



Capital Improvements Policy and Process

Original Capital Improvement policy and process established May 2013. Updated by the Board of Delegates November 2016.

Homestead Community Land Trust seeks to create and preserve a growing community asset of homes permanently affordable to low- to moderate-income people. It is the policy of Homestead Community Land Trust to offer Capital Improvement credit as a means by which to encourage member homeowners to undertake significant improvements to their property by raising the formula resale price by the amount of the credit.

At the same time, Homestead seeks to preserve the affordability and marketability of each home to future homeowners. Homestead therefore seeks to maintain Capital Improvements Credit procedures and criteria that are easily understandable, treat each homeowner equitably, encourage active improvement of homes while ensuring future affordability, while allowing CLT homeowners freedoms similar to that of conventional homeowners.

It is the policy of Homestead that all allowable Capital Improvements credits must be approved in advance. It is also the policy of Homestead that staff may support homeowners seeking to make improvements in their homes not covered by the Capital Improvements Program by making referrals to granting and financing opportunities for low- to moderate-income people.

Capital Improvement: Credit for both Qualified Capital Improvements and Capital Systems Replacements/Upgrades will be clearly stated in a Capital Improvement and System Replacement/Upgrade Credit Agreement signed by the Executive Director, and the Homeowner. The Capital Improvement and System Replacement/Upgrade Schedule will govern the amount of credit. Credit will be subject to limitations described in "Affordability Cap," below.

- I. **CONSTRUCTION AND ALTERATION:** Any post-purchase construction in, about or to the Property requiring issuance of a permit is subject to the following conditions:
 - a. All costs shall be born and paid for by the Homeowner;
 - b. All construction shall be performed in a good and workmanlike manner and shall comply with all applicable laws, codes and ordinances;
 - c. All construction shall be consistent with the permitted uses set forth in the Ground Lease;
 - d. Homeowner shall provide to Homestead a copy of architectural drawings showing the dimensions of the improvement, a specification list describing all materials to be used, and copies of all permits and governmental approvals necessary for such construction prior to commencing construction; and
 - e. Such construction shall not commence without the prior written consent of Homestead's Executive Director.

1. The Homeownership Program Coordinator shall be the point of contact with the Homeowner for all Capital Improvements.
2. Appropriate Homestead staff shall review all relevant information from the Homeowner and make a recommendation to the Executive Director for approval of the construction and provisional credit amount.
3. The Executive Director shall cause to be sent an Approval Letter with the Executive Director's signature informing the Homeowner of approval or denial to commence the project and provisional capital improvement credit, if any.
4. Upon completion of the project appropriate Homestead staff shall inspect the property and all construction permits for signatures and make a recommendation to the Executive Director to approve the credit.
5. The Executive Director and Homeowner shall sign the Agreement for Credit.
6. The original Agreement for Credit shall be stored in the Homeowner's hard file.
7. Agreement for Credit details and value of the credit shall be logged in HomeKeeper. A PDF copy of the Agreement for Credit shall be attached to the Homeowner's file in HomeKeeper.

The Homeowner shall not receive any financial credit for such improvements unless they fall under this Qualified Capital Improvements Policy.

- II. **DEFINITION OF CAPITAL IMPROVEMENTS:** A "Capital Improvement" is a permanent improvement to the Property made during Homeowner's ownership of the Property for which the Homeowner will receive credit at re-sale if the permanent improvement is one in which the improvement:
- a. Increases the utility of gross built interior living space of the Property (including finishing previously unfinished attic and basement spaces, and heated building additions); AND
 - b. Has been made with all required permits and approvals, including without limitation homeowner's association and governmental approvals obtained prior to the construction or installation of the Capital Improvement(s); AND
 - c. The Executive Director and the Homeowner sign the subject of a Capital Improvement and System Replacement/Upgrade Credit Agreement.
- III. **DEFINITION OF CAPITAL SYSTEM REPLACEMENT/UPGRADE:** A "Capital System Replacement/Upgrade" is replacement (or upgrade for safety or energy efficiency) of a major capital system listed in the table below valued at over \$1,000 made during Homeowner's ownership of the Property which:

- a. Has been made with all required permits and approvals, including without limitation homeowner's association and governmental approvals obtained prior to the construction or installation of the Capital Improvement(s); AND
- b. Is the subject of a Capital Improvement and System Replacement/Upgrade Credit Agreement signed by the Executive Director and the Homeowner; AND
- c. Has a value of \$1,000 or more.

Capital systems replacement credit is intended to incentivize investments that increase the home's safety, efficiency or durability. Generally, maintenance and replacement of systems such as roofs; exterior and interior painting; fixtures; flooring, floor coverings and other finishes; interior carpentry or masonry; and any other item not expressly listed in the table below are excluded from Capital Systems Replacement Credit.

In cases where Homestead Homeowners purchased older homes that had a weather seal system listed in the depreciation table below that was near the end of its useful life at the time of purchase, and the Homeowner replaced such system within 3 years of purchase at a cost of over \$1,000, Homestead will give limited Weather Seal Maintenance Credit to Homeowners according to the depreciation table below.

IV. CREDITS FOR CAPITAL IMPROVEMENTS, CAPITAL SYSTEMS REPLACEMENT AND WEATHER SEAL MAINTENANCE: Homeowner shall receive credit at the time of transfer for Capital Improvements, Capital System Replacements and Weather Seal Maintenance made to the Property as follows:

- a. At the time it delivers its Notice of Intent to Sell, Homeowner shall deliver to Homestead:
 - A copy of the Capital Improvement and System Replacement/Upgrade Credit Agreement(s) signed by Homestead's Executive Director and the Homeowner, which clearly states the value of the credit that will be given and its limitations.
- b. The initial value of Capital System Replacement Credit or Weather Seal Maintenance Credit will be determined by approved documented cost as described in the Capital Improvement and System Replacement/Upgrade Credit Agreement(s) signed by Homestead's Executive Director and the Homeowner, and then depreciated according to the Capital Improvement/ Replacement Depreciation Schedule in use at the time the Credit Agreement was signed.
- c. The Capital Improvement/Replacement Depreciation Schedule shall be updated by Homestead's board from time to time. The Executive Director shall have authority to grant credit on an exception basis to accommodate situations not contemplated by the policy and list, so long as they fit within the general intent of the policy.
- d. Credit for Capital Improvements and Capital System Replacement Credit and Weather Seal Maintenance Credit will be subject to the limitation described in "Affordability Cap" below.

V. **AFFORDABILITY CAP:** Credit for Capital Improvements and Capital Systems Replacements set forth above shall only be given to the extent it does not cause the home to become unaffordable to future income qualified buyers.

- a. In cases where giving 100% credit for Capital Improvements and Capital System Replacements, would make the house unaffordable to income eligible households using the maximum affordability standards set forth in the Ground Lease, then the Capital Improvement Credit will be reduced to the point where “affordability” is achieved, as defined in subsection (b) below.
- b. “Affordability” means that a household meeting income limits defined for the property (75% of Area Median Income [as published by HUD] will pay no more than 33% of its gross monthly income for the monthly payment of mortgage (principal and interest), taxes, insurance and lease fee. Calculations for a 1-, 2-, 3- and 4-bedroom (or larger) house will be based on a household size of 1, 2, 3 or 4 persons respectively. Calculations for interest rate will equal the prevailing rate available to Homestead buyers at the time of re-sale, with a minimum rate of 6%.

Capital Improvement/Replacement Credit Schedule

| Type of Capital Improvement | Credit Basis |
|---|--|
| New Interior Square footage added | Approved documented and agreed upon cost. No depreciation. |
| Existing Interior Square footage converted to quality living space with min 7 ft. ceiling height. Includes converting attic and basement space and adding approved bathrooms. | Approved documented and agreed upon cost. No depreciation. |

| Type of Capital System Upgrade | Credit basis of approved documented and agreed upon cost. Depreciation life as indicated below: |
|---|---|
| HVAC, if to improve efficiency to Energy Star standards or higher | 10 years |
| Replacing existing HVAC with high efficiency ductless mini-split heat pump system | 15 years |
| Water Heater, if to improve efficiency to Energy Star standards or higher. Includes solar. | 10 years |
| Solar Photo Voltaic grid tied system | 10 years |
| Foundation and Earthquake Retrofits | 20 years |
| Sewer service line replacement or liner | 10 years |
| Water service line, if to replace galvanized or undersized pipe | 10 years |
| Electrical service or lines within the house, if to replace fuse box with code breaker panel, or knob and tube wiring with modern wiring to code. | 10 years |

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| Plumbing lines within the house, if to replace galvanized water lines or lead sewer lines | 10 years |
| Windows and doors, if to improve energy efficiency | 10 years |
| Kitchen and Bathroom remodels, if installing Energy Star and/or WaterSense appliances/fixtures | 10 years |
| Replacing carpet with solid hardwood floor | 20 years |
| Replacing carpet with other approved durable floor (engineered wood, Marmoleum, tile, etc.) | 5 years |
| Adding insulation | 20 years |
| Adding fencing (wood/galvanized metal) | 5/10 years |
| Adding unheated decks, porches, sheds, garages, outdoor hardscape | 10 years |

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| Type of Weather Seal System Maintenance | Depreciation life (To qualify, condition at purchase must be determined by staff to be near end of useful life, and system must have been replaced within 3 years of purchase.) |
| Roof, metal standing seam with 50 year warrantee | 20 years |
| Roof, composition with 25+ year warrantee | 10 years |
| Gutter and downspouts | 5 years |
| Exterior Painting and calking | 3 years |
| Siding, if using approved durable material, no vinyl | 10 years |