more quantitative aspects of these issues, for some of them are directly quantifiable. The economic impact of major construction programs can be measured; the dollar return on investments and the value of the property can be calculated. But the other questions on social impact cannot be addressed in a straightforward manner. It is in this latter field where decisionmaking will more likely be based on ideology.

During the course of the RCHD, Battelle assumed the sole posture of the observer, and did not enter into the management of the program, or decision-making relative to approaches to cooperative housing.

One cannot overemphasize the fact that the effort reported herein is an assessment, not an evaluation. It is qualitative and based upon extensive interviews, detailed review of reports, observations on the progress of individual and collective efforts, and discussions with RCHD participants at all levels. While it might be comforting to the reader to have more quantitative correlations among the various factors which have influenced the process of cooperative housing development, the RCHD was too small (in terms of numbers of continuing cooperative efforts) to result in hard data that would be statistically significant.

Principal Findings

Observation of the RCHD, over more than a two-year period, has led to the definition of specific findings (not presented in any order of relative importance).

1. Housing Cooperatives for Low-Income Rural Families Can and Do Work

The experience of low-income rural housing cooperatives shows that such entities can work very effectively, even in those cases where ultimate housing objectives have not yet been achieved. In spite of the fact that cooperative housing is still in various stages of development within the RCHD, it is obvious that housing cooperatives have made substantial gains.* Groups have been formed which display all the positive attributes of a housing cooperative, operating under organizational rules, participating in critical design and management decisionmaking, and planning for the eventual construction and occupation.

It is also apparent that the extent to which these organizational entities have progressed or folded is heavily influenced by the actions and activities of other parties of interest in the total process. The continuity of a housing cooperative has been seen to result in part, from the dedication,

---

* It is important to distinguish between "cooperative housing" (which is one of the major end products) and "housing cooperatives" (which are the institutional and social constructs established to pursue such ends). Unless that distinction is clearly grasped, then one misses the significance of the accomplishments of the RCHD.

dedication, empathy, and understanding provided by the Technical Service Organization (TSO).* Conversely, cooperatives have been forced into dormancy or dissolution by the lack of continued TSO support, or by adverse rulings from lending instititions.

2. There Is No Formula for Success, and There Are Many Formulae for Failure

The total process of forming cooperative housing or housing cooperatives is highly dependent upon an assortment of factors, the interactions among all of them, the changing environment in which the parties of interest must operate, and the often unpredictable or conflicting postures taken by these parties of interest. Were there a well-established set of rules and regulations, a large body of experience, and an established pathway which led from concept to occupancy, cooperative housing could be readily selected as an option which appealed to a particular client group. Lacking this mechanical approach, the formation of a housing cooperative can only follow rough guidelines that have been learned from the limited experience of others. And even then, there is no guarantee that all of the elements of the process can be readily replicated in a new context.

On the other hand, there are ample opportunities for failure--one need look only at those housing cooperatives which have been attempted by a potential client group and follow the accounts which relate their histories. Changes in funding policies for lending instiutions, changes in design parameters which are dictated by codes or (occasionally arbitrary) decisions, disaffection with the timing of progress, inadequate understandings of what cooperative housing is really all about--any one of these can trigger the collapse of potential cooperatives.

3. Technical Assistance Activities Play a Critical Role in Accomplishing Objectives

Conventional housing modes represent a "natural" objective, an end toward which no specialized approaches need be applied. However, cooperative

* For a definition of the TSO and other elements of the RCHD, the reader is referred to Appendix A (p. A-7).

housing offers an option that is neither well understood nor well articulated, particularly to low-income groups who may be multiply disadvantaged. Whether these disadvantages result from language differences, poverty, limited education, age, or a combination of forces, the exposure to cooperative housing concepts has been limited.* In addition, the mechanics of cooperative housing do not rest on "common sense" alone, for the path to ultimate objectives is complex, ever-changing, and tortuous.

It is thus obligatory that some form of technical assistance be provided, not only for the explication of the details of the process, but also for the development of the kinds of perceptions and skills required to function as a cooperative unit. In the absense of effective technical assistance --that which relates to the client group and even that which relates to the larger institutional environment with which the group must interact--neither housing cooperatives nor cooperative housing could be expected to result.

4. "Technical Assistance"--Stressing Basic Cooperative Concepts--is Essential for All Manner of Lending Institutions

While the emphasis under (3) above was directed toward that form of technical assistance required by potential cooperators, one cannot underplay the need to provide appropriate training and briefing materials to lending institutions or investors of all types. The concept of cooperative housing is perceived to be so different from "normal" home ownership patterns and operations that efforts to obtain financing are often met with objections which are based primarily on a lack of understanding of the proposal. That such should be the case is not unexpected; however, experience with selected lending institutions--particularly Federal agencies--suggests that a basic education and promotion activity can affect the perception, and impact on the lending practices.

---

* This is also true, of course, for the majority of the population in the U.S.

5. <u>There is Insufficient Evidence Relative to the Total Eventual Effectiveness of the RCHD Process</u>

While the general concept of the RCHD process, including the networking of Technical Service Organizations, has conceptual merit (see Appendix A), there is little evidence that the demonstration--in and of itself--has had a widespread significant impact on the availability of housing for the client group. That such should be the case is not surprising, given the complexity of the issue, the time frame over which the demonstration was carried out, and the significant economic, political and ideological changes that have been occurring in the country. <u>This does not mean to imply that the process or the demonstration was not successful</u>. It is more to the point to note that the barriers to accomplishing <u>selected</u> stated objectives (especially the actual construction, occupancy and management of a cooperative housing project) could not be relieved or circumvented during the specified time frame.

6. <u>There is Evidence to the Effect that the RCHD Process and Demonstration can Lead to the Accomplishment of both the Economic and Social Welfare Goals of Cooperatives</u>

As will be noted in greater detail in this report, cooperative housing offers opportunities which provide housing benefits, economic benefits, and social/community benefits directly to the participants and, indirectly, to the larger community in which they are located. While the basic concept of cooperatives is generally viewed as one in which the social and economic benefits are separable (and in which only the latter can be quantified), it is apparent that there are potential (and, in some cases, already realized) economic benefits which derive directly from the social aspects, thereby providing a rationale for measuring quantitatively some of these social benefits. Inasmuch as insufficient time has elapsed, there is no existing measure of the impact of the cooperative enterprise on factors such as operating and maintenance costs, enhanced (or at least constant) value of property, or the tradeoffs between costs of hired management/maintenance and self-management/maintenance.

7. Communications, in its Broadest Sense, Spells the Difference Between Action and Inaction

The cooperative housing process requires many detailed interactions among a broad spectrum of participants, each of whom represents very specific areas of interest. As in any complex negotiation process, a full understanding of the aspirations and limitations of each of the parties of interest is imperative. The importance of communications is not confined to relations between potential cooperators and, for example, a developer or trainer. It extends as well to communications within different operating levels of the same organizations (e.g., national, state and district offices of Federal government agencies).

In addition, the communication between potential cooperators and the technical assistance providers (see section below on the role of the TSO) must be such that the cooperators are well aware of the limitations which are imposed by external financing sources, as well as the processes and time-frames that are generally involved.

8. Housing Cooperatives are Fragile Entities at all Stages Prior to Construction and Occupancy

In contrast with other types of cooperatives, housing cooperatives have a degree of fragility that derives from the desperation of the particular situation with which the members are faced, the extensive collection of rules and regulations which are imposed by the larger community in which they live (or wish to live), the uncertainty of financing, the vagaries of rulings, and the apparent arbitrariness with which external decisions are made (see Item 13 below). Even where there are initial financial commitments made by the cooperators, the frustrations that arise during the long and arduous process may be sufficient to cause collapse of the housing cooperative. To no small degree, the potential for such frustration can be affected by the types of initial training that are provided, the expectations of the cooperators, and the disparity among what is desired, what is needed, and what is permissible within the guidelines of funding organizations.

9. Throughout the Process, the Concept of "Ownership" --in its Broadest Sense--is Critical to Development and Participation

Defining "ownership" not in terms of deeds and titles but in terms of participation, education, and understanding, it has become evident that such type of ownership is critical to the development of a cooperative housing project. It is insufficient merely to provide housing: it is imperative that the cooperators play an active role in as many stages of development as are possible. It is insufficient merely to process paper through appropriate lending institutions: it is necessary to assure that the lenders understand the difference between cooperative housing and other options. And it is insufficient to apply for necessary land zoning permits, as applicable: it is required that the larger community be aware of the need, the process, and the potential implications of cooperative housing.

Each of these elements, and more, are required in an undertaking which is as complex and perhaps alien as cooperative housing. Participation in the decision making, at all levels and with all affected parties, is necessary for the type of ownership that represents a "buying in", an involvement, and an eventual acceptance of a viable project. Lacking that participation, the barriers that arise from preconceived notions of cooperatives will only continue to frustrate the efforts of the developers and the cooperators.

10. There is Insufficient Evidence to Derive any Conclusions Relative to the Influence of Size on the Success of a Cooperative

Given the limited experience of the demonstration program, it is not possible to assign any credence to the concept that a cooperative must consist of at least some minimum, or at most some maximum, number of participants. Given the guidelines that have been a part of the RCHD concept, including emphasis on "small" rural cooperatives, a tradeoff is obviously required. Cooperatives should be large enough so that the mix of talents is available to permit the objectives to be accomplished. However, it should be small enough to be manageable within the framework of the approach suggested. There must be a sufficiently large group to allow the impacts of external forces to be absorbed cooperatively among the members; but it should not be so large that the individual concerns or conflicts cannot be handled satisfactorily.

Regardless of size, however, each of the cooperators must understand the difference between individual rights and community rights, and compromises must be achieved in a manner which is equitable and democratic.

11. Self-Management Provides Opportunities and Responsibilities Which Can Enhance the "Success" of the Cooperative

It is apparent that the concepts of self-management (to the extent that it can be accomplished), ownership, and control are intimately intertwined. The even limited experience with housing cooperatives has indicated that self-management--either as it applies to the actual day-to-day performance of the tasks required or as it applies to broad decisionmaking and the employment of external resources--provides the type of participation that seperates cooperatives from rental units. It is recognized that not all cooperatives will have the expertise to operate solely as independent entities: continuing technical assistance may be required from lending institutions, public service agencies, or professional property managers. However, the decisions as to how the cooperative should be managed must rest with the cooperative itself, exercising its corporate rights and demonstrating the control features which are essential.

12. The Cooperative Housing Demonstration Process Can be Identical Regardless of the Funding Source

Although pay-back mechanisms may vary considerably for different construction loan programs (i.e., Federal, State, private non-profit, or private for-profit sources), there is no reason to believe that the housing cooperative development process should be significantly altered. In all cases, there is an ultimate responsibility to the lender and, to be sure, the financial obligations will impact on the type of membership that would qualify. However, the cooperative development process, including all the rudiments of training, management, shared responsibilities, and the like, would be expected to be similar.

Thus, provided that the cash flow analysis is favorable, the "TSO-type approach" appears to be one which could be incorporated into existing or future housing development programs sponsored by any of a variety of potential public or private investors.

13. Inconsistency Within Funding Agencies Proved to be a Major Impediment to the Process

Throughout the RCHD, as evidenced in the case studies presented in Appendix B, the greatest frustrations were seen to be caused by a perceived inconsistency and arbitrariness within the Farmers Home Administration (FmHA)--the principal funding source.* The problems were manyfold, including:

- gaps between policies and practices
- lack of local understanding of cooperative concepts
- absense of definitive time-tables
- insensitivity to local differences in customs
- lack of continuity in the bureaucracy

On the other hand, FmHA had their own share of problems, many of which correspond to the bulleted items above but seen "from the other side of the desk":

- highly focused dedication to projects without an appreciation of competing demands on limited resources
- impatience spurred by (understandable) concern for clients
- lack of appreciation of changes in the "rules of the game"
- an apparent propensity toward skirting lines of communication and authority.

---

* In all fairness to FmHA, we emphasize that this perception of inconsistency is that of the other participate in the demonstration (TSO's, cooperatives, etc.) who have a major stake in the outcome and a direct and intense personal interest. It is therefore tempting to be overzealous in attacks on FmHA, or on any other element of the "establishment infrastructure" (including local zoning boards) which places roadblocks in the path of the housing development.

THE RURAL COOPERATIVE HOUSING DEMONSTRATION PROGRAM: OBSERVATIONS AND ASSESSMENT

RESEARCH CONDUCTED IN SUPPORT OF THE RURAL
COOPERATIVE HOUSING DEMONSTRATION PROGRAM FOR THE
U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT
OFFICE OF POLICY DEVELOPMENT AND RESEARCH
UNDER GRANT NO. H-2143-R

Prepared by

J. J. Duga
T. R. Martineau

December, 1982

BATTELLE
Columbus Division
505 King Avenue
Columbus, Ohio 43201

An Overview of the Demonstration

Most simply stated, the RCHD was based upon three principal concepts. First, it was assumed that cooperative housing for low-income rural families provided an alternative to present housing conditions experienced by large numbers of the population, and that a significant degree of self-management could be undertaken. Second, it was assumed that the attainment of such cooperative housing could be expedited, and that the finished product would have greater viability, if the process were shepherded through a Technical Services Organization (TSO) that would serve a multitude of education, processing, organizing, and preliminary management functions. And, third, it was assumed that a consortium of such TSO's could provide a clearinghouse and networking role such that several sub-objectives could be attained, including but not limited to: shared experiences and support relative to approaches to cooperative housing; convening of an active coalition that would seek to promote the concepts of cooperative housing and influence lending institutions in the development of their grant/support functions; and demonstrate the viability of the cooperative concept in a variety of settings.

It must be emphasized at the outset that the RCHD was an initial demonstration directed toward the accomplishment of these objectives. It was not a well-defined experiment on the actual execution of a delivery system for low-income rural housing. It was not established with a rigorous set of operations, procedures, measurables, and controls. It was not intended to be diagnosed or analyzed in the same sense as one would test clearly defined hypotheses, where one might draw upon a statistically significant number of case histories or incidents. It was intended to demonstrate that housing cooperatives could be established with a clear picture of their own objectives, and established in such a way that there would be a high probability of success in the development of cooperative housing.

It is most important to note, at this point, that the RCHD did "succeed" in the sense that strong housing cooperatives were established. The fact that, as of this writing, there have been no cooperative housing units constructed, occupied, and operated is practically irrelevant. The cooperative housing process is very complicated; it is strongly affected by a large number of exogeneous factors; it is dependent upon the availability of funds from pertinent lending agencies; it is influenced by the perceptions of what cooperative housing is and what it is not. The development of the housing cooperative is but one step in the chain from needs identification to needs resolution, and this one step has been amply demonstrated. It would indeed be unfortunate if the cooperative housing movement--as one of the possible options for the low-income rural clientele considered here--were to be viewed as inviable merely because of the particular economic conditions which prevailed at the time of the demonstration.

The extent to which housing cooperatives were developed and did succeed under the auspices of the demonstration is well documented in the case study review which is appended to this report (see Appendix B).* It is shown, in brief, that the organizational procedures undertaken resulted in the creation of housing cooperatives which meet all the criteria deemed to be essential for the satisfaction of their objectives. But it is also shown in these case studies that the eventual process leading to occupancy and management was frustrated--not because of inadequacies in the formation and capabilities of the cooperatives, but because of those factors which were outside the control of the cooperatives. These two aspects of the program are not entirely separable, for the frustrations in dealing with externalities often impacted the attitudes and progress of both the TSO(s) and the cooperative(s). Were it not for the uncertainties and indecisions and reversals which characterized those exogenous participants, it is apparent that cooperative housing, as defined and designed herein, would have progressed to the stages of occupation by cooperators who were well prepared to meet almost all of their obligations.

---

* These case studies were complied by Rural America, who served as the National Coordinator for the RCHD on a subcontract from Battelle. See the discussion on the structure of the demonstration (as in Appendix A) for a specification for the roles of the various organizational members of the consortium.

The Cooperative Concept

The RCHD program grew, essentially, from the concepts and observations which are embodied in Bordenave's work (cited above). Perhaps central to the concept are the points that no individual member of the cooperative has direct title to any individual and separable plot of land or structure, and that each member has a limited equity in the overall cooperative. No member, upon leaving the cooperative, may expect financial gain from the increase in equity during his tenure. Consequently, in the idealistic sense of the cooperative, no member can gain from the loss of other existing or potential members, nor can a member gain from selling his or her shares in the cooperative.

This approach to housing and ownership is completely alien to those who consider housing as an investment, a property which appreciates in value, and an asset which can be turned to profit after a holding period. What must not be lost, however, is the fact that "ownership", in this case, translates to the concept of "control". The low-income rural families that were considered the primary clientele in the demonstration have, for the most part, been disenfranchised from the decisionmaking system; they have been subject to the whims of decisionmakers over whom they had little or no influence; they have had little or no input to decisions that relate to their own housing, its design, its maintenance, or its amenities; and they have had almost no influence over their own destinies.

The cooperative housing approach has been seen to offer the opportunity for safe, decent, and sanitary housing where the members can exercise control over many options in design, maintenance, operations, and the like, without the concerns over eviction, untoward changes in management policy or rental rates, or arbitrary decisions relative to any aspects of the housing project. That such type of control is of great importance is readily understood when one considers the extent to which this represents positive change from the status quo.

In a real sense, there are, of course, many actions over which even the housing cooperative has no control. Bordenave's ideal description of cooperatives and their origins (including the early Native American experiences) do not allow for the types of rules, regulations, and structures which have evolved in the world outside the cooperative, and with which the cooperative must interact. Where land rights, zoning ordinances, bank loans, and minimum standards are not a part of the process, cooperatives may develop and flourish. However, as has been seen with all the cooperative efforts undertaken in the U.S.--both rural and urban--the existance of the larger society imposes conditions which confine the degree of control that an individual cooperative and its members may execute. The very existence of these externalities has been seen to frustrate the attainment of individual or collective goals. However, on balance, it is more important to acknowledge the fact that those cooperators who succeed in developing, occupying, and managing their individual projects will have attained a majority of their goals, in spite of the controls which still exist.

The Technical Assistance Concept

The second principal feature of the RCHD concentrated on the concept of the Technical Service Organization (TSO), an institution or individual who served as a principal resource in all stages of cooperative housing development. The development of cooperative housing is considerably different from the traditional means of buying or renting living space. While food and fuel cooperatives, and many others, have served groups of people for many years, the concept has not been widely adopted to satisfy the needs for housing. There is a considerable degree of ignorance relative to the option, on the part of both the potential occupant/cooperators and the public and its institutions at large. As a result, a most critical position and activity is that of the organizer/trainer/intermediary/expeditor that has become known as the TSO.

The TSO provides a multitude of services, including but not limited to:

- promotion of the concept of cooperative housing
- marketing and recruitment of potential cooperators
- training of cooperators relative to selection of the Board of Directors, the roles and responsibilities of the Board and the

membership, individual and cooperative financial management, cooperative lifestyles, etc.

- training of Boards relative to democratic procedures, management, organization and operation, etc.
- outlining of scope of options relative to housing modes
- assistance in selection of alternatives
- coordination with architects and local officials
- assistance in land search and options
- submission of appropriate application forms to lending institutions, zoning boards, etc.
- assistance in the conduct of hearings
- contracted services (where required), including accounting and other management duties in established cooperatives
- and, so it seems in actual practice, a multitude of other activities.

The TSO serves perhaps the most critical role in the entire development process, for (s)he represents the essential interface, communicating both with the cooperators and with the institutions outside of the cooperative. The TSO serves to develop and maintain the housing cooperative, especially during those critical times when uncertainties arise. The TSO shares many of the same frustrations when unpredictable and apparently arbitrary decisions are made.

The criticality of the TSO role can be viewed from at least two different and important perspectives. First, the TSO is in a position to provide the major driving force in order that the cooperators can achieve their goals relative to housing. Second, the TSO is in a position to assist supporting agencies (whether they be public or private sector organizations) in realizing <u>their</u> goals and objectives. The extent to which the TSO accomplishes both of these roles, within the constraints imposed by externalities, will be a major determinant of the initial and long-term success of the cooperative effort.

It will be noted in later discussions that the successful accomplishment of the TSO function is related to a number of individual factors, and that these are almost exactly those same types of factors that have been essential in other similar technical assistance programs.

The Network Concept

It is taken as a given that no two systems in the RCHD will be exactly alike.* The differences among these systems result in the types of problems, opportunities, and barriers that face the cooperative development process. It has been suggested, however, that the experiences in dealing with one issue in one system may be most useful in dealing with that same issue in a different system.

The concept of networking was developed and adopted, in principle, to alleviate the problems of complete reinvention of solutions. It was viewed as a process whereby at least a partial resolution of issues could be accomplished by mutual support, communication, and idea generation.

This was not, of course, the only benefit of networking. One must add to this the quality of national scope and visibility, for these latter serve to reinforce the mission of Federal lending agencies, to provide a collective rationale for supporting and promoting cooperative housing, and to establish a geographic breadth of experience which could be applied wherever cooperative housing was viewed as a viable option.

In brief, the RCHD was developed to promote the concept of self-managed, limited equity cooperative housing for low-income rural families; to utilize the concept of TSOs as a participative delivery system; and to establish a cadre and a network of such TSOs which could carry the concept forward, assisting both qualified cooperators and the supporting and external infrastructure in accomplishing housing goals.

---

* We define "system" in this context as being the collection consisting of the potential client/cooperator group, the eventual housing cooperative members, the TSO, the funding institution [including both the principal institution and its local (and occasionally autonomous) representative], the larger community and its infrastructure, and the like.

Roles of the Assessors

The structure of the RCHD is detailed in Appendix A, and will not be substantially expanded upon here.* Suffice it to say that the various organizations and their roles have been articulated in terms of their responsibilities and opportunities, the "directions" of their communications, and their interactions with different clientele.

Throughout the demonstration, Battelle researchers have assumed the roles of observers, comparators, assimilators, and assessors. Every effort has been made to avoid programmatic inputs, for such would have interfered with the design and concept. Activities, observations, and writings have been made "off-line" so as to maintain objectivity. And participation in the program has been distant, probing with questions relative to what was done and what wasn't; what have been the accomplishments and impacts; what were the barriers and the lessons learned; what would any element (cooperative, TSO, national coordinator, support agency) do efficiently; and the like.

The report is <u>not</u> an evaluation. It does not--for it cannot with the available data--purport to provide a detailed analysis of the costs and benefits. Nor does it assign confidence limits to observables.

It is a qualitative assessment, relying upon observation, comparison, assimilation, and judgment. The intent is to provide the external overview, drawing from experiences of the demonstration participants and comparing the process with similar programs. The observations and findings are, as befits a demonstration, preliminary to any more formalized experiment or operating program (were such to be deemed feasible by appropriate public or private sector entities).

Most importantly, this report--with its appendices and companion writings--is directed toward observations on an option for satisfying a

* Appendix A consists of a special report on technical assistance networks, prepared during the conduct of the demonstration. Since much of the framework of the assessment can be related directly to the model noted in that report, it is incorporated in full into this paper.

critical need experienced by a very large segment of the population: the need for decent, safe, sanitary, and affordable housing. And, as such, it is directed toward various audiences:

- Those Federal government agencies which have a direct or indirect responsibility for housing. These include, for example, the Departments of Housing and Urban Development, Interior and Agriculture; and the Agency for International Development, the International Monetary Fund, the World Bank, and similar agencies having housing development components.

- State agencies with responsibilities for managing Federal pass-through funds, or for delivery of housing through either Federal or direct State support (i.e., general revenues or housing bond issues).

- Local government agencies utilizing Community Development Block Grant or similar funds

- Private sector local industries seeking to provide worker housing in rural areas

- Private developers or consortia

- Other affiliate groups (e.g., labor unions, religious organizations, etc.).

It has been found through the conduct of this demonstration that the process of developing housing cooperatives can generally proceed along identical lines regardless of the funding source. Thus, this aspect of housing delivery is equally applicable to each of the audiences noted above. Differences may arise, however, at that stage where the effort converts into the development of cooperative housing. Some changes in operations and procedures may be required, depending upon the different practices adopted by each of these audiences.

Observations on the Cooperative Housing Approach

As one reviews the conduct and output of the RCHD program, it is difficult to isolate individual components and discuss them separately, for the process is composed of a number of interrelated factors. Not only are the individual groups of potential cooperators distinctly different, but also there are strong differences among the TSOs (either organizations or individuals). Rather than attempt to cover each element of the process and reference each member of the consortium, it is preferable to deal with a few central concepts and discuss observations in broad terms. The reader is referred to the case study reviews by Rural America (Appendix B) for specific details.

On the Issue of Identification and Organization

One of the most important aspects of cooperatives--in terms of every stage from concept to occupancy--is the question of common linkages. Regardless of whether the cooperators have the same employer, religious or cultural background, or other convening factor, it is generally necessary that they share (or come to share) at least one mutual characteristic. The cooperators must have or develop that connection which will open lines of communication, which can serve as an adhesive during the long and arduous path of cooperative development, and which will provide a framework from which initial efforts can proceed.

Given some element of commonality, the early identification of potential cooperators--through public meetings, media advertising, or unanticipated inquiries, etc.--is a critical element in the process. During the early stages of cooperative development, a major responsibility rests with the TSO: the information provided at first contact must be sufficiently precise that it does not lead to misconceptions, that it makes no unrealistic promises, that it acknowledges the length of the process, and that it emphasizes the possibility of failure.

There is little doubt that many potential cooperators perceive "the American dream" as including a house to call one's own, a piece of land on which one can do what one wishes, and the security of independence from interference. Within the context of this particular RCHD program, and others that may evolve from it, this dream is not completely attainable. As noted elsewhere in this report, the mass of external rules and regulations which impact a low-income rural cooperative housing program (such as those that limit detached single-family dwellings, fences, and other amenities) actually preclude realization of this dream and all that it implies. Unless the gap between goals and grasps is clearly defined at the outset, the potential cooperative is practically doomed from the beginning.

To suggest "ownership"--and have inferred from that a title which is transferable at will; to suggest single-family detached housing--only to later learn that such plans may not be approved by lending institutions; to suggest "freedom of choice" in terms of land use and home improvements--only to learn that one governing body (the Board) has been substituted for another (the landlord) ... any of these and more can lead to discouragement of the cooperators and dissolution of the cooperative. Furthermore, it can lead to the discrediting of the TSO and, perhaps, loss of a significant opportunity.

The identification and organization process must be realistic in that it raises no false expectations or promises that cannot be delivered. The initial meetings should be a combination of "selling" and "unselling". And subsequent discussions have to dispel misconceptions; reinforce the positive aspects of control; and stress the concepts of cooperation, mutual support, governance, and compromise.

Over the course of the RCHD program, varying degrees of "success" were observed relative to initial stages of training and cooperative formation. Judging from the numbers of possible housing cooperatives that were identified, and the number of opportunities that were at least initially pursued, it might even be said that the initial efforts were overly successful. That such should be the case is most understandable: there are major housing needs among low-income rural families.*

The extent to which such potential cooperatives could be pursued and developed was hampered by two factors. First, although some steps were taken to alleviate the situation, it was observed that there are too few TSOs who had sufficient expertise to provide an effective training and development role. Thus, the existing TSOs were obligated to channel their resources toward those potential cooperator groups which showed the greatest promise.

Second, it was readily recognized that there were insufficient funds available for actual construction of <u>all</u> the potential cooperatives that had

---

* Note that the demonstration was, in large part, confined to only a few states--primarily as a result of the limited financial support available.

been identified during the conduct of the demonstration. Hence, efforts had to be directed to a narrower clientele. As will be seen in later comments, there are tradeoffs which must be considered relative to the extent to which continued training and development of housing cooperatives should have been pursued.

On the Issue of Size

There is no magic formula which can predetermine the optimum size of a cooperative housing project, for the overall measure of optimization is affected by two distinctly different parameters: economic and social. [We will note in later discussion the extent to which these parameters will again interact in terms of long-term viability.] From the viewpoint of economic feasibility, one can make assumptions regarding direct family cash income flows (including employment income, Federal or state social security payments, retirement benefits, etc.); rent subsidy incomes to families or the cooperative; family payments to the cooperative, including the share of mortgage, operational, and management fees, where applicable; and corporation payments for mortgage, operations, maintenance, and the like. Given the expected financial profiles of the cooperators and the cooperative, and taking into account those reasonable contingencies which may be characteristic of the region, one may derive a range for the economically optimum size of the project.

But this is only a part of the optimization process. Is the cooperative small enough to be self managed?* Is it large enough to provide the skills required in cost-effective and reliable operation and maintenance? Is it too large to permit individual participation in the governing process? Are there threshhold sizes that would warrent (and afford) the expansion of contracted services?

---

* The issue of self-management will be discussed below. It is, of course, not obligatory that self-management be either an intermediate or ultimate goal in the general cooperative housing project. In the context of the demonstration, "self-management" was an important integral part, for it provided opportunities for control, reduced fees, and democratic participation.

Any initial feasibility study should account for the qualitative and semiquantitative economic questions addressed above, as well as the issue of operation/maintenance/management skills. Furthermore, it must be determined whether the candidate group presents sufficient numbers from which fully qualified members can be drawn. Thus, the preliminary market study has to satisfy criteria which are important not only for initial project design, but also for longer term project viability.

There are, of course, other exogenous factors that can influence the size of the cooperative, such as land availability, local ordinances regarding population density, existing or anticipated physical infrastructure capacity, and the like. Here, again, preliminary investigation on potential site characteristics can provide important preplanning inputs to both the feasibility study and the determination of the size and character of the eventual cooperative.

During the RCHD program, emphasis was placed on small rural cooperatives, without regard to the question as to whether the size would have a significant effect on viability. For the most part, it was tacitly assumed that the clientele groups with which the TSOs would be working would be such that only small cooperatives could be formed (say, on the order of 25 families or less). The experience of the TSOs (see Appendix B) and the cooperatives indicated that such entities could survive, particularly in the Southwestern U.S., provided that there was a sufficient degree of talent available within the cooperative so that the benefits of cooperatives could be achieved.

It is interesting to note that the urban experience is heavily weighted toward large cooperatives (greater than 100 families or so), and that there is a body of familiar literature that deals with the issue of size in the urban setting. During the demonstration, it was found that resistance to small rural cooperatives was often based upon the knowledge that urban cooperatives were more likely to succeed if they are of greater size. Thus, the assignment of attributes of one type of cooperative to another represented a barrier that could only be reduced by demonstration. Depending upon the particular area of the country, it is apparent that it would be most difficult to aggregate a cooperative of 100-200 families. Hence, by definition, the viable small rural cooperative becomes a contradiction in terms.

On the Issue of Self-Management

The question of self management must be considered from at least two perspectives: participation/control and finances. Furthermore, the question has to be seen in terms of degrees: can the cooperative provide, from its own members, all the necessary functions that are ascribed to management (with appropriate compensation); or should the management function be contracted to an outside professional firm (or, perhaps, the original TSO); and does the Board have sufficient expertise to select, evaluate, and, if necessary, relieve contracted management?

The extent to which contracted management is considered depends upon the finances available and the desire or need to use the external expertise. It must be recognized that, regardless of any arrangement with hired outside management, there is some relinquishment of participation and control.

There are no hard and fast rules--or even sufficient case study experiences--to give guidance as to the degree of success of self-management as it relates to other characteristics of the cooperative. However, in consideration of the options, it is necessary that the cooperators are, from the outset, aware of the manner in which management itself will impact upon individual alternatives. The very concept of management in the cooperative demonstrates the sacrifice of individual prerogatives in favor of communal goals.

As with other elements of initial recruiting, member training and Board training, the concepts of management and the democratic process of participation have to be introduced and reinforced throughout the development process.

The cooperators must be prepared to deal with the difficult issues of management and cooperative lifestyles, even where these latter appear to infringe upon the degree of indivdual liberties that might be classically associated with individual home ownership.

"Management" requires the collection of payments and the assignment of penalties or surrogates; self-management may necessitate the taking of action against fellow cooperators, a task not always acceptable.

"Management" requires the resolution of conflict; the concepts of equity and fairness are often based in sub-cultures which are not uniformly applicable across the entire membership. Thus, there is a need for common values or education in cross-cultural differences.

"Management" provides a degree of control over the extent to which modifications in land use can be adopted by the individual cooperators; the concept of "a man's home is his castle" is placed under severe restrictions in a cooperative.

"Management" involves the consideration of household incomes and other subjects thought to be private; yet equity, fairness, and rights to privacy should be maintained.

"Management" enforces the rules of the cooperative relative to internal and external maintenance; the value of the cooperative as a whole must be seen as the collective value of all components, and it is the responsibility of management to enforce rules and regulations relative to property care and appearance.

Each of these components of management, and others, may place severe personal strains upon the membership, particularly in those small cooperatives where the responsibilities for management may fall upon the cooperators as a matter of circumstance, rather than pure choice. In those cases where the cooperative can afford external management, the specific duties noted above can be delegated, but only in part. It is still the ultimate responsibility of the cooperative and its Board to be accountable for the operations; hence, a degree of self-management continues regardless of the individual personages involved.

The ultimate issue of self-management did not, of course, arise during the course of the RCHD program. There were, however, examples of significant differences among cooperatives as regards their apparent qualifications for self-management. As has been noted elsewhere in this report, the housing cooperatives which were formed differed in character in many respects (see Appendix B). Whereas one cooperative may display strong leadership--and an attendant aggressive nature to their involvement--others might be passive, accepting rather than questioning, and relying upon the TSO to provide the leadership required to form, lead, and decide or influence decisions. It is a moot point, at this particular time, as to whether one type or the other would be in a better position to assume self-management. Intuition leads one to conjecture that the more agressive memberships would be able to take matters in hand and address the hard issues that come up during cooperative occupancy, while the latter would tend to require a more businesslike attitude to relations within the cooperative and between the cooperative and the larger community.

On the Issue of Design

Perhaps one of the most explosive issues that was raised during the course of the RCHD relates to the compromises that were dictated relative to the individual design features of the ultimate cooperative housing project. It is appropriate, in this connection, to cite Bordenave's "Bridges, not Moats, Principle". Bordenave makes the point that the principles of community and cooperative endeavours are far more important than the physical structure represented by the product of the cooperators' labors. In no minor degree, he is emphasizing one major finding that has been a result of this demonstration: there is a distinct difference between housing cooperatives and cooperative housing. The first is a means to an end, while the latter is an end in itself. Whereas the concept of a home of one's own tends to carry with it the question of privacy, rights of ownership, and the pervasive "man's home is his castle" philosophy, Bordenave stresses the fact that castles--separated by moats--is not the foundation on which cooperative can be established. To the contrary, it is the 'bridge" that connects all the castles which is the principle guiding force. In particular, it is pointed out that

> "...housing builds community as much as communities build housing. Community becomes a goal above housing, and is attained through it. In the long run, there is far more community strength and protection in a truly well-integrated neighborhood, than in one where the houses serve as fortresses.
>
> ...The homes in a cooperative are linked to one another, either physically or through the relationship of the residents (emphasis added), rather than protected by moats. It is the 'Un-Castle' mentality that is fostered in cooperatives."

Bordenave's point is well-taken, and it relates to the higher goal of the housing cooperative. It leads the way toward the development of strength in the housing activity, and strength in other endeavors which might be undertaken by the cooperative. And it is a concept that should be emphasized at all steps in the organizational, recruitment, training, planning, and occupancy stages of a cooperative housing project.

However, when one comes down to the point of application of this principle, conflict arises. Much of this is surely associated with the possible misinterpretations of what cooperative ownership means, and the consequences can be disturbing. We take, as an example, the difference in perception between privately-held property and that of public housing and rental apartments. In the former, there is the idyllic picture of the individual detached home, garage (or carport), individual fenced lots, and the opportunity to have plantings and gardens of one's choice. In the latter, all the positive attributes are replaced with images of lack of privacy, neighbor disturbances and noise, limited private outdoor space, and the like.

Throughout the demonstration, there have been instances of conflict where the perception of individual home ownership--"the American dream"--has been thwarted by the regulations of lending institutions which would not permit this type of design. The concept of common walls (thereby permitting higher density projects in a more affordable scheme) was totally alien to the concept of private ownership (even though this latter, in itself, was never to be implied). No strong objections surfaced relative to room sizes, layouts, exterior design, or materials of construction*. But the requirement of <u>any</u> shared walls--even with offset designs, special sound insulation, and open-air access from all rooms--created sufficient stir so as to jeopardize entire projects.

That such should happen is clearly a problem in communications between the cooperative developers/trainers and the clientele.

---

* This is not entirely accurate, for there have been disputes relative to the use of adobe in the Southwest. Apparently, Federal regulations on materials of construction do not account for the fact that adobe houses can last for periods of time far greater than mortgage terms.

There are, of course, two competing forces acting here. On the one hand, the lending institution has a mandate to provide the greatest amount of housing with the available funds, and therefore establishes criteria that will represent the most efficient use, and best return or probability of return. Conversely, there is a perception that design and layout considerations which lead to best investments do not benefit from a sensitivity to the needs of clientele groups, or to the cultural differences which characterize them. There is a further perception that the design and layout considerations are based upon one group's remote assessment of need and translated into another group's hands-on experiences.

It is apparent that no such conflict can ever be completely resolved. It is important, however, that there be developed sufficient leeway in the establishment of regulations to permit greater localized modification and application of directives. Furthermore, it is important that TSOs and cooperators alike should appreciate the deeper significance of the "Bridges, not Moats, Principle".

[We note, in passing, that while such conflicts occurred during the course of the RCHD program, and while individual entities within the collection of actors have stressed the localization of design and layout criteria, there are other instances and issues where preference had been stated for less local Federal representative autonomy.]*

On the Issue of Construction or Conversion

The RCHD program, as well as other efforts in cooperative housing, showed quite clearly that the cooperative development process is lengthy. Much time is spent on internal institutional matters, the education and organization process, loan packaging and approval, and debate on a variety

---

* There is, in fact, evidence (see Appendix B) where broad permissive Federal programmatic directives have been modified in the local administration of them. The apparent arbitrariness of local decisionmakers has served as a significant frustration in selected situations.

of individual topics, including design. The length of the process has both positive and negative attributes. While long development periods offer the opportunity to provide intensive training, involvement, and commitment, thereby increasing the probability of a successful venture, it also can give rise to discouragement and an eventual loss of interest.

Although the construction period itself is not the principal delaying factor (and, in fact, can consume the least amount of calendar time), consideration has been given to the option of conversion of existing facilities from their present arrangement to cooperative housing. Such conversions are not uncommon in urban settings, and--from a process point of view--could be undertaken in selected rural areas.

The extent to which existing facilities could evolve into a cooperative housing project is highly variable, for not all options are available in sufficient numbers. During the course of the RCHD program, four possible options were considered:

(1) the conversion of existing public housing projects, including single family detached, single family attached (row housing), or multiple family apartments

(2) cooperative purchase of existing privately held apartment or row housing

(3) cooperative purchase of existing mobile home parks

(4) conversion/rehabilitation/compartmentalization of existing large home structures or other structures (e.g., abandoned schools).

Without addressing the specifics of conversion from any of the above to a cooperative housing project, it is appropriate to look at some of the pros and cons of the conversion process itself. We consider, in turn, issues related to timeliness, the loan process, and the cooperator involvement role.

As noted earlier, the existence of a visible structure and its availability for cooperative ownership has a distinct advantage in terms of the amount of time required from ground-breaking to occupancy of the cooperative as a whole. To be sure, even with a multiple-structure project, the construction time is but a small fraction of the overall development process. However, with the dangers of raising expectations too high at the beginning of the activity, and not always being able to deliver on these expectations in a short time period, any reduction of the delays generally has positive results.

In addition, it has been seen throughout the demonstration that delays in the cooperative development process are most often related to the loan application and approval route through the various levels of supporting agencies. While there are no firm data to support the conjecture, it is assumed that the visible presence of a specific finished product--or one that at least has the exterior appearance of a finished product--removes much of the uncertainty that accompanies the loan approval chain of events. Even if this were the case, however, many other problem areas would exist.

While each of the above attributes appears to have positive benefits, and might encourage a greater effort toward the conversion of existing properties to cooperative ownership, there are some distinct disadvantages as well. To be sure, the accelerated loan approval and construction processes may prepare the property for takeover and occupancy, but the reduced times possible may impact adversely upon the question of whether the housing cooperative is ready for the project. Has there been sufficient time to go through what might be a laborious and time-consuming task of Board and member training? Can the proper arrangements for management be made? Have issues been resolved relative to present tenants, not all of whom may be willing, able, or qualified to participate in the cooperative?

And a further, and perhaps more important, problem must be faced: to what extent does the process of design, negotiation, decisionmaking, compromise, readjustment--as normally encountered in the non-conversion approach--detract from the development of those social and communal goals that are deemed to be most important in a housing cooperative?

There are no real answers to these questions, nor were they addressed in detail during the conduct of the RCHD program. Each situation has to be considered on its individual merits. However, it should be pointed out that within the broad option of cooperative housing, each of the four conversion modes is in itself an option, and should not be dismissed out of hand.

The extent to which any of these options might be available is expected to vary on a regional basis. Specifically, the established structure of the Northeast would suggest that there may be greater possibilities for Options 2 and 4. Conversely, Options 1 and 3 or modifications thereof (including the establishment of new mobile home parks) may be deemed more feasible in the Southwest.* What is important is whether a viable cooperative--including both the economic and social structural considerations--can be created and maintained.

On the Issue of Roles

In the following sections and the discussion on the networking concept (Appendix A), greater detail will be given relative to the difference between the informal design of the RCHD and the actual performance and lessons learned. However, it is appropriate to discuss generically the roles of the different types of participants (including the potential or actual cooperators themselves). The conduct of the demonstration involved six generic elements: (1) the cooperators or potential client group; (2) the Technical Service Organization (TSO); (3) Technical Service Organization Developer (TSOD); (4) the national consortium coordinator; (5) the Federal agency(ies) which supported the activity; and (6) the Federal agency(ies) which served as the lending institutions for actual construction of the cooperatives.

It will be shown in Appendix A that all of these entities had critical roles in the demonstration, and would/could have critical roles in the conduct of future efforts in this type of endeavor. For the purposes of the present discussion, we shall confine comments to broad observations on the opportunities that were gained, as well as a few that were lost, by the design of the demonstration.

---

* Note that consideration of the possibilities of mobile home units is not meant to imply endorsement of this form of housing. Conversely, no discussion which omits mobile homes should, in this paper, be considered as an indictment of this form of housing.

It must first be emphasized that the conduct of the demonstration was such that any perceived shortcomings in eventual product are, for the most part, not directed toward any single one of the elements noted above nor to any single representative within that element.

Overall Observation. It is most important to emphasize that the structure of the demonstration--regardless of the specific accomplishments--is one of the more important ingredients in the entire undertaking. It is not a question of whether sufficient numbers of housing units were built; given the overall environment, it would have been surprising if any units were constructed and occupied. It is more important to note that the demonstration proved to be successful in the development of housing cooperatives, those social and structural entities which have gone down a long and difficult path and have survived despite delays, frustrations, and outright disappointments.

That such emphasis should be given to structure is important in view of any potential future activities that can be pursued, regardless of the source of construction financing. The demonstration has shown that this structure has the capacity and operational characteristics to provide cohesion and experience in the delivery of this one mode of housing. While there are no assurances that future construction financing would be available from any one of a number of different generic sources, it is important to stress that future experiments or formal, committed programs can benefit from the very fact of the demonstration.

This is not to say that each participating organization fulfilled all of its potentials. The nature of the demonstration and the conditions under which it was carried out precluded a successful completion of every aspect of the intended objectives. What is most important to note is that, under the proper circumstances, the individual elements of the program and the network that existed among them provides a strong foundation on which future housing delivery systems can be built.

The (Potential) Cooperators. In any program in which support is provided for the well-being of a candidate group, there is the perception that something is being done for the recipients. In the context of the demonstration, one cannot overemphasize the fact that housing cooperatives --including the manner of delivery chosen--represent an activity in which something is being done with the recipients. The economic and social factors which enter into the accomplishment of objectives are such that the cooperators do not and can not take a passive and absorptive role. They are not merely the consumers at the end of the pipeline; to be sure, they are also the producers, contributing to the process at almost all stages of development.

The cooperative concept--especially when concerned with physical structures having greater potential longevity than buying, producing, or selling cooperatives, and when applied to a commodity which demands their continued membership and involvement--is not for everyone. It requires much in the way of tradeoffs and compromise; it requires participation in processes related to home-ownership, even without individual clear and direct title to property; it requires contribution and collection of more than mere articles of commercial exchange; and, above all, it requires patience. The strength and viability of any cooperative housing rests directly and unequivocally on the strength of the housing cooperative, and the housing cooperative rests on the basic premises of mutual aid, mutual sacrifice, and mutual gain.

The argument has been presented that the basic concept of limited (or zero) equity is a deterrent to the development of a viable cooperative. If, indeed, there is no financial incentive to maintain property; if payments to the cooperative are viewed as being no different from rent; if the individual's responsibilities to the cooperative become, or seem to become, too onerous; then there may be little incentive to continue and every reason for an individual to simply "walk away", leaving the spectre of foreclosure and default.

There is no guarantee that would preclude this scenario. However, the positive attributes of cooperative housing, the real element of control, the demands and needs of the client group, and the already-observed positive response to the possibility of such alternate housing suggests that the low-income rural cooperatives have an excellent chance of survival--provided that the cooperative and its members are willing and able to accept the opportunities and responsibilities. The extent to which the cooperative can succeed and continue relies heavily upon the universe of qualified clientele, and the understanding and acceptance of the process. This latter cannot be achieved without the (initial and, perhaps, continuing) technical assistance that is available from some outside source.

The Technical Service Organization (TSO). It has been taken as a basic given that the concepts of housing cooperatives and cooperative housing are not part of the common experience of most financial institutions or of the clienteles that would be served by such constructs. The vast difference between conventional housing (ownership or rental) and cooperatives is neither well-known nor well-understood, except for those participants in present cooperatives and by those organizations which represent housing cooperatives.

The complexities of housing cooperative formation and operation, and the extension to the development of cooperative housing are such that the process needs leadership. It requires the ability to identify and organize a potential client group, to teach those necessary aspects of cooperative activity which are specific to housing (as opposed to, or in support of, those principles which apply to other cooperatives), to provide any necessary assistance in the preparation of plans and applications, and to see through the construction and occupation phases of the project. In addition, leadership is needed to assure that the activity starts off in a manner such that the cooperative has a good chance of success. In brief, this focal point--be it an individual or an organization--has to provide whatever technical assistance is required to take the process from concept to occupancy and beyond.

As in other types of technical assistance programs (see Appendix A for a comparison of approaches), the providers of technical assistance--whether conducting this service on a one-time or continuing basis--play a critical role. The TSO is central to the process of developing housing cooperatives, and must assume different responsibilities throughout the overall activity.

The TSO must fully understand the nature of cooperative housing and be able to communicate this to the (potential) cooperators, the construction finance agencies to be involved, the local environment and political structure within which the cooperative is to be located, and whatever external umbrella organizations which might serve as the convenor or sponsor of the cooperative.

The TSO has to be sensitive to the environment from which the cooperators come, their needs, their cultures, and their experiences.

The TSO has to be able to lead a participative educational process, taking the cooperators through the tasks of organization, election of Boards of Directors, development of by-laws, application of model operating guides, and adaptation of models to the particular group needs.

The TSO has to provide assistance in the collection and processing of data required for loan applications, recognizing the various requirements that apply at different levels of government or different types of funding organizations.

And, perhaps most important for its impact on long-term integrity of the cooperative, the TSO has to teach the cooperators how to assume and execute their own responsibilities.

[As an additional, and somewhat postscripted item, the TSO should--in the most nearly ideal sense--"work him/herself out of a job" as it applies to a particular cooperative housing project. More will be said of this point later in this section.]

The RCHD is unique in the sense that it involves a collective and somewhat coordinated effort representing the TSO function in different parts of the country, with each TSO having individual styles, individual clienteles, and varying environments within which to work. It was not important that these differences existed; what was most important was to determine whether the very existence of a TSO, as a major element in the housing delivery system, could make a substantial difference. Given that the cooperative housing concept represents a viable option, the principal question centered about the issue of whether the presence of a TSO could be an effective factor in housing development.

(1) Does this intermediary ease the path from housing need to housing resolution?

(2) Does the operation of a TSO function, as a delivery mechanism that could be adopted by public service agencies or by the lending institutions themselves, represent an economically feasible approach to cooperative housing?

(3) Does the linkage between housing providers and housing users serve a true communication function, matching needs with useful solutions?

All of these questions were not addressed as specific objectives of the RCHD program, and were not part of the general objectives. However, some perspective can be gained by looking at experiences of the TSOs in the demonstration. First, it is apparent that the TSOs--all of them in the RCHD program--were highly effective in the majority of cases in developing and working with housing cooperatives. While one would naturally expect a number of false starts and a number of instances in which the cooperative never reached full development (because of many different circumstances), the observations of the assessment team and the case studies given in Appendix B indicate that the TSO approach is necessary. The ability to create and use effective training materials (bilingual, as required), to express the cooperative concepts and to specify the breadth of the cooperative housing opportunity, and to recognize and mitigate the barriers to this form of housing has been amply demonstrated throughout the program and, in response to the first question above, does ease the path to a creative housing concept.

Lacking any detailed accounting of the real costs of development of cooperative housing, especially as contrasted with the development costs for other, more conventional, housing, it is not possible to draw any conclusions relative to the second question above. Even if such data were available, these costs are not the only ones that must be factored into the question of economic feasibility. One must also include the longer-term costs associated with operation and maintenance, and the differential between these latter costs as they are incurred in cooperative housing and other forms. What is important is the realization that the TSO approach--regardless of who provides it--facilitates cooperative housing, and cooperative housing in itself has long-term advantages that can be quantified.

Finally, the answer to the third question is an unquivocal "yes": properly executed, the TSO--with an appreciation of the objectives of the cooperators and the sensitivity to their individual and collective needs--does more than assist in the obtaining of decent housing; it also develops stronger community (the "bridges" of Bordenave) and a philosophy that can spread to other cooperative endeavours.

An earlier reference was made to the question of the eventual separation of the TSO from the cooperative, the "working one's self out of a job". A related issue is the question of TSO self-sufficiency, i.e., the ability of a TSO to maintain this function beyond the time limits of the RCHD program, and to do so in such way as to remain finacially viable. Two separate aspects of this question are: (1) to what extent can (or should) a TSO continue an association with a cooperative in a management support role?; and, (2) can TSO viability be maintained through the acquisition of packaging fees for the development of cooperatives?

Throughout the demonstration, much emphasis was placed on the question of self-management of the cooperatives, although none of the cooperatives actually reached the point where that particular attribute could be accomplished. But dealing with the issue as a conceptual construct, and considering what now appears to be practical limitations, it is appropriate to re-open the question in a somewhat different light. As mentioned earlier, "self-management" does not necessarily imply that all the management functions would be performed by the cooperators themselves. To be sure, it is not expected that the majority of cooperatives would be capable of assuming all management tasks directly, at least in the early years of occupancy. It is more realistic to consider the possibilities of professional management under contract to the Board of the cooperative; an element of self-management is retained through the rights of hiring and firing, yet the day-to-day staff activities associated with management are performed under contract.

When considering the role of the TSO, as it had extended from initial concept through to occupancy, it is natural to assume that the individual TSO could, and perhaps should, take an active role in the subsequent management of the cooperative, at least for that period of time until the cooperative is capable of full management. While such arrangements offer the potential for a continued source of support to the TSO (during which time further cooperatives are being developed), there is a potential problem and conflict: at what point is it determined that true self-management can be assumed (if this is a desire of the cooperative), and to what extent is the training provided such that this arrangement is actually obtained? It is obvious that conflicts of interest can be created when operating in this mode.

The other mode of support--packaging fees for cooperative development--is much more direct and accountable, although it entails a degree of risk: much effort can be directed toward the development of the cooperative with the result that the final product does not meet all the specifications that are imposed by the lending institution.

Neither of these approaches to TSO self-sufficiency guarantees that the activity can be supported and continued. However, if it can be shown that the concepts of cooperative housing and the associated delivery system are economically viable over the long term for all parties involved, efforts should be directed toward resolving the question of maintaining that delivery system.

A final word should be added relative to the performance of the TSO function in the present RCHD program. Judging from the perspective of this reviewer, the TSO output during the demonstration was generally of very high quality--using as a measure of effectiveness their individual and collective abilities to identify and train potential cooperators, to actually form viable housing cooperatives, and to carry the process through the various stages that would lead to cooperative housing. The fact that no housing units were built and occupied during the term of the demonstration does not detract from these positive accomplishments of the TSOs.

It must also be recognized that while the quality of performance is seen to be high, the quantity was limited. We very quickly note that any lack of quantity is not a reflection of the magnitude of need, the numbers of potential cooperators or cooperatives, or the lack of any inherent capabilities among the TSOs. It is more to the point to emphasize that the laborious process of cooperative development and the limited resources of the demonstration project precluded a wider involvement or immersion of the TSOs in other potential housing cooperative ventures. To be sure, there were many potential cooperatives that were identified in the early stages of project promotion, and as the program became known through various circles, there continued to be contacts ("walk-ins") expressing some interest in cooperative housing development. However, to the credit of the TSOs, many of these were eliminated after early contact because of the recognition of significant problems and the potential for little accomplishment during the time frame available.

In addition, the quantity of housing cooperatives was maintained at a low level because the TSOs recognized early in the program that the availability of low-interest Federal construction funds was limited and uncertain. Without guarantees of available funds, there was little incentive to expand the efforts too far beyond reasonable expectations. If there is any criticism of this decision, it is that perhaps some greater effort should have been directed toward establishing a larger active clientele: that is, a greater number of housing cooperatives which could have had a stronger voice in the effort to influence the amount of loans which would be set aside for cooperative housing. There is, of course, no assurance that additional funds would have been made available, and there was legitimate concern as to whether this approach would have had a detrimental effect upon the aspirations of the potential cooperators.

In a somewhat allied move, the TSOs did take a proactive stance on the concept of cooperative housing, serving as promoters of the alternative and taking part in more general public awareness of this approach. The objectives were, for the most part, two-fold. First, in order to combat potential barriers in and around those sites which held promise for cooperative development, TSOs participated in public forums and attempted to reduce anticipated misconceptions about cooperative housing. Secondly, and on a broader scale, TSOs participated in public hearings and other educational activities, with the objective of establishing broader supporting clienteles. Continued efforts of this type may have an influence on future programs supported by the private and the non-Federal public sectors.

Technical Service Organization Development (TSOD). Just as the housing cooperatives are developed and led through the maze of activities and regulations by qualified TSOs, so also must there be a mechanism for the identification and development of the TSO function, whether it rests with an individual or an institution. The development of TSOs represents an important link in the chain of cooperative development, for it is the TSO which must have the knowledge, skills, and tools to provide effective technical assistance. Within the context of the RCHD, the TSOD function--regardless of whether it is formalized or acquired through practice (trial and error, with many errors)--is used to prepare potential TSOs for a broad variety of situations.

TSO development requires a sensitivity to the problems of low-income rural families; an awareness of the cooperative concept as it applies both to housing and other issues; the ability to deal effectively both with potential cooperators and with the larger community within which a cooperative housing project may be situated; a knowledge of the housing development process; a familiarity with the complex weave of Federal and other programs that can be drawn upon for cooperative housing construction loans; an ability to display leadership and instill trust; and an infectious enthusiasm.

In an effort to promote the concept of cooperative housing, to obtain the involvement of a manageable number of TSOs (given the constraints of funding for the TSO activity and the limitations on construction loans), and to provide services on a geographically dispersed scale, TSOD activities were undertaken on different levels and to different degrees. These activities consisted largely of two types: the training of individuals or organizations, and the preparation of guides and other tools for use by the TSOs or the housing cooperatives, or both. The training of individuals or oganizations was further divided into three general classes: (1) the recruitment of individuals or organizations to perform the TSO function; (2) the development of an expanded internal activity, assigning the TSO function to existing staff member(s); or (3) the provision of specialized assistance and training to existing housing or other community-support agencies.

It is tempting to evaluate the TSOD activity in terms of the numbers effective TSOs which were involved in the program, and to further define "effective" in terms of the numbers of cooperative housing units which were built, occupied, and managed. To do so, however, would violate one of the important distinctions that has been stressed throughout this report, namely, the difference between housing cooperatives and cooperative housing. There is, in effect, no real measure of the effectiveness of the TSOD role <u>except</u> in terms of the extent to which the goals and objectives of the TSOs were accomplished.

It is most important to note that the TSOD function is necessary in order that progress can be made in both the development of housing cooperatives and in the preparation of effective training tools for use by the TSOs, by the cooperatives, and by the larger community (including both the lending institutions and the social/political infrastructure). As new initiatives are taken by either private or non-Federal public sector entities, the TSOD function may become institutionalized within these parties, or may continue to be performed as in the past. In either case, the TSOD function provides an essential element in accomplishing cooperative goals.

The National Coordinative Function. The RCHD was built, in part, upon the assumption that while there are very distinct differences in need and opportunity in different parts of the U.S., there were also some similarlities in the concept of cooperative housing. The demongraphics of the Northeast, South, and Southwest are markedly different; the cultures of Native Americans, Mexican-Americans, Blacks, and old-line Yankees are distinct; the climatic conditions cover the spectrum from hot and humid to dry and parched to verdant and fertile. Yet there is a common and basic element: need.

In view of the commonality, and in spite of the differences, the RCHD program undertook efforts in various parts of the country because of several features, including but not limited to the following considerations.

- there were existing organizations which could serve the TSO function in various parts of the country
- there was an informal network of participants having experience in the formation and operation of other types of cooperative ventures
- there was the perception that a disaggregated program serving a broader geographic and cultural clientele could bring the concept to a broader spectrum of "observers", including diverse Federal, State, and local officials
- there was the anticipation that a common issue could be addressed from greater than a regional or parochial perspective
- there was then the potential for the development of sufficient visibility and political support such that more wide-spread programs could be developed and funded, with the result that the overall objectives of the housing community could be met

These were not necessarily the stated explicit objectives of the program or of the national coordinative function. However, it is apparent that these form part of the overall agenda of the demonstration. Given this mix of existing and potential factors, and in consideration of the ultimate objectives that could be accomplished and the need to communicate effectively the results of the effort, a national coordinative function was required.

As will be seen in the discussion in Appendix A, the concept of a national coordinator is well established in tradition and practice. Such efforts have been undertaken by a broad spectrum of public and private sector entities through the establishment of representative and intermediary organizations, hundreds of which maintain Washington offices with the purpose of promoting the aims of their constituencies. Furthermore, coordinative offices have been established within units agencies of the Federal government, to provide both funds and technical assistance to the representative organizations for the effective delivery of programs.

These types of coordinative offices and representative organizations can serve a most effective role in the process of defining problems which are common to their constituencies; in articulating the extent of these problems and placing them in perspective vis-a-vis other pressing issues; in focusing the collective, and often widely dispersed, individual elements of major issues; and in informing their constituents of the impacts and implications of problem resolution, regardless of whether it relates to funding, regulations, technical approaches and the like.

The extent to which any national coordinating activity is effective depends upon a numberof factors, including:

- the strength and effectiveness of their constituents
- the knowledge and sensitivity of the staff
- the ability to articulate real needs, and to recognize the breadth and depth of other issues of high priority to their audience
- the basic credibility of the organization and its special interest area
- the magnitude of the Federal budget that represents their particular interest area
- the prevailing political or ideological environment.

In the particular case of the RCHD, it is difficult to assess completely the role of the national coordinator, Rural America, because of three major factors. First, over the course of the demonstration, there were a number of changes in the principal project staff, with each project manager bringing a different background, perspective, and approach. It is suggested that this lack of continuity created problems in the identification of the principal decisionmakers within Rural America, in establishing and maintaining viable contacts between Rural America and the cognizant Federal agenices, and in presenting a positive image of institutional commitment.

Second, the linkage between Rural America and the individual TSOs and TSODs was largely one of convenience. The other participants in the program had, for the most part, established on-going activities and an independent base of operations. Hence, in their own milieu, there was little perceived need for guidance from a national coordinator.

Third, the constituency of Rural America--and, in particular, the rural low-income families--does not appear to have gained the kind of visibility and political support that is needed to sustain major programs on their behalf. Coupled with this was the inability of Rural America (and, perhaps, any other organization that would represent the same clientele) to foster conditions that would attract the attention and support necessary to maintain a viable program.

It is obvious that regardless of the quality of the first four factors noted above, an unfavorable environment relative to the latter two is something over which the coordinative organization has little control. If, as appears to be the present case, the Federal budget does not provide for the kind of support that is deemed necessary to make substantial progress in the subject area, it is apparent that efforts must be redirected toward other possible funding sources, including both the private sector and the non-Federal public sector.

<u>The Demonstration Support Agency</u>. The present demonstration is supported by the Office of Policy Development and Research, Division of Housing Assistance Research, U.S. Department of Housing and Urban Development (HUD). It is the research and policy analysis arm of the HUD and it conducts

selected feasibility studies as a precursor to recommendations relative to operating programs of the Department. As is the case with other types of research, say in the physical or biological sciences, a "proof of concept"--basic research--is often supported with "seed" funds which are aimed at determining whether further effort is warranted, whether a controlled experiment should be undertaken, or whether that step can be by-passed and a full-fledged operating program should be pursued.

The demonstration support agency is basically an objective, though not always passive, participant. It is not important that the demonstration provide the ultimate answer and resolution of the problem; it is more important that it determine whether the premise and the approach have merit. The RCHD program, as with many other demonstrations, must be concerned with process more than with product. It is the function of the supporting agency to determine whether this process--given sufficient support from the operating arms of HUD or other Federal agencies--fits within the purview and philosophy of the agency(ies), assists in the satisfaction of the objectives of the agency, and represents an effective use of whatever limited resources are available.

As a result of this, or any other, demonstration, the support agency has the opportunity and responsibility to make recommendations to its home agency (HUD), to other Federal agencies with interests and/or activities relative to housing elements in their programs (such as State, Regional or local government institutions which pursue housing issues), or to the private sector.

In this connection, it is interesting to note that other programs developed by support from HUD--where this support was provided primarily for the aggregation of problems, the development of alternative solutions, and the preparation of "how-to" documentation--have been "institutionalized" in the forms of continuing HUD programmatic support, adoption/adaptation by non-Federal public sector (essentially "franchising" the technical approach and process) which deliver the product for a fee.*

---

* As an example, HUD (and other)-supported programs related to innovations in local government service delivery have spurred private-sector and other Federal agency activities in this field.

In a larger sense, the demonstration support agency is situated in a position to <u>help</u> things happen, although their effectiveness is limited by the extent to which funds are available to <u>make</u> things happen.

<u>The Program Support Agency(ies)</u>. The final link in the structure is the program support agency which must provide the ultimate funding for the realization of the overall objectives; in the present case, it is that agency that will provide construction financing loans for low-income rural cooperative housing. To an extent, these sources are influenced by a number of different factors, and must be able to resolve many different (and often competing) questions.

- Is there a real need in the jurisdiction over which the agency has purview?
- Does cooperative housing offer a better return to the agency, in both the short- and long-term sense of viable investments
- Does the process of housing delivery represent a function that enhances the value of the loan and the resulting property
- Can this investment be viewed in more than strictly financial terms, returning direct and indirect benefits greater than those achieved with conventional housing and conventional delivery systems
- Are the economics of the process favorable, including those costs that must be assumed for the development of housing cooperatives and the subsequent management of cooperative housing (as applicable)
- To what extent can the agency expect that the indirect benefits of cooperative housing will impact favorably on maintenance and the integrity of the property
- Given the framework and confines of the available budget, can this option be exercised with sufficient impact
- Assuming that the overall program and the individual projects are supportable by public institutions, what are the direct and indirect positive benefits that accrue to the private sector; and what are the negative features
- To what extent is the issue a <u>national</u> problem with a <u>Federal</u> role, as opposed to a national <u>problem</u> with the primary <u>role</u> to be assumed by other (non-Federal) agencies or institutions

- What portion of the problem can be realistically and meaningfully addressed by the Federal government before the benefits of the concept are attractive to other supporting agencies or institutions

- Can the Federal government afford to assume responsibility, or can the Federal government afford not to assume responsibility.

- To what extent does existing law (Federal, State, Local) preclude cooperative housing, and how would permissive legislation--with awards or investments based upon individual cases within a broad set of guidelines and practices--promote cooperative housing.

Regardless of how "right" or "worthwhile" the objectives of the program, as seen from the perspectives of various participants or observers, there is and will continue to be debate over the extent to which the cognizant support agencies can be responsive to the problem and the approach.

As of the present writing, there is generally insufficient evidence that the cooperative housing option is preferred, by the major support agencies, over any other approach. In the absence of an established history, and a quantitative evaluation of the impacts, it is unlikely that significant new Federal initiatives will be forthcoming in the field of rural cooperative housing.

There appears to be three major reasons for this somewhat pessimistic outlook. First, of course, is the question of available funds. The Federal Budget anticipates massive deficits over the next few years, and many cuts have been made in a variety of non-defense and non-aerospace programs. In an effort to reduce the deficit, it would be expected that further cuts would be made, particularly where it is perceived that the private sector can take over responsibility and opportunity.

Second, the emphasis on private sector initiatives and activities is a reflection of a basic philosophical change within the Federal government. The extent to which this change will continue through and beyond the present Administration cannot be foreseen. However, it is expected that any future Federal initiatives would take considerable time to develop.

A third problem area--one which is basically independent of the other two--and one which is more readily solved--relates to the intradepartmental communications problems that have been seen during the demonstration.

It is shown in Appendix B that there have been significant differences between policies articulated at the Federal level (in Washington) and the practices adopted by Federal representatives (in State and District offices). If this disparity persists, there will continue to be significant difficulties in achieving further tests of the cooperative housing concept, or broader attempts at making the option available.

A Recapitulation of the Networking Approach to Cooperative Housing

The structure and operations of the RCHD was based upon the broad concept of "networking"--the development of a group of institutions around the country with a generally common goal and a mutual support communications mode. During an earlier stage of the demonstration, an effort was made to compare this approach with others of similar structure, namely the networks of State and local government change agents which sought to enhance the overall delivery of public services through the application of techniques that were either new or different from standard operations. In an effort to compare the RCHD approach with that utilized in other networks, a paper was prepared for distribution to the consortium of participants in the RCHD, and is appended for distribution to the consortium of participants in the RCHD, and is appended for reference (see Appendix A).

Before any detailed discussion on the networking approach as it was suggested and compared with other programs, it is well to note that the RCHD was not to be conducted in such manner as to attempt to emulate these other networks. It was not a part of the work plan for the RCHD participants to follow either the logic or the practices of other networks, for the nature of the program, the needs, the clientele, the demand, and the overall environment were decidedly different. The experiences of other consortia were presented only in terms of guidelines and lessons that could be applied to the cooperative housing program.

With that preamble, attention is directed to Appendix A as a whole, and the "Selected Lessons" sections in particular (pp. A-9 through A-21).

1. Mutual Trust and Understanding

For the most part, the TSo and the housing cooperative members developed considerable mutual respect and an appreciation of the limitations which each faced. To be sure, problems developed within the RCHD in those cases where expectations could not be satisfied, either entirely or within an anticipated time frame. However, in spite of set-backs which inveitably would occur, there appeared to be effective and continuing communications. It was apparent to this observer, and is further noted in the case histories (Appendix B), that the TSOs and housing cooperatives worked with each other, a tribute to the sensitivity of the TSOs.

2. Resolution of Problems Requires Compromise

Aside from the provision of food and basic sustenance, there is probably no stronger driving force than the need for shelter: affordable, safe, sanitary shelter. In the initial efforts to build housing cooperatives and to organize such cooperatives into mutually supporting entities with a view of longterm objectives, substantial efforts had to be made to stress the differences between individual home ownership and the concept of cooperative housing. Not only were there restrictions that distinguished between complete individual control and cooperative or group property control, but there were also the architectural and operational controls that were imposed by external parties.

As a result, there were many instances in which there was a chasm between the "dream" and the "practical reality". In part, this chasm developed from a lack of understanding of the process and the concept; and the consequences of the chasm were, at times, nearly sufficient to destroy the cooperative.

For the most part, compromise between preconveived notions and desires and the affordable realities (in terms of affordability on the part of both the cooperators and the lending agencies) was achieved. The attainment of such compromise is directly attributable to the skills of the TSO and the leadership of the individual cooperatives. Here, again, Attribute (1)--Mutual

Trust and Understanding--played a critical role in achieving compromise and maintaining the viability of the cooperatives.

3. Recognition of Multiple Lines of Responsibility

If there are any significant deviations from the "ideal" represented in Appendix A (page A-10), surely this item must be noted. In spite of the accomplishments of any "horizontal" element of the network, there is little evidence to suggest that there was a continued mutual support among these elements. To be sure, the operations of the RCHD included opportunities for the sharing of substantial useful information. However, there is little to point to in the way of transfer of specific assistance.

This observation is not an indictment of the process; it is more a realization of the fact that there were significant differences between and among the environments in which each of the network elements performed. In contrast with the networks that addressed the problems of local governments, where the clientele was characterized by many elements of commonality, the RCHD program dealt with a clientele that had few comparable attributes, aside from need.

Additionally, one cannot facult the demonstration or its participants by comparison with the local government networks, for the RCHD program and process were much more highly focused than the local government program counterpart. The local government equivalent of the TSO was faced with a spectrum of quick-response problems in each of its jurisdictions; the RCHD TSO was, for the most part, faced with a single problem or goal which could not be resolved by a quick response. The local government change agents thus had many issues of common concern, some of which had already been resolved in one of the participating jurisdictions. The TSO and the housing cooperative dealt with a problem, in general, that had not been resolved in any of their counterpart areas. The task of resolving a local public safety operational question can be quickly addressed; the formation and operation of a housing cooperative and a cooperative housing project is a long-term affair.

4. The Need for "Winners"

Here again, as in item (3) above, there are distinct differences between the types of "winners" that are visible within the clientele group. But perhaps one of the biggest winners of all, as seen from the perspective of the cooperators, is the realization that a cooperative organization can be initiated and sustained over a protracted period. The early development of cooperative concepts and constructs which are aimed toward housing is important from the viewpoint of the participants and the observers. Given the amount of effort that could be directed toward the formation of housing cooperatives, it is apparent that a number of the individual TSOs can be classified as winners, and can thereby serve as examples of what can be accomplished. It is yet to be determined whether future funding arrangements can be developed which can take best advantage of this TSO resource.

5. The Need for "Champions"

On the local and individual TSO level, the perseverance of the TSOs and their abilities to coordinate with the total structure (community, cooperative, funding agencies) arose from personal commitments of the TSO staff. This quality was a most positive attribute in organizing and maintaining the housing cooperative. On the other hand, it must be noted with all fairness that their enthusisam and commitment could be viewed as a deterrent when dealing with supporting agencies. The overall process must be remembered as one that requires communication and compromise, suggestions of changes in traditional operations and perceptions; an over-enthusiastic champion can inadvertently impede the process!

One cannot understate the importance of the champion at the level of the national coordinator, for it is through this office that the concepts of cooperative housing has to be brought to those agencies traditionally associated with housing programs. It is tempting to criticize the efforts at this point, for there is little evidence to suggest that this role has had an effective return. However, it must also be realized that two significant factors have contributed to any perceived lack of accomplishment. First, changes in the Federal programs over the term of the demonstration have been so severe that one should not be surprised at the lack of agency support for what appears to be a fledgling effort.

Second, when comparing the "success" rates of the champions for the local government programs used as counterparts in the Appendix, there is the question of visibility and political support. Local elected officials and "the plight of the cities" has a stronger, more vocal, and more politically active and aware representation than does the low-income rural clientele addressed in the RCHD. [We note, of course, that even the more politically astute champions of local government technical assitance programs are also (at the time of this writing) finding a less responsive ear, and purse, among the Federal agencies.]

6. The TSO as the Key Element in the Process

What was said in the Appendix (page A-14 et seq.), delineating the attributes of the "successful" change agent or TSO, remains inviolate, and generally proscribes and describes the attitudes and approaches of the TSOs in the present demonstration program.

It is apparent from the progess that has been made in several housing cooperatives that the TSOs do have the ability to listen and interpret. By relating to the clientele, the TSOs have assisted in developing processes and plans which are responsive to the needs and wants of the clientele, while at the same time tempering those needs with a realization of the limitations that are imposed.

Through direct observation of the housing cooperatives and discussions with their members, it is apparent that the TSOs have the ability to teach. The members of the cooperatives understand the cooperative concepts and processes; they understand, in large part, their responsibilities and opportunities; and they understand (although they do not always agree with) the limitations that are imposed by external agencies.

The very fact that there are operating housing cooperatives attests to the fact that the TSOs have the ability to organize and direct. Even while taking a sometimes passive role in cooperative decisionmaking, the TSOs have laid the groundwork for the cooperatives to act somewhat independently, calling upon the TSO as a resource person, rather than a decisionmaker.

In addressing the issues (and even the fabricated non-issues) that impact on the potential for a cooperative housing project and the community in which it is (or will be) located, the TSOs have demonstrated the ability to act as a spokesperson. While the concept of cooperative housing has been alien to many of the cooperators, so also was it alien to many of the so-called "establishment", including funding agencies, local governments, etc. The TSOs have been generally effective in defusing potential problems, and in allaying the misconceptions that abounded.

Insofar as the product of a cooperative housing project is visible, and inasmuch as the development requires considerable negotiations among various direct and indirect parties of interest, it is conceptually difficult for the TSO to maintain a low profile. The process itself and all its participants requires a degree of public image--certainly more so than the "background" view taken in the local government technical assistance analogue. But it is important that the cooperative be viewed as the ultimate goal, not the desires and actions of the TSO. In those cases where the TSO did take a very open and aggressive posture, there is evidence that this impeded progress.

The ability to communicate--not just talk, but really "communicate" has been amply demonstrated by the TSOs, at least as regards their dealings with the cooperatives and the affected community. In the sense outlined in Appendix A (page A-16), calling for communication among the collection of TSOs, there was, as noted previously, much less interplay within the network than could have been the case. However, the paucity of questions or issues which required a continuing communication throughout the network precluded the necessity for greater contact of substantive nature.

Given the significant constraints that are placed upon the cooperative housing development process, the ability to innovate, to combine housing programs with other community development activities, to develop ancillary cooperative activities designed to hold the cooperative together during times of stress, and the ability to identify potential unconventional sources of support were, to one degree or another, displayed by almost all of the TSOs. The substance of such innovative activity provided perhaps the greatest input to the network communication process.

The demonstration provided ample opportunities to observe the positive attributes of the TSOs. However, we would be remiss if we omitted some of the negative observations. The structure of the RCHD and other networks requires that real communication, in the broadest sense of the term, be pursued among all entities. It was especially unfortunate that the quality of communication and understanding which characterized the TSO-cooperator interface did not always extend to the TSO-FmHA interface. As noted in earlier sections of this report, there are examples in which the TSO either did not understand, or did not want to understand, the limitations that were imposed upon FmHA. Thus, their "ability to listen and interpret" may have served well in their roles as teachers, but it served them poorly in their roles as students.

It is very important to note that the TSO function is critical to the success of a program of coopertive housing for low-income rural families. Whether that function be housed within a funding agency or an entity which represents the clientele in irrelevant. It is most essential that the function recognize and, to the greatest extent possible, accommodate the inherent differences between the agency and the clients.

7. Structural Stability

With only small perturbations in the actual organizations which participated in the demonstration, the overall structure maintained its original design and approach. As noted in Appendix A (page A-17), there were never a sufficient number of TSOs or housing cooperatives such that statistically valid evaluation criteria could be defined and traced in the manner of a classical experiment. However, there were sufficient numbers of experiences such that general insights could be derived. To the extent that future support funds could be obtained, at least for the development of housing cooperatives, efforts should be directed toward maintaining--and perhaps expanding--the cadre of TSOs. It is not inconceivable that alternate construction financing modes can be developed (either through the private or non-Federal public sector), and it is important that an "institutional memory" be maintained.

8. Timing and Accomplishments

There is considerable evidence that the activities of the TSOs in the RCHD accomplished significant goals in relatively short time frames. Housing cooperatives were formed early in the process, and many of these have survived over the duration of the demonstration. Although no cooperative units have been built and occupied as of this writing--and, judging from the length of time that it takes for any assisted housing to be realized, it would have been surprising if these had been established within this time--there have been other lasting accomplishments, not the least of which is the apparent personal development of the cooperators themselves. Whether these "structural" accomplishments can serve as models or inspirations cannot be foretold. However, it would be anticipated that the housing cooperatives would, over the longer time period, have a positive impact if only for the fact of the experience.

9. Cooperative Conversion

This issue has been addressed in earlier sections of this report and will not be elaborated upon here. It is only necessary to restate that this option has both positive and negative attributes, and should not be discarded on the grounds that it does not meet all of the attributes of preconceived notions on home ownership and all that that entails.

What of the Future?

Having gone through the experience of the demonstration and the lessons that have been learned, what are the implication for the future of this form of home ownership? With severe reductions in Federal construction loans and/or deep subsidies for low-income rural families, is the future as bleak as the past for this clientele? Or are there potential sources of construction financing from other sources?

The RCHD, with its limited scope and funding, could not answer all the questions which could be raised relative to cooperative housing and the delivery approach employed. It could not fully assess all the roles and elements of the process. But it could permit an articulation of the results of the groundwork and the examples of the efforts of skilled organizational entities.

The most obvious alternative to Federal financing of construction projects lies, at this time, with or through the individual State governments. Whether such funds are available through Community Development Block Grant programs or some other consequence of the highly-touted "New Federalism" is yet to be determined on an individual State-by-State basis. Here again, as has been referred to in earlier discussion, strong organizational efforts would have to be mounted to assure that low-income rural housing problems would be considered on a par with other competing interests.

In recent months, greater emphasis has been placed on the sale of bonds to promote state housing programs. While this is, conceptually, an attractive option, the success of the program will rely in part upon exogenous factors, including the posture taken by the Internal Revenue Service relative to tax-free municipal and other bonds.

General revenue income in State governments has been suggested as a means for providing construction loans. At the present time, with general revenues already strained by deteriorating physical infrastructures, demands by the public education system, and reductions in services that are directly attributable to cutbacks in Federal support of States and cities, it is highly unlikely that many States (or localities) would initiate additional housing programs (unless they can be shown to have broader direct and indirect benefits to the particular jurisdiction).

All of this could change, of course, with significant changes in the economy. As the general economy improves, increases in revenue can be attained without increases in taxes. And given the long time periods that are required for the development of housing cooperatives and cooperative housing, it is not inconceivable that non-insignificant construction finance moneys could be available by the time of such economic recovery.

Lastly, we turn to the private sector and the concept of cooperative financing (or syndication). During the course of the RCHD, some efforts were directed toward determining the feasibility of private funding, and a separate research document was prepared (Appendix C). Inasmuch as the syndication concept involves an interpretation of existing tax laws, it is not appropriate that any comment be made regarding the source of funds.* It is important to note, however, that the process of housing cooperatives and coopertive housing should not be significantly different from those developed under other financing mechanisms. It is more important to realize that this housing option should represent an investment which provides the best use of available funds, regardless of their source.

* Battelle does not engage in the practice of law or the interpretation of law. Nor does Battelle offer tax advice. The conclusions and options in Appendix C are strictly those of the writers of that report, and are included as a part of this Final Report without comment or prejudice.

APPENDIX A

Technical Assistance Networks

for the

Delivery of Rural Cooperative Housing

RESEARCH CONDUCTED IN SUPPORT OF THE RURAL
COOPERATIVE HOUSING DEMONSTRATION PROGRAM FOR THE
U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT
OFFICE OF POLICY DEVELOPMENT AND RESEARCH
UNDER GRANT NO. H-2143-R

Prepared by

J. J. Duga

June, 1981

BATTELLE
Columbus Division
505 King Avenue
Columbus, Ohio 43201

Preface

The information contained in this paper was originally prepared for presentation and discussion at the quarterly meeting of the Rural Cooperative Housing Demonstration Consortium, held in Las Cruces, New Mexico, January 12-15, 1981. The paper was revised based on these discussions and reflection on the relationship of existing networks to the fledgling network now being formed within the Rural Cooperative Housing Demonstration (RCHD).

We gratefully acknowledge the inputs provided by the members of the RCHD Consortium, and the review of drafts of this document by Terry Morris and Terry Connell of HUD.

Although this document is primarily intended for use and reference within the RCHD, it is also being given wider distribution to HUD and other Federal Agency staff, in recognition of its potentially broader interest to persons seeking to establish private/public sector linkages through the network approach.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

TECHNICAL ASSISTANCE NETWORKS FOR
DELIVERY OF RURAL COOPERATIVE HOUSING

INTRODUCTION AND OVERVIEW

The Rural Cooperative Housing Demonstration (RCHD) Program has been established as an activity which has one basic objective: the development of housing for rural, low-income families. As such, this objective is consonant with the objectives of other activities supported through Federal agencies, state agencies, and in fact, non-governmental entities. Decent housing for all of our citizens is a fundamental policy objective that is seen to be of concern at many levels of the private and public sectors.

There are several features of the RCHD, however, which distinguish it from other considerations relative to housing. First, the program is specifically directed toward rural, low-income families. Second, it is directed toward the development of the concept of self-managed, limited equity cooperative housing as one of the alternatives that are available. And third -- and this is the most distinguishing feature of all -- it is directed toward the determination of whether a specific approach to housing delivery has features which facilitate and accelerate the accomplishment of these goals. What separates the RCHD from other approaches to the basic question is the feature of technical assistance involving a network of housing and community development specialists (hereinafter inferred to as Technical Service Organizations [TSOs]) whose primary duties involve the provision of technical assistance and organizational formation/operation activities that are required.

It must be stressed from the outset that the development of rural cooperative housing is not a simple task. The success of any endeavour is highly dependent upon a number of different variables, and these variables may change dramatically from one setting to another. There is no tried-and-true formula for the establishment of rural cooperatives which are guaranteed to be successful. For that matter, earlier research and analysis by Battelle has shown that there are no similar fixed approaches that would guarantee success in other types of cooperatives, including those in urban settings and catering to the needs of the more affluent.* What has emerged, however, through a comparison with other technical assistance delivery demonstrations and experiments is the fact that the concept of networking -- and all that it entails -- provides a means whereby a set of technical assistance providers can perform their duties more effectively by utilizing the total talent available throughout the network.

PURPOSE

It is the purpose of this paper to draw upon the experiences gleaned from other technical assistance programs and draw parallels between these programs and the RCHD. In the paragraphs which follow, we shall discuss comparative programs that have been built upon the concept of networking, and shall further discuss some of the lessons that have been learned from them. It will be shown that the concept is just as applicable to rural housing coöps as it is to other forms of technical assistance. Furthermore, it will be shown that the characteristics of networks can be instrumental in the furtherance of the objectives and can serve as a significant force in garnering the support necessary to continue and expand operations.

COMPARATIVE PROGRAMS

As a point of departure, it is well to define "networks" in the context to be applied. Basically, there are two characteristics of networks that serve to illustrate the definition:

---

* See the companion report to this document: "Past Practices in the Development of Cooperative Housing in the United States and An Analysis of Their Implications in Rural Areas," T. R. Martineau et. al., Battelle Columbus Laboratories, Columbus, Ohio (1980).

(1) a network consists of a collection of communicating entities, coupled with the clienteles that they serve and the institutions that serve them, which have similar objectives and/or needs, and which operate wihtin a mode that includes mutual correspondence, assistance, and strategic/tactical planning and operations;

(2) a network serves to aggregate the concerns, problems, solutions, and perspectives in such a manner that they can be seen as a collective expression, in spite of the fact that they represent inputs from a variety of nominally-disjointed entities.

In order to illustrate the concept of networks and their applicability to the RCHD, let us first consider the structure as shown in Figure 1 on the following page.

The schematic diagram of Figure 1 provides an overview for programs which have, to this point, been operational in various Federal-supported activities. In almost any start-up activity, a central funding source has provided the initial impetus through support of program design, management development, and establishment of procedures for the delivery of the necessary technical services. While specific structures may vary from one application to another, it has been recognized that the national character of a demonstration requires compartmentalization into regional (or other sub-national) groupings.* These regional groupings permit the identification of those factors which are characteristic of the regions, and the development of "fine-tuning" of a general concept or approach to meet the specific needs within the region.

The next level of activity defines those entities (be they organizations or individuals) who are the principal links to the clientele. It is at this level where further specification of problems, needs, wants, capacity, and operations must be developed in connection

* Such sub-national groupings are generally considered essential due to the variability of clientele and/or the environment in which they operate. There are, for example, distinct differences from one part of the country to the other with regard to climate, industrialization, habits and heritage, etc. It is through recognition of these differences that one tends to separate "national" programs from "federal" programs.

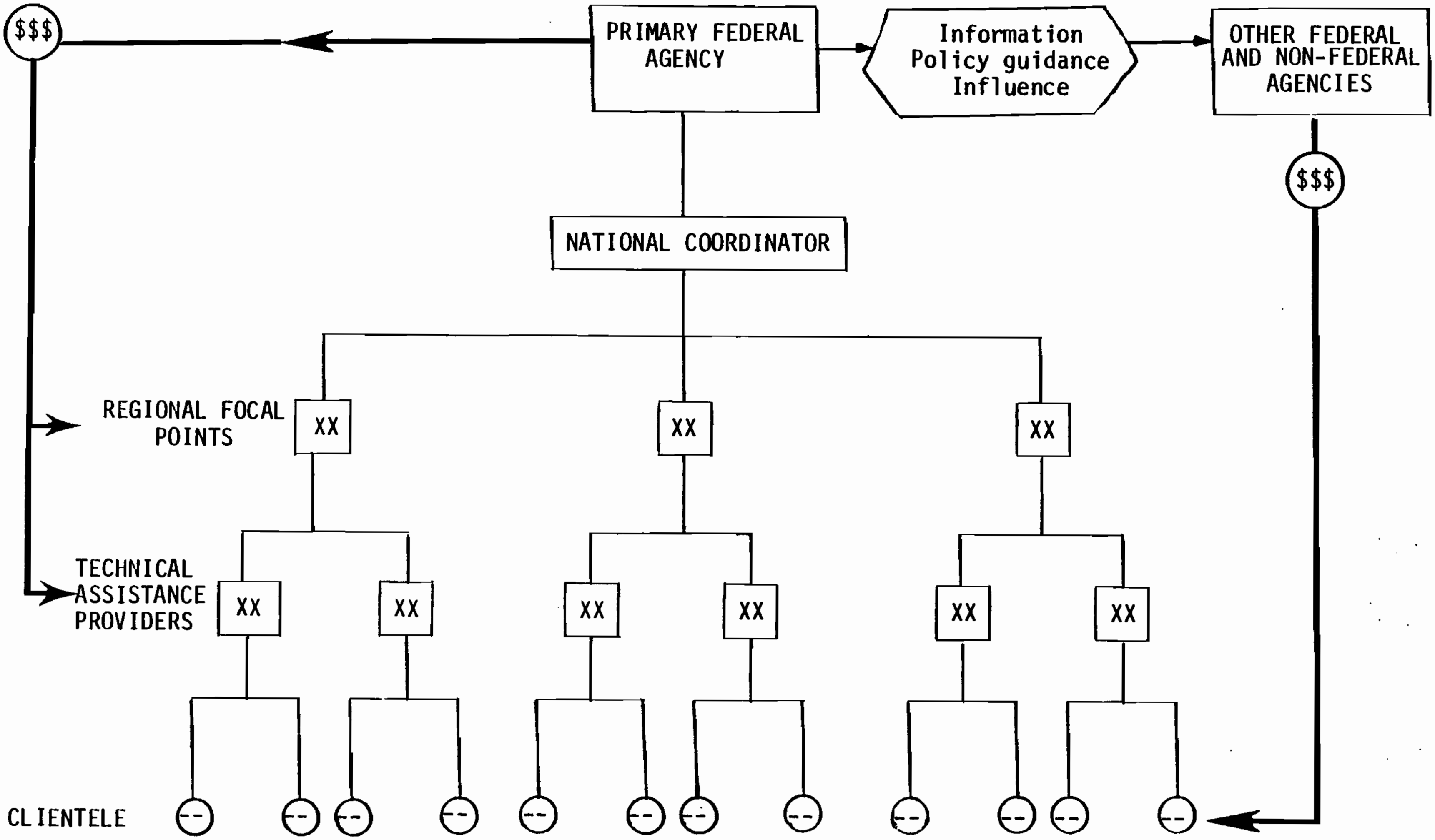


FIGURE 1. SCHEMATIC DESCRIPTION OF TECHNICAL ASSISTANCE NETWORK, INCLUDING FLOWS OF MANAGEMENT, INFORMATION, AND SUPPORT

DISCLAIMER

The opinions expressed in this research report do not necessarily reflect official policies or positions of the U.S. Department of Housing and Urban Development, or of other Agencies or Departments of the United States Government. Neither HUD nor the U.S. Government makes any warranty, expressed or implied, as to the accuracy or completeness of the information contained herein.

with the individual clients. In addition, it is at this level where specific tactics must be developed and applied to resolve those concerns that are germane to the clientele. Special attention should be paid, at this point, to two special attributes of the clientele-provider interface: (1) there will be identified at this point those types of concerns which are almost entirely specific to the provider or the clientele -- those are concerns that can generally be resolved within the confines of that relationship; and (2) there are those types of problems which are not totally characteristic of the individual clientele or provider, but may be nearly duplicated in other provider/clientele interfaces. It is this latter type of situation which leads to the aggregation concept noted above.

To this point, we have concentrated upon the early-stage definition of problems and approaches as it applies to the planning for total resolution of a problem set. This stage represents those activities that are generally supported through planning grants and funds made available for the establishment of the operational system. However, nothing in this discussion has addressed the question of the ultimate financing of those activities that are necessary to resolve the question or come to an acceptable solution. Once the problem has been scoped, and the solution defined (in terms of specifications, costs, etc.), it is necessary to develop a funding package that permits drawing upon the resources of agencies other than the one identified above as the "Primary Federal Agency." These other agencies, often relying upon the inputs, information, analyses, and recommendations of the Primary Federal Agency, will often support the resolution of the problems identified or the objectives noted at the provider/clientele level. At this stage, the ability to provide the necessary funding support depends upon a number of different factors, including but not limited to:

(1) budget

(2) the extent to which the specific project falls within their legislative mandates

(3) the extent to which the approach to the problem solution is supportable through existing agency guidelines

(4) the perception of the "benefits" of the program, including those benefits that accrue to the clientele and to the supporting agency

(5) the "cost-effectiveness" of the particular approach, particularly in contrast with other approaches to resolving the same issue or problem.

Throughout the above discussion, the network concept has been dealt with in rather general terms, although there are known examples of operating networks which do, in fact, perform in the manner described. In large part, for example, the Agricultural Extension Service exemplifies almost all (if not more) of the attributes and operations noted. In addition, there are many professional, technical, and representative organizations which provide a network of contacts and a procedure for providing technical assistance to their clients. Included among these are, for example, those organizations which serve functional areas of state or local governments, those which address specific areas of technical expertise, and those which serve a variety of specific careers or employment functions.

However, in view of the limited number of eventual clients in the general subject area of this discussion, it is perhaps better to point to two other networks that are at essentially the same stage of development (or a little beyond) as the RCHD. We thus can develop the concepts noted above by considering an almost exact parallel between the RCHD and the two other networks identified in Table 1.

These two programs serve the needs of local governments and provide a number of lessons which are applicable to the RCHD. One should note, however, a very serious caveat that must be applied before too great a parallel is established. Namely, each of the programs was developed a number of years ago (5-8 years) when the economic situation in the contry was significantly different from what it is today. Furthermore, the programs had considerable political support and

TABLE 1. COMPARISON OF NETWORKS

Programs	The Urban Technology System (UTS)	The Community Technology Incentives Program (CTIP)	The Rural Cooperative Housing Demonstration (RCHD)
Primary Federal Agency	National Science Foundation	National Science Foundation	Department of Housing and Urban Development (HUD)
National Coordinator	Public Technology Inc. (PTI)	Public Technology Inc. (PTI)	Rural America
Regional Focal Point	PTI-assigned regional staff	Various Federal Laboratories	National Council of La Raza, Federation of Southern Cooperatives, Rural Community Assistance Corporation, Northern Cooperative Resources, Inc.
Technical Assistance Providers	Technology Agents assigned to specific units of local governments	Technology Agents assigned to groups of small local governments	Technical Service Organizations (TSOs) Self-Help Enterprises Tierra del Sol Special staff with Regional Focal Points
Clientele	Individual departments within local governments; total local government	Several small local governments; individual departments within small units of local government	Individual (existing or potential) cooperator groups
Other Federal Agencies	Departments of Commerce, Defense, Transportation, HUD, HHS, Labor; NASA	Departments of Commerce, Defense, Transportation HUD, HHS, Labor; NASA	HUD, Farmers Home Administration, Department of Labor, National Consumer Cooperative Bank
[Additional Technical Resources]*	Universities, industry, non-profit laboratories, Federal laboratories*	Universities, industry, non-profit laboratories, Federal laboratories*	Universities, non-profit laboratories, representative organizations*

*NOTE: External, additional resources can (and often are) called upon to provide specific technical assistance relative to various types of special questions or problems that arise during the operation of experiments or demonstrations of the type considered here. Depending upon the arrangements and required involvement, these have been supported by either the Primary Federal Agency or the Other Federal Agencies noted in the above table. The extent to which such additional technical assistance is required depends strongly upon the individual situation; the extent to which it is supported depends primarily upon available budgets.

visibility; the older of these programs [The Urban Technology System (UTS)] had evolved from an effort much larger than the early stages of the RCHD program, and this initial activity was sponsored largely by NASA (an agency looking for means of carrying out their mandated activities) and carried out through the auspices of the International City Management Association (thereby engendering the political support and visibility provided through a large number of medium- and large-sized cities throughout the country).

The RCHD is not starting from such strong grounds: the funding levels are considerably less; the potential clientele is more disaggregated and fragmentary; the supporting organizations are not in a position of having to justify their existence to the extent that was required in other programs; and the objective does not have the "glamour" that has been associated with the space program.

Program Comparisons

When comparing the RCHD and those networks which serve local governments, an incautious criticism can be raised relative to the significant differences seen between a small group having a single purpose, and a large complex political entity. For the most part, the differences are not as great as one might anticipate. For example, even where a cooperator group has been identified and the ultimate purpose of the group has been established, the individual members will bring a variety of aspirations, preferences, experiences, prejudices and (mis)conceptions to the activity. They are surely not a single-minded and single-objective collection devoid of individual characteristics.

On the other hand, the "local government" is a heterogeneous mix of activities, subunits, mandates, constraints and individuals -- a group within which there may be competing goals. In response to the spectrum of interdependent, multijurisdictional problems, the local government change agents (as represented in the UTS and CTIP networks) cannot generally deal with "the local government" as if it were a monolithic well-defined entity. If any substantive output is to be accomplished, they must strive to work with small and single-minded or single-objective units.

Thus it is not a question of differences in size, or differences in objectives; it is more a question of being able to provide that type and amount of technical assistance which will lead to the resolution of specific aspects of larger problems. The local governnment change agent who seeks to solve "the total problem" at once will be no more effective than the TSO which seeks to resolve at once all the issues of the particular clientele or cooperator group.

The striking similarities between the RCHD and the other programs noted above -- as least as regards the structure and, to be seen later, the requirements for individual successes -- prompt a more detailed description of the factors that have contributed to the operations and longevity of these comparative activities. There are a number of lessons that have been learned, albeit in a somewhat different setting, and these have some applicability to the task at hand.

SELECTED LESSONS FROM THE LOCAL GOVERNMENT PROGRAMS WHICH ARE APPLICABLE TO THE RCHD PROGRAM

1. Mutual Trust and Understanding

There must be developed a sense of mutual trust and understanding between the technology agent and the clientele (entire city government or individual agency) [the TSO and the potential cooperator group in the RCHD] well before the specific needs and wants are articulated. The TA provider has to become fully sensitized to the needs, wants, perspectives, and history/culture of the clientele in order that those later needs and wants can be understood in the proper context. Unless and until there is developed an appreciation of the constraints and limitations of both sides of the provider/clientele interface, any attempt at seeing a project through to completion is subject to misunderstandings, frustrations, hostility, and disappointment.

2. Resolution of Problems Almost Always Involves Compromise Among Selected Aspects of Potential Solutions, and Involvement of Affected Parties

Local government problem resolution, and the application of technology to it, must involve a large degree of compromise among the various considerations. "Technology transfer," in the most general sense, demands that not only should proposed solutions be technically and economically feasible, but also they should be socially and politically acceptable. Similarly, in the RCHD program, compromises must be obtained which represent structures (both physical and social) which provide the ultimate objective of safe, durable shelter while at the same time meeting the constraints imposed by the limited resources (from both the cooperators and the appropriate support programs). Given the constraints imposed by limited funding and subsidy mechanisms -- and the competition for such funds -- support agencies must attempt to maximize the utility of their funds. Hence, recipients (including both cooperatives and other ownership patterns) must set design criteria within reasonable limits.

The success of a technical assistance program designed to accommodate these needs will depend largely upon the communication of understanding of these limitations, the skillful matching of realities, and the involvement of those groups who ultimately will gain from the program.* The extent to which this occurs will be enhanced by interaction among those who are providing technical assistance, through network communications and mutual interactions.

3. Recognition of the Existence of Multiple Lines of Responsibility

The network operations noted in Figure 1 rely heavily upon the recognition of the fact that each element in the ladder has a responsibility to every other element. In effect, each person has "two bosses" whose needs must be satisfied in order that the demonstration can be

* This "involvement" suggests that all beneficiaries, including the cooperators and the funding entities, should participate at different stages of the program. Such involvement leads to the concept of "ownership," not just of property but also of the process.

effective. Those providing technical assistance, for example, have a responsibility to the individual cooperator groups, doing all those tasks that are required for the successful development of a cooperative. In addition, they have a responsibility to communicate their results and status to the network, provide technical assistance to their peers, keep informed on the pgoress of all elements of the network, and serve to maintain the concept of network continuity.

At the other end of the spectrum, the National Coordinator has a "downward" responsibility to advise all other elements of the opportunities that are available at the Federal scene, the changes in Federal programs that would enhance or impede progress toward collective and individual goals, and the like.* Similarly, the National Coordinator must continuously provide pertinent information to the Federal agency(ies) in a manner that would assist such agencies in defining and supporting their needs as regards budget and program justification.**

4. The Need for "Winners"

Demonstration and experimental programs -- particularly those which have public and "social" appeal -- almost always require that "early winners" be produced in order that the funding sources will obtain a degree of faith in the process and the program. In is interesting to note, in this regard, the experiences of State-supported foundations which were initiated in the 1960's with the objective of spurring increased

---

* The emphasis in this discussion has been placed on Federal agency support. However, it should be noted throughout that the discussion is just as applicable to the non-Federal public sector and to the private sector.

** It is appropriate to note, at this point, that the new Administration is expected to continue and expand efforts aimed at justification of programs, accountability, and cost-effectiveness. In this regard, it is incumbent upon all elements of the demonstration to assure that detailed records be maintained as to activities, expenditures, accomplishments, and -- to the extent possible -- impacts on the clientele groups. As noted earlier, the supporting agencies will be required (as they should be) to assure that the programs being supported have a net positive impact on their parties of interest. It is thus necessary that every element in the demonstration program be in a position to justify and support the overall activity, thereby easing the responsibility of the funding agency. It is axiomatic that if the demonstration provides accountable support to the funding agency and the Congress, the agency, will in turn, provide support to the demonstration.

investment in the affected States by both the Federal government and private industry. A series of States (including Pennsylvania, North Carolina, Kansas, Louisiana and others) individually created foundations funded directly out of the Legislature with the objectives of enhancing the technological base within the universities. It was presumed that seed funding of programs, or the purchase of highly sophisticated equipment, would provide an atmosphere and capability more conducive to th attraction of external support funds. Within the enabling legislation, there was also buried the responsibility for the conduct of research which would be of direct benefit to the respective State, such as in the area of governance, social programs, and the like.

The extent to which this latter form of research was carried out varied considerably among the States, but they uniformly did not put this activity high or their agendas. With the responsibility to answer to state legislatures within one year of the initial appropriation, efforts were concentrated on those activities that would provide the most rapid turn-around.

The lesson learned from that experience is directly translatable to the technical assistance programs discussed in this paper. The Urban Technology System experiment was typified by a series of early winners throughout almost all of the participating jurisdictions. The Technology Agents (often with the inputs from the technology-oriented support organizations within that network) implemented ready-made packages; they developed viable solutions to technology-related problems, or to the technological components of local government problems; and they used the vast resources of the network to provide sensitive information relative to a variety of local issues. It was not until well into the program that a majority of the participating jurisdictions addressed less visible activities. Such an approach was deemed necessary for the early survival of the project, both in terms of the local government being served and in terms of the Federal agencies that provided support (another example of the multiplicity of "bosses" that needed to be served by the Technology Agents and the system as a whole).

Within the RCHD, the lesson is clear. With the limited resources available, efforts must be directed toward identifying those potential cooperator groups that have a high probability of success. To be sure, there are a number of mechanical and administrative duties that must be performed in order to make the transition from group identification through the site-selection/approval and application phases. And there are external bureaucratic factors over which the participants have little control. However, the success of the demonstration program -- as viewed from the perspective of both the cooperators and the participating Federal agencies -- will be determined, in large part, by the extent to which the process moves smoothly and rapidly. Thus, efforts should be directed toward early establishment of cooperator groups that have those characteristics believed to be essential to the development of a cooperative; less effort should be directed, at this time, toward those groups that will require the greatest amount of development. This latter set should, if possible, be deferred.* Further discussion on potential "winners" is presented in Item 9, below.

5. The Need for "Champions"

Any experimental or demonstration project that deals with programs that are not percieved of as being of highest priority suffers from the potential for loss of interest, impatience, and a lack of appreciation of ultimate goals. In order that the necessary momentum can be achieved and maintained, it is necessary that all participants at every level of the program strive to articulate the merits and real accomplishments throughout the network and to externalities. Efforts should be directed to the development of investigating alternatives, and the ultimate goal of the program. It is well recognized that the RCHD, just as in the case of the other networks cited above, addresses

---

* It must be emphasized that such a recommendation may, at first sight, seem to be somewhat callous. The program does, after all, deal with the basic needs of people, not the application of gadgetry to inanimate beneficiaries. However, the cold reality of the situation must dictate that the limited resources be applied in such manner as to be most effective at the early stages, thereby more nearly assuring the type of continuity that would be required to accomplish later tasks.

problems which are all-consuming for the clientele, but may be of less interest to the external observers. Efforts should be addressed to the benefits that accrue, not only to the cooperators but, just as importantly, to the larger community.

Experience with other networks has demonstrated that such "public relations" work is required in order that the activity can be continued to a logical conclusion. In order that such can be accomplished within the framework of the RCHD, it is necessary and desirable that not only should cooperatives be established and operational under the aegis of the program, but also there should be maintained a "longitudinal history" of the cooperators. This longitudinal history should be maintained so as to determine how the existence of the cooperative has had positive impacts on the other facets of the members' lives and economic well-being. The continued "selling" of the project will most likely not rest solely on the counting of numbers of units or numbers of people, but will benefit from additional quantitative or anecdotal data relative to members' complete lifestyles.

The effective champion should be in a position to promote, continue, and support the cooperative housing concept and the service-delivery method being employed.

6. The TSO as the Key Element in the Process

As the principal point of contact with the cooperator clientele, the TSO (or, as in the case of the other networks, the Technology Agent) is the key element in the chain. Regardless of how well the remainder of the structure is operating, it is the TSO who is "closest to the action," and is the one that determines whether a particular coöp is formed and brought to fruition. There are, to be sure, external factors over which the TSO has little or no influence, and (s)he must be responsive to the program changes and alterations in funding sources that are expected to occur. Even with these constraints (and even if these were not constraints), it is the effective use of TSO talents that will determine the success of the concept.

Each TSO must exhibit qualities of :

- The ability to listen and interpret. It must be realized from the outset that the clientele -- the cooperators -- forms the principal audience for the program, but that the program is not one that should be forced. It is incumbent upon the TSO to listen to and understand the wants and needs of all other contributors to the program.

- The ability to teach. In large part, the clientele is not expected to have been exposed to the opportunities or requirements inherent in the Federal programs that are applicable to rural low-income cooperatives. While avoiding the temptation to substantially change the client group, the TSO must be able to teach that which remains to be learned in order that the eventual cooperative can operate and be maintained within the guidelines and regulations that are imposed externally.

- The ability to organize and direct. The TSO plays a critical role as a resource in the organization of a cooperative, in establishing the ground rules by which it must operate as a corporation, in serving -- as needed -- as a parliamentarian, and in resolving disputes. It is emphasized, however, that the TSO performs primarily as a resource, not as a presiding official; (s)he serves as an arbitrator, not as a dictator; and (s)he assists in the implementation, but may not be an implementor.

- The ability to act as a spokesperson. It is not uncommon for the technical assistance provider, in any of the networks referred to above, to serve in the capacity of a public relations expert, a translator, and a spokesperson. The local government experience has shown that the adaptation of a technical solution to the problems of a single government agency can have cross-impact effects on other agencies, with the result that opposition to implementation can come from sources well outside the intended recipient agency's purview. So also in the RCHD, the development of a cooperative can be perceived as a threat to the larger community. It is necessary that the TSO be attuned of, and prepared to provide, that information which, where necessary, reduces any external opposition, especially where that opposition is based on misinformation or erroneous perceptions.

- <u>The ability to maintain a low profile</u>. While it is surely necessary that the TSO take an extremely active posture in the development of a cooperative, including those business-operation activities associated with architecture, zoning, infrastructure, and the like, it is important that the cooperators obtain "ownership" of the cooperative. "Ownership" means much more than mere title to the property or occupancy of the dwellings. It means involvement from the outset; it means familiarization with the process and product; it means the ability and desire to participate in modification of both physical and organizational structures; and it means being "comfortable" with the overall relationship. This sense of ownership cannot be accomplished if the TSO continues to do the work and take the credit. As in a chemical process, the catalyst is necessary to initiate and promote the reaction, but the catalyst does not become a part of the product. So also, the TSO may be required to accelerate selected aspects of the cooperative development, but should be able to step back from a completed program without fear of its failure.

- <u>The ability to communicate</u>. While the above attributes have been defined primarily in the terms of the cooperatives, it is necessary for the success and continuance of the process that the TSO be able to communicate effectively with the other elements of the network. Each of the networks used as examples in this discussion has prospered because the Technology Agents have been able to learn from each other and to teach each other. Effective communications -- which goes well beyond the mere writing of understandable reports -- has resulted in the understanding of approaches used to resolve problems, and appreciation of the different constraints that apply in different situations, and the modification of procedures so as to more effectively produce desirable results.

- <u>The ability to innovate</u>. It is assumed from the outset that no two cooperator groups and no two environments will be exactly the same. What has worked well within one group and in one setting may be entirely inappropriate for another group in another place. It is perhaps trivial to note that if this were not the case, cooperative housing would have already spread rapidly throughout rural

America and there would be no need for the present demonstration. Given the variations are the rule rather than the exception, it is necessary for the TSO to have sufficient flexibility to recognize these differences, to modify approaches toward overcoming obstacles, and to develop appropriate procedures for dealing with varying conditions. The extent to which this can occur is facilitated by the networking communications, each element learning from the other and each seeking -- through direct or mailed inquiries -- approaches toward the resolution of specific questions.

As may be inferred from the above discussion, the characteristics of the individual TSOs -- or other providers of technical assistance -- may be expected to vary over a wide range, but they must all have or develop the abilities to respond to a number of different circumstances. There is no fixed recipe, no proven model, and no course of study that is guaranteed to produce an effective TSO operation. It is expected that each TSO will have its own "style" and, as a consequence, each TSO is expected to have a number of encounters which succeed and others which do not. It would therefore not be unexpected that the long-range future of the RCHD program -- or whatever structure evolves therefrom -- should provide an allowance for greater interchange among TSOs, greater communications among them, and, if indicated, opportunities for "special assignment geographic exchange."* The extent to which this can occur will, of course, be dependent upon a number of factors.

7. Structural Stability

One of the most critical factors that characterize the present RCHD program and separates it from the other technology exchange networks noted earlier is the size of the overall operation. While the Urban Technology System was initiated with 27 sites (each with its own change agent) and later expanded to more than 30, and while

* It has already been seen in a number of Federally supported programs that such exchanges -- as, for example, through the Intergovernmental Personnel Act -- have permitted an accelerated diffusion of technical assistance to a variety of clienteles.

the Community Technology Incentives Program involves better than two dozen local governments, the RCHD is presently rather small by comparison.* As a consequence, it is apparent that the participating RCHD entities must maintain productive activities in pursuit of the program goals. In brief, there is little or no room for slippage in schedules and programs; inactivity of a single TSO is presently reflected as 25 percent inactivity in the overall program, and the goals of the total network structure certainly cannot be accomplished under those conditions. The stability of the network depends upon the articulation of reasonable goals and an accountability in terms of milestones, resources, and real accomplishments. The "market" and the "demand" are too great, and laxity in performance (and a consequent fragility of the network concept) will result in failure of the demonstration.

It is not expected that the demonstration, as a whole, will fail. But if it does, it should be for the right reasons. It should fail because of the unavailability of appropriate support programs; it should fail because of a true lack of interest on the part of the clienteles; and it should fail because of proven alternatives that are, in total, more cost-effective. However, it should not fail because of laxity in performance and requirements; it should not fail because of improper "mechanical" details or response to reporting requirements; and it should not fail because of inadequate expression of results to those who can exercise financial and budgetary decision-making roles.

8. Timing and Accomplishments

The lessons from the local government technical assistance programs include one of the most important aspects of problem resolution faced by governmental entities or by potential (or established) cooperator groups: timing. As noted in the following discussion, there are

* In reality, it is not totally appropriate to compare the programs on the basis of the numbers of units of local government served or on the number of TSOs or cooperatives in progress. Each TSO is expected to have several potential housing cooperatives in progress at any given time, just as each local government change agent has a number of different projects in several different departments or agencies. However, for purposes of the present discussion, it is desirable to make the contrast between the large number of local government technology agents and the small number of TSOs.

significant differences in the impact of timing as it affects the two types of technical assistance, but there are also important similarities.

The provision of technical assistance to local governments is most often done in response to shorter-range problems, rather than long-range and highly complex issues. The reasons for this are obvious: the commitment of scarce resources must be made toward resolution of those problems for which a relatively rapid turnaround may be expected, i.e., within the time period of the electoral cycle.* Additionally, efforts toward problem solving should be such that potential solutions can be implemented within time frames consistent with decision-makers' interest or priority span. Having even a partial solution while the problem is of high priority is generally far better than having a perfect solution after interest has waned.

Technical assistance in the RCHD program has a similar quality of timeliness in that concrete and accountable progress must be made such that the interests, expectations and aspirations of the cooperator group are not decimated by inaction. To be sure, the process leading from early group identification to final occupancy contains built-in delays, many of which are institutional factors over which neither the TSO nor the cooperator group has control. In order that such delays do not have an inordinate adverse impact, it is necessary that intermediate goals be defined and attained. Among these, one includes the necessary business management, property management, board training, member training, and role-playing exercises that will lead toward group development and self-management (to the extent that self-management is to be a characteristic of the cooperative). Such activities, carried out concurrently with the external approval and processing tasks, it expected to provide a sense of accomplishment during what otherwise might be viewed as unproductive time.

---

* It should also be noted that the less complex problems are those for which there is not necessarily the full spectrum of technical, economic, societal and poltical concerns. Hence, where there are (almost) purely technical concerns, these can generally be resolved in a straightforward manner and there is a greater and more immediate return on investment.

9. The Implications of Cooperative Conversion and "Off-the-Shelf" Innovations

While technical assistance programs on behalf of local governments have resulted in the development of new approaches to old problems, one must not overlook the fact that much of the early work in this area relied upon the adaptation of solutions from one jurisdiction to another (even where an "innovation originator" site was not, nor did it become, a member of the defined network). The early successes of these programs derived not so much from the development of new solutions -- which inherently are time-consuming -- as from the conversion, adaptation, or adoption of an existing proven approach or commodity.

This observation has a direct analogue to the RCHD program, particularly as it pertains to those steps that relate to the TSO functions of group formation, education, and organization. As noted earlier, significant delays can occur between the extremes of group identification and final occupancy; it follows that any activities which accelerate the process from "problem identification" to "solution implementation" will be both productive and rewarding.

It is in this context that attention should be given to the concept of cooperative conversions, starting with available rental properties for which conditions are appropriate for conversion, and carrying through all the cooperative development process that are required, <u>with the exception of actual basic construction</u>.

There are, to be sure, many caveats which must be identified and understood in this approach, not the least of which are those embodied in the term "rental properties for which conditions are appropriate." A number of property characteristics may lead toward the situation in which property is in default or in poor repair; the physical design and arrangement may not be suitable for individual or cooperative ownership; transient behavior (either by circumstances or by choice) may be such that the concept of cooperative ownership is unrealistic; and so on. Each of these factors must be considered in the determination of the potential for cooperative conversion.

The success of these other endeavours is, in no small way, related to the fact that a network -- with all the mutual support and internal communications activities that characterize the term -- was indeed established. Based upon common interests, common obligations, common opportunities, a not-always-common willing clientele, and common frustrations, the network and the constituent elements have grown from the identification of a class of real needs.

The RCHD is based upon a perception of real need among the rural low-income population: the need for decent housing. It is also based upon a perception of want: a place that one call call home and over which (s)he can exercise a degree of control. It remains to be seen whether the TSO concept is effective in accelerating the attainment of the cooperators' objectives, and whether the concept is effective (both in terms of cost-effectiveness and in terms of the participants' total quality of life). If, in fact, it can be shown that (1) rural cooperatives offer greater opportunities for low-income families; (2) the existence of a housing cooperative enhances the non-housing opportunities and aspirations; (3) rural cooperatives are a viable alternative to other rural housing programs; and (4) the accomplishment of the housing objectives of both the cooperatives and the supporting Federal (or other) agencies can be facilitated and accelerated through a TSO concept, it will then follow that the "market" is there for the development and expansion of a true operational network.

However, under the proper circumstances, existing structures have the major attribute of actually existing. While structural modifications may be required, refinancing packages may have to be formulated, and local zoning laws may have to be accommodated, the fact remains that one of the more time-consuming (and interest-eroding) steps has been eliminated and emphasis can be placed on the primary organizational activities.

This use of an "off-the-shelf" solution, adapted to the specific needs of the clientele group, is an extremely effective tool in the establishment of cooperator groups, in honing the non-construction related techniques of the TSOs, and in building the case for the TSO, the network, and the cooperative concepts.

A NOTE ON "EXPERIMENTS" VS. "DEMONSTRATIONS"

A significant difference between the RCHD program and the UTS program -- even at comparable stages in their inception, i.e., even within approximately one year of formal existence -- is that the former is classed as a demonstration of concept, while the latter was designed to be a controlled experiment.* To be sure, both programs evolved from the concept that "technical assistance," in the broad sense of the term, could provide an added dimension to the resolution of a problem. Furthermore, this assistance was obtained from a resource which had not been traditionally or widely employed. However, the conduct of the programs, and the methods whereby they are to be assessed, differ widely.

The RCHD program is at a stage where proof of concept is still being pursued, while UTS was initiated well after such proof of concept had been accomplished. RCHD is initially confined to a small number of TSOs and potential client groups, while UTS was formed with much larger number of jurisdictions, change agents, and separable client groups.

* Two notes are appropriate here. First, the CTIP program is sufficiently similar to UTS in design and operation that, for the purposes of this discussion it can also be classified as an experiment. In actual operation, the CTIP program was not subjected to the same type of constraints as UTS or the same rigor in line operations, but the distinctions between the two networks are insignificant in the present context. Second, the nature of the original UTS funding was such that it could only be designed in an experimental mode, with a sufficient number of "variables" and "controls" such that specific end items could be measured and analyzed with statistical significance and confidence.

RCHD has been established in such a manner that any assessment must, of necessity, be confined to qualitative (or, at best, semiquantitative) observations and interpretations, while UTS was designed such that more nearly quantitative conclusions could be drawn. And finally, the RCHD activity is being undertaken concurrently with the assessment and its eventual recommendations; the UTS program evaluation is an *ex post* activity, not undertaken until well after the program was initiated (and, in the case of many of the participating jurisdictions, long after major portions of the program were terminated).

The differences in the programmatic aspects do not, however, detract from the similarities in approach and objectives: the development of a system and procedure which has, as its primary goal, the accelerated resolution of specific need(s) through specialized technical assistance. It should be emphasized that problem resolution is the real goal of the technical assistance or change agent activity. The creation of the technical assistance mechanism is merely a means to that end, and the development of an interactive, communicating network is merely one approach to the effective operation of that mechanism.

CONCLUSION

In summary, it is appropriate to return to the definitions of *networking* and the implications relative to the performance and continuance of the RCHD. It must be realized that the demonstration itself is merely a precursor of the structures and activities that can come to fruition in the not-too-distant future. The demonstration is presently at a period in its history which is exactly similar to the aforementioned local government program during the early 1970's. That program developed into the creation of an organization (Public Technology, Inc.) and the development of a series of networks which have survived for as many as eight years (albeit with significant variations in financial support). The concepts and approaches designed in the early stages of those programs have, in some instances, become institutionalized; furthermore, some of these have become self-sustaining and self-sufficient.

APPENDIX B

CASE STUDY REVIEW OF THE RURAL COOPERATIVE HOUSING DEMONSTRATION

The following Appendix was prepared by Rural America, as a part of their role as a subcontractor to the Battelle Columbus Division.

The Appendix has been drawn from extensive reviews of reports submitted by the participants in the demonstration, as well as detailed site visits and interviews with program staff.

The opinions and conclusions expressed in this Appendix are strictly those of Rural America, and their inclusion as an Appendix does not imply acceptance or endorsement by Battelle.

In addition to the case studies, and the conclusions and observations drawn therefrom, this Appendix contains an "idealized" general development timetable, and a comparative compilation of the actaul timetables experienced during the demonstration. The major differences between "actual" and "appropriate" sequences of events underscores the fact that there are many external factors over which the cooperative development process and participants have little or no control.

RURAL COOPERATIVE HOUSING DEMONSTRATION

FINAL REPORT

RURAL AMERICA

September, 1982

Rural Cooperative Housing Demonstration
Final Report

TABLE OF CONTENTS

Table of Contents (cont'd)

ACKNOWLEDGEMENTS

This report was prepared by RURAL AMERICA, Inc., in fulfillment of a contract with the United States Department of Housing and Urban Development through Battelle Memorial Institute, Columbus, Ohio. While it is an effort to distill the experience at the local level of several subcontracting organizations, the interpretations and opinions expressed herein are those of the author, and are not meant to reflect those of HUD, Battelle, or others whose work made up this demonstration.

Appreciation is extended to the staff members of participating organizations whose effort and dedication in bringing the concept of housing cooperatives to rural communities is, in itself, the experience of the rural housing cooperative demonstration program described in the report which follows: The Federation of Southern Cooperatives in Epes, Alabama; The National Council of La Raza in Phoenix, Arizona; The New Mexico Hispanic Housing Coalition; Northern Cooperative Resources in Montpelier, Vermont; The Rural Community Assistance Corporation in Sacramento, California; and Self-Help Enterprises in Visalia, California.

September, 1982

Jeanine Kleimo
RURAL AMERICA

PREFACE

The Rural Cooperative Housing Demonstration Program was a three-year effort which attempted to investigate the potential of housing cooperatives as a form of housing tenure and as a housing delivery system for low- and moderate-income residents of small towns and rural areas.

The first year of the demonstration, which began October 1, 1979, was funded by the Farmers Home Administration. Funding for the last two years came from the Office of Policy Development and Research of the U.S. Department of Housing and Urban Development. Throughout the Demonstration, both the Farmers Home Administration (FmHA) and HUD assigned a representative to serve as liaison with those agencies for the nonprofit organizations performing the field development work.

The FmHA funding went to RURAL AMERICA to execute subcontracts with the Federation of Southern Cooperatives, the Rural Community Assistance Corporation with subcontract to Self-Help Enterprises, and the National Council of La Raza with subcontract to Tierra del Sol to perform the field work.

HUD funds went to Battelle Columbus Laboratories to do an assessment of the demonstration and to function as the funding conduit. RURAL AMERICA again received a national contract to monitor the regional subcontractors, to provide them with information and assistance, and to develop technical service organizations for coops in the Northeast. Northern Cooperative Resources was added to the list of regional participants in the demonstration, receiving funds from the National Consumer Cooperative Bank for operations during the second year of the demonstration (their first) and from HUD the next year. RURAL AMERICA also received Coop Bank funds to assist with coop development in the Northeast.

All organizations participating in this demonstration, regardless of the formal structure of contracts and monitoring, attempted to share information, insight, and advice on their coop housing activities as they progressed. This was done through what became known as the coop consortium, a term used often in the text which follows. Meetings of the consortium were held three or four times a year, and all members were encouraged to maintain contact with one another in order to facilitate the flow of information. While such a structure contributed to the sharing of ideas and experience, the fact that several organizations, including both FmHA nad HUD due to the change in Administrations during this period, had staff changes, affected the continuity of this consortium approach.

INTRODUCTION

The Rural Cooperative Housing Demonstration (RCHD) began in October, 1979 under a one year grant from the Farmers Home Administration (FmHA) growing out of the work of both RURAL AMERICA and the Rural Community Assistance Corporation, in their attempt to establish the feasibility of small rural housing cooperatives.

Why Rural?

The goals of the demonstration began and continues to focus on three primary objectives:

1) Test the viability of small housing cooperatives in rural areas;
2) Build local capacity to provide technical assistance in the creation and maintenance of the coops through the establishment of technical services organizations (TSOs);
3) Develop an integrated delivery system for cooperative housing in rural areas.

The technical services organization (TSO) and the technical services organization developer (TSOD) are the essential ingredients in developing the capacity within existing organizations or to create new ones and to provide ongoing technical services and to establish additional housing cooperatives. TSO/TSODs can provide backup legal, accounting and problem solving services in addition to education and training for cooperative groups.

The integrated delivery system, as envisioned, would work with traditional and non-traditional funding sources in developing programs for rural housing cooperatives; develop legislation and regulations pertaining to cooperatives and to develop the resource capacity of TSOs to provide educational and training materials to rural organizations interested in developing housing cooperatives. Training guides and manuals have been developed by the RCHD to complement the cooperative activity in rural areas as well as to inform other interested persons.

With the successes of Cabrillo Village in California, Poplar Grove in Arkansas and Hope Village in New York there are still problems that this demonstration is tackling. The access of mortgage financing in non-metro areas, out-dated regulations, institutional and communication barriers are some of the more prominent obstacles that will be addressed in this report.

Of the 28% of rural housing in this country more than 36% of the "adequate" households have one or more of eight specified physical defects as noted in the 1976 Annual Housing Survey. Put another way: the urban defect rate of 8.6% of its total housing units is much less than the 12.4% in rural areas. The disproportion is quite clear: rural America is consistently in the disadvantaged position using virtually any index of comparison with housing in urban areas.

A comprehensive feasibility study, Of The People, By The People, For The People: Cooperative Housing for Rural America, written by Jaime Bordenave clearly illustrates the history of the cooperative movement in America, specifically, the effect of cooperative housing outside of urban areas. A conclusion was reached in this report, supported by case studies that small, low-income and non-metropolitan cooperatives can provide affordable housing that the families themselves control. The text also concluded that:

1) Small, rural housing cooperatives are feasible, as well as socially and financially advantageous;
2) For cooperative housing to succeed and be available to any significant number of families as a housing alternative, emphasis must be placed on the system that develops and supports small coops, rather than merely on the creation of isolated cooperative housing groups;
3) Under proper circumstances, small coops are capable of self-management, which will reduce costs and provide a high degree of resident control;
4) Technical services are needed greatly in the development phase and a lesser degree for the support of existing coops;
5) Major obstacles to the development of a system of rural housing coops are:
    a) complexity and length of the housing development process;
    b) institutional resistance;
    c) unavailability of subsidies; and
    d) unavailability of technical assistance.

What is a Cooperative, Anyhow?

A cooperative is a corporation owned by and operated for the benefit of those using its services. In a housing cooperative, for instance, the tenants who occupy the units are also the owners of the development. The result is that the cooperative members exercise democratic control (one person-one vote) over the services provided by the cooperative. This control is usually viewed as being the impetus for organizing a cooperative. At Cabrillo Village in Saticoy, California, farmworkers were threatened with the loss of their homes when the owners decided to tear the camp down because compliance with state health and safety regulations would have been costly. The residents unified, organized and generally waged a campaign to purchase the camp and rehabilitate the structures and landscape. The progress has been slow but steady so that now, Cabrillo stands as a model for the concept of tenant/owner housing development.

Not only are houses constructed or rehabilitated but there is a power structure formed when people organize for a common goal. People realize the possibility of other objectives by remembering that there is strength in numbers.

Rural and Economic Feasibility

First of all there is probably no perfect definition or single agreed-upon meaning for the term rural. The participants in this demonstration have for the most part subscribed to the Farmers Home Administration definition. By and large, the service area for FmHA housing credit extends to towns of less than 10,000 in metropolitan areas and towns of less than 20,000 in non-metropolitan areas.

Is there a relevance for rural America to embrace cooperatives as a housing alternative? Do cooperatives fit the mold of the "American dream?"

This final report attempts to show that there is a need for safe, decent and sanitary housing at an affordable low price in rural areas and, furthermore, that rural America will accept housing if it meets certain criteria. Factors of control, privacy, severity, in some instances, capital appreciation are fragments of what people view as the concept of homeownership. Rural Americans share this concept, therefore, there is a great likelihood that it will be wanted in rural America. This report will describe, as case studies, the various efforts of participant organizations in the demonstration to develop housing cooperatives. In light of this experience, critical elements of the process of developing housing cooperatives will be identified and their importance discussed in the hope that the reader gains insight into the process, problems, and benefits of cooperatives as one significant approach to meeting housing needs. The economic feasibility of cooperatives has emerged as the key motivating factor.

The blanket mortgaging process is usually less costly than other forms; maintenance and other service costs are lowered if there is continued tenant/owner contribution; the corporate structure allows spin-offs such as credit unions or construction companies and the list could go on.

The economic attractiveness for many low-income people could be wiped out, however, if there were no limited-equity mechanisms set up in order to insure that low- and moderate-income developments stay that way.

APPROACHES TO COOPERATIVE HOUSING DEVELOPMENT

Each of the subcontractors participating in the demonstration took a slightly different approach to the development of housing cooperatives in the areas in which it was agreed that they would work. Some of these variations were due to the subcontractor's own organization structure; others were selected because they appeared practical in the experience of the subcontractor or because the approach in itself was likely to demonstrate the impact on coop development of one or more factors.

Certainly, this variety adds depth to the experience accumulated as part of the demonstration and adds focus to the issue of what model or models are most appropriate to apply when attempting to develop housing coops in rural areas.

These approaches are important in understanding the case studies documented in the next section. Some conclusions regarding their usefulness have been drawn from the varied attempts on the part of participants in the demonstration that may benefit those interested in similar efforts in the future.

The General Development Concept

The dearth of competent technical assistance available locally at little or no cost to the community has long been a serious impediment to the development of adequate housing for those who need it most in many rural areas and small towns. With much housing developed through the initiative of builders and private developers, these areas frequently lack organized activities directed at solving the housing problems of the lowest income families. Such a situation may also inhibit real initiative or experimentation as well -- at least without outside funds to encourage it.

The influx of funds through the coop demonstration to several organizations fostered the kind of initiative rural communities often need, in addition to providing a number of them with the reliable technical assistance essential to acquiring the capital required for housing development and the planning for an impact on lower income levels.

Typically, subcontractors in the coop demonstration were established nonprofit organizations with extensive experience in the development of housing and/or cooperatives in rural areas. Those involved from the planning stages of the demonstration -- the Federation of Southern Cooperatives (FSC), the National Council of La Raza (NCLR), and the Rural Community Assistance Corporation (RCAC) -- viewed their role as establishing local capacity to develop cooperatives through creating or strengthening local organizations able to organize potential coop members, train them, and assist them in day-to-day activities of coop development. These local organizations, called Technical Service Organizations (TSOs) received training and backup technical support from their sponsors, or Technical Service Organization Developers (TSODs).

Applying this model, the TSODs quickly involved other organizations: RCAC decided to work with Self-Help Enterprises (SHE) and NCLR to work with Tierra del Sol (TDS) to expand their work into New Mexico. Both of these TSOs were established housing development corporations and received a subcontract from their TSOD. The Federation decided to maintain a technical assistance staff at their rural development training center in Epes, Alabama and have this staff work with state associations of members and member cooperatives throughout the Southeast. RURAL AMERICA functioned as TSOD in the Northeast, and, following its efforts to interest several organizations in actually developing housing cooperatives, RURAL AMERICA drew into the demonstration as a TSO Northern Cooperative Resources (NCR). NCR actually grew out of interest by Rural Vermont, an affiliate of RURAL AMERICA, and its interest in cooperatives as a solution to some needs in that state. NCR began to receive funds during the second year of the demonstration from the National Consumer Cooperative Bank, and received HUD/Battelle funds during the final year.

The organizations participating in the demonstration certainly differed in their actual approaches to organizing cooperative organizations and in performing the technical assistance necessary for these coops to obtain financing, sites, and other elements of housing development, as these were adapted to the local setting and level of experience out of the knowledge of the TSO or TSOD. While circumstances varied, several common elements of these organizations' experience are important to point out in order to understand not only the process of coop development locally, but the impact and outcome of their efforts.

Most important, the goal of these organizations became not only the development of housing which would be owned cooperatively in order to test local need and interest in this concept, thereby producing a body of data and opinion about whether coops, as an ownership form, were suitable for use in small towns and rural communities. Consortium members imbued the demonstration's goals with much more social concern than this: Goals came to include the attempt to bring coops to low-income people for whom whatever housing delivery system and programs existed had not worked. Farmworkers often were a significant part of local coop efforts, and are just one example of local people for whom the system was not working in terms of housing. Many coop members lived in remote areas, often due to their work on farms or in other rural sectors. Many were also functionally illiterate, which exacerbated their inability to obtain better housing prior to the serious educational component of TSO work locally.

In comprising individuals who were anything but part of the local power structure, but who were, frequently, among those least well served by it, the housing cooperatives organized found themselves, at times, on the side opposite local political interests. In other cases, their efforts had to be accomplished without the kind of assistance which may have been afforded someone more influential.

Therefore, as the preceding Battelle report aptly points out, the consortium members achieved significant development in terms of housing cooperatives as the organizations capable of producing and operating housing for themselves; while the actual structures, or cooperative housing, may yet be an unrealized goal.

In several cases, housing coops attempted housing development in communities without extensive experience with nonprofit types of housing enterprises, resulting in local skepticism.

As the following case studies illustrate, there were problems in the achievement of local coops' goals -- at times, insurmountable ones -- but much was done which is of use to those contemplating coop housing development in rural areas in addition to the more immediate benefits to those who will, eventually, reside in the coop units produced.

The Southeast

The Federation of Southern Coops generally limited its TSO development to its own membership, anticipating that the Alabama, Louisiana, Arkansas and Georgia state associations would themselves become TSOs. In Alabama, FSC also worked directly with some local member cooperatives.

They mainly looked to the Farmers Home Administration for financing, with rent subsidies through Section 8, due to FmHA being the "only game in town" for their area. Their problems in securing cooperation from FmHA are documented in the case studies which follow.

FSC hoped to save organizing time by building their own members as TSOs -- a logical step in light of the fact that member organizations are themselves cooperatives. The staff person for each of FSC's state associations received training in coop housing at the beginning of the demonstration in order to be able to stimulate interest locally.

Certainly there can be advantages to working within an existing organizational framework and membership in the area of coop housing development. At least, members already possessed a sense of identity and a level of experience in working with each other, making decisions, and understanding and implementing cooperative principles. In looking at their actual experience, it is difficult to say whether or not possible negative factors such as local member organizations' lack of experience in housing development or attention to additional activities beyond housing may have interfered with their success in meeting coop housing objectives. It appears that the biggest obstacles faced by the Federation were those related to cooperation with FmHA rather than with their own membership. However, coop housing staff admit that the fact that housing was an activity that members could choose to undertake, but which was not required of them, meant it was more difficult for coop housing staff to require certain types of assistance, performance, or accountability that was desired and which may have been able to be present under different circumstances.

<u>The Southwest</u>

The National Council of La Raza, in practice, actually operated as both TSOD and TSO. NCLR staff had experience in housing in Arizona, resulting in contacts with communities which presented an opportunity for coop housing development though direct day-to-day involvement. Tierra del Sol in New Mexico also was interested in coop development, and it was agreed that NCLR would subcontract with them for TSO activities there, with NCLR providing training, monitoring, and technical assistance as needed.

In these two states, lacking in existing nonprofits to function either as additional TSOs or as local sponsors of cooperative housing development, much work for both the National Council of La Raza and Tierra del Sol was involved in organizing coop memberships before actual housing development could begin. Both approached communities and organizations that were interested in cooperatives, using the extensive contacts both organizations had developed over the years.

The Farmers Home Administration appeared the most appropriate source of financing for several reasons: It alone provided the terms -- including rental subsidies -- that could make the cooperatives developed serve low-income families. Funds were available, and targeted for the kinds of rural areas in which work would be done as part of the coop demonstration. Perhaps most important, NCLR and Tierra del Sol understood, like others in the cooperative consortium, that FmHA would set aside Section 515 rental housing loan funds for cooperatives produced through the demonstration. Therefore, projects were designed to meet FmHA criteria for the 515 program.

As a result, the biggest problem faced by most of the cooperative corporations assisted in this region were with FmHA. The case studies which follow will document much of the organizing experience developed in the region, and will show how, in most cases, the approach taken to coop organizing was selected in line with the preferences of the source of financing to which each project would apply. NCLR learned much not only from the differences between the FmHA 515 and HUD 202 programs, and the strategies that were most appropriate in each case; but also about the effectiveness of the two different models required.

One important note in the southwest region's experience with the demonstration is that the TSO/TSOD relationship went through some real changes: Tierra del Sol began as part of the demonstration at the beginning. Much of their work focused on the community of Taos, a six hour drive from their base of operations in Las Cruces. This distance, the problems it created for all involved, and the erosion of Tierra del Sol's coop efforts elsewhere in the state, led to the decision not to refund Tierra del Sol for the final year of the demonstration. Instead, it was agreed that the New Mexico Hispanic Housing Coalition would take over the Taos project and other coop activity in the northern part of the state, and would be assisted in functioning as a viable TSO by NCLR, with whom they already had a good working relationship. The New Mexico case study will further detail this situation.

California

As the place where rural housing cooperatives already had captured some attention as a housing option -- through the experience of Cabrillo Village in Saticoy and San Jerardo in Salinas -- California was seen as having great potential for coop development as part of the demonstration.

It was agreed that the Rural Community Assitance Corporation in

Sacramento, already familiar with cooperatives through the above projects and experienced in technical assistance for rural housing activities of various kinds, would operate as a TSOD in the state. Several organizations were interested in becoming TSOs for coop development, including Self-Help Enterprises in the San Joaquin Valley and California Rural Legal Assistance. Cabrillo Village was willing to assist with the development of other cooperatives with theirs as a model. RCAC planned, therefore, to work with these organizations and others as may emerge to become effective TSOs. RCAC would provide extensive training to the staffs of these organizations and would work with them to train the boards of the coops organized, including the preparation of training materials. They made a strong effort to work with Spanish speaking farmworkers in the state who could benefit from the development of housing coops.

Self-Help Enterprises was also funded through the demonstration, on a subcontract with RCAC for the first two years and directly from RURAL AMERICA the last. SHE proposed extensive work in the San Joaquin Valley, in which they would organize and train coops themselves.

While the proposed TSOD/TSO relationship between RCAC and SHE soon proved not to be as appropriate a model as expected, with SHE better able to function on its own and RCAC needed only as a formal contractor, the two groups stayed in contact and learned from each other's experiences. With SHE more independent due to its housing experience and resources, RCAC focused its attention on those not experienced in training, organizing, or providing any technical assistance to other communities and organizations.

Because the demonstration assumed a setaside of FmHA funds, and because Cabrillo Village and San Jerardo both were financed by FmHA, RCAC and SHE primarily looked to FmHA for coop financing. However, both had established good working relationships with the California Department of Housing and Community Development, which has a program of grants to farmworker housing projects, in which the grant can cover half the development costs of housing for farmworkers. This, combined with the great need for improved conditions for farmworkers in the state and the extensive involvement to date of both SHE and RCAC with farmworker housing, led to a real focus on farmworker housing coops. Regardless of the amount of project costs that FmHA had to cover, they were a problem here as elsewhere in the demonstration's experience in actually achieving the construction of cooperative housing units.

<u>New England</u>

Once the demonstration began with the organizations outlined above, an advocacy organization of rural people in Vermont, called Rural Vermont, became interested in the potential that cooperatives could offer towns in their region. Out of this interest, and RURAL AMERICA's efforts to start some level of coop development activity in the Northeast, a new organization was brought into existence to work solely on coops -- Northern Cooperatives Resources. NCR received its first year's funds from the National Consumer Cooperative Bank, which hoped that NCR would submit applications to it for the financing of housing coops in New England as a result of this input. NCR had the benefit of some of the experience of others in the demonstration before them. One decision they made was to avoid, to the extent possible, seeking financing from the Farmers Home Administration, in part due to the problems faced by other communities and organizations in Vermont, as well as to the prior groundwork laid in the state directed at using Section 8 with finance agency financing. NCR staff already had an established relationship with the state housing agencies, and viewed the Vermont Housing Finance Agency, along with the Coop Bank, as potential sources of coop financing.

NCR primarily spread the word about coops and actively solicited community organizations to seek their technical assistance to bring one about. Word got around quickly, and this proved a feasible approach for small New England towns. In addition, after the initial Reagan budget requests for severe cuts in Section 8 new construction and substantial rehabilitation funding levels, and because of high building costs in the area and the existence of an underutilized housing stock, plus the availability through the state of rent subsidies (Section 8 units) for moderate rehabilitation, NCR focused on small rehab and conversion projects in contrast with most of the rest of the coop demonstration. This added a worthwhile dimension to the demonstration program, and has added to our collective understanding of the variable opportunities possible within the general rubric of "cooperative housing."

The Farmers Home Administration

The Farmers Home Administration, U.S. Department of Agriculture, funded the first year of the demonstration because HUD and the National Consumer Cooperative Bank were reluctant to be the first to do so, HUD and the Coop Bank preferred to wait and see that small coops were possible in rural areas before funding groups to develop them.

FmHA officials involved in providing this initial funding differ, in some respects, in their perspective on what agreements were made as part of the demonstration and on the specifics of what transpired with regard to certain projects. RURAL AMERICA, as writer and editor of this report, faced a difficult decision concerning the presentation of case studies when opinions about them varied. It was decided, therefore, that the most objective report would be presented which contained both sides. Rather than attempt to incorporate or merge perspectives, that of FmHA, where different, is added to each section as appropriate, through comments received by one official sympathetic to the coop demonstration and its objectives. While it is up to the reader to determine who was right or wrong in each case, what is clear is that communication between the demonstration's TSOD and TSO participants and the Farmers Home Administration was not always optimal. The negative impact of this situation was only intensified when the new Administration took office and had different goals for FmHA, as well as put new state FmHA directors in office who were not familiar with cooperatives or the demonstration, and who did not, in many cases, support these activities.

According to this earlier FmHA official, FmHA's national office did advise the state offices of their support for the demonstration in those states in which coop activity was projected. Three million dollars was set aside for FY 1980 and $5 million for FY 1981 for cooperatives -- a fact that FmHA state offices were informed about. This setaside, however, was expected by FmHA to be for small coops -- that is, those with fewer than thirty units. Larger cooperatives, demonstration participants were told, would be eligible for FmHA financing, but not from the funds set aside (from the Section 515 program).

FmHA's understanding was that the consortium members would teach FmHA staff in their areas about coops through personal contact, "how-to" handbooks, and the planning and implementation of the actual cooperatives. The expectation was that reluctance on the part of FmHA staff would be changed when it was demonstrated that viable coops could be established.

Where FmHA staff wanted coops to conform with rural rental housing (Section 515) site standards, state offices were advised by national office staff assisting with the demonstration that any site that qualified as a subdivision for Section 502 homeownership units could be utilized for cooperatives financed through Section 515. However, consortium members were informed of FmHA's preference for multifamily structures and for sites that conformed with Section 515 site regulations for rental housing. It was Congressional committees, and not the Farmers Home Administration, that later prevented the financing of single family coop units through the Section 515 program. In addition, FmHA staff assisting with the demonstration drafted FmHA rural cooperative housing instructions (1944-F) for review by RURAL AMERICA and the National Housing Law Project. Other FmHA staff in the national office, however, did not move quickly enough to implement this instruction prior to the new Administration taking office; and the new leadership at FmHA chose not to do so.

On the issue of the use of the Section 514/516 program (financing for farm labor housing) for coops: Consortium members certainly had a concern for farmworkers, but one reason for their interest in using 514/516 funds for coops was the backlog of applications for 515 funds in many state offices. FmHA's national office researched the legislative history of the 514/516 program and concluded that:

a) Nothing in the legislative history of the program indicated any Congressional intent that it be used for cooperatives;

b) A clear intent, especially in the Section 516 grant program, that the housing provided be used for farmworkers; and

c) Real difficulties arise when residents of a 514/516 coop cease to be farmworkers because of adopting a new occupation. If a farmworker needed the unit occupied by someone who was no longer a farmworker, the latter must be asked to vacate. In a coop, when ownership is involved, such a case presents serious questions related to carrying out the law.

The Section 515 program, which does not restrict funds to a particular group, was determined by FmHA to be more appropriate for cooperatives.

Case Studies:

FEDERATION OF SOUTHERN COOPERATIVES, EPES, ALABAMA

Panola Land Buyers Association Housing Development Corporation
Sumter County, Alabama

The Panola Land Buyers Association (PLBA), an agricultural cooperative organization which is a member of the Federation of Southern Cooperatives, decided in the early 1970's to do something about the poor housing conditions facing their members and other low-income residents of rural Sumter County. Developing housing for people along the lines of the cooperative organization that was designed to better serve their economic interests was desired by this group. The Federation of Southern Cooperatives began to assist them in this housing effort as well.

Their decision to pursue the development of a housing cooperative evolved out of PLBA's positive experience with cooperatives. To them, a housing coop seemed a logical form of ownership. In addition to this common experience, PLBA members interested in housing shared a need for better housing, a low income level that prohibited consideration of individual ownership of housing as an option, and an understanding of how to work together to get something done.

PLBA's own housing development corporation (HDC) was, therefore, already in existence and active prior to the rural housing cooperative demonstration program. They had already obtained a site and developed it for 128 units, planned to consist of a combination of cooperative and self-help housing, all with water and sewer there on the site, near the town of Gainesville in Sumter County.

The first subdivision, Wendy Hills, was built on the site using FmHA Section 515 loan funds with Section 8 rent subsidies. It was hoped, throughout the development process, that these 40 units eventually would be converted to a cooperative, even though FmHA would not permit this at the outset.

When the coop demonstration began, part of FSC's training efforts focused on residents of these rental units, in which residents were instructed in matters relating to self-management and the operation and principles of a housing cooperative. However, the understandings upon which PLBA HDC and FSC action were taken failed to result in conversion of the rental units to a cooperative. FmHA, in retrospect, seemed never to have had the necessary commitment to do so. FmHA appeared to believe that, once decent housing was provided -- which, undoubtedly was the case -- it no longer should be concerned with anything beyond the project's viable operation as rental housing for the population it was intended to serve.

According to FmHA, however, the National FmHA office pushed for the project to begin as a cooperative, including FmHA's National Administrator. The National FmHA office was unaware of PLBA's agreement to go ahead with the first subdivision as a rental project, which, because of the site issues, left the project in violation of the FmHA rental housing regulations. While closing was achieved on the project as a rental, the National office of

FmHA made this conditional on the project's conversion to a cooperative within two years.

With the demonstration under way, efforts then concentrated on the development of sixty new units on the same site, which would be planned only as a cooperative every step of the way. This time, training was more intense, with the inclusion of recent printed materials, as well as training sessions on the housing development and political processes and the political nature of housing development.

It appeared likely that things could progress more smoothly on the coop units planned as phase two of the Wendy Hills subdivision. Certainly the site itself was suitable in all physical aspects, in that water and sewer were present with more than sufficient capacity for additional units. People knew the site and wanted to live there, being rural people in need of improved conditions. In addition, the county knew that expansion was projected for the site, and did not oppose the cooperative.

Major problems, however, came about with the Farmers Home Administration. FmHA was selected as the source of financing largely because the combined Section 515/8 program was what could best meet the needs of low-income people, who made up all those interested in being part of the coop. An application was assembled and submitted to FmHA, including a market survey that showed sufficient interest in the project in accordance with the regulations. FmHA was never supportive of the coop, and certainly did not provide any type of active assistance to FSC or to PLBA.

Remarkable delays by FmHA were the rule with regard to this project and its legitimate application to the agency for financing. For example, the Section 515 rural rental (coop) housing preapplication was submitted to FmHA in the summer of 1981. The national office of FmHA advised FSC in August to try to obtain the necessary Section 8 rent subsidies from the FY 81 allocation, due to their anticipation of fewer units and more delays in the new fiscal year. FSC discussed this with the Alabama state FmHA office, who claimed to know nothing about such an approach, then failed to return FSC's telephone calls to try to pursue this for several months.

In addition to the delays and lack of responsiveness, FmHA next rejected the preapplication on the grounds that the site was too remote. Such a reply was not anticipated and seemed contrived to FSC and to PLBA for several reasons:

1) FmHA approved the Panola site for the first rental project, knowing that the capacity of the land and its water and wastewater facilities were suitable for 128 units -- far in excess of the forty original rental units;
2) FmHA actually financed all the site development for the site, anticipating additional development there;
3) The existing units were all occupied and had a waiting list;
4) The market survey showed a need for and interest in the coop;
5) No opposition was expressed by FmHA in the project's

planning stages.

Sumter County itself is remote. To use remoteness as a reason for not financing housing for those who need it in the county seems counter to the intentions of the agency, which was designed to meet rural credit needs. FmHA expressed concern about transportation costs for residents of the project, if built, saying that they must be high and, therefore, a burden to the residents. FmHA recommended building in Livingston, the county seat, saying that it provides the essential amenities to the local population. What FmHA failed to consider in urging that housing be built only in established, larger residential communities with stores, schools, churches and so on, is that, while these are desirable to have in proximity, what people do every day and need most to have ready access to is their work. However, the regulations for the Section 515 program do not require the housing developed to be close to places of employment.

Over the course of these events, Section 8 funds to use for new construction dried up, forcing the PLBA HDC to rework their application. The best that could be provided as a result was financing at 1% interest without rent subsidies.

The PLBA HDC must now appeal FmHA's decision not to finance the coop in order to obtain the 515 financing. With the assistance of an attorney and RURAL AMERICA, FSC staff are looking over what has transpired in order to prepare their case. FmHA wants a new market survey, showing that enough families can pay the unsubsidized rents; it is difficult to determine what will happen after the demonstration is over. The advocacy efforts by FSC and PLBA to push for national FmHA office assistance in the case has only served to polarize them from their state office, with more demands coming about as a result.

For this project to have worked from the beginning, cooperation would have had to be secured from FmHA on a much clearer basis, with FmHA supporting the idea of a legitimate project being developed on <u>that</u> site -- a project which happens to be a coop. It is difficult to surmise what FmHA's motivation has been throughout this experience. However, willingness on the part of FmHA to look seriously at such innovation may well have made the significant difference of attitude essential for success. The national office of FmHA could have helped by encouraging the cooperation of FmHA offices in areas covered by the coop demonstration, and by educating district, county, and state FmHA officials about coops. The minimum here would have been an administrative memorandum from FmHA's national office to the field, stating that applications for 515 financing for cooperatives are acceptable, and should be ranked with rental projects in the competition for 515 resources. The failure to rank coop applications meant, in this case and others, that the coops had no serious consideration by the agency.

With the benefit of experience, FSC would have done a few things differently: They would have had FmHA put all agreements in writing as soon as they were made, dating back to FmHA's early approval of the 128-lot site. They would have approached the national office of FmHA earlier for assistance, and would have worked on sustaining that relationship. Also, they would have put together an even more complete application to FmHA, documenting certain items like people's preference to live on the Panola site rather than in Livingston.

More significantly, FSC would have taken a very different approach to the entire process of developing the cooperative's membership, training them, and going about assembling a financing package: It was difficult to sustain a committed membership during the lengthy struggle briefly described above. The members are often not skilled enough in housing development to play an aggressive role themselves, or to perform the more technical tasks. Their expectations have been aroused by the development proposed, and it is not possible to expect them to wait patiently yet remain active in organizational matters.

FSC staff believes that a more expedient approach would be one in which they, acting as the TSO, investigate potential locations for coop development on their own. Once a site is available and a lender is, at least, responsive to the idea of coop development on that property, community people can be contacted and organized around what is a more realistic possibility than many cases such as that faced by the Panola group. While this differs in many respects from the notion of a "pure" coop as one arising out of community need, spirit, or philosophy; such a model need not differ in the respect that the majority of decisions -- and, with them, work -- remain for the community organization to handle. An interested community organization could even contact the TSO to ask it to look into the potential in one or more communities. In all of these cases, the substantive process can be much the same. Only the initiative for the process to begin varies.

Alabama State Association, Marion, Alabama

This effort was begun by the state association which is a member of the Federation of Southern Cooperatives. The President of the Alabama state association shared a strong interest in housing with several members of the association. This group already was organized as a cooperative. They knew someone with an available site in the town of Marion, which already had water and sewer, as well as zoning for one and two family dwellings. Everything looked ready to go.

The state association president was the force behind this idea. It was his belief that the state association needed the experience and resulting recognition that would result from a successful development, and that this would help members to pull together. They did have some housing experience: When nearby Selma was interested in demolishing 200 units of housing left by the Air Force upon the Selma Air Force Base's move, the Alabama State Association was successful in preventing them from doing so, and in securing the housing for occupancy by low-income families, instead. Given the group's coop experience and philosophy, their active participation in the development of cooperative housing seemed natural.

Members received additional training from FSC in the cooperative housing development process and coop organization. The coop housing concept was presented to the mayor and council of Marion, who agreed that this was appropriate for their town. Plans were made to have a resident manager trained by the board and FSC and selected from among coop members interested in the position. Residents would be low-income, primarily minority families from the many in the area in need of better housing.

Problems arose once the state association and FSC began to deal with FmHA, the likely source of financing due to the 515/Section 8 program. The FmHA district director visited the site and said he thought it was too sloped. According to FSC, this individual is not an engineer, but was expressing his opinion only. Indeed, when FSC obtained the services of an architect and engineer to look at the site, they agreed that 16 to 20 units could be constructed on the property. The district director then said that the project budget would not be able to work with twenty or fewer units. Further, he said that an application must be submitted before a final decision could be made about the site.

Negotiations with FmHA went nowhere, and the state association decided to purchase the site and develop single family ownership units there, rather than fight FmHA's reluctance.

In retrospect, this group would have worked to obtain a positive determination about the site from FmHA earlier, and would not have invested in the site without FmHA support for their plans. They also would have documented all contact with the agency in order to show the record of the failure of FmHA to respond to their efforts to communicate, as well as FmHA's attempts to write off the project based on opinion rather than facts founded on professional evaluation.

St. Landry Low Income Housing Association, Palmetto, Louisiana

In this case, coop housing development was also initiated by an individual convinced of the concept. In Palmetto, the state coordinator for FSC's Louisiana state association, had her interest sparked through training provided by FSC staff, and decided to try this approach to dealing with housing needs in her area.

She owned land in Palmetto, was willing to sell it to the St. Landry Low Income Housing Association (St. Landry), and resigned from the board of directors of this group in order to do so.

Most families interested were members of the state association, and were, therefore, familiar with cooperatives. Many experienced poor housing conditions and the constant threat of eviction from what they had. The notion of sharing costs, responsibilities, and savings were appealing to them in addition to the large measure of control over their housing that participation in a housing cooperative would provide. Many of these sugar cane workers were familiar with the Farmers Home Administration, for the state association had done some advocacy concerning FmHA, and St. Landry had been successful in getting ten units of housing built in the Palmetto area.

FSC provided extensive training to this group, and had plenty of time to do this because of the delays which ensued. While members were told of the time it can take to accomplish such housing development, many became discouraged and quit, hoping to obtain individual Section 502 homeownership loans from FmHA. Some of these returned when they found they could not afford individual ownership and could not qualify. Most who stayed already were part of some other cooperative activity as well, had only some elementary school education, and occupied very substandard housing.

Training included the application process, the types of units that could be built, and sustaining coop operations. Members asked for and received training on day-to-day management, how to function effectively as board members, how to retain control of the project, what to look for in an audit, how to borrow on the equity accrued, and making changes in the units. Assistance from FSC was also provided in making presentations to the police jury (county commissioners) and at public hearings.

An application was submitted for 515/Section 8 financing, and was rejected by FmHA due to the unavailability of Section 8 subsidies. FmHA said that the application could be resubmitted for financing at 1% interest without rent subsidies. However, FmHA clearly doubted the ability of St. Landry coop members to pay the required rents. While the initial market survey showed that 100 families were interested in the forty units planned, FmHA required a new survey with signed statements of interest and ability to pay the anticipated rents. St. Landry had decided to reduce the number of units to twenty, but obtained sixty signed applications under the revised project budget. A three-bedroom unit was expected to rent for $300 per month at 1% interest, presenting a real affordability problem. The group is still trying to get their revised application completed and accepted by FmHA.

<u>Jackson Sewing Cooperative, Jackson, Alabama</u>

The Jackson Sewing Cooperative consists of a sewing factory operated by its workers, who live in shacks in the area near the factory. This group also began their efforts to develop housing with the basis of an established cooperative. Their experience in a cooperative enterprise convinced them that this was an appropriate and desirable form of organization through which to develop and operate housing.

The cooperative owned property adjacent to the sewing factory, located nine miles from the small community of Jackson. The site is on a main road, with access to central water lines.

A new board was elected for the housing cooperative, and training in housing programs and development was provided by FSC. This group learned quickly. They met with the district office of FmHA concerning their proposed project, and had the district office look at the site. The cooperative sought to submit a 515/8 application to FmHA due to the availability of financing for cooperatives from FmHA and to the members' needs for rent subsidies due to their own low income levels.

FmHA decided that the site proposed by the cooperative association was too remote, despite the facts that the membership already was organized around that particular site, the site had no inherent physical limitations or problems known to anyone, and that the site was ideally located with respect to the employment of those seeking to live there.

The FmHA decision halted completely the progress of the Jackson Sewing Cooperative in their housing plans. While this group had hoped that the demonstrated stability of the sewing cooperative and its success in managing a productive enterprise, combined with their need for better housing and demonstrated preference for the site identified, would outweigh the technical matter of their site's location with regard to the town, they decided that this decision by FmHA against them was final and that they would not attempt to appeal and overturn it.

In addition, FSC was spread rather thinly in their work with cooperative housing with several groups at that time, and did not see the expenditure of their energies to appeal the FmHA decision as an optimal use of their own limited resources, however wrong they believed the FmHA decision to be.

New Burke Housing Cooperative, Waynesboro, Georgia

This is another case involving the issue of remoteness: This established cooperative organization of farmworkers in rural Georgia, a member of the Federation of Southern Cooperatives, sought to develop housing on land owned by the cooperative and farmed by its members.

First, the group prepared and submitted to FmHA an application for 515/8 financing with the assistance of FSC staff. This was rejected by FmHA due to the site's remoteness. The site available is eleven miles from the nearest town, although some site development -- utilizing loan funds from the Housing Assistance Council and Glennary -- was accomplished, including the provision of streets and water on the property. It is also located one half mile from a community college and one half mile from a FmHA-financed subdivision of about twenty single family homes.

Once this initial application was rejected, the Waynesboro cooperative decided to resubmit essentially the same application for Section 514/516 financing for farm labor housing, as most of those interested were farmworkers, and would, therefore, be eligible to live in housing financed through this means. This application was also rejected, officially due to the remoteness of the property available, and, in FSC's opinion, perhaps due to the sponsor not being sufficiently broadly based in the view of the Farmers Home Administration.

The cooperative also considered looking to the National Consumer Coop Bank for financing; however, upon investigation, they found they could not afford the Coop Bank's current rate of interest on such loans. Also, the FmHA 502 program was explored for single family housing. With such low incomes, however, this group could not afford anything but long-term FmHA financing with rental subsidies. Thus, their housing efforts came to a halt, and the members remain in their original shacks.

FmHA's story differs significantly from that presented by FSC in this case: This was the only project for which FSC sought FmHA setaside funds. At New Burke, residents desired originally to establish a new town of New Burke, and obtained funds from the Housing Assistance Council for site acquisition and development with this in mind. Plans for such were drafted by Georgia Tech. The coop units planned were to be located on a site that was likely not to be eligible as a Section 502 subdivision and was not, to FmHA, suitable for multifamily housing. FmHA's principal concern, however, was that the unit costs for the coop were far in excess of those for Section 502 units in that service area; and this concern was relayed to FSC staff at the time.

Mileston Cooperative, Mileston, Mississippi

This case involved an existing cooperative organization new to and in need of housing, whose efforts died quickly once FmHA did not consent to housing development on the site available.

Green Acres, Indianola, Mississippi

Here, an existing 515 rural rental housing project was owned by a private sector developer willing to sell it to a cooperative. In spite of problems on the part of the owner, including maintenance problems which required expenditure of the project's reserve assets, FmHA would not permit the cooperative conversion, stating that this was not consistent with FmHA procedures. The tenants of the project had protested its condition, and had begun to pay their rents into an escrow account; however, FmHA maintained its position.

College Station Credit Union, Little Rock, Arkansas

While some training was provided in this situation to those who were interested, especially the president of the state association of FSC, and while a number of people there wanted housing, FSC decided to bow out after a series of events: These included -- FmHA's reluctance to consider financing anything in the area because industry was moving in, making FmHA concerned about investment there; and the increasingly political nature of the situation locally, in which a consultant who was hired added to the differences of opinion at work.

Boston Avenue Association, Washington, North Carolina

In this and another nearby community in rural North Carolina, FSC was asked to do some coop housing training and organizing by a woman who wanted to see and be a part of cooperative development in her area. She brought together the two community organizations for FSC to train in a situation that appeared promising. One group had an option on a piece of property; the other owned a building which they wanted to renovate.

While this one individual was interested, due to various motives, in cooperative housing development and could spearhead some efforts, the groups themselves lacked the level of commitment that FSC viewed as essential to true and successful coop activity and long-term ownership and operation. Therefore, FSC chose not to pursue this area in favor of those more dedicated and closer to home.

NORTHERN COOPERATIVE RESOURCES

The Opportunity Center, Lebanon, New Hampshire

The Opportunity Center approached Northern Cooperative Resources (NCR) with an interest in converting to a cooperative some old mill housing built in the town of Lebanon in the early 1900's. Eighty-four units of housing were available for acquisition from the trust which had come to own them.

It was apparent that a mix of financing sources were needed to make the conversion project work: The units were not eligible for Section 8 Substantial Rehabilitation. Community development block grant (CDBG) money looked appropriate, and the town's community development department was in trouble with HUD at the time due to their lack of progress after the first year of a three-year grant. The town wanted to do something that would look good in terms of demonstrating to HUD that funds were being spent. While the community development department and the town management bought the idea of providing seed money for the rehabilitation of 21 of the available units for conversion into a coop, this proposal was defeated by the city council on a vote of six to five.

NCR and the Opportunity Center were not defeated by the town's decision not to take this on, but convinced another organization, the Northern Communities Investment Corporation (NCIC), to take on the task of coop financing and conversion, with NCR and the Opportunity Center as consultants to them. The rental avenue was also kept open for consideration along with coop. It was decided that, to be a coop, the Opportunity Center would have to work with and train the tenants who desired this.

As all 84 units were agreed to be too large a project to begin with, attention focused on the rehab of 21 units in five buildings in the "prime" areas of the project. It was hoped that success would result in the coop idea spreading to the other units.

NCIC put an architect and development specialist to work on the project for two months, only to find that the costs of rehabilitation exceeded the original estimate by 100%. A very creative solution was essential, with attractive financing terms. FmHA was not interested in rehab in the Lebanon area and could not be convinced to finance the project -- at least not solely. Even with other funds available, FmHA did not want to discuss the project further without receiving a preapplication with extensive budgets and architectural engineering information. A package consisting of $7500/unit CDBG, Section 8 Moderate Rehabilitation, owner paper, and a mortgage equal to $6000/unit at 14.75%, would still result in rents for a two-bedroom unit of $360 to $370 per month. While Section 515 financing still is being considered, it is felt that the local FmHA officials make their own policies and are not likely to favor such an application.

Training was provided in this case on housing coops by NCR to the city council, the contractor, the Opportunity Center, block grant administrators, and the public at a public meeting, in addition to work with potential cooperators. The town itself had some concerns about management, with some of the town selectmen believing that owners would take better care of their units than tenants; while others remained convinced that a cooperative made up of low- and moderate-income families would not be capable of self management. It was decided that NCIC's management firm would handle initial management, with training provided to the coop board to enable them to take over that responsibility at some point.

Tenants of the project themselves had some concerns about the responsibilities they would have as participants in a housing cooperative. In this case, it seemed that those most interested in pursuing the conversion to a cooperative were the housing professionals involved, along with other tenant oriented advocates such as the memberships of established nonprofit housing development organizations.

NCR staff believe that this "top-down" approach creates less of a bond among the tenants. The payoffs to tenants for the added burden of responsibility of coop ownership has to be significant to make them want to choose a cooperative over renting decent and affordable housing. Out of this experience, it seemed that greater involvement on the part of potential cooperators would take place in a case in which the group is new, with selection of members based on interest. An exception may be where existing tenants have a sense of common purpose, such as the prevention of their displacement from established residences. Here, the unhappiness of tenants was not enough for them to acquire the motivation as a group needed to insure their success.

NCR says they would not have undertaken the project if they had been able to anticipate the high estimates for repairs. Nevertheless, both NCIC and the Opportunity Center learned a great deal about cooperatives in the process, and may be capable enough to bring this project to fruition as a coop if the pieces of financing required start to fall better into place.

Homestead Nonprofit Housing Development Corporation
Westminster, Vermont

Homestead, an existing nonprofit housing development corporation, already had developed 18 units of self-help housing through FmHA and initiated a housing counseling program when they learned of housing cooperatives and NCR's technical assistance capacity to develop them.

The group identified a property for rehabilitation, and decided to seek financing from the Vermont Housing Finance Agency for several reasons: The nonprofit was tied into a construction firm that the HFA thought well of for their rehab expertise; financing was available at a rate that appeared affordable; many groups in the region had experienced problems in obtaining FmHA financing for multifamily housing projects, and coops were new to FmHA; and the NCR staff had experience in dealing with the state and useful contacts with housing officials.

The coop was organized out of a spin-off of the area Community Action Agency, whose outreach workers did housing counseling and were familiar with tenants and their problems. NCR provided training for the outreach workers and prepared an information sheet for their use, along with public notices, in the hope that the outreach workers could successfully organize a coop membership. In their experience, the issue of concern to tenants and potential coop members were those of control over costs and management rather than ones of equity.

Meetings were held with the town selectmen, who were receptive to the coop housing concept for their town, and who liked the structures selected for rehabilitation and their location. They also believed that resident control would lead to better upkeep of the units; and they thought well of the local contractor who anticipated working on the project. Homestead board members knew the selectmen and participated in these meetings.

From a construction perspective, the project was interesting: It consisted of an old farmhouse and barn set on a 7.5 acre site, with on-site water and sewer, and could be converted into nine units. Thus, this appeared to be an excellent opportunity to demonstrate a small rehab coop in a rural setting.

The project faced several problems: An internal struggle within the construction firm owned by the nonprofit focused on differences over becoming an employee cooperative, and the project budget estimates went up after one member's bids were discovered to be too low. The HFA's interest rates were rising, and the group tried hard to get in an application under the wire. The town clerk's estimate of taxes were 80% too high, and consistently so despite repeated confirmations. The low estimates led to a resubmission after the interest rate on the state bond issue went from 10.5% to 13.75%. While they had a setaside of Section 8 units at 103.9% of fair market rents, the revised budget required 110% of fair market rents, and an increase could not be obtained. Beyond this, the coop did not have collateral to put at risk for obtaining additional working and equity capital, having earlier been unable to obtain working financing from sources such as RURAL AMERICA or the Housing Assistance Council.

Further, the state of Vermont had no statute recognizing cooperatives. NCR held negotiations with the state Banking and Insurance Commission, which finally decided that cooperative member certificates were not shares or securities which could be distributed.

Finally, however, it was decided, in light of the financial problems faced, that a limited partnership would be established to own the project. There appeared to be no other way to acquire the necessary capital. This, too, was not a ready solution: The bond counsel for the state Housing Finance Agency would not allow a limited partnership to include a cooperative corporation as a component of the partnership, nor permit the coop to be the manager of the housing owned. The counsel maintained that this would cast the tax exempt aspect of the bonds into question.

As a result, Homestead decided on a limited partnership as owner of the project. NCR felt pressured to move quickly once this decision was reached. While the Vermont HFA and others said the project could easily be syndicated, NCR did not have a wide enough range of advisors, including an adequate accountant, to keep them from some of the pitfalls of this process. Homestead, too, with assets to protect, wanted things to get done quickly so that they could get out. In retrospect, those involved settled for spending too little on the project's preparation from a syndication/investment standpoint. They did not go to a broker or fully understand what one could have done to assist, due to their decision to conserve resources and out of Homestead's hope that they could earn the fees a broker would otherwise receive.

NCR felt that these pressures of time and money made their work look suspect, and the product they sought to sell less than certain. They did, however, package a loan application to the National Consumer Cooperative Bank for front-end costs of the project, and convinced the Bank to look at loans to limited partnerships for the first time.

NCR also thought they spent an inordinate amount of time on the syndication. Eventually, an investment group decided to buy the project, and Homestead was ready to get out at any price.

In the end, Homestead, still has a management agreement for the project, and will no doubt gain experience as a result. Having received effective training, the Community Action Agency's outreach workers still have information about and enthusiasm for coops, and may be able to become part of future coop activity in that area.

If able to do things over, NCR would have tried even harder to avoid syndication. If it became necessary, they would not initiate their negotiations at so low a level, but would seek instead to begin with a larger pool of investors or dollars. They believe that a good broker, and the time spent in finding one, are worthwhile in this type of endeavor.

Nevertheless, while the tenants who would have been cooperators lost a measure of control, experienced many delays, and still do not understand the complexities of all that went on, they will have access to decent housing and do not anticipate much impact in terms of day-to-day differences between the rental units to be built and what they would have been like as coop units.

Abenaki Self Help Association, Swanton, Vermont

With assistance from the HUD Neighborhood Self Help Development Grant program, Abenaki Self Help Association, Inc. (ASHAI) initiated both the creation of a self-help housing program and of a Section 8 rural housing cooperative. Prior to its formation, one NCR staff member wrote the development grant proposal for ASHAI.

In the town of Swanton, loans were obtained from RURAL AMERICA and the Housing Assistance Council for the site purchase. The site selected was situated in the area where the town was using CDBG to extend water and sewer lines. Concerning CDBG, Swanton was under pressure to show that the funds would benefit low-income people, and the housing project clearly intended to serve this group.

The twelve units were to be financed by the Vermont Housing Finance Agency at $45,000 per unit on an eleven acre site for the Abenaki Indian Tribe. The duplex units would have a passive solar design.

The development process went smoothly with several people to assist it, although town officials remained skeptical of the Abenakis' ability to own and operate a housing cooperative. The fact that this type of project was a first for Vermont, and NCR was surprised that things went so well in a case involving a new effort. The architect and contractor selected were ones well thought of by the state, and the contractor was local, which added to the smooth process.

However, while things went well initially, the state began to think that ASHAI's ownership of rental housing was a better idea; and, following discussion in this regard, ASHAI decided that they could convert to coop ownership later. ASHAI deliberately decided not to syndicate the rental, so that benefits would not go to the wealthy.

Looking back at this development, NCR believes that ASHAI lacked commitment to the real concept of a housing cooperative, and was more concerned with obtaining free technical assistance in order to get some housing built. As the coop membership was not yet organized, there was little participation by those who may have become cooperators. NCR also thinks that some sort of tenant training begun promptly could still have done something to keep the coop idea alive, or at least would have facilitated a greater measure of tenant participation.

Faith, Hope, and Charity, Randolph, Vermont

This nonprofit organization is an established and successful developer of a rural transportation system and low-income education forums, and came to NCR with this experience when they sought to learn about housing cooperatives. They have no paid staff, and wanted to develop coops in the communities of Bethel and Randolph.

With assistance from Legal Aid, applications were submitted for CDBG funds for site acquisition in both towns. Both were defeated. However, with a loan from RURAL AMERICA, two buildings in Randolph were purchased, both suitable for rehabilitation and conversion, with new construction of two units, to produce nine units in all. As their goals included the preservation of the existing housing stock, which includes a number of large old homes in the area, their priority was to obtain buildings for conversion. Their site search was long, due to Faith, Hope, and Charity's insistence on working in Randolph.

In Vermont, the state brings in Section 8 units by proposing them first for "dummy" projects, from which units will be allocated to real projects once secured. The advent of the Reagan Administration meant that HUD no longer concurred with this process, and the coop ended up without an allocation of Section 8.

They sought long-term financing from the state HFA; but, during the time in which work was being done to secure Section 8 units, the HFA interest rates were going up. This put the project on precarious financial grounds in the planning process, as one of the two essential elements in the budget could not be secured without the other, and as the rise in the rate of interest would, of course, require a greater expenditure per Section 8 subsidy. Syndication was not looked upon favorably by Faith, Hope, and Charity or potential coop members, as benefits would go to the wealthy rather than to the cooperators.

The one thing that greatly assisted in the progress of the project, despite such financial changes, was that the contractor was willing to stick by his price throughout this period. Without this one element of stability -- which existed only because the contractor himself both planned well and needed the work -- this project surely would have crumbled in this preliminary stage.

Just at the time at which this coop's financial package had been completed and was ready to be accepted by the HFA, the U.S. Department of the Treasury ruled that tax exempt mortgage revenue bonds cannot be used to finance blanket mortgages for housing cooperatives. While all involved in the project were greatly disappointed by this decision after all their work to establish a cooperative, the decision made by Faith, Hope, and Charity was to do their best to approximate a housing coop. They anticipate involving the members of the "coop" as much as possible in the affairs of the housing developed as tenants can be, and will strive to keep them informed and functioning as a responsible presence in their project and in the community of Randolph.

The experience of Northern Cooperative Resources in Randolph certainly taught them that housing development is possible, though fraught with difficulties beyond those which one can anticipate. Now, the only obstacle in the way of loan closing is securing no change in the Financial Adjustment Factor (FAF).

<u>Mountain Home, West Brattleboro, Vermont</u>

The owner of this 144-unit mobile home park wished to retire from its operation and sell the property when he contacted NCR to see if they were interested. With a narrow to nonexistent profit margin on the property's operation, he was finding it difficult to obtain a buyer, despite the owner's willingness to finance it at 9% interest for 75% to 90% of the purchase price requested.

Even with these terms of sale, the result would be higher rents for the tenants of the park, who complained that they already were paying too much to rent the pads for their trailers. While rents in this trailer park compared favorably with others in the area, the park's residents, who owned their trailers, were unlikely to desire to become active participants in a conversion scheme which would result in their paying more rent rather than less.

The tenant association at the park already had experienced some problems with the park owner, creating tensions between these two parties that led the owner not to want those same tenants involved in a cooperative conversion of the park. NCR could not see as possible a solution which did not rely on this same base of people as comprising the coop membership.

Finally, agreement was reached on a financial package for half the park, with fees to NCR for their work, and with anticipated sale of the remainder at a later date and along similar lines, providing that the approach proved best for all concerned. NCR met with 70 people, most of them from the park. There were also disagreeing factions within the group of those interested in learning about a coop solution. It was the extent to which all could not agree that led to the owner's decision not to sell the property after all.

Eight months later, the park owner again expressed his willingness to sell, and to sell to the residents. The residents requested information from hin on the terms of sale, and have informed NCR that they would desire to hire them if agreement is reached to proceed.

While the Brattleboro town planner was supportive and offered his assistance, the townspeople's reaction was mixed: Some thought the project too big to start with.

If able to begin again in their work with this group, NCR would provide greater assurances for themselves in terms of commitment by those interested to follow through, as well as in terms of the provision of fees for services actually provided.

Sycamore Inn, Rutland, Vermont

The Sycamore Inn presented an interesting opportunity for cooperative housing development: Tenants of the Inn, comprising one historic building of ten units, and one nearby building of two units, were informed by the Inn's owner that he planned to convert the property to condominiums.

The tenants contacted NCR to learn whether conversion to a coop might be possible, as they were willing to buy the Inn and remain there.

NCR met with residents and learned that the asking price for the Inn was $120,000 and that only $10,000 in repairs would be needed to bring the units up to code. While the owner questioned the seriousness of the tenants' interest in purchasing his property, he was willing to finance one third of the mortgage in a package consisting of one third down and one third financed by a local lender as well. Such a budget would mean affordable payments for the cooperators.

However, the owner wanted a purchase and sale agreement in a week, and closing in six weeks. He also kept changing his mind about what the purchase and sale agreement would look like, leading to some question of whether the residents could obtain financing in time to meet his demands.

Here, the tenants really wanted a cooperative, and sought out the assistance they needed. Tenancy at the Inn had been stable and without problems. Tenants had the ability to make down payments. NCR provided their most extensive training in this case, and the potential cooperators became quite conversant in coop development. A resident manager was already in place and accepted by the group. No approvals were required from the town, and the

Inn already had town water and sewer.

The tenants, feeling great time pressure from the owner, and armed with their increased confidence and knowledge of housing, decided that they may be able to force the issue and get an even better price from the owner if they found code violations in the property. They contacted the local fire inspector on their own, who, following his inspection, informed them that there were serious code violations present. Quickly, it became apparent that such repairs were both expensive and not going to be borne by the owner without reimbursement for them in his price for sale of the Inn. So, the tenants, in essence, did things in for themselves. Their assumption had been that the owner would be responsible for making the requisite repairs prior to sale, and they did not check with NCR in their strategy.

Aside from wishing that the tenants had not sought to take matters into their own hands, NCR would have tried to obtain a clearer delineation of responsibilities among NCR, the tenants, and their attorney, including retaining for themselves a stronger position in the assembly of the financial package.

SHANA, Barre and Northfield, Vermont

Through coop housing workshops, NCR interested the community development departments of the towns of Barre and Northfield in coop housing for their communities. SHANA, a nonprofit organization, was doing neighborhood organizing in these two communities at that time; and SHANA and local tenants became interested in coops.

NCR was able to get a contract with the town of Barre. Later, Northfield's community development director encouraged his department's support of NCR's coop work in the town. NCR publicized the coop idea, talked with realtors to enable them to understand the kind of property NCR sought, as well as what coops are about, and tried to identify tenant interest in the community. There was no substantial interest on the part of tenants. Realtors did not even respond in Northfield.

However, NCR was able to find six units in Northfield for $100,000 and seven contiguous units in Barre for $106,000, with these amounts indications of low total project costs for acquisition and rehabilitation. Cheap money was needed to make these projects work, and some CDBG funds were obtained for a write down of the interest rate. NCR believes that rehab works best when there is a regressive real estate market which includes low acquisition costs as well as low requirements for rehab work to be done.

As lower than market rate financing was needed, NCR decided to seek long-term tax exempt financing from the state HFA. They offered the HFA a situation in which NCR would go to a consortium of banks for some of the coop's acquisition or rehab costs. This is still trying to be worked out: The single largest remaining problem is that, in order to use block grant funds to write down the interest rate on the mortgage, thereby making the housing coop affordable to lower income families, the coops need the new proposed HUD lump sum drawdown regulations. These are not yet available. Old regulations are onerous for such a project. Some federal officials say that no new regulations will be forthcoming until late 1982 or early 1983; so NCR may have to try to complete and plan for operations based on a financial package assembled on anticipated regulations. Too long a delay here could result in the infeasibility of this project.

Other difficulties have faced this project as well: Barre's community development director left his position in the course of things, and the new one did not always share the implicit understandings NCR had reached with his predecessor. Here, it would have been most helpful to have had more in writing subsequent to the many discussions and handshakes.

Tenant interest was weak in the project. They were unsure about taking on the responsibilities of a coop. Not all current residents of the properties were interested in staying under new circumstances. NCR believes that some of this lack of active participation and commitment was due to the "top down" approach taken to coop development in this instance. When it was difficult to find a site for a more "bottom up" approach to organizing, NCR pursued the identification of appropriate properties instead, anticipating that tenant involvement would follow. As there was no clear reason for tenants to want to organize and learn about coops -- such as imminent displacement -- beyond the purported desirability of a coop communicated to them, tenants did not take initiative in the project.

Provided the HUD regulation question is resolved, this coop will be completed. NCR will not only have put some coop units into existence in the area, but will also have learned some significant lessons about replicating such an experience elsewhere.

98 Barre Street, Montpelier, Vermont

This project involves a large old single family residence occupied by an elderly woman who can no longer afford to live there alone and pay for her utilities during the severe Vermont winter. The owner is interested in remaining in her home, but is agreeable to making changes in the 3500 square foot structure that will enable others to live there as well. She is not interested in managing the property, and desires to retain as much of her current lifestyle as possible.

The solution proposed by NCR is to subdivide the house into seven living units for single and elderly individuals and small families. This would actually become a leaseback type of housing cooperative in which the building will become owned entirely by the cooperative upon the death of the owner. Tenants would operate the housing on a cooperative basis.

At $40,000 per unit, an eight-year rehab loan at 20% down with no down payment would mean monthly charges of $285 to the resident for two bedrooms with heat. The leasehold will be from the owner, who should be able to live there at no cost and receive some amount of leasehold income.

The project has been well received by the community, and all local approvals such as zoning and fire were readily received.

The owner is on the community development advisory council for the town of Montpelier, and approached NCR about her property when she learned of their other efforts in the area.

To date, there have been no discussions with potential members of a cooperative. To NCR, the nature of this situation meant that negotiating directly with the owner until everything was in order and the project was likely to proceed was preferable. NCR has, however, been meeting with the Vermont Center on Aging on marketing the units for elderly people known or identified by this Center. This organization also is interested already in the potential for undertaking similar projects for the elderly throughout the state. Vermont appears to have a real market for this type of project, as the housing stock includes numerous large old homes whose occupants are struggling to meet their operating costs.

One issue which remains is that of the nature of the lease for this unusual type of cooperative. It will take some legal advice to resolve what will happen to individual equity when a member leaves the cooperative.

A problem faced by NCR in this development is the lack of expeditious work by the architect. He worked on a speculative basis, so that it is difficult to hold him to any agreement in terms of schedule. NCR has learned, out of this experience, to be wary of bids and cost estimates, and to try to pin down such items better to the extent possible.

General

Northern Cooperative Resources has had very extensive contact with a range of communities and community organizations throughout northern New England, which has led to the establishment of a reputation for NCR as a resource on coops and rural housing as well as a widespread understanding about the potential of housing cooperatives for the region. They now receive numerous referrals from groups which they have trained or had some sustained contact with. They are hopeful that, at least, this increased level of information about cooperatives as a workable housing option will continue.

Their contacts with people in the region in which they worked, therefore, generally were quite positive. It is likely that a combination of the staff's knowledge and enthusiasm for coops, combined with what they perceive as a "cultural affinity" to the concept of coops in New England, where coops are able to be viewed as an example of self reliance, has created this favorable climate for housing coops. Further, NCR's emphasis on the better utilization of existing housing resources, whether established organizations or the area's older housing stock, and focus on small scale conversions, has led to many communities' consideration of coops in their own housing planning.

NCR's efforts to create some measure of institutional change in Vermont went well, with advocacy directed at the Housing Finance Agency resulting in the HFA's acceptance of coops for financing. This advocacy also led to the clarification of important legal matters related to incorporation of coops and their legal and tax status, which lay important groundwork for coops with regard to the Secretary of State and the Banking and Insurance Commission. This, in NCR's words, means that the state of Vermont now has an "institutional memory" regarding legal and regulatory issues affecting coops.

NCR also was able to work with others in Vermont to prepare and present testimony on a mobile home bill, in which they advocated that residents of mobile home parks should have the opportunity to have first option on the park when offered for sale, with a reasonable period in which to obtain the necessary financing for its purchase.

Other aspects of NCR's work did not have such success. While NCR received its initial funding from the National Consumer Cooperative Bank, with a plan of action that entailed the development of applications for housing cooperative financing to the Bank, NCR quickly became frustrated with the Bank's numerous and frequent shifts in lending policies. NCR often felt "strung along" by one understanding reached, in eager pursuit of Bank loans, only to experience a policy shift significant enough to require redesign of the financial package.

Often an apparent opportunity for coop housing development arose, and NCR rushed to make progress on securing the property and obtaining financing, without doing enough "homework" in terms of the development of general plans, approaches, and information to the local sponsor. They sometimes waited until too many of the development hurdles were over before working on the needed management plans and training for others involved. In looking back at this experience, they maintain that it is never too early to begin preparing for management of the coop expected to be developed.

NCR also believes that they did not take a businesslike approach to coop housing development to the extent desirable. In retrospect, they would have established their working relationship on a fee for service basis, and would have fully and ruthlessly assessed the income producing potential of coop projects that became possible in the region. In addition, they would have sought alternate or additional sources of financing sooner and would have determined what these sources required earlier and more thoroughly, rather than waiting to learn about them when the information was required for a project.

Changes in Administration policy also affected NCR's work, especially changes in the availability of federal financing and rental assistanc , preferences for private sector activity in housing development on the part of federal housing officials, and changes in the policies of the Internal Revenue Service affecting coops, most notably the recent IRS decision that tax exempt mortgage revenue bonds could not be used to finance blanket mortgages for coops. NCR felt, with all these changes, that they had to establish precedents at every stage of development in order to continue their work.

NCR maintains that there are advantages to more of a "top down" approach to coop housing development. To them it is more desirable in several respects for a TSO to determine that coop housing is possible to develop in a community, including the assembly of a feasible financial package, before community people are organized to become involved as members of a cooperative. They do not wish to raise the expectations of people only to find, after much effort to organize and train a membership, that housing either cannot be accomplished, or that what can be built will not serve well the financial or other needs of the cooperators. Based on their experience, it is also possible for a TSO to do much of this feasibility determination in any given community, and that much of this early technical work does not benefit substantially from the participation of potential cooperators. It can, however, in their view, be helpful to involve another organization, like Homestead or Faith, Hope, and Charity, to do some of the work, such as community relations, and even work towards their becoming a TSO themselves.

On the other hand, NCR admits that this approach may mean an apathetic or less active membership of the cooperative. They may not see a useful role for themselves at any point, and may sit back and let the TSO work for them. This, perhaps, could be altered by a fee for service work situation in which the TSO works on a speculative basis for the coop to determine project feasibility. Perhaps more light will be shed on this question once some of the cooperatives now expected to be developed are actually in operation and dealing with day-to-day issues such as management.

In any case, NCR thinks that the potential cooperators, or members of a sponsoring organization assisting in the development of a coop can do some of the local legwork but will still require technical assistance in financial packaging and negotiations, overall strategizing, and pushing things forward. Either approach may require real training and effort in the areas of interpersonal relationships and management design and implementation. Even after the coop is built and occupied, members are likely to need training in the areas of management education, and in adapting to their increased level of responsibilities. At least some outside contact is likely to be needed indefinitely for the performance of certain tasks and functions, such as accounting or training for committee members handling maintenance or management. This need not be the TSO which provided the original assistance, but should be someone familiar with cooperatives as well as housing.

In some instances, it will be possible that coops established by NCR may provide certain kinds of technical assistance to others: This might include the boards of Faith, Hope, and Charity as well as Barre/Northfield, due to their commitment and experience prior to as well as during the coop project development. Both these groups had participation at the board level by those who would not directly benefit from the cooperative, with plans to phase in control of the board by the coop itself.

SELF-HELP ENTERPRISES

Bear Creek, Planada, California

This project did not actually begin as a cooperative: Instead, Self-Help Enterprises purchased the property -- a dilapidated labor camp for migrant farmworkers -- in 1979 in order to rehabilitate it for housing for farmworkers. The rehab work was undertaken initially as part of a housing rehabilitation training program in which farmworkers received on-the-job training while they made repairs to homes for other farmworkers -- a program operated by SHE.

This property seemed a likely choice for cooperative development, however, at the inception of the coop demonstration and SHE's participation in it. By January of 1980, the idea of a coop at the Bear Creek project had been discussed, and those participating in the rehab/training program became interested. Along with some of those living in the camp prior to the rehab work, a basis for a board of directors was formed. That May, intensive training on coops was begun, and continued throughout the summer twice a week, in anticipation of occupancy in October.

The Farmers Home Administration maintained, correctly, that the project did not begin as a cooperative. FmHA anticipated a Section 514/516 farm labor housing project owned by SHE and operated on a rental basis. That summer of 1980, FmHA expressed its reluctance to permit this to proceed as a coop. This slowed down the training process and led to a decline in the morale of the coop board. It was clear that the FmHA decision would not be reversed without a fight.

SHE attempted to convince FmHA to reverse their decision through meetings in which the benefits of coop housing were presented; but to no avail. In the Spring of 1981, FmHA issued its decision that it would not accept a coop there, but would accept the project as a farmworker rental project owned and operated by SHE. To complicate things further, FmHA in California requires the establishment of a residents' council for rental projects. The one at Bear Creek had been established in addition to the coop's board of directors, and SHE had to work to prevent conflict between these two bodies. The coop board stopped meeting after the FmHA decision, partly in response to the FmHA demand that all references to a cooperative be eliminated from SHE's plans for project operation, ownership, and management. FmHA would not permit the transfer of title from SHE to a coop at a later date when presented with this as an alternate solution by SHE. FmHA went so far as to say to the SHE staff that if they even tried to run the project like a coop, FmHA would hire new management. This eliminated, for the time being, SHE's efforts to devise a plan for cooperative management of the project once rehab was completed.

The Bear Creek project opened as a FmHA-financed farm labor housing project on August 15, 1981. SHE kept the coop board alive in addition to the mandatory residents' council. There was no alternative but to develop it and provide needed housing units when so much construction work already was invested.

However, SHE did not give up the idea of establishing a housing coop there, and neither did many of the residents at Bear Creek: The FmHA decision against a coop, SHE thought, could be challenged a year or so hence, once the stability and track record of the members residing in the project has been proven. SHE would propose coop conversion, with a management contract for SHE to provide continuity of operations and to provide FmHA a link with an experienced group.

The coop organization at Bear Creek began without any experience in either housing or cooperatives. Potential cooperators participated in meetings during the period in which coop conversion seemed possible, but did not have any particular responsibilities beyond learning how to run their own organization at that time. They were told that attendance at the meetings would be one factor in determining who would become members of the coop. The board went over with SHE decisions related to construction, the selection of options in the units, landscaping, colors, fixtures, etc. They also received training in budgets and the process of housing development. As the board wanted members to have a good credit rating, they had to apply for membership and pay a $10 fee, $7 of which went to cover the cost of the credit rating. The board also chose not to have illegal workers in the coop, basing this decision on their perception of illegal status as an indication of possible lack of commitment to the coop.

All this was done notwithstanding a California statute that says that one cannot be an actual member in a coop until shares of the coop are sold. However, due to this process, SHE certainly ended up with well screened and committed tenants.

To the residents of Bear Creek, the appeal of the coop concept was an economic one: They thought that such housing would save them money. Control of housing also was a strong issue, where people desired to have the ability to change management and to avoid a traditional landlord. Ownership, however, was a difficult concept to communicate to this group, and was not understood well in the coop context.

The FmHA Section 514 program was selected as the best source of financing because it could provide financing at the best possible terms. Supplemental funds included the CETA and other Department of Labor money used for rehab and training in construction. A California state farmworker housing grant also makes up the fiscal package of the project, and the state Department of Housing and Community Development is willing still to have the project be used as a coop. This financing part of the development process actually went smoothly, because FmHA did not understand that they were being asked to finance a cooperative right away.

SHE's efforts at advocacy to reverse the FmHA decision were not successful, but included meetings with Congressman Coelho and his assistant, who were given incorrect information from USDA later when they began to inquire into the events of the project. Coelho was told by FmHA that the 514 program regulations do not permit cooperative loans or transfers, when, in reality, it was an administrative decision by FmHA that led to this. SHE had tried to convince FmHA that their decision not to finance coops through the farm labor housing program came after the Bear Creek project was initiated. FmHA's response was that Bear Creek was initiated as a farm labor housing rehab for rental, not coop, operation.

From FmHA's point of view, SHE was informed in advance of FmHA's refusal to permit coop conversion of the project. SHE, along with others in the consortium, was advised to use Section 515 financing for coops. While FmHA attempted to create a setaside of Section 515 funds for farmworkers, this was prohibited by USDA's General Counsel.

This experience was not without lessons for SHE and the potential coop members at Bear Creek: Certainly, the coop board and potential cooperators learned to "read before you sign." They learned that the established housing programs and systems are rigid, not flexible. The difficulties inherent in working as a group and making corporate decisions, how to make and execute decisions, preparation of budgets and the handling of corporate finances, and how to structure an organization and bring it into existence through the maze of legal paperwork also came to be understood to a much greater extent. People also learned about the real meaning of a cooperative effort and that they have the right to make decisions that affect them. By the end of the training period, the board was capable of managing their own meetings, developing the agendas, and making decisions contrary to those recommended by SHE, indicating that this group had come a long ways in discovering their own capacity and influence.

For the staff of SHE involved in the coop attempt, it is difficult to sort out what was learned from the frustrations still felt. It certainly proved that developing coops is more difficult than they thought it would be -- that the differences compared with other kinds of housing development are significant. SHE also believes that it is too difficult for the coop to be involved in both the construction of a project and the development of a coop, as these involved competing relationships. SHE does feel, however, that the training they provided was effective and was well timed considering the anticipated schedule for project completion. The mixed male and female board has been an effective voice for the people at Bear Creek as a result.

If they were to do this project over again, SHE would apply for Section 515 rental housing financing instead of 514, so that the issue of whether a coop could be financed would not be such a problem. They would have had closer contact with FmHA from the beginning instead of assuming they could rely on FmHA officials in the national office who were sympathetic to the coop demonstration to deal with FmHA's state and district offices, when FmHA, at that level as well, differed with SHE's concept of project financing.

<u>Villa Esperanza, Arvin, California</u>

Campesinos Libres was a group of farmworkers who were mainly members of the United Farm Workers and who wanted to undertake housing development for themselves and their own families. The group found a site in the town of Arvin, and SHE bought. Later, however, SHE used this site for the construction of other new housing.

Once the coop demonstration began, coop staff at SHE contacted Campesinos Libres about becoming involved in cooperative housing. Following a chaotic period in which other local organizations were assisting the group, so that SHE pulled out, Campesinos Libres again asked SHE to assist. SHE trained the group in how to identify a site for housing, and the board served as an active land search committee. SHE began preapplication in anticipation of finding suitable land. Finally, in November 1980, a site was identified in Arvin and its sale was negotiated. SHE was also able to obtain block grant funds from Kern County to cover the purchase.

Problems began when the owner kept raising the price of the property, finally putting it out of the range that CDBG funds could pay for. Months later, the group found another site out in the county which was owned by the county housing authority. It was located between a new farm labor camp and an elementary school, three quarters of a mile from community services. They opened negotiations with the housing authority director, who later resigned before any deal was closed. His successor was at first reluctant to sell the site to them, but later became more sympathetic. After months of negotiations with the housing authority, the housing authority commissioners decided to farm the site rather than sell it. The land was zoned residential, and had an old labor camp on it, which was to be destroyed after the new one next door was built and occupied. The action of closing the old camp and developing a new one was mandated by the health department. The site sought by the Campesinos Libres had streets, public water, and trees, and was clearly more suitable for residential development. The lawyer for the housing project said that an appeal could take two or three years, and that site was abandoned.

The major constraint on the sale of land in the area then, as now, is the Williamson or Agricultural Recovery Act, which requires that a piece of land taken out of agricultural production must be replaced with another equal amount of land for farming purposes. Therefore, growers in the Arvin area could not sell a piece of land without violating this Act, and the project died due to its inability to obtain a site.

The town of Arvin maintained that it wanted the project, but there was little it could do about the land situation. City officials were enthused about the project. The cooperative corporation established to undertake the housing development, Villa Esperanza, has been kept alive in case the housing authority changes it mind or some other positive occurence arises to make things possible.

The board of Villa Esperanza, comprised of eight women and one man, received training in coops from SHE. They grasped quickly the information provided about organizations and how they function, as most involved had experience as members of the United Farm Workers. They completed the same training provided to the people at Bear Creek in half the time. Unfortunately, the members' worst experience from the past with the housing authority -- was only confirmed by what they went through here.

All involved learned to make sure that housing development was possible before seeking to organize and train people around it. Here, even though an existing group approached SHE, SHE would, in retrospect, have searched for land, at least, before undertaking an extensive training program for potential coop members. To SHE, if the community group is willing for the TSO to create the physical design of the coop, there would be no need to organize and train the actual coop membership before loan closing or the beginning of construction.

Aside from the land problems, the potential for developing a viable coop was cast into some doubt when FmHA's rental assistance program's funds were lost. SHE estimates that this action alone would have made 80% of the potential cooperators in Arvin unable to participate due to the project costs. This was the poorest group SHE assisted.

Madera Economic Development Corporation
Madera, California

In this case, SHE was contacted by a nonprofit organization in Madera County, the Madera Economic Development Corporation, concerning a property available for sale and in which the Economic Development Corporation was interested. SHE was familiar with the property, having attempted in 1977 to convince the Madera County Housing Authority to apply for FmHA financing to rehabilitate the available units and open it as rural rental housing. Here, however, another unique California law had a negative impact on rural housing: Article 34 of the state constitution prohibits the development of public housing units by a unit of local government until there is a public referendum held which results in public support for the project. In the case of this project, which involves units already in place, which had been housing for military families, the referendum failed twice.

Title to the property passed from the U.S. Department of Defense to the Department of the Interior, who gave it to the Bureau of Indian Affairs. Later, title was passed to the General Services Administration. In June 1981, GSA offered the project for bid. SHE looked at it, thought it would make an ideal cooperative, had it appraised, and submitted a bid. GSA turned down all bids as too low, and re-offered it. SHE's second bid, on behalf of the coop, for $510,000, was accepted. A loan was obtained from the Housing Assistance Council to secure the site.

SHE had to move quickly to act as TSO in this case, and to perform all development and technical work as well as organize the coop board and train it. A preapplication was prepared in two months and submitted to FmHA for Section 515 financing. FmHA rejected the preapplication a month later due to the site: FmHA maintained that the project was too remote, and that the rehabilitation required was not substantial enough to comply with Section 515 regulations. The facts that the units were standing, had been occupied by two separate groups, and that there were surveys to document the interest of more than enough people to live there, did not affect FmHA's decision.

SHE decided to appeal this decision made at the district office level to the state office of FmHA. SHE made this decision in order to, at least, try out the appeals procedure as one test of the whole potential coop process. The state office of FmHA upheld its district office, which came as no surprise. Later, a subsequent appeal was made to the national office of FmHA in the hope of overturning the state office decision. This attempt also failed, with the national office saying that SHE presented no new argument or evidence to convince FmHA to reverse the lower-level determination.

FmHA based their decision on a section of the regulations for the Section 515 rural rental housing program which states that rental housing must be located in "established residential communities" with "close and convenient access to" such community facilities as schools, churches, shopping centers, hospitals, and pharmaceutical services. FmHA held that the Madera coop project site, being located six miles out of town, did not conform with these criteria.

The appeal made by SHE on behalf of the coop focused on the need for housing in the area, the fact that these established units had been occupied without apparent problems of isolation from the community, and the vagueness of the "close and convenient" regulation which left interpretation of what constitutes the definition of such up to the FmHA officials making the decision on the particular project involved. Nowhere in the regulations are these terms defined. SHE argued that the definition was vague in order to accommodate the wide range of differences in facilities, their location, and acceptable distances to and from services on the part of the local population in a country as vast and varied as the United States. Further, it was pointed out to FmHA that certainly it was also important that people live close to work. As the potential residents of the coop were farmworkers who worked in the area, the convenient location of their workplaces should also be considered. Work, also, is where more people are likely to go every day, while community facilities are likely to be visited less frequently.

Despite such arguments, the support of the City of Madera housing authority, and much interest by many people in living at that site, FmHA refused to agree to finance it. Later, FmHA said that they would consider financing the units there under the Section 502 Homeownership Loan Program, particularly as these are single family units -- another point of contention they had with SHE's project design. As a result, these sound units are likely to at least be put on the market for homeownership, however, they clearly will not serve the low-income families who could have gained access to them as part of a cooperative.

Due to the concentrated period of time which SHE had to put together the financial package, and to the problems which ensued, only basic coop training had been provided to potential coop members. Out of necessity, SHE had given heavy direction to the coop to that point.

This taught SHE that a top down approach to coop development can be just as much work as one which begins with organizing the coop members. Still, SHE feels that the coop development process is likely to be smoother, without raising community expectations unnecessarily, if the TSO does everything with only a board of directors of a coop until construction is imminent. In their experience, this approach entails a more efficient use of time and energy.

The coop board of La Cooperativa del Valle in Madera County learned little: SHE believes that they did learn that, as a nonprofit with little or no housing experience, one is at the mercy of the technical assistance provider and their level of competence. Without good technical assistance, a nonprofit could come into existence without protecting itself against legal liabilities and problems -- one reason for the kind of expertise SHE can provide to be available.

Richgrove Cooperative Housing Corporation
Richgrove, California

In the Richgrove area of Tulare County, the Tulare County Tenants Union and the American Friends Service Committee were working with the Tulare County Health Department to close the

Sierra Vista labor camp. Their original intent was to purchase the Sierra Vista camp and rehabilitate it for a cooperative; but FmHA -- the most likely source of financing for such a project -- said that it was too isolated. At that time, a 47-acre site in Richgrove became available, and SHE purchased it. Then, SHE began to meet with AFSC staff to organize a coop organization.

When the first preapplication was submitted to FmHA in July of 1980, the FmHA district office did not know what to do with it: They had had no information about housing cooperatives or knowledge of whether FmHA could in fact finance them. SHE, realizing that this information had failed to filter down from the national office, and anticipating difficulty in receiving project acceptance as a result, contacted the national office of the Farmers Home Administration to try to push this project's application through. The California state FmHA office, in response, resisted the pressue they received from the national office. The district FmHA officials returned the preapplication with a request for additional submissions of various items, including many that were unnecessary, particularly at the preapplication stage: For example, FmHA said that the nonprofit sponsor needed to provide its tax exempt number from the Internal Revenue Service before FmHA could be assured that it was indeed a nonprofit corporation and process the preapplication. FmHA maintained that, without this number, the corporation was not nonprofit and did not qualify for the financing applied.

This experience indicated to SHE that TSO's should have educated FmHA early in the demonstration about cooperatives and the coop application process in order to prevent this type of response.

The preapplication was resubmitted early in 1981. Aside from some legitimate budget concerns, FmHA's district director tried to stall progress by saying that he didn't think that there were people in the area who really wanted a cooperative. To try to prove otherwise, SHE and the coop organized a meeting with 65 interested families which was run by the chairman of the coop board, and to which FmHA district director was invited. The district director used this forum to try to convince those present that they did not really want a cooperative.

Next, problems with access to adequate waste disposal for the Richgrove site held up the preapplication: FmHA said they would not process it until this was resolved. At that time, the town was waiting to receive federal funds to expand their sewer system. This effort was complicated by California regulations, creating a situation in which federal sources did not want to approve the application until the state had issued its approvals; while California was reluctant to approve the town's plan for waste disposal until it was certain that funds were forthcoming to insure its implementation.

Finally, in February, 1982, EPA, California, and FmHA reached an agreement on the sewer issue and funded this project, without which the coop would have come to a halt. In April, FmHA's state office told SHE to resubmit the preapplication with some new items and updated information, such as a new market survey. Due to the changes in rent subsidy funding availability during this period, which resulted in no subsidies being available any longer for the units proposed at Richgrove, SHE was asked to submit documentation to show that potential residents of the coop could afford unsubsidized rents. Further, it was incumbent upon SHE to indicate, with detailed information, that Richgrove's sewer system will be completed by December of 1983, in order to correspond with the completion of construction of the cooperative.

Plans call for thiry townhouse units to be constructed on a portion of the site acquired by SHE, with a management contract to SHE. A cooperative was decided on by those in the community in need of housing because of their preference for a larger amount of control than a traditional rental situation provides. Many had experienced problems with landlords in the past, which they sought to avoid. Most were long time residents of substandard housing. Some had lived in housing cooperatives in Mexico and were enthusiastic about having a similar housing opportunity in this country.

This cooperative has been the most stable of all those assisted by SHE: Only two of the original seven board members have dropped out, despite the delays experienced. One did so because he is there illegally and risks being prevented from living in the coop. The other experienced too many family problems to continue in this same capacity.

SHE provided the same training to this group as to the others, and began this training early in the development process. Little training, therefore, remains, and the group has become quite capable of managing corporate affairs not of a technical housing nature.

At Richgrove, as with the other cooperatives SHE has worked with, the decision to develop not more than thirty units was, in SHE's opinion, agreed upon early in the demonstration, without regard for local practicalities such as the size of the site available. SHE believed that, due to the demonstration's definition of "small" as comprising fewer than thirty units, that it was unlikely that FmHA would finance more in any given project. Especially in light of the lack of follow up to insure FmHA's understanding of and support for the coop program, this definition of "small" has, for Self-Help Enterprises in their role as TSO, functioned as an artificial and unnecessary constraint.

Again, FmHA maintains that the "small coop" definition applied only to financing of coops from the setaside of 515 funds. Also, they say that, while Section 515 funds cannot be used exclusively for farmworkers, this ruling does not prevent the organizing of farmworkers as primary or sole members of cooperatives financed through this program. The national FmHA office maintains that they did the best they could to provide funds for the project by transferring year end pooled funds (for FY 80) to California for use by this community.

Three Rocks, Fresno County, California

While this project did not progress very far, it is described as an example of the type of occurrence that does result in a decision not to pursue a cooperative: The Fresno County Health Department closed a labor camp known as Three Rocks due to sewerage problems there. SHE met with residents of the camp but who had been ordered to leave. The owner of the property had deeded it to those living there at the time of its condemnation by the county health department. Partly due to the fact that some of those living there at the time had left, legal questions arose as to the property's ownership at that time, and as to who could make decisions regarding the future of the facility and site. Many area agencies had become involved, and several of them decided to relocate those who had remained. Thus, the idea of a cooperative was lost.

General

Self-Help Enterprises purposely applied several important differences in their approach to coop development in order to clarify the most useful model: While it is difficult to say, at this point, which works best, or whether the extent to which the approach used had any impact on the success of the process or more or less influence than other factors, it is nonetheless helpful to understand these varied strategies in order to determine the value of the SHE experience. At Bear Creek, SHE acquired the project itself and submitted the application for financing on its own behalf, planning to change over to cooperative ownership later. In Arvin, with Campesinos Libres, SHE expected that the coop would, in contrast, both purchase the site and submit the application in its own name. At Richgrove, SHE acquired the land -- a larger parcel than what the coop desired -- and planned to sell the portion needed to the coop, along with having them submit their own application. In their other major effort, in Madera, a local nonprofit was to purchase the land, while the coop would complete and submit the application for financing, with the nonprofit turning over title of the land to them once financing was secured.

SHE was continually frustrated by the problems of financing for coops: In addition to the specific issues described above, the inappropriateness of the various FmHA loan authorities was perplexing. FmHA decided, saying that Cabrillo Village's experience to the contrary was a "mistake," that the Section 514 farm labor housing loan program could not be used to finance housing cooperatives. The 515 program was the one to use. In California, the state's farmworker housing grant program can provide up to 50% of a project's total development costs for housing that will be occupied only by farmworkers. The state regulations state that anything in excess of 25% grant request must have 100% farmworker occupancy, while a 24% grant or less requires that at least 50% of the units be set aside for farmworkers. FmHA will not allow a Section 515-financed project to have restrictions such that only farmworkers can live there. This results in a "Catch 22" type of situation, in which coop financing (at least, through FmHA) and the farmworker grant are incompatible. Surely, this was not the intent of either set of regulations;

however, this is their reality.

Some advocacy has been done by SHE to date on this matter, but without success. California's Department of Housing and Community Development says that their concern with compliance with these regulations is at initial occupancy, and implies that an applicant should be able to resolve this with regard to the project in question.

One helpful measure taken at the outset of SHE's coop work was that they had their attorney take the bylaws of Cabrillo Village and rewrite them to insure both general legal soundness and more readibility. This helped to demystify some of the required organizational background work for the coops, led to them being able to make decisions and choices with regard to the bylaws, and gave coop board members both good training and a sense of their own power. Out of this, SHE stresses the need for a community-minded attorney for the coop corporation, who is able to enable them to understand their rights and liabilities.

Clearly, a major problem faced by SHE -- and their principal criticism of the demonstration -- was the lack of cooperation secured from FmHA. Having had real follow through on the FmHA promise at the national level of setasides of 515 funds for coops, and FmHA effort to train state and district offices about the demonstration, cooperative housing, and the ability of FmHA to finance it, may well have made a tremendous difference in the success of many projects.

Without the cooperation anticipated, SHE felt frustrated by their very approach to building coops, in which early emphasis was placed on organizing a coop board and membership and training them, assuming smooth progress on other fronts. With all that transpired, SHE found turnover in coop membership, a difficult time in holding some organizations together in the face of such obstacles, and a need to repeat training that was provided too early in the actual development process of each particular cooperative.

The loss of rental assistance during the course of the demonstration meant that low-income people, whom the demonstration was intended to benefit, could not even participate. This, too, sometimes resulted in a change in the composition of the membership of a coop. Aside from the practical problems that such a policy shift creates, SHE felt its long standing dedication to the poor rural residents of the San Joaquin Valley compromised. SHE believes that a greater commitment to serve low-income people on the part of the Coop Bank and state housing agencies would assist in cooperatives truly becoming a viable option for those most in need of better housing conditions.

What went well was often at the most local level: The coops received well the training provided by SHE staff. They readily accepted coop principles, however difficult certain concepts, such as coop homeownership, were to grasp. Incorporations of the cooperative corporations went smoothly, under California's cooperative corporation statute. The Richgrove, Madera, Bear

Creek, and Arvin coop boards all met jointly on four different occasions for training, in which outside experts from the coop housing field presented detailed information on topics identified by SHE through their discussions with coops on what they needed to learn about. This also provided time for the various coop board members to get to know one another and to share experiences. SHE notes this training as particularly welcome and successful, and recommends it to other TSOs for their consideration.

Concerning management, SHE's perception of "self management" was rather broad: To SHE, the critical concern for coops was retaining control of management, but not necessarily performing the tasks related to management on a daily basis. SHE views as an optimal situation one in which the TSO takes over the actual management functions on contract with the cooperative. This arises out of SHE's belief that the TSO knows the coop best and what its needs are, and that the TSO's knowledge of the capabilities and limitations of the coop is, in itself, an important qualification when compared with those of professional management firms available. Also, such a management system would take into account the unique factors involved in a cooperative, compared with the traditional rental housing a management firm is likely to have had its only experience with.

In addition to the above, SHE raises the relationship between management of the coop units developed and self sufficiency of the TSO. Having this ongoing management function to perform for a coop, or, preferably, for a group of them, can enable the staff of the TSO with expertise in coops to remain available to these coops for problems which may arise. The TSO could also be enabled to stay in business, so to speak, in terms of additional cooperative housing development in the area.

In terms of general community acceptance, cooperatives have a future in the San Joaquin Valley. According to SHE, the Valley's growers are themselves members of cooperatives in many cases, and understand this framework for joint activity. The concept of equity also made coops appealing to the communities SHE was in contact with. Housing is a great need in that area, and, while many people would not seek to live next door to a low-income housing cooperative, local attitudes tend not to be strongly opposed to a cooperative housing venture in which equity, resident responsibility and control, good design, and adequate management are a part.

RURAL COMMUNITY ASSISTANCE CORPORATION
SACRAMENTO, CALIFORNIA

Cooperativa Santa Elena, Soledad, California

California Rural Legal Assistance (CRLA) was working with tenants of the Pinnacles Mobile Home Park in Soledad on a case against the owners of the park, who sought to raise rents in spite of declining site conditions in the park. The tenants filed a class action suit against the owners.

CRLA, having received information and training on coops from RCAC, helped the tenants to organize and to consider buying the park themselves. CRLA obtained assistance from RCAC to seriously explore the coop option. RCAC and CRLA formed a development team to bring about a cooperative purchase of the trailer park. They met with residents twice a month.

CRLA had hoped to become a TSO in the Salinas Valley, where their staff was established as a legal resource with extensive community contacts. This was not possible due to the lack of resources within CRLA or which could be brought in to support their TSO activities. However, at Santa Elena, CRLA staff were instrumental in assisting residents to identify and explore various options, including nonprofit rental, individual ownership of spaces, and coops. A housing cooperative emerged as the most practicable approach.

When CRLA was not able to make the commitment of time and resources desired for the project, RCAC was able to help CRLA fill the gap which would have been created, and coordinate TSO functions with CRLA to achieve the coop's objectives.

Some tenants had organizational experience of some sort through participation in the United Farm Workers or a local credit union. They had a legal committee formed to file the class action suit against the owners. This committee developed a leadership who became involved in working with RCAC to purchase the project and strive to turn it into a cooperative.

Of the one hundred trailers in the park, ninety-five were occupied by farmworker families. Some non-farmworker families chose to leave the park rather than join in the coop, while others remained. Despite the poor conditions in the park, the state was interested in assisting financially, but, as with any rehabilitation or conversion project, they try to reduce displacement.

RCAC provided intensive training on a monthly basis, with CRLA meeting with the leadership of the coop weekly for as long as they were involved. Training covered coop principles and concepts, the entire development process, how the organization itself functions and how to plan for and hold meetings. RCAC's time became more devoted to the application for a loan, and away from the focus on member training. Monthly meetings then served more of an informational purpose to keep members up to date on events. People became less interested and committed to the training. Part of the lack of interest in training was due, RCAC believes, to the fact that the housing was already there. No major changes were effected in people's daily lives, no terrible disruptions were endured, no significant struggles which required the energies of all had to be faced. RCAC, for many members of the coop, simply packaged the loan and got them the financing that they needed.

Truly, much of what was involved in converting this trailer park into a cooperative had less to do with housing development, rehabilitation, and the securing of financing than with altering the mindset of the tenants to come to see themselves as cooperators, and with undergoing other, less physical changes in the park such as the design and implementation of a plan for self management.

Still, there were several technical steps that had to be taken, almost completely by RCAC: While the trailers themselves were adequate enough to keep, with some repairs needed, including construction of permanent foundations and a rainwater drainage system. What was most needed was the purchase of the mobile home park, cleaning and repairs of the grounds, and the construction of a barrier between the park and main highway it was next to, due to the noise and safety factors. RCAC was able to secure financing from the Coop Bank and the state of California for the purchase of the park and requisite site improvements. No one else would finance it.

The property cost $1.1 million to purchase, with a total of $513,000 needed for repairs, including the construction of the highway barrier, repairs to the swimming pool, drainage system, and the addition of play area with athletic equipment. The state of California made available a $17,000 predevelopment loan -- paid back with the permanent financing -- and a $750,000 grant from their farmworker housing grant program. The Coop Bank loaned a total of $712,000, $435,000 from their Title I program and $277,000 from Title II. The Housing Assistance Council issued a $1000 predevelopment loan, while Soledad's community development block grant contributed $150,000 for the highway barrier. Rents during 1981 were $135 per month, and are currently $147.

This financial package was difficult to put together: While RCAC has praise for the Coop Bank staff with whom they worked, it was not easy to know what the Bank would accept and whether something was required or not. At one point in this application process, Coop Bank funds were committed, then frozen. Subsequent delays arose from new requirements leading to additional letters of conditions. Finally, what the coop received from the Bank is a note through Title I for $435,000, which has a five-year balloon payment, and a Title II note for $277,000 to be repaid over a 30 year period.

Dealing with the town of Soledad also was difficult: Local people detested the mobile home park and saw it as a dangerous slum. It is located at the edge of the town, isolated in that it is between the highway and railroad tracks which people are forbidden to walk across. While the coop leadership met with the city council to explain the coop concept and their plans, and to request CDBG funds for the highway barrier, many of the power elite were opposed to the idea. Others simply did not care about the trailer park and did not think its residents were capable of accomplishing their goal of a cooperative. The property has a special use permit for the mobile home park, while zoning is for highway commercial use. The town must do a master plan of the town in order to change the zoning. While its intent to do so has been indicated, no action has been taken. However, the town eventually came around with regard to the CDBG request, and submitted the CDBG application for the highway barrier.

The California Department of Real Estate also has policies which affect the coop: Before shares in a cooperative can be offered, the Department of Real Estate must receive a report describing the covenants, codes and restrictions on the property. This department was established for the protection of consumers, and does not understand coops. RCAC has put together the information they need, but the report has not been issued yet. Shares cannot be sold until this is done, even though shares at Santa Elena are only $200. Until things are resolved with this department, Santa Elena is actually only a cooperative of board members. Therefore, there are no real members yet, and membership dues cannot be collected. The shares are expected to be sold by October 1982.

RCAC is working towards limited equity cooperative exemption or modification of the regulations, and is part of a coalition effort to do so. Limited equity cooperatives already are exempt from the state's Subdivision Map Act -- another boondoggle for housing developers in the state.

Decisions regarding management of the park were not made until a month before management was needed. RCAC, in doing such a project again, would consider management from the beginning. This led to some problems: The first resident manager lasted only a month, and did little good during that time. He was fired. Next, the coop hired the board president, who took a one year leave of absence from other duties to do this job. Now, as that year is ending, the board must hire someone new. While there have been troubles, the coop still made money during their first year of operation to put back into the coop. Regardless of difficulties, including the majority of residents not yet being members of the coop in a legal sesnse, this project is operating and is demonstrating a range of management and other matters involved in the functioning of a rural housing cooperative to a large extent.

Certainly, board members of Santa Elena learned organizational skills, a great deal about cooperatives, and much about responsibility, leadership, contracts, and management, and have achieved the development of a sense of pride on the part of residents in their homes and community.

While the community retains a "look and see" attitude, they cannot deny that this experience shows that farmworkers are capable of doing something for themselves. Other farmworker groups see

Santa Elena as a model, and the Golden State Mobile Home Association has requested information on the feasibility of other mobile home park conversions. Interest in the park has also been communicated from the state of Washington, where 45% of the housing stock consists of mobile homes. Locally, residents at a farm labor camp in terrible condition near Soledad has initiated its organization and plan for a cooperative there. Some training has been provided this group by CRLA.

California Rural Legal Assistance has learned from the Santa Elena experience not to go about housing development without the capacity to follow through with long term technical assistance.

RCAC really learned what it takes to put a housing cooperative together, and the extent to which the Coop Bank can assist. Their extensive materials developed for board training at Santa Elena -- in Spanish -- already have proven useful for additional groups. RCAC recommends that technical assistance be available from a more local source in order to handle all the details of coop development well, with more time on a daily basis than RCAC was able to expend.

<u>San Jerardo, Salinas, California</u>

In Salinas, a group of farmworker tenants who were being evicted received assistance from a nonprofit housing group called the Central Coast Counties Development Corporation, which no longer exists, and the National Housing Law Project. They formed the

San Jerardo cooperative and purchased a sixty-unit labor camp outside of Salinas, financed through FmHA Section 515 funds for substantial rehabilitation. The coop opened in 1972.

RCAC became involved due to the coop's problems in managing the project, which had resulted in difficulties for them with FmHA. RCAC did training for the board and staff in order to increase their understanding of the meaning of a cooperative, and to correct deficiencies in accounting, maintenance, fiscal planning, and organizational operation and effectiveness.

RCAC staff also worked on the development of a proposal to the Campaign for Human Development to extend administrative funds for the San Jerardo Community Development Corporation, including some funds needed for the child care center on the site. After securing funds for the center, providing extensive training on the above coop issues, and preparing the board for more active and responsible participation, RCAC reports that the child care center has opened, with a greater chance for success than previous operations would have insured. RCAC was the conduit for the funding, while San Jerardo staff actively pursued funding.

FmHA remains to be convinced that San Jerardo is a good idea, and RCAC is assisting the members to improve their public image, which is likely to take some time.

Community Housing Improvement and Systems Planning Association

RCAC, most recently, has been working with another local non-profit housing development corporation, Community Housing Improvement and Systems Planning Association (CHISPA), based in Salinas, to get them involved in sustained training for the cooperators at San Jerardo.

CHISPA began in 1980 as a housing development corporation, and they broke ground recently on two coops: La Buena Esperanza, in King City, will have forty units financed with $2.3 million of FmHA Section 514/516, plus a $50,000 state farmworker grant with rental assistance for all units. In Salinas, Las Casas de Madera is financed with the state's rental housing loan program and Section 8.

RCAC has worked with CHISPA to train their staff to do effective training for coop boards, including development of training materials, in order to strengthen their role as a TSO in the Salinas Valley.

<u>Fred Young Labor Camp, Indio, California</u>

Residents at this very large labor camp approached California Rural Legal Assistance (CRLA) to complain about the camp's poor conditions. The tenants filed a class action suit against Riverside County, whose housing authority owned the facility. The camp was built with FmHA 514/516 funds, and rents were very low.

CRLA asked RCAC to assist them in forming a cooperative to buy the camp. While the Riverside County Housing Authority was in default, FmHA did not initiate foreclosure proceedings against the county. CRLA realized that their recommended transfer of property to a coop would mean of loss of face by the housing authority.

The 240 units, constructed at a cost of $3.1 million, were explored by RCAC and CRLA for possible transfer. RCAC also assisted CRLA in designing a management plan. At this time, FmHA made the decision that the Section 514/516 program could not be used for cooperatives, so RCAC recommended that a housing development corporation (HDC) be set up. This was done with CRLA's help, and the Indio Housing Development Corporation was established. RCAC continues to provide this HDC with technical assistance through a contract with the U.S. Department of Labor, and is using training materials developed for use in coop board training to test the effectiveness of these materials.

At present, the housing authority will not sell the project, and RCAC, CRLA, and the tenants are working on strategies to exert pressure with this objective in mind. The Indio HDC is trying to function as TSO in this situation with RCAC providing technical assistance.

<u>Cabrillo Village, Saticoy, California</u>

RCAC worked with this cooperative, established in 1974, to enable it to become a TSO in its own right. Staff at Cabrillo had already accumulated a wealth of experience in coop operations, and were well aware of the struggle a community group can face in trying to put a coop on the ground, because of their own experience. Help was needed, however, when Cabrillo was requested to assist with a group of farmworkers who wanted to develop a coop in their area (Rancho Sespe). RCAC provided training on program planning, site assessment, dealing effectively with FmHA and the state, and roles and responsibilities of the coop board. The Rancho Sespe group submitted an application to FmHA for Section 515 financing for a coop, and were rejected due to the remoteness of their site. FmHA said, however, that they would approve the project if resubmitted as farm labor housing under the 514/516 program, and the 514/516 preapplication has been accepted.

It was impossible to determine whether or not this FmHA decision was motivated by their desire to inhibit the development of coops in the state, which many who advocated coops felt, or whether it arose out of more legitimate concerns. However, Rancho Sespe decided to submit the application for farm labor housing rather than challenge FmHA and, possibly, lose out all together in the end. Thus, this project will not be a cooperative. Rancho Sespe is working towards cooperative, participatory management.

At Moorpark, another group also wanted to undertake coop development for themselves with assistance from Cabrillo and RCAC. There, no real progress was possible due to high land costs and to the limited technical assistance available.

RCAC was able to do some training for new coop members at Cabrillo, where 75 units of cooperative housing are valued at $4 million. Cabrillo's position as a potential TSO also was strengthened, regardless of the lack of success in the above projects.

All involved believe that it is unfortunate that the Cabrillo model, due to its use of the 514/516 program for coops, and to the drying up of other grants and resources, cannot be replicated.

General

RCAC had contact with a large number of organizations in the West who had an interest in coops during the course of the demonstration. In many cases, staff held a workshop for that community; however, they believed that the next step had to come from people if they were sufficiently committed. Such contacts included groups in neighboring states, such as the Reno Sparks Indian Tribe near Reno, Nevada and the Office of Farmworker Housing in Washington. This extensive contact clearly has resulted in an increased awareness of cooperatives, though fewer actual units than hoped for.

When contacted, RCAC looks for some level of commitment, and has come to request a letter or other indication of real interest in following up. This is in response to what frequently appears to be curiosity about the "latest trend" in rural housing, rather than a serious exploration of options.

Without local staff time and resources to devote to a coop, RCAC feels they cannot encourage such an undertaking. This is a real obstacle to low-income communities and community organizations.

Generally, RCAC looks for a team approach in developing a coop, so that the coop leadership has a pool of skills accessible to draw from as needed. As they emphasize the development of the people as much as the development of the housing they need, great attention is paid to the training needs of people at the community level, and to enabling them to undertake as much of the housing work required in the long run. However, in this demonstration, RCAC was frustrated by its efforts to create capable, dedicated TSOs among agencies that did not always match RCAC's criteria for commitment and follow through, and who often lacked the resources necessary to do otherwise in a political era in which almost everyone faced cutbacks of their current level of staff and activity. Further, RCAC was frequently in the position of being unable to respond to local interest and concern due to their own lack of time and resources, often combined with distance from the potential project proposed.

Other problems outside RCAC's control included local political resistance to coops as low-income housing, obtaining the subsidies such as Section 8 that were essential in order for the housing developed to serve low-income people, and similar differences with the Farmers Home Administration to those faced by others in the coop consortium.

What worked well was the type of training that RCAC devised: To the extent possible, this was done to incorporate and respond to the needs that people communicate to RCAC, and was designed to be practical and participatory. The principal topics for training, based on what was requested, were 1) the history and philosophy of cooperatives; 2) the coop structure, and roles and relationships it embodies; 3) management, including administrative, fiscal and accounting, maintenance, and public relations issues; 4) legal documents -- what they are, how to prepare them, and how to use them; 5) business items such as the preparation of a budget and the concept of limited equity; and 6) how to plan and run a meeting. Once a coop is actually operating, training continues to be needed in budgetary and fiscal areas, as well as with regard to operating policies such as the handling of evictions, resident selection, and ongoing legal responsibilities of those involved. Training, beyond the initial stages, also tends to be needed in the development of new leadership, developing new members, and proposing and working through new committees for new activities and interests.

If able to initiate new cooperative housing activity in the region, RCAC would choose to follow the type of model applied by CHISPA: There, one staff person is assigned to each fledgling coop to focus on the human development needs and training, including the selection and training of the board and coop membership. Other technical staff spend the necessary time on the project's physical development, in terms of site selection, financial packaging, and so on. Their skills also include management, and can, therefore, provide the long term contact which can benefit coops' own stability and demonstration effort.

Compared with some others who share the coop demonstration experience, RCAC is more enthusiastic about the "bottom up" approach to development, with great emphasis on training and organizational development.

NEW MEXICO HISPANIC HOUSING COALITION (Includes reference to Tierra del Sol's work in the first two years of the demonstration)

Cielo Azul, Taos, New Mexico

Individuals concerned about rural housing conditions in northern New Mexico learned about Tierra del Sol's participation in the rural housing cooperative demonstration and requested that they come to Taos to talk with people there about forming a cooperative in the Summer of 1980. The Taos Housing Authority assisted in getting people interested to meet with staff of Tierra del Sol. Interest on the part of housing advocates with the New Mexico Hispanic Housing Coalition was due to their discussions about the need for expanded opportunities for some form of homeownership as an alternative to the problems which, in their experience as housing professionals, were inherent in rental housing.

A site was identified by Tierra del Sol staff just outside the town of Taos, which was zoned for agriculture, which would permit one dwelling unit per acre. Tierra del Sol, interested in developing a small coop -- less than 25 units -- began with seventeen interested families, which soon grew to twenty-two. Plans were drawn for 22 units of single family design on the eight-acre site, a preapplication was assembled and submitted to FmHA, and work was done to convince the town to rezone the property to single family residential. Those working on the project at the time had a good working relationship with the FmHA state office. The preapplication was approved, and funds totalling $1,024,000 were obligated.

Unfortunately for the potential cooperators, application for Section 8 or rental assistance was not made at the FmHA pre-application stage. Tierra del Sol only made application for rental assistance a year later -- after it was apparent that Section 8 funds were not available.

Once rental assistance was requested, FmHA said that such subsidy could not be provided to a project using single family unit designs. It was Tierra del Sol's opinion that the coop should fight FmHA to retain the single family concept. This made things difficult for the cooperators, as, although TDS's intentions were good, their action caused additional delay, leading to the ultimatum by FmHA that rental assistance would not be granted without redesign to multifamily structures.

The problems, which arose so suddenly after the project's feasibility and preapplication stages, and which lasted so long, led to the discouragement of many families. It appeared that things may not go any further.

To complicate matters, these negotiations with FmHA took place as the new administration was taking office. The new FmHA state director stated that the coop costs per unit had to be less than the price of new homeownership units in the area. So, in addition to the shift to a multifamily configuration, amenities earlier planned had to be omitted, and the site cut to five acres from eight. A number of families dropped out over these redesign issues, believing that the new design would mean apartments in the traditional sense. There had already been problems of arguing over selection of lots for houses as originally planned -- something all wished had not even been discussed at such an early stage.

The FmHA Section 515 program was the only one considered for Taos: 515 money was available for construction along with rental assistance units, and New Mexico was targeted for the expenditure of 515 funds. However, the application came as a surprise to FmHA, where no one knew about the cooperative or the capacity of the 515 program to finance them.

The coop is able to be incorporated as a general nonprofit in New Mexico, which lacks a specific coop statute.

The principal development problem for the Taos project has been the need for water on the site. The town had applied for an Urban Development Action Grant (UDAG) to develop a water system, but HUD raised the issue of the matching funds needed. Taos has tried to get the FmHA loan funds to be considered the matching funds for this purpose; however, the project awaits final resolution of this question. It is expected that loan closing and construction can proceed rapidly once HUD agrees to the UDAG proposal. This, too, has held up progress for months, resulting in discouragement among the cooperators and some doubts on their part that they will ever live in the coop.

In spite of these setbacks, a strong cooperative membership has evolved. The group had some early internal conflicts as well -- some due to other pressures on the leadership, others due to the selection of leaders based on who was outspoken rather than on an objective assessment of judgment, decision-making ability, or other important qualities. Many were reluctant to confront issues of individual concern at meetings, perhaps due to feelings of unimportance or fear of ostracism. Some dropped out, then rejoined when they gained a better sense of what the coop had to offer. The current leadership realizes that they have a stake in the project, can look back to progress made, and realizes that there is a strong likelihood that the coop will, in fact, be built.

That most members joined without any experience in housing, community development, or organizations, with some functionally illiterate, attests to the effective training provided. While they needed to learn a great deal about interpersonal relations and decision-making, including compromise for the benefit of the coop, they also grasped much information about management, the housing development process, and continuing their own organization without technical assistance after the demonstration ends. Certainly their own current housing conditions served as a source of motivation; with many viewing the coop as a step up in the direction of a longer range goal of homeownership individually. Some members also aspire to developing a cooperative business enterprise on adjacent land.

An interesting management decision was made: Originally, the coop wanted to contract with the housing authority for management, as they had been so involved in getting the group started and moving the project along with local officials and with FmHA. The housing authority refused, reasoning that this was inconsistent with the concept of a self managed cooperative. Housing authority staff will continue to assist in training the board on management matters, and will remain a resource; but housing authority and Coalition advisors believed that this decision was critical in pushing the coop to take on full responsibility for the project, and in developing their own self confidence. From a level of distrust with each other's capabilities, the coop leadership has moved into a greater measure of trust, with increased self reliance in making decisions, and in seeking their own solutions and resources in the community. The training relationship on the part of the TSO has evolved to a point of guidance rather than active training and planning.

In light of the FmHA and UDAG problems, quite a bit of advocacy has been done for Cielo Azul, and it is hoped that its goals will be realized with the receipt of UDAG funds: The New Mexico Hispanic Housing Coalition, the Taos Housing Authority, and the National Council of La Raza, did much to create a more favorable climate for cooperatives in New Mexico, which should have an impact beyond Taos. Pressure has been put on HUD to permit the UDAG from these groups as well as the state housing authority, RURAL AMERICA, and the New Mexico Congressional delegation.

Significantly, much capacity has been built in the state for future coop activity. The Coalition learned a great deal about organizing and training low-income people around their own housing needs, how to work with inexperienced and uneducated people to develop a project, and how to listen to people's own needs and insights before planning actions in their behalf. There are more obvious lessons about the importance of site development and the difficulties and strife which arise from raising expectations before being certain that they can be met. Providing nothing more goes wrong, this capacity should be put to good use in New Mexico in the years to come.

Las Vegas, New Mexico

The New Mexico Hispanic Housing Coalition also followed up on Tierra del Sol's (TDS) efforts to initiate a coop in the community of Las Vegas. TDS focused on the organization of potential cooperators, and had begun to train them and look for land when the Housing Coalition took over. By that time, the Housing Coalition staff found that the development of energy industry in the area had caused land prices to soar. High costs which made a coop project look unlikely quickly resulted in project impossibility when Section 8 and rental assistance were eliminated. Costs for suitable building sites had risen to $30,000 per acre.

While the Housing Coalition sees a coop as impossible, they are still looking into the option of syndication of the projects as a way to write down costs. In the meantime, the potential cooperators themselves have become a new group than that assisted by Tierra del Sol; and, with the time transpiring, any project that comes about may be for still another group of families.

NATIONAL COUNCIL OF LA RAZA, PHOENIX, ARIZONA

Eleven Mile Corner, Pinal County, Arizona

Eleven Mile Corner is a large parcel of land located in Pinal County. It is owned by the County and currently contains 48 units of farm labor housing, the Pinal County Housing Authority offices and maintenance yard, and a primary school which offers special education and headstart classes. There is also an on-site water source and water treatment plant. The 11 Mile Corner site is so named due to its equidistant location from 4 incorporated towns. A general store; laundry and post office are located adjacent to the site. Medical facilities and major shopping centers are located in two of the neighboring towns. The cotton gin, which employs many area residents, is within walking distance from the site. The farm labor housing located on the site has been recently rehabilitated and has a waiting list of hopeful tenants who work nearby and prefer a rural lifestyle.

National Council of La Raza (NCLR) has had a long relationship with the Pinal County Housing Authority. Additional housing on the site had been discussed on several occasions. Cooperative housing emerged as a viable alternative at the beginning of the demonstration and a preapplication was submitted to Farmers Home Administration (FmHA) in July of 1980 for 16 units of cooperative housing and a community center. An application for 100% of rental assistance was also made with the preapplication.

The cooperators were solicited with the help of the housing authority, before preapplication submission, on the premise that many families living in public housing are capable and eager to assume more responsibility and control of their living situation. They are, however, unable to handle the transition financially. Therefore, many of the families interested in becoming members of the cooperative already knew each other and had the experience of tenancy in public housing in common. Based on approval of the preapplication and subsequent fund reservation for $800,000 in 515 construction funds. Cooperators began meeting weekly to discuss the principles of cooperative ownership and prepare themselves for their eventual role in the management of their cooperative. Cooperators were asked to list the most important features they wanted to see in their homes. Overwhelmingly, members expressed a desire for privacy and low utility bills. Other preferences also emerged which the architects translated into a unit design that was not the single family home which everyone had taken for granted would be the outcome of such a design. What the unit did contain, however, were all of the elements which the members had identified as important. The savings realized by common wall construction allowed for truly solid construction and high quality materials. All units include passive solar design features which will provide relief from the extremely high utility bills common in hot summer months. Cooperators were consulted at various points in the design process. Decisions regarding selection of amenities were all made by the membership. Final plans and specifications were submitted in April of 1981.

FmHA processing was extremely cumbersome and unbelievably slow. The Letter of Conditions was not received until June of 1981. Those conditions were all met in August of 1981. Architectural review of those plans and subsequent bidding were finally completed in late April with a closing date set for May 7th. A few days before closing the state director, who was new since preapplication submission, declared the entire project under evaluation and cancelled closing. This was indeed a severe blow for cooperators who could not understand the endless delays. NCLR was also shocked that a project could proceed to closing and still be arbitrarily halted. Additionally, NCLR was already liable for nearly $50,000 in architectural and engineering fees.

It was only through extensive intercession by Senators DeConcini and Goldwater that the state director finally issued a decision. Although he felt that the site was objectionable (in spite of the fact that his predecessor had approved it) it was really too late to cancel the project. This decision, however, was not rendered until June 4th, in the meantime both the construction bid and the land option had expired. The County remained cooperative and agreed to proceed with the sale. The contractor, no doubt due to current economic conditions, also agreed to honor his original bid.

This chronicle of unresponsiveness continued as NCLR attempted to secure another closing date. After 3 months of excuses and delay closing was again set for September 15th. A preconstruction conference has been scheduled for September 30th. It appears that finally more than 2 years later this cooperative will become a reality.

The patience and endurance of the 11 Mile Corner Cooperative membership is truly a tribute to the cooperative concept. In spite of numerous delays and disappointments a core group has remained committed and hopeful.

Mi Lindo Pueblo, Yuma, Arizona

This cooperative sprang from participation in the Campesino Independientes Union, whose Yuma members with an interest in housing improvement for themselves contacted NCLR after hearing about their work in Pinal County. The Union already gave them an organizational base. The cooperative concept was appealing to them, as greater control was what they wanted most in their housing. There was interest in a credit union also.

Given their experience, this group assimilated the same information provided to other potential cooperators much faster. They already understood organization structure, how to work through committeees, and so on; and needed mainly to focus their training on cooperatives.

As Yuma is too large to be included in FmHA's service area, the members decided to pursue a site search in nearby Somerton. While it is the center of the area's agricultural work and employment, Somerton had no sense of obligation towards housing for farmworkers. NCLR needed to convince the town council of the problem of housing, and faced local prejudices in doing so.

Somerton, for example, had issued a permit for a developer to put up 250 prefabricated housing units, knowing that all of them could not be built and sold, and used this as a reason to complain that the cooperative would tax the water and sewer system.

A preapplication was submitted to FmHA just after the new state director took over. His response was that the project did not have enough of a racial mix. However, he had been heard to say in meetings that he did not want "the Mexicans" to get "all the dollars."

The site is owned by the local housing development corporation, and optioned by the cooperative for an indefinite period. The architectural work, it is planned, will largely be duplicated from the 11 Mile Corner project, which has plans worth replicating. However, construction costs in the area are high.

Once it became clear that there were no Section 8 or rental assistance units available, there was no way the project could progress. NCLR has looked into building it with some combination of cooperative labor on a self-help basis, but this runs into the problem of licensing. While NCLR has not given up, no movement is being made at this time.

Santa Cruz Village, Eloy, Arizona

The Town of Eloy and its ministerial association contacted NCLR about developing a cooperative for elderly residents of the community. Property in the center of town was optioned for the proposed housing. The town has a large elderly population as well as a housing shortage; and, this, combined with local resources, made it appear a feasible project.

NCLR acted as the sponsor to secure HUD Section 202 funds, with the Pinal-Gila Senior Citizens Center functioning both as advisory council and as initial borrower. They planned, too, to do management of the property on contract with the cooperative. Plans are for the cooperative members to be selected once final construction is committed.

In this case, the cooperative's advisory council -- the Senior Citizens Center -- received the training provided by NCLR. Some prospective members also participated. The Center is willing to carry the financial responsibility for the 30 unit, $1.1 million project for as long as necessary. HUD may prefer for this situation to continue until rent-up, at which time Santa Cruz Village would convert to cooperative ownership.

To date, all has gone smoothly, and NCLR does not expect anything to interfere with the construction of the project and its becoming a true cooperative. To them, this case has had no problems at all when compared with the experiences they have had with FmHA.

Other

Earlier in the demonstration, NCLR discussed developing a housing cooperative around membership of a food cooperative in Chandler, through the Migrant Opportunity Program (MOP). Then, their approach was to work with existing groups, even if they did not do housing work. In spite of need, and farmworker interest through the cooperative food store and garden, MOP came to feel threatened, and allowed this effort to fall apart.

At El Mirage, a grower approached NCLR regarding his land scheduled to be taken out of agricultural production. He was concerned about the workers who would be moved out of the barracks-style labor camp. There, the farmworkers themselves were complacent about the cooperative idea. They were more interested in homeownership, and, perhaps, would have responded better to a self-help housing program, although that area has none.

On a brighter note, people in a mental health agency in Coolidge contacted NCLR after learning about Eloy's efforts to be a 202 cooperative. NCLR put together an application to HUD for $1.4 million for 33 units in this depressed town of 5000.

General

In their work in organizing people into housing cooperatives, NCLR has found several reasons for cooperative membership among low-income people in Arizona:

1. Role in the project design
2. Desire for neighborhood and community
3. Control in terms of management, without arbitrary decisions
4. Ownership or equity
5. Perception of acquisition of a higher status

6. Affordability

While some people leave an informational meeting when they realize that a cooperative doesn't mean homeownership in the traditional sense, others think of it as the next best thing, and do not view their choice of participation as trading in the dream of equity.

In Arizona, cooperatives can incorporate as nonprofits. At 11 Mile Corner a local tax issue arose, in which the County was trying to decide whether to tax the cooperative as rental housing, at 18%, or as homeownership, at 10%. Fortunately, with NCLR review of the local statute, the cooperative was able to secure the lower rate.

To NCLR, cooperatives work best when the members already are organized around something, such as a labor union. Their sense is that the bottom up development approach is expensive, in addition to being undesirable in other respects. It takes money and significant staff time to train a group and keep it going, perhaps over months of delays. If a group contacts the TSO, or if other local experience is available, the idea of an advisory committee to the project is a practical one, such as was put together for the Eloy 202 project. Otherwise, the TSO should, on its own, find a site, obtain the financing, and be fairly certain that things will move forward quickly before identifying the membership and beginning the training process.

Concerning TSOD work, which NCLR did in New Mexico, first with

Tierra del Sol and, later, with the Hispanic Housing Coalition, the distances involved made it a different situation. There was no way that NCLR intended to be involved with the people at the same level, but rather to train and monitor the TSO. This arrangement has proven to be very successful with the Hispanic Housing Coalition, which in turn has worked very closely with the Taos County Housing Authority.

The concept of TSO has been interpreted by NCLR as the ability to provide long-term follow up. The role of developer really can be taken on by any committed housing organization, It would, however, be irresponsible to not provide for the future assistance of these cooperative groups. Toward that end NCLR has in every instance provided each cooperative with a local organization which is prepared to take on responsibility and share in the management of the cooperative. These local TSOs work under the board of directors of the cooperative and provide the expertise which may not be available among the membership. Incorporating this relationship into the management plan reassures both cooperative members and the funding source.

RURAL AMERICA

RURAL AMERICA (RA) actively promoted the cooperative housing concept throughout the New England and southwestern parts of the country. With an initial technical assistance grant from the National Consumer Cooperative Bank (NCCB), RURAL AMERICA became a technical service organization developer (TSOD). The primary task was to assure that Northern Cooperative Resources (NCR) in Montpelier, Vermont was supplied with the technical assistance that would allow them to become an operating technical service organization (TSO) in Vermont and, possibly, for a larger geographical area of New England.

NCR had decided to concentrate on the development of cooperatives rather than expand their operation to other disparate programs or projects. The NCCB technical assistance grant covered salaries and expenses for both RA and NCR for a one-year period. NCR probably progressed faster than a "usual" local service organization because of their own individual skills and capabilities. Both staff members were familiar with financing schemes and housing development and they had a good knowledge of the people and communities in which they would work.

The RURAL AMERICA activities in Vermont were, obviously, limited by the distances between the two. RURAL AMERICA later found that it was quite unreasonable and basically, unworkable, to try to provide "hands on" technical assistance to an area that was hundreds of miles away. It is necessary to have at least a regional or, preferably, a local group to work with emerging cooperatives or other less advanced technical service organizations. Therefore, RA became the Washington "information center" for NCR. Legislative updates, funding options, IRS and SEC rulings, HUD and FmHA problems were attacked at this level and solutions or answers were relayed to NCR. This relationship between NCR and RA continued when the NCCB grant ended and the U.S. Department of Housing and Urban Development (HUD) funded the Rural Cooperative Housing Demonstration. During the formation of NCR, staff of RA provided assistance to several other groups in New England.

Penobscot Area Housing Development Corporation (PAHDC)
Bangor, Maine

The PAHDC is located in Bangor, Maine and operates a housing and community development program that serves the low- and moderate-income in northern Maine. They provide technical assistance to homeowners using the HUD Section 235 program. In looking at the various housing programs in both the public and private sectors, PAHDC concluded that homeownership would be out of reach for most of the inhabitants of their service area. It was at this time that PAHDC felt that cooperatives could be a solution to their housing concerns.

They contacted RURAL AMERICA for assistance in developing a cooperative housing program that would be specific for their needs. Their staff was well-versed in development but was unsure in its direction and financing options. RURAL AMERICA contacted the national office officials of HUD, FmHA and the

National Consumer Cooperative Bank to arrange meetings to discuss how each agency could be of service to the low-income population of Maine. RA embarked on an education process for those officials who lacked an understanding of the limited equity cooperative concept. RA then met with local officials of the above-mentioned agencies along with members of PAHDC. County supervisors, lending officials, townspeople and local government heads met to discuss the merits of cooperatives and to better understand the concept.

The potential cooperators attended and participated in many meetings with agency personnel. They were an intelligent and informed group of people who had been organized by PAHDC in a months-long search to find propsective tenant/owners. Member training was done by PAHDC with assistance from NCR and RA. The local training consisted of meetings of the group that took place once a week. Committees were formed and responsibilities assumed by the cooperators. Site selections, for example, were selected by the site committee and approved by the rest of the membership.

Small towns and cities make up the bulk of the population in New England. Less density and a lower population, therefore, have traditionally meant that multifamily construction or new single family subdivision construction reflect the local building patterns and customs. The number of units of housing here are usually less than in more dense areas. Most of the sites that were selected were able to accommodate twelve units. In some instances, water and sewer will be provided while it will be necessary to use septic tanks in the more isolated communities. PAHDC prepared and submitted a proposal to NCCB for financing. Various problems concerning information from the technical assistance staff at the Bank delayed action on the proposal. One site on French Island, an area several miles north of Bangor, was lost when the selectmen decided not to allow a revision in zoning that would have allowed for a cooperative.

RA Decentralization

It was during this time that RURAL AMERICA decided to regionalize its operations and place staff in different locations. The RA national office was still responsible for giving assistance to the Mid-Atlantic/New England area but because of distances and staff limitations on travel, it became apparent that assistance would be severely limited. The coordinator found it difficult to be accountable and responsible for the administration of the RCHD and deliver technical assistance to distant areas. In this case, as in the case with Northern Cooperative Resources, RURAL AMERICA became an information center for PAHDC rather than one that provided hands on assistance. When the last staff visit was made, PAHDC was working with the Maine State Housing Authority to develop a cooperative housing part for inclusion in their agency.

The housing authority has met with PAHDC and FmHA to discuss ways of working together to find alternatives to straight

Section 515/8 construction and subsidy. So far, there has been no formal inclusion of cooperative language within the statutes of MSHA but the authority staff have no aversions to coops and are working on providing a portion of financing for a thirty-eight unit coop rehabilitation project in Portland. No rural project, however, has been submitted to the authority for financing.

RURAL AMERICA's technical assistance efforts, after decentralization, were directed from field offices in Texas, Mississippi, and Iowa. The bulk of providing technical assistance and help to organize local cooperatives took place in the RA Southwest Austin, Texas office. A large number of student coops exist in Austin, home of the University of Texas but there are virtually no other housing cooperatives in the state. Possibly, the stereotype of the fierce and independent Texas is not too far off, especially when it comes to sharing ownership of his home with others. RA had little success in organizing local or regional interest in cooperatives from the southwest office. Even in joining hands with some of the managers of the student cooperatives, RURAL AMERICA found it difficult to bring into focus cooperatives as an alternative to traditional forms of ownership.

The regional office of the NCCB provided RURAL AMERICA with names of groups that had contacted them for assistance. The Bank had little staff and a smaller travel budget and was more than happy to turn their requests over to RA. The regional office of the U.S. Department of Housing and Urban Development told RA staff that they could see no way the program would work and were not aware that they were funding it. The short-lived rural coordinator that worked out of the HUD Regional Office gave even less hope for a successful demonstration. Contact with the FmHA state office and housing chief in Texas had less than positive results. They, like the HUD office, were unaware of a rural housing demonstration and were surprised to learn that the FmHA regulations allow for cooperatives using Section 515 money. Probably, the major stumbling block would have been the lack of rental assistance for the projects, if there were technical assistance providers in the region who had apprised communities and organizations of the existence of a rural cooperative housing program and methods of financing. Public awareness was at a minimum during a period of time in which there was a reduction in resources. For many prospective coop groups, it would have been a measure in frustration to have organized, trained, and applied to FmHA only to learn that there was not subsidy available combined with the reduction in program funding.

Concerned Black Parents (CBP), Clinton, Oklahoma

This community group had in place a FmHA self-help housing component that completed twenty houses and were working on thirty more. RURAL AMERICA contacted CBP after being informed by the regional office of the National Consumer Cooperative Bank that there were several organizations in the Southwest that wanted to do coops but lacked the skill or technical expertise.

The staff of CBP decided that cooperative housing would offer a cost efficient alternative to conventionally-financed homes and would serve a larger population than a self-help housing development. The Coop Bank had made it plain that there would be low-interest, long-term money available from them to finance a project. RA worked with CBP to develop a proposal for funding from NCCB for a prospective cooperative. The regional office of the NCCB accepted the proposal and apparently sent it to the national office without adequate review. The national office ultimately rejected the proposal saying that the interest rates on the proposal were too low and couldn't be met by the Bank. CBP had very little response from FmHA concerning cooperatives and were depending on the NCCB as its major lender with RA providing front-end money for this project. RA helped keep the proposal that was rejected alive, as the national office informed RA that there would be money for long-term financing in the southwest area. Later it became apparent that the funds wouldn't be forthcoming because of innumerable mix-ups at NCCB. CBP looked to other funding institutions to help in their development efforts. The state had recently issued bonds for its mortgage revenue and industrial development programs. CBP approached the state to have some of those funds targeted for their project or to developers who would be interested in participating. They found that the funds had been obligated and that there was no mechanism for targeting funds to those rural areas such as Clinton.

The coop membership was basically taken from the self-help waiting list, elderly residents and other interested townspeople. When it became apparent that the Austin RA office would suspend activities, RA intensified its assistance to CBP in its attempt to interest agencies in a coop proposal. At the last contact, CBP had not received coop funds nor had they abandoned a coop agenda but were busily completing the remainder of their self-help housing project.

Economic Development Administration (EDA)

EDA is the spin-off of a local community action program. Besides the usual community action programs, EDA attempted to develop a local mall by rehabilitating an existing complex and tried to sponsor a HUD Section 202 elderly project. EDA and RA worked together to develop a needs assessment for the project and it was suggested that RA would package the project. EDA didn't have a housing program but was acutely aware of the housing needs of central and northern Oklahoma. RA had discussed the idea of an elderly cooperative and found that the concept was well received by the general population and community. The problems, in this case, were not local or federal government agencies or the private sector, but time. Before the package was completed, the RA field staff were returned to Washington, D.C.

RA TSO Difficulties

The fully-geared regional office was in operation ten months.

In such a short amount of time it proved difficult for the staff to contact and organize a community group to such a degree where they would be able to move with some certainty to take a lead role in housing development. Starting up an office and getting into fifth gear in a short time is tough at best but being in an area that was basking in its newly found affluence was even more difficult. High-technology, oil and gas brought prosperity to a section of the country that made it the envy of the nation. The inhabitants, therefore, saw themselves cashing in on the bonanza and that means having a flashy car and a big home. It is quite obvious that everyone won't obtain the riches but the thought is there and that thought is what makes it difficult to explain some built-in advantages of coops.

The second difficulty was in not having enough time to adequately develop organizations that worked with RA. Most of the other organizations worked with were just becoming "coop aware" or getting interested in using coops as a part of their housing and community development programs. RURAL AMERICA's accomplishments in the Southwest were tempered by the lack of any form of a cooperative housing information grapevine. Unlike basic federal and private housing programs, cooperatives had none of the exposure that is evidenced in a number of eastern urban centers.

Although the cooperative grapevine was practically nonexistent, community groups that received national publications or were in touch with other, usually more distant and urban groups, heard about coops. At times, RURAL AMERICA was associated with the cooperative movement through its newspaper and bulletins, and many of these publications found their way to local communities. In turn, these communities contacted RA for assistance. The regional office of the NCCB also helped RA in identifying towns, organizations, communities and individuals who had approached the Bank and requested technical assistance.

The housing finance agencies of some of the southwestern states were anxious to develop a progrm that would better serve the housing needs of their low-income residents. Most were unfamiliar with the concept but later saw that coops could possibly be an alternative. They, incidentally, became more familiar and conversant with coops after meetings and workshops by RA staff. The agencies started to receive requests from local, mostly urban areas, about their program for coop housing financing. Agency funds were not targeted for coops but the staff was usually willing to try to work out a scheme that could allow funding for a coop project. In the ten month period that RA was located in the Southwest no coop was financed under bond financing from state agencies but a tremendous amount of interest was created by a conference that was sponsored by the University of Houston. The conference brought together lenders from across the state and cooperative housing experts with an intent to educate the lenders and to provide a forum for coop advocates. As a result of this activity, several large lenders have been working with urban community organizations in developing and financing projects in the metropolitan areas.

Finally, time constraints made it difficult to work with many of the groups that contacted RA. In trying to establish a "winner," RA looked to those groups that had a track record in development or organizing. Some groups that had appeared solid turned out to be less than that while others were not interested in multifamily, limited equity housing. RA saw that it would be a time consuming process to try to find those organizations that would be the easiest to work with and have the staying power and expertise to continue down the coop road.

RA Advocacy Role

During the life of the demonstration, RURAL AMERICA became involved with the advocacy of housing cooperatives. The development of the Coop Bank was the first large-scale effort that RA undertook. Working with a coalition of other organizations with similar goals and aims, RA testified before Congressional bodies for the need to create a lending institution that would specifically be for cooperatives. At that time, the Federal Home Loan Bank Board had not released instructions that would allow savings and loans to finance cooperatives. After many hearings and meetings, the National Consumer Cooperative Bank was capitalized and moved into an operational phase. It was soon clearly evident that the Bank was not going to solve the entire needs of the coop community. Consumer, worker, and producer cooperatives all had proposals to the Bank with housing cooperatives taking the lions share of the funds. The volume of applications was indicative of the need for a development type bank to work here in the United States. Several months after the Bank started operating and before the Self-Help and Technical Assistance offices were fully staffed, the presidential election was held. The new Administration worked to curtail the activities of the Bank and its ultimate desire was to close the only lending institution for cooperatives. Several Washington-based national organizations responded to the Administration's challenge by organizing themselves into a coalition to save the Coop Bank. The campaign was managed by local and regional coordinators who reported to a national steering committee of which RURAL AMERICA was a part. Thanks in part to a hard working grassroots organization, paid lobbyists and a concerned steering committee, the Bank was re-authorized and privatized and is still a means for funds for cooperatives.

With an increased emphasis on state and local control of resources, RURAL AMERICA worked with several state housing finance agencies to try to determine if there were ways to insure the financing of cooperatives through state programs. The Conference of State Housing Finance Agencies has created an informal rural committee to make recommendations to the formal committees of CSHFA. RURAL AMERICA participated on a panel at the national conference where they tried to stress the importance of cooperatives and the physical structure, the housing.

In realizing that the present course of policy will be that of local/state control of block grant funds, RURAL AMERICA has advocated to local, regional and state administrators the uses of the community development block grant in developing cooperatives. Many community groups and tenant associations have been made aware of the many kinds of leveraging activities, varied CDBG uses and how they can be tied into the public sector.

CONCLUSION

Clearly, the success of the coop demonstration was thwarted by many problems which participating organizations could not have anticipated. Perhaps the optimism with which consortium members began their work meant that some of the typical problems of rural housing development seemed particularly frustrating. These problems which the coop efforts encountered can be grouped into two main categories:

First, there are what have been termed "institutional barriers"; that is, those problems which are created because the institutional framework of financing programs and the operations and experience of community organizations and local government are unfamiliar with housing cooperatives and unprepared to deal with them. Many institutions with which consortium members had to work were accustomed to functioning within well defined parameters, and the notion of cooperatives pushed these limits. For example, the attempt by many to secure Section 515 financing from FmHA for coops caused some FmHA officials with the authority to make loans to challenge the eligibility of coops, as they were not familiar with them.

Such institutional barriers include:

1) A lack of understanding of housing cooperatives on the part of towns, local governments, and lenders. In many cases, they have not seen coops work, and are skeptical of a non-profit being able to accomplish something unique in their

experience. Here, training is needed, and the TSO generally must provide it in order to obtain the support they need from such institutions.

2) Most financing programs are not designed for coops, although they may be available sources. As mentioned, the FmHA 515 program is an example. In this and other instances, regulations designed for rental housing or other programs may be, in some elements, imcompatible with cooperative goals or plans. Often the coop must make do with whatever does exist, in the hope that changes can be made later to benefit future coops.

3) Some state governments have no cooperative statutes, which makes establishing a limited equity housing cooperative difficult. A good example of this is the Vermont experience, in which NCR had to push for an interpretation of state statutes which would include coops before they could exist. Others, like California, with its stringent statutes affecting housing development such as the Subdivision Map Act, have an impact on cooperative housing development that is, perhaps, beyond the intent of the law or regulation.

4) Local governments, accustomed to dealing with more traditional forms of housing ownership, may have zoning, tax, building code, or other regulations which have a negative impact on coops (regardless of intent) or which were not designed to include coops, resulting in the need for special interpretation prior to coop development.

5) The lack of cooperative organizations at the local level,

which may include a lack of nonprofit housing development expertise, is a real impediment to swift progress in the area of cooperative housing. This causes the TSO or TSOD to spend a great deal of time doing basic organizational training and development prior to real housing activity.

6. The lack of understanding of housing cooperatives, combined with the lack of their institutionalization in the field of housing finance and development, means that coops are subject, to a greater extent, to the whims of regulators and to the changes in financing and related programs. In some cases, coops just "fall through the cracks" because lawmakers and regulators are unfamiliar with them and cannot take coops into account when drafting changes in matters affecting housing. The recent ruling by the Treasury Department that tax exempt mortgage revenue bonds could not be used for blanket mortgages for housing cooperatives may well be an example of the failure to understand the impact on, especially, limited equity coops. One wonders whether the Congressional bill which caused this Treasury decision to be reversed actually included a deliberate decision to the contrary which was based on a real understanding of the issue.

All of these institutional barriers are ones which are largely beyond the control of the coop consortium -- at least short of a major lawsuit by a member or a concerted legislative effort. They may be surmounted by a TSO making a case for an exemption or special ruling, which results in one coop being built, but which does not create the kind of change needed to foster significant coop activity. These are all areas which any TSO should be aware of, which should be examined for potential impact before actual coop housing development progresses very far and raises the hopes of too many; and which are most likely to change only after there is a sufficient body of information and experience about housing coops upon which to base responsible alternative recommendations.

The second major group of barriers are those which can be called situational barriers; that is, those which vary from case to case and which arise out of the unique features of the situation in which coop development is initiated. These are most likely not unique to coop housing in particular, but, rather, would be faced in any multifamily housing. They include the unavailability of land with required features or range of cost, inappropriate zoning, the need for additional resources to make the project work (such as rental subsidies), political opposition, and delays in financing which result in cost escalation, discouragement of potential cooperators, or other difficulties which alter significantly the feasibility of the project as proposed. Any one of these factors can lead to the demise of the project.

On the whole, these barriers can be affected to a greater extent by the efforts of the TSO. In many cases, such as a well organized education effort directed at a zoning commission which helps to have them make a decision favorable to the coop, the TSO can break down the barrier. In others, where, for example, land in the area simply is not available at an affordable price or where arbitrary actions by the lender lead to delays which create financial infeasibility, the TSO may be unable to exert sufficient influence to resolve the situation. However, none of these barriers means that coops cannot be done, and none has an impact on other coop efforts in other localities.

It may also be useful to recognize the existence of what may be termed "communicational barriers" such as the lack of clarity between FmHA and some TSOs which, at best, made coop development more difficult. One lesson learned here is that, in undertaking innovation, all sources of assistance should be communicated with extensively, leaving no opportunity for assumption or presumed understanding or agreement.

One of the strong recommendations made by the coop consortium arises from the experience of organizing and training coop boards and memberships in the field, then initiating the actual development process, only to discover that the obstacles to the accomplishment of the project proposed will not make it possible. This "bottom up" approach -- in which the coop is organized early so that their involvement in the process of obtaining a site which everyone finds desirable, working with architects to design the units, and participating in the efforts to secure appropriate financing, and so on -- certainly provides the greatest level of education for potential cooperatives and maximizes their input into all phases of project design. There is no question that this approach is desired by anyone striving to insure that housing is developed which truly addresses the needs and desires of those who will reside there. The formation of strong "housing cooperatives," in Battelle's definition, is the result of this, regardless of what is produced in terms of housing units.

The consortium members, in addition to the capability to develop housing, possess a strong commitment to the human development and change which successful housing development can bring about. They looked at the "bottom up" method as the way in which people are not only housed better, but are empowered and enabled to achieve a measure of self reliance beyond their earlier capabilities. Ideally, coops were seen as a means for creating cooperative communities in which, through the provision of adequate housing, people built interdependence that brought about a whole greater than the sum of its parts -- an environment which fostered the sharing of skills and benefits in many aspects of everyday life.

The extent to which success was achieved in terms of the creation of housing cooperatives is less quantifiable than units of cooperative housing. In order to achieve the construction of the housing units desired, consortium members recommend more of a "top down" approach, in which a TSO would secure the basic elements of the cooperative housing complex prior to the organization of the coop membership itself. In light of the experience of the demonstration, it is expected that it is possible to utilize this top down approach to insure greater efficiency of housing production while, at the same time, not abandoning essential training in the area of human development as described above.

The model proposed is not one in which all work is done for the cooperators by the TSO, with the cooperators signing up for what is, essentially, an established housing complex which they will turn into a cooperative. Instead, a TSO will, perhaps in several communities at once, explore available sites, invesitigate zoning and other local constraints, identify sources of financing and discuss their availability for coop development with the lending institutions, and undertake other predevelopment or feasibility work with regard to the project or projects. Some recommend that the TSO perform all tasks up to loan closing before organizing and involving the coop board and membership. There is wide agreement on the TSO at least completing the work necessary to determine that a coop is feasible prior to organizing people to make up the coop.

While some argue that cooperators should be involved by the design stage, so that they can have input into the project's physical design, others believe that members' input at this point can lead to their discouragement, as many will have expectations that exceed what, practically, can be constructed.

As documented in the preceding case studies, the time period of the application process itself can be very long. It may exceed the patience of the cooperators, or the training which can fill this time. There may be little that the cooperators can do prior to loan closing, making the relationship between TSO and cooperators difficult to sustain.

An alternative suggestion, which has worked in the case of the Santa Cruz Village coop for the elderly in Eloy, Arizona, is to invite input and assistance during the predevelopment and development stages but not require it. In the Eloy experience, an advisory committee was created in order to insure that what was proposed to HUD and, it is hoped, actually built, conformed with the needs and lifestyle of elderly community residents. The advisory committee included those who may become cooperators as well as community people concerned with providing adequate housing for the elderly. In addition to providing the TSO with useful information and counsel, the community is more likely to view what is developed as <u>theirs</u>, rather than as something devised completely on the outside.

In any case, those who have experienced the entire coop development process recommend that feasibility be determined before expectations of community people are raised. Further, all involved should devise a realistic plan of action taking care to note where others have experienced difficulties and delays, before embarking on what is a process fraught with uncertainties. This plan should delineate responsibilities of the TSO and others involved.

Several other elements of the demonstration experience can be shared here in the hope that others benefit from them:

Each step that the TSO appears to have made should be verified: For example, when site approval is obtained from the lending institution, such as FmHA, this should be put into writing in order to prevent the fact from being forgotten, ignored or altered.

The management concept and plan for the coop units should be begun early in the process of development: Once it appears that coop development will be able to take place in a community, the TSO (with those who can be identified as potential cooperators) needs to draft a plan for its management. At least the critical elements of who will do what should be agreed to. If training begins after this management plan is agreed to, then the training can include what will be board and member responsibilities in the areas of management and operations, and one possible source of friction between TSO and members can be eliminated.

The TSO should think seriously about its own capacity for performing those tasks and functions it expects to undertake prior to becoming active in a new coop effort. This capacity should include proximity to the coop location, as it has been found to be too difficult to sustain the kind of training and general working relationship needed if hours of travel separate TSO and coop. Beyond the development phase, the ability of the TSO to provide any follow up is severely inhibited by such distances.

In order to determine the extent to which institutional barriers are present, and to deal with them with any success, the TSO needs to establish contact with the lender or lenders as well as with the community's governing bodies early and discuss with them plans for the coop. The TSO may well provide education to such groups in order to create a more favorable climate for coops. The demonstration's experience has shown that such barriers can be significant in terms of impact; and any TSO would be wise to plan a serious education effort. It is best if the TSO can get the town council or other government officials, as appropriate, involved in the development.

Another thing which the TSO should do as early as possible is tie down the financing. At least, knowing that a proposal containing agreed-upon elements and submitted by a certain date will receive more consideration, or knowing that financing will not be available after a particular time will help TSO planning. Communication with the lender should risk error on the side of excess rather than allow inadequate contact to lead to a project's removal from consideration. Nationally, those supporting coop housing should strive to keep lines of communication open with federal lenders and keep them informed of problems and achievements as they are made. Lenders at all levels should anticipate the arrival of applications and their unique features so that these evolve as points of interest and support rather than contention or rejection.

Concerning financing and the difficulty of obtaining it, TSOs are advised to be wary of syndication and "creative financing" schemes. Particularly, it is not advisable for the TSO to decide to undertake more than they are certain to be capable of achieving. In the financing area, experience has shown that it is better to use professionals who have done before what is proposed, as anything else may result in delays and work beyond what could have been anticipated.

In order to insure the effective functioning of the housing cooperative in the long run, it is important that the TSO realize that much of the hard work will come after loan closing. Most coops are likely to need assistance in setting up their operations and in making the transition to self management. It may be optimal for the TSO to plan to carry on some management functions on the coop's behalf. This would mean not only practical help for the coop from a trusted source, but would provide the TSO with some income, which would enable it to be present when needed.

Beyond the successes that were made in the development of strong housing cooperatives, some of which have been able to reach loan closing or will as the result of demonstration efforts, there are other "products" of the demonstration: Materials produced which have a wide application are listed in the Appendix, and include a variety of resources helpful to those new to coops and to housing development as well as to the initiated. Demonstration activities frequently resulted in the change or clarification of a rule or procedure in established federal housing programs, such as FmHA 515. Finally, the "words of wisdom" above and as follows are important lessons gained from practical experience and available to benefit those attempting rural coop housing development in the future.

All potential coop developers should take into account the real dollar impact of many of the problems which they may face in this process. Optimistic cost estimates by contractors hoping for construction work in the near future may well become invalid as the result of delays in applications processing, problems with approval of procedures for soliciting and selecting bids or for loan closing, questions of design and what is essential or expendable and at what cost, or any one or combination of the problems listed above. These simply become compounded after the point at which the sponsor has proposed certain costs, as lenders may not be willing to take delays into account. In the development of a rental project or ownership subdivision, when the entire application process for construction financing takes place prior to the selection of residents, the need to eliminate one or two units due to a fixed amount being available for the loan (while costs per unit have increased due to delays) is discouraging and requires extensive budget revision and paperwork. In a coop, however, when certain people are planning to live in the units produced, such a change can be disastrous.

For FmHA, the consortium has a number of recommendations to be considered if this agency is going to be a source of financing for cooperatives: First, there is need for FmHA to have a national policy on housing cooperatives. This would avoid the case by case resolution of the question of coops' eligibility for financing as well as regarding what criteria apply. A national policy, with regulations or guidelines developed out of the demonstration's experience, should be of benefit to all parties, as it would clarify for state, district, and county offices of FmHA what it is they are to do as well as to inform potential cooperative organizations about what standards to conform to in planning their coop. FmHA offices would then have to be consistent in their treatment of coop proposals instead of varying from one state to the other, making nationwide training and information difficult. FmHA's commitment to coops, or lack of it, also should be clear to the rural public who may seek its assistance.

Earlier in the demonstration, a Guidebook to Cooperative Adventures was produced as an important resource to members of the consortium and others contemplating the coop housing option. Included in its valuable pages of guidance is a timetable which outlines a possible coop development from initial contact to occupancy by the cooperators. While more recent experience does not invalidate any of the recommendations contained therein, it may be useful to expand this model timetable with the experience of wider practice from the demonstration. This is done in the following pages, with a copy of the Guidebook's timetable for comparison.

In summary, the experience of the Rural Cooperative Housing Demonstration shows that cooperatives are both a desirable and practical option for low- and moderate-income rural families. Anyone interested in coops is advised to realize that coop housing development is a complex, rewarding, but uncertain process whose product must include serious effort in the area of human development as well as housing development to be successful. The time and energy required, combined with planning and competent housing skill or technical assistance, may be rewarded with well designed housing units which are occupied by capable and active residents who can manage their own housing operations, thereby eliminating the need for an extensive ongoing outside role in insuring that low- and moderate-income community residents continue to have access to decent housing and a larger measure of control over events which affect their lives.

APPENDIX

GLOSSARY OF TERMS

All numbers refer to sections of the Housing and Community Development Act which authorizes the existence of programs in respective federal agencies. These numbers are used as a sort of shorthand among those in the housing field.

Section 502: Farmers Home Administration (FmHA) mortgage loans to low- and moderate-income families for modest, single family units. Terms are 1% to "market" rates (now 13.25%) for 33 years.

Section 504: FmHA loans (maximum of $7500 at 1%) to low-income families or individuals or grants (maximum of $5000) to the low-income elderly for basic health and safety related repairs to their own homes.

Section 514: FmHA loan (at 1% for 33 years) for the construction of housing for farmworkers.

Section 516: FmHA grant (up to 90% of development costs) for the construction of farm labor housing; usually used in combination with Section 514 loans.

Section 8: HUD rental subsidies which enable tenants to pay no more than 30% of their adjusted income for rent and utilities.

Rental Assistance: FmHA-funded subsidy which works, for tenants, like Section 8.

Section 202: HUD construction loan for housing for the elderly.

CDBG: HUD Community Development Block Grants. These are grants to towns, cities, and other units of local government for community improvements, which can include the provision of water and sewer facilities, streets, drainage, parks, housing rehabilitation (but not new construction), community centers, and other projects which improve the appearance or livability of a community.

UDAG: Urban Development Action Grants (HUD). These are special grants made to cities and other municipalities for community improvements related to economic development.

All of the above programs can be utilized by nonprofit housing development corporations or cooperatives, although some programs require that such a group work through their local government to secure needed funds.

Subdivision Map Act: In California, this act requires any potential developer of what is defined as a subdivision to submit the plan of the subdivision (including most multifamily housing projects) to local government for approval before any construction can take place.

Products of the Rural Cooperative Housing Demonstration and Resources for Cooperative Housing Development

Product	Available From
Cooperative Housing Slide Show*	Rural Community Assistance Corporation (no charge to borrower)
Coop Housing Operations Manual*	RURAL AMERICA ($35.95/copy)
Legal Issues in the Development of Housing Cooperatives*	Rural Community Assistance Corporation or RURAL AMERICA ($10.95/copy)
Guidebook to Coop Adventures* (basic guidebook to coop housing development)	Rural Community Assistance Corporation or RURAL AMERICA ($7.50/copy)
The Equity Syndication of Housing Cooperatives* (a guide to the syndication of housing coops by nonprofit interests)	RURAL AMERICA ($5.95/copy)
Of the People, By the People, For the People: Cooperative Housing in Rural America	Rural Community Assistance Corporation or RURAL AMERICA ($5.95/copy)
De La Gente, Por La Gente, Para La Gente* (Spanish translation of the above)	Rural Community Assistance Corporation
Moses Coady (Spanish translation of the film about the father of cooperative organization in Canada's Maritime Provinces produced in English by the Candian Film Board)*	National Council of La Raza (available on loan)

Organizational Resources

RURAL AMERICA
1900 M Street, N.W., Suite 320
Washington, D.C. 20036
(202) 659-2800

Federation of Southern Cooperatives
P.O. Box 95
Epes, Alabama 35460
(205) 652-9676

*Indicates product of the Rural Cooperative Housing Demonstration

Rural Community Assistance
Corporation
1900 K Street, Suite 202
Sacramento, California 95814
(916) 447-2854

National Council of La Raza
2302 North 15th Avenue
Phoenix, Arizona 85007
(602) 252-7101

Northern Cooperative Resources
18 Langdon Street
Montpelier, Vermont 05602
(802) 223-6111

Self-Help Enterprises
P.O. Box 351
Visalia, California 93279
(209) 733-9091

TIMETABLE

Earlier in the demonstration, the Rural Community Assistance Corporation devised the Guidebook to Cooperative Adventures which includes a body of information useful to those new to coops. Included is the attached timetable, called the "Sample Itinerary for Travels Through Cooplandia," which, conforming to the "tourist guide" approach to describing the coop housing development process, outlines the steps any group aspiring to forming a coop can expect to have to take.

While this "sample itinerary" is helpful, we now have additional information acquired from the experience of the coop consortium. First, the three year period which the Guidebook projects is realistic in terms of the development period required. If the 36 "day trips" of the "itinerary" can be said to correspond with monthly meetings over the three years, then we offer the following as a realistic look at events which may provide more detailed guidance, with cautions about the time that may be involved in certain steps.

Experience, as described in the case studies and their recommendations for future coop activity, would suggest some significant changes in the "conceptual phase." Because no one knows at this stage anything about the real feasibility of the project that is being proposed (or, at least, explored as an option), it may be preferable to determine or gain a sense of project feasibility prior to organizing and training the potential cooperators. What has been discussed earlier in terms of more of a top-down approach would apply here.

While meetings 1 through 7 contain essential steps with important coop training; however, it may be best to do more than appoint a land search committee at meeting 3. In the <u>Guidebook</u>, this committee does not report on the sites until meetings 11 to 13 -- approximately a year after the group initially met. This may be too long to retain the interest of many people, and too late to realize that construction will be difficult or impossible due to local constraints. Certainly some orientation to housing options is necessary for potential cooperators; but the process may go more smoothly if the TSO has done some local "homework" beforehand.

At meeting 7, the demonstration found that there may be real difficulties in obtaining desirable status as a nonprofit housing cooperative in their state. Refer to the Northern Cooperative Resources experience in Vermont here. California has a good statute for this type of coop; other states vary. The TSO should have investigated incorporation options thoroughly before presenting this information to the group.

Regarding meetings 8 through 10, it would be wise for the TSO to have discerned through discussions with lenders that they are interested in financing coops. A decision about what financing source to select may lead to problems of resistance and delays if the group is uncertain of the lender's commitment to coops and its application requirements.

Another caution about the land search: Several suggest that any site approval be put into writing for the coop group, as FmHA staff changes or other factors have occasionally led to the agency's failure to recall an earlier positive decision.

Work on the preapplication (meetings 14 to 17) naturally follows the selection and option of an adequate site. As pointed out earlier, the preapplication can be done by the TSO, without the potential coop membership organized yet. The preapplication probably will have to include preliminary architectural designs. FmHA, in practice, is unlikely to accept a preapplication without tentative sketches, site design, and unit size for use in determining realistic costs. "Typical construction costs" are not likely to be well received (except for comparison) by FmHA. While it is, at times, difficult to obtain architectural services on a contingency basis, effort to do so is often rewarded with the type of basic design concept needed at this stage.

Meetings 18 and 19 of the Guidebook recommend beginning to work on management. Consortium organizations would affirm that this should be done at least this early in the process. However, it should be pointed out that, prior to the group's incorporation, they would have had to draft the articles of incorporation they expect to live with.

Meetings 20 to 22 assume that the application process itself is smooth and free of major differences between lender and applicant. The experience of this demonstration shows otherwise;

although, clearly, this stage would go more quickly if the TSO had done significant preparation.

The final process (23 to 30) also is likely to be more complex than that described. Architectural plans need to be included in the FmHA final application. While it is true that this is a good time for training to take place, the group should not be too optimistic about the ease with which the TSO can prepare an acceptable final application or about the review process for it at FmHA. Much negotiation back and forth may take place in this period, including budgets, design and amenities, rents, management, bidding procedures, and so on. The earlier the group can reach the final application stage, the better; as there still is plenty of time for organizing and training the cooperators. The latter schedule outlined here is an appropriate one.

		14		15		16		17	18			
Ideal Coop Project												
PROJECT (NO. OF UNITS)	**JAN81**	**FEB81**	**MAR81**	**APR81**	**MAY81**	**JUN81**	**JUL81**	**AUG81**	**SEP81**	**OCT81**	**NOV81**	**DEC81**
1 - PLBA (60)									10			
2 - Alabama State Assn. (16)							1	2			5, 8	
3 - St. Landry (20)	8			9	10							
4 - Jackson Sewing (24)												
5 - New Burke (28)												
6 - Mileston (40)	1		2	5	3							6, 8
7 - Green Acres (40)							2	3	8			
8 - College Station (50)											6, 8	10
9 - Boston Avenue (*)		1, 2	6									
10 - Opportunity Center (21)			1	5								
11 - Homestead (9)			8		9	2,7,12	15	16				
12 - ASHAI (12)	8			9, 10		12, 13	14	16	17	18		7
13 - Faith, Hope & Charity (9)				4		3					8,9,10	7
14 - Sycamore Inn (12)										1, 2	8, 9	3
15 - SHANA (13)		1										
16 - Barre Street (7)		1										
17 - Bear Creek (37)						4						
18 - Villa Esperanza (30)												
19 - Madera (37)							1, 5	2, 3	8		10	
20 - Richgrove (30)	9			7								
21 - Three Rocks (*)												
22 - Santa Elena (100)			3	12, 7		17, 20						
23 - Indio HDC (240)												
24 - Rancho Sespe (*)					5							
25 - Moorpark (*)												
26 - Cielo Azul (22)	9										2-14	(reorg'd)
27 - Las Vegas (*)											1	2
28 - 11 Mile Corner (16)				9								
29 - MiLindo Pueblo (20)	5								10			
30 - Santa Cruz (30)				1,2,5,8	9,10							

* = Did not get far enough to determine number of units.

Ideal Coop Project

PROJECT (NO. OF UNITS)	JAN82	FEB82	MAR82	APR82	MAY82	JUN82	JUL82	AUG82	SEP82	OCT82	NOV82	DEC82
				4	19	20						
1 - PLBA (60)												
2 - Alabama State Assn. (16)	3		6, 9									
3 - St. Landry (20)												
4 - Jackson Sewing (24)												
5 - New Burke (28)												
6 - Mileston (40)												
7 - Green Acres (40)												
8 - College Station (50)												
9 - Boston Avenue (*)												
10 - Opportunity Center (21)			9			8						
11 - Homestead (9)						14,13		17,18				
12 - ASHAI (12)				19	20							
13 - Faith, Hope & Charity (9)						7, 13	14,15,16,17,18					
14 - Sycamore Inn (12)												
15 - SHANA (13)												
16 - Barre Street (7)							15					
17 - Bear Creek (37)												
18 - Villa Esperanza (30)				4								
19 - Madera (37)			6, 7									
20 - Richgrove (30)												
21 - Three Rocks (*)												
22 - Santa Elena (100)												
23 - Indio HDC (240)												
24 - Rancho Sespe (*)				10		11						
25 - Moorpark (*)												
26 - Cielo Azul (22)										15	17	
27 - Las Vegas (*)												
28 - 11 Mile Corner (16)			15,16						17	18		
29 - MiLindo Pueblo (20)												
30 - Santa Cruz (30)					14					14		17

* - Did not get far enough to determine number of units.

SAMPLE ITINERARY FOR TRAVELS THROUGH COOPLANDIA

MEETINGS	GROUP ACTIVITIES	PHASE OF HOUSING DEVELOPMENT
Day Trip 1	A group of low-income farmworkers recognizes housing need, and seeks assistance. TSO agent meets with the group to discuss options. Homeownership is marginal possibility for some members. Group elects officers.	CONCEPTUAL PHASE
Day Trip 2	New members join the group. TSO agent reviews housing options and responds to questions. Group members want to begin housing development process but cannot agree on goals. TSO agent recommends an overview of land development. Guide and group discuss form-	

ACTUAL AND IDEALIZED TIMETABLES

KEY

1 initial community contact

2 organization of group/initial training

3 incorporation

4 completion of training

5 site search begun

6 training for local government

7 resolution of zoning/local planning problems, including facilities

8 contact with financing source

9 completion of architectural and engineering preliminary design

10 preapplication submission

11 preapplication approval

12 final application submission

13 application approval

14 final plans and specs submitted

15 out to bid

16 bid selection

17 loan closing

Group decides to pursue FmHA funding, and to apply as a nonprofit development corporation.

Day Trips 11-13	Land committee reports on potential sites and their constraints. Since higher density is dictated by parcel size, the group alters its development objectives and authorizes land negotiations. FmHA is asked to review sites for preliminary approval. Land committee brings land options for group review and signature. The site is formally selected and optioned after FmHA has given preliminary site approval (with conditions).
Day Trips 14-17	The cost of land purchase raises the need for interim financing and seed money. The guide explains possible sources and a finance committee forms to work on funding. The group begins work on a preapplication for FmHA, and the guide supplies typical construction costs and sample operating budgets. The group formally incorporates as a non-profit and submits the preapp to FmHA. MILESTONE.
Day Trips 18-19	Group appoints occupancy Committee to develop draft subscription and occupancy agreements. The group reviews these elements of its preliminary management plan, and appoints another committee to draft bylaws and articles of incorporation.
Day Trips 20-22	FmHA approves the co-op's preapplication. MILESTONE. The group discusses its building plans and selects a committee to choose an architect. The architect meets the group and begins to prepare plans. The group reviews and finalizes occupancy and subscription agreements, and prepares a final operating budget.
Day Trips 23-30	As review of the final application proceeds the group continues to develop architectural plans and

FINAL APPLICATION PHASE

	operating procedures. Analysis of legal documents, membership requirements, and family finances leads to final preparation for signing subscription agreements. After a project review period of approximately six months, the group advertises for construction bids. Selection of the contractor clears the road for <u>loan closing</u>. MILESTONE.	
Day Trips 31-35	At loan closing the group formally becomes a cooperative, takes possession of its land, and begins construction. As the buildings rise, the group meets to discuss home management, consumerism, credit, family budgeting, and the responsibilities of co-op membership.	CONSTRUCTION
Day Trip 36	Three years after its initial meeting, the co-op group <u>moves into its housing</u>. MILESTONE.	OCCUPANCY

APPENDIX C

LOW INCOME HOUSING SYNDICATION: A GUIDE TO THE PROCESS AND THE NUMBERS FOR NONPROFITS AND COOPERATIVES

This appendix was prepared by Northern Cooperative Resources, under contract from Rural America, as part of the Rural Cooperative Housing Demonstration (RCHD) Program. Rural America, in turn, was supported for its role in the RCHD by a contract from the Battelle Columbus Division.

The information, analyses, and interpretations offered in this Appendix are strictly the responsibility of Rural America and Northern Cooperative Resources, and the inclusion of the Appendix in this overall document does not imply any position assumed by Battelle.

Battelle does not engage in the practice of law, the interpretation of tax law, or the provision of any tax-related advice.

LOW INCOME HOUSING SYNDICATION: A GUIDE TO THE PROCESS AND THE NUMBERS FOR NONPROFITS AND COOPERATIVES

1982

RURAL AMERICA
1900 M Street, N.W.
Washington, D.C. 20036

This Guide is a part of a series of technical publications prepared by RURAL AMERICA. It was produced by Northern Cooperative Resources under a contract from RURAL AMERICA, with funding from Battelle Columbus Laboratories as part of the Rural Cooperative Housing Demonstration project. Special thanks goes to Lee P. Reno of Cavanaugh, Reno and Roisman, who helped edit and contribute to this pubilication. Responsibility for its contents rests solely with RURAL AMERICA.

LOW INCOME HOUSING SYNDICATION; A GUIDE TO THE PROCESS AND THE NUMBERS FOR NONPROFITS AND COOPERATIVES

For our purposes here, equity syndication is the strategy of attracting outside investors to share ownership in low-income housing. It sounds simple enough. But for the cooperative and non-profit housing sponsor accustomed to the workings of familiar Federal housing programs, the world of equity syndication is an unknown one. It is a world requiring a new technical know-how and demands the newcomer to conform to its terms. These terms are often in conflict with and can often jeopardize long-standing goals of cooperatives and non-profit housing sponsors such as the ability to maintain affordable housing over many years. Investors accepting participation in equity syndication usually have different motives. The act of balancing these competing demands summons all the savvy of a horsetrader.

Despite this inherent conflict, syndication is a development strategy being increasingly explored and selected by non-profit sponsors. [1] This manual acknowledges this recent shift in non-profit housing delivery patterns. Our approach will be to explore equity syndication as the hardnosed numbers game that it is. Initially the text will equip the reader with a minimal vocabulary necessary to be conversant with the financing, tax and legal issues involved.

These definitions will be embodied in two (with variations) model rural rental projects. The goal in each case is to offer the housing at affordable levels to families of the lowest possible incomes. One project is a thirty (30) unit FmHA Section 515 development; the other, also a thirty (30) unit project but which is to be made as affordable as possible without deep subsidy.

In a real setting, the sponsor of such rental (or cooperative) projects may find itself at the doorway of the equity syndication world for one, or both, of two reasons: (1) After completing many of the cost projecting housing development steps (e.g. site option, design, bidding) the sponsor concludes the project cannot serve the intended families without an infusion of outside capital; (2) A purposeful strategic choice is made to attempt equity syndication to generate income and special expertise within the sponsor.

Equity syndication will be applied to these projects. The process will illustrate "the foreign" ways in which project budgets are analyzed as new tax

---

[1] This narrative will use the phrase non-profit housing sponsor (or simply sponsor) to mean all community-based non-profit sponsors of rental and cooperative housing. The term includes an association of families developing their own cooperative housing.

concepts are applied. More importantly, after the project is cast in the form of an equity syndication, we will show how its financial or project structure can be modified to enhance affordability to meet the demands of potential investors.

Our aim is to equip non-profit sponsors with a practical sense of the alternatives available through syndication. Without an appreciation of the tax shelter and other value to the investor, the sponsor cannot adequately negotiate a deal which represents its best interests or those of tenants. Absent an understanding of the true value of the project, a sponsor is overeliant on its consultants and syndicator and may find that the whole farm was given away when only the lower pasture was offered for sale.

First, unlike the rich and successful history of non-profit sponsorship of rural housing under federal programs, little experience exists in using equity syndication by rural non-profit sponsors. (The authors provided technical assistance to a nine unit subsidized project in a small rural New England town that was ultimately sold to an equity syndication group.) There is no neat and definitive experience that can be concisely reduced to these pages. Players in the syndicator/investor camp do not know and feel comfortable with their counterparts in the non-profit rural housing development world. There are no clearly established standards of conduct between them. Therefore, the authors have attempted to predict norms of future syndicator/non-profit sponsor interaction, and on that basis to give practical information intended to be useful when that day arrives for the sponsor.

Second, the concept of developing rural cooperative housing through equity syndication is even more foreign to most investors and syndicators. At best, their reaction may be neutral, viewing the cooperative as largely irrelevant to the tax-sheltering and capital return purposes of the syndicate. More often, however, the cooperative in a management and/or ownership position is viewed as new, untested and threatening to the investment. The sponsor should anticipate this reaction and be prepared to counter it.

Overview

While there are many forms of syndication, real estate equity syndication is the sale of a share of the ownership of a house or housing project to an investor. It is a means of creating the equity requirements (downpayment), and usually a little extra, to make the project work to line the pockets of the developer. It does not substitute for the need for longterm permanent financing or additional subsidies to serve low-income households.

The vehicle of real estate equity syndication is the limited partnership. Such a partnership has one or more general partners and one or more limited partners. Limited partners are so designated because their liability is limited to the amount of funds they invested. In exchange for that limitation of liability they are precluded from participating in the management of the partnership. On the other hand, general partners do have responsibility for management of the partnership and are individually liable for all the partnership debts except the mortgage (because the loan must be nonrecourse in order for partners to benefit from the depreciation of the asset purchased with the loan.) Sole corporate general partners must demonstrate financial stability by having a net worth of at least 15% of the investor capital raised or $250,000, whichever is less (for capital up to $2.5 million or 10% of equity over $2.5 million). General partners are required to protect the interests of their limited partners because the law holds them as fiduciaries. The general partners will own, usually, 5% of the housing project and the limited partners will own 95%, for purposes of distributing profits and losses. When the project is sold, the proceeds, after returning the investment capital to the limited partners, may be distributed on a different proportion, say 50-50. All of this will be spelled out in a partnership agreement.

The purpose of all this is to allow the investor to show the paper loss generated by the project because of accelerated depreciation of the entire cost of the project (except land), on his or her income tax return, thereby reducing the income he or she reports and on which he or she must pay tax.

As you can see, even an overview — especially of an unfamiliar area — starts to sound complicated. The only way to really learn all of this is to wade in, wallow around and ask questions when they occur. Our purpose is to give some purpose to your wallowing, and to increase the odds that the right questions get asked before you are overwhelmed by a new and more complicated approach to delivering housing.

Initiating the Syndication Process

Even with an understanding of the tax concepts and numbers, a non-profit or coop may be unsure of how to get involved in a syndication. Because non-profits and coops have had so little experience in syndicatiin, our suggestions below are based mostly on hunches, based upon our own limited experience on what we've read, and our conversations with others who have looked at the problem.

You will enter the process when you have a real project, not just an idea. The site should be secure (optioned or bought), budget estimates firmed up, contractor selected, financing commitments made (or well on the way), and all the other details in hand. Nobody wants to hear of anything that is not reasonably certain to happen. Similarly, your approach at this point should be very upbeat: everything is under control; the few details not finalized are going along nicely. Non-profits often get wrapped up in the barriers and land mines of the development process, and tell a tale of woe. A cheery face and competent presence are necessary when initiating a syndication.

The format of your approach will depend on whether you choose to be your own syndicator, and have to locate investors, or whether you want a syndicator (or broker/dealer) to handle the project. Being your own syndicator can net you more money (as you avoid paying hefty profits to a firm) and may be your only option (if syndicators don't want to handle the project because it is too small, a coop, or for other reasons). On the other hand, doing your own syndicating -- unless you are already in touch with a pool of potential investors -- is complex and risky, and may require laying out upfront money for a tax accountant and tax lawyer, and to have available liquid assets to demonstrate adequate net worth.

Everyone wants to see the numbers first (and sometimes last). An investor will need something to show his or her accountant. You will have to provide a nicely formatted, simple appraisal of tax consequences (in greater detail than we've presented here). You will hire an accountant or consultant for this purpose. Syndicators will take your budgets and do their own tax appraisals and format, and will need the operating and development budgets. It is essential that the sponsor's goals -- what it intends to accomplish -- be firmly established and clearly articulated. These goals, e.g., longterm availability of low-income housing; immediate access to cash; control of management of the project, all will bear on the selection of a syndication and the price investors are willing to pay to participate in the project.

If an investor finds the numbers interesting, he or she will want to see the legal documentation (e.g. partnership agreement). The documentation will be prepared by a tax attorney you hire, and will include all of the contractural details of the partnership (e.g. buy out provisions; management responsibilities, fee arrangements, etc.). Syndicators will prepare their own documentation if they handle the project.

Investors and syndicators can be quickly screened after they see your numbers. Do the numbers look attractive? Are there difficulties aside from the numbers? Try to find investors who have no qualms aside from the amounts and timing of investor payments: these can be easily negotiated, while changing the site is not easily negotiated. If you find no one interested because of the project's character (e.g. a coop; heavy management control in the hands of the tenants), and cannot negotiate around these points, you will have to assess the value of changing the project to make a syndication work.

Syndicators should be able to quickly express interest or disinterest from looking at the budgets. They might show disinterest if they consider the project too small, or don't handle those types of projects, or only work with developers with more extensive track records. These will probably not be negotiable points: if a syndicator is not interested, hang up and call someone else.

Once you are in the process -- after you have found interested investors or syndicators — you will be negotiating the provisions of the partnership and the amounts and timing of investor payments. Keep your priorities very clear, as this will be a time for making hard decisions and tradeoffs. As far as the numbers go, the remainder of this manual should give an understanding of what tradeoffs are involved.

Definitions

The most important concepts in equity syndication are those describing the amount of and process through which financial benefits are conveyed to investors. Benefits take the form of cash income, favorable tax considerations, and long-range return (of the kind homeowners realize through appreciation in the value of the real estate). Each of these benefits has a relative value to the investor, or more precisely, in the marketplace where investors shop. Some of the benefits have a strong impact on the affordablility and long-range use of the housing.

Most of the definitions that follow involve financial benefits provided to the investor in the early years of the project's life. These are its tax sheltering aspects. Other benefits occur when the partnership is disassembled through the purchase (buy-out) of its assets. Benefits conveyed at this time are usually treated differently and taxed as a capital gain. We have emphasized tax sheltering concepts in these definitions because despite this problem, it has the greatest relative value to the investor and is the easiest to predict. It is the primary reason for the investor's participation.

The relative importance of buy-out to the investor varies depending on the specific outlook of the individual. Some seek an ample long-term pay off, others seek merely to have their original investment returned, and still others want only the minimum return required by federal tax regulations.

To the sponsor buy-out is important. The buy-out may be negotiated in a fashion that enhances the long-range goal of housing affordability. Alternatively, by making it attractive to the investor, the sponsor may use buy-out to leverage greater initial cash income (proceeds) when the share of the equity syndicate are sold initially. The final section of this manual examines the equally important but less unified concept of buy-out.

For purposes of reading these definitions, assume that the mechanism of an equity syndication is little more than a legally acceptable pipeline for distributing a mix of benefits to investors in one direction, and their funds to make the project feasible in the other direction.

A. Tax Loss -- The most important type of benefit conveyed through the equity syndication pipeline in the direction of the investor is the tax loss. The more loss that can be offered, the more attractive the investment will look to the investor. Tactically, the sponsor's 'game' is to convey the largest possible tax loss to investors at the times they want to receive it.

Why is this apparent contradiction between losses and advantage so key to equity syndication? The answer lies in the way incomes are taxed. Companion principles provide for tax on business income activity and permits losses of a business activity to be set off against income from another activity as long as both activities "belong" to the same taxpayer. As a result, when persons engage in a business and incur losses their tax bill is reduced. Specific examples of how the tax bill is reduced follow in these definitions.

In equity syndications a legal structure is created that allows the losses of the business activity of operating housing to be conveyed as a reduced tax bill to the individuals participating in the business, viz. the investors. Investors will pay large sums of money to you as a sponsor simply because you control an activity from which they can lose money in a tax sense. It is a direct exchange, loss you have created for their money!

As will be discussed under a following definition, when investors use your tax loss to shelter their present income from taxation, they do not forever escape payment of this tax bill. Rather, they delay or defer payment until a later date enabling them, for a time, to use money ultimately to be paid to the federal government to make more personal income. This practice is a result of tax accounting procedures and is termed tax deferral. Some advisors analyze the equity syndication on the basis of the tax deferral, others, as we have done here, use a tax loss standard. The two terms are merely dialects of the same language. In discussions with syndicators and/or investors the sponsors should be prepared to talk either dialect.

B. **Depreciation** — This is the major type of business expense incurred by an equity syndicate in housing during its early years of operation. As a result of this expense item, large paper losses are generated by the housing project which can be passed through to an investor through equity syndication.

Accounting theory states that one of the expenses a business suffers is wear and tear on all assets required to produce income. Over time, replacement equipment and property used to generate income is cost of doing business. Rather than deducting the expense of such assets from income at the time they are purchased or paid for they are "depreciated", i.e., expensed over time according to a set schedule. When this "expense" exceeds income a "paper loss" occurs.

Depreciation must be accepted and understood for what it is: a "paper" concept often bearing little relationship to physical reality. In the syndication process, this fantasy is an accepted article of faith; the sponsor must similarly supress its objections to this otherwise questionable concept. In negotiations with syndicators and investors, the sponsor will be expected to show great enthusiasm for alternatives that increase amount of depreciation claimed through the syndicate.

Consider a dairy farmer who constructs a silo to store food for a herd in the production of milk. The silo is used in a chain of events that leads to business income from the sale of milk. Silos don't last forever, and eventually the farmer will incur the expense of replacing it. The cost is used to alleviate the tax bill of the farm through the mathematic process of depreciation.

The simplest form of depreciation mathematics when applied to the silo might state: A silo costs $10,000 and lasts for ten (10) years. If the dairy farmer's taxable income is reduced by $1,000 for each of ten years after purchase of the silo, in theory enough funds will have been accumulated to make the replacement when the old silo is worn out.

In the equity syndication the main item that is wearing out is the physical structure of the housing. Through a new "accelerated" depreciation method created in the 1981 Tax Act, most of the cost of low-income housing can be deducted in the early years of the useful life of the structure thus creating substantial losses for the owners.

This is the crux of the equity syndication — the gas that makes it go. These losses are of substantial value to investors who are in the highest income taxbrackets. These investors will pay relatively high sums of money for the right to use losses to reduce their income tax liability.

C. <u>Depreciation Methods</u> — A recent tax law - the Economic Recovery Tax Act of 1981, created a new formula for computing depreciation for housing.

The depreciation recovery period or cost recovery period, as it is called, is the amount of asset use time in which the business should have sufficient funds to replace a worn out asset (10 years in the silo example). Most new housing can be expected to last 40 - 50 years. The 1981 Tax Act, however, allows a fifteen (15) year recovery period for housing. This means that in fifteen (15) years the business is provided with tax bill reductions sufficient to replace a building that will last for another 25 - 35 years! It all adds up to an artificial tax loss.

This is compounded by permitting accelerated depreciation, or a faster method of depreciating a building than simply dividing building value, say $150,000 by the fifteen (15) year recovery period (known as the straight line method) for a $10,000 a year expense. For low-income housing a method called 200% declining balance is used to accelerate the rate at which the expense for the $150,000 replacement cost can be claimed by investors. It will produce an expense of 13% of replacement cost in the first year, 12% in the second, 11% in the third, etc.

Know these processes. Use them to make your project as tax loss generating as possible. And you as a sponsor have become a player in the world of equity syndications. We will provide you with the details of how these concepts are applied and how they affect your long range goals in later sections of this manual.

D. __Basis__ -- Basis is the starting value of the business asset that eventually wears out and must be replaced. In the equity syndication, the basis is the value of the housing itself. The greater the basis, the larger the amount subject to depreciation. The result may be a larger tax loss.

The basis is set directly from the development budgets of the project. For tax purposes, only certain of the line items of your project budget can be included in the basis, e.g., land cost is not includable, but the cost of plumbing is.

In order to attract investors on terms most favorable to your goals, you want to increase the basis value as much as the law permits. Tax accountants and syndicators will be of assistance here. On the other hand, it may be desirable to expense certain items in the first year to increase the loss. Professional help is vital. Basis is also used to determine your capital again when the project is sold, according to the following formula: Basis + Improvements = Depreciation + Proceeds from Sale = Capital Gain.

E. __Deduction__ -- In the annual tax return for the investor in an equitysyndicate, a deduction is used to reduce the amount of income that would otherwise be taxed. Looking to our dairy business example, a depreciation deduction of $500 for the silo/foundation, means the $500 of income actually made during that period was never subject to taxation. This income was 'sheltered' from taxation.

The basic purpose of equity syndication is to provide high income taxpayers with tax shelter so they can retain greater amounts of their annual income.

Now, let's return to the basic concept of tax loss to summarize how the concepts of recovery period, accelerated depreciation, and deduction work in the equity syndication.

F. __Tax Loss Revisited__ -- It bears repeating that the saleability of your equity syndication will depend most critically on how large and early you can convey tax losses to investors. The calculation of a tax loss for a business can be straightforward. Returning to our example we had, dairy farming is not a profitable venture these days. Our farm business had income of only $500 during the first full year its silo was in use. But in the dairy's tax returns this income be reduced through a deduction for the depreciation of the silo ($12,000 basis divided by 10 years useful life) or $1,200 per year. For the tax year an actual loss of $500 - $1,200, $700 is shown.

The same process, with many more deductible components, determines the tax loss of a housing business through the equity syndication. In any operating year the tax loss is figured by: Reducing (1) the total annual income produced by the housing by (2) a deduction of all operating and maintenance costs (from projected budgets prepared by the sponsor) and also by (3) a deduction for annual interest paid in financing for the project, and finally by (4) a deduction for depreciation.

To a greater or lesser extent, the project sponsor, in the development stages of the project, determines the amount of each of the three categories of income.

G. **Amortization** -- The term generally means allocating some beginning quantity according to a pre-determined formula over future time.

In the equity syndication amortization is applied to the mortgage debt incurred to develop the housing. Key elements of the formula are the term of the mortgage (repayment period, e.g. 50 years FmHA's Section 515) and the rate of interest. Amortization of such a mortgage sets the level of periodic mortgage payments. Most importantly for tax purposes, amortization determines what proportion of each payment retires principal as opposed to the payment of interest.

Since only the payment of interest is a business expense, only this portion of each monthly payment contributes to the creation of a tax loss. Part of the sponsor's job in preparing an analysis of the value of syndicate for the potential investor, is to prepare an amortization table depicting interest expense over the years of the syndicate's life. Either a higher interest rate or a longer mortgage results in greater interest expense, resulting in a larger tax loss.

H. **Tax Credit** -- This is a different type of benefit that flows through the equity syndication pipeline to investors on certain specialized housing projects. It is even more valuable than the deduction tax loss to investors.

A tax credit does not work like the tax loss to shelter personal income of the investor from taxation. Rather, it is a direct dollar-for-dollar reduction of the tax bill itself. Most high income taxpayers are continually looking for ways to 'shelter' all of their substantial income. Often they confront a steep year end tax bill. Since a credit serves to reduce this otherwise inescapable tax bite, it is highly attractive to investors.

If your project involves the rehabilitation of a historic building (one that is on the historical register or within a historical district) you can offer this much sought after benefit to investors. A tax credit of 25% of rehabilitation cost may be available. Following sections of this manual will explain how the tax credit on such a project is computed and delivered to investors.

Your tax accountant will advise you whether a tax credit applies to the project and in what amount it is available. Strategically, the act of incorporating a tax credit immediately increases the saleability of your equity syndication. Your asking price should be higher and the terms of the syndication should be more supportive of the goal of long-range affordability to families of limited income.

The foregoing definitions complete our review of some of the basic concepts involved in equity syndication. The next set of topics deals with the way these concepts are analyzed by accountants to prepare a read-out of the full tax value of the syndication to the investor. These accounting definitions are more abstract and somewhat alien to our daily common sense accounting experience (such as balancing a checkbook.)

The sponsor must have a functional understanding of accounting principles because they are employed to prepare a prospectus of the equity syndication. This document translates the technical information about the housing development, through the tax regulations, and produces an accounting projection of investment return. If as sponsor you do not grasp the language (accounting concepts) used to attract investors, you may be outflanked as final syndication terms are negotiated.

I. Cash Flow — This is the simplest accounting concept involved in the equity syndication.

All housing developments have cash flowing in, primarily in the form of rents provided from occupant families and/or governmental rental assistance programs. All housing has cash flowing out as well including operating/maintenance, principal/interest and payments into reserve accounts. Cash flow is the net of these two currents. If cash flowing in is greater than cash flowing out, the net current is termed a positive cash flow. If the reverse is the case, the result is a negative cash flow.

Cash flow is important to investors for several reasons. In analyzing the validity of syndication, investors need assurance that the housing business itself is sound. If a positive cash flow is derived from the projected housing operations budget, investors may conclude that the business is a sound one. Obviously, the syndicate's business, namely operating housing, must avoid bankruptcy in order to continue to serve as a pipeline conveying promised benefits to investors and to prevent such benefits already conferred from being recaptured by the Internal Revenue Service. Projected cash flow is one measure of the likelihood of such business viability.

A final consideration about cash flow. At times, cash flow is large enough so that after all expenditures are made, a net amount remains. This cash is one of the other 'benefits' (albeit a much less important one) distributed to investors through the equity syndication pipeline. The Limited Partnership Agreement (see Definition M) determines what portion of this remaining cash is directed to investors. Typically investors receive 99% of all excess cash each year in proportion to their relative investment in the syndicate. FmHA limits such cash payments to 8% of the original equity contribution in a project.

J. <u>Tax Deferral</u> -- This accounting concept deals with the action of paying today's taxes with tomorrow's dollars.

Due to the ongoing fact of inflation, tomorrow's dollars will be worth less than the same dollars today. Delayed payment of a bill due today is advantageous provided that no interest is charged or adjustments made for inflation over the delay period. Tax law does not enforce either of these measures against a housing 'business' tax bill if the syndicate participants follow certain rules.

The most important tax concepts of the equity syndication (such as depreciation) when subject to proper accounting procedures have a tax deferral impact. The tax loss's footprint in an accountant's world is tax deferral. The latter is the reflection of the former over time.

K. <u>Present Value of Money</u> -- This is an accounting process by which the value of money flowing into the equity syndication, and, after a period of time, out of it again, is compared to a base standard. The present value of money is the measure of tax deferral much as 15 mph is a measure of speed.

The basic standard used to compare the value of money in and out of the equity syndication is the discount rate. An example will illustrate. We select a one year non-interest bearing investment. Inflation projected during the year is the base standard which we can use to determine the present value of money. Assume the projected inflation rate is 10%; this will be the discounted value of the investment over the first year. For each $100 invested and discounted, $90 becomes the present value of the money at the year end point it can be retrieved.

Investors in a housing syndication generally pay cash in the initial years of the syndication, and draw benefits (tax loss and cash) over the entire life of the syndication. The $1.00 they pay today is worth $1.00, but the $1.00 they receive five years from today may be worth only 30 cents. Present value is the basic concept underlying how investors can compare the worth of money paid in today versus benefits received tomorrow.

Through the process of applying the discount rate to the syndicate budget projections, we get the present value of money invested in and returned to the investor at a known future date. The process measures the economic efficiency of the syndicate.

To better grasp the concept, think of the syndicate as the gasoline engine in your automobile. By having a mechanic measure certain aspects of its operation (e.g. amount of carbon monoxide in the exhaust gases) the mechanical operating efficiency can be determined. We then can know how effectively the engine converts gasoline into motion.

Determining the present value of money answers the question of how effectively your equity syndication converts an investor's dollar into the sought-after economic benefit.

This measure of efficiency will set the worth of your project in the eyes, and wallets, of potential investors. The higher this perceived value, the better will be the terms of sale. Correspondingly, the greater will be the likelihood that affordability can be maintained and/or income received by the sponsor.

L. Internal Rate of Return -- Expressed as a percentage, this is the final accounting concept used to measure the economic punch of an equity syndication. It is one of several ways to determine what a project is worth to an investor.

IRR measures the discount rate at which a series of outflows matches the value of inflows. In an equity syndication, the outflows are annual amounts of tax loss plus cash going to the investor. The inflow is the investment made by the limited partner to gain entrance to the syndicate. The discount rate, or internal rate of return, in effect measures the yield investors make from participation in the equity syndication.

The IRR is a standard measure used by accountants and investors in judging the value of an investment. The accountant or investor knowing the internal rate of return will be able to judge the value of investing in your housing project as opposed to housing projects of others within syndicates whose business is some activity other than housing (such as horse breeding, or, for that matter, any investment, e.g., Treasury Securities). We have used throughout this manual, internal rate of return of 18% or 25% after taxes to look at the value to an investor of the model and variations we present. The range of 18% -25% corresponds to the generally expected return from an equity syndication whose business is housing.

M. The Limited Partnership -- Throughout this manual we have spoken of the equity syndicate as a legal mechanism serving as a pipeline between investors and the project. Dollars and benefits flow through this pipe. The structure of the pipeline is the limited partnership.

Much has been written about limited partnership so our definition will be brief.

A limited partnership is a partnership which allows people to engage in a business activity and has a general partner or partners and a limited partner or partners. The general partners have general liability and the limited partners do not and are much like stockholders in a corporation. Limited partners play only a passive role in the business while general partners retain an active day-to-day presence.

Investors are limited partners. They have no responsiblity for operations/management of the project. They are not concerned with affordability or other housing quality issues. Their motive for their passive investment in the syndication is to receive maximum economic benefits. They chose to risk <u>only</u> the dollars they have invested because of these expected benefits.

Other parties to the limited partnership are the general partners. They have responsiblity for housing management and oversight of day-to-day business activities for the syndicate. They have a strict financial responsiblity to protect the interests of the limited partners. If they falter in this role, the limited partners can step in to take over operations.

General partners often approach housing on a strict profit motivated basis; much as is the case with limited partners. But with the growing interest in equity syndications in the non-profit housing world, general partners are sometimes non-profit or cooperative corporations and have altruistic motives as well.

The limited partnership is created in an Agreement similar to the incorporation documents of your non-profit corporation. The Limited Partnership Agreement spells out the relative rights and responsiblities of all partners. Most importantly for investors, it states how and when benefits will flow through the pipeline. Generally accepted patterns for the division and timing of benefits exist; your syndicator can help you to know these expected norms. Investors (limited partners_ usually receive 99% of all tax losses, tax gains and cash flow (whether it is positive or negative) on an annual basis. A more equal division of long term capital gains (such as 49% to limited partners; 51% to general partners) resulting from sale of the syndicate's business will also be set up in the Agreement.

The Limited Partnership Agreement is the outcome of negotiations between you as sponsor (through a syndicator) and investors. Its provisions determine how effective you have been in placing value and marketability into the development and how thoroughly you have exercised your grasp of tax/accounting concepts at the negotiating table and how effectively you have articulated your purpose. The measure of its legacy found in the Agreement is the affordability of the housing over the maximum period of years.

There are several ways in which cooperative and a non-profit sponsor can be part of the equity syndication: (1) They can both, either directly or through a subsidiary, be the sole general partner charged with responsiblity for most day-to-day operations. However, it may be difficult to convince investors that a new housing cooperative can adequately perform this managing general partner's role, even though it will have the assistance of other more business-experienced general partners. (2) The corporation or sponsor may gain control of the housing by requiring the partnership to give back a housing management contract. (3) Management control can also be obtained by requiring a long-term lease to the cooperative allowing it to occupy and run the housing over a period of years. In this way much practical control, although not ownership, rests in the hands of people interested in housing quality issues.

THE NUMBERS

Each concept defined so far in this text has direct tactical implications for the sponsor engaged in marketing and negotiating their housing development as an equity syndication.

But as the reader, no doubt, understands from practical day-to-day field experience in housing development, concepts are best understood in the application as opposed to the definition.

The next portion of this manual will apply the foregoing tax and accounting concepts to various typical housing projects. Several variations to the starting model project will be employed to test these concepts in the diverse housing possiblities you will examine as a sponsor. But, first, let's apply these new tax and accounting concepts to a familiar housing initiative.

The FmHA 515 Model

A thirty (30) unit, FmHA 515 new construction project is fully packaged. Land is under option, surveys have been taken, working drawings are finalized, financing commitments have been made, and a contractor has been selected. Total development costs are $39,591 per unit, or $1,187,716 for the project (there will, of course, be regional variations from this hypothetical model). There are no rent supplements available, so per unit monthly costs will be higher than you want, averaging $372 including heat and utilities. At this point you want to investigate syndication, to see whether you can reduce per unit monthly charges and/or give your organization some cash to replace the grant money you had depended on.

The Model 515 syndication will have the following characteristics:

- it will still be a 515 thirty (30) unit new construction project; in fact, the syndication of this project will in no way affect the physical reality of the development;
- Total development costs will remain at $39,591 per unit, $1,187,716. The development budget is listed later;
- Mortgage financing will be a fifty (50) year 515 loan at 1% (mortgage amortization is listed later;
- The mortgage amount will be 95% of total development costs, or $1,068,944; — The equity amount will be 5% of total development costs, plus 2% working capital, or $83,140.
- An additional 2% of total development costs ($23,757) must be available for initial startup costs (AMPO);
- Construction financing will be 19% plus two points;
- Monthly charges for residents will be the amounts necessary to just cover operating expenses, reserves, debt service, and profit (the budget is listed later). Monthly per unit charges will average $357, and increase yearly as operating costs increase (though we will see, in this model and in the variations, how syndication proceeds can be used to lower resident costs). — FmHA will require the partnership to have a net worth 7% of the development cost when the loan is closed.

With these project characteristics, we can look at what syndication would bring. The syndication presented for this model (and later variations) is simplified to make understanding and comparisons easier. The simplifications include:

- Assuming that full occupancy (less 10% vacancy) occurs on the first day of the year; (this has no impact on syndication value);
- Folding construction period expenses (taxes, insurance, interest on the construction loan, up front costs) into the depreciation schedule rather than expensing some of these costs in the year prior to operations; (this assumption lowers return to investors and expected proceeds);
- Assuming the partnership begins life on the first day of occupancy; (this has no impact on syndication value);
- Assuming that the construction budget will be exactly correct (higher expenses will lessen available cash but raise syndication value);
- Assuming that working capital reserves will not be paid back (rather, they will be used to fund operating deficits or otherwise remain in the project);

— Not including general partner fees within the depreciable basis; (this lowers expected proceeds).

These simplifications will not hold for any real project. Excluding them here, however, will not seriously damage any of the conclusions. Their total impact errs on the side of underestimating return to investors and syndication value.

The depreciation method used for this syndication will be the ACRS schedule, a somewhat accelerated method available to low-income housing, which is the most accelerated method for low-income new construction. The ACRS is available from the 1982 U.S. Master Tax Guide (Commerce Clearinghouse Publishers) or any tax accountant. Housing is permitted a 15 year depreciation schedule, and 15 years was used here. The depreciable basis used is $1,142,716 (total costs less land). Along with the tax savings, the investor is assumed to get all of the 8% profit ($9,502) per year in cash. The tax savings chart is shown later.

With these assumptions, an investor would receive an 18% internal rate of return on an investment of $227,670, or a 25% internal rate of return on an investment of $189,495.

An investment of $227,670 would net the non-profit or coop $87,613 (after subtracting the necessary equity, working capital, and a hypothetical 25% of gross proceeds for syndication expenses. Syndication expenses are payments to accountants, lawyers, and brokers for the various services involved in packaging and selling limited partnership shares to investors.

Throughout this manual, syndication expenses will equal 25% of gross proceeds; when you syndicate, you may well find a better deal. Investors will make payments to the partnership over the initial years of the syndication, according to a precise schedule defined in the partnership agreement. The general partner (or its agent) will then draw down this money, in the form of fees for services rendered (again defined precisely in the partnership agreement). This is money available to the non-profit or coop for any purpose consistent with the bylaws. It could be used to reduce resident monthly costs. One such method is investing in an annuity, where equal payments of principal and interest are made monthly, much as a mortgage. If invested in a 40 year self-liquidating annuity earning 12% (in which equal monthly payments including principal and interest are made over 40 years, so that no money remains after that period), monthly costs would be reduced by $26 per unit, to $320.

Any viable sponsor of rural housing frequently is called on to examine various housing development possiblities. Most are dissimilar in at least one key element. Many such distinguishing characteristics (e.g., rehabilitation vs. new construction) have importantly differing results as the tax and accounting

concepts of equity syndication are applied. In order to illustrate the result of these differences, we have imposed several variant possibilities; on the foregoing model project. They follow. (See Development and Annual Budgets and
Examples One and Two).

DEVELOPMENT BUDGET

	Per Unit	Total (30 units)
Land	1,500	45,000
Site Work	2,500	75,000
Construction	30,000	900,000
Construction Financing	2,380	71,400
Other (legal, surveying, construction period taxes, etc.)	380	11,400
Total	39,591	1,187,716
515 Mortgage (95% of total)	37,611	1,128,330
Equity (5% of total)	1,980	59,386

ANNUAL BUDGET

Income	Per Unit	Total (30 units)
Rent (@ $357/month/unit)	4,281	128,443
(Less: 10% vacancy)	(428)	(12,844)
	3,843	114,599
Expenses		
Taxes	350	10,500
Insurance	200	6,000
Electric	360	10,800
Heat	500	15,000
Management/maintenance	500	15,000
Miscellaneous	100	3,000
Replacement reserves	381	11,433
Debt Service	1,145	34,364
Profit	317	9,502
Total	3,853	115,599

515: MODEL PROJECT

TAX SAVINGS AND CASH FLOW TO INVESTORS

(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME (INCOME LESS OPERATING EXPENSES, RESERVE FUNDING AND INTEREST)	DEPRECIATION =	TAXABLE INCOME (LOSS)	VALUE OF + TAXABLE INCOME (LOSS) TO 50% TAX PAYER	CASH FLOW =	TOTAL BENEFITS TO INVESTORS
1	23,081	(148,553)	(125,472)	62,736	9,502	72,238
2	23,312	(137,126)	(113,814)	56,907	9,502	66,409
3	23,545	(114,217)	(90,672)	45,336	9,502	54,838
4	23,780	(102,844)	(9,064)	39,532	9,502	49,034
5	24,018	(91,417)	(67,399)	33,700	9,502	43,202
6	24,258	(79,990)	(55,732)	27,866	9,502	37,368
7	24,501	(68,563)	(44,062)	22,031	9,502	31,533
8	24,746	(57,136)	(32,390)	16,195	9,502	25,697
9	24,993	(57,136)	(32,143)	16,072	9,502	25,574
10	25,243	(57,136)	(31,893)	15,947	9,502	25,449

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN: $227,670

INVESTMENT REQUIRED FOR A 25% INTERNAL RATE OF RETURN: $189,495

EXAMPLE ONE

MORTGAGE AMORTIZATION OVER 15 YEARS

FmHA 515 1%, 50 year loan on $1,128,330; annual payment: $34,364

YEAR	INTEREST PAID	PRINCIPAL PAID	CUMULATIVE PRINCIPAL PAID
1	11,283	23,081	23,081
2	11,052	23,312	46,393
3	10,819	23,545	69,938
4	10,584	23,780	93,718
5	10,346	24,018	117,736
6	10,106	24,258	141,994
7	9,863	24,501	166,495
8	9,618	24,746	191,241
9	9,371	24,993	216,234
10	9,121	25,243	241,477
11	8,869	25,495	266,972
12	8,614	25,750	292,722
13	8,356	26,008	318,730
14	8.096	26,268	344,998
15	7,833	26,531	371,529

EXAMPLE TWO

Variation 1: Accelerated Depreciation for Rehabilitation

Low-income housing which is substantially rehabilitated is eligible to use a more accelerated method of depreciation than the ACRS schedule used in this model. Up to $20,000 per unit of rehabilitation costs can be depreciated over the first five years of the depreciation schedule, in five equal installments. The remainder of the depreciable basis is depreciated according to the ACRS schedule, over 15 years.

We will keep the model exactly as it was, but make the project substantial rehabilitation rather than new construction. Using accelerated depreciation on $20,000 per unit ($600,000 in total) presents the tax savings chart on the following page.

As you can see, investors could get an 18% after tax internal rate of return by investing $290,068 in this project, or a 25% after tax internal rate of return by investing $246,922. You could be expected to gross more proceeds from syndicating this project. These amounts are significantly higher than the equivalent amounts in the model project, which used the ACRS depreciation schedule. On paper, there are no differences between the model and this variation aside from the different depreciation schedules: the total depreciation amounts; remain the same (over 15 years) but in this variation, more depreciation is taken in the first five years, and less afterwards. This illustrates graphically the concept of present value: a dollar today is worth more than a dollar tomorrow.

The difference between the ACRS model and the accelerated depreciation variation comes to $62,398 at an 18% internal rate of return. The net proceeds could be used to reduce monthly costs to project residents. The best way to do so is not to apply the money to reducing the principal on the mortgage loan, on which the project pays only 1% interest. Rather the $134,411 in net proceeds could be invested in a self-liquidating annuity for 40 years, in which the $158,165 plus accrued interest would be paid out in equal installments over 40 years, with all of the money used up by that time. Investing $134,411 in a 40 year self-liquidating annuity earning 12% would reduce monthly costs to $306.

This variation points to a key strategic element in a housing project: if you are planning to syndicate a low-income project, you can get more investor proceeds by undertaking substantial rehabilitation rather than new construction. (See Example Three).

Variation 2: The 'Coop Option'

Depreciation of low-income housing can be accelerated even more than in Variation 1. This can occur in a substantial rehabilitation which will at some point be owned by the tenants: hence the 'coop' (or condominium) option. If this is to happen, and the low-income character of the project is certified

515: $20,000/UNIT RAPIDLY ACCELERATED

TAX SAVINGS AND CASH FLOW TO INVESTORS

(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME – (INCOME LESS OPERATING EXPENSES, RESERVE FUNDING AND MORTGAGE INTEREST	DEPRECIATION =	TAXABLE INCOME (LOSS)	VALUE OF + TAXABLE INCOME (LOSS) TO 50% TAX PAYER	CASH FLOW =	TOTAL BENEFITS TO INVESTORS
1	23,081	(190,553)	(167,472)	83,736	9,502	93,238
2	23,312	(185,126)	(161,814)	80,907	9,502	90,409
3	23,545	(174,272)	(150,727)	75,364	9,502	84,866
4	23,780	(168,844)	(145,064)	72,532	9,502	82,034
5	24,018	(163,417)	(139,399)	69,700	9,502	79,202
6	24,258	(37,990)	(13,732)	6,866	9,502	16,368
7	24,501	(32,563)	(8,062)	4,031	9,502	13,533
8	24,746	(27,136)	(2,390)	1,195	9,502	10,697
9	24,993	(27,136)	(2,143)	1,072	9,502	10,57410
10	25,243	(27,136)	(1,893)	947	9,502	10,449

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN: $290,068

INVESTMENT REQUIRED FOR AN 25% INTERNAL RATE OF RETURN: $246,922

EXAMPLE THREE

by HUD or other responsible government agency, up to $40,000 per unit in rehabilitation costs can be depreciated over the first five years after project completion, in equal installments. The remainder of the basis is depreciated according to the ACRS schedule, over 15 years.

Again, keep the model as it is, but make the project substantial rehabilitation with ultimate ownership by a tenant cooperative. Accelerated depreciation will be used on $30,000 per unit of rehabilitation costs ($900,000 in total). The remaining basis will be $242,716. The tax savings chart is on the following page.

Notice that investor proceeds at an 18% internal rate of return have gone up to $321,258: $93,588 greater than in the model using the ACRS schedule, and $31,190 than in Variation 1 where $20,000 per unit of depreciation was accelerated. The present value concept is at work again. If net proceeds were invested in the 40 year, 12% self-liquidating annuity mentioned in Variation 1, monthly per unit costs could be reduced to $305.

These are caveats to using the 'coop option' of depreciation. In return for accelerating greater amounts of depreciation, the tax code requires that the price the partnership receives when they sell the project be low. Some tax lawyers feel that this creates an internal contradiction: IRS requires an 'economic purpose' for a partnership, so that it is not solely a tax shelter. Ordinarily the economic purpose of a real estate partnership would be to receive on-going cash flow and/or capital gains at the time of sale or refinancing. If the 'coop option' is used, the tax shelter is increased, but at the expense of any expectation of capital gains. It may be difficult, then, to persuade investors that the 'coop option' can be used safely. I n addition, use of the 'coop option' requires a project which a) will be owned by the residents at a future date and b) is certified as low-income by a government agency. These requirements present points of ambiguity (at least until there are IRS regulations on these requirements) which may be hard for investors, or their tax lawyers to swallow. (See Example Four)

<u>Variation 3: The Investment Tax Credit</u>

Tax credits are amounts applied directly against tax liability, to reduce taxes paid. Deductions (such as depreciation allowances) reduce income; each $1 of deductions to a person paying income taxes at a 50% rate is worth $0.50; each $1 of tax credit to a person in any income category is worth $1.

Investment tax credits (ITCs) can be used in real estate only for rehabilitation of designated historic structures. Twenty-five percent of rehab costs can be taken as an ITC in the first year of the project's life. The depreciation method used must then be 15 year, straight line (1/15th of the basis is used per year). Starting in 1983 the basis will have to be reduced by one half the investment tax credit that is taken.

515: $30,000/UNIT RAPIDLY ACCELERATED

TAX SAVINGS AND CASH FLOW TO INVESTORS

(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME (INCOME LESS OPERATING EXPENSES¼ RESERVE FUNDING AND MORTGAGE INTEREST)	− DEPRECIATION	= TAXABLE INCOME (LOSS)	VALUE OF TAXABLE INCOME (LOSS) TO 50% TAX PAYER	+ CASH FLOW	= TOTAL BENEFITS TO INVESTORS
1	23,081	(211,553)	(188,472)	94,236	9,502	103,738
2	23,312	(209,126)	(185,814)	92,907	9,502	102,409
3	23,545	(204,272)	(180,727)	90,364	9,502	99,866
4	23,780	(201,844)	(178,064)	89,032	9,502	98,534
5	24,018	(199,417)	(175,399)	87,700	9,502	97,202
6	24,258	(16,990)	7,268	(3,634)	9,502	5,868
7	25,501	(14,563)	9,938	(4,969)	9,502	4,533
8	24,746	(12,136)	12,610	(6,305)	9,502	3,197
9	24,993	(12,136)	12,857	(6,429)	9,502	3,074
10	25,243	(12,136)	13,107	(6,554)	9,502	2,949

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN: $321,258

INVESTMENT REQUIRED FOR A 25% INTERNAL RATE OF RETURN: $275,629

EXAMPLE FOUR

Make the model substantial rehabilitation of historic structure, with all other aspects the same. An ITC is taken on $30,000 per unit of rehabilitation ($900,000 in total), with the basis depreciated on a 15 year, straight line schedule. The tax savings chart is on the following page.

Investor proceeds at an 18% internal rate of return have gone up to $351,006. This is due to the size of the ITC ($225,000), and because the ITC is taken in the first year, maximizing its present value. (In the first year, investors would receive — in cash and tax savings -- $261,052). The depreciation schedule is the least accelerated we have seen, and thus the least favorable to investors, but this is more than offset by the ITC. The additional expected proceeds at an 18% internal rate of return over the model are $351,006 to $227,670, or $123,336. Proceeds used to reduce per unit monthly costs if invested in a 40 year, 12% self-liquidating annuity, make average monthly rents $292.

Irrespective of the kind of development selected by you as the sponsor, application of tax and accounting concepts to development and operations of the housing syndicate's business is only part of our concern. Substantial investor return also flows through the equity syndication pipeline when investors disengage themselves from the housing business. This area of concern is termed the buy-out. It has equal applicability to all of the foregoing project variations and base model. (See Example Five).

BUY-OUT STRATEGIES

The Concept

The benchmarks of the financial worth in an equity syndication are found in its early years and at the point investors will exit from the limited partnership. Much of the previous text has offered insight into the first set of benchmarks.

This section examines the final set of benefits flowing through the equity syndication 'pipeline' — the buy-out.

The sponsor's strategy in buy-out is to create a plan for the disassembly of the limited partnership having as its outcome a housing development that in both ownership an operations is as nearly identical to the sponsor's original (pre-equity syndication) goal as possible. The creation of a buy-plan is itself a challenge; selling it to investors as realistic and sufficiently rewarding is no less difficult than gaining acceptance of the tax-sheltering provisions. In fact, these activities are concurrent. In the initial planning/negotiations stages of the syndication, through the work of the sponsor's accountants and syndicators, buy-out provisions are drafted into the marketing prospectus and Limited Partnership Agreement.

515: USING THE INVESTMENT TAX CREDIT

TAX SAVINGS AND CASH FLOW TO INVESTORS

(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME − (INCOME LESS OPERATING EXPENSES RESERVE FUNDING AND MORTGAGE INTEREST)	DEPRECIATION =	TAXABLE INCOME (LOSS)	VALUE OF + TAXABLE INCOME (LOSS) TO 50% TAX PAYER	CASH FLOW = PLUS TAX CREDIT	TOTAL BENEFITS TO INVESTORS
1	23,081	(76,181)	(53,100)	26,550	234,502	261,052
2	23,312	(76,181)	(52,869)	26,435	9,502	35,937
3	23,545	(76,181)	(52,636)	26,318	9,502	35,820
4	23,780	(76,181)	(52,401)	26,201	9,502	35,703
5	24,018	(76,181)	(52,163)	26,082	9,502	35,584
6	24,258	(76,181)	(51,923)	25,962	9,502	35,464
7	24,501	(76,181)	(51,680)	25,840	9,502	35,342
8	24,746	(76,181)	(51,435)	25,718	9,502	35,220
9	24,993	(76,181)	(51,188)	25,594	9,502	35,096
10	25,243	(76,181)	(50,938)	25,469	9,502	34,971

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN:P $351,006

INVESTMENT REQUIRED FOR A 25% INTERNAL RATE OF RETURN: $307,548

EXAMPLE FIVE

In structuring buy-out provisions, tactical notice should be given to the tension between the sponsor's goals and the investor's expectations. Managing this tension in the context of syndication negotiations requires the same sponsor application of the concepts involved as was the case with tax shelter issues. Let's examine some of these buy-out issues.

<u>The Investor's Viewpoint:</u> Participation in equity syndication is strictly a short-term proposition for the high income taxpayers. The main motivation is to gain tax losses. According to the accounting and tax procedures we've examined (e.g., accelerated depreciation) much of this advantage is exhausted early in the full life of the housing. At the exhaustion point, no benefits are flowing to the investor, so it is time to scrap the pipeline.

True to form the investor's primary interest in buy-out is maximum economic return. To assure this, the sponsor must show a satisfactory buy-out plan regarding two companion issues: (1) the process through which an investor surrenders rights in the syndicate (and reaps economic return for that action) must conform to generally accepted tax rule standards. An example will be of assistance here. Since investors reap large tax benefits in the syndicate's early years, IRS is wary of investors whose participation is confined only to this initial and highly attractive period. Unless investors remain limited partners for a long enough period to demonstrate their legitimate interest in the housing business of the syndicate (not only its tax losses), IRS may negate the special tax benefits earlier provided through the pipeline. The investment must also have an economic value independent of its tax benefits. There is a real practical limit on the scope of buy-out strategies. The sponsor, with the assistance of its technical advisors, will have to become conversant in these structures; 2) the sponsor must convince the investors that some member of the limited partnership or some other outside purchaser will have sufficient capital to purchase back investor's rights at the projected time and price of such buy-out. The buy-out strategy, therefore, must establish both the price and time of this transaction. These provisions will be negotiated and included in the Limited Partnership Agreement. The buy-out price is usually a substantial amount of money that often exceeds the present resources of the sponsor. This poses a problem if the sponsor will be the ultimate buyer. The sponsor (or its agent in the limited partnership must offer a convincing, financially plausible explanation of how, during the investor's tenure in the syndicate, funds will be amassed necessary for buy-out. The sponsor's proposal must be made resolutely based on a realistic projection of future economic conditions. Despite very attractive tax loss aspects, no investors will jump into an equity syndication whose buy-out is based on pie-in-the-sky economic forecast or a large leap of faith.

<u>The Sponsor's Viewpoint</u>: As it approaches the time for buy-out, our housing development has already labored for some number of years in a form quite different from the sponsor's long-range vision. The task for the sponsor in buy-out is to gain agreement to a set of terms that, as much as possible, keep or return to project as a matter of affordability, ownership and operation, to

its originally conceived state. This can be accomplished, generally, in one of two ways.

The most direct route is for the sponsor to search for a way to bear the cost of purchasing the investor's interest without jeopardizing the affordability of the housing to families of the lowest possible incomes. Purchase at $1 over outstanding mortgage for example. Compounding this search is the fact that many of its avenues are premised in uncertain projections of general economic conditions and/or expected management performance levels for years hence.

The second alternative is to allow for purchase of investor's interests by some third-party presently not part of the syndicate. The identity of this future purchaser need not be known at the time the Limited Partnership Agreement (see Definition M) is entered, but, based again on sound economic agreements, the sponsor must convince investors that at the specified time such a would-be purchaser will exist. The sponsor must ensure affordability under this approach, but restricting any such sale (by language in the Agreement) to certain covenants (e.g., Section 8 contracts must be assumed and renewed for full mortgage term).

Let's return to one of our project examples to illustrate the difficulties of addressing both the investor's and sponsor's viewpoints in buy-out. (See Example Six).

BUY-OUT TACTICS

There are three considerations when negotiating a buy-out formula with investors: 1) achieving the best possible tradeoff between short and long-run tenant an organizational concerns; 2) the price for buy-out the investors consider realistic; and 3) the price for buy-out the investors consider realistic. To help in appraising these considerations, we present three scenarios: 1) buy-out for existing mortgage amount; 2) buy-out for constant value; and 3) buy-out for an appreciated value. For each of these scenarios, we have used the 515 model presented before, assumed investors will receive 50% of the buy-out price (with the non-profit or coop general partner purchasing at that50% rate; as mentioned previously 50% is a norm), and made the buy-out after the tenth year of project operation. Notice that the investment amounts given for each scenario refer only to the cash expected from investor upfront in return for later cash from a buy-out. These amounts should then be added to the gross proceeds expected with any of the previous variations.

Existing mortgage — After the tenth year, the existing mortgage is $827,467. One-half of that is $413,734. That amount would give an 18% internal rate of return to an investment of $79,050, or a 25% internal rate of return to an investment of $44,424.

515: BUYOUT AFTER YEAR 10

BUYOUT	BUYOUT PRICE	INVESTORS'SHARE @50% OF TOTAL	INVESTMENT REQUIRED TO GIVE AN 18% IRR	INVESTMENT REQUIRED TO GIVE A 25% IRR
Value of existing mrtgage	886,854	443,427	84,723	47,613
Current value	1,187,716	593,858	113,465	63,765
Appreciated value	2,127,018	1,063,509	203,199	114,194

EXAMPLE SIX

Current value -- The current value of the project is $1,187,716. One-half of that is $593,858. That amount would give an 18% internal rate of return to an investment of $113,465, or a 25% internal rate of return to an investment of $63,765.

Appreciated value -- If the current value of the project ($1,187,716) appreciates at a 6% annual rate, it is worth $2,127,018 after ten years. One-half of that is $1,063,509. That amount would give an 18% internal rate of return to an investment of $203,199, or a 25% internal rate of return to an investment of $114,194.

Each of the above investment amounts can be added to the expected proceeds from the model or any of the variations (except 'coop option') to give total proceeds expected. As was discussed earlier, many investors will be skeptical that any monies will be available for buy-out, however, especially if the buy-out terms restrict the market for sale. You may be able to mitigate this skepticism by demonstrating how the non-profit or coop will indeed have cash available at the end of the tenth year (through creation of special reserve accounts, allocation of part of the proceeds toward the buy-out, etc.). To the extent you can convince the investors that a real buy-out will take place, you can expect higher proceeds. If the cash is not available, however, you or the coop may be in a bind.

BUY-OUT APPROACHES

Much of the message of the foregoing section turns on various future and presently unknown variables. These question marks post great difficulties for the sponsor interested in assuring long-term affordable usage of the housing.

One obvious future unknown is family income and its purchasing power in a housing market ten years in the future. If housing prevails at its present high cost relative to income, it is unlikely that the housing-business of the syndicate will be marketable to another buyer in lieu of the sponsor or its agent, i.e., rents derived after buy-out can't be afforded by any customer families. Hence, the project would have limited market value and affect any buy-out strategy pivoting on this aspect. Conversely, family income may grow relative to housing and/or financing costs making any buy-out plan that increases monthly costs (say, in the eleventh year) a feasible one to consider.

Tax law is a constantly changing beast. Ten years into the life of the project, interim changes in the law may relegate a formerly onerous buy-out plan to one only minimally affecting affordability. For instance, if long-term capital gain provisions were made even more taxpayer advantageous, departing investors may accept less than the market value of the project as the price of buy-out because the then present tax law may permit more of these gains to be retained.

With these unknowns in mind, we will review several approaches the sponsor may wish to use in negotiating a buy-out plan for investors. The success of any one approach depends on the particular viewpoint of the investor(s), how thoroughly the sponsor has prepared, and how persuasive the sponsor (and/or its agents) can be.

The two primary issues in buy-out are: (1) who will do the buying, and (2) whether the capital will be available to meet the specified price. Let's examine the first issue.

The sponsor must attempt to negotiate a way to guarantee that the future purchaser will honor its aim of affordable housing. One way to do this is to give the sponsor or cooperative the most favorable opening to be that future purchaser. This can be accomplished by structuring into the agreement (at the time the syndicate is constituted) a future first option to purchase the housing to be sponsored. The option may also offer sale at a favorably discounted price. This concession is reserved only for the sponsor in acknowledgement of the work of putting the housing development together in the first place. Alternatively, the sponsor may not be the actual purchaser but it can reserve the right to approve of any such buyer.

Another approach is to control a new third-party purchaser's use of the housing as opposed to who that purchaser is. This can be done by requiring as a condition of the syndication that any federal subsidy contract must be honored for its full term even though a buy-out may occur during its life. Use after buy-out can also be controlled through a long-term lease given back to the sponsor or cooperative at original occupancy. The lease and Limited Partnership Agreement will state that any new owner must abide by its terms and the control it grants to the cooperative or sponsor.

There are several approaches to the second primary issue in buy-out, viz. whether capital will be available to meet the specified price. The issue is not as important if an outside and endowed third-party purchaser is anticipated. However, investors and syndicators will need to be convinced that the sponsor will have the required capital, if the buy-out contemplates such a sale.

The sponsor can argue that sufficient resources will exist for buy-out through the creation of various <u>reserve accounts</u> that will grow through investment during the investor's tenure in the syndicate. For instance, a contingency fund is often created during the construction period of the project. The sponsor may commit to invest any unused portion of this fund in high interest bearing accounts for use ten years later. It must also convince the investor why amounts from this fund will remain unused and their expected magnitude.

Similar arrangements can be made with other standard reserves (e.g., vacancy) or a special reserve created for this purpose.

Where the non-profit (or a coop or subsidiary it has created as its agent) serves as a general partner, it may obtain some of the initial proceeds paid into the syndication by investors. It can legally commit a portion of this income to high income earning investments, in order to generate sufficient funds for buy-out.

It may also be possible for the non-profit to negotiate reductions in the stated price for buy-out provided that the sponsor's management of the housing attains certain pre-established standards. Maximal occupancy of the housing over the years, one such potential standard, benefits both investors and sponsor and may be rewardable through investor concessions in the buy-out plan.

Keep in mind that each of these strategies (i.e., creating of income producing reserves, investment of syndication proceeds and crediting good management) aimed at buy-out at a set price can exist independently or in combination.

Another more difficult to negotiate approach is to put <u>constraints on the buy-out transaction itself</u>. The sponsor, while offering a target price for buy-out, may also request a provision stating that said price shall be given only if the then generally available financing/reserves as applied to the price will derive affordable monthly costs to the occupants. Essentially, this means that if the incomes of occupants cannot support the monthly debt associated with the buy-out, it will not be executed <u>irrespective</u> of the wishes of the investor. Another statement of the approach may require that the new debt service does not exceed the old. Where public contracts initially required a low-income use (e.g., Section 8), another approach is to require that any buy-out be structured so that a continued use consistent with the contract is a requirement.

The sponsor (be it a non-profit or a coop) may exercise some degree of post-buy-out control by retaining ownership of the land throughout the life of the project and allowing the syndicate to occupy the site through a long-term lease. Alternatively, where the property is actually deeded, a reverter is sometimes inserted in the document returning ownership of the land to non-profit or occupant owners at some future date. Such a clause places practical limits on use following disassembly of the limited partnership.

Buy-out is an area of equity syndication that demands as much of the sponsor's attention and savvy as its tax loss aspects. The art of projection and economic forecasting play a larger role here. Further, there are many more rules regulating tax losses. No number of buy-out approaches is too numerous for consideration. The sponsor must be tactically tuned to the investors viewpoint and be prepared to react firmly to investor skepticism to any given plan, but, at the same time, be generously attendant to investor expectations of capital return. (See Example Six and Example Seven).

The Moderate Rehabilitation Model

The dual impact of prevailing high interest rates and disappearing Federal housing subsidies has caused many sponsors to examine more limited rehabilitation of housing as the most encouraging avenue to affordability for low- to moderate-income families.

In this section, we will see how syndication could look in the mod rehab model, with variations in the syndications to follow. Keep in mind that packaging a feasible, affordable mod rehab project can require many different pieces, all designed to keep acquisition or rehab costs down, or to lower net financing costs. Syndication can indeed be an important piece, but it will not be the 'answer'; other pieces will be needed as well.

Our model project will be 30 units of existing, slightly dilapidated housing. Acquisition costs are $10,000 per unit, or $300,000 in total. Rehabilitation, at $5,000 per unit or $150,000 in total, will bring the structures up to code. Other costs (closing, title, rehab financing miscellaneous fees) are $2,000 per unit, or $60,000 in total. Total project development costs are $510,000, listed later.

Project income from monthly resident payments will be just enough to pay operating expenses and debt service (the income and expense statement follows). There will be no provision for profit. Project income is constrained by affordability to the constituency you want to serve. Rental income is set here at the Section 8 moderate rehabilitation limits (we are using an average of $362 per unit per month; the actual mod rehab rents are 120% of the Section 8 existing FMRs and change by jurisdiction). If the Section 8 rent subsidies are available, they can be used in this project to lower resident housing costs. If they are not available, residents will pay the full housing costs, and can't go higher than $362/month. Mortgage financing on the project will approximate conventional loans: 18% for 25 years. Project income limits the amount available for debt service, so that the mortgage loan is for $357,011 (70% of total development costs). A mortgage amortization chart follows. $152,989 in equity is needed to make the project go.

Syndication will be used for one source of equity. The simplifications mentioned in the 515 model (occupancy will begin on the first day of the year, etc.) will be used here. Depreciation will follow the ACRS schedule over 15 years, using a $465,000 basis (total development costs less $45,000 in land costs). A tax savings chart follows.

515:SUMMARY CHART

VARIATION	EXPECTED INVESTMENT @18 IRR	NET PROCEEDS (INVESTMENT LESS 25% EXPENSES)	EQUITY NEEDS OF PROJECT PLUS WORKING CAPITAL	AVAILABLE CASH AFTER EQUITY PLUS WORKING CAPITAL	RENTS W/O USE OF NET PROCEEDS	RENTS WITH USE OF NET PROCEEDS
Non-profit 515 w/ 100% financing	0	0	0	0	333	-
Model syndication	230,489	172,867	83,140	87,613	351	320
$20,000/unit rapid acceleration	230,887	219,665	83,140	134,411	351	306
$30,000/unit rapid acceleration	325,378	244,034	83,140	157,804	351	305
Use of ITC	353,826	265,370	83,140	180,115	351	292
Model w/buyout at current value	343,954	257,966	83,140	172,711	351	294
$30,000/unit rapid acceleration w/buyout @current value	438,843	329,132	83,140	242,902	351	273

EXAMPLE SEVEN

With these assumptions, an investor would receive an 18% internal rate of return on an investment of $92,653, or a 25% internal rate of return on an investment of $77,297.

If 75% of the $92,653 were applied to the equity needs (with 25% for syndication fees), there would be an equity shortfall of$83,499.

Variations of a moderate rehabilitation housing development scheme also may be encountered in the field situation or may be worth generating in order to enhance the affordability of occupancy for low and moderate income families. The following sections examine some of these approaches.
(See Examples Eight, Nine, and Ten)

Variation 1: Changes in Financing

Changes in financing rates will have a double edged impact on a syndication. On the one hand, higher interest rates will mean paying more interest costs, which are deductible to a partnership and should increase the value of a share to an investor. On the other hand, higher interest costs will mean higher debt service payments, leading to higher rents or a lower amount financed (and hence higher equity amount) at a given rent level. Changes in financing term will have a single impact: if the term is lengthened, early interest payments are higher, resulting in increased value to an investor, while annual debt service is lowered, resulting in lower rents ora larger amount financed.

To show these effects, we have taken the mod rehab model,financed at 18% over 25 years,and used three other financing schemes: 18% over 15 years,12% over 30 years, and 12% over 15 years (the lower interest rate possibilities could result from tax exempt financing, owner paper on acquisition, or other sourcesmentioned above). Charts on return to investors of these three schemes follow.

To receive an 18% internal rate of return, an investor would have to invest $73,959 if the financing were over 18% over 15 years, $84,684 if12% over 30years, and $56,645 if 12% over 15 years. This contrasts with $92,653 on the model 18% over 25 years. If 75% of the proceeds were applied to the necessary equity amount (at the given rent levels) the 18%, 15 year plan would fall $122,031 short; the 18%, 25year model would fall $83,449 short; the 12%, 15 year plan would fall $22,739 short. Only the 12%, 30 year plan would derive greater than the equity amount ($67,263 greater).

The strategic lesson should be clear. If your concern is affordability, then lesser debt service is far more important than slightly increased expected investor proceeds. Both lessened debt service and syndication proceeds — along withother cost or finance charge reductions — will be important pieces in completing the affordability puzzle. (See Examples Eleven, Twelve and Thirteen)

MODERATE REHAB: BUDGETS

	Per Unit	Total
Income (@ 362/unit/month)	4,334	130,320
(Less: 5% vacancy)	(217)	(6,516)
Total	4,127	123,804
Expenses		
Taxes	250	7,500
Insurance	100	3,000
Electric	480	14,400
Water/sewer	250	7,500
Heat	500	15,000
Maintenance/management	200	6,000
Replacement reserves	170	5,100
Total	1,950	58,500
Debt service	2,177	65,304
Total	4,127	123,804
Development Budget		
Acquisition	10,000	300,000
Rehabilitation	5,000	150,000
Miscellaneous (legal, construction taxes and financing, etc.)	2,000	60,000
Total	17,000	510,000

EXAMPLE EIGHT

MORTGAGE AMORTIZATION OVER 10 YEARS

CONVENTIONAL 18%, 25 YEAR LOAN OF $357,011; ANNUAL PAYMENT: $65,304

YEAR	INTEREST PAID	PRINCIPAL PAID	CUMMLATIVE PRINCIPAL PAID
1	64,262	1,042	1,042
2	64,074	1,230	2,272
3	63,853	1,451	3,723
4	63,592	1,712	5,435
5	63,284	2,020	7,455
6	62,920	2,384	9,839
7	62,491	2,813	12,652
8	61,985	3,319	15,971
9	62,387	3,917	19,888
10	60,682	4,622	24,510

EXAMPLE NINE

MODERATE REHAB: MODEL PROJECT

TAX SAVINGS AND CASH FLOW TO INVESTORS

(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME – (INCOME LESS OPERATING EXPENSES, RESERVE FUNDING AND MORTGAGE INTEREST)	DEPRECIATION =	TAXABLE INCOME (LOSS)	VALUE OF + TAXABLE INCOME (LOSS) TO 50% TAX PAYER	CASH FLOW =	TOTAL BENEFITS TO INVESTORS
1	1,042	(60,450)	(59,408)	29,704	0	29,704
2	1,230	(55,800)	(54,570)	27,285	0	27,285
3	1,451	(46,500)	(45,049)	22,525	0	22,525
4	1,712	(41,850)	(40,138)	20,069	0	20,069
5	2,020	(37,200)	(35,180)	17,590	0	17,590
6	2,384	(32,550)	(30,166)	15,083	0	15,083
7	2,813	(27,900)	(25,087)	12,543	0	12,543
8	3,319	(23,250)	(19,931)	9,966	0	9,966
9	3,917	(23,250)	(19,333)	9,667	0	9,667
10	4,622	(23,250)	(18,628)	9,314	0	9,314

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN: $92,653

INVESTMENT REQUIRED FOR A 25% INTERNAL RATE OF RETURN: $77,297

EXAMPLE TEN

MODERATE REHAB: FINANCING AT 18% OVER 15 YEARS

TAX SAVINGS AND CASH FLOW TO INVESTORS

(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME – (INCOME LESS OPERATING EXPENSES, RESERVE FUNDING AND MORTGAGE INTEREST)	DEPRECIATION =	TAXABLE INCOME (LOSS)	VALUE OF + TAXABLE INCOMME (LOSS) TO 50% TAX PAYER	CASH FLOW =	TOTAL BENEFITS TO INVESTORS
1	5,454	(60,450)	(54,996)	27,498	0	27,498
2	6,436	(55,800)	(49,364)	24,682	0	24,682
3	7,594	(46,500)	(38,906)	19,453	0	19,453
4	8,961	(41,850)	(32,889)	16,445	0	16,445
5	10,574	(37,200)	(26,626)	13,313	0	13,313
6	12,477	(32,550)	(20,073)	10,037	0	10,037
7	14,723	(27,900)	(13,177)	6,589	0	6,589
8	17,374	(23,250)	(5,876)	2,938	0	2,938
9	20,501	(23,250)	(2,749)	1,375	0	1,375
10	24,191	(23,250)	941	(471)	0	(471)

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN: $73,959

INVESTMENT REQUIRED FOR A 25% Internal RATE OF RETURN: $63,492

MODERATE REHAB: FINANCING AT 12% OVER 30 YEARS

TAX SAVINGS AND CASH FLOW TO INVESTORS

(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME – (INCOME LESS OPERATING EXPENSES, RESERVE FUNDING AND MORTGAGE INTEREST)	DEPRECIATION =	TAXABLE INCOME (LOSS)	VALUE OF + TAXABLE INCOME (LOSS) TO 50% TAX PAYER	CASH FLOW =	TOTAL BENEFITS TO INVESTORS
1	2,180	(60,450)	(58,270)	29,135	0	29,135
2	2,441	(55,800)	(53,359)	26,680	0	26,680
3	2,734	(46,500)	(43,766)	21,883	0	21,883
4	3,062	(41,850)	(38,788)	19,394	0	19,394
5	3,430	(37,200)	(33,770)	16,885	0	16,885
6	3,841	(32,550)	(28,709)	14,355	0	14,355
7	4,302	(27,900)	(23,598)	11,799	0	11,799
8	4,819	(23,250)	(18,431)	9,216	0	9,216
9	5,397	(23,250)	(17,853)	8,927	0	8,927
10	6,044	(23,250)	(17,206)	8,603	0	8,603

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN: $89,684

INVESTMENT REQUIRED FOR AN 25% INTERNAL RATE OF RETURN: $74,970

EXAMPLE TWELVE

MODERATE REHAB: FINANCING AT 12% OVER 15 YEARS
TAX SAVINGS AND CASH FLOW TO INVESTORS
(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME - (INCOME LESS OPERATING EXPENSES¼ RESERVE FUNDING AND MORTGAGE INTEREST)	DEPRECIATION =	TAXABLE INCOME (LOSS)	VALUE OF + TAXABLE INCOME (LOSS) TO 50%TAX PAYER	CASH FLOW =	TOTAL BENEFITS TO INVESTORS
1	11,931	(60,450)	(48,519)	24,260	0	24,260
2	13,362	(55,800)	(42,438)	21,219	0	21,219
3	14,966	(46,500)	(31,534)	15,767	0	15,767
4	16,762	(41,850)	(25,088)	12,544	0	12,544
5	18,773	(37,200)	(18,427)	9,214	0	9,214
6	21,026	(32,550)	(11,524)	5,762	0	5,762
7	23,549	(27,900)	(4,351)	2,176	0	2,176
8	26,375	(23,250)	3,125	(1,563)	0	(1,563)
9	29,540	(23,250)	6,290	(3,145)	0	(3,145)
10	33,085	(23,250)	9,835	(4,918)	0	(4,918)

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN: $56,645

INVESTMENT REQUIRED FOR A 25% INTERNAL RATE OF RETURN: $49,972

EXAMPLE THIRTEEN

Variation 2: Changes in Depreciation Methods

As discussed in the 515 model, acceleration of depreciation creates more value in the syndication, and can mean a greater investment for a given rate of return. Rehabilitation costs can be the most accelerated, while the non-rehab costs in a rehab project (e.g., the cost of the structure) and the construction costs in a new construction project are the least accelerated.

Consider then the mod rehab model using accelerated depreciation. Here the rehab costs ($5,000 per unit, or $150,000 in total) are depreciated over the first five years of project life, on a straight line basis. The remainder of the depreciation comes from the 15 years ACRS schedule. The tax savings chart follows. An investment of $108,249 will get an 18% rate of return on 18%, 25 year financing, compared with a similar return on a $92,653 investment using the less accelerated depreciation method. The equity short fall has become $71,802 instead of $283,499 (after factoring in syndication fees). Similar results are obtained with the other financing schemes.

Imagine now that the project -- with the same total development costs -- requires $10,000 per unit ($300,000 in total) in rehab. The acquisition cost would be then $5,000 per unit, much as in the real world more dilapidated buildings cost less. Again, the rehab costs are depreciated on the five year, straight line basis, while other costs use the 15 year ACRS schedule. The tax savings chart follows. Now an investment of $123,844 will get an 18% internal rate of return on 18%, 25 year financing. The equity shortfall has dropped to $60,106.

Clearly then, syndication can work best in achieving affordability or project feasibility when the rehab costs are a relatively high percentage of total development costs. This is even more true if the structure is historic and the investment tax credit used. (See Examples Fourteen and Fifteen)

Variation 3: Buy-Out After 10 Years

The buy-out potential is available for the mod rehab model as well as the 515 model. All of the concerns and caveats about buy-out apply here as well. Notice again that these investment amounts should be added back to the expected proceeds in other variations.

Buy-Out at Mortgage Value: After 10 years, the mortgage value on the project (when financed at 18% over 25 years) is $332,501. The investor would get one-half of this amount, or $166,251. The investor would realize an 18% internal rate of return when receiving this amount if $31,765 were invested initially.

MODERATE REHAB: $5,000/UNIT RAPIDLY ACCELERATED

TAX SAVINGS AND CASH FLOW TO INVESTORS

(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME (INCOME LESS OPERATING EXPENSES, RESERVE FUNDING AND MORTGAGE INTEREST) −	DEPRECIATION =	TAXABE INCOME (LOSS)	VALUE OF TAXABLE INCOME (LOSS) TO 50% TAX PAYER +	CASH FLOW =	TOTAL BENEFITS TO INVESTORS
1	1,042	(70,950)	(69,908)	34,954	0	34,954
2	1,230	(67,800)	(66,570)	33,285	0	33,285
3	1,451	(61,500)	(60,049)	30,025	0	30,025
4	1,712	(58,350)	(56,638)	28,319	0	28,319
5	2,020	(55,200)	(53,180)	26,590	0	26,590
6	2,384	(22,050)	(19,666)	9,833	0	9,833
7	2,813	(18,900)	(16,087)	8,044	0	8,044
8	3,319	(15,750)	(12,431)	6,216	0	6,216
9	3,917	(15,750)	(11,833)	5,917	0	5,917
10	4,622	(15,750)	(11,128)	5,564	0	5,564

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN: $108,249

INVESTMENT REQUIRED FOR A 25% INTERNAL RATE OF RETURN: $91,650

EXAMPLE FOURTEEN

MODERATE REHAB: $10,000/UNIT RAPIDLY ACCELERATED

TAX SAVINGS AND CASH FLOW TO INVESTORS

(NEGATIVE AMOUNTS ARE EXPRESSED IN PARENTHESES)

YEAR	NET OPERATING INCOME - (INCOME LESS OPERATING EXPENSES¼ RESERVE FUNDING AND ORTGAGE INTEREST	DEPRECIATION =	TAXABLE INCOME	VALUE OF + TAXABLE INCOME (LOSS) TO 50% TAX PAYER	CASH FLOW =	TOTAL BENEFITS TO INVESTORS
1	1,042	(81,450)	(80,408)	40,204	0	40,204
2	1,230	(79,800)	(78,570)	39,285	0	39,285
3	1,451	(76,500)	(75,049)	37,525	0	37,525
4	1,712	(74,850)	(73,138)	36,569	0	36,569
5	2,020	(73,200)	(71,180)	35,590	0	35,590
6	2,384	(11,550)	(9,166)	4,583	0	4,583
7	2,813	(9,900)	(7,087)	3,544	0	3,544
8	3,319	(8,250)	(4,931)	2,466	0	2,466
9	3,917	(8,250)	(4,333)	2,167	0	2,167
10	4,622	(8,250)	(3,628)	1,814	0	1,814

INVESTMENT REQUIRED FOR AN 18% INTERNAL RATE OF RETURN: $123,844

INVESTMENT REQUIRED FOR A 25% INTERNAL RATE OR RETURN: $106,003

EXAMPLE FIFTEEN

Buy-Out at Constant Value: The constant value of the project is $510,000. One-half of this is $255,000. An 18% IRR would be realized if $48,721 were invested initially.

Buy-Out at Appreciated Value: $510,000 appreciated at 6% per year over 10 years gives $912,332. The investor's share is one-half, or $456,666. An 18% IRR would be realized if $87,253 were invested initially. (See Example Sixteen).

Summary

The new world of low-income housing development will call on your creative resources. It rarely will be a simple matter to package and develop affordable housing. Rather, the pieces which can make housing more affordable and are (or might be) available within your locality or region will have to be evaluated separately, and then combined into the best possible mix. And even that might not make for housing affordable to your constituency.

As we have shown, syndication can be used as one of the pieces to create more affordable housing. A chart summarizing the discussion follows. While syndication has importance, it is relatively less important than low cost, long-term financing. Syndication does not provide the magic key to unlock the door of low income housing production, as we used to know it. It can be a useful short-term addition to a housing package, with potential long-term drawbacks — no more and no less.

NEW SYNDICATION POSSIBILITIES

Times of never before known uncertainty confront all parties interested in rural housing delivery. Until recently, non-profit sponsors, and the emerging community of rural organizations dedicated to the construction of housing cooperatives, faced various programs for housing development that were familiar and stable. Despite the political and technical difficulties of using these rural housing programs, the processes at least were constant.

Today's combined impact of a drastically changed Federal housing commitment (non-commitment is a more apt description, some argue) and an economy of high interest rates have swept even these constants aside. HUD's long-standing workhorse programs such as Section 8 are being dismantled. The FmHA 515 program has been deprived of Section 8 and rental asssistance.

The world of equity syndications has also felt the shock waves of these changes. Over the years, the structure, categories and magnitude of financial return from the low-income housing equity syndication have become quite stylized. A recognizable market profile of the desirable equity syndication has evolved. With programs like HUD's Section 8 and FmHA's Section 525 as strong foundations, sponsors and syndicators could stamp project prospectes

MODERATE REHAB: SUMMARY CHART

VARIATION	EXPECTED INVESTMENT @18 IRR	NET PROCEEDS (INVESTMENT) LESS 25% EXPENSES	EQUITY NEEDS OF PROJECT W/O PROCEEDS	EQUITY NEEDS OF PROJECT USING PROCEEDS	AVAILABLE CASH AFTER EQUITY
Model syndication	92,653	69,490	152,989	83,499	0
Financing @18%, 15 years	73,959	55,469	177,500	122,031	0
Financing @12%, 30 years	89,684	67,263	0	0	67,263
Financing @12%, 15 years	56,645	42,484	65,223	22,739	0
$5,000/unit rapidly accelerated	108,249	81,187	152,989	71,802	0
$10,000/unit rapidly accelerated	123,844	92,883	152,989	60,106	0
Model w/buyout at current value	141,374	106,031	152,989	46,958	0

EXAMPLE SIXTEEN

out of a standardized mold. Much of the guesswork regarding whether IRS would view a certain provision as legitimate was removed through repetition and precedence. But as these tried and proven programs ebb, operatives in the equity syndication world face a situation kindred to that of the non-profit sponsor -- they are groping for new housing production/syndication possibilities that will derive marketable (affordable) housing and significant tax losses.

In the absence of deep subsidy programs, the commonly shared goals of this search are development possibilities which reduce the amount or cost of financing required to produce a unit of housing.

The former can be done generally either by reducing the amount of financing necessary for rehabilitation or that necessary for acqusition. With the debt load of the project somehow reduced together with the margin of equity capital contributed by investors, syndication may derive marketable housing.

Housing development models serving to reduce the amount of either acquisition of rehabilitation financing are presently gaining renewed attention. As occurred in the early years of the Section 8 program, a cautious 'pipeline' is being constructed between these development approaches and investor capital. It is a growing field that is in flux; accordingly, our examination of several possibilities will be inexhaustive and should be supplemented by further investigation on the part of any interested sponsor or cooperative.

One straightforward approach is to reduce the amount of rehabilitation financing required by doing less rehabilitation work. The practice has been sporadically used over the years by self-helpers and homestaders. One practice is to arrange financing for purchase of an existing structure and division of the structure into apartments with only the basic kitchen/bath core work provided. All finish and convenience rehabilitation is done after occupancy by the families as their time and funds permit. This approach and variations to it, require either a cohesive group of occupant families or longer-term commitment to occupancy than a typical renter situation. The limited rehabilitation approach is, therefore, well suited to a cooperation where families make a long-term equity commitment to the structure.

Limited rehab can be made affordable to lower income families through the use of one of two remaining components of the Section 8 program, viz. the Existing or Moderate Rehabilitation Rental Assistance Programs. The standard theme of the Section 8 program, of limiting monthly costs to families through federal rent assistance, is applied to a lower monthly rehab debt. In some rural areas, local rent levels are high enough to permit rehab debt payment (even at prevailing high interest rates) within the limits of the programs.

Housing cooperatives have been successfully developed through the avoidance of acquisition debt. This is accomplished by gaining access and legal control of a site and/or building through a long-term lease as opposed to purchase.

The lease in such an arrangement is a document signed by the cooperative and the owner of the property. For a specified number of years (usually no less than ten), the cooperative is given the right to occupy the property for residential housing purposes. The lease also establishes various standards of conduct for the cooperative during the time it occupies the property, e.g., the timely performance of itemized maintenance and upkeep, and securing fire insurance on the property for its replacement value, etc.

The owner of the property is paid a monthly amount called a leasehold payment as compensation for relinquishing day-to-day use of the premises. Since leasehold payments are usually lower than payments associated with acquisition debt, the total monthly cost to families is more affordable.

A cooperative holding such a lease is guaranteed affordable housing only for the term of the agreement unless a purchase opportunity is also included in the document. Whenever a cooperative engages in lease negotiations, the option to purchase should be one of its priority goals. Purchase option provisions in the lease should include a formula for determining the purchase price (for instance, the average value assigned by three registered real estate appraisers) and the timing for purchase (at the end of the leasehold term, after five years of occupancy, etc.). Many leases carry an exclusive option to purchase the property during the leasehold for a specified price, whenever the cooperative can arrange affordable financing.

Leasing cooperatives have been used as part of equity syndications; there is evidence that this kind of project will be done with greater frequency in the future. In such a case, the owner of the property is the equity syndicate; the lease is signed by the cooperative and the limited partnership.

Shared or congregate housing is also being re-examined as an option to reduce rehabilitation and/or acquisition cost. Two factors help accomplish this fact. First, it is generally less rehab expensive to shelter one person in some form of physically shared or congregate housing as opposed to creating a separate fully contained apartment for that person in the same structure. Obviously, more square footage, plumbing, fixtures, materials are required for distinct apartments; with less of these construction items in shared/congregate housing, a lower rehabilitation debt is derived. Secondly, many states offer programs to assist with either development or operating costs in this kind of housing. Grants, subsidized financing or underwriting of operating costs are available to provide what is seen as a desirable alternative to institutionalization for the aged or families with special needs.

The particular circumstances of a project may make it impossible to avoid large acquisition and/or rehabilitation debt. In these cases, the only alternative to insuring project affordability (with the assistance of an equity syndication) is to 'get a break' on the cost of money. Some source of lower than market rate money must be tapped. Some potentially available federal sources to such money exist: they are HUD's Community Development Block Grant Program (CDBG) (soon to become state administered block grants); HUD's Urban Development Action Grant (UDAG) program; and HUD's Section 312 Mortgage Insurance Program. Private sources of below market rate assistance include owner purchase money mortgages (owner paper) and charitable contributions (e.g., church donated structures, civil organization donated sites which effectively avoid the market). State sources may offer assistance depending on the political orientation of state government. Most commonly encountered sources of state assistance are revolving low-cost loan funds and tax exempt financing.

Each of the foregoing acquisition/rehabilitation financing limitation models may not alone produce housing affordable to the constituents of the sponsor or members of the housing cooperative. The added margin of equity capital offered through a syndicate may help to produce a feasible project.