



Department of City Development

City Plan Commission
Neighborhood Improvement
Development Corporation
Redevelopment Authority

Rocky Marcoux
Commissioner

Martha L. Brown
Deputy Commissioner

May 10, 2012

Members of the Common Council
City Hall, Room 205

RE: Resolution No. 111511

Dear Members of the Common Council:

On March 20, 2012, the Common Council adopted a resolution directing the Department of City Development (DCD) to create a plan for conveyance of City-owned tax-foreclosed property to qualified existing tenants. Such a plan was to include strategies to identify and pre-qualify interested tenants and provide services to tenants that would aid them in becoming successful home owners.

This letter responds to the Council's directive. We would be happy to provide further details in the form of a communication file at the appropriate Common Council committee.

About one-third of the improved properties that come into City ownership through tax foreclosure are occupied at the time of foreclosure. The occupants are renting the property from a landlord. Upon taking possession of the property, our staff meets with the tenants and establishes a new lease agreement. Tenants are informed that when the property is sold, they will be required to vacate. We currently manage approximately 155 occupied properties.

During the past several years, a few tenants have wanted to buy the properties they occupy. When we learn of such interest, it has been our practice to connect such tenants with a community-based organization to evaluate the tenant's readiness for home ownership and establish a plan to repair credit problems and assume a mortgage. In some cases, the partnering CBO purchases the property from the City, makes a loan to the tenant to pay for repairs required for code-compliance, oversees the repairs, and re-sells the property to the tenant. This strategy has resulted in an average of four sales to tenants each year.

To increase the pace of sales to tenants, we are proposing a strategy that ensures that both the tenant and the property are positioned for a successful transition to home ownership. To qualify, tenants must be paying at least \$500/month rent to the City of Milwaukee, and be in full compliance with their lease. They must be living in a property that requires less than \$15,000 in repairs (including the value of do-it-yourself repairs performed by the tenant) to become code compliant. Tenants interested in home ownership but not living in a qualified property will be given the option of purchasing another property. The program is structured such that tenants are not required to take out a mortgage in order to own the property.

Positioning the tenant for home ownership

Tenants who indicate an interest in home ownership will be referred to a homebuyer counseling agency for more detailed assessment of income and credit history. Those who qualify will work with the agency to develop an "individualized homebuyer plan" (IHP) that includes clearly-delineated actions the tenant must undertake to prepare himself/herself for the responsibilities of home ownership. These may include actions to repair credit, learn basic home-maintenance skills, establish a budget, etc. The IHP also will commit the tenant to undertake specified do-it-yourself repairs at the property. The IHP will require that the tenant complete the prescribed actions within two years.

The tenant will be required to enter into an amended lease with the City, requiring adherence to the both normal lease provisions and the IHP during the two-year lease-to-own period. The amended lease will commit the City to sell the property to the tenant at the end of two years, and to use the tenant's rent payments to reduce the sale price to \$1.00.

Positioning the property for home ownership

Major home repair expenses can threaten continued home ownership for low- and moderate-income owner-occupants. We are proposing to reduce the odds of such expenses for buyers through the lease-to-own program, by investing City funds to cover the costs of critical repairs before the new owner takes possession of the property.

The Department of Neighborhood Services currently prepares scopes of work for all habitable tax-foreclosed property, indicating the repair work that must be done to bring the property into compliance with the City's building maintenance code and estimating the cost of doing so. The DNS scope will be used to determine whether tenants are living in houses that require less than \$15,000 worth of repairs.

We are proposing that the City of Milwaukee undertake and pay for up to \$10,000 worth of repairs at each property within the lease-to-own program. This investment is meant to enhance the likelihood of a tenant transitioning into a successful property owner by minimizing the chances of a costly repair post-closing.

A City of Milwaukee home rehabilitation specialist will be assigned fulltime to the lease-to-own program. He or she will play several roles. The rehab specialist will determine which items on the scope of work should be performed by a contractor, and which are appropriate for tenant sweat equity. The specialist will oversee contracting and performance of major repairs such as furnace replacement or a new roof. He or she also will work individually with each tenant in the program to teach basic home repair and maintenance skills, and oversee performance of the do-it-yourself work identified in the IHP.

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Should the property in which the tenant is living require more than \$15,000 worth of repairs, real estate staff will work with the home rehab specialist and tenant to identified vacant properties within the City's inventory that are suitable to the tenant's needs. Tenants will be required to assume the cost of moving to a new property, should they opt to continue participation in the lease-to-own program.

Budget implications and plan implementation

The lease-to-own plan will incur the following expenses for each enrolled tenant:

- 1) \$500/tenant fee charged by housing counseling agency to assess tenant's financial capacity and develop and monitor individualized homebuyer plan (IHP).
- 2) Up to \$10,000 for property invested in major repairs.

In addition, the program requires the employment of a fulltime housing rehabilitation specialist at an annual cost of approximately \$75,000 including salary and fringe benefits.

Tenants enrolled in the program who successfully complete it will pay at least \$12,000 in rent during the two-year lease-to-own period. The rent provides a partial source of funds to support this program. The department is exploring options for the remaining resources with the City budget office.

The department is prepared to implement this plan upon identification of financial resources to support it. We have engaged the City Attorney's office to determine the appropriate form of lease amendments and other legal agreements connected to execution of the program.

Thank you for your consideration of this plan. DCD believes this approach is innovative, thoughtful, consistent with Code requirements, fair to tenants who may have been blindsided by the foreclosure action, and likely to be successful in converting tax-foreclosed properties to home ownership opportunities.

Clifton Crump, who is responsible for the management and marketing of tax-foreclosed residential property, will be happy to make a presentation about this program at an appropriate committee meeting. He also welcomes questions and suggestions from individual members of the Common Council. Clifton can be reached at ext. 5805, or via email at clifton.crump@milwaukee.gov.

Sincerely,



Rocky Marcoux
Commissioner