

Community-Owned Affordable Housing – Is it Practical?

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Executive Summary

This study reviews and evaluates the Lexington-Hamline Community Council's affordable housing program. Throughout the past twenty years in which Lex-Ham has owned the seven houses, many challenges have arisen, and the council has had to reconsider the ultimate goals of the council itself, as well as the goals of the housing program specifically. Operating a community-owned housing program, such as this one, takes a considerable amount of time, money, and other limited resources. This study found that it may not always be feasible for community councils to own and operate small scattered-site rental properties, and that the most successful affordable housing programs are those larger in scale and run by full-time housing staff or housing organizations.

Introduction

Background on Lexington-Hamline Community Council

Lexington-Hamline Community Council is a neighborhood organization that works to improve the lives of residents living within its community. The council was incorporated in 1969 in order to establish a grassroots organization to benefit its people, the first of its kind in Saint Paul. The council mission “is to improve the quality of life and bring about positive community change in the Lexington-Hamline neighborhood of Saint Paul.”

The Lex-Ham neighborhood consists of 4,000 residents who live south of University Avenue, north of Summit Avenue, west of Lexington Parkway, and east of Hamline Avenue and Ayd Mill Road. Residents create a racially and economically diverse neighborhood which contributes to its unique history.

Lex-Ham Community Council is supported by community members that volunteer in numerous ways, including serving on the board of directors, working on committees, and planning social events or other aspects of community organizing.

History of Lexington-Hamline Community Council’s Housing Program

The Lexington-Hamline Community Council acquired seven units of housing from the Saint Paul Public Housing Authority in 1986. Housing was a clear priority for the neighborhood in the mid-1980’s since numerous houses were boarded up, leaving the residents concerned about the safety and stability of the community. At this time, the city of Saint Paul was reducing the number of scattered-site properties in its possession due to the difficulties of managing them. Residents’ primary concern was to prevent the levels

of abandoned housing to increase even further. The occupants of the homes themselves were also involved in the process. They did not want to lose their housing, so they approached the council for assistance. The second goal of this program was to help preserve affordable housing in the neighborhood during a time of continually increasing property values.

This housing program is unique in that it is a scattered-site source of affordable housing. Many have praised the council for undertaking and implementing this housing program, despite the challenges it has encountered.

In order to finance this program, the council applied for a loan from Housing and Urban Development. Following loan requirements, the council rented these units according to HUD affordability guidelines.

In order to live in the homes, residents must meet the necessary income requirements. These requirements have been set by city and state agencies that provided the funding for the Lex-Ham housing program. Families may not have an annual income over 60% of the median family income (defined as “low-income families”). Twenty percent of the homes must be rented to “very low-income families,” or families that have an annual income of less than 50% of the median family income for the area.¹ The median family income in Ramsey County is \$78,500.² According to the goals of the program, the rent levels must be in line with the annual income of the residents. Housing is considered affordable if it does not consume over 30% of a family’s annual income,³ and this is the definition to be adopted throughout this study. Currently, HUD fair market rents (excluding utilities) are as follows:

¹ The specific percentages of the median family income may vary depending on the source of funding.

² HUD 2006 data for a four person family.

³ Community Planning and Development Department at Housing and Urban Development.

Efficiency: \$598

One-bedroom: \$705

Two-bedrooms: \$855

Three-bedrooms: \$1,119

Four-bedrooms: \$1,258

Five-bedrooms: \$1,446⁴

Of the seven houses owned by the council, there are two three-bedroom units, four four-bedroom units, and one five-bedroom unit. These homes were built between the years of 1908 and 1916. The square footage of the homes ranges from 1037 to 1928.

Originally, the houses were operated as a leasehold cooperative. Under this agreement, the council legally owned the properties and leased the buildings out to the cooperative under one master lease. The residents bought shares in the corporation in order to become members of the cooperative. The board of directors, who were elected by the cooperative members, was responsible for hiring a management company to run the properties. As a result of inappropriate business and management practices, the cooperative was placed in suspension by the council in 2001. From this point up until the present, the units have continued to be rented according to the affordability guidelines, but in a basic landlord/tenant arrangement. Lex-Ham has contracted with an independent management company for assistance in running the properties. The council also has a housing committee that works with the management company to help oversee the houses.

Currently, the council has agreed to undertake an evaluation process as a result of the challenges arising from operating the program in a successful manner. The obstacles the council is facing include limited staff, lack of funds to maintain and operate the

⁴ 2006 HUD fair market rents for the Minneapolis/Saint Paul/Bloomington area including thirteen counties.

homes, and a lack of housing expertise.

Methodology

There are four main aspects of this housing program evaluation: a comprehensive financial summary, community outreach, research on affordable housing models, and an assessment of future options for the council's program.

The first part develops a financial summary of the events related to the housing program. Data sources primarily used are mortgage and loan documents, files on house repairs, and tax documents. In order to understand what future options may be possible, the financial obligations must be understood.

The second aspect is that of community outreach. These houses are a community asset, and subsequently, people in the neighborhood must be involved in the process. Several levels of community outreach that involve as many individuals as possible are necessary to achieving a process that people consider fair and open. Focus needs to first be on the families currently living in the houses; second, on the people living near the houses, and finally on the community at large.

The third part of the evaluation is to research various models of affordable housing. The emphasis here is on nonprofit organizations that either have similar programs or would be able to take on a project such as this.

The final part of this evaluation is to summarize the findings and make recommendations to the board of directors. These recommendations include steps the council might take in order to make informed decisions about the changes needed in the housing program.

Program Evaluation

Comprehensive Financial Summary

The first step in the housing program evaluation is to undertake a comprehensive financial analysis. Before any decisions are made about future options of the houses, the council's financial obligations must be well understood.

Funding was originally obtained in 1985 for the initial purchase of the homes from the city of Saint Paul. Rehabilitation on the homes was needed as well, and funding for that was received from the Saint Paul Housing and Redevelopment Authority through the Neighborhood Partnership Program.

In 1998, the Lex-Ham council and cooperative became aware that major repairs were necessary on the houses; city and state agencies were once again contacted. A loan was distributed through Minnesota Housing Finance Agency, in conjunction with several other agencies. A number of funding sources were put together under one blanket loan. The HRA funded a loan with two parts; the first of which was through U.S. Housing and Urban Development and the second through Home Ownership Made Easy. Family Housing Fund contributed money as well.⁵ This type of loan structure was found to be common in similar situations. Often the state will not give funding unless support is also demonstrated on the city or local level.

Community Outreach

It is important not to lose sight of the fact that the seven houses are a community asset because they are owned by the council. As a result of that, community members should be involved in the evaluation process before any decisions about their future are made.

⁵ Details of the loans are available in the appendix created for Lex-Ham's board of directors.

The first step in community outreach was to hold meetings with the residents currently living in the houses. Several of the families have long histories in the neighborhood and as a result of their roots and family ties the importance of these homes to them is extremely high. For many, the existence of these rental homes is what makes living in the neighborhood possible. At the time of this study, two of the homes were vacant; therefore, only five families could be contacted. Of these five, three were interested in expressing opinions and being involved in the process. All three households place a high value on the unique aspects of the neighborhood, and the personal ties they have developed with other neighbors. As a direct result of these community connections, the families have set a priority on remaining in the neighborhood, potentially as homeowners. Parents expressed a desire to maintain stability for their children by not uprooting them from their activities, friends, and schools. When evaluating what to do with the housing program, the council should remember that the outcome of any decision will profoundly affect these families.

The second step in the community outreach process was to hold a large meeting open to the entire neighborhood. Flyers were distributed to the nearly 900 households in Lex-Ham, and phone calls were made to the houses directly surrounding Lex-Ham's seven homes. Twenty-seven members of the community attended. This meeting was organized with the help of the Housing Task Force, a group of four neighborhood volunteers who researched the houses at the request of the board in 2005. At this meeting, the community was asked to state what they felt are the most important factors concerning the housing stock in the neighborhood. People were very vocal and involved in the discussion; clearly these houses are of great concern. They identified an extensive

list of factors, including the following: maintaining and increasing property values for homeowners, appearance of the neighborhood, reputation of the council, availability of lifecycle housing, affordable housing (in terms of rent or mortgage payments, as well as general upkeep on houses), aesthetically pleasing homes, and healthy neighbor relations. There were many concerns directly related to Lex-Ham's seven houses including the viability of maintaining the old houses, the safety of the properties, the screening process for residents, the ultimate goals of the housing program, and a beneficial communication system with tenants, neighborhood residents, the council and the management company.

For the third aspect of outreach, the Task Force and the neighborhood block leaders⁶ will be holding smaller block-level meetings in a similar fashion in order to include as many people in the process. The results of this level of outreach will not be available until after the completion of this study.

Models of Affordable Housing

Several affordable housing models were explored throughout the course of this study. The emphasis was on the land trust model, although other options were explored, including rehabilitation programs, leasehold cooperatives, resident-owned cooperatives, limited-equity housing cooperatives, and mutual housing associations.

Under the land trust model of affordable housing, homeownership is achieved for low-income families and affordable housing is preserved. Ownership of the house, itself, is separate from the ownership of the land. Most commonly, a nonprofit organization owns the land and the residents own the house. The land is kept "in trust" by the

⁶ The Block Leader Network at Lex-Ham is a system of communications and a method for community involvement in the neighborhood run by volunteers.

organization. The housing is made affordable by the hybrid system of separating the land from the house. Often, the nonprofit will establish a 99-year ground lease that is used to preserve housing affordability.⁷ Under this lease, the homeowners have control over the land and are able to pass it on to their descendants. In order to create sustainable affordable housing for future generations, the homeowners agree that when they sell the home it will be to another low- or moderate-income family. At the time of sale, families are able to gain some equity, but not the value that would have been received on the open market.

The first recorded community land trust was established in 1968; currently there are over 120 land trusts operating in the United States.⁸ Of the 5,000 units of affordable housing that have been created, 79% have been established for families with incomes of 50% or less of the median annual income, so numerous low-income families have achieved homeownership.⁹

Typically with community land trust organizations, there is a board of directors consisting of several tiers of members.¹⁰ The first tier consists of the residents living in affected homes; the second involves the people with a special interest in the land trust, such as those living nearby the homes. The third tier consists of people concerned about the community as a whole.¹¹

In summary, the following list displays the major positive and negative aspects to the land trust model of affordable housing.

⁷ Institute for Community Economics: The Community Land Trust Model.

⁸ *Creating Permanently Affordable Housing through Community Land Trusts* taken from *California Affordable Housing Deskbook, Solano Press* by Rick Jacobus and Amy Cohen.

⁹ *Creating Permanently Affordable Housing through Community Land Trusts* taken from *California Affordable Housing Deskbook, Solano Press* by Rick Jacobus and Amy Cohen.

¹⁰ Policy Link; Equitable Development Toolkit: Community Land Trust: What is it?

¹¹ Policy Link; Equitable Development Toolkit: Community Land Trust: What is it?

Positive aspects:

- Homeownership is achieved for individuals who would not otherwise be able to buy a house.
- Low- to moderate-income families are able to gain control over their housing situation, leading to a higher investment in their communities and a stable family life.
- Affordable housing is preserved for future generations through the buying/reselling agreement.
- People are able to gain some equity when the house is resold.
- The community benefits as a whole by being active participants in developing their housing stock.

Negative aspects:

- Some people feel that owning the land is a priority; owning simply the house does not make homeownership complete for many individuals.
- Individuals must pay property taxes, even though they do not own the land.
- The responsibility of owning and maintaining a home can be substantial.
- Not as much equity is gained as with traditional homeownership.

Several nonprofit rehabilitation programs were explored during this study. The first of these is Twin Cities Habitat for Humanity. Habitat for Humanity is a nonprofit housing organization that builds and repairs homes to support affordable housing. Habitat for Humanity states that they work “to eliminate poverty housing from the Twin Cities area and to make decent, affordable shelter for all people a matter of

conscience.”¹² Habitat for Humanity is supported by a large volunteer base that works on the houses, as well as by the “sweat-equity” from the future homeowners. Families must give between 300-500 hours of labor before they may buy the home.

Habitat for Humanity is always looking for creative new ways to obtain housing. Occasionally, existing homes are purchased for rehabilitation. Most recently, a rehabilitation project was completed on West 7th Street in Saint Paul. In this project, several buildings were obtained from a community development corporation; the necessary repairs were made, and the homes were sold to Habitat families.

Positive Aspects:

- Habitat for Humanity is a well-known nonprofit housing organization that has completed over 600 homes for families in the seven-county metro area since 1985.¹³
- This program allows for homeownership for low- to moderate-income families.
- Houses are not given to families; they must work for them. This investment in their house is also an investment to the community.
- The foreclosure rate of Habitat houses is only 2%.

Negative Aspects:

- Families undertake all of the responsibilities of owning and maintaining a home, including monthly mortgage payments.

Other rehabilitation programs such as A Brush with Kindness through Habitat for Humanity, Hearts and Hammers, or Rebuilding Together work to rehabilitate older

¹² Twin Cities Habitat for Humanity Mission Statement as taken from www.tchabitat.org.

¹³ Twin Cities Habitat for Humanity “Habifacts” flyer.

homes for individuals not able to do the work themselves. These organizations focus mainly repairs that can be completed through the work of volunteers.

There are three main types of housing cooperatives: leasehold cooperatives, resident-owned cooperatives, and limited-equity housing cooperatives. A cooperative in general is a housing community in which the members buy into the organization. It is subsequently owned and managed by those living within it.

A leasehold cooperative occurs when the cooperative leases the building or property out from another entity; the members manage the properties, but are not the legal owners.¹⁴ Resident-owned cooperatives are those in which the residents own and manage the properties. Limited-equity housing cooperatives are structured to maintain affordable housing. Under this set up, a predetermined formula establishes the level of resale allowed.¹⁵ By reducing the resale value of the cooperative shares, the housing community is able to prevent increasing rates which allows the cooperative to remain affordable.

Positive Aspects:

- Members of the cooperative have control over their housing situation.
- Cooperatives preserve affordable housing in a unique form.
- Residents may qualify for homeowner tax deductions.¹⁶
- Residents can acquire equity, while not undertaking personal liabilities of ownership.¹⁷

Negative Aspects:

¹⁴ National Association of Housing Cooperatives.

¹⁵ National Association of Housing Cooperatives.

¹⁶ National Association of Housing Cooperatives.

¹⁷ National Association of Housing Cooperatives.

- Conflicts of interest may arise among residents during management process.
- Community dynamics and personal politics may be intertwined with objective management practices.

Mutual housing associations are housing organizations in which an association, as well as the residents themselves, own the properties.¹⁸ The association is overseen by a board of directors made up of residents and other community stakeholders. This model of housing provides stability, control, and many other benefits not available with rental properties.

It was found that other nonprofit housing organizations appear to be reluctant to take on a project similar to Lex-Ham's. The most successful housing organizations are those that own large buildings and not scattered site single-family houses. Economies of scale appear to be operating in this situation.

Future Options for LHCC's Housing Program

The models of affordable housing listed above give light to some of the options available for Lex-Ham's houses. This list is neither comprehensive nor finite in terms of the options the council has available.

If the council decides to re-evaluate its role in the housing program, it should consider several overarching options to its involvement in housing in the neighborhood. Under the first option, the council could remain the primary owner of the houses and retain full control and responsibility. In order to improve the program performance, several options are available. A cooperative could be formed again, but history has shown that in the Lex-Ham neighborhood this may not be a feasible model to follow.

¹⁸ Mutual Housing Association of Greater Hartford, Inc.

The challenges that presented themselves with the previous cooperative are likely to emerge once again. These challenges included the following: struggling with conflicting viewpoints and interests, community dynamics, personal politics, issues with the management practices, communication challenges between the board of directors and the cooperative, and maintaining accurate and up to date financial records. This model would continue to require a substantial commitment of resources from the council to ensure successful management.

Another alternative the council has is to hire a full-time housing staff member. Additional funds would be needed, but it has become clear that running this program is a full-time job, and full-time staff may be necessary. The council would need to consider if this would be an appropriate focus of the organization. If Lex-Ham were to take this direction, significant funding would also need to be obtained for some much needed repairs on the homes. The volunteer-based rehabilitation organizations could provide a useful resource to this need. This may be an impractical option, since many of the current challenges would still remain.

The second overarching option Lex-Ham has is to transfer the properties to another entity. The land trust model appears to be a promising opportunity. Rondo Community Land Trust is an organization that promotes and develops the land trust model in the city of Saint Paul. In a meeting with the executive director of the organization, it became apparent that they would be interested in the possibility of obtaining the houses from the council. If Lex-Ham decided that this option fit with their needs and goals, the process would be as follows:

- 1) The council would need to work with the current residents to decide what their future would be. If they had interest in becoming homeowners in a land trust, this possibility could be explored, or else relocation compensation might be necessary.
- 2) The properties would need to be assessed in order to fully understand the extent of the necessary repairs. This would include any structural repairs, as well as verifying that the houses are in compliance with energy standards, are absent of lead paint, mold, etc.
- 3) The third step involves a gap financial analysis. The finances needed for repairs will be compared to the money the land trust would receive for the house. Rondo CLT would then determine whether it is financially feasible for them to acquire the houses.

This option would fulfill the community's desire to maintain affordable housing in the neighborhood, as well as possibly let the current residents maintain in their homes (although this would not be guaranteed). The council would be relinquishing ownership of the homes, so the challenges Lex-Ham is struggling with would all be eliminated. At one point in time, the original goal was to turn the houses into a land trust, so this objective would be met. The drawbacks of this option are that not all members of the community support the basis of land trust model, and subsequently would not support this choice.

The Habitat for Humanity program also appears to have potential for the council. A meeting was held with the Land Acquisition Manager at the Twin Cities office. Habitat for Humanity would certainly be interested in exploring this project with the

council. They, as with all nonprofits, are constrained by finances, so the organization is always interested in acquiring land through creative methods. Not all seven homes would have to be turned over in order for the program to be developed into Habitat homes; they are willing to consider alternative options. In order to maximize positive community development, Habitat for Humanity could not concentrate large amounts of funds into one project; subsequently, they would only be able to purchase the homes for a value well under the market rate. The following is an example of the financing of a typical Habitat home:

\$200,000– final house value

\$25,000 – acquisition cost for Habitat for Humanity

\$100,000 – cost to build/repair home

\$125,000 – first mortgage to family (Habitat for Humanity acts as a bank as well)

\$75,000 – gap 2nd mortgage (this is a quiet mortgage; if family decides to sell home, Habitat for Humanity has the first right of refusal to purchase home); all loans are 0% interest.

Most projects take between six and nine months on average to develop, implement, and complete the Habitat houses. Habitat families must attend eleven classes to develop homeownership skills. Classes cover topics such as how to read mortgages, how to maintain homes through upkeep with repairs and structural issues, financial training etc. If the council were to move ahead with this option, the process would start with continued discussions with the Land Acquisition Manager.

This possibility for the council would also fulfill its desire to maintain an affordable housing stock in the neighborhood, as well as eliminate the complications

arising from the council owning and managing properties. An obstacle this model brings is that Habitat for Humanity would not be able to give priority to the residents currently living in the houses. Habitat for Humanity, as a nonprofit organization, is governed by the Fair Housing Act which restricts them from giving preference towards a specific family. This ultimately means that while the current residents certainly would be able to apply for the Habitat program, they would have no advantage over any other family.

Another option discussed by the Task Force is to donate the homes to the University of Minnesota's architecture department. This would allow an interesting and unique project for students in this field.

The third alternative is to simply sell the homes on the open market. This may not be possible as a result of the loan restrictions. Another complication that arises is connected to the large sum of money the council could potentially gain. The council must question whether it is in a position to responsibly manage a fund. How would the board decide in a fair and equitable manner what to spend the money on? An endless chain of challenges could potentially arise.

Conclusion

Challenges to Community-Owned Affordable Housing Programs

There are many difficult aspects to operating an affordable housing program. At the end of this analysis it has been found that, in general, it is difficult for a small community council to run an affordable housing program. The day-to-day operations necessary for maintaining a successful housing program are significant and beyond the capabilities of a volunteer board and a single staff member with other responsibilities. In order for such programs to be successful, staff must have considerable knowledge about how to be responsible, reliable landlords. The owners of rental properties make a commitment to those living in the units, and the necessary resources to fill that commitment are extensive. The owners must also have the time available to maintain adequate communication with the board of directors, the management company, and the residents; a successful communication system is essential. It was found that the most successful housing programs are those that are operated by nonprofit organizations with a specific housing focus and expertise, as well as a full-time professional staff dedicated to the housing program.

Recommendations to Lexington-Hamline Community Council

Several areas of the housing program evaluation need further exploration. The first is an extension of the comprehensive financial analysis. The information regarding the loans warrants further analysis from a legal perspective. It may be necessary to contract with an independent professional housing attorney to clarify the legal restrictions that have been set in place.

A second area for further work is the effort to gather community input and encourage community involvement. The Task Force is currently in the process of holding “pocket” meetings. At these meetings, more information is being collected regarding the community’s beliefs about the housing stock, as well as what role the council should take in the housing program. People in the neighborhood should later rank the list of criteria to develop a better understanding of the neighborhood’s priorities. Another possible aspect of the community outreach would be to develop a survey in order to gain a more quantitative data set on community perspectives, since information received from discussions at meetings is so difficult to quantify and interpret.

Once the council gains an understanding of what the community would like done with the houses, more research on the options available will be necessary. The nonprofit organizations that may be interested in taking over the housing program would need to be contacted again, and a rigorous policy and legal analysis of the possibilities should be conducted. The specific steps that would be involved in transferring the properties to another entity must be identified and understood by the council. If a transfer were decided upon, the hiring of an independent consultant might be necessary in order to ensure smooth and successful transfer of responsibilities.

For a number of reasons, the council might benefit from a strategic planning analysis. Aside from evaluating its housing program, Lex-Ham is in the process of developing a strategic plan for the upcoming years, and is also in a transitional period with its professional staff. It could prove beneficial for the council to identify its strengths and weaknesses, opportunities and threats. In what areas has the council been most successful? Where could it make improvements? Operationally, is the board

working in an efficient and productive manner? The results of this analysis could then be connected back to the housing program in order to make a more complete and effective decision about its future.

The following is a conceptual work plan for possible next steps the board may want to take:

- The board should come to a consensus on the next steps it believes are most appropriate and develop a timeframe and plan of action for carrying them out.
- A housing attorney should be hired to advise the board on the loan documents, and if the board chooses so, options for moving ahead with the next steps. The future obligations and requirements of the loans must first be understood, as well as the requirements that currently exist (e.g. Are the income restrictions being met? Do the lenders need to approve the management company Lex-Ham contracts with? When do payments need to begin? Are there any contradictory clauses among loan documents? What are the requirements on frequencies of inspections? etc.)
- It may also be necessary to run a title search on the properties, if a transfer of ownership occurs.
- The council has discussed the possibility of involving a team of student advisors from William Mitchell College of Law for assistance; if this decision is made, several steps should occur. The goals and outcomes of the student project must be carefully outlined. The students must also be

presented with a precise history of the homes, as well as the council's ultimate goals for the program.

- A more complete office filing system should be implemented. When numerous volunteers are involved with the record-keeping of one program, accurate records become difficult to maintain. For example, invoices from repair work on the houses need to be preserved for future reference.
- Professional, independent inspections from three sources should occur on the houses to verify that the properties are meeting code. A list of necessary repairs should be developed and the costs estimated.
- The council is in the process of exploring other management companies to contract with. It appears that this is an extremely important step to take while the program's future is being determined.
- Currently, one of the houses is uninhabitable; a decision about the future of this property should be an immediate concern. Possible costs and funding sources for repairs need to be researched. The council could be creative here; aside from applying for grants or applying for the work to be completed by nonprofit organizations, the council could employ students working to develop construction skills.
- The board of directors should continue to work with the Task Force during the process of community involvement. The work and contributions of the Task Force should also be clarified, and a consensus reached by all parties regarding the scope of the Task Force's work. The

distinction between the Housing Committee and the Task Force also needs to be clarified.

- Once the community input has been gathered, the board will need to decide how that information connects with the council mission, as well as the housing program options it must consider.
- With specific reference to the housing program, the board may determine that several options fit the community's needs, so further research might be necessary. If the options involve partnerships with other nonprofit organizations, possible plans of actions should be developed in order to clarify which best meets its goals.

Throughout this evaluation, it has been found that significant changes may be needed for Lex-Ham's housing program. Although much work remains to be done, the council is in an excellent position to serve its community.