A Guide to Using Self-Help Homeownership Opportunity Program Funds

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Overview

Introduction to the Self-Help Homeownership Opportunity Program (SHOP)

Self-help housing is an innovative approach to developing affordable housing that meets many desirable community development goals. It creates new housing units for occupancy by low-income families, often at substantial cost savings because of donated sweat equity and volunteer labor. By involving homeowners and volunteers in construction and development initiatives, it also helps to build community camaraderie and social interaction among neighbors. For most participating families who successfully complete the program, the accomplishment of achieving the American dream (homeownership) through one's own sweat equity is an opportunity like no other. With immense pride and accomplishment, these families are able to stabilize their home and employment situations, gain marketable construction skills, and become members of a caring and supportive community.

The U.S. Department of Housing and Urban Development's (HUD) Self-Help Homeownership Opportunity Program (known as SHOP) provides start-up funds to national and regional nonprofit organizations and consortia administering this specialized model of developing affordable housing. The funds are considered start-up since they can be used only for site acquisition and on-site infrastructure development. These activities are often the most challenging and time-consuming components of a self-help program.

SHOP Accomplishments

SHOP is creating affordable housing opportunities in local communities by awarding national and regional organizations with the funding necessary for developing housing units that are supported with homeowner sweat equity and volunteer labor. SHOP grantees reach out to low-income families who would not otherwise be able to afford a house.

Some of SHOP's accomplishments include:

- As of March 2005, over 13,000 low-income families have become homebuyers through SHOP. Without SHOP, these families would otherwise have been unable to purchase a home. Houses are sold to homebuyers well below the appraised value. For example, one grantee was able to develop and sell homes that were valued at $140,000 for only $80,000.

- From 1997 through March 2005, SHOP funds have been used for land acquisition and/or infrastructure improvements for 357 new homes built in Colonias areas along the U.S.-Mexico border.

- More than 2,400 low-income families will become homeowners from the 2003 SHOP grant funds, and over 1,700 low-income families will become homeowners from the 2004 SHOP grant funds.[1]

- Numerous partnerships with HUD, the U.S. Department of Agriculture's (USDA) Rural Housing Service, county and state governments, Fannie Mae, community loan funds, and banks have been formed throughout the nation.

Benefits of SHOP to Participating Families

When asked about the impact of SHOP, Helen McIlvain, former Executive Director of Habitat for Humanity of Northern Virginia (Arlington, VA), pointed to the program's "priceless impact on homeowners and community." She has seen SHOP help families build stability in their lives, moving from "a transient life to a stable life" because families no longer move from apartment to apartment in search of affordable rent. Secure and stable housing has enabled some parents to find jobs close to home and spend more time with their children. Other parents have given up dead-end jobs to pursue educational opportunities, or used the skills learned in the homebuilding process to begin new careers. Children, no longer moving from home to home each year, are able to stay in one school and improve and succeed academically. The sweat equity and volunteer model also provides an opportunity for families to become more connected to the community they live in because of the interactions they have had with volunteers and their peers. In sum, SHOP offers low-income families the opportunity for residential, financial, and social stability.

Purpose of This Guidebook

A self-help housing program differs in many respects from a more traditional model of affordable housing development. Program administrators must design their programs in ways that address local housing market conditions and needs, as well as balance the practical constraints of relying on homeowner and volunteer labor.

This publication provides guidance and technical assistance to SHOP grantees and affiliates, and potential SHOP applicants, so they can yield maximum results with SHOP funding. The guidebook summarizes the key requirements of SHOP, and explores how SHOP grantees have designed their programs to meet program requirements and successfully provide low-income families with the opportunity to become homeowners. Furthermore, it provides rich guidance about administering sweat equity programs in the form of case studies of several successful SHOP grantees.

[1] In 2004, the average SHOP investment was raised from $10,000 to $15,000, which reduced the number of units to be developed.

Organization of This Guidebook

A Guide to Using Self-Help Homeownership Opportunity Program Funds is organized as follows:

Chapter 1, "SHOP Requirements," describes the Federal SHOP requirements. It describes HUD's process for making funds available through national competitions. It explains who is eligible to apply for SHOP funds, what activities can be financed with SHOP funds, and the various factors, other than Federal requirements, that might influence overall program design for sweat equity programs.

Chapter 2, "Designing a Successful SHOP Program," elaborates on a number of program design decisions that are made by SHOP grantees, and identifies issues that grantees should consider when weighing their program design options. The chapter covers program design issues related to structuring sweat equity requirements, in addition to managing volunteers and job sites. The chapter further describes site acquisition and infrastructure development strategies and identifies financial resources that can be readily combined with SHOP funds.

Chapter 3, "A Closer Look at SHOP Funds at Work," describes several SHOP programs currently operating throughout the nation. These case studies provide valuable detail on the program design elements described in Chapter 2, and illustrate how grantees have successfully used SHOP funds to develop affordable self-help housing.

Who Should Read This Guidebook

This guidebook should serve as a valuable resource to those who administer any self-help housing program, but particularly those who are using, or are interested in using, SHOP funds to support their program operations. This guidebook may also be a useful source of information for housing partners of SHOP grantees and affiliates.

Chapter 1: SHOP Requirements

Introduction to SHOP

On March 28, 1996, President Clinton signed into law the Housing Opportunity Program Extension Act of 1996, which created the Self-Help Homeownership Opportunity Program (SHOP). As its name suggests, SHOP is designed to support the development of self-help housing, particularly sweat equity and volunteer-based homeownership programs. SHOP provides funds to national and regional nonprofit organizations and consortia to purchase home sites, and develop or improve the infrastructure needed to set the stage for the development of housing for low-income individuals and families. The U.S. Department of Housing and Urban Development's (HUD) Office of Affordable Housing Programs administers SHOP.

While any eligible organization can apply for and receive funding for SHOP, there are two common types of organizations that have successfully undertaken sweat equity programs. One model is organized as a heavily volunteer organization, in which homebuyers also contribute sweat equity along with volunteers from the community. The other model is sometimes referred to as a mutual self-help model. In this model, homebuyers team up with other buyers to work on each other's homes. SHOP supports both types of self-help programs.

SHOP Goals

SHOP funding is intended to facilitate and encourage innovative homeownership opportunities on a national and geographically-diverse basis. The program supports self-help housing programs that require a significant amount of sweat equity by the homebuyer toward the construction or rehabilitation of his or her home.

The SHOP program goals are to:

- Develop decent, safe, and sanitary homes for families and individuals who would otherwise be unable to afford to purchase a home;
- Foster homeowners' investments and contributions to their homes through sweat equity; and
- Encourage community participation and the investment of additional public and private funds in SHOP homes.

Funding Availability

SHOP funds are distributed annually through a national competition that is administered by HUD. Eligible nonprofit organizations may apply for funding in response to a Notice of Funding Availability (NOFA) that is announced annually in the *Federal Register*. Applicants are generally given two months to complete and submit a SHOP application in response to the NOFA.

Cumulative SHOP funding has amounted to more than $211 million since the inception of the program. Funding for the program has averaged approximately $25 million per year. HUD generally provides funds to three to six applicants during each funding cycle, depending on the

program's appropriation amount and the number of fundable applications. Awards have ranged from $350,000 to $13 million. Since Fiscal Year 2004, the minimum amount of SHOP funds that may be awarded is $450,000. Upon award, HUD notifies selected applicants of the award amount, the minimum number of housing units that must be produced, and the amount of funding that can be spent on administrative costs.

SHOP will fund no more than an average of $15,000 per unit for land acquisition and infrastructure improvements.

Key Program Requirements

SHOP requirements are minimal. In general, grantees have broad discretion to operate their programs in a variety of ways that suit their administrative capacity and meet local housing needs. Use of SHOP funds is governed by a limited number of statutory requirements based on the Housing Opportunity Program Extension Act of 1996, as amended. Units developed with SHOP funds must be decent, safe, and sanitary non-luxury dwellings, and must be made available to low-income homebuyers at prices below the prevailing market prices. SHOP requires that homebuyers and community volunteers contribute their labor to the physical construction of the units.

There are currently no program regulations for SHOP. In addition to the statutory requirements, HUD establishes program requirements and provides technical guidance to applicants through the issuance of the annual NOFA. The NOFA provides guidance on the type of entity that is eligible to apply, the eligible activities that can be undertaken with SHOP funds, and the basis upon which applications will be rated and ranked. The rating and ranking criteria in the NOFA are designed to select applicants whose programs meet all the statutory requirements and HUD's own policy and programmatic objectives.

This section will review the statutory requirements and the program requirements that have been imposed through the issuance of NOFAs to date. Readers are cautioned to review the specific program requirements outlined in each annual NOFA for any changes and/or up-to-date information about program requirements.

Eligible Grantees

National and regional public or private nonprofit organizations, or consortia of nonprofit organizations, that have the capacity and experience to provide self-help homeownership opportunities are eligible to apply for SHOP funding. Eligible grantees are defined as:

- **National organizations**. An eligible national organization carries out self-help housing activities or funds affiliates to carry out self-help housing activities on a national scope.

- **Regional organizations**. An eligible regional organization carries out self-help housing activities or funds affiliates to carry out self-help housing activities in at least two states that need not be contiguous. The organization's service area need not conform exactly to state boundaries. Regional organizations must use affiliates that are located within the service area of the organization.

- **Consortia**. An eligible consortium is comprised of two or more nonprofit organizations that are located in at least two states. Individually, they must have the capacity and experience

to undertake self-help housing activities, or to fund affiliates to do so, on a national or regional basis. Each member of the consortium must enter into a written agreement, and the consortium must submit a single application to HUD for SHOP funds. The consortium must identify one organization to be the lead organization. The lead organization submits the funding application and, if selected, executes the grant agreement with HUD. The lead organization assumes responsibility for program compliance.

Regardless of the type of organization, all grantees must use SHOP funds in at least two states. In addition, grantees must be able to demonstrate that they have experience in successfully implementing a self-help housing program nationally or in a regional area by having completed at least 30 units within the preceding two years of publication of the NOFA. SHOP grantees must have a DUNS number, issued by The D&B Corporation.[2] For more information about DUNS numbers and how to obtain one, see http://www.dnb.com/US/duns_update/.

SHOP Affiliates

Under SHOP, the grantee, which may include individual consortium members, can carry out the self-help housing program itself, or it can fund local affiliates to do so. Many SHOP grantees use affiliate organizations at the local level to implement SHOP activities. An affiliate must have a relationship formalized in writing with the grantee, and qualify in one of the following three ways:

1. The local public or private nonprofit affiliate is a self-help housing organization that is a subordinate organization of a central organization (such as a chapter, local, post or unit). The affiliate must be covered by the central organization's 501(c)(3) group tax-exemption letter issued by the Internal Revenue Service.

2. The local public or private nonprofit affiliate is a self-help housing organization that has an existing relationship with the grantee (such as a previous arrangement where the grantee provided funds or technical assistance to the self-help housing nonprofit affiliate), or

3. The local public or private nonprofit affiliate is a self-help housing organization that has a newly established relationship with the grantee, whereby the grantee will provide technical assistance and mentoring as part of its obligation to provide funds to the affiliate. Grantees must provide these affiliates with project funding at some point within the grant term. See **Organizational Capacity** below for information on the time limit for spending SHOP funds.

In their funding applications, SHOP applicants often specify affiliates they will use to carry out self-help activities, although they need not do so. Alternately, SHOP applicants can specify to HUD how they plan to select affiliates they will support, if funded. Affiliates may not apply for funding to more than one grantee during a funding cycle.

Organizational Capacity

Each SHOP funding applicant must demonstrate to HUD that it has the organizational capacity and experience to carry out the activities it proposes, in compliance with HUD requirements.

[2] Formerly known as the Dun and Bradstreet Corporation.

Grantees must have adequate prior experience carrying out self-help housing programs, and must have an established management structure to support the program. Grantees who are working with affiliates must be able to provide monitoring and oversight to the affiliates they propose to work with, as well as technical assistance, if needed. Grantee financial control and accounting procedures must comply with the requirements of 24 CFR 84.21, "Standards for Financial Management Systems."

SHOP grantees are responsible for the production of a minimum number of houses during each funding period, on their own or through the use of affiliates. HUD determines the minimum number of housing units each grantee must develop, based on the size of the award and an average cost of $15,000 per unit. In no case will HUD provide funding to a grantee to develop fewer than 30 units. If the grantee's land and infrastructure costs are less than $15,000 per unit, the grantee must produce more units than the minimum number projected by HUD. In addition, SHOP grantees must demonstrate an ability to carry out their self-help housing programs in a timely manner. Grantees may undertake development of self-help housing units themselves, or they may act as intermediaries and pass the funds to affiliates to develop self-help housing units. For a grantee that develops self-help housing units, regardless of the number of units it produces, SHOP funds must be spent within 24 months from when HUD makes funds available for draw-down in a line of credit established by HUD for the grantee. For affiliates that produce one to four units, SHOP funds must be spent within 24 months of establishment of the grantee's line of credit. For those affiliates that develop five or more units, SHOP funds must be spent within 36 months of that date.

Eligible Homebuyers

In order to participate in SHOP, eligible homebuyers apply directly to the grantee or the local affiliate that has received SHOP funding.

Eligible homebuyers are low-income individuals and households whose annual incomes do not exceed 80 percent of the median income for their area, as determined by HUD. Eligible households would not be able to purchase a house without the infusion of sweat equity and volunteer labor to build or rehabilitate the home, thereby making it affordable. Other than down payment or closing costs, homebuyers cannot be asked or required to make any up-front financial contribution to the house.

The grantee or affiliate must verify each household's income in order to determine income eligibility. In its funding application, an applicant must specify how it will define household income. It can propose its own definition, subject to HUD review and approval, or it can select one of three HUD definitions of low-income households—from the Section 8 program provided at 24 CFR 5.609, the Census Bureau long form, or the Internal Revenue Service (IRS) Form 1040.

Helpful Tip!

All prospective homebuyers that participate in SHOP must be low-income. Since the definitions of low-income for SHOP are the same as those used for the HOME Program, SHOP participants can use the HOME Program online "Income Calculator" to determine homebuyer income eligibility under SHOP. This useful tool is available at http://www.hud.gov/offices/cpd/affordablehousing/training/calculator/calculator.cfm.

Homebuyers must contribute a significant amount of sweat equity toward the construction or rehabilitation of their own homes and/or the homes of other homebuyers participating in the self-help program. For homebuyers with more than one adult member in the household, the household must contribute a minimum of 100 hours of

sweat equity. Households with only one adult are required to contribute a minimum of 50 hours of sweat equity. These overall sweat equity contributions may not be reduced for persons with disabilities; however, grantees and affiliates must provide reasonable accommodations to households with disabled persons. Such accommodations may include assigning non-construction work to a person with a disability so he or she can meet the sweat equity requirement, or permitting a volunteer to perform some or all of the physical construction work on behalf of a person with a disability. The latter arrangement requires an agreement between the grantee or affiliate, the volunteer and the homebuyer.

Community Participation

SHOP grantees and affiliates must involve the broader community in their self-help housing program, beyond the involvement of the homebuyers who are contributing sweat equity. Specifically, SHOP requires the use of homebuyers and volunteers for the **physical construction** of the housing under development. Volunteer labor, as defined in the SHOP NOFA, is work performed by an individual without promise, expectation, or compensation for the work rendered. The grantee or affiliate can satisfy the community participation requirement by using community members who do not have an existing relationship with the homebuyer. In the case of mutual self-help housing programs, the work performed by the homebuyer family on other houses of other program participants may also count as volunteer labor

Grantees and affiliates can use volunteers who undertake non-construction activities, although these volunteer hours cannot be counted to satisfy the community participation requirement. The value of non-construction volunteer hours can, however, be counted toward the SHOP requirement to leverage other resources. (This requirement is discussed later in this chapter.)

Mutual self-help housing organizations can choose the best way for their participants to meet SHOP's sweat equity and community participation requirements. A mutual self-help program generally involves four to ten participating families organized in a group. Together, participating families use their labor to reduce the total construction cost of each family's home.[3] Grantees or affiliates who administer a mutual self-help housing program can decide how to "count" the labor contributed by homebuyers who are working on another family's home. These hours can be counted toward the homebuyer's sweat equity requirement, as community participation, or some combination of the two.

Eligible Activities

SHOP is intended to provide start-up funds for self-help projects to help set the stage for housing construction. Eligible start-up activities include land acquisition and infrastructure improvements. In addition, reasonable administrative costs may be paid with SHOP funds.

Land Acquisition

SHOP can be used to pay for the cost of land for new construction, or the cost of the land on which stands an existing structure that requires rehabilitation. SHOP cannot be used to pay for the cost of the structure itself. Eligible land acquisition costs can also include financing and

[3] This includes mutual self-help housing programs that are assisted by USDA Rural Development under Section 523 of the Housing Act of 1949, or programs that are similarly designed.

closing costs. Before SHOP funds can be used to purchase land or undertake infrastructure improvements, an environmental review is required. The environmental review requirement is discussed in the next section.

Infrastructure Improvements

Infrastructure improvements paid for with SHOP funds can include the installation, extension, construction, rehabilitation, or improvement of utilities and other site improvements. This includes the removal of environmental hazards. Eligible infrastructure improvements must be on-site. When an entire subdivision is under development, these improvements can include roads, water mains, street improvements, lights, sidewalks, and other shared infrastructure, provided the property is owned by the nonprofit organization implementing SHOP. The improved property must then be transferred to the homebuyers. No SHOP funds can be invested in property that is publicly owned.

Program Administration

SHOP funds can be used to pay reasonable direct and indirect administrative costs, in an amount not to exceed 20 percent of the SHOP grant. Grantees are responsible for determining how administrative funds are expended. For instance, a grantee may request the full 20 percent and can choose to use the whole amount itself, or provide some share of administrative funds to each of its affiliates. In its funding application, the grantee must specify the level of administrative funds it requires, and how it plans to use these funds.

Indirect costs that are paid with SHOP funds must be in accordance with a cost allocation plan that meets the requirements of OMB Circular A-122, "Cost Principles for Nonprofit Organizations." This circular is available online at http://www.whitehouse.gov/omb/circulars/index.html.

Upon submission of a SHOP application, but prior to the effective date of the grant agreement, an applicant may incur costs that can be charged to SHOP, such as acquisition or environmental review costs. The applicant does this at its own risk, because these costs cannot be reimbursed if the applicant does not qualify for a SHOP grant. Any costs incurred must be eligible and in compliance with all SHOP requirements.

Affordability

Grantees and affiliates are required to provide houses at prices below the market price to their homebuyers. Homebuyer sweat equity and volunteer labor will enable the grantee or affiliate to make the home available at a lower price.

Relocation

The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Uniform Act or URA), is a Federal law that establishes minimum standards for Federally funded programs and projects that require the acquisition of real property (real estate) or displace persons from their homes, businesses, or farms. The Uniform Act's protections and assistance apply to the acquisition, rehabilitation, or demolition of real property for Federal or Federally funded projects. The Uniform Act was enacted by Congress to ensure that people whose real

property is acquired, or who move as a direct result of projects receiving Federal funds, are treated fairly and equitably and receive assistance in moving from the property they occupy.

SHOP grantees and affiliates must comply with applicable Uniform Act requirements in order to receive SHOP funding assistance for their programs and projects. Non-compliance with Uniform Act requirements could jeopardize SHOP funding assistance for a grantee's project.

For More Information on Relocation

Additional information and resources pertaining to real property acquisition and relocation for HUD funded programs and projects are available on HUD's Real Estate Acquisition and Relocation web site at http://www.hud.gov/relocation. There you will find applicable laws and regulations, policy and guidance, publications, training resources, and a listing of HUD contacts if you have questions or need assistance.

- The Uniform Act's implementing regulations are found in 49 CFR Part 24. HUD Handbook 1378 (*Tenant Assistance Relocation and Real Property Acquisition*) provides HUD policy and guidance on implementing the Uniform Act and 49 CFR Part 24 for HUD funded programs and projects.

Decent, Safe, Sanitary, and Affordable Housing

Housing that is supported with SHOP funds must meet certain requirements designed to ensure the health and safety of residents. Property standards ensure that properties are structurally sound. Environmental reviews ensure that there are no known environmental hazards that might harm residents. Lead-based paint assessments and the implementation of lead hazard controls for properties built prior to 1978 that are being rehabilitated reduce health risks to homebuyers and workers that might result from exposure to lead in residential paint.

Property Standards

Homes developed with SHOP funds must be healthy and safe living environments. All houses must comply with local building and safety codes and standards.

Environmental Review

Activities undertaken with SHOP funds may have an effect on the environment and are therefore subject to Federal environmental regulations.[4] Environmental reviews must be completed to identify any outstanding environmental hazards or liabilities, and impacts on the natural and physical environment before SHOP funds can be used for land acquisition and/or infrastructure improvements.[5] This ensures that, upon completion of the review, the SHOP

[4] SHOP is subject to the environmental regulations found at 24 CFR Part 58 and the policy guidance on Modified Environmental Processing for Self-Help Homeownership Opportunity Program (SHOP) in CPD Notices 01-09 and 98-10.

[5] Although non-grant funds can be invested in the purchase of a property prior to an environmental review, a SHOP grantee does this at its own risk. HUD will not reimburse a grantee's land acquisition costs if the environmental review determines that the land is not environmentally suitable for the development of housing or is in noncompliance with environmental authorities. Additionally, a property owner may be legally liable for environmental hazards on his or her property, even if the owner was not responsible for contaminating the property. As a result, many SHOP grantees elect to conduct the environmental review **prior** to investing any funding in a project.

grantee or affiliate is free to choose to address any identified environmental issues, concerns, or hazards, or to seek to acquire a different property. The goals of an environmental review are to:

- Ensure that environmental concerns are identified and addressed before a project is undertaken; and

- Protect residents, neighborhoods, and communities and the nation's resources, including land, air, water, and other natural and cultural resources.

SHOP grantees and affiliates arrange for an environmental review of a property by the responsible entity of the jurisdiction, usually the local government located within the area of the proposed SHOP-assisted project that exercises land use responsibility. In some cases, it has been reported that a responsible entity will not assume responsibility for the environmental review of a SHOP project. When this occurs, the SHOP participant can ask HUD to perform the environmental review under 24 CFR Part 50 and complete HUD Form 4128, "Environmental Assessment and Compliance Finding for the Related Laws," as applicable.

The type and level of environmental review depends on whether the activity being undertaken is new construction or rehabilitation. Normally, an environmental review of a new construction project is far more involved than one for a rehabilitation project because a new construction project is likely to have a more significant impact on the natural and physical environment. In addition, economic, social, and health effects are determined, and are likely to be more significant when a new project is built. Through the environmental review process, a judgment is made about the suitability of a site for development. This review is based on a list of 16 criteria (outlined in Appendix 1.1), and it includes an assessment of variables such as the potential impact of development on wetlands; the possibility of flooding; the presence of soil contamination, air, water and noise pollution, asbestos, or radon; and the accessibility of the site to transportation, schools, and emergency services.

If sites are known or suspected to contain, or be exposed to, environmental hazards or radon, the responsible entity or HUD will require that a potential construction site be examined and tested as necessary by the local government or a third party. If testing reveals the site is contaminated, or may become contaminated from off-site sources, the responsible entity or HUD must determine whether cleanup and/or mitigation will ensure the health and safety of the occupants and that the intended use of the property is not affected. If this cannot be determined, the project will not be approved. When environmental issues are found they must be addressed during the environmental review, and corrective actions implemented as part of the construction process.

Environmental studies, inspections, and testing of properties for hazards are "exempt" activities and are eligible administrative costs under SHOP. The responsible entity can document these exemptions in order to enable the grantee to draw down funds to conduct the necessary studies and tests for environmental clearance. The information would then be incorporated into the environmental review covering the housing/infrastructure project.

Upon completion of the environmental review (including identification of mitigation of any environmental issues), the responsible entity will either notify the grantee or affiliate that the project is exempt, or it will issue a public notice. Once an activity is determined to be exempt, no further approval from HUD is needed to draw down funds. However, the responsible entity must document in writing its determination that each activity or project is exempt and meets the conditions specified for such an exemption, as required by 24 CFR 58.34(b). On the other

hand, if a public notice is required, the SHOP grantee or affiliate must submit a copy of the notice and a request for release of funds to the HUD Field Office (*Request for Release of Funds and Certification*, Form HUD-7015.15). Once HUD issues a release of funds (*Authority to Use Grant Funds*, Form HUD-7015.16), SHOP funds can be committed or expended. If, instead, the HUD Field Office performs the environmental review (Form HUD-4128, *Environmental Assessment and Compliance Findings for the Related Laws*, as applicable), the SHOP grantee or affiliate will receive an approval letter from the HUD Field Office. Once this letter is received, the grantee or affiliate may commit and spend grant funds.

Advance Work for a Timely Environmental Review

Many grantees, affiliates, and consortium members find that securing an environmental review takes some time, and it is important to request the review as soon as a site has been selected. Martha Mendez of Coachella Valley Housing Coalition SHOP advises other SHOP participants to build a strong working relationship with the responsible entity, "since they will be completing the environmental review for HUD. They will be more responsive to the timeline dictated by HUD if they know the impact their work has on the performance of the project. Timing can be a problem with the environmental review. It has to be planned out in advance since it adds about four months to the project."

Addressing concerns that are raised in the environmental review process can be time consuming, costly, and complicated. If an environmental review uncovers issues that must be addressed prior to development, then the SHOP grantee, in consultation with its affiliate, has a choice of addressing the issues or not continuing with the acquisition.

In addition to the HUD environmental review, many states have their own environmental review and approval process for development activities. The environmental review process can be confusing for organizations when environmental standards differ between state and Federal requirements. State and local governments, lenders, and some funding organizations may require a copy of an Environmental Site Assessment (commonly referred to as a "Phase I" or "Phase II") as a condition to funding the project. If a site is known or suspected to be contaminated, HUD may also request that a Phase I be conducted as one part of its environmental review process. However, Phase I and II assessments do not satisfy the requirements for the environmental review imposed by HUD.

For More Information about the Environmental Review Process for SHOP

For more information about the environmental review requirements and process under SHOP, see HUD Notices CPD-01-09 and CPD-98-10, *Modified Environmental Processing for Self-Help Homeownership Opportunity Program (SHOP)*. These notices are available online through the library at HUD Clips, at www.hudclips.org.

For more information about a Phase I environmental site assessment, see The Enterprise Foundation's online resources at http://www.enterprisefoundation.org/resources/dss/singlefam/sf&24&in&nc&ss&lg&rin&rnc&ucpscm18.htm

The Phase I evaluation typically involves (1) a site inspection of the property to identify any observable indications of potential environmental hazards or contaminants, (2) a review of past uses of the property to identify whether the property's prior use might have contaminated the property, and (3) a search of Federal and state databases that list hazardous sites and facilities. Information is gathered to: (a) develop a comprehensive description of the project site's physical environment (b) identify conditions that will change if the project is executed; (c) identify potential environmental impacts, both adverse and beneficial; and (d) determine the extent of impacts on the environment. This assessment is relatively low-cost; if it uncovers any potentially problematic conditions, the grantee can determine whether or not to proceed before making a major financial investment.

Lead-based Paint Requirements

Properties acquired with SHOP assistance that undergo rehabilitation are subject to the lead-based paint regulations found at 24 CFR Part 35. Lead poisoning makes people of all ages very sick. It is especially harmful to children under the age of six whose nervous systems are still developing. It can cause brain and nerve damage, and can result in learning difficulties and behavior problems. Lead poisoning in adults can also result in brain damage, as well as problems in the nervous and reproductive systems. Damage caused by lead poisoning can be permanent.

Properties that were built prior to 1978 often contain some lead-based paint. Grantees and their affiliates and contractors must comply with the consolidated Lead Safe Housing Rule (LSHR) at 24 CFR Part 35 when undertaking rehabilitation activities. Compliance with these requirements will help grantees and affiliates prevent lead poisoning of the volunteers and workers who support their efforts, as well as the homebuyers they assist. Following these requirements may also mitigate the organizations' own liability.

To comply with the LSHR, it is important to understand the requirements for lead hazard evaluation and reduction, the qualifications of the people who perform the renovation and reduction work, the concept of "clearance," and the need for ongoing maintenance. These are all described below.

For More Information about Lead-Based Paint Requirements

More information about HUD's lead-based paint policies and requirements is available online at *http://www.hud.gov/offices/lead/* or through the National Lead Information Center at 1-800-424-LEAD.

Lead Hazard Evaluation and Reduction Requirements

In general, more extensive rehabilitation jobs must meet more protective lead hazard evaluation and reduction requirements than smaller ones. The activity, which for SHOP projects is homeownership plus rehabilitation, the size of the project, and the amount of Federal rehabilitation assistance provided to a project determine how the grantee or affiliate will evaluate for the presence of lead-based paint and lead-based paint hazards, and the level of lead hazard reduction that is required.

Lead-based paint activity thresholds for projects that involve rehabilitation are based on the lesser of the per-unit rehabilitation **hard** costs (excluding lead-based paint work) or the total amount of Federal assistance in a project, as outlined below. Note: the amount of Federal assistance is based on the total amount of assistance provided by **all** Federal sources, not just SHOP funds.

- When this amount is less than $5,000 per unit, the grantee or affiliate must identify and stabilize deteriorated paint. Grantees and affiliates can perform a visual inspection of the paint that will be disturbed by the rehabilitation. Deteriorating paint must be stabilized[6] and a new coat of paint applied. The person performing the paint stabilization must have appropriate training and supervision as described below.

[6] Note that paint stabilization is more labor intensive than paint repair, as it involves repair of the substrate and any underlying cause of the deterioration. In contrast, paint repair only requires surface preparation and application of a new coat of paint.

- When this amount is between $5,000 and $25,000 per unit, the grantee or affiliate must identify and control lead hazards. In order to identify the lead hazards, the grantee or affiliate can presume that the property has lead-based paint or it can perform a risk assessment (undertaken by a certified risk assessor) of the housing unit, including paint testing of surfaces to be disturbed or replaced during rehabilitation. Identified lead-based paint hazards must be treated with interim controls, a set of measures that temporarily control lead hazards. If the presence of lead is presumed, all presumed hazards must be addressed using "standard treatments." Standard treatments involve addressing friction and impact surfaces (such as window sashes and door jambs), creating smooth and cleanable surfaces, encapsulation, removing or covering lead-based paint components, paint stabilization, and treating bare soil. Interim controls involve the application of one or more standard treatments. Workers performing interim controls and standard treatments must be properly trained or supervised as described below.

- When this amount is greater than $25,000 per unit, the grantee or affiliate must identify and abate lead hazards. In order to identify the lead hazards, the grantee or affiliate can presume that the property has lead-based paint or it can perform a risk assessment (undertaken by a certified risk assessor) of the housing unit, including paint testing of surfaces to be disturbed or replaced during rehabilitation. Identified interior lead hazards must be abated. This involves permanently removing lead-based paint hazards, often through paint and component removal, encapsulation, or enclosure. Interim controls may be used to address identified lead hazards on exterior surfaces.

Worker Qualifications

When lead abatement is required, only certified abatement contractors may undertake lead hazard reduction work. Interim controls (including paint stabilization) and standard treatments may be performed by workers that are supervised by a certified abatement supervisor, or have successfully completed appropriate lead safe work practices training.[7]

In cases where the project involves sweat equity, a common strategy is to conduct all lead hazard reduction activities first, achieve clearance, and then allow volunteers to conduct all remaining work that does not involve surfaces with lead-based paint.

Regardless of the amount of Federal assistance or the scale of the project, safe work practices must be used for work on lead-based paint surfaces. Safe work practices are required on interior surfaces larger than 2 square feet or 10 percent of the total surface area of any small surface such as a window or trim, and on exterior surfaces larger than 20 square feet. Safe work practices help protect workers from exposure to lead that can result in lead poisoning. Even where a minimal level of lead hazard control is required, grantees and affiliates can take some simple precautions to protect their workers and volunteers. Figure 1.1 identifies some ways to implement safe work practices.

[7] See 24 CFR Part 35.1330 (a)(4) for a list of acceptable training courses.

Figure 1.1: Five Keys to Safe Work Practices

These five key steps are reviewed in detail in "Volunteers Opening Doors: The Five Keys to Lead Safety," a videotape available from HUD. This videotape can serve as an excellent resource to use with volunteers when training them in lead safe work practices. The video can be obtained from the National Lead Information Center by calling 1-800-424-LEAD.

Safe work practices reduce the amounts of lead dust, lead paint chips, and soil contamination that are generated on a rehabilitation job. SHOP grantees and their affiliates must take steps to protect their workers on any site that has been identified as having lead-based paint, and train their workers in safe work practices. In the absence of lead testing, safe work practices should be adopted for all pre-1978 homes. There are five key steps to safe work practices:

- **Step 1: Protect occupants and belongings in occupied units**.
  - Keep occupants, especially children, and pets away from the work site during construction.
  - Educate occupants about the hazards of lead exposure, and put up signs and barriers to remind them of hazardous work in progress.
  - Cover or remove all belongings (such as furniture, curtains, toys, food) so that lead dust cannot settle on them.
- **Step 2: Prepare the work area**.
  - Gather all necessary supplies and equipment at the worksite to eliminate the need to walk in and out of the area (tracking lead dust) once construction starts.
  - Use heavy-duty plastic sheeting and duct tape to seal and close off the work area. Cover all floors, walls, counters, vents, furniture, and other surfaces in the work area. If working on the exterior, confine the work area as well as possible, and use plastic sheeting to cover the ground.
  - Shut down all heating and air conditioning ventilation systems, to minimize circulation of lead dust.
- **Step 3: Protect workers from dust and debris**.
  - Avoid tracking lead dust outside the worksite by wearing paper booties, or removing shoes before leaving the work site.
  - Do not eat, drink, smoke or use cosmetics in the work area. Thoroughly wash hands and face before undertaking these activities.
  - If dust will be generated by the work, wear a respirator graded at no less than N100.
- **Step 4: "Work wet" and "work clean" to minimize lead dust in the air**.
  - Before sanding or scraping, use a spray bottle to dampen painted surfaces to control lead dust. Mist surfaces frequently.
  - Use a utility knife to pre-score painted material being removed. Dampen the area before scoring.
  - Do not use wet misting near or on electrical outlet or switches.

Figure 1.1: Five Keys to Safe Work Practices

- **Step 5: Work safe to ensure effective removal of all lead dust when work is completed**.
  - Rolling inward, remove all plastic sheeting and dispose of it in a heavy-duty plastic bag sealed with duct tape.
  - Use a High Efficiency Particulate Air (HEPA) vacuum to clean all floors and other surfaces where dust can settle. Do not use a broom.
  - Washing all surfaces with detergent, changing water frequently. Rinse all surfaces with fresh water, changing water frequently.
  - Use a HEPA vacuum a second time!
  - Dispose of all debris, paper towels, mop heads, wash cloths, and rags in heavy plastic bags sealed with duct tape. Identify and use a safe location for holding lead contaminated waste at the work site, and then dispose of waste properly.
  - Clean one's person before leaving the property, washing hands, face and changing clothes and shoes. Shower and wash hair as soon after leaving the property as possible. Clean work clothes as soon as possible, separately from the family's other clothes.

Prohibited practices include:

- Open flame burning or torching;
- Machine sanding or grinding without a high-efficiency particulate air (HEPA) exhaust control (this includes the use of belt sanders);
- Abrasive blasting or sandblasting without HEPA local exhaust control;
- Heat guns operating above 11,000 degrees Fahrenheit or charring the paint;
- Dry sanding or dry scraping, except dry scraping in conjunction with heat guns or within one foot of electrical outlets, or when treating defective paint spots totaling no more than *de minimus* levels;[8] and
- Paint stripping in a poorly ventilated space using methylene chloride.

Clearance

Regardless of the level of lead hazard control undertaken, clearance by a certified lead-paint inspector, risk assessor, or clearance technician is required prior to occupancy of a unit that has undergone rehabilitation. Clearance involves taking dust wipe samples in the work area to ensure that the area has been properly cleaned so that no lead dust remains. The local community development agency, housing, or health department should be able to assist grantees or their affiliates with obtaining a clearance, or identifying a qualified professional to assist with this activity. Occupants of the rehabilitated home must be notified in writing of the lead hazard reduction steps undertaken and the results of the clearance examination.

[8] *De minimus* levels are interior surfaces less than 2 square feet, or 10 percent of the total surface area of any small surface such as a window or trim, and exterior surfaces less than 20 square feet.

Ongoing Maintenance

Ongoing maintenance of any lead-based paint that remains in the property is very important to the safety of future occupants. Grantees and affiliates should educate homebuyers about effective home maintenance techniques, and the importance of conducting periodic visual inspections to ensure that paint is not deteriorating, using lead safe work practices for any subsequent work, and ensuring that treated soil remains covered to minimize the risk of lead poisoning. Failure to provide this training and failure to conduct the ongoing maintenance can result in exposure to lead, and possibly lead poisoning, at some later date.

Leveraging Other Resources

Grantees must leverage other resources, including public or private contributions, to support the self-help program and complete construction. At an average maximum investment of $15,000 per property, SHOP funds only set the stage for housing development, which makes leveraging additional funds critical to a successful project.

HUD considers the level of leveraged funds when it rates and selects applicants for funding. HUD seeks proposals that include sufficient leveraging for completion of the number of units proposed in the SHOP application, and requires applicants to provide documentation to demonstrate their commitment of those other sources. These funds may be leveraged directly by the grantee/applicant, or these funds may be leveraged from other sources for a SHOP project. However, it is the grantee's responsibility to see that the required funds are leveraged.

HUD permits a wide range of sources to be used to meet the leveraging obligation, including cash funding (loans or grants), in-kind contributions, donated land, donated supplies and materials, waived fees, and donated services. Grantees can count the market value of donated land, goods, and services. Grantees can also meet the leveraging requirement with public funds, such as Community Development Block Grant (CDBG) or HOME Program funds.

Sources of private financing can include local or state housing trust fund monies, or affordable housing funds from the Federal Home Loan Bank. It is important to note that mortgage financing for homebuyers does not count as leveraging for purposes of the proposal rating and funding process. However, financing provided through the U. S. Department of Agriculture's Section 502 direct loan to homebuyers for construction of their dwellings counts as leveraging for mutual self-help programs.

In addition, the value of sweat equity and volunteer labor on the physical construction of the homes cannot be counted toward the leveraging requirement. However, when volunteers undertake non-construction roles and responsibilities on behalf of the grantee or affiliate, these contributions can be valued at market rate and counted as leveraged resources. For instance, if an architect donates her services to design plans for homes being rehabilitated by homebuyers, the value of the architect's time (number of hours contributed times the architect's hourly rate) can be considered a leveraged resource.

Monitoring and Recordkeeping

HUD requires grantees to have a performance measurement system in place as a tool to establish good management and accountability. Both HUD and the grantee will use this system in order to track whether the commitments made in the application and grant agreement meet

performance goals. Each grantee must develop an effective, quantifiable, outcome-oriented evaluation plan for measuring performance and determining whether its goals have been met. This plan is submitted as part of the grantee's application. As part of the application review, HUD rates the quality of the performance evaluation plan. Figure 1.2 describes the key components of an effective performance measurement system.

Form HUD-96010, *Logic Model*, is used by grantees to identify and establish interim benchmarks, timeframes, and outputs that lead to the achievement of their program's desired outcomes. Grantees are required to use this form to report to HUD. See Appendix 1.2 for a copy of Form HUD-96010, *Logic Model*.

Figure 1.2: The Elements of a Performance Measurement System

Outcomes are benefits realized by the families and their communities during or after participation in SHOP. Each grantee identifies its desired outcomes. These might include increasing the homeownership rate in a neighborhood or among low-income families by a certain percentage, increasing a household's financial stability by a specified amount, or increasing housing stability.

Outputs are the direct products of the program activities. Examples of outputs include the self-help housing units constructed, the number of sweat-equity hours contributed, and the number of homes rehabilitated. Ideally, the achievement of program outputs should lead to the achievement of program outcomes.

Interim benchmarks are steps or stages in the program activities that, if reached or completed successfully, will result in program outputs. Examples of interim benchmarks include income-qualifying homebuyers, obtaining building permits, and securing construction materials and equipment.

Performance indicators are objective and quantifiable measures of actual achievement against anticipated achievements. Performance indicators identify what is going to be measured, and might include both outcomes and outputs. The performance indicator for an output is typically the output itself, such as the number of housing units that have been constructed. These data might be defined as the number of certificates of occupancy that are issued, and measured on a quarterly basis. Performance indicators for outcomes that are not easily and objectively definable would be selected to represent the outcome. For instance, if the desired outcome is to provide financial stability for program participants, the performance indicator might be the average salary of the participants. More than one performance indicator may be needed to represent the outcome. For instance, if the desired outcome is to increase housing stability for program participants, the performance indicators might be the average number of years participants stay in their homes and the household's annual income relative to annual housing cost. Combined, these performance indicators paint a picture of the program's success at meeting the participants' long-term need for housing that remains affordable. These data might be collected by a survey of participants on an annual basis. For each performance indicator, grantees should have a plan for how to define each data element, how to collect the necessary data, how often to collect the data, and what adjustments they will make to their work plans if performance targets are not met within established timeframes.

The grantee is responsible to HUD for developing a certain number of units, in a certain timeframe, using a certain level of sweat equity labor. In order to track its progress toward these outputs, the grantee must be able to measure the performance of its individual consortium

members and affiliates. In the event an affiliate or the grantee itself, including consortium members, falls short of the established benchmarks and time frames, the grantee must be prepared to make adjustments to its program to meet its SHOP obligations.

In addition, grantees must submit quarterly and annual progress reports to HUD, providing data on the construction status, unit characteristics, and the income and racial/ethnic composition of the homeowners in SHOP-funded properties, including Form HUD-96010, which identifies the achievement of outputs and outcomes. Grantees will need to impose certain reporting requirements on their affiliates in order to meet their own monitoring and reporting requirements to HUD.

Grantees and affiliates must retain documentation to demonstrate compliance with the requirements of SHOP, including:

- Income eligibility of homebuyers;
- Homebuyer sweat equity contributions;
- Community participation;
- Leverage of other resources,
- Appropriate use of SHOP funds;
- Sale of properties below market value; and
- Environmental review, property standards, lead-based paint, and other Federal requirements.

Grantees are responsible for monitoring the work of their affiliates, and are required to make at least one monitoring visit during the grant period. Grantees are ultimately responsible to HUD for the performance of their affiliates. In the event one of its partners is experiencing performance or compliance difficulties, a grantee should take appropriate corrective action and work to bring the program back on track.

Appendix 1.1

Elements of a HUD Environmental Review[9]

The environmental review process poses the following questions. The type of project activity proposed by the recipient determines the level of review for the project.[10]

1. Is the property located within designated coastal barrier resources?

2. Is the property free of hazardous materials, contamination, toxic chemicals and gases, and radioactive substances that could affect the health and safety of occupants or conflict with the intended use of the property—e.g., dumps, landfills, industrial sites, or other locations that contain, or may have contained, hazardous wastes that are either on site or within the general proximity of the property?

3. Is the property located within a flood hazard area or designated wetland?

4. Is the property within an area requiring flood insurance protection?

5. Is the property located within an airport runway clear zone (CZ) at a civil airport or within a clear zone (CZ) or accident potential zone (APZ) at a military airfield?

6. Is the property listed on, or eligible for listing on, the National Register of Historic Places; located within, or adjacent to, an historic district; or is it a property whose area of potential effect includes an historic district or historic property?

7. Is the property located near stationary above-ground storage tanks more than 100 gallons in size that contain fuels or chemicals of an explosive or flammable nature?

8. Is the site impacted by noise from major roads, railroads, and/or airports, or other major noise source?

9. Is the project consistent with the coastal zone management plan?

10. Does the project affect a sole source aquifer (designated as such by the U.S. Environmental Protection Agency)?

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[9] HUD's environmental website gives answers to the most frequently asked questions about elements of the environmental review at: http://www.hud.gov/offices/cpd/energyenviron/environment/compliance/qa/index.cfm.

[10] For example, for proposed acquisition of existing structures, generally only questions 1 through 5 are applicable; for proposed minor rehabilitation and repair of existing structures, generally questions 1 through 6 are applicable; for proposed new construction or acquisition of land for development of up to four housing units or for five or more units of housing on scattered sites where the housing sites are more than 2,000 feet apart and there are not more than four units on any one site, generally questions 1 through 15 are applicable. For other project actions, generally applicable are questions 1 through 16 for other proposed new construction (including demolition), acquisition of undeveloped land, conversion from one land use to another, infrastructure improvements, or rehabilitation of single family housing that will expand the footprint of the building into a floodplain and/or wetland or major rehabilitation and improvement (unless otherwise noted) of existing buildings.

11. Does the project affect Federally-listed endangered species or species proposed for listing?

12. Does the project affect rivers or segments of rivers designated as wild, scenic, or recreational?

13. Does the project affect prime and unique farmland, or other farmland of statewide or local significance?

14. Is the project located within a "non-attainment" or "maintenance" area identified in the air quality State Implementation Plan?

15. Is the project located in a neighborhood or community where the proposed action is likely to raise environmental justice issues?

16. Does the recipient propose:

    a. Acquisition of land for development of more than four housing units on any one site or of five or more units of housing where the housing sites are 2,000 feet or less apart;

    b. Infrastructure;

    c. New construction other than for residential activities excluded under 24 CFR 58.35(a)(4) or 50.20(a)(3);

    d. Rehabilitation of single family structures (one to four dwelling units) in accordance with 24 CFR 58.35(a)(3)(i) or 50.20(a)(2)(i) that involves any of the following conditions: (a) increases the unit density to more than four units, (b) changes in land use (from non-residential to residential or from residential to non-residential); or (c) increases the footprint of the building in a floodplain or wetland; or

    e. Any other activity not categorically excluded under 24 CFR 58.35(a) or 50.20(a)?

Appendix 1.2

Logic Model

U.S. Department of Housing and Urban Development

OMB Approval No. 2535-0114
(exp. 12/31/2006)

Office of Departmental Grants Management and Oversight

Program Name:_____	**Component Name:**_____

Strategic Goals	**Policy Priorities**	**Problem, Need, Situation**	**Service or Activity**	**Benchmarks**		**Outcomes**		**Measurement Reporting Tools**	**Evaluation Process**
				Output Goal	**Output Result**	**Achievement Outcome Goals**	**End Results**		
1		2	3	4	5	6	7	8	9
Policy		**Planning**		**Intervention**		**Impact**		**Accountability**	
				Short Term				a. b. c. d. e.	
				Intermediate Term				a. b. c. d. e.	
				Long Term				a. b. c. d. e.	

form **HUD-96010** (2/2005)

Logic Model Instructions

U.S. Department of Housing
And Urban Development
Office of Departmental Grants
Management and Oversight

OMB Approval No. 2535-0114
(exp. 12/31/2006)

The public reporting burden for this collection of information for the Logic Model is estimated to average 18 hours per response for applicants, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information and preparing the application package for submission to HUD. HUD may not conduct, and a person is not required to respond to, a collection of information unless the collection displays a valid control number. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions to reduce this burden, to the Reports Management Officer, Paperwork Reduction Project, in the Office of Information Technology, U.S. Department of Housing and Urban Development, Washington, DC 20410-3600. When providing comments, please refer to OMB Approval No. 2535-0114.

The information submitted in response to the Notice of Funding Availability for the Logic Model is subject to the disclosure requirements of the Department of Housing and Urban Development Reform Act of 1989 (Public Law 101-235, approved December 15, 1989, 42 U.S.C. 3545).

Instructions:

Responses to rating factor five should be in this format. Your response should be in bullet format rather than narrative. Please read each NOFA carefully to ensure the performance measures requested for this factor are reflected on the logic model form.

Program Name: The HUD funding program under which you are applying. If you are applying for a component of a program please include the Program Name as well as the Component Name.

Component Name: The HUD funding program under which you are applying.

Column 1: ***HUD's Strategic Goals***: Indicate in this column **the number** of the goal(s) that your proposed service or activity is designed to achieve. HUD's strategic goals are:

1. Increase homeownership opportunities.
2. Promote decent affordable housing.
3. Strengthen communities.
4. Ensure equal opportunity in housing.
5. Embrace high standards of ethics, management, and accountability.
6. Promote participation of grass-roots faith-based and other community-based organizations.

***Policy Priority*:** Indicate in this column **the number** of the HUD Policy Priority(ies), if any, your proposed service or activity promotes. Applicants are encouraged to undertake specific activities that will assist the Department in implementing its Policy Priorities. HUD's Policy Priorities are:

1. Provide Increased Homeownership and Rental Opportunities for Low- and Moderate-Income Persons, Persons with Disabilities, the Elderly, Minorities, and Families with Limited English Proficiency.

form **HUD-96010** (2/2005)

2. Improving our Nation's Communities.
3. Encouraging Accessible Design Features.
4. Providing Full and Equal Access to Grass-Roots Faith-Based and Other Community-Based Organization in HUD Program Implementation**.**
5. Participation of Minority-Serving Institutions in HUD Programs
6. Ending Chronic Homelessness
7. Removal of Barriers to Affordable Housing
8. Participation in Energy Star

Column 2: **Problem, Need, or Situation**: Provide a general statement of need that provides the rationale for the proposed service or activity.

Column 3: **Service or Activity**: Identify the activities or services that you are undertaking in your work plan, which are crucial to the success of your program. Not every activity or service yields a direct outcome.

Column 4 and Column 5: **Benchmarks**: These columns ask you to identify benchmarks that will be used in measuring the progress of your services or activities. Column 4 asks for specific interim or final products (called outputs) that you establish for your program's services or activities. Column 5 should identify the results associated with the product or output. These may be numerical measures characterizing the results of a program activity, service or intervention and are used to measure performance. These outputs should lead to targets for achievement of outcomes. Results should be represented by both the actual # and % of the goal achieved.

> Column 4: **Benchmarks/Output Goal**: Set quantifiable output goals, including timeframes. These should be products or interim products, which will allow you and HUD to monitor and assess your progress in achieving your program workplan.
>
> Column 5: **Benchmark/Output Result**: Report actual result of your benchmarks. The actual result could be number of housing units developed or rehabilitated, jobs created, or number of persons assisted. Outputs may be short, intermediate or long-term. ***(Do not fill out this section with the application)***

Column 6 and Column 7: **Outcomes**: Column 6 and Column 7 ask you to report on your expected and actual outcomes – the ultimate impact you hope to achieve. Column 6 asks you to identify outcomes in terms of the impact on the community, people's lives, changes in economic or social status, etc. Column 7 asks for the actual result of the outcome measure listed in Column 6, which should be updated as applicable.

> Column 6: **Outcomes/Goals**: Identify the outcomes that resulted in broader impacts for individuals, families/households, and/or the community. For example, the program may seek to improve the environmental conditions in a neighborhood, increase affordable housing, increase the assets of a low-income family, or improve self-sufficiency.
>
> Proxy Outcome(s): Often direct measurement of the intended outcome is difficult or even impossible – to measure. In these cases, applicants/grantees should use a proxy or surrogate measure that corresponds with the desired outcome. For example, improving quality of life in a neighborhood could be measured by a proxy indicator such

as increases in home prices or decreases in crime. Training programs could be measured by the participant's increased wages or reading skills. The person receiving the service must meet eligibility requirements of the program.

Column 7: **Outcomes/Actual Result**: Identify specific achievements of outcomes listed in Column 6. ***(Do not fill out this section with the application)***

Column 8: **Measurement Reporting Tools**: (a) List the tools used to track output or outcome information (e.g., survey instrument; attendance log; case report; pre-post test; waiting list; etc); (b) Identify the place where data is maintained, e.g. central database; individual case records; specialized access database, tax assessor database; local precinct; other; (c) Identify the location, e.g. on-site; subcontractor; other; (d) Indicate how often data is required to be collected, who will collect it and how often data is reported to HUD; and (e) Describe methods for retrieving data, e.g. data from case records is retrieved manually, data is maintained in an automated database. This tool will be available for HUD review and monitoring and should be used in submitting reporting information.

Column 9: **Evaluation Process**: Identify the methodology you will periodically use to assess your success in meeting your benchmark output goals and output results, outcomes associated to the achievement of the purposes of the program, as well as the impact that the work has made on the individuals assisted, the community, and the strategic goals of the Department. If you are not meeting the goals and results projected for your performance period, the evaluation process should be used as a tool to ensure that you can adjust schedules, timing, or business practices to ensure that goals are met within your performance period.

Chapter 2: Designing a Successful SHOP Program

Introduction

Since SHOP has relatively few regulatory requirements (as discussed in Chapter 1), SHOP grantees and affiliates have ample flexibility to design and operate sweat equity programs that meet local needs with available resources. Chapter 2 describes how SHOP grantees and affiliates have taken advantage of this flexibility, and reviews some of the policy and operational decisions they have made in order to ensure program success. Specifically, this chapter highlights strategies for:

- Building homeowner investment and community involvement;
- Acquiring land and improving or developing infrastructure;
- Using brownfields for affordable housing development;
- Building healthy homes; and
- Securing outside financial resources to support SHOP ventures.

Owner Investment and Community Involvement

There are many tangible and intangible benefits to sweat equity and volunteer-based housing programs. Foremost, the use of homebuyer and volunteer labor helps to reduce the cost of construction, making housing more affordable. Participants learn construction skills, teamwork, and communication skills that may help to create new employment opportunities. Many programs provide training in personal financial management, credit management, and property maintenance that help families retain the housing they have worked so hard to acquire.

While contributing to the development of a home, homebuyers form relationships with community volunteers and others in the area that help them to assimilate into the neighborhood and foster a sense of community. New homebuyers are likely to become involved with their community associations, further acclimating them to the neighborhood. Having a financial stake in their homes, new homebuyers also tend to support a community's civic activities such as anti-crime initiatives, anti-littering campaigns, partnerships with community schools and commercial districts, and similar neighborhood upkeep programs and activities that may have a potential effect on property values. Many families share the sentiment of one participant in SHOP, who said, "Owning this home changed my life!"

Sweat Equity

The sweat equity requirement of SHOP is fundamental to its purpose and success. Most SHOP homebuyers have very little, if any, savings for a down payment. Sweat equity is an excellent way for homebuyers to develop a vested interest in their new homes and maintain a high degree of participation in the community. The mutual cooperation involved in SHOP projects often fosters a unique camaraderie among homebuyers, friends, family, and neighbors.

Grantees and affiliates must make numerous choices about how to structure the sweat equity component of their programs, including:

- How to select homebuyer participants;
- How much sweat equity to require of the prospective homebuyers and how to balance this requirement against the families' other commitments (such as work or family obligations);
- When the prospective homebuyers must contribute the labor and how to balance this against the need to develop the housing units in a timely manner;
- What type of work the participants will perform, how to train and supervise the homebuyers in these tasks, and how to balance participation against the need to control costs and develop the housing units in a timely manner; and
- How to manage and schedule the work of skilled subcontractors whose work is dependent on completion of tasks to be performed by participants and volunteers.

SHOP grantees and affiliates have designed their own programs that take different approaches to each of these issues.

Participant Selection

Participant selection is crucial to the success of a SHOP development. There are several important factors that must be considered. In addition to meeting the income-eligibility requirements, each family must also meet the underwriting criteria for the anticipated permanent mortgage; to do so, they must have an acceptable credit score. The experience of the New York ACORN SHOP is typical. ACORN staff members find that they must provide credit counseling to ten times the number of people that will eventually become homeowners through the program. Ismene Speliotis, the Executive Director of the New York ACORN says, "Participants often have credit issues, but with the time before we can get them into a house, they have time to fix their credit with guidance from our credit counseling."

In addition to the financial requirements, the families must be able to fulfill the sweat equity participation requirements. It is important that each family have a clear understanding of its obligations and have a thoughtful plan for how to meet these obligations. Many families consist of adults working multiple jobs and small children requiring care. Still, even households with huge time demands can participate in the program if they have sufficient support from their extended family and community. A single mom participating in SHOP, working full-time and going to school full-time, successfully completed her sweat equity requirements. She was able to work 20 to 25 hours a week to become a homeowner through SHOP because she secured the support she needed to meet her other obligations.

Amount of Sweat Equity Required

SHOP requires homebuyers to contribute a minimum of 100 hours (50 hours in the case of one adult household) on their own homes and/or the homes of others participating in the local self-help housing program. Most grantees require more than this minimum contribution. There is wide variation in the amount of work required, ranging from 300 hours to more than 1,500 hours. Many grantees estimate the homebuyer's sweat equity contribution to be approximately 65

percent of the total labor necessary to produce the unit.[11] In some programs, the sweat equity commitment is equivalent to a full-time job, as homebuyers are expected to contribute 40 hours a week until the project is completed.

The Team Approach to Sweat Equity

SHOP grantees and affiliates often undertake the construction of multiple homes at the same time, using a mutual self-help housing model. This approach can help the grantee or affiliate meet multiple objectives. Typically, a group of six to ten homebuyers work together as a team. In addition to working on their own homes, they are required to work on the homes of the others on the team. This approach fosters a sense of teamwork, accountability, and community among the new homebuyers. Most programs that use the team approach further require that all homes be completed before the first family can move in, in order to motivate and hold the team accountable for completing all of the units.

Art Gonzales, Executive Director of Southeastern Wisconsin Housing Corporation,[12] describes why this approach works, "Our most successful SHOP project was a team of four homeowners who built through the winter. They finished all four homes in just three and a half months because they all worked together for 40 hours a week. The grandparents took care of the kids. The group gelled together really well. They motivated each other and could accomplish much more together than they could working separately."

When the Work Is Performed

A significant amount of time is spent on predevelopment activities before a grantee or affiliate is able to break ground. Resolving site and environmental issues, addressing neighborhood opposition (i.e., NIMBY issues), securing supplementary funding, and shepherding the project through the local review and approval process can take significant time and potentially delay the construction start for months, if not years. Once construction is set to begin, the availability and commitment of homebuyers and volunteers can affect the length of the construction period. The scheduling of skilled trade subcontractors must also anticipate the timing of participant and volunteer labor, and make realistic assumptions about how long it will take them to complete prerequisite tasks.

Grantees and affiliates must decide how the sweat equity work will be scheduled. Many grantees and affiliates are flexible about when the participating homebuyers perform the work required. When possible, they permit the work to be conducted around the family's schedule, such as in the evenings, on weekends, and even on holidays. However, families should never be left on their own to complete a task for which they have not been trained. Other grantees

[11] This is certainly true for a number of programs that help homeowners obtain Section 502 loans for the construction and permanent first mortgage, as the Section 502 program requires the borrower to contribute 65 percent of the labor.

[12] Southeastern Wisconsin Housing Corporation has participated in SHOP as an affiliate of the Wisconsin Association of Self-Help Executive Directors, Inc. (WASHED) and the Housing Assistance Council (HAC) under different funding rounds. An affiliate may seek funding from only one grantee during a funding cycle.

and affiliates limit homebuyer labor to scheduled workdays to ensure that there is always adequate supervision, a high quality work product, and a predictable schedule for completion of the housing units.

Many grantees and affiliates report that it takes approximately one year to complete a unit, exclusive of predevelopment activities. This time frame can vary greatly from one project to the next, depending on the availability of the homebuyer to contribute sweat equity, volunteers, and staff to supervise the team. One grantee reported constructing an entire house in four days! This, of course, is not the norm. Most grantees and affiliates prepare construction schedules, complete with benchmarks and progress inspections, and share these with the homebuyers so they fully understand their responsibilities and are able to budget their time accordingly. Most grantees and affiliates monitor the construction process so closely that any instances of poor or non-performance can be addressed immediately. Poor performance or under-performance by the homebuyer may not only extend the construction period but may also impede the work planned for volunteers, who sometimes have signed up weeks or months in advance.

Type of Work Performed by Participants

Participating homebuyers have varying levels of capacity and knowledge, and most SHOP grantees and affiliates tailor the work requirement to the skill level of the participating family. In general, however, the typical family that participates in the program is not trained or proficient in construction trades. Most grantees and affiliates recognize the value and benefit in training participating homebuyers and providing them the opportunity to develop new skills. Nonetheless, this benefit must be weighed against the cost and time needed to provide sufficient technical and construction safety training to a novice worker.

Some grantees and affiliates have decided the best use of a homebuyer's time is on tasks that require limited construction training and projects that are not time critical. There are a number of responsibilities that can be undertaken with minimal training, such as painting, installing drywall, and basic carpentry. For example, in the Colorado Rural Housing Development Corporation[13] program, family responsibilities include tarring the foundation; installing insulation and siding; roofing and shingling; painting the interior and exterior; and staining all trim, doors, windows, and cabinetry. These responsibilities generally take about 1,000 hours to fulfill, and the family must put in as many hours as needed to complete their tasks. Grantees and affiliates generally secure the assistance of experienced, licensed professionals for tasks that require a higher degree of technical knowledge or those that pose the greatest risks to a novice, such as plumbing and electrical work.

For the purposes of meeting SHOP requirements, homebuyers' sweat equity includes time spent on both construction activities and construction training. Although it does not count as sweat equity, grantees and affiliates often require homebuyers to participate in home maintenance training to learn how to properly maintain their homes once they have moved in. For many, this will be the first time they will not be able to rely on a landlord for basic home repairs. This training might involve bringing homebuyers, usually in small groups, to a completed unit to learn how to perform routine maintenance tasks, such as changing a furnace filter or patching a wall.

[13] Colorado Rural Housing Development Corporation receives funding from PPEP Microbusiness and Housing Development Corporation, the lead agency for the Rocky Mountain/Hi Coalition Consortium.

Homebuyer Education

The Chippewa County Housing Authority, a consortium member of Wisconsin Association of Self-Help Executive Directors, Inc. (WASHED), offers an extensive homebuyer education program. Ruth Rosenow, Executive Director, says, "Our Homebuyer Workshops are a critical component of our success. The University Extension teaches a class on credit. Lenders teach about housing mortgages. An insurance agent teaches about house insurance. The Public Health Department teaches a class about home safety and health. They give free tetanus shots to the families. We have a home decorator give a class about affordable home decorating. The workshops have a lot of speakers and take five nights to complete. We also have a Minor Home Repair Program where homeowners learn how to change furnace filters, identify weak spots in their roof, and patch a wall. It is vital to give our homeowners the skills they need to succeed, not just during the construction process but over the many years they will own their home."

In addition to the satisfaction of working on their own and others' homes, homebuyers obtain valuable skills through sweat equity. For some, developing new skills has led to more desirable, higher-paying employment. A number of homebuyers, after completing the construction of their new homes, have continued to learn more and become licensed in a particular trade, or have become professional construction workers. One homebuyer, upon completion of his SHOP home, pursued his electrical contractor license. He subsequently started his own business and is now employed as an affiliate's subcontractor.

Keeping Participants Motivated

Grantees and affiliates are sensitive to the fact that juggling work, family, and sweat equity responsibilities can be challenging, if not overwhelming, to a homebuyer. Successful grantees and affiliates generate opportunities to motivate, reward, or simply support homebuyers throughout the construction process. The Chippewa County Housing Authority's creative strategies to support and motivate homebuyers include occasionally giving the family a few days off, having the family go shopping for fixtures with the construction foreman, or throwing a "progress party" at the house so they may show it off to their friends and extended family. Very few grantees or affiliates report that families withdraw from their programs due to the demands of sweat equity. On the rare occasion when this happens, grantees usually have a pre-selected alternate family that can step into the program.

Volunteers

SHOP grantees and their affiliates are required to promote community participation in their programs by using volunteers to assist in the construction of dwellings. Volunteers are generally motivated by an interest in public service or a need to contribute to a worthwhile and meaningful endeavor. Volunteers usually bring energy and enthusiasm for the project that can be invaluable to a team.

There are many approaches to using volunteers in a sweat equity housing program. One approach assimilates volunteers into the everyday work schedule where they contribute to construction activities each day as needed, or are trained to perform specific tasks when

required. A second approach is to schedule a major event in which a large number of volunteers are recruited to work on a short-term "blitz-build" event. A third approach is that used by mutual self-help housing programs, whereby homebuyers work on each other's homes and their work counts as volunteer labor under SHOP.

SHOP grantees and affiliates fulfill their requirement to use volunteers during the construction process with varying degrees of success. They must determine the level and extent to which they will use volunteers in the actual construction activities of the program to meet the SHOP requirement. Further, they must weigh the availability of their own staff resources for recruiting, training, and supervising volunteers against the value that volunteers bring. Whether assigning volunteers to work on the construction site or in some other capacity, most grantees and affiliates find that the greater the investment in their volunteers, the greater the return.

Using Volunteers for Construction Activities

SHOP grantees and affiliates that are successful in using volunteer labor (not including other mutual self-help housing participants) for construction activities spend a great deal of time coordinating the volunteers' efforts. They maximize the benefit of volunteer labor through volunteer applications, questionnaires, and day-to-day management activities.

A volunteer application or questionnaire is an excellent way to identify whether or not a volunteer has any special skills. It helps the grantee or affiliate to plan labor coverage for any given workday. The tasks given to volunteers often depend on the time they have pledged to the project, or the grantee or affiliate. Individuals who have donated a single day of service are usually given assignments that require little or no training and supervision (such as painting and installing drywall). Grantees or affiliates are often willing to invest in advanced technical training for individuals who are willing to make a substantial commitment of time; this training is usually provided by pairing the volunteer with one or more professionals doing trades work.

Generally, whenever there are a large number of volunteers working on site, the grantee or affiliate has a paid construction manager or foreman present to supervise the group. The group may be broken into teams, however, and an experienced volunteer might lead a team. Because so much time is spent organizing and training volunteers, one grantee requires at least a full day of service from individuals in order to participate. Regardless of the task or length of commitment, all volunteers receive general work-site safety education.

Though it can be a challenge to work with a large group of volunteers, many groups find it is worth the effort. Tom Collishaw of Self Help Enterprises, an affiliate of the Housing Assistance Council (HAC), reports that, "Every year a local church in Fresno sends volunteers to help with a construction project. Last year they sent 350 volunteers to assist for one day. Although it required a lot of coordination to make this day run smoothly, the volunteers were able to frame 10 houses in that one day alone." There are countless success stories of church or service groups framing numerous houses in a single day. The momentum from these large events can be infectious.

Another way to maximize the benefit of using volunteer labor in construction is to consider each volunteer as an investment. Repeat volunteers steadily increase their skills and efficiency. Peninsula Habitat for Humanity in Redwood City, California, estimates it has a 65 percent return rate for volunteers from its active list of 12,000 volunteers. Repeat volunteering is encouraged through clear communication prior to volunteering, ensuring that each volunteer has meaningful work on site, asking for feedback through an evaluation at the end of the day, and thanking

each volunteer afterwards. Though communication with volunteers can be time consuming, Peninsula Habitat relies extensively upon email to standardize much of its communications. Peninsula Habitat has found that volunteers who make an on-going investment to a project also make a good potential donor base.

In addition to directly soliciting volunteers from their community, some grantees incorporate volunteers from national and international programs that exist to make such volunteer placements. The Coachella Valley Housing Coalition in Indio, California[14] has worked successfully with the AmeriCorps program. According to Martha Mendez, Self-Help Program Specialist, "For the last two years, we have hosted AmeriCorps groups that have assisted the families in the construction of their homes. We have to submit an application to AmeriCorps requesting assistance. The program is working very well as the AmeriCorps participants work side-by-side with the families. They help reduce by two months the construction time it normally takes families to finish their houses."

Issues to Consider When Volunteers Do Construction Work

- **Training, direction, and supervision**. Providing sufficient guidance to produce quality work might require a contractor or foreman to spend a fair amount of time away from his/her other duties and responsibilities. It is helpful if volunteers are able to commit to a specific amount of time so that the "pay-off" in terms of assistance is worth the investment needed to train and prepare volunteers.
- **Safety and liability**. Safety standards and procedures that protect all workers, including volunteers, must be in place and govern all work on the construction site. If the project involves rehabilitation of an existing structure built prior to 1978, and there are possible or known lead paint hazards, lead safe work practices must be in place and enforced. The owner of the property, generally either the nonprofit organization or homebuyer, assumes liability for any injuries incurred during the construction period, including those sustained by volunteers. This risk can generally be mitigated by adequate insurance coverage, although there may be an increased premium to cover inexperienced volunteer labor.
- **Promoting quality**. There are no quick, easy, and reliable ways to assess the skills and commitment of the average volunteer. Generally, through sufficient training and oversight, quality can be assured. Some grantees and affiliates choose to rely on experienced volunteers for certain tasks to ensure quality workmanship.

Using Volunteers for Non-Construction Activities

While SHOP requires grantees and their affiliates to use volunteers for the physical construction of the housing under development, volunteers can also provide labor for landscaping, cleanup, and other non-construction activities. However, volunteer services, such as architectural, legal and accounting, are considered leveraged resources under SHOP and should be documented as leveraging in the grantee's application. Refer to Chapter 1 for additional information on the leveraging requirement.

[14] Coachella Valley Housing Coalition is an affiliate of the Housing Assistance Council.

Managing Volunteer Efforts

Regardless of the role volunteers fulfill, grantees and affiliates are often challenged to find a way to channel and manage the energy of volunteers, while simultaneously ensuring that they have a worthwhile and rewarding experience. Using volunteers successfully generally requires grantees and affiliates to invest staff time devoted to recruiting volunteers, planning volunteer activities, and managing volunteer expectations.

Organizations that use large groups of volunteers usually have a paid staff coordinator who is responsible for recruiting volunteers, assessing their skills, and matching them to specific opportunities. When seeking volunteers, recruiters strive to articulate organizational needs in terms of specific, definable, and time-limited projects and tasks—ideally those that will yield immediate results for the volunteer.

Volunteer coordinators also spend some time defining roles and responsibilities to ensure that people with a variety of skill levels can participate, especially as a part of a cohesive group. Some communities have a liaison organization that acts as an intermediary between people interested in volunteering and organizations in need of volunteers. Where available, many grantees and affiliates rely on this intermediary to assist in their recruitment efforts.

Tips on Managing Volunteers

Habitat for Humanity International (HFHI) is one of the nation's most successful nonprofit organizations at mobilizing large teams of volunteers for housing development activities. HFHI enjoys a national reputation for welcoming volunteers; in fact, individuals and groups often seek out opportunities with Habitat's local affiliates. Not all organizations are as fortunate.

One Habitat affiliate outlines several steps that it considers key to its success at managing large groups of volunteers:

- Match volunteers with homebuyer's needs. (Note: Many Habitat affiliates use an initial application to screen prospective volunteers and identify their skills.)
- Explain the program thoroughly to volunteers, so that your needs and expectations are clear and the volunteer understands his or her responsibilities.
- Use the team leader role. In this model, one individual manages the work of about five other volunteers. This ensures that each volunteer has someone to turn to with his or her questions and is adequately supervised.
- Limit volunteer tasks to those that can be completed in a single day, such as a "painting party" to apply the first coat of paint in all the units under development.

Tips on Managing Volunteers *(continued)*

- Keep large teams working in the same area or on a similar project. This fosters a sense of camaraderie and concentrates the work so that the accomplishments are visible at the day's end.
- Do not impose a minimum skill requirement.
- Create groups that are a manageable size. Depending on tasks and skill levels, team leaders may be able to manage up to ten volunteers at a time; however, five to six is ideal. Experience has shown that safety, volunteer satisfaction, and productivity can be compromised if groups become too large.

Building Sound and Livable Housing

SHOP funds are available to create decent, safe, sanitary, non-luxury affordable homeownership housing. There are several development issues that may affect a grantee's or its affiliate's ability to provide such units. Foremost, grantees may find it challenging to acquire affordable sites for development and to finance the development of infrastructure to support new housing development. The next section shares grantee and affiliate strategies for site acquisition, and for containing site and infrastructure costs. In addition to these cost concerns, grantees and their affiliates must ensure that the sites meet applicable environmental requirements.

Land Acquisition and Infrastructure Development

SHOP funds can be used only for land acquisition or infrastructure improvements. Cost containment for these activities is one of the most pressing issues facing grantees and affiliates, and SHOP funds are a welcome addition to most project budgets.

Site Acquisition Strategies

One of the most critical and difficult decisions in any real estate venture is site selection. While the amount of time, energy, and financial resources required to find an adequate site varies from project to project for SHOP grantees and affiliates, land acquisition can be the most time-consuming and demanding stage of the development process. For a sweat equity program, whose financial resources are often even more constrained than a typical affordable housing venture, site acquisition can pose a significant challenge. Mistakes can be costly and hold up a project for years. Further, developing or making infrastructure improvements adds to the already high cost of land acquisition and preparation.

In order to identify potential properties, grantees and affiliates tap every possible resource when seeking adequate sites for homeownership development. They also draw on the expertise of all of their development partners, including area for-profit and other nonprofit housing developers, local government, and community residents. Some specific acquisition strategies include:

- Direct land purchase from local developers;
- Use of private auctions;

- Traditional property purchase through real estate agents;
- Acquisition of foreclosed properties from the local government for the price of the delinquent taxes;
- Land donations from government or private citizens;
- Acquisition of HUD-owned property; and
- Identifying a desirable property and approaching the owner about a sale or bargain sale, even though the property is not on the market.

Because of cost constraints, affordable housing sponsors must often consider less desirable properties that may contain environmental hazards or have other detrimental site concerns. Successful grantees and affiliates have learned that good site assessment and feasibility planning are essential to selecting an appropriate site for an affordable housing development. Grantees and affiliates should conduct thorough inspections of the lots for sale and contact their local county government inspector's office to get information on the lot and location. Available information may include the history of the physical condition of any existing structure, such as the age of the electrical work and plumbing, or defects in the building's roof and foundation. Grantees and affiliates can also review the title report and survey for any use restrictions, covenants, liens, easements, encroachments, or past uses that may suggest that there is potential for environmental concerns.

This due diligence is vitally important; failure to fully understand the condition of a property may result in acquisition of a site that is unsuitable for the program. A thorough site assessment often requires the help of professional engineers to conduct various studies in order to reveal potential problems with the site, including the availability of utilities and environmental, zoning, wetlands, soil conditions, or other issues that may prevent the property from being developed for the desired residential use.

It is good practice to write any contract for the purchase of land with a "feasibility" or "inspection" clause that gives the buyer a set period of time, typically 30 days, to conduct any assessments needed to ensure that the property can be developed as intended. For a lot or building in a developed neighborhood, the assessment may include a property inspection, an engineering study to verify structural integrity, an environmental phase I study, a title report examination, verification of utilities, a survey, and verification that setback requirements will accommodate the footprint of the proposed building. For a larger subdivision development, a more thorough site assessment should be conducted including topography, soils study, conditional use requirements, and preliminary site planning. It is also important to look at off-site factors like noise and pollution, and proximity to schools, shopping, and public transportation.

With an inspection clause that is written to allow the sponsor time to conduct a thorough site assessment, the grantee or affiliate can determine if it wishes to proceed with the purchase or back out of the deal with limited loss. Information found in the feasibility site assessment can also be used to further negotiate with the seller. Grantees or their affiliates may wish to consider the use of options and additional deposits, refundable and non-refundable, to entice sellers to work with them through the long process of acquisition and financing. Many nonprofit developers will write a contract contingent on award of public funds, which may take a year or more. Sellers are offered additional deposits at scheduled points of time that coincide with predevelopment milestones, such as the date at which funding is secured.

Grantees and affiliates are most successful at acquiring property when they have the willingness to use a wide variety of acquisition strategies and the technical and financial capacity to undertake a thorough site assessment. This way, site selection can be determined by property availability, cost considerations, and appropriateness of the site, rather than being limited by the grantee's or affiliate's acquisition capacity. Many grantees and affiliates are able to tap into predevelopment loan funds to assist them with paying for deposits, options, and site assessment activities.

Raw Land: The Pros and Cons

Acquiring raw land can be challenging, and grantees and affiliates should consider the cost of developing the infrastructure, potential environmental questions, zoning issues, and planning processes. Each of these variables can lead to substantial delays. In some situations, however, raw land is the best option. The Coachella Valley Housing Coalition is increasingly turning to raw land to lower the total cost per lot. Their Self-Help Program Specialist, Martha Mendez, says: "We are competing for a piece of land with private developers throughout the area. Land prices have increased tremendously and ready-to-build land is becoming very rare. As prices of developed lots increased, we have bought more raw land. By developing it ourselves, we have been able to reduce the cost per lot."

Minimizing Site Acquisition and Development Costs

With escalating housing and development costs, grantees and affiliates find it increasingly important to find ways to reduce the cost of acquiring land and improving or developing infrastructure. SHOP grantees and affiliates use many different strategies to lower the cost of acquisition and infrastructure development, including:

- Developing larger subdivisions to lower the per-lot cost and allow infrastructure costs to be spread over more units;
- Securing the waiver of fees from cities and counties, such as development fees, real estate transfer taxes, or similar fees;
- Utilizing predevelopment loans to minimize financial exposure to the organization during predevelopment and minimizing project risk by identifying all potential site issues and costs for mitigation upfront; and
- Concentrating homeownership sites to decrease construction costs, so that contractors, materials, tools, and volunteers need not travel long distances between scattered sites;

Creativity in the site selection process goes a long way. Community Frameworks[15] was able to purchase land "left over" after Wal-Mart built a new store in Spokane, Washington. Negotiating with a sympathetic corporate citizen had several benefits for the project. Wal-Mart sold the land at a cost substantially below the appraised value (a "bargain sale" which may have tax advantages for the seller). Wal-Mart also asked their construction subcontractors to extend their pricing to the SHOP project.

[15] Northwest Regional Facilitators (NRF) changed its name to Community Frameworks in late 2004.

When evaluating the cost of a property, it is important to include all the costs, including the infrastructure development or site preparation, the cost of mitigating environmental hazards, the cost of addressing lead-based paint or other hazards, and the cost of relocation when acquiring an occupied property. Some grantees and affiliates find rehabilitating existing structures with existing infrastructure to be less expensive and time-consuming than new construction where infrastructure development is needed. This is often true for nonprofit organizations located in urban areas, where land for new construction is less available and more expensive than sites requiring rehabilitation. Other grantees and their affiliates only consider new construction projects due to cost and time savings and opportunities for enhanced energy efficiency.

Lots of Lots: Land Acquisition at Scale for the Smaller Project

On a per lot basis, larger tracts of land are usually less expensive than smaller tracts. One way to trim costs is to acquire a parcel of land larger than the projected development. The "extra" land can be resold to write down the cost. Another approach is to work collaboratively with another developer. In partnership with a for-profit developer, Community Frameworks created an entire subdivision. This parcel of land was larger than Community Frameworks could develop on its own. Working with another developer allowed Community Frameworks to benefit from the economies of scale identified above.

Grantees and affiliates also rely on strong negotiation skills to whittle away at land costs. Some organizations use the information they secure in their site assessment to negotiate lower costs because of flaws or unseen conditions that might impact the value of the property. When securing a property at fair market value, an appraisal is also a useful tool for understanding value and the condition of the property.

Building Healthy Homes

In addition to the issues explored during an environmental review, there are several environmental and energy factors that SHOP grantees and affiliates may wish to consider to ensure that the home will be a healthy home. The principles for building healthy homes are the same whether the project involves new construction or rehabilitation. A healthy home is:

- **Dry and Clean**. Mold, insects, rodents, and mites are drawn to homes that have water, clutter, and dust. Keeping a home clean and dry controls mold and pests.
- **Well-ventilated**. Ventilation helps to remove contaminants.
- **Combustion Product Free**. Carbon monoxide and other combustion products are health risks for a home's occupants.
- **Pest Free**. Pests can result in allergic reactions and the use of pesticides.
- **Toxic Chemical Free.** The environmental review process should uncover these common types of toxic chemicals in a home:
    - Lead poisoning is one of the most serious threats for children in and around the home. It can cause hearing problems and damage a child's nervous system and brain. Lead can be found in old paint and paint dust, soil contaminated by paint dust, water pipes, gasoline, pottery, and other places.

- Radon is a naturally occurring radioactive gas that is released from some types of soil. It usually rises from the soil into the air through cracks in the foundation and gets trapped in the home. Radon can be found in any home, whether old or new, well-sealed or drafty, and with or without basements. There are low-cost effective radon-resistant construction techniques, that when properly installed, reduce indoor radon levels in the home.

- Asbestos is comprised of microscopic bundles of fibers. These fibers can be airborne and inhaled into the lungs where they may cause significant health problems.

- The containers for many toxic cleaning compounds, pesticides, oil- and alkyd-based paints and solvents slowly release chemicals into the indoor air. Exposure to these vapors can lead to health problems over time.

- **Comfortable**. When homes are uncomfortable due to poor ventilation or cooling or heating systems, homebuyers often take steps to rectify the situation, and inadvertently make their homes unhealthy. For example, if a family is cold, it might not ventilate its home properly, in an effort to keep in warmth. Similarly, if a house is too dry, the occupants might over-humidify the house in an effort to rectify the situation.

Many grantees and affiliates design housing to address the health needs of the homebuyers. For instance, several organizations have installed hardwood floors rather than carpet, and special air filters to meet the air quality needs of homebuyers with asthma.

A number of SHOP grantees and affiliates develop partnerships with other organizations in order to assist homebuyers in maintaining healthy homes. Some work in partnership with home inspectors who use one of the homes being rehabilitated to teach homebuyers about the home inspection process prior to the purchase of their own homes; others provide hands-on demonstrations of home maintenance tasks, such as replacing air filters, changing plumbing washers, caulking, patching holes, or performing an annual roof inspection. These types of training opportunities not only show homebuyers simple ways they can save money, but, more importantly, help them to make sure their home is healthy and well maintained.

Energy Conservation

SHOP grantees and affiliates typically focus on energy conservation techniques and airflow when developing or rehabilitating homes in order to increase energy efficiency and decrease the cost of utilities for the homebuyers. This consideration is important for grantees and affiliates, whose homebuyers have limited incomes. While energy conservation may generate additional costs at the construction stage, the savings in the long-run make these techniques a worthwhile investment.

Energy Efficient "Healthy" Homes

Some SHOP grantees and affiliates have designed their properties to be highly energy efficient. Not only is this approach environmentally sound, but it also provides the homeowners with considerable ongoing cost savings. The National Affordable Housing Network[16] SHOP builds homes that are heated and cooled passively. Each home is also sided for solar gain and heavily insulated, including R-30 in the floors, R-40 in the walls, and R-60 in the ceilings. Each home has a heat recovery ventilation system, which recovers about 70 percent of the heat generated by a single source of heat. The energy savings are enormous, and at the same time the fresh filtered airflow into each home exceeds the American Lung Association's "health house" standard.[17]

Reusing Brownfield Sites for Affordable Housing

Some SHOP grantees and affiliates have acquired, cleaned up, and developed "brownfield sites" as a way of meeting the dual objectives of addressing a blighted property in a community, and increasing the affordable housing stock in the neighborhood. Undertaking such projects increases the complexity of a sweat equity program. For some grantees and affiliates, this additional challenge is worth undertaking. They may be motivated by the desire to remove the blighted property that sits undeveloped and unmarketable, or by the need to find available properties in competitive locations for their programs. Either way, treating and reusing brownfields in a safe way is becoming an increasingly urgent issue nationwide.

There are an estimated 450,000 brownfield sites in America. A brownfield site is real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. Many brownfield sites were once former gas stations, laundromats, and industrial sites. Many are in desirable and competitive locations and offer a number of advantages to developers, such as established infrastructure, untapped customer and labor markets, and access to public transportation. Some of these properties have been eyesores for decades because the real and potential environmental hazards have rendered them unusable. Undertaking site assessments and site remediation can help reduce or eliminate a major financial barrier and legal liability to land reuse.

Reusing brownfields for commercial or industrial purposes is usually easier than reusing them for residential purposes; the cleanup standards are generally higher for residential use. Nonetheless, brownfields can be redeveloped for residential uses. Several Habitat for Humanity affiliates have joined successfully with environmental leaders in their communities to redevelop brownfield sites as part of their sweat equity programs to develop affordable housing:

- **Minneapolis and St. Paul, Minnesota.** The Twin Cities Metropolitan Council in Minnesota has formed a partnership with The Twin Cities Habitat for Humanity to create a model for

[16] The National Affordable Housing Network is an affiliate of Community Frameworks.

[17] The Health House® project is a national education program created by the American Lung Association to raise the standards for better indoor environments. Healthy homes are built to stringent building standards in the U.S., including site inspections during construction and performance testing upon completion. See http://www.healthhouse.org/index.asp for more information.

developing affordable housing on once-contaminated sites that have been cleaned up. Supported by a Brownfield Pilot Grant from the Environmental Protection Agency (EPA), the Twin Cities Metropolitan Council partnered with the Minnesota Environmental Initiative (MEI), and Twin Cities Habitat for Humanity to perform site assessments and redevelop brownfields in Minneapolis and St. Paul.

- Under this partnership, the following roles were established:
  - Environmental and legal expertise in testing, reporting and compliance is provided by MEI's Resources for Reuse program.
  - Funding for cleanups and land redevelopment is managed by the Metropolitan Council. Under the pilot program, the Metropolitan Council assessed numerous sites to determine their redevelopment potential.
  - Once brownfields properties are determined to be suitable for Habitat's sweat equity program, the Twin Cities Habitat acquires and holds title to the property throughout the cleanup phase. Once the properties are cleaned up, they are resold and transferred to new owners.
- The Twin Cities Metropolitan Brownfields Pilot Project has assessed ten properties in the Twin Cities metropolitan area to date. Not all brownfields it has assessed have been found to be suitable for residential reuse because of the extent of contamination; but, surprisingly, a number of properties were found to be free from contamination. Development on these sites was able to proceed without delay.
- In addition to their assessment work, Twin Cities Habitat and the Metropolitan Council have applied successfully to the EPA for clean-up funds to prepare sites for residential re-use. Once the environmental hazards at the sites were remediated, Twin Cities Habitat was able to use SHOP funds for infrastructure development, including streets, sidewalks, and utility development. As of 2004, Habitat for Humanity has constructed over 25 homes on former brownfield sites in the Twin Cities.
- **Oakland, California**. The City of Oakland awarded East Bay Habitat for Humanity development rights to construct affordable housing for first-time homebuyers on property the City had acquired and cleaned up. The Fruitvale Avenue Project was one of the first brownfield sites in the country to receive EPA funding to assess and cleanup a former gas station site for residential reuse. Building on its success, East Bay Habitat for Humanity was recently awarded funds by EPA and the State of California to clean up a former auto dismantling facility. This will provide land for 24 new affordable homes. The organization received funding from California Center for Land Recycling for site assessment and technical support for the property acquisition.
- **Kalamazoo, Michigan**. The first residential reuse of an underground storage tank site (USTfields site[18]) in the state of Michigan is currently underway. This brownfield

[18] To encourage the reuse of abandoned properties contaminated with petroleum from underground storage tanks (UST's), EPA created the USTfields Initiative in 2000. "USTfields" are abandoned or underused industrial and commercial properties where revitalization is complicated by real or perceived environmental contamination from underground storage tanks. For more information, see the EPA website at http://www.epa.gov/oust/rags/ustfield.htm.

remediation project, known as the Hazard Street project, is being implemented by a partnership of the Michigan Department of Environmental Quality (DEQ), the City of Kalamazoo, EPA, and the Kalamazoo Valley Habitat for Humanity (KVHH).

- The City of Kalamazoo was awarded a $100,000 USTfields grant for cleanup and assessment of petroleum contaminated brownfield sites. The City ascertained that KVHH had an interest in developing the site for affordable housing. KVHH was unsure of the extent of contamination at the Hazard Street site and the availability of the property for redevelopment for residential reuse. The DEQ assessed and cleaned up the property, thus providing the necessary assurances to KVHH that the site was acceptable for residential reuse.

Financing Site Assessment and Remediation

Environmental remediation is an eligible infrastructure cost under SHOP. EPA is typically the primary source of environmental assessment and cleanup funds for brownfields redevelopment. Appendix 2.1 describes the EPA resources available for environmental assessment, cleanup, and job training, as well as the EPA application process.

- In July 2004, the City voted to sell the Hazard Street property to KVHH. KVHH plans to build a single-family home on the cleaned up site. Based on the experience from the purchase of the Hazard Street property, KVHH developed an effective environmental review process for future KVHH property acquisitions, with the help of the Kalamazoo Economic Development and Planning Division.

Liability for Ownership of a Contaminated Site

Notwithstanding the importance of cleaning up contaminated sites, it is critical that nonprofit organizations are aware of the potential liability of owning a contaminated site. Prior to acquiring any site, particularly one that is at risk for contamination, it is extremely important that the group undertake extensive due diligence to determine the extent of contamination and the cost of cleanup. The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) was recently amended by Title II Subtitle B of the Brownfields Law to clarify the requirements necessary to establish the innocent landowner defense under CERCLA, and to provide Superfund liability limitations for bona fide prospective purchasers and contiguous property owners. Among the requirements added to CERCLA is the requirement that prospective owners undertake "all appropriate inquiry" into prior ownership and the use of a property at the time of acquisition. Details on “all appropriate inquiry” standards can be found at: http://www.epa.gov/swerosps/bf/aai/aaifs.htm.

Leveraging Financial Resources

By design, SHOP grantees must leverage other resources for SHOP funded projects. The maximum of $15,000 per property available from SHOP is intended only to provide seed money for the upfront costs (acquisition and infrastructure) related to the development of self-help homeownership housing. Grantees must obtain additional funds needed to develop each home. While sweat equity and volunteer construction labor reduce development costs, they are not sufficient to completely fill the gap even in combination with SHOP funds. Costs are incurred for materials, construction, and related services that the homebuyers are not capable of performing.

SHOP grantees and their affiliates secure funding from a wide range of sources to fill the funding gap between the mortgage amount a homebuyer can afford and the cost of developing the home. Other sources include private and public lenders; foundations; and state, local and Federal agencies. Successful grantees and affiliates are creative in how they package unit financing, and they typically use multiple sources for each project. Most grantees and affiliates use a combination of public funds that can be passed on to reduce the cost of the housing to the homebuyer and private construction loans that must be repaid. Homebuyers typically obtain permanent mortgages from private lenders.[19]

Public funds such as HOME, CDBG, or state programs are typically provided as second and third mortgages that are subordinate to the private lender's first mortgage. Many grantees and affiliates require the homebuyer to repay the SHOP funds, adding to the grantee's or affiliate's revolving loan fund. Such loans are subordinate to a private lender's mortgage. Most programs allow some degree of forgiveness on these subordinate public loans over time.

Grantees and affiliates also rely on volunteer non-construction labor to fill the funding gap. Few programs turn away interested volunteers; instead they seek roles for volunteers that will be mutually beneficial. One common way to involve volunteers in non-construction roles is to recruit volunteers with professional skills or services that support homeownership, such as legal review, title work, or mortgage lending. Grantees and affiliates also recruit volunteers for organizational staffing, fund raising, advocacy work, or participation on their board of directors. The cost savings of these services (such as donated attorney fees) should be estimated by grantees, included in their SHOP applications, and documented for monitoring purposes.

Typical sources of financing, in addition to SHOP, include:

- Local or state housing programs, including housing trust funds;
- HUD grant programs, including HOME and CDBG;
- USDA Rural Housing Service Section 502 Homeownership Direct Loan Program;
- Federal Home Loan Banks' Affordable Housing Program;
- Private lenders; and
- Funds generated by the grantee's fundraising efforts.

[19] Leveraging, as defined by SHOP, does not include financing provided to homebuyers. Therefore, the value of mortgage financing does not count as leveraging for purposes of the proposal rating and funding process. However, financing provided through the U. S. Department of Agriculture's Section 502 direct loan to homebuyers for construction of their dwellings counts as leveraging for mutual self-help programs. See Chapter 1 for more information on what qualifies as leveraging.

Funding Sources that Work with SHOP

There are a number of public sources that work well with SHOP funds, including:

- **The HOME Program**. HOME provides formula grants to states and localities that communities use—often in partnership with local nonprofit groups—to fund a wide range of activities. These include building, buying, and/or rehabilitating affordable housing for rent or homeownership, and providing direct rental assistance to low-income households. When combined with SHOP funds, HOME funds are an excellent resource for non-donated construction costs or development soft costs, as well as site acquisition or on-site infrastructure improvement costs that exceed the SHOP per unit limits. For SHOP sponsors that qualify as community housing development organizations, HOME can also provide predevelopment funding. General information about the HOME Program is available online at http://www.hud.gov/offices/cpd/affordablehousing/programs/home/index.cfm. SHOP grantees should contact their local HOME participating jurisdictions for information about the local funding process.
- **Community Development Block Grant (CDBG).** CDBG funds are used for activities that primarily benefit low- and moderate-income persons. CDBG funds may be used for the acquisition of real property; relocation and demolition; rehabilitation of residential and non-residential structures; construction of public facilities and improvements, such as water and sewer facilities, streets, neighborhood centers, and the conversion of school buildings for eligible purposes; public services, within certain limits; activities relating to energy conservation and renewable energy resources; and provision of assistance to profit-motivated businesses to carry out economic development and job creation or retention activities. General information about the CDBG program is available online at http://www.hud.gov/offices/cpd/communitydevelopment/programs/index.cfm. SHOP grantees should contact their local CDBG grantees for information about the local funding process.
- **Rural Housing Service Section 502 Homeownership Direct Loan Program.** Administered by the U.S. Department of Agriculture, Section 502 loans are used primarily to help low-income households purchase homes. These funds can be used to build, repair, renovate, or relocate homes, or to purchase and prepare sites, including providing water and sewage facilities. Applicants must have very low or low incomes. Families must be without adequate housing, but be able to afford the mortgage payments, including taxes and insurance. In addition, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories. Priority is given to applicants living in deficient housing and people participating in mutual self-help housing programs. There is no required down payment. Additional information about the Section 502 program is available online at http://www.rurdev.usda.gov/rhs/sfh/brief_rhguar.htm.

Funding Sources that Work with SHOP *(continued)*

- **Affordable Housing Program of the Federal Home Loan Bank System.** The Affordable Housing Program (AHP) is a subsidy fund designed to assist in the development of affordable housing for low- and moderate-income households. AHP subsidies can be used with SHOP to finance the purchase, construction, and/or rehabilitation of housing for households with incomes at or below 80 percent of area median income. Eligible uses of funds under this competitive program are acquisition, construction, or rehabilitation costs, including related soft costs, interest-rate buydowns, and downpayment and closing cost assistance. AHP funds may not be used to develop non-residential space, or provide support services. The benefits of the AHP subsidy must be passed through to the project or the end user. Additional information about AHP is available online at http://www.fhlbanks.com/Pages/template1.asp?P=10.

A few grantees and affiliates are fortunate to have access to predevelopment funding, which may be used to determine the feasibility of a project or to pay for site control. Some grantees and affiliates use "outside" public or private funds only for the development of a project. While the project is in development, funds are raised from individuals, businesses, and foundations, which are then used to repay the development loan.

Given that most SHOP programs are dependent on multiple funding sources, putting together program or unit financing can be time consuming. Lenders often want to see evidence that the other financing that the unit requires is committed before they will approve a loan. Juggling the financing commitments can be a daunting task. Grantees and affiliates that have funds available to temporarily fill a financing gap are better able to avoid delays, and have more flexibility to await multiple funding approvals.

In addition to outside funding sources, some grantees look to the homebuyers to contribute funds towards a down payment. The sum required may be as little as a few hundred dollars or as much as $1,000. Families may be challenged to save $1,000, but grantees find that their ability to save these funds gives them a stronger sense of accomplishment, and ultimately, ownership, than sweat equity alone.

SHOP programs vary in terms of their repayment requirements for homebuyers. Some grantees and affiliates offer the funds as grants, while others provide loans that may be repaid immediately or deferred until some point in the future. However SHOP funds are provided, the ultimate goal is to ensure that homebuyers have an affordable home that provides a healthy, secure living environment for their families.

Appendix 2.1

Environmental Protection Agency Funding for Brownfields Redevelopment

The Environmental Protection Agency (EPA) administers the Brownfields Program to encourage states, communities, and other stakeholders in economic development to work together to prevent, assess, safely clean up, and sustainably reuse brownfield sites. In 2004, the EPA awarded 265 grants to address the nation's brownfields, including 155 assessment grants to conduct planning for the redevelopment of brownfield sites, 92 cleanup grants, and 18 revolving loan grants.

Types of EPA Awards

Under the Small Business Liability Relief and Brownfield Revitalization Act of 2002, EPA provides financial assistance to eligible applicants through four competitive grant programs: assessment grants, revolving loan fund grants, cleanup grants, and job training grants.

- **Assessment grants** provide funding for a grant recipient to inventory, characterize, assess, and conduct cleanup and redevelopment planning and community involvement related to brownfield sites. Assessment grants may be awarded for both site-specific assessments and community-wide assessments. Community-wide assessment grants may address classes or categories of sites, (e.g. abandoned gas stations, sites with environmental justice concerns, sites in a designated redevelopment area) rather than identifying and discussing specific sites. These grants are awarded for a two-year period and are generally capped at $200,000. Nonprofit organizations are not eligible to apply for assessment grants directly; they can apply in partnership with a state, local government, or redevelopment authority.

- **Revolving Loan Fund (RLF) grants** provide funding to capitalize a revolving loan fund and to provide low-interest or no-interest loans or subgrants to carry out cleanup activities at brownfield sites. These funds may be used to address sites contaminated by petroleum and/or hazardous substances, pollutants, or contaminants (including hazardous substances co-mingled with petroleum). RLF grants are awarded for a five-year period, for up to $1,000,000; subgrant awards may not exceed $200,000 per site. Nonprofit organizations are not eligible to apply for funding directly; they can apply in partnership with a state, local government, or redevelopment authority.

- **Cleanup grants** provide funding to carry out cleanup activities at brownfield sites. These funds may be used to address sites contaminated by petroleum and hazardous substances, pollutants, or contaminants (including hazardous substances co-mingled with petroleum). Cleanup grants are awarded for a two-year period. Awards may not exceed $200,000 per site, although applicants can apply for up to five sites. Nonprofit organizations are eligible to apply directly to EPA for this funding.

- **Job training grants** are available to applicants that are located within or near one of the EPA-funded brownfields (assessment, revolving loan fund, or cleanup) communities. These grants are awarded for the purpose of preparing trainees for future employment in the environmental field and to facilitate cleanup of brownfield sites contaminated with hazardous substances, pollutants, or contaminants and petroleum. EPA awards up to $200,000 per job training grant. Nonprofit organizations are eligible to apply directly to EPA for this funding.

The Funding Process

For its FY 2005 funding cycle, EPA created a single process for applicants to apply for assessment, revolving loan fund, and cleanup grants. Prior to the application deadline, EPA may conduct open meetings with applicants for the purpose of explaining the application process and funding requirements, in addition to providing information about the eligibility of sites and property ownership. EPA applies threshold criteria to all proposals; proposals that meet the threshold criteria are then evaluated and ranked by evaluation panels. Funding is awarded as a cooperative agreement; EPA remains involved throughout the implementation of the assessment or cleanup activities.

For More Information

For additional information on brownfields and funding that is available for environmental assessment, cleanup, revolving loans, and environmental job training, see the EPA website at http://www.epa.gov/swerosps/bf/index.html.

Chapter 3: A Closer Look

Introduction

This chapter features four case studies of successful SHOP affiliates to illustrate the range of program models that can be adopted to support a successful sweat equity housing program.

- The Peninsula Habitat for Humanity, based in Redwood City, California, undertook the redevelopment of a multifamily structure for its homebuyers. It used this experience to greatly enhance its volunteer recruitment and training efforts, and expand its production capacity;

- In Butte, Montana, the National Affordable Housing Network (NAHN)[20] offers "high performance housing." These extremely energy-efficient homes dramatically reduce heating and cooling costs, thereby making housing even more affordable to the very low-income population served by SHOP;

- Proyecto Azteca,[21] based in San Juan, Texas, has used its SHOP-supported sweat equity program to combat the exploitive practice of contract for deed arrangements, a common practice in Colonias communities along the Texas-Mexico border; and

- In Leavenworth, Washington, the Securing Homes on Affordable Real Estate (S.H.A.R.E.) Community Land Trust[22] has combined the principles of community land trusts with its sweat equity program. With land purchased and held by the community land trust, and properties developed by homeowners, this model has been highly successful in securing a long-term supply of affordable housing for low-income residents in a community with extremely high land costs.

Peninsula Habitat for Humanity[23]

Redwood City, California

Peninsula Habitat for Humanity (Peninsula HFH), founded in 1989, develops housing in San Mateo County, California, one of the most expensive markets in the country. Land is increasingly scarce in this San Francisco Bay area community, and when it does become available, it is generally costly. Peninsula HFH had an opportunity to redevelop the site of a deteriorated apartment complex. Although it had previously developed houses one at a time, it proposed redevelopment of this apartment building into a community of 36 townhomes. Using a

[20] NAHN is an affiliate of Community Frameworks, formerly known as Northwest Regional Facilitators.

[21] Proyecto Azteca is an affiliate of the Housing Assistance Council.

[22] SHARE is an affiliate of Community Frameworks.

[23] Habitat for Humanity International (HFHI) shared its study on the Peninsula Habitat for Humanity volunteer program entitled, "The Urban Program: Models of Success, Building on Volunteer Experience, Volunteer Safety on Large, Two-Story Developments," Peninsula Habitat for Humanity, Redwood, California, December 2003. Some portions of Habitat's document were incorporated into this case study.

creative design, the efforts of nearly 12,000 volunteers, and SHOP funds, this Habitat affiliate undertook four phases of a challenging, but successful, construction project.

Background

It surprises most people to learn that a community with a median household income of $91,500 can have an affordable housing problem. Yet for a large number of San Mateo County residents, the median home price of $700,000 is well out of reach. Families are forced to share apartments and live in overcrowded conditions, or rent space in garages just to get by.

Keeping housing affordable, even for experienced nonprofit organizations like this Habitat for Humanity affiliate, can be extremely challenging in this market. In 2000, an unusual opportunity arose for Peninsula HFH. An old apartment complex on Rolison Road in Redwood City was creating problems for the community. There were reports of overcrowding, rat and roach infestation, drug dealing, prostitution, and even a meat packing operation set up in one of the units. The police department responded to numerous gang related activity calls. The Friendly Acres East Bayshore Neighborhood Association lobbied the city to address this neighborhood eyesore, and suggested it invite Peninsula HFH into the neighborhood. Ultimately, Redwood City donated the $2.2 million parcel of land to Peninsula HFH.

When the affiliate decided to embark on the 36-unit Rolison Road development, it had been consistently building five to six homes a year using the traditional Habitat model of "one-home-at-a-time." Peninsula HFH had never had the opportunity to build 36 homes in a single development; it had to determine a construction plan and schedule that it could achieve, at a steady pace, given the scale of this endeavor.

The Rolison Road townhouses were designed as ten buildings, each with clusters of three or four townhouse units. The development is a mix of five two-bedroom, 29 three-bedroom and two handicapped-accessible three-bedroom units. Every two buildings enclose a courtyard. The development also includes a community center, meeting rooms, and a learning lab. Peninsula HFH decided to use a phased construction schedule, building eight units at a time.

The opportunity to undertake the Rolison Road project prompted a strategic planning process to revise Peninsula HFH's systems for construction and volunteer support, given the new development model. The planning process helped the organization build the commitment of the staff and board to allow for operational changes needed to accommodate such extensive changes in building capacity, staffing, construction planning, and use of volunteers.

Development of the Rolison Road townhouses required 25 to 50 volunteers daily, so volunteer recruitment efforts were expanded considerably. In addition, the organization adopted a five-day work schedule (Tuesday through Saturday), rather than its more typical two- or three-day work week. These changes increased the pressure on its homeowners and volunteer organizing staff. The scale of the project also raised additional safety concerns because of the need to use scaffolding on the site for the townhouses.

Program Design

Staffing

Peninsula HFH determined that its staffing structure would have to change to successfully undertake the challenge of the Rolison Road development. With eight units under construction in each phase, two or three townhouse clusters were being built at a time. For both the Rolison Road townhouses and subsequent construction projects, four Habitat construction staff share responsibilities:

- **Construction Manager** has the overall responsibility for the construction of the project;
- **Infrastructure/Field Coordinator** manages everything related to the site itself, including road and infrastructure development;
- **Crew Supervisor** is responsible for oversight and coordination of construction of the buildings; and
- **Framing Foreman** is a newly created position to oversee the panel construction.

The affiliate's Manager of Volunteer Services plays a critical role in recruitment, coordination and support of day volunteers and Team Leaders on construction sites.

Homeowners

Peninsula HFH received over 500 applications for the 36 units. After an initial qualification screening, applications were reviewed by an all-volunteer "family selection committee." Peninsula HFH imposed a number of requirements on the homeowners:

- Homeowners had to commit to contributing at least 500 hours of sweat equity over the course of one year. The sweat equity was generally performed on weekends or during vacations and holidays.
- Homeowners had to complete an eight-module training course that covered topics such as:
  - Construction Safety/Sweat Equity;
  - Neighbor Relations/Conflict Resolution/Communication;
  - Budgeting;
  - Neighborhood Safety;
  - First-Time Homebuyer/Foreclosure Prevention;
  - Insurance Selection;
  - Home Maintenance; and
  - Homeowner Association Training.

- Homeowners had to agree to join the homeowner's association (HOA) that Peninsula HFH established in the predevelopment phase. Today, the HOA is completely governed by residents of the Rolison Road project, who contract with a professional management company for day-to-day administration. Peninsula HFH included the monthly dues to be paid by the homeowner to the HOA when determining an affordable housing payment. Affordable was defined as less than 35 percent of the family's income.

Peninsula HFH staff note that the most beneficial contributions from homeowners are their dedication and willingness to learn.

Volunteers

The first challenge was to establish both a longer-term construction schedule and an individual daily schedule for the Rolison Road project. Peninsula HFH used small groups of day volunteers with a Team Leader trained in the work assignments for the day. Working five days per week meant that ten Team Leaders and 35 to 50 day volunteers were required, which included homebuyers. Due to job demands most homeowners worked on Saturdays. They occasionally worked on weekdays (e.g., vacation days, National holidays, time off) and were permitted to work any day they wished to schedule. Homebuyers worked side by side with volunteers and the Team Leaders.

Peninsula HFH used the national Habitat model for supervision, which relies on Team Leaders, who are also Habitat volunteers, to supervise other volunteers. The Team Leaders:

- Receive special training in the areas of construction in which they must guide day volunteer groups, including training in HVAC, framing, plumbing, insulation, and other construction areas.

- Commit to a firm schedule of leading groups.

- Receive ongoing trainings by the affiliate and through conferences.

- Are recognized at a quarterly recognition dinner. Small awards are given to volunteers based on the number of hours donated to Habitat. These trainings and recognition dinners provide Team Leaders with a regular forum for giving staff and board members feedback on Habitat's programs, house designs, etc.

Homebuyers can become Team Leaders, if they have the technical ability and the leadership skills required. Many times, homebuyers train as Team Leaders because they are bi-lingual and can help overcome language barriers with other volunteers.

Day volunteers were asked to make a commitment of at least one full day. Peninsula HFH also used an email-based volunteer support system to maintain extensive and regular communication with volunteers. Email was used to confirm schedules, provide week-before and day-before reminders, distribute maps to the work site, and to thank volunteers upon completion of an assignment. Peninsula HFA also used email to solicit feedback from volunteers, and to encourage volunteers to return.

Daily Schedule

Peninsula HFA developed a daily schedule for day volunteers on the construction site to maximize productivity and safety, and to ensure that day volunteers enjoyed their time and understood their contribution and accomplishments. The daily schedule also included the homebuyers. Homebuyers who were new to the job site worked with the day volunteer group. After homebuyers became familiar with the job site, they were usually dispersed to the construction site to work with the regular volunteers and Team Leaders, who had already been assigned work for the day. Figure 3-1 provides an example of a daily schedule.

Figure 3-1: Sample Daily Schedule for Day Volunteers

8:30 AM	Volunteers arrive and register; hard hats issued; liability waivers signed.
8:50 AM	Volunteers given a short orientation to Peninsula HFH and the homes they are working on that day.
9:00 AM	Safety briefing provided, comprised of a safety video produced by Peninsula HFH.
	All volunteers**,** including homebuyers, who are working on scaffolding or roofing receive specialized safety information.
9:15 AM	Team Leaders meet with Crew Supervisor for volunteer team assignment to specific jobs.
9:30 AM	Volunteers go with Team Leaders who provide hands-on demonstrations of the work they will do that day. Throughout the day, the Team Leaders assign tasks, answer questions, and supervise the volunteers.
3:45 PM	Clean-up begins, everyone participates.
4:15 PM	Team Leaders thank and say good-bye to volunteers; volunteers complete an exit survey.

Safety

Safety is a top priority of Peninsula HFH. A significant amount of planning has gone into creating rules and guidelines that maximize productivity, minimize cost and reliance on contractors or sub-contractors, and allow volunteers to have a safe and satisfying experience. Peninsula HFH provides all hard hats, tools, equipment, and water for the volunteers.

The buildings at Rolison Road were designed at heights equivalent to those of a typical three-story home, and both scaffolding and high roof work were required to construct them. Only day volunteers who wanted to work on roofs were allowed to, and they had to participate in specialized safety training. If the roof was particularly steep, everyone working on the roof was secured with safety equipment. Furthermore, if anyone was on the roof, a spotter was assigned to stand on the ground to make sure that no one on the roof got too close to the edge.

Initially, Peninsula HFH relied on a professional scaffolding company to set up and remove the scaffolding each time it needed to be moved. Eventually, Peninsula HFH decided to spend $75,000 to purchase its own scaffold system. Some staff and Team Leaders were trained and

certified to manage the scaffolding, and now the affiliate is self-sufficient in using and maintaining its own scaffolding. All volunteers, including homebuyers, working on the scaffolding also receive additional safety training. Steps are provided so that no volunteers climb the scaffolding.

Any loading of material onto roofs or scaffolding is completed before day volunteers arrive at the site. All heavy equipment is also moved or used without any day volunteers on site. All power tools, including nail guns, saws, and other tools are used only by specially trained volunteers. If a power tool is required, that tool is operated only by a volunteer or staff person who is skilled in its use.

Peninsula HFH has an innovative system using color-coded hard hats to track the commitment level of its volunteers. Regular volunteers receive their own hard hat as a gift from the Peninsula HFH. The hard hat coding system allows for easy identification of all people on the construction site and is a relatively inexpensive way to recognize the continued commitment of Habitat volunteers.

Financing

Rolison Road was the largest, most complex, and most costly project undertaken by Peninsula HFH. Figure 3-2 provides a brief summary of the project financing, in which SHOP played a small, but key role.

The Peninsula HFH Habitat model relies on the daily development and strengthening of partnerships with individuals, corporations, faith-based organizations, and others, rather than on direct financing from commercial institutions. At the time the affiliate started the Rolison Road project Peninsula HFH had completed a total of 48 units over the previous ten years. The 36-unit development was its largest and most ambitious project to date—especially given the 3 ½ year timeframe.

Figure 3-2: Funding Sources and Uses for the Rolison Road Townhomes Project

Sources	
City of Redwood City (Land Donation)	$2,284,000
SHOP Funds (1999 & 2001)	$ 344,000
Federal Home Loan Bank Affordable Housing Program	$ 397,500
CA Housing Finance Authority	$ 64,400
Community-based Support	$4,719,100
Volunteer/Donated Labor	$1,931,000
Total Sources	**$9,740,000**
Uses	
Land	$2,284,000
Design & Permitting	$ 586,000
Construction Direct Costs	$4,939,000
Construction (Volunteer) Labor	$1,931,000
Total Uses	**$9,740,000**

Although the SHOP funds equaled less than five percent of the total development budget, they played a critical role. Once the city had donated the land to Peninsula HFH, SHOP funds were invested in site and infrastructure improvements while volunteers were recruited. The visible activity on the site made it much easier for Peninsula HFH to fundraise and recruit volunteers. Each dollar of SHOP leveraged more than $27 in cash and donations.

Approximately 12,000 volunteers, in both construction and administration, donated more than 170,000 hours to complete the 3 ½ year project, contributing labor valued at nearly $2 million.[24] Additionally, over 60 community partners ranging from Fortune 500 corporations to congregations to professional associations became "House Partners" and sponsored the six buildings at Rolison Road.

Production

Thirty-six (36) families—comprised of 67 adults and 98 children—now occupy the Rolison Road townhomes. Peninsula HFH currently has seven units under construction in Daly City and another four planned in South San Francisco. When Peninsula HFH constructed their first house in San Mateo the county was primarily composed of suburban communities. Over the years, and 83 Habitat units later, the county has become much more urban. The majority of the development is now occurring in low- to moderate-income neighborhoods.

Peninsula HFH has made the strategic decision not to build any more single-family homes. The future challenge is that the affiliate must find land parcels to allow at least four to seven units to be built—not an insignificant challenge in densely developed San Mateo County. It must also have enough construction sites operating at any one time to utilize its large and motivated volunteer pool.

Lessons Learned

While Peninsula HFH learned many lessons through its development of the Rolison Road Townhomes projects, its greatest growth was in its ability to engage volunteers on a massive scale, and to learn how to phase development. Both skills are critical to implementing a sweat equity program of any scale.

Peninsula HFH has over 12,000 names in its volunteer database and nearly 20,000 names/organizations in its "community supporter" database. Clearly, people want to be part of the affiliate's exciting and worthwhile endeavors. While managing groups of this size is staff intensive and requires certain economies of scale to be truly cost-effective, the availability of these resources has reduced overall construction costs for the affiliate.

Through the Rolison Road project, Peninsula HFH was able to recruit an extremely dedicated group of core volunteers who now act as Team Leaders. Groups of volunteers are now booking workdays up to a year in advance and the affiliate estimates volunteers return at a rate of 60-65 percent.

Two key benefits from using thousands of volunteers a year are that Peninsula HFH gained tremendous exposure and support within the community, and expanded opportunities to raise development funds. Individual contributions have grown to provide 30 percent of Peninsula

[24] This figure assumes a labor cost of $14/hour.

HFH's total funding. Corporate and faith-based group participation has also grown significantly. These financial resources have enabled Peninsula HFH to magnify the impact of its SHOP funds.

Peninsula HFH also learned that undertaking such a large development project presents certain challenges, including the need to develop infrastructure and undertake site improvements in phases. Having construction volunteers build homes during Phase I while site improvements were underway for Phase II created logistical difficulties and safety concerns that the group learned how to successfully resolve.

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National Affordable Housing Network

Butte, Montana

The National Affordable Housing Network offers new "high performance housing" to low-income homebuyers. These extremely energy-efficient homes dramatically reduce heating and cooling costs, thereby making the housing even more affordable to a lower-income population.

Background

The National Affordable Housing Network (NAHN, or "the Network"), based in Butte, Montana, provides technical assistance, including detailed house plans and other educational materials, to public and nonprofit developers to ensure that resource efficient features are included in the design of low-income housing in the United States. NAHN has worked successfully with two SHOP programs, in a variety of capacities. It provided technical assistance to Habitat for Humanity of Southwest Montana for a number of years, and was involved in three of its SHOP projects. As Habitat's partner, NAHN performed in several capacities, including:

- Donating the resource development support to raise funds for Habitat for Humanity to build its first ten new homes in the Central Butte neighborhood;

- Coordinating local volunteer services to ensure that homes built in Butte's frigid climate have the greatest possible degree of low-income involvement in the design process and the highest level of energy efficiency investments affordable; and

- Providing design and architecture services as an in-kind donation.

In 2002, NAHN joined with SHOP grantee Community Frameworks as an affiliate to develop high performance housing for the participants of this sweat equity program. High performance housing is housing that is built to strict construction standards in order to maximize the energy efficiencies of the home. These efficiencies can have a dramatic payoff for the low-income occupant, in terms of significant savings in heating and cooling costs. NAHN expects to develop 22 new homeownership units during its first two years using SHOP funds provided by Community Frameworks.

In addition to its work on SHOP, NAHN is certified as a local community development housing organization (CHDO) and has begun to work with other housing providers to rebuild the Butte neighborhood.

NAHN Provides Technical Assistance to Other Developers of Affordable Housing

NAHN is a spin-off of the National Center for Appropriate Technology (NCAT). NCAT serves economically disadvantaged people by providing information and access to appropriate technologies that can help to improve their lives. Throughout the years, NCAT has been involved in housing, economics, and environmental quality issues.

As noted on NAHN's website—http://www.nahn.com/—in addition to developing housing itself, NAHN can perform a number of roles for its development partners. They include:

- Providing technical support and education to housing organizations serving the disadvantaged;
- Producing information products and communications support among energy practitioners to provide a way for nonprofit housing organizations to get the help they need;
- Developing demonstrations of resource-efficient, affordable housing to provide verification of energy and resource efficiency measures;
- Developing highly-detailed, easy-to-follow house plans and graphics to allow volunteers and self-help builders to follow step-by-step guidelines, while sharply reducing or eliminating marginal costs;
- Developing partnerships between utilities and low-cost housing producers to design innovative low-income programs; and
- Developing specifications and detailed guidance for adding energy efficiency improvements in both rehabilitation projects and manufactured housing.

Program Design

A study of the housing market in Butte, Montana, showed a growing need and demand for low-cost methods of new housing construction. Given the cold climate of Montana, NAHN developed "cold climate designs" for self-help home construction. Unlike standard weatherization improvements that yield a cost savings of approximately 15 percent, the "high performance" energy features incorporated into NAHN's home designs can save the consumer more than 50 percent of space heating energy, saving dramatically more – dollar for dollar – than investment in weatherization. While weatherization may be a suitable option for some properties, particularly older homes, NAHN believes that homes built to a minimum property standard are prime candidates for weatherization programs within the first 20 years of occupancy. The energy efficiency improvements in its high performance housing are designed to last throughout the lifetime of the housing unit.

Beginning in 1995, NAHN began a program called the High Performance Housing Partnership (HP2). Through this program, NAHN forms partnerships with low-cost housing producers to develop best-practice approaches for low-income homeowners. Habitat for Humanity of Southwest Montana in Butte was the first Habitat affiliate to use the HP2 approach in its construction. The extremely cold climate in this area has tested the accuracy of NAHN's prescriptive house packages, confirming that strengthening the building envelope and downsizing equipment pays off dramatically for homeowners. As of mid-2004, over 160 HP2

demonstration homes have been developed in cold and hot climates. In addition, many Habitat affiliates have become more educated about the importance of energy-efficient construction; since the mid-1990s, more than 16 Habitat affiliates in the United States have built homes that provide heating and/or cooling for $250 or less a year.

Figure 3-3 lists the key features of the HP2 Cold Climate and Hot Climate packages.

Figure 3-3: Key Features of the HP2 Cold Climate and Hot Climate Packages

The **Cold Climate** package incorporates these key design and construction features:

- Super insulation of the envelope, with a double-stud or structural insulated panel (SIP) wall;
- Continuous ventilation with a heat recovery ventilator;
- Sealed combustion gas fireplace as heating source;
- Raised heel truss to insure complete attic insulation;
- Low-leakage, double-glazed vinyl windows;
- Continuous ceiling air/vapor barrier to reduce air flow and moisture; and
- Overhang for passive solar control on south windows.

The key features of the HP2 **Hot Climate**[25] package are:

- Greater insulation in the building envelope with raised-heel truss;
- Heating, ventilation, and air conditioning (HVAC) downsized, using a through-the-wall air conditioning (A/C) unit, seasonal energy efficiency ratio (SEER) 10+ for more cooling;
- A small sealed gas fireplace, wall furnace, or heat pump for heating;
- Continuous, quiet bath fan wired to break panel (50-70 cubic feet per minute (CFM) for less than $10 per year);
- Continuous vapor barrier installed above ceiling drywall to control moisture and air;
- Overhead fans installed in most rooms to supplement cooling;
- Slab-on-grade helps cooling with moisture barrier underneath concrete;
- Better vinyl windows with heat rejection and double glazing; and
- Lighter-colored roofing and larger roof overhangs to reduce heat gain.

[25] NAHN studied construction practices of Habitat affiliates in Texas and determined the effects of these practices on energy consumption. After data was collected, NAHN developed the prescriptive "Hot Climate package" to produce the best possible overall performance. The best performing home in the Texas study was found to have energy savings of 42 percent over Habitat affiliate practice. In the new homes, mean cooling costs per house were found to be well under $200 per year.

The lessons learned from the High Performance Housing Partnership have been successfully applied to NAHN's SHOP program. The program is developing housing that represents a dramatic improvement in the way self-help housing is built and delivers substantial improvements in energy efficiency. SHOP homes are at least 50 percent more efficient than those constructed using current standard techniques. In addition, energy efficiency helps to ensure that the homes remain affordable over time. SHOP funds for homeownership development are filling an important need in Butte for affordable, energy efficient housing.

Homebuyer Education

NAHN has designed and implemented a homeowner education course in partnership with Habitat for Humanity of Southwest Montana, and Headwaters Resource Conservation and Development (the regional representative of the Montana Homeownership Network). This course has graduated more than 50 local residents in the past two years. The course prepares low-income families to be good partner families for the nonprofit sweat equity programs. This homebuyer education helps ensure that families are prepared for homeownership.

Sweat Equity

In its work with Community Frameworks, NAHN estimates that construction usually takes seven to nine months. Project "build size" is usually six families, and the families are required to help one another. NAHN estimates that the construction cost of each home is approximately $24,000. Homebuyers contribute labor equal to about $9,000 of work per home. Approximately $15,000 per home is contracted out for tasks that are too complex, or require expertise that the homebuyers do not have. Challenges faced by the homebuyers include finding childcare while the heads of household contribute their sweat equity, and developing a support network of family members and friends to help during the lengthy construction period.

Volunteers

NAHN depends on its volunteers to donate in-kind professional services, such as reduced cost title and legal work, surveying, and excavating. For NAHN's current SHOP project, land engineers from the utility company have completed the land and neighborhood planning for the target area.

Volunteers also work on the physical construction of new SHOP homes. Large numbers of volunteers are brought together for community building events that focus on infrastructure development or home construction. Work items tackled during these sessions range from painting, installing storm drains, and hooking up water and sewer lines.

Volunteers are recruited throughout the community, including from local schools, such as the vocational technical school. Some volunteers donate their services; others provide services at a discounted rate. On average, volunteers donate 1,000 to 2,000 hours per house. As one way of recognizing their contribution, NAHN gives volunteers prizes for categories such as the most hours volunteered.

Central Butte Neighborhood Redevelopment Project

NAHN has also embarked on a community planning process to produce a detailed master plan for the central Butte neighborhood. A primary goal of this process is to enable the district to replace the housing rehabilitation funds required to maintain the modest, but critically important level of housing rehabilitation and new construction activities underway through nonprofit housing development organizations in Butte. The neighborhood redevelopment project involves:

- Half a dozen nonprofits working together to create three neighborhood revitalization plans for urban census tracts in Butte;
- The County of Butte-Silver Bow, which is providing tax foreclosed properties; and
- The Community Lenders Council, a group of local lenders, which has worked closely with the nonprofit housing developers, and pushed for the neighborhood revitalization initiative. They are motivated, in part, by an interest in obtaining "credit" for meeting community needs under the requirements of the Community Reinvestment Act.

The institutional change sought through this project is to organize residents to develop a housing development program for the neighborhood that highlights occupant action, construction by owner-builders, and the involvement of nonprofit housing developers to spread scarce housing dollars as far as possible.

Financing

NAHN's annual operating budget is approximately $200,000. The SHOP grant from Community Frameworks is $80,000, or almost 30 percent of its total operating budget. Using Community Frameworks' funds, seven families are currently being assisted; construction of their homes will be complete in June 2005. NAHN's ultimate goal is to assist 31 families in Butte.

According to NAHN, each dollar of SHOP leverages about $8 in other funds for each house. Under the Community Frameworks' model, permanent financing is provided by USDA 502 loans. SHOP funds may be provided as repayable loans to families with slightly higher incomes.

NAHN relies entirely upon grants and donations to cover the costs of land acquisition and housing development. In addition to SHOP, NAHN relies on individual contributions, small development grants from churches and corporations, and Butte's Community Development Block Grant funds. The State's CDBG Small Cities program provided a $225,000 water/sewer grant for sewers and sidewalks in the target neighborhood. NAHN also reduces land acquisition and infrastructure improvement costs by purchasing multiple lots at one time and offering tax deductions if an owner sells below the appraised value.

Production

Because NAHN focuses its efforts in blighted neighborhoods, sufficient planning typically takes a year to complete, and construction takes an estimated seven to nine months. NAHN plans to build 31 units this year alone.

Lessons Learned

NAHN has grown in experience and expertise through the past several years, working first with Habitat for Humanity, and now with Community Frameworks. Its staff identifies three key lessons that may be helpful to others initiating a similar program. Foremost, it is critical to determine the needs that must be addressed by the self-help homeownership program. The primary need NAHN has worked to address is energy efficiency for its end users. Producing energy efficient homes through a sweat equity program generates housing that is low-cost to develop, and low-cost to maintain.

Few nonprofit housing developers are able to undertake housing development on any scale without partners. NAHN points to the need to identify partners for collaboration. Initially, NAHN brought its expertise in residential energy and construction issues to the partnership with Habitat. As its experience grew, it sought additional partners and undertook new roles.

Finally, NAHN encourages others to take advantage of the assets and resources that already exist in the community to the maximum extent possible, in order to be efficient in service and program delivery.

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Proyecto Azteca

Hildago County, Texas

Proyecto Azteca, an affiliate of the Housing Assistance Council (HAC), is a self-help, sweat equity program serving extremely low-income families in the Colonias communities along the Texas-Mexico border. Located in Hidalgo County near the southern tip of Texas, in what is known as the Lower Rio Grande Valley region, Proyecto Azteca provides housing to families with annual incomes ranging from $4,500 to $13,500.

Background

Colonias are unincorporated residential areas that often lack basic infrastructure such as running water, paved streets, sewers, storm drainage, electricity, potable water, or telephone lines. The mostly low-income residents of this area often live in makeshift structures on property purchased under a contract for deed arrangement. Under this potentially exploitive practice, developers retain title to the property until the contract is paid in full. Mortgages are often set up with high interest payments and balloon payments that are difficult for the borrowers to meet. This can lead to mortgage default, which allows unscrupulous sellers to foreclose and resell the property again and again.

With such limited incomes, residents do not have the resources to build appropriate homes for their families. Through its Self Help Program and the use of SHOP funds, Proyecto Azteca assists eligible families to purchase properties and build quality three-bedroom homes, which are affordable to the families.

Founded in 1991 by members of the United Farm Workers of America, Proyecto Azteca's program provides mortgages, construction training and supervision, building materials, and the tools needed for construction. Under the direction of Proyecto Azteca trainers, participants work with other families to construct the houses at a centralized worksite. Upon completion, each house is moved to a foundation on the participant's site. More recently, Proyecto Azteca began purchasing lots in subdivisions and targeted communities. Where concentrated sites are acquired in bulk within a single subdivision, the group now organizes work groups to build new brick construction homes on site.

Participants receive a 20- or 25-year, no interest mortgage, which includes up to $10,000 for acquisition of a lot, the cost of materials, and the cost of on-site utilities such as water, septic, and electricity. Program staff estimates that, as of 2004, over 500 homes have been constructed. Proyecto Azteca currently builds 80 to 100 homes a year. These numbers speak for themselves in demonstrating the success of the program in producing standard housing units for extremely low-income families. In addition, some program participants, many of whom are women, have used the skills learned to get jobs in the construction industry or as trainers in the program.

Under a 1995 state law authorizing self-help centers in Colonias communities, the Proyecto Azteca program was awarded a contract to establish and operate the first model Self Help Center in Hidalgo County. The Center offers preconstruction training classes, technical assistance with construction, access to tools through a tool library, and zero interest rate loans for the purchase of lots by low-income families. The Center also offers homeownership counseling, financial literacy classes, and has recently begun a new Youthbuild program.

Program Design

Beneficiaries

Most of the families assisted by Proyecto Azteca are seasonal migrant farm workers who earn between $4,500 and $13,500 per year. They are extremely low-income, making only 15 to 20 percent of the area median income. Many have no credit histories, or bad credit histories. These families cannot qualify for most traditional homeownership assistance programs. Proyecto Azteca does not use USDA Section 502 loans due to credit underwriting issues and the limited income of the people it serves. Over thirty percent of the families participating in the Proyecto Azteca program were previously residing in places not meant for human habitation (such as cars), or were displaced due to catastrophes (such as fire).

There are currently over 3,000 families on the waiting list to participate in the program. Program participants are chosen by a selection committee made up of Colonias residents who have successfully completed the program. To qualify for the program, households must:

- Have a household size of four to seven persons;
- Have an income between $4,500 and $13,500;
- Be living in substandard or overcrowded living conditions; and
- Be able to afford a house payment of $100 per month.

The selection committee also looks at such criteria as time on the waiting list and special needs in determining their selection of families.

Sweat Equity Program

An adult member of the family must participate in the construction of homes for approximately three months. The homebuyers volunteer an average of 550 sweat equity hours during the construction of their homes. Once families are selected, they are organized into working groups with five to ten other families. One member of each family is provided with preliminary training in all aspects of construction work, including electrical and plumbing. Proyecto Azteca offers five home plans, developed by volunteer architects, that average $27,000 to construct. The homebuyers use the plans, borrow equipment from a tool library, share bulk purchasing of building materials, and assist each other in the construction of their homes.

Each group of families then works together to build the homes at a central site located next to Proyecto Azteca's office. Participants work under the guidance of construction trainers, who help participants develop their skills and expand their construction knowledge. Employing successful past program participants as construction trainers helps build trust with participants, and creates support for teamwork. Proyecto Azteca purchases all of the needed materials in bulk and provides the tools required to construct the homes.

Once completed, the homes are moved to the participants' lots where they are situated on foundations, and the final water, sewer, and electrical connections are completed. This centralized manufacturing process allows Proyecto Azteca to build housing for scattered sites, and allows for efficiency in training, construction, and the purchase of materials. According to Proyecto Azteca staff, the three critical ingredients responsible for the success of the

construction program are: an efficient, well designed house plan; strong construction training and supervision; and the sharing of resources and teamwork of participating families.

Land Acquisition

At the center of Proyecto Azteca's housing program is addressing the contract for deed land purchase system that plagues most Colonias residents. Under a contract for deed, the seller retains ownership of the property until the land is fully paid for. By selling land to low-income families with little down payment, sellers are able to charge high interest rates, often exceeding 18 percent, with balloon mortgage payments and other terms designed to make full repayment difficult. Under this unscrupulous practice, sellers are often able to foreclose and re-sell the property over and over again to unknowing buyers. This system also provides a disincentive to building a quality home on the property, since at foreclosure, the seller also retains ownership of any structures built on the land.

In the Colonias, many homeowners have purchased lots with existing, substandard structures from developers. Since refinancing is not an eligible activity under SHOP, its funds cannot be used to assist homebuyers in paying off their developer-financed mortgage. However, if the lot is in another person's name, Proyecto Azteca can assist a homebuyer in purchasing the land (using SHOP funds), building the home (via sweat equity) and transporting it to the site.

Proyecto Azteca also allows homebuyers to locate a lot they wish to purchase, and assists them in purchasing the lot using SHOP funds. The lots have to be priced within the Self Help Program limits and meet other program requirements.

In addition, Proyecto Azteca has begun purchasing lots directly from developers for its Self Help Program. Developers will often sell 10 to 15 lots in a subdivision at a lower price if Proyecto Azteca agrees to build right away. This provides the developer with funds so it does not have to borrow as much for predevelopment, and it also gets construction underway. Recently, Proyecto Azteca purchased 16 lots originally priced at $15,000 per lot for $10,500 apiece, using $10,000 in SHOP funds per lot; the families each contributed $500. Proyecto Azteca also negotiated with the developer to build a park, and to donate land for the construction of a community center.

Proyecto Azteca Loan Program

Proyecto Azteca provides zero percent interest mortgages with terms of 20 or 25 years. Loan amounts to homebuyers who participate in the Self Help Program can run as high as $37,500, with average housing costs of $27,500, and lot acquisition costs limited to $10,000. Average homebuyer payments are approximately $100 per month. Proyecto Azteca limits payments to no more than 15 percent of the homebuyer's household income.

Due to the seasonal nature of farmworker employment, the organization has developed individualized payment schedules, allowing families to escrow payments for periods of time during the year in which they are typically unemployed. The loan delinquency rate for current homebuyers is less than five percent.

New Community Development Focus

Proyecto Azteca and its partners now look at housing as one piece of the overall need to develop communities, and provide families with the tools they need to improve their lives. This new focus is the result of a research study conducted to highlight Proyecto Azteca's accomplishments. A local university undertook the study, funded by Fannie Mae, for the purpose of examining Proyecto Azteca's internal operations and outcome measures – two areas that indirectly affect the operation and construction of housing. The study found that lack of housing is an overwhelming concern for families who have inadequate housing, or who are over-burdened by housing costs. Until this basic need is met, many people are preoccupied with how to provide housing for their families, and are not able to focus on long-range goals such as bettering employment or pursuing training. Achieving safe, affordable housing is a life changing experience that provides stability and allows homebuyers to focus on improving conditions for themselves and their families. The study found that once Self-Help Program participants were able to secure decent, affordable housing, they tended to focus on taking further steps to improve their lives and became more involved in their communities.

Further, the study determined that Proyecto Azteca is not just a housing development organization, as it had previously defined itself, but a community development organization that uses housing construction as a tool for promoting community stability. The insights provided by the study have changed the way the organization views its mission and its role in the community. Proyecto Azteca now works to build parks and community centers, and to bring stores and services into the communities it works in. It targets specific communities for transformation by purchasing vacant abandoned lots for housing, parks, and community centers. It also targets families who are already living in the neighborhood in overcrowded conditions, often doubled up with other families, to receive houses built on new lots.

As a result of its expanded mission, Proyecto Azteca has spun off a separate non-profit community loan fund program that provides micro-business loans to local residents to assist them with starting new business ventures, provides funds for individual development accounts, and underwrites loans to low-income families. Proyecto Azteca is also working closely with La Unión del Pueblo Entero, (LUPE) and other organizations to offer social services to residents such as GED training, assistance with citizenship, legal services, and vocational training. Proyecto Azteca has recently started a Youthbuild program to engage high school dropouts in vocational training, construction, and assistance with obtaining GEDs.

Lessons Learned

Proyecto Azteca believes the most important factor in the success of its program is building trust and encouraging the participation of community residents. Its Board of Directors is comprised of 13 low-income farm workers and Colonias residents. This grassroots approach to management enhances the connection it has with the families it serves. The organization involves families in planning, and adjusts its program to meet community needs. The use of past participants as trainers also provides an important connection and influential role models for current participants. The trainers are able to relate to the difficulties involved with completing the program, thereby better serving the new families in overcoming the obstacles that they face.

Proyecto Azteca uses a model of self-governance among participants that staff consider important to its success. Self-governance means that participants, rather than staff, are called on to resolve many of the problems that arise. For instance, if a participant misses over 40

hours of scheduled construction time, the group decides if that participant should be allowed to continue, or if the family should be placed back onto the waiting list. This approach helps foster a system where people work together and are accountable to one another. In organizing families for work groups, various skill sets of the participants can be identified and put to use during the construction process.

Proyecto Azteca has been able to produce units at an efficient pace. In large part, this is due to its use of a few efficient designs that are easy to construct, and to minimizing changes to the plans. Proyecto Azteca obtained community input into the designs it uses, and each of the homes is designed with future expansion in mind.

Centralizing construction activities allows Proyecto Azteca to buy materials in bulk, saving the time and expense of transporting people and materials. It finds that working with subdivision developers early in the process also allows it to save substantially on the bulk purchase of properties, and increases its ability to negotiate concessions such as getting the developer to set aside land for parks and community services.

Staff at Proyecto Azteca recommend that other organizations start with a project that is manageable in size, and stay focused. Proyecto Azteca started with one house. As its gained experience, it moved up to building six houses at a time. Up to a few years ago, it produced about 20 homes a year. Now it produces about 80 to 100 units a year. As its experience grows, it is able to identify new ways to increase production to meet the needs of the Colonias communities it serves.

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SHARE Community Land Trust

Leavenworth, Washington

The SHARE (Securing Homes on Affordable Real Estate) Community Land Trust is located in a small, beautiful valley in Leavenworth, Washington, where available land is limited and costly. The SHARE Community Land Trust was established in 1998 to preserve the affordable housing stock and Leavenworth's small town character. The community land trust operates on a typical land trust model, where the trust owns the land, and the homeowners own the homes built upon it. The trust leases the land to its occupants through a long-term lease and limits the appreciation of the homes, which provide for the long-term affordability of the homes.

Background

Located in a valley surrounded by land owned by the U.S. Forest Service, Leavenworth is a city of about 3,000 where the median household income is approximately $36,000. However, since land is limited and the city is located in a desirable recreation area, land prices within the city's urban growth boundary have been increasing, currently reaching $100,000 an acre. As wealthy individuals and families move into what is becoming a resort community, housekeepers, teachers, and even small shop owners are being forced to move out.

Upper Valley MEND (Meeting Each Need with Dignity), an independent nonprofit Christian service organization, decided to make a commitment to preserving affordable housing in the area. In 1995, Upper Valley MEND set aside $20,000 for the express purpose of addressing the growing affordable housing crisis. The organization's board directed its executive director to begin exploring the options for addressing the need for affordable housing in the Upper Valley. In 1998, a local orchardist offered Upper Valley MEND an option to purchase twenty acres of land suitable for development outside of the city limits, but within the urban growth boundary of the City of Leavenworth. This land was zoned for multifamily use.

With this new development, the executive director made a recommendation to create a community land trust as a way to make homeownership possible for low- to moderate-income families. The board of directors established the SHARE Community Land Trust. The initial SHARE Community Land Trust (SHARE) board was appointed to purchase and develop the orchard land. Given the size of the parcel and the need for infrastructure development before homebuilding could begin, it became apparent that it would take some time to get development of the former orchard planned and underway. In the interim, SHARE planned its first project, a ten-home development within Leavenworth's boundaries called Alpine Heights. Construction began in the spring of 2001 and Alpine Heights was completed in early 2002.

SHARE's Mission

SHARE Community Land Trust's mission is to hold and develop land in a manner that provides:

- Quality, environmentally sensitive, permanently affordable housing for low- and moderate- income residents.
- Educational programs and support to help residents of the land trust to be successful homeowners, good neighbors, and contributing members of the community.
- Facilities and/or spaces that will strengthen the community.

In the spring of 2004, SHARE broke ground for its second project, a 10-unit homeownership project called Aldea Village, which is being developed on the orchard land. SHARE was able to secure SHOP funds for this project from Community Frameworks,[26] a SHOP grantee that serves nonprofits in the Pacific Northwest. SHARE is in the process of building the development's infrastructure and the foundation for each home, and hopes to complete construction of all of the homes by the spring of 2005. Aldea Village homes will be built on approximately two acres, leaving a significant amount of open recreational and community space, as well as 10 to 12 acres for another affordable housing project in the future.

Program Design

Why a Community Land Trust?

Upper Valley MEND had several key objectives in mind when it decided to use the community land trust model for its affordable housing projects. Most importantly, there was an existing shortage of affordable housing for lower income members of the Leavenworth community. The families in need of affordable units included low-wage service employees and farm workers, and even small shop owners—all important contributors to the local economy. Further, it was apparent that ever increasing property values would make homes that were affordable at the time of development unaffordable in the foreseeable future.

In response to these conditions SHARE's Board decided to limit the amount of appreciation on the value of the improvements, in addition to controlling ownership of the land. A family that purchases a SHARE home may resell the home for the original purchase price, plus an amount equal to the percentage increase in the median income at the time of the sale.

What is a Community Land Trust?

A community land trust is a democratically controlled nonprofit organization that owns real estate in order to provide benefits to its local community. In particular, the community land trust exists to make land and housing available to residents who cannot otherwise afford them. A community land trust might acquire vacant land and arrange for the development of housing or other structures on it, or it might acquire the land and buildings together. Regardless of the acquisition strategy used, the land is held permanently by the land trust so that it will always benefit the community. The buildings on the land are owned and sold by those who use them. The land beneath the homes is leased to the homeowners through a long-term (usually 99-year) renewable lease. Residents and their descendants can use the land for as long as they wish to live there.

For more information, see the Institute for Community Economics website at http://www.iceclt.org/clt/cltmodel.html.

Another important consideration was the desire to build connections between the housing to be developed and the larger community. SHARE is structured as a community based organization and has several hundred members, all of whom provide some level of financial support. Strong community support for SHARE's projects prevents new homebuyers and existing homeowners from becoming isolated, both socially and economically.

[26] Community Frameworks was formerly known as Northwest Regional Facilitators.

Marketing the Community Land Trust

In Leavenworth, income-eligible families typically reside in rental units or farm worker housing. The ownership costs of a SHARE unit are actually lower than market rents; for these families the monthly housing costs of SHARE housing are less than those of rental housing. Nonetheless, initially, marketing SHARE's Community Land Trust program to potential homeowners was challenging. Some of the homeowners had difficulty accepting the idea that they would own the home, but not the land beneath it.

Homeownership on Community Land

Under the community land trust model, the homeowner carries a mortgage for the value of the home, only, which lowers the cost of owning a home. The homeowner leases the land from the community land trust through a long-term, renewable lease. The community land trust typically guarantees that these homes will remain affordable permanently by incorporating covenants in the land lease that give the homeowners a fair return on their investment, while keeping the home affordable for future generations. When homeowners decide to move, they can sell their homes. However, the land lease requires that the home be sold either back to the community land trust or to another low-income household at an affordable price.

For more information, see the Institute for Community Economics website at http://www.iceclt.org/clt/cltmodel.html

SHARE overcame this initial resistance by interviewing numerous potential homebuyers. Well over 100 families attended mandatory orientation sessions. It became apparent during subsequent application interviews that many families were distrustful of the community land trust leasing arrangement. To them, a lease meant that there was a risk that their home could be taken away. Many applicant families spoke Spanish as their first language, further complicating the educational process.

In the end, the courage of a few "pioneer" families who understood the land trust model and were willing to accept the land lease requirement helped SHARE overcome this marketing hurdle. These families became role models for the low-income families that SHARE intended to serve. Once the first project, Alpine Heights, was completed and occupied, potential applicants could observe the community land trust model in action and see the benefits of homeownership.

Building Strong Communities

Another key element of SHARE's program design was the intent to develop well-integrated and cooperative homeownership communities. During the mandatory orientation session, potential homebuyer families are told about their responsibilities as members and neighbors in a SHARE community. Homebuyers must be willing to be supportive of their neighbors, and to work together to maintain common areas shared by all families.

SHARE also decided to consider developing mixed-income projects, potentially serving some moderate-income families. While SHOP funds may not be used to assist units sold to families with incomes over 80 percent of median, families earning moderate incomes often are unable to afford housing in Leavenworth. These families are eligible for the House Key Program administered by the Washington State Housing Finance Commission, which offers mortgages with below market interest rates.

Sweat Equity and Volunteer Labor

The sweat equity contribution of SHARE homebuyers is key to the successful development of a homebuyer project. Each participating family volunteers at least 250 hours of work. These hours can be contributed to common areas and projects, as well as the homebuyers' own units. During the initial development stages of Aldea Village, homebuyers have undertaken tasks such as tying rebar, creating retention ponds on the property's wetlands, and moving rocks for landscaping projects. When construction of the homes begins in the spring of 2005, these families will work on their own homes, as well as those of their neighbors.

SHARE's broad community membership simplifies the process of obtaining volunteer support, as some members contribute their time to project activities. In addition, SHARE staff make presentations to service clubs and other community groups to discuss project needs, and work closely with the local affiliate of Habitat for Humanity to obtain volunteer support.

Volunteers help with a wide variety of project tasks, and come from all age groups – from school children to seniors. A group of middle school students spent three weeks one summer working with SHARE to satisfy a school community service requirement. Following completion of the school requirement, one of the students, who found the experience confidence-building, chose to continue as a volunteer.

Staffing and Governance

The SHARE Community Land Trust is a nonprofit organization that is controlled by its members. All those living on SHARE land are automatically members. In addition, anyone in the community who supports the goals of the land trust may join by paying a small annual membership fee. The members elect the Community Land Trust Board, which acts as a committee of the full Upper Valley MEND board of directors, and is responsible for the decisions concerning the land trust. There are up to nine Community Land Trust Board members, with three chosen by the Community Land Trust residents, three by the general membership of the Community Land Trust, and three by the Upper Valley MEND board to represent the broader public interests of the community. This gives the Community Land Trust Board balance and ensures that SHARE develops its projects with the good will of the entire community in mind.

SHARE has two full time staff – an Executive Director and a Construction Supervisor. These two individuals work with the Community Land Trust board to design and implement the organization's projects.

Financing

Sufficient funding is always a challenge for a small organization such as SHARE, which makes it very dependent on its partners for project and operational funding. SHARE's first ten-unit project, Alpine Heights, did not use SHOP funds. SHARE relied entirely upon grants and donations to cover the costs of land acquisition and housing development, and the organization developed a number of important partnerships. A high percentage of the funds invested in Alpine Heights were from individual contributions, the Federal Home Loan Bank Affordable Housing Program, the Washington State Housing Trust Fund, and the State of Washington's Community Development Block Grant (CDBG) program.

Upon successful completion of Alpine Heights, SHARE was able to garner even more funding and support from its partners. SHARE worked with the orchard property owner, and arranged to

make incremental payments toward the land purchase as development on SHARE's second project, Aldea Village, progresses. In addition to SHOP funding provided by Community Frameworks, Aldea Village involves predevelopment loans from Seattle-based Impact Capital and Washington State Housing Trust Fund monies. The County is donating permitting, planned unit development, and building development fees. In addition, the City of Leavenworth is donating water/sewer hook ups. A CDBG Housing Enhancement Grant—CDBG funds granted by Washington State to the City of Leavenworth—is being used to bring utilities to the site, which is less than a quarter mile outside of the current city limit.

Permanent mortgage financing for the individual homebuyers is provided by USDA's Section 502 loan program, which does not require a down payment. Each family purchasing a SHARE home is required to contribute $1,800 for closing costs at loan settlement.

Production

SHARE's first project, Alpine Heights, produced ten homeownership units, which have been occupied since the project's completion in early 2002. Aldea Village, which is currently in development, also has ten units, six of which include SHOP funding. The construction of these units should be complete by the fall of 2005.

Aldea Village is being built on only two of the ten acres set aside for the project, ensuring that there will be plenty of open, common space that can be shared by all of the homeowners. Each home will be constructed on a 40 foot wide and 3,000 square foot lot. In comparison, typical homes in Leavenworth have lots that are 60 feet wide and encompass 6,000 square feet. The remaining ten acres of the parcel will be used for another affordable housing project in the future.

Lessons Learned

SHARE's members see the preservation of affordable housing as key to keeping Leavenworth a community, rather than just a resort. Given the desirability of the area and the market forces that are causing prices to rise, the community land trust model promises to ensure the long-term availability of some affordable housing units. The homebuyers' sweat equity and the use of SHOP funds are key elements of a successful project.

Through the process of developing Alpine Heights and Aldea Village, the SHARE staff have learned how important it is to have early and frequent communication with the homebuyers. Furthermore, educating potential homebuyers about the community land trust model early in the process is critical, so that those families that move forward with their applications understand their rights and obligations. SHARE also offers homebuyers training on homeownership, to help homebuyers make the transition from renter to homeowner.

The staff at SHARE believe that another key element of a successful project is implementation of a good tracking system that enables accurate and efficient tracking of sweat equity hours. Since homebuyers may work on their homes at all hours of the day or night, establishing an effective monitoring process is an important element of a successful sweat equity program.

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