Chapter 24
PLANNING FOR SUSTAINABILITY

The Importance of CLT Sustainability

Community land trusts are typically created in response to unmet needs in the communities in which they operate. Land needs to be kept out of the hands of absentee investors and made available for local residents. Quality housing needs to be produced and preserved. The displacement of residents that all too often results from successful neighborhood revitalization needs to be stemmed. Support services need to be made available for first-time homeowners to enhance their prospects for success. Foreclosed homes need to be placed back on the market in a way that will keep them affordable for lower income people. Neighborhood problems need to be addressed in order to create a stable context for homeownership. And the list goes on. Typically, CLTs respond to such needs with creativity, determination, and a sense of urgency. A CLT's long-term sustainability, however, requires that the organization do more than respond creatively to immediate needs from day to day and year to year. To build and sustain a strong organization requires careful, realistic planning.

By the very nature of its mission, a community land trust commits itself not only to acquiring significant real estate holdings on behalf of a community but also to a set of very long-term responsibilities that are necessarily entailed by those holdings. In this chapter we will discuss the process of building and sustaining both the capacity to acquire significant holdings ("growth capacity") and the capacity to carry out that set of long-term responsibilities ("stewardship capacity"). The two types of capacity are related and both are important, but our primary emphasis here will be stewardship capacity – as a subject that CLTs have a unique obligation to sustain and that often receives too little attention in a CLT's plans.

The long-term responsibilities that distinguish community land trusts from other nonprofit housing organizations include ongoing responsibility to the community for the care of land and housing, an ongoing concern for the wellbeing of the residents of the land and housing (and particularly homeowners), an ongoing responsibility for the preservation of public subsidies, and an ongoing responsibility to the CLT movement as a whole.

Permanent care of land and housing. Unlike other developers of affordable *homeownership* opportunities, CLTs do not just sell the homes and then go on to other business; they expect to own the land permanently and accept permanent responsibility for how and by whom it used. And as permanent land-owners they accept responsibility for seeing that housing and other improvements on the land are sold or rented for affordable prices to income-qualified people and are maintained in a condition that will continue to serve the interests of the community.

Unlike most nonprofit *rental* housing organizations, CLTs do not have the option of transferring stewardship responsibilities to another agency. When rental housing *is* developed on CLT land, the CLT may or may not own the housing and may or may not act directly as the property manager, but it does normally expect to own the land permanently, and as land-owner it accepts permanent responsibility for seeing that the property continues to serve the community interests for which it was developed. (In the case of CLT-initiated rental housing financed with tax credits, the land may actually be owned by a limited partnership until the tax credits expire, but the CLT normally accepts responsibility for the use of the property beyond the life of the tax credits.)

Long-term commitments to homeowners. In the ground leases that CLTs execute with their homeowners, both the CLT and the homeowner commit to a set of restrictions and obligations for a very long time, typically for 99 years. Restrictions are imposed on a CLT homeowner's right to use, occupy, improve, and transfer the home. The CLT is given the right and responsibility to monitor and enforce the homeowner's compliance with these provisions. With this responsibility comes the responsibility to support the homeowner's success during her tenure. Such support often involves providing or arranging for training regarding financial management and home maintenance issues. It can also involve counseling and referrals to help homeowners deal with particular financial, legal or other problems. It sometimes involves providing or helping to arrange loans to the homeowner to bridge specific financial needs. In all cases a CLT's commitment to supporting homeowners (as well as its stewardship of affordable homes) entails protecting against predatory lenders and doing whatever is possible to prevent foreclosure.

A CLT's commitment to support its homeowners is clearly predicated on the assumption that, as ground lessor, it will have the capacity to carry out these functions over the full course of the homeowner's tenure – and will be able to provide the same kind of support for every succeeding homeowner thereafter.

Long-term preservation of subsidies. As CLTs have argued for some time, permanent affordability requires subsidies that are locked into the home, rather than structured as a grant or a loan that is either pocketed by the homeowner or recaptured by a funder at resale. In exchange for receiving such permanent subsidies, CLTs must be able to assure local and state governments – and, in some cases, employers and other private sector funders – that CLT homes that are made affordable with their resources will be kept affordable not only for the minimum period of time required by the funder but far into the future so that multiple homeowners will benefit from the subsidy. To provide such assurances, a CLT must have – and should be able to demonstrate that it has – the ability to monitor and effectively manage the resales of subsidized homes over a very long period of time.

Commitment to the CLT movement. While there is increasing support for community land trusts across the country – and the number of CLTs continues to grow and the capacity of CLTs continues to build – the fact is that the CLT "movement" is still relatively new and somewhat fragile. The failure of any CLT to survive and keep its promises to its community will undermine the willingness of funders in the region to support other CLTs, and will discourage residents of the region from even trying to start other CLTs. The cumulative effect of a number of CLTs failing across a region or across the country could be devastating to the movement as a whole.

Elements of Sustainability

In this section, we will look at the basic types of capacity, both financial and non-financial, that a CLT must have if its program is to be sustained. Then, in the sections that follow, we will look at the different kinds of financial and non-financial capacity needed to sustain development efforts and expansion of the CLT's portfolio on the one hand, and those that are required, on the other hand, to carry out stewardship functions even in situations where the portfolio is not expanding.

Financial Elements of Sustainability.

Without doubt, organizational sustainability is inextricably tied to money. CLTs require money – available when needed and in sufficient quantities – to meet their responsibilities over time. The key financial elements for long-term organizational sustainability include sufficient revenue, effective cost controls, and sufficient reserves.

Revenue. Perhaps the most significant challenge for any organization – new or old, large or small, for-profit or not-for-profit – is to generate sufficient revenue to support everything the organization wants to get done. While it is possible for a financially healthy, credit-worthy organization to bridge *short-term* cash-flow deficits, sufficient revenue over the long term is an absolute necessity. The revenue can come from a variety of sources, but CLTs are primarily concerned with two broad categories: revenue from internal sources ("portfolio revenue") which is generated by the CLT's real estate holdings and will increase as those holdings increase; and revenue from a variety of external sources, the frequency and amounts of which are less predictable over the long run.

Portfolio revenue can include rent that a CLT receives for any conventional rental property that it holds, ground lease fees (or "ground rent") that it receives from homeowners and others who lease only the land while owning the improvements, and transfer fees (or "lease re-issuance fees") that can be charged when a ground lessee sells his or her improvements and a new lease is executed with the CLT-approved buyer. (Other types of fees may also be charged to CLT lessees from time to time for specific services.) As will be emphasized below, portfolio revenue is critically important as a source of support for stewardship activities.

Revenue from external sources can come from either government sources or private sources. Much of what is received from government sources (and certain private sources) consists of subsidies committed to specific projects. It will be booked by the CLT as revenue and will be spent by the CLT to cover the projects' acquisition and development costs, but it will not be available to cover the CLT's personnel and other operating costs, *except* for that portion of the grant that can be retained by the CLT as what is commonly called a "development fee," which (in so far as it isn't eaten up by unanticipated project costs) can be used to cover any CLT expense, even if unrelated to the particular project. Government entities can also provide CLTs with direct operating support, like the portion of a local government's allocation of federal Home funds that can be used to support the operation of Community Housing Development Organizations (CHDOs). Though not project-specific, these operating grants are usually awarded to organizations that are actively producing housing, usually not to organizations whose activity is limited to stewardship functions.

Revenue from private sources includes grants from foundations and donations from individuals. Foundation grants can be allocated for general operating support but are more often tied to specific projects or activities. In some cases they are an important source of start-up funding for a new organization, or for the launching of a new program or activity, but they are not a dependable long-term source of support for basic CLT operations. Donations – large and small – from individuals can be a significant ongoing source of support for organizations willing to work at building a substantial list of potential donors and soliciting them regularly. Donations are likely to be a *more* important source of revenue for CLTs doing affordable housing work in affluent communities or communities where well-to-do people have seasonal homes.

Endowment. Some CLTs have sought endowments to reduce dependency on unpredictable grants and contributions and to stabilize their funding streams over time. Building a significant endowment is not easy, and normally takes a long time. For many CLTs, the effort may not be worthwhile. For CLTs working in areas where there are well-to-do property owners, however, soliciting contributions (including bequests) to an endowment may be a viable long-term strategy for supporting organizational sustainability.

Cost controls. Cost controls start with a budget, which is simply a financial plan for balancing revenue and expenses. Developing a realistic budget is a crucial first step, but the challenge of controlling costs does not end with this step. Monitoring and controlling organizational costs to keep them from exceeding the budget is necessary. Too often, nonprofit organizations "leave their budgets behind" as they throw themselves into day-to-day work and allow the day-to-day demands of the work to overwhelm budgetary controls. There may be times when the demands of certain work should dictate amendments to a budget, but these demands should not cause the organization to push ahead without considering how the previously unbudgeted costs are to be paid for.

For the long term, effective budgeting and cost management requires careful cost-benefit analysis. The ideal system for this purpose will track both the costs of each program or major activity and the results of the activity (or the indicators of results) and will compare the two, so that the organization can evaluate whether the results justify the costs. Such an analysis will help an organization to determine not only how to control costs but also how to increase its effectiveness.

Reserves. Even if an organization generates sufficient revenue to meet its budgeted costs and controls those costs effectively, it will still be financially vulnerable if it is never able to create reserves by generating revenue *in excess of* its expense during at least some periods of operation. CLTs should in fact budget for a certain amount of net income to be generated each year. The net may be budgeted as (and then formally committed to) an "operating reserve," to be maintained as a separate account on the organization's books, or it may simply be allowed to accumulate from year to year as an annual increase in the *liquid* portion of the organization's overall fund balance. (Depending on how the value of its land holdings and related liabilities are booked, a CLT can easily have a large, positive fund balance while being "land poor" – with no ability to liquidate any of its land holdings.)

Whether treated as a dedicated reserve or as a liquid fund balance, the accumulated cash will be important in two ways: it will relieve the need to seek loans or draw on a line of credit (or defer payment of bills) when expected revenue is delayed (e.g. when governments are slow in disbursing grants); it will also allow the organization to survive a bad year when expenses in fact exceed revenue, again without relying on credit or deferring payments. In either case the organization will benefit both by avoiding potentially substantial interest expense and by avoiding the appearance of vulnerability that might scare off potential future sources of revenue.

Another type of reserve fund, a reserve used to fund the cost of major replacements or repairs in the homes of CLT homeowners, is discussed below in connection with the sustainability of a CLT's efforts to preserve the quality of the homes on its land.

Non-Financial Elements of Sustainability

These non-financial elements are of course related to financial sustainability. Overall organizational capacity is not free, but it does entail elements that money alone will not provide. Organizational sustainability is supported by clear goals and strategic planning, an effective governing board, a competent staff, strong executive leadership, an engaged membership and constituency, government support, broad-based community support, and, where possible, strong partnerships with other organizations working in the community .

Clear goals and strategic planning. Every CLT must clearly define its mission and the specific goals that its mission entails from year to year. It must also establish realistic strategies that will enable the organization to achieve the identified goals over time. Each CLT must commit itself to review its goals and strategies regularly, and to modify them as needed, in order to remain true to its mission and relevant to the community (or communities) in which it operates. Most importantly, every CLT strategic plan must include a plan for sustaining the necessary stewardship activates in periods of time when other more "grantable" activities are not being carried out.

Board Leadership. A committed and effective board of directors guides the organization in carrying out its long-term mission, aids the organization in strategically planning for its future and assures the sound management and operation of the organization. With their commitment to engaging and empowering diverse community interests on their governing boards, CLTs face a significant challenge: they must find the right individuals to serve as directors and must involve them in the workings of the organization. To assure the long-term continuity of their organizations, it is particularly crucial for CLTs to recruit and nurture effective, committed boards of directors. And in order to build continuity and permanence, every CLT, from year to year, must orient and educate new board members regarding the mission, goals and strategies of the organization.

In addition to maintaining *active* boards of directors, it is important for CLTs to maintain boards of directors with a *balance* of interests, as contemplated by the three-part board of the "classic" CLT model. The CLT's tripartite board structure not only provides a reasonable model for effective governance but also helps to sustain the organization, as each interest group makes its own contribution to organizational stability, accountability, and health.

Staff and executive leadership. Even relatively small CLTs must employ staff – with sufficient skills, knowledge, and commitment to carry out the program defined by the board of directors. To function effectively, all staff must have clear job descriptions and experienced supervision, consistent support, and the resources needed to do their jobs. These conditions, in turn, depend on the organization having an effective executive director.

Many CLTs – especially those with strong executive directors – give too little attention to what might happen if this individual were to move on. Without a carefully thought out executive transition plan in place, any change in leadership could result in an otherwise successful organization finding itself destabilized. And planning for a successful future simply cannot be done effectively in the midst of a crisis, especially during a crisis of leadership. For this reason, every CLT should not only develop an emergency executive transition plan – prescribing the process to deal with an unplanned absence of its executive director – but should also design and implement a strategic leadership development plan focused on expanding the organization's pool of capable leadership. (There is a great deal of good information available regarding leadership transitions. An excellent example is *Building Leaderful Organizations – Succession Planning for Nonprofits*, written by Tim Wolfred and published by the Annie E. Casey Foundation.)

Engaged membership and constituency. As membership organizations, CLTs draw members from the neighborhoods they serve, from the people they house, and from the broader communities that support their work. For most CLTs, recruiting, mobilizing and retaining an active membership is a critical step toward building a sustainable organization. And even for CLTs that are not established as membership organizations, it is important to involve the CLT's primary constituency, its homeowners and tenants, if the organization is to have the kind of energy and commitment needed to survive when times are hard. The more people who believe they have a stake in the CLT's survival, the more likely it is to survive.

Government support. It is critically important for CLTs to have the support of local government, and in particular the support of those government agencies that regulate and fund affordable housing efforts. As is emphasized in Chapter 2, "Initial Choices," developing positive relationships with these agencies should be one of the first concerns of new CLTs. And maintaining such relationships should continue to be an active concern, year in and year out. A CLT cannot afford to neglect these relationships, whether it has specific funding requests pending at the time or not.

Broad-based community support. To be successful over time, CLTs must build support for their goals and strategies within the communities in which they operate. CLTs are place-based organizations, providing critically needed resources for a not-always-popular constituency with a relatively unfamiliar methodology. It is therefore important for every CLT to build the strongest possible base of awareness and support for its mission and activities in the community in which it operates. This support should include both *institutional support*, coming from faith-based institutions, employers, civic organizations, nonprofit agencies, and the like, and *popular support*, coming from the broadest possible mix of people living in the communities served by the CLT.

Strategic partnerships. Flying solo has its costs. Collaborative partnerships provide an opportunity for community land trusts to increase their impact while sharing – and thereby reducing – operating costs. Many CLTs have formed effective partnerships with organizations operating complimentary programs. Examples of such programs are those involving homebuyer education, housing development, property management, services for low-income homeowners, legislative advocacy, and a number of other tasks that are necessary to the success of a CLT's efforts but that do not necessarily need to be performed by the CLT itself. With any such partnership it is of course important that there be a clear understanding between the partners regarding the specific roles and responsibilities of each and the processes by which they will coordinate their respective tasks.

Planning for Growth

Although our primary focus in this chapter is on the CLT's long-term capacity to steward whatever holdings it does eventually have, the *expansion* of holdings remains a significant concern for CLTs, both as an essential activity in its own right and because it is the factor that will determine what must eventually be stewarded.

The expansion of a CLT's holdings happens through either of two processes: either through the CLT's own development efforts or through arrangements whereby it acquires land on which others have developed or will develop housing (or which will be improved for non-residential purposes). Of the two processes, development typically calls for substantially more capacity, but both call for elements of capacity that are not needed by CLTs at a time when they are *only* carrying out their stewardship functions.

Development capacity. Housing development entails completion and coordination of a great many tasks – from the initial identification of possible sites for projects, to the development of initial plans and preliminary budgets to determine the feasibility of proposed projects, to the necessary work with architects and engineers, to the process of gaining the necessary permits and completing the necessary reviews of environmental impacts and other factors, to the process of refining financial pro formas and securing the necessary grants and loans, to the process of contracting with builders and overseeing construction – all the way to the point where a certificate of occupancy can finally be issued. Although some small CLTs have waded into these tasks with very little previous experience and have managed, on a limited scale, to "learn by doing," any CLT that wants to build real development capacity must have within its staff a substantial body of knowledge and experience, and must be able to commit enough staff time for each project to see that it is completed cost-effectively and on time.

If building the capacity to complete a given development project is challenging, *sustaining* this kind of capacity for the long term is even more challenging. Unlike many other aspects of a typical CLT program, housing development work *can* pay for itself through development fees or "profit" taken when a home is sold to an owner-occupant. However, development happens project by project. The projects typically stretch out over an extended period of time, during which the developer must not only pay project-specific costs (pre-development costs, acquisition costs, construction costs and other development costs) but must cover payroll expense for the necessary development staff. But the "profit" from the project usually will not be received until development is completed and the homes are sold. Managing such projects means that a CLT must not only have substantial financial capacity coming into a project – so the project won't be stalled half-way through by a lack of cash – but must also have substantial expertise in planning and managing a reasonably steady *flow* of projects so that there will be enough staff capacity (and cash) at every point in each project while avoiding lulls between projects when there is not enough work to make cost-effective use of staff that must still be paid.

Given the challenges entailed in creating and sustaining development capacity, all CLTs must think carefully about the extent to which it makes sense for them to try to build such capacity. Probably the most important reason for a CLT to want the capacity to do its own development is that it will then have real control over the location, type, quality, quantity and timing of what will be produced. A number of CLTs have begun with the idea that they did not need to do their own development and did not want to compete with existing housing development organizations but have then found that it was difficult or impossible to align their own housing goals with the development agendas – and schedules – of these other organizations. In order to take control of their own agendas most CLTs have in fact found they needed to have at least some degree of internal development capacity. The other major reason that CLTs have tended to want their own development capacity is, again, that development is an activity that can actually pay for itself and may even – possibly – generate enough revenue to help pay for other activities as well. Many CLTs have therefore believed that it was financially advantageous to do their own development.

Notwithstanding these reasons for a CLT to act as its own developer, there are also significant reasons for it *not* to do so – or at least for it to limit the kinds of situations in which it will do so. As suggested above, housing development programs, and especially larger development projects, require the ability to manage complicated financial scenarios of a sort that would otherwise be unnecessary. Furthermore, development entails serious financial risks. Cost overruns are common. All sorts of unanticipated circumstances can increase the cost of labor and materials, and all sorts of delays in the completion of development or in the sale of the developed housing can increase the "soft costs" of development such as insurance and interest expense. Most of these cost overruns will mean a reduction in the development fee or profit that the developer can take from the project, and, in the worst case, such problems may not only wipe out the project's financial benefits for the CLT but result in a serious financial crisis for the organization.

Other aspects of growth capacity. Regardless of whether CLTs do their own development, there are other tasks that must be planned, staffed and paid for in order to expand the organization's holdings. The more homes a CLT produces or acquires, the more homes it must be prepared to market and the more qualified homebuyers it must identify, orient, educate, counsel, and assist in obtaining appropriate financing. Even a CLT that is *not* doing its own development is still likely to need the capacity to handle at least some of these tasks, depending on how responsibilities are allocated between the entity that *is* doing the development and the CLT itself. It is important to note that, in negotiating the allocation of responsibilities in such situations, CLTs should also negotiate the allocation of *funds* to support the responsibilities. In particular, CLTs should avoid arrangements with developer-partners that will bring them *unfunded* responsibilities for essential marketing and homebuyer assistance tasks. A developer that is profiting from the production of homes while relying on a CLT to deal with these tasks should be prepared to pay for the services (or the subsidy source should be prepared to pay).

The effects of growth planning on long-term stewardship capacity. A CLT cannot expect that growth will be steady over the long term. There may be times when a CLT will have reasons to increase its growth capacity to meet increased demand for affordable homes and to take advantage of available project opportunities. But there will be other times when demand and opportunities are diminished and a CLT must slow or even halt its efforts to expand its holdings, at least temporarily. It may be reasonable for development capacity to be reduced in such circumstances, but the stewardship responsibilities that the CLT has accumulated will *not* be reduced. It should go without saying that, in planning for the expansion of holdings, CLTs must also plan for an expansion of stewardship capacity proportionate to the *cumulative* increases in the number of homes for which the CLT takes on long-term responsibilities.

In planning for growth CLTs should also recognize the effects that different *kinds* of growth will have on stewardship responsibilities. When a CLT undertakes a project that involves an ownership model it has not dealt with before – whether a condominium project, a limited equity-coop project, a rental or lease-purchase project, or perhaps a nonresidential project – the CLT will not simply be adding more of the kinds of responsibilities that it already has; it will be adding new *types* of responsibilities, which are likely to call for knowledge or skills different from those already present in the organization. Similarly, the nature of a CLT's long-term responsibilities can be affected by growth that involves a clientele or neighborhood circumstances different from those it has dealt with in the past.

Though the various effects of growth on stewardship responsibilities are obvious enough, the awareness of this fact is often pushed into the background when a CLT is caught up in the excitement (or anxiety) of rapid growth and/or the planning of a new development project. At such times it is tempting for the organization to think that planning for stewardship can wait until later, when "things have cooled down." The problem, as will be emphasized in the next section, is that some of the resources that will be needed to carry out stewardship responsibilities can be more readily accessed and committed to this long-term purpose during periods of growth than during periods when stewardship activities are the organization's *only* activities. Therefore, planning for stewardship should be treated as an integral part of – and should never be subordinated to – planning for growth.

Planning for Sustainable Stewardship

The activities required to carry out a CLT's stewardship responsibilities with owner-occupied homes are discussed in some detail in Chapter 23, "Post-Purchase Stewardship Tasks." (Special stewardship responsibilities related to condominiums and limited equity coops are discussed in Chapters 14 and 15.) These activities add up to a substantial body of work that must be done year in and year out – even if all of the CLT's growth-related activities have ceased. In fact the financial challenge of sustaining the CLT's stewardship capacity is likely to be greatest during those times when stewardship activities have become the only activities and when more readily "grantable" growth-related activities are discontinued. We therefore recommend that all CLTs assume that they may at some point have to carry on their stewardship work in such a situation and that they address, sooner rather than later, the truly challenging question of how they will support that work.

Variables affecting stewardship plans. The exact nature of the stewardship responsibilities for which a CLT must plan will depend on the *eventual* nature and quantity of its holdings. The plan must also take into account the size of the geographical area in which the holdings are located and the anticipated scale and pace of growth.

Types of housing. Our primary emphasis in this chapter is the set of stewardship responsibilities related to resident-owned single-family homes – because these are the responsibilities most often neglected in a CLT's long-term planning – but many CLTs do own rental housing, which involves a significantly different set of management responsibilities. In addition, a growing number of CLT portfolios also include condominium units, and some lease land to, and/or provide services to, limited equity housing coops, or to manufactured housing park coops or resident associations. And some have developed single-family subdivisions involving homeowner associations. Each of these "common interest" ownership models entails distinctive stewardship responsibilities for CLTs.

Number of housing units. Obviously the number of units will have a major effect on the stewardship capacity required. A CLT with a few units may be able to handle its stewardship responsibilities with volunteers, whereas a CLT with a hundred units may need a full-time staff person, and a CLT with a thousand units will need multiple staff people (to oversee, among other things, what is likely to be more than a hundred resales per year).

*Nonresidential properties***.** Is the CLT also responsible for managing and preserving properties that are at least in part non-residential, such as commercial facilities, "live-work" facilities, or facilities for other nonprofit programs? Does the CLT also own community gardens, parks, or recreational facilities? Does it hold easements on wild or agricultural land? Each of these different types of holding entails different responsibilities.

*Size of geographic service area***.** Is the CLT serving a single neighborhood, or a citywide (or larger) area? A staff of a given size that is adequate for a given number of homes concentrated in a small area may be inadequate for the same number of homes if they are scattered through a wide area.

Anticipated pace and scale of growth. Stewardship capacity must expand as holdings expand, but neither type of capacity can be expanded as smoothly as one might wish. A CLT that is developing a large project may, at some point, increase its staffing to deal with the increased stewardship responsibilities, but it may not be easy to predict exactly when that point will come – that is, exactly when those new homes will be sold and occupied. And even if holdings increase relatively smoothly through a series of smaller projects, it will not necessarily be easy to increase stewardship capacity smoothly. There will be times when more staff will need to be hired and/or responsibilities of existing staff will need to be shifted to cover expanded stewardship responsibilities.

Financial Elements of Sustainable Stewardship

If essential stewardship responsibilities are to be fulfilled even in the absence of other program activity, how is the work to be paid for? As we have suggested above, a CLT's "*portfolio revenue*" – consisting of the lease fees (and any conventional rental income) collected each month and the transaction fees collected when homes are resold – must be seen as essential to the answer. In fact, when a CLT is no longer growing and is not actively planning to grow in the immediate future, its predictable revenue may be more or less *limited to* its portfolio revenue. (We will note some other possible sources of revenue below, but we do not encourage CLTs to rely on them as primary sources of long-term stewardship support.) For CLTs that are not growing, there will not be any project funding, from either public or private sources, so there will be no development fees to help cover payroll and other operating expenses. Nor are there likely to be operating grants from public or private sources that see their mission in terms of supporting the *production* of affordable housing.

Rental income. For CLTs that own and operate rental housing, rental income will be significant, but we will not deal here in any detail with financial management of rental programs, which is a subject, not unique to CLTs, for which detailed guidance is available elsewhere. For our present purposes, suffice it to say: (1) that rental housing calls for a distinct kind of stewardship capacity that must be sustained for the long term, (2) that a CLT with rental housing should assume that this part of its housing program should pay for itself, but (3) that the CLT should also assume that the rental program, though it will expand the organization's cash flow, will *not* generate excess revenue that can be used to support other stewardship tasks.

Ground Lease Fees. The subject of ground lease fees is addressed in some detail in Chapter 13, "Establishing and Collecting Lease Fees." The ability to collect these monthly fees has two important benefits. The first is the ongoing "checking-in" relationship that these fees establish between CLTs and their homeowners. The second is the steady stream of revenue the fees provide to cover some of the CLT's costs of managing its portfolio of resale-restricted, owner-occupied housing.

In the past, most CLT leases treated the lease fee as an undivided dollar amount that could be put to use in any way the CLT saw fit. Today, however, a growing number of CLT leases define the lease fee as including both a "land use fee" and a separate amount that is committed to a "repair reserve," the use of which is restricted to funding necessary repairs and replacements in owner-occupied CLT homes. Creation of a repair reserve is now highly recommended. (See the commentary on Section 7.6 of the 2011 Model Lease in Chapter 11-B.)

Because the *amount* of the lease fee is established in the CLT lease and can be increased only within limits that are also stated in the lease, it is extremely important for CLTs to think carefully about the long-term importance of the fee when initially deciding on the amount of the fee. The tendency of many CLTs – a tendency frequently reinforced, if not required, by subsidy providers – is to minimize the amount of these fees in order to reduce the homeowner's total monthly housing costs (which means that less subsidy is required to make those costs affordable, which in turn allows more homes to be subsidized.) Particularly when CLTs are starting up – and adopting the ground lease that they expect to use for years to come – they are focused on *growth* and give too little thought to how they will support the long-term stewardship responsibilities that growth will entail. As a result, the overwhelming majority of CLTs in the U.S., assess monthly lease fees in the range of $15-$30 per month, with a few venturing as high as $50 or more. The unintended consequence of this well-intentioned practice, however, is that a form of revenue that is actually intended to support ongoing CLT stewardship work will be inadequate for that purpose.

An increase in the lease fee of just $25 per month may seem inconsequential when a CLT is focused on its first few units, but, at the point when it has accumulated a portfolio of 100 homes, that extra $25per month will generate an extra $30,000 per year (resulting in a total of $60,000 if the total fee is $50/month). At a time when a growing number of affordable housing funders are concerned with preserving affordability for the long term and are therefore taking an interest in the CLT model, it behooves all CLTs to make the case that the CLT's long-term role entails significant costs and that it is entirely appropriate for the funders of long-term affordability to do more to help cover these costs. (In fact, one state housing finance agency has gone so far as to *require* CLTs receiving their subsidy funds to charge at least $50/month lease fees of their homeowners. Of this amount, $25 is to be set aside for necessary stewardship work in the future. In turn, the agency provided sufficient additional subsidy to offset the loss of affordability to the CLT homeowner otherwise resulting from the increased monthly lease fee cost.)

Transfer fees. These fees (sometimes known by other names) may take several different forms. Under the terms of leases based on older versions of the Model Lease, it was possible for a CLT to purchase a home when the owner wanted to sell, then resell the home to an income-qualified purchaser for a somewhat higher but still affordable price; or it was possible for the CLT to exercise its purchase option, then assign the option to another purchaser and charge that purchaser a fee for the assignment of the option. Until recently, however, very few CLT leases allowed the CLT to capture revenue from the transfer of a home *unless* the CLT did first exercise its option to purchase. But the 2011 Model Lease does specifically provide for a transfer fee that can be charged to the buyer even if the purchase option has not been exercised (the fee is added to the price that the seller is permitted to receive). The amount of the fee is usually limited to a specified percentage of the price received by the seller (usually something less than – and definitely not exceeding – the percentage that a realtor would receive for selling the home in a conventional market situation). The CLT can of course reduce or waive this fee when necessary to preserve affordability, but it is now strongly recommended that all CLT leases be written so as to allow a transfer fee to be charged when it is affordable.

It is also possible for a CLT to charge a marketing fee to the *seller* of the home – either as a licensed listing agent (if the CLT is in fact a licensed broker) or by helping to find a buyer by less formal means. However, it is possible to charge the seller *only* if the ground lease specifically permits it or if the seller enters into a formal contract with the CLT for such services. In general, it is preferable to treat the purchase option price as an amount that the seller has a right to receive in full, and to cover the CLT's costs in overseeing the transfer through a fee that is *added to,* rather than subtracted from, the purchase option price.

The amount of work entailed for CLTs by transfers of ownership will vary, depending on market and other conditions, but it will be significant in any case. It will normally include making sure that homes are in satisfactory condition when transfers take place, that the purchasers are income-qualified, that resale prices do not exceed the purchase option price, that purchasers understand the nature of CLT homeownership and the restrictions and requirements imposed by the CLT lease, that appropriate letters of agreement and attorneys' acknowledgement are presented, that purchasers have leasehold mortgage financing on permissible terms, that all aspects of the "CLT deal" are satisfactorily executed and recorded, and that all necessary documents are received by the CLT and properly filed when the transaction is closed. Transfers also entail a greater or lesser amount of work by the CLT in identifying potential buyers and helping them prepare for purchase. (For more on the extensive CLT responsibilities related to resales, see Chapter 22, "CLT Real Estate Transactions," and Chapter 23, "Post-Purchase Stewardship Tasks.")

The necessary body of work will normally require a significant amount of staff time, and therefore significant cost for the CLT. It is entirely reasonable for CLTs to seek to cover the cost of this work through a fee that will be triggered when the occasion for the work in fact arises. In the short term, the frequency of such occasions is hard to predict – a homeowner may sell after as little as one year of ownership or after decades of ownership. But the average tenure for CLT homeowners is probably something like seven years. A typical situation for an older CLT might be one in which the CLT owns the land beneath 100 homes and anticipates an average of a little over 14 resale transactions a year. If these resales can generate an average of $3500 per transaction in transfer fees, it will mean average annual transfer fee revenue of about $50,000 for the organization.

It must be acknowledged that there may be periods of time when transfer fees in the $3500 range would increase the final resale price to a level where it would be difficult for the CLT to find income-qualified households for whom the price is affordable, or difficult to find households who would be willing to pay the price (and able to finance the price) even if it is technically affordable. The likelihood that future transfer fee revenue will be limited by such circumstances will depend in part on the original base price set by the CLT (see Chapter 18, "Project Planning and Pricing"), and in part by the particular resale formula the CLT has adopted – and on whether long-term market conditions have resulted in prices generated by that formula that are increasingly affordable (i.e. affordable to households at lower and lower percentages of AMI). The affect of resale formulas on a CLT's future ability to charge a significant transfer fee is *one* reason for CLTs to lean toward adopting formulas that are more likely to increase affordability over time than to decrease it. Thus, like the CLT's initial decision regarding the amount of its lease fee, the initial choice of a resale formula will have much to do with the long-term sustainability of the organization's stewardship capacity.

Revenue from external sources that may help support stewardship. Although government agencies and larger foundations are not likely sources of support for CLTs focused only on stewardship activities, there are other possible sources of external support that may well be significant in this situation – especially for CLTs that have been successful in building community recognition and support of their stewardship work as well as their housing production work. CLTs that are focused on stewardship work can and should keep their communities informed about the nature and importance of this work. After all, the stories that can be told about the resale of homes may be even more affecting for members of the public than the stories of initial home sales. At the time of resale the story involves not one but two households – one that has already benefitted from CLT homeownership and perhaps taken a step up economically, and another one that will now have the opportunity to take that step. It is, in fact, a time when the distinctive virtue of CLT stewardship is most visible. It is therefore a good time to ask CLT members and other individuals in the community to make donations to help support the ongoing work. It is also a good time to ask local corporations for grants or donations – perhaps most notably banks that have a financial interest in the CLT's stewardship work and are continuing to lend to CLT homebuyers – and are therefore aware that the CLT is still active even though it is not currently increasing its holdings.

Financial strategies that may or may not be cost-effective. Organizations facing diminished external revenue sometimes consider launching new programs or activities in the hope that they will generate revenue that will help support essential existing activities. Too often, however, these organizations do not take into consideration the full cost of such efforts. The challenge facing CLTs looking to diversify their activities as a means to increase program revenue is to make sure that the organizational "give" is not greater than the organizational "get" – i.e., that the time, attention, staffing resources and funding required to gear up for and sustain this new activity is worth the revenue that is *actually* to be earned as a result of this activity. For example, at least one established CLT, after implementing a pilot fee-for-service technical assistance program, decided to discontinue the program when it became apparent that the cost to the organization was more than the program was earning for the organization. In general it would be wise for CLTs to consider such a program only if they have highly qualified staff whom they want to retain but whose time is not currently fully utilized by essential duties.

While *new* fee-for-service activities are rarely an effective way of increasing net revenue, we should emphasize that the CLT may already be delivering some specific stewardship services that do generate fees and/or are funded by external sources. For example, some operate "Homeownership Centers," or other homebuyer training and counseling programs, that may pay for themselves while covering an essential piece of the CLT's stewardship responsibilities. Some also operate loan funds that provide loans to the CLT's homeowners for purposes such as home repairs – a significant stewardship service that can generate some interest and fee revenue. Others may be engaged in managing rental property, and may therefore have maintenance staff who can provide certain home repair services to CLT homeowners and generate some fee-for-service income in the process.

Non-Financial Elements of Sustainable Stewardship

As emphasized earlier in this chapter, sustainability involves more than revenue considerations. For CLTs that are not expanding their holdings, the fundamental question is: how can we make efficient use of the limited revenue that we have in order to see that we fulfill our responsibilities regarding our holdings? An important part of the answer, as noted earlier, is cost-control, which entails careful budgeting and diligent financial oversight, but which also entails finding the most efficient, inexpensive ways of doing what needs to be done. In this regard we will look at the particular importance, in times of non-growth, of active board leadership, of resident engagement, of utilization of part-time and shared staff and volunteers and partnerships with other entities, and of efficiencies of scale.

Board leadership. Boards of directors tend to be energized by situations where they can participate in planning for growth and can help launch new projects. Typical boards tend to be less energized by the ongoing day-to-day work entailed by a CLT's stewardship responsibilities. These reactions are understandable; nonetheless, energetic board leadership may be *most* important in these situations where the question facing the organization is not "how can we grow?" but "how can we sustain the work we have already said we will do?" If the board loses interest in such situations, if its members are less passionate about the future of the organization, if it becomes increasingly difficult to recruit energetic new members, then the commitment, energy, and efficiency of the whole organization is likely to suffer. The process can easily become self-perpetuating and can possibly pull the organization into a downward spiral from which escape will be difficult. Clearly, then, it is important for those who care about the future of the organization to anticipate the possibility of – and take steps to prevent – any such loss of momentum at the board level.

One way to prevent the loss of board energy when the excitement of growth is no longer present is to be sure from the start that a significant part of the board is at least as interested in the CLT's stewardship functions as in its growth potential. One of the sometimes neglected virtues of the classic CLT board structure is that it does ensure that one-third of the board (the resident member representatives) will have a compelling reason to be interested in the stewardship function, and that another one-third (the non-resident member representatives) will be likely to include residents of neighborhoods where the CLT already holds property, who have reason to be more interested in the CLT's stewardship efforts in those neighborhoods than in potential new projects in other areas. In fact, one can point to a number of older classic CLTs that are no longer growing but that manage their holdings with some (variable) degree of success. One can also point to a few failed CLTs whose boards and/or executive leadership were oriented toward aggressive development but had only very limited interest in – or commitment to – post-development stewardship. Once again, it is important to maintain a balanced board from the start.

Resident engagement. Community land trusts can strengthen the sustainability of their organizations by capitalizing on the long-term relationships they have with their homeowners. By engaging meaningfully with its homeowners – by treating them less as *beneficiaries* and more as responsible stakeholders and partners – a CLT can enhance the prospects for sustainability in several ways.

Strengthening the board of directors. Engaged homeowners who are elected to the board as homeowner (lessee) representatives will help energize the whole board and will provide important first-hand information about the state of the CLT at the grassroots level and the state of the neighborhood(s) in which the CLT is working. (Homeowner representatives who are passive and disengaged in their relationship with the CLT are likely to be passive in their relationship with the board.)

Increasing cost-effectiveness of staff work. As emphasized in Chapter 23, "Post-Purchase Stewardship Tasks," the tasks performed by CLT staff are likely to be more cost-effective when homeowners are engaged and ready to cooperate with and assist those efforts. Such homeowners are more likely to pay their lease fees and comply with other ground lease requirements in a timely way. They are more likely to inform staff regarding potential problems before the problems have snowballed into hard-to-resolve situations. They may also provide direct help in carrying out some necessary tasks, such as training functions and assistance to other homeowners, that would otherwise need to be carried out by staff.

Helping with fundraising. Involving CLT homeowners in funder site visits, or in outreach to businesses where they work or religious institutions where they worship, or in making presentations to other potential donors, can significantly strengthen the CLT's ability to raise money from local sources. The simple fact of their involvement on behalf of the organization is likely to impress potential donors.

Part-time, free, and shared labor. For smaller CLTs that cannot afford full-time staff – as is the case with many small nonprofits – the difference between sustainability and failure is likely to be a matter of assembling an effective combination of part-time and volunteer workers and/or a matter of working out partnerships or staff-sharing arrangements with other organizations. And even for CLTs that do employ full-time staff, utilization of these alternative staffing arrangements may play a crucial role in shaping a cost-effective program that will be able to handle a workload that would be too much for the organization's full-time staff alone.

Part-time staff. People who work part-time are not necessarily just "partly qualified." There are highly qualified people who, for one reason or another – perhaps because they have young school-age children – are actively seeking part-time work. Nonprofits that are flexible in their approach to staffing can make very good use of such people.

Volunteers. It is often possible to find volunteers who will be happy to help from time to time with simple but time-consuming tasks such as stuffing envelopes. It may also be possible to find people – perhaps retirees – who have useful knowledge and skills and are willing to take on certain ongoing responsibilities such as bookkeeping or grant-writing or property inspections, among other possibilities. In addition, professional firms often provide pro bono services to 501(c)(3) organizations, and for-profit businesses may donate valuable services as well as products.

Shared labor and partnerships. Several kinds of staff-sharing arrangements are possible. It may simply be a matter of two organizations agreeing that each will employ a given person on a half-time basis. Or it may be a more flexible arrangement, where another organization agrees to contribute certain staff services to the CLT – either in return for other services provided by CLT staff or simply because it views the CLT's work as complementary to its own. In one case a CLT received homebuyer-training, marketing and administrative assistance from another housing organization in return for the services of a CLT staff person with expertise in capital needs assessment. Several CLTs that were doing little or no development of their own have shared an executive director with a complimentary housing development organization.

Economies of scale. For rental housing programs the conventional wisdom is that a certain (variously specified) minimum number of rental units will be necessary in order to reduce the cost of management to an affordable per-unit amount. Some of the same economy of scale is likely to apply to the stewardship of CLT homeownership programs. A CLT program does involve some fixed costs, which will have a greater effect on the per-unit cost of small holdings than on the per-unit cost of large holdings. Nonetheless, the situation for a CLT is more variable than is the case with rental management. The cost-effectiveness considerations discussed above can all affect the number of units that will yield the greatest efficiency for CLT stewardship programs. A small CLT with a dynamic board of directors, engaged homeowners, willing volunteers, and cooperative relationships with one or more other agencies serving the same area may well cover its stewardship responsibilities at less cost per unit than a larger CLT with many more units and a more conventionally staffed operation.

The extent to which a CLT's units are geographically concentrated is also a factor. A CLT with a hundred units in a single neighborhood is very likely to have lower per-unit costs than a CLT with a hundred units scattered throughout a metropolitan area – both because the amount of time and money required for staff travel will be less and because the CLT with the neighborhood-based program will probably find it easier to mobilize assistance from the CLT homeowners themselves and from other local volunteers.

Summary

Because of the strategy it uses and the terms of the ground leases it signs, every CLT has a mission-driven responsibility – and, to a degree when receiving public funds, a legal obligation – to preserve the affordability, promote the upkeep, and prevent foreclosures among the homes in its portfolio. These stewardship responsibilities and obligations must be carried out for the term of each CLT ground lease – and will be renewed whenever homes are sold and new leases are executed. Every CLT that chooses to enter into long-term, inheritable, renewable ground lease agreements with its homeowners must have a plan in place, therefore, to create and perpetually maintain the organization's stewardship capacity.

Clearly there is no single detailed "sustainability plan" that can serve as an appropriate model for all CLTs. Each CLT must assess its own situation and make realistic plans for its own future. In developing such plans, however, there are some basic principles that all CLTs should keep in mind.

- It is important, from the start, to plan for sustainable stewardship capacity, not just growth capacity. For this reason a CLT's board of directors should include people with a particular interest in the stewardship role, not just people with a particular interest in housing production.
- In planning for sustainable stewardship, it is important to assume that there will be times when stewardship activities will be the organization's only activities, even if such times are many years away.
- It is important to recognize that, when a CLT is not actively expanding its holdings, the types of revenue available to it will be limited, and will consist primarily of "portfolio revenue" – lease fees and transfer fees.
- In determining the amount of the lease fee that will be written into the CLT's ground lease, it is important to think carefully about the significant effect the fee will have on the organization's ability to support future stewardship activities.
- It is important for a CLT's ground lease to permit the CLT to collect a transfer fee without necessarily exercising its purchase option, and it is important for the CLT's initial pricing and resale formula to preserve a wide enough margin of affordability and marketability to allow a significant transfer fee actually to be collected.
- Sustainability requires a kind of organizational vigor that involves more than financial capacity. It is important to build and preserve not only a competent staff but an energetic board of directors, an active membership and engaged homeowners.