

# Arrowwood Hills Cooperative

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## **Sustaining Affordable Housing @ Arrowwood**

“There’s more to affordability of housing than one might think,” said a knowledgeable member of an Ann Arbor co-op.

Recognizing the complexity of the issue, this paper reports on discussions and planning by Arrowwood’s Board on “***HOW to set aside for low income persons a significant number of co-op memberships***”. It also describes the new “sister organization” created by Arrowwood Hills as a tax-exempt charity in 2007 to be an answer to the above question.

As background, readers are referred to two Co-op papers previously made available to members -- and still available FREE on request from the office (and from the Co-op’s website: [www.arrowwoodhills.com](http://www.arrowwoodhills.com) )

1. “What is Mortgage Payoff?”
2. “Origins and Options” (in co-op housing)

Studying the options and understanding the co-op’s purpose as a provider of housing for “low and moderate income households” caused the Board to seek legal assistance to answer the question of HOW to make permanent the availability of some memberships to LOW and VERY LOW income applicants.

The legal advice received made it clear that for Arrowwood to do this the Co-op would have to CREATE a new charitable affordable housing organization and establish rules and procedures for this “Foundation” that would specify permanent terms and procedures for the sale and resale of those memberships that it ear-marks (by purchasing) for new move-in applicants having Low or Very Low income.

Before specific documents to establish the new “Affordable Housing Foundation” could be prepared – and changes to the Co-op’s Bylaws brought to the membership for approval or disapproval – the attorneys asked for answers to ten questions that enabled them to prepare the necessary paperwork.

The Board answered these questions as detailed herein, providing the basis for incorporating in 2007 a “sister organization” named *Arrowwood Hills Affordable Housing Foundation* – and filing papers for charitable status as a tax-exempt 501-C-3 entity.

## Legal Advisor's Questions & Arrowwood's Answers for structuring the

### "Arrowwood Hills Affordable Housing Foundation" (or AHF)

- Overview. Based on this Q & A and subsequent feedback from meetings, Arrowwood Hills filed papers for its *Affordable Housing Foundation (AHF)* in 2007. Because the HUD Regulatory Agreement restricts the Co-op from amending its own Bylaws (and operating an entity such as AHF) without HUD approval, the task in 2008 is for Arrowwood Hills to prepare with HUD a "Use Agreement" (to replace the HUD's current *Regulatory Agreement*) and to adopt a modified version of the Co-op's bylaws – specifically to allow for operation of the Affordable Housing Foundation (prior to the end of original 40-yr HUD mortgage).  
Meetings to present and discuss the details of these new documents – specifically, amendments to the Bylaws of Arrowwood Hills Co-op and the process of entering into the "Use Agreement" with HUD -- are needed in 2008 to prepare a secure basis for operations and service to low income households in future years.
- Goal of Affordable Membership Program: to make permanent the affordability of a percentage of co-op memberships to low and very low income households in Ann Arbor.
- Method for Keeping AHF Memberships Affordable: establish (set) a fixed price for each type of membership at Arrowwood Hills, then have the Affordable Housing Foundation (AHF) purchase the agreed upon number of these memberships and only offer them to eligible low income households (at the agreed upon Fixed Price rates).

### Questions of Legal Advisor & Answers Used in Structuring the Co-op's "Foundation"

#### 1. What would the eligibility standards be for a purchaser of an affordable membership (Fixed-Price) at Arrowwood Hills?

Eligibility would be restricted to households with no more than 50% of Area Median Income (AMI). The new move-in would sign an agreement to grant the Affordable Housing Foundation (AHF) the right to repurchase the membership on the same terms (Fixed Rate) at the time of move-out (or in the event the household's income rises close to Average Median Income (AMI) on a permanent basis).

2. **What will be the “Maximum Transfer Value” (of the Fixed Rate membership) when a member leaves the Co-op?**

At move-out (by members with Fixed Rate/Equity memberships), the Foundation’s repurchase of the membership would be at the same fixed price the member paid, allowing only for adjustments according to the actual rate of inflation (CPI) and any depreciated value of authorized member-made improvements (while in residence).

3. **What will the price of a membership be to an eligible member?**

If eligible for a Fixed Rate (Equity) membership, the price to the new move-in will be the price that is paid by the Foundation (AHF) to the outgoing member (per #2 above). That is, the Trust will resell the Co-op’s Fixed Rate memberships at cost, with only the same transaction fee that is used for all co-op move-outs. (Note: initially the Foundation must purchase existing memberships at current Transfer Value prices -- then adjust them to the Foundation’s “Fixed Rate” prices according to a Co-op standard or fixed baseline set for each unit type.)

4. **How will new affordable unit members be selected for move-in?**

New affordable-unit members (households) will be chosen from a Waiting List of income-eligible applicants maintained by the Co-op office.

5. **Will there be a residency requirement (on the part of the affordable unit member)?**

Yes, the new member will have to use the unit as their primary residence, i.e., the member would not be allowed to sublet the townhouse.

6. **What name would you like for the new corporation?**

The new corporation for this affordable membership program would be: “Arrowwood Hills Affordable Housing Foundation” (AHF). Note: in Michigan, the word “Trust” is reserved for use by real estate investment trusts.

7. **Do you wish to apply for Tax Exempt status for the new entity?**

Yes, tax exemption is seen as desirable and useful to the Trust, as it must raise funds for initial purchase of memberships and possibly to handle transfers or special needs in the future. Therefore, application for tax exemption (501-C-3) should be prepared and filed with the IRS.

8. **How will the Board of the new entity be selected?**

The Board of the AW Affordable Housing Foundation (AHF) will have members from the Co-op's board as the controlling board members. Some independent directors professionally involved in providing affordable housing at Arrowwood Hills may also be allowed to serve as directors of AHF.

**ADDITIONAL "AHF" QUESTIONS RAISED BY THE BOARD & ANSWERED.**

9. **What percentage of Arrowwood Memberships are to be held (sold) "In Trust" to the Affordable Housing Foundation (for households having <50% of median income)?**

To maintain the low AND moderate purpose of the Co-op and to reflect the general balance of the Arrowwood Hills community, a maximum of twenty five (25%), or 87 memberships would be purchased by the Affordable Housing Foundation (AHF). This number is similar to the percentage of below 50% of median income (AMI) households in metropolitan Ann Arbor – and is a recognized level helpful for maintaining "economic balance" and "economic diversity" in neighborhoods (i.e., or large community associations).

10. **Should an eligible member be able to buy more than one Fixed Equity membership, or will the Foundation be able to vote multiple memberships to influence the Co-op's "one member, one vote" rules?**

No. Arrowwood Hills Co-op wishes to retain its "*one member, one vote*" rules – and not to have its democratic character subject to the influence of any special purpose entity. In addition, the Co-op wants all of its 350 memberships to have the same rights and privileges.

END

AW Board / DF

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