

Final Report of the Ad Hoc Land Trust Formation Committee to the Wauwatosa Common Council June 18, 2024

On October 4, 2022, the Wauwatosa Common council passed a resolution creating an Ad Hoc committee to research the feasibility of a Multi Jurisdictional Community Land Trust operating in Wauwatosa and Milwaukee County (File R-22-175) to help Wauwatosa achieve its goal of increasing affordable housing.

Briefly, a Community Land Trust or CLT, is a non-profit corporation which ensures permanently affordable and responsible home ownership. This is accomplished by the CLT maintaining ownership of the land while selling the house to a qualified low-income family.

Affordability subsidies invested in the property are tied to the land, and in large part stay with the land upon future sales, ensuring the property remains permanently affordable in perpetuity. Resale restrictions limit the amount of equity the homeowner can “cash out” upon sale, but their period of homeownership still allows them to build wealth they could not otherwise build as a renter. Resale is restricted to low-to moderate-income households, ensuring communities retain and grow a stock of affordable homes forever.

Since its creation, the Committee has researched numerous Land Trusts configurations across the nation to determine whether such an entity would succeed in Milwaukee County, with a focus on its suburban communities. In addition, the committee has work closely with consultant Michael Brown of Burlington Associates a national Land Trust advisory cooperative that assists in the creation and growth of CLTs.

Our conclusion is YES, a County wide land trust is feasible. Not only feasible, but quite necessary for the economic and social health of Milwaukee County residents. Metro Milwaukee has seen near record growth in median home sale prices over the last 5+ years, a trend which is making first time home buying a difficult proposition. Historical sales data provided by Realtor and MLS shows:

The Median sale Price of a Wauwatosa Home in April 2019 \$198,250

The Median sale Price of a Wauwatosa Home in April 2024 \$365,000

Compound this market trend with rising interest rates, utility rates, Insurance, and other cost of living factors and its clear as to why some action needs to be taken.

To move forward the Ad Hoc Committee further recommends that an initial Board of Directors for a Milwaukee County CLT be established to develop the best structure and operational guidelines for success based on the research already done by the Ad Hoc Committee.

Ad Hoc Committee Feasibility Research Highlights:

1. The basic composition of what this CLT will look like:

- An incorporated tax exempt charitable organization in accordance with 501c(3) of the Internal Revenue Code
- Board of Directors – Individuals representing communities within the county who have expertise in housing affordability. They would be responsible for adopting policies and procedures for how the CLT will operate and guide in the strategic decision making of long-term growth of the CLT

- Executive Director – would serve as the CLT’s public face, oversee management of day-to-day operations as well as tax exempt status, and spearhead fundraising efforts to cover overhead as well as acquisition and rehabilitation funds of future inventory.
- Staffing – Added once the CLT inventory grows to the point where it can no longer be managed by a single Executive Director

2. **There are two potential scenarios for achieving a Milwaukee County Community Land Trust** that the Ad Hoc Committee explored. A new Board of Directors could determine which path to pursue:

Scenario 1 – merge the CLT with an existing non-profit organization.

There is precedent in the CLT world in which an established non-profit takes on the management of a community land trust, operating it as a program under its corporate structure and governance. Most commonly, the “parent” organization of the CLT program is a Habitat for Humanity affiliate or a community development corporation (CDC) or other non-profit affordable housing provider. Such arrangements can be temporary – operating the CLT program until an independent, stand-alone CLT organization is established and operational – or it may be permanent.

In this scenario, there would be no need for the CLT program to have its own Executive Director, given that the sponsoring organization has its own director. There would, however, need to be paid staff dedicated to the unique and non-negotiable stewardship responsibilities that must be consistently and effectively managed for any CLT program (or organization) to be successful. Even if the “parent” organization has staffing in place that can take on these responsibilities at first, it is likely that additional dedicated staffing will need to be hired to manage these responsibilities at a level commensurate with the growth of the CLT’s portfolio.

Scenario 2 – A new countywide community land trust is established.

A new non-profit community land trust organization is incorporated and will seek designation from the IRS as an exempt, charitable organization in accordance with §501(c)(3) of the Internal Revenue Code. The CLT will be governed by a board of directors representing the numerous communities where the CLT will operate.

The CLT board of directors will hire an Executive Director to lead the organization, serve as the CLT’s public face; manage the CLT’s homeownership program, including consistent and proper stewardship of CLT homes and homeowners; and ensure efficient and cost-effective management of critical CLT functions and day-to-day responsibilities of the organization as a non-profit corporation, as a CLT and as a small business. Additionally, given the anticipated growth of the CLT’s portfolio, as outlined above, the Executive Director will manage the CLT’s stewardship

3. **Two Types of Budgets are Needed for a CLT to start, grow, and move towards self-sufficiency.**

Both budgets require revenue and fundraising from a variety of sources until the CLT grows to a sufficient size to become largely self-sufficient.

- a. An **Operational Budget** to build and maintain the organizational structure, staffing and administration just like any other non-profit organization.
- b. An **Affordability Subsidy Budget** to fund the acquisition and rehabilitation of houses and subsidize their sale at affordable prices.

4. Operational Budget Projections:

The following numbers provided here are a broad “10,000 Ft Elevation” view of costs associated with an operational budget. A much more detailed budget will need to be developed after the CLT decides which scenario it will pursue for its creation.

Operations Budget

Funding needed to cover the operational cost of a CLT falls in line with other non-profit organizations. These funds will not cover acquisition and rehabilitation of houses but rather keep the non-profit operating and in good standing for its tax-exempt standing. Some basic services that would be covered under operational costs:

- Start-up costs (program design, legal expenses, community outreach and education, etc.)
- Paid professional staffing salaries and benefits.
- General administration and overhead.

Projected Operations Budget Revenue Sources for a Milwaukee County CLT

- a) **Portfolio revenue** – CLTs are able to generate fees through their real estate holdings, charging nominal monthly lease fees to each homeowner leasing land from the CLT, most commonly these days in the range of \$50/month. Additionally, CLTs manage the resale of homes on leased land, so, should a CLT homeowner ever elect to sell, the CLT has the ability (subject to the home’s affordability) to add a small mark-up to the purchase price to the incoming buyer.
- b) **Earned fee revenue** – Like other non-profit and for-profit businesses, some CLTs earn fees through activities they manage. It is assumed that this CLT organization or program, at least initially, will not carry primary responsibility for developing the owner-occupied homes to be brought into its portfolio. Even so, the CLT will be responsible for marketing and selling CLT homes and assuming responsibility for the pre-purchase and post-purchase stewardship of these homes and their owners. For this reason, it is reasonable to assume that the CLT could add a modest fee to the purchase price of each of the homes coming into its portfolio¹.
- c) **External fundraising** – The CLT will need to raise operating revenue, including grants and operating support from foundations and other philanthropic sources, private benefactors and corporate interests, and local municipalities, to bridge the gap between what they need to operate their organizations and the level of revenue they are able to generate themselves. It is typical for funding raised through external sources to be the largest revenue line item in CLT operating budgets in the early years of their operations. As their portfolios grow, CLTs are often able to reduce their reliance on private sector and public sector fundraising.

The exact amount needed to cover administrative costs cannot be fully calculated at this time. The cost associated will depend greatly on the path the CLT takes in its creation. Below is an approximation of the funding needed

¹ Assumption: the CLT (whether structured as an organization or as a program) will be able, in these scenarios, to collect \$5,000 at the purchase closing for each of the 60 homes sold during the first five years of its operations.

Assumptions:

- The CLT will grow its inventory of affordable houses to 40 in the first five years of operation. The Cost for the acquisition and rehabilitation of these houses are not included in this budget.
- Operating Revenue is a modest application of fees described in the previous section to the projected number of houses in inventory.

Scenario 1 – Merge with an Existing non-profit

5-Year CLT Program Operating Budget	2025	2026	2027	2028	2029
Projected Annual Operating Expenses	\$69,600	\$54,600	\$54,600	\$65,520	\$87,360
Projected Annual Operating Revenue	\$56,000	\$90,000	\$99,000	\$80,000	\$86,000
Projected Annual Operating Surplus/Deficit	(\$13,600)	\$35,400	\$44,400	\$14,480	(\$1,360)

Scenario 2- Develop a new independent CLT

5-Year CLT Organization Operating Budget	2025	2026	2027	2028	2029
Projected Annual Operating Expenses	\$166,200	\$205,800	\$205,800	\$216,720	\$238,560
Projected Annual Operating Revenue	\$56,000	\$90,000	\$99,000	\$80,000	\$86,000
Projected Annual Operating Surplus/Deficit	(\$110,200)	(\$115,800)	(\$106,800)	(\$136,720)	(\$152,560)

The annual budget shortfall (in red letters) for each of the next five years represents the *minimum* level of external fundraising that would be needed (if all of the assumptions are accurate) in order for the operating budget to be balanced – with no additional cash reserves set aside.

As the 2 scenario projections show, merging the CLT with an existing non-profit has significant financial benefits. Because of these savings, the AD Hoc Committee recommends pursuing a partnership with an existing organization.

5. Affordability Budget

CLT properties are sold well under market rate, which is made possible by the CLT investing large amounts of affordability subsidy in each unit. While the exact amount of subsidy may vary from home to home and city to city, the CLT’s resale model endeavors to create a model where a reasonable home seeker is willing to accept future resale restrictions in exchange for a substantially lower price up front. This is referred to commonly as a “pay it forward” model. In the City of Milwaukee Land Trust, per property affordability subsidy is at least \$40K per unit and ranges much higher on some properties. In the suburbs, substantially more subsidy will be required per property, ensuring homeowners at 50-80% or less of Area Median Income can afford a unit by spending 30% or less of their monthly income on housing.

Fundraising for Affordability Subsidy will be ongoing and a core tenet of operating the CLT. This is the most expensive component of running a land trust, as per unit initial subsidies may exceed \$100K.

Examples of funding sources needed will include:

- municipalities offering the CLT sub-market rate homes from their foreclosure portfolio; traditional fundraising.
- CDBG funds,
- homes bequeathed in will to the CLT,
- downpayment assistance programs channeled toward affordability subsidy instead of to the homeowner.

6. Potential Initial Properties:

Milwaukee County Executive David Crowley has identified the current housing situation as a public health detriment. He, the County Board of Supervisors, and the County Housing Division are currently rehabilitating 12 plus single-family homes scattered across Milwaukee County, including the City of Wauwatosa. The end goal of this effort is to sell completed homes to first time buyers at an affordable price. The Housing Division recognizes Land Trusts as an ideal model to ensure permanently affordability for future generations and would support any organization with that mission. In addition to inventory, the County could also support a CLT financially through the CDBG program it manages for suburban municipalities in the County.

- 7. Once up and running, the CLT and its Executive Director will be looking for support of the community.** Charities, private business donations and municipal support are the most common sources. Support can vary from financial to cover operating costs to Acquisition and rehabilitation. To donations of land, building supplies, and skilled labor. This type of fundraising is the lifeblood of any successful CLT.

What Can the Wauwatosa City Council Do?

- Accept this report of the Ad Hoc Committee as the conclusion of its work.
- Endorse the creation of a Board of Directors to begin development of a Milwaukee County Land Trust.
- Request Mayor McBride to promote support for the Milwaukee County Land Trust at Intergovernmental Council meetings and in conversations with leaders in other Milwaukee County communities.
- Provide money in the current and future city budgets to help meet the startup and operating costs of the Milwaukee County Land Trust.
- Request the Department of Development to identify potential homes in Wauwatosa that could be included in the Land Trust and promote donation of homes to the Land Trust.
- Support setting aside a portion of the CDA funds or Housing Trust funds to subsidize land trust houses in Wauwatosa.
- Encourage large local employers like the Medical College and Mayfair Mall to contribute to the cost of providing Land Trust houses in Wauwatosa.