

City of Milwaukee
Tenant Transition to Ownership Project (T₃OP)

Background

On average, approximately one-third of the tax-foreclosed properties owned by the City of Milwaukee are occupied by tenants who lived in the house at the time their landlords lost their properties to tax foreclosure. Some of these tenants may have the desire and financial ability to purchase the property in which they reside. Currently, if such tenants are interested in home ownership, staff refer them to local home buyer counseling agencies for home ownership preparation activities. The lease-to-own pipeline currently includes approximately 50 tenants.

The Tenant Transition to Ownership Project (T₃OP) significantly expands City efforts to encourage tenants of tax-foreclosed properties to buy their homes. The program will identify and work intensively with qualified tenants to help them to become long-term, sustainable home owners. The proposed strategy ensures that both the tenant and the property are positioned for a successful transition to home ownership.

Program goal

Enroll 30 tenants of tax-foreclosed property in lease-option program annually. Beginning in 2015, transfer ownership of up to 30 properties per year to tenants. (Transfer of property lags enrollment in lease-option program because tenants participate in a 24-month period of preparation for ownership.)

Program design

The key ingredients of the program:

- 1) A 24-month period of tenant preparation for home ownership, under the guidance of a local home ownership counseling agency under contract to the Department of City Development.
- 2) Investment of public funds (up to \$20,000 per property) to make essential repairs to the property occupied by the tenant, under the guidance of a technical specialist employed by the Department of City Development.
- 3) Transfer of the repaired property to the tenant for \$1.00 at the conclusion of the tenant preparation period.

Tenant qualification

To qualify, tenants must have the ability to pay at least \$500/month rent to the City of Milwaukee, be in full compliance with their lease, and have the financial capacity to pay a \$100/month lease-option fee to cover expenses related to the transfer transaction. Prior to entering the program, lease-option candidates also must pass the customary background checks required for all buyers of tax-foreclosed property. A documented pattern of behaviors that raise questions about a tenant's suitability to be a good neighbor will disqualify an applicant for the program.

Because CDBG funds are used in the program, tenants must qualify as CDBG beneficiaries.

Property qualifications

Major home repair expenses can threaten continued home ownership for new low- and moderate-income owner-occupants. T₃OP will reduce the odds of such expenses for buyers by investing City funds to cover the costs of essential repairs before the new owner takes title to 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 \$20,000 worth of repairs. Tenants living in houses requiring more than \$20,000 will not be eligible to participate in T₃OP. The cost of required lead abatement does not count toward the \$20,000 limit for houses in which young children reside.

The Department reserves the right to exclude high-value, highly-marketable tax-foreclosed properties from the program.

Tenant obligations during the home ownership preparation period

To complete the program and purchase the property for \$1.00, enrolled tenants must successfully complete the following requirements:

- 1) Maintain monthly rent payments to the City of Milwaukee of at least \$500. (The \$500 level is selected because it is sufficient to cover monthly post-ownership expenses of property taxes, homeowner's insurance and setting aside funds for maintenance reserves.)
- 2) Maintain monthly lease-option payments to the City of \$100. (The \$100 fee will be used to cover transfer transaction costs.)
- 3) Under the guidance of the contracted home buyer counseling agency, successfully complete elements of an individual home ownership plan that delineates actions the tenant must undertake to prepare for the responsibilities of home ownership. These may include actions to repair credit, learn basic home maintenance skills, establish a household budget, etc. Staff from the home buyer counseling agency will maintain frequent contact with the tenant; tenants who do not continue to progress on elements of the home ownership plan will be dropped from T₃OP.
- 4) Successfully handle ongoing property maintenance activities including snow removal, grass cutting, and other normal tenant responsibilities.
- 5) Pay all utility bills associated with occupancy of the property (gas, electric, water).
- 6) Complete "sweat equity" repair work identified by DCD's technical specialist, such as interior painting.
- 7) Enter into a "good neighbor commitment" that encompasses standards of behavior conducive to neighborhood health and encourages participation in a block club or other neighborhood association.
- 8) If the property to be acquired is a duplex, and the participant plans to rent out the second unit upon ownership, complete the City of Milwaukee's landlord training class.

City obligations during the homeownership preparation period

To prepare the property for sustainable home ownership, the City will invest in essential property repairs and provide support to the tenant during the 24-month home ownership preparation process.

- 1) Enter into a T₃OP lease addendum with the tenant that specifies the obligations of City and Tenant related to T₃OP.
- 2) Assign a home buyer counselor to the tenant.
- 3) Identify essential repairs to the property. Essential repairs are those necessary to bring the property into compliance with the City's building maintenance code, and also repairs required to minimize the likelihood of a major repair post-closing, such as new furnace, new hot water heater, new roof, etc. A DCD technical specialist will divide these into two scopes of work: one specifying work to be done by contractors, and the other specifying "sweat equity" items to be performed by tenants during the home ownership tenant preparation period. The technical

specialist will oversee contracting and performance of major repairs, and will provide guidance to the tenant, if needed, as the tenant completes work items on the sweat equity scope.

- 4) Conduct basic home maintenance classes for tenants enrolled in T₃OP.

Project funding and budget

T₃OP requires both operating and capital funds.

Operating funds are used for the following expenditures:

- 1) Contract with a home buyer counseling agency to provide one-on-one counseling services to each enrolled tenant.
- 2) Wages and benefits for a home rehabilitation technical specialist.

Capital funds are used to pay the cost of up to \$20,000 in essential repairs at the property and to pay for lead abatement work if required.

The following annual budget for the program is based on 30 tenants entering into lease-option agreements per year.

Expense	Amount	CDBG	City capital	City operating
Home buyer counseling agency contract	\$50,000	\$0	\$0	\$50,000
Home rehabilitation technical specialist (salary and fringes)	\$68,300	\$0	\$0	\$68,300
Home repairs	\$600,000	\$300,000	\$300,000	\$0
TOTAL	\$718,300.00	\$300,000.00	\$300,000.00	\$118,300.00

T₃OP Step-by-Step

