

Community Economics

Fall 1988

Number 16

Gates of Heaven

The election has passed, but the housing crisis certainly has not. At least the media may turn its attention from campaign theatrics to substantive issues. In recent months, members of Congress have begun drafting new housing bills, anticipating a new administration. This issue offers a brief overview of current proposals; more are expected.

It remains to be seen what will be legislatively possible given the national debt, Gramm-Rudman ceilings, and the administration's social philosophy. Federal response is likely to be far from adequate. But there does seem to be a greater recognition of the role of the community-based nonprofit developers. Perhaps they are included in the "thousand points of light" we have heard so much about?

The nonprofit sector will continue to grow—out of necessity, certainly, but also by right. It best represents, involves, and empowers those in need; it has shown the greatest creativity and farsightedness in meeting an historical housing crisis.

If there is a silver lining in the dark political clouds, it is the opportunity to garner support for models—like community land trusts—which meet immediate needs, provide for the future (as many previous housing programs did not) by controlling transfer costs and "decommodifying" property, and strike at the roots of the housing problem. "Long-term affordability" is becoming a litmus test for new public or private housing initiatives. It is increasingly accepted as a practical matter of fiscal responsibility, even if the public/private origin of all property values is not yet accepted as a philosophical foundation for social policy. Rep. Joe Kennedy's bill may be the first to mandate resale controls on all assisted housing—including single-family homes—and it is significant for that reason.

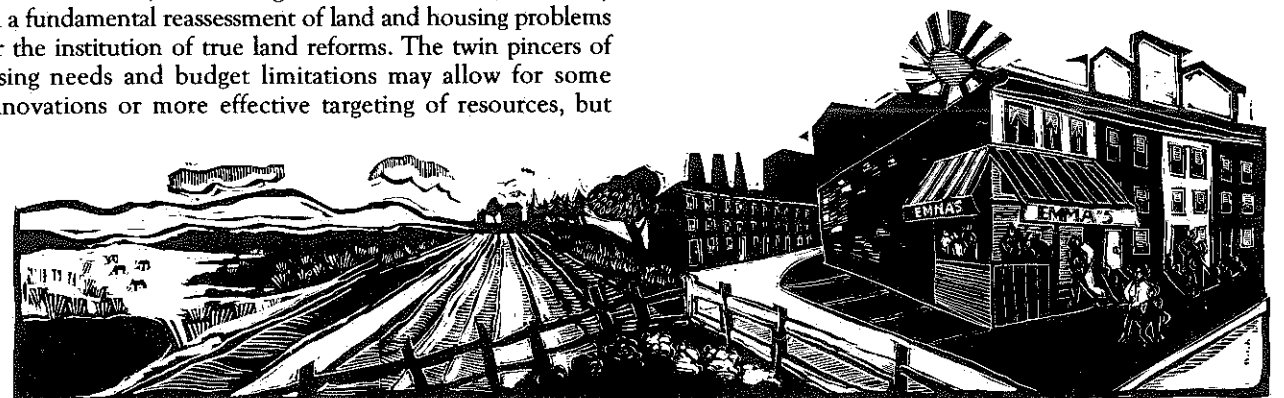
Nonetheless, the federal government will not lead the way in a fundamental reassessment of land and housing problems or the institution of true land reforms. The twin pincers of rising needs and budget limitations may allow for some innovations or more effective targeting of resources, but

Congress still shows no inclination to address the glaring inequities in current housing policy, much less structural injustices in the marketplace. While debate continues on whether or how much the federal government can afford to devote resources to housing programs for the poor, home mortgage interest deduction and other tax provisions yield many times more to those whose needs have already been met—with nearly 75% of the benefit going to the wealthiest 10% of taxpayers.

The most creative and significant public policies in the years ahead may well come from cities and states. They are affected most directly by land and housing problems; amongst them are a variety of political demographics; and much property law has always been local. The investment of the Burlington city employees' pension fund in the BCLT, described in this issue, is a good example.

But government will always follow, and never truly lead, the people in fundamental social change. It was true in the civil rights movement, and it will be true if there is to be an American land reform movement. There must first be a change of attitude, values, and personal practice in the lives of thousands of individuals, and religious and other institutions. Read in this issue about the new investment collaborative established by New England Catholic religious orders, through ICE's Revolving Loan Fund—and look for the announcement in our next issue of the long-awaited "Equity Trust", ICE's voluntary land reform program for socially-concerned property owners.

Perhaps it is just as well that responsibility rests with each of us. As Eugene Debs, the grand old man of American socialism, once said, "If I could lead you through the Gates of Heaven, I wouldn't do it—because if I could lead you in, someone else could lead you out." □



Bonnie Acker

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over, they have affirmed that community investments best reflect gospel values and are the standard against which other investments should be measured.

With this message, they are actively and publicly addressing others in the Church and in the wider community, as St. Kathleen Popko says, "This is more than an investment program. It is an evangelical initiative that calls upon everyone with financial resources to . . . rebuild communities." In other words, "Here is the need, the opportunity, and what we have done. Will you join us?" □

For information on the formation of the LCWR/CMSM Collaborative, contact: Sr. Kathy McCluskey, Sisters of St. Joseph, 637 Cambridge Street, Brighton, MA 02135. For information on investment opportunities or available loan funds contact ICE.

Episcopalists to Support Community Economic Development

In July, 1988, the Episcopal General Convention passed a resolution introduced by the Diocese of Michigan, establishing a national ministry of community investment and economic justice "directed to community-controlled economic development programs of the disadvantaged, with a special focus on land trusts, housing cooperatives, worker-owned businesses and community development credit unions."

Included in the resolution is a funding commitment of \$200,000 per year for operating expenses and plans for the establishment of a National Episcopal Fund for Community Investment with the goal of mobilizing \$4,000,000 per year for six years. All levels of the Church are called on to support this ministry by utilizing their "properties, personnel, financial resources, and moral power," and to join with others to establish public policies supportive of community economic development. The resolution also calls on individual dioceses to appoint a local Commission on Community Investment and Economic Justice. □

For information on the Episcopal resolution contact: Brian Grievens, Peace and Justice Officer, Episcopal Church Center, 815 Second Avenue, New York, NY 10017-4594, (212) 867-8400, or Rev. Hugh White, Episcopal Diocese of Michigan, 4800 Woodward Ave., Detroit, MI 48201.

BOOKSHELF: Public Policy

A New Housing Policy for America: Recapturing the American Dream, by David C. Schwartz, et al. . . . Temple University Press, Philadelphia, 1988. 332 pp. Paper \$19.95, cloth \$35.95. The authors examine more than two hundred new state, national and international housing efforts to derive a plan to meet America's housing needs in the 1990s. Briefly mentioned are community land trusts and community loan funds.

Housing and Economic Development: A Shared Agenda for Government and the Grassroots. Includes proposals for strengthening community organizations, investing in poor communities, a community-based housing supply program, resources for action, etc. Available for \$5 from the National Center for Policy Alternatives, 2000 Florida Ave. NW, Washington, DC 20009.

A Progressive Housing Program for America, Institute for Policy Studies, 1601 Q St. NW, Washington, DC 20009. 66 pp. \$4. The central argument in this report by a group of housing experts is that the free market will never find it profitable to provide decent affordable housing for low- and moderate-income people, and that social provision is necessary to meet the housing crisis.

Rethinking Rental Housing, by John Gilderbloom and Richard Applebaum. Temple University Press, Philadelphia, 1988. 280 pp. Paper \$14.95, cloth \$34.95. The authors approach the problem of affordable housing from a sociological standpoint. They advocate a national housing program similar to Sweden's and a "third stream" of nonprofit community-based housing which will guarantee tenants' rights comparable to homeownership except for the right to resell at a speculative profit. □

Institute for Community Economics
151 Montague City Road
Greenfield, MA 01301

Job Notice

ICE currently has full-time positions open with our Revolving Loan Fund, land and housing, and community investment programs. Community organizing, development and/or financial experience preferred. We are also looking for a secretary to handle inquiries, sales, and distribution of ICE's resources. Experienced secretaries preferred, but applications from the inexperienced and willing to learn are welcome. For complete job descriptions call or write: ICE, Coordinating Team, 151 Montague City Road, Greenfield, MA 01301, 413-774-7956. □

Burlington from page 2

contribution to BCLT's efforts to preserve affordable housing even while it maintains a vested interest in Burlington's appreciating housing market. In granting BERS a share of the market appreciation in BCLT properties, BCLT has agreed to give up some of the equity created by the community during the term of the loan. In exchange, BCLT has the ability to take these properties out of a market that does not allocate equity to both the owner and the community. In such a market it is difficult, if not impossible, for the community to maintain a pool of affordable housing for lower-income households. BCLT figures it is better to buy properties today and share a fraction of the appreciation in value than to buy them later at their inflated market price. And they have the satisfaction of knowing that part of Burlington's "common wealth" no longer supports corporate multinational activity in South Africa, but instead enhances the wealth-held-in-common by the Burlington Community Land Trust. □

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Taking a Closer Look:

The Community Housing Partnership Act

Following are excerpts from an interview we conducted in July, 1988 with Donald Carlson, Legislative Director for Representative Joseph P. Kennedy, II sponsor of the Community Housing Partnership Act. The bill, though modest in appropriations, is distinctive for its emphasis on the role of community-based nonprofit developers and permanent affordability through equity limitation provisions for both multi-family and single-family housing.

Community Economics: What makes the Community Housing Partnership Act significant?

Don Carlson: The basic thrust of the Act is to provide money for nonprofit housing development and it's significant [because] there is no existing federal program [specifically for] nonprofits that want to pick up the challenge of affordable housing. The advantages we see in the nonprofit structure of our bill are mostly cost advantages. First, you knock out the real estate speculators' profit so that people are not making a windfall off of buying and selling property to poor people. Second, it's basically cash and carry out, where our intent is to pay for the house up front, to avoid the high financing costs over time.

C.E.: How do you evaluate the present and potential role of community-based nonprofit developers in the design of a national housing policy?

Carlson: We like to talk about a strategic housing triad that involves a strong support for public housing. A second aspect is the private for-profit sector, which clearly has resources that dwarf what any other sector has to offer. We have to be careful that we don't create get-rich-quick schemes for developers. But at the same time, we [should] provide incentives for developers to build affordable housing, [especially for] the poorest of the poor. In addition to those two sectors we see the private not-for-profit sector where there's a flood [of activity] today.

C.E.: Proportionately, for-profits have played a much larger role in federal housing policy than nonprofits. Do you see that shifting?

Carlson: Our bill is intended to bring this relatively new player much more into the fight against homelessness and overcrowded, cramped, unsafe housing. I don't think we want to exclude anybody; we don't want to talk about shifting burdens. What we're focused on at this point is to bring in this new tool that we can use to build affordable housing.

C.E.: The \$500 million appropriation that you're asking for is modest in relation to need. How did you decide on that amount?

Carlson: It's not nearly enough to actually solve the problem of homelessness and poor housing; there's no question about that. How did we come up with the figure?

"If housing is built with federal money, we believe that it should remain permanently affordable..."

Trying to get a realistic sense of what we might expect for funding, that was one thing—and the other factor was how much in new resources can the nonprofit sector handle and handle well. We see this bill over a five or six-year period building a solid track record of success, using federal dollars leveraged by local and state and private contributions. And over that period of time, if we can get the very best and brightest nonprofits to do a first-rate professional job in building and managing affordable housing units, then we think we're justified in coming back here and expanding their role.

C.E.: Could you see not only specific appropriations for the nonprofit sector, but giving nonprofits, when qualified, priority access to other programs over for-profit proposals?

Carlson: I think we want to take that one case by case; if you're looking at the Nehemiah program, then it probably makes some sense; if you're looking at the proposed National Housing Trust Fund, then it makes a good deal less sense. We did give nonprofits first priority in trying to buy out properties that are facing expiring use restrictions, but I don't want to make a general statement that in any federal housing program nonprofits should get first dibs on cash before the for-profit sector. It depends on which sector is able to better utilize the money, and I think our goal

ultimately would be to have nonprofits compete with for-profits on their own merit.

C.E.: One of the unusual features of your bill is that it requires resale control to preserve long-term affordability, even on single-family homes...

Carlson: Yes. Well, when Joe came to Congress, the first issue that we really hit head on was the expiring use problem. Because of a glitch in the law, people were allowed to take the most favorably located and potentially lucrative projects out of the assisted housing sector and bring them up to yuppie condos or apartments. The painful lesson that we learned from encountering 700,000 units of housing at risk, influenced the structure of the Community Housing Partnership Act. If housing is built with federal money, we believe that it should remain permanently affordable for poor and working-class people.

C.E.: Whether it's built by nonprofits or for-profits?

Carlson: Regardless, it should remain permanently affordable. That doesn't mean that the particular unit has to forever stay in the assisted-housing stock; it can be that if you sell the unit, the proceeds from that sale stay in the pool for providing assisted housing. We're not locked into particular buildings, we're just looking in the resources—that once dedicated, the resources should be re-used. It's consistent with our theme, that nobody should be making a windfall off of federal housing programs.

CHURCHES AND COMMUNITY INVESTMENT

New England Religious Orders Join in Housing Investment Collaborative

On October 12th the Leadership Conference of Women Religious and the Conference of Major Superiors of Men (LCWR/CMSM) representing Catholic religious orders throughout New England, held a prayer service and rally at Boston City Hall Plaza to publicly announce their "Collaborative Investment for Housing." Religious communities are pooling investment funds through ICE's Revolving Loan Fund to address housing problems and encourage others to respond in kind. As of October 12th, 27 religious congregations had committed themselves to participation with \$698,000 already in the loan pool and additional loan receipts pending. ICE will loan these funds to housing projects both directly and through community loan funds in the region.

Standing before a large blue banner showing gold coins symbolic of the biblical "widow's mite" and with a ring of religious holding white banners bearing the names of their orders, LCWR's Chairwoman, Sr. Kathleen Popko, President of the Sisters of Providence, addressed the gathering: "We are here today to demonstrate our concern for the housing crisis in New England and in the United States and to show that ordinary people with ordinary resources can do something about it... It is not that we have not responded to the need for housing in the past. Many of us already are involved in community loan funds, housing development, or have reached out to the homeless through our sponsored shelters, soup kitchens and specialized programs. But we believe that the current crisis demands that we do more and do it collectively to ensure a greater impact."

She was joined by Father Paul Gaudet, of the Oblates of Mary Immaculate, to present symbolic Collaborative checks totaling \$191,250 for five projects funding the acquisition or renovation of 65 units of housing. Representing loan recipients whose homes will be financed with Collaborative funds was Jackie Gardner of the Rose City Community Land Trust for Housing in Norwich, CT.

Speakers at the event included Boston Mayor Raymond Flynn, City Councilwoman Rosario Salerno, Kip Tieman, housing advocate and director of Rosie's Place, a shelter for homeless women, Sister Kathleen McCluskey, SSJ, Chairwoman of the Collaborative's coordinating committee, and ICE's Director Chuck Matthei.

Councilor Salerno expressed delight and pride in the project. "In the gospel," she said, "Christ says, 'I was homeless and you took me in.' Unfortunately in contemporary society, Christ would have to say, 'I was homeless and you talked to me about supply and demand.' Today

C.E.: What's been the reaction of other Congressmen to your proposals?

Carlson: Many of them think it's an innovative idea; we've gotten about a hundred Congressmen to co-sponsor the legislation. The chairman of the House committee, Henry Gonzalez, thinks it's a terrific idea and has called it one of the most creative approaches to housing he's ever seen.

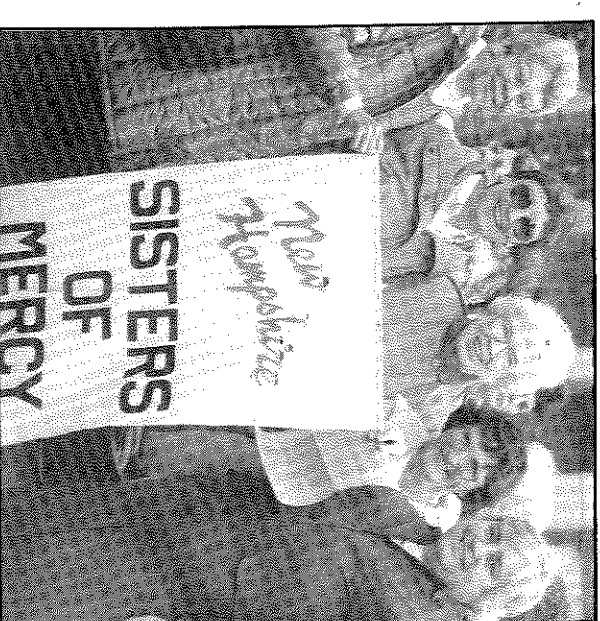
C.E.: Have you found any resistance to resale controls on single-family homes?

Carlson: It's important to point out that we allow for an inflation-adjusted return on an individual's investment in a home. Not only does [the homeowner's] contribution to the equity of the dwelling remain with them, but in addition we allow for inflation. When you sell the property sometime down the line, you've managed to develop savings by investing in that home, [but] you've not gotten any windfall just because the neighborhood happened to improve.

C.E.: And others have been receptive to that approach?

Carlson: Very receptive, yes. I think all of us are concerned about stretching federal dollars as far as they can go these days. □

To receive a copy of the bill or find out how to offer support contact: The Honorable Joseph P. Kennedy, II, attn: Donald Carlson, 1208 Longworth House Office Building, Washington, D.C. 20515, (202) 224-3121.

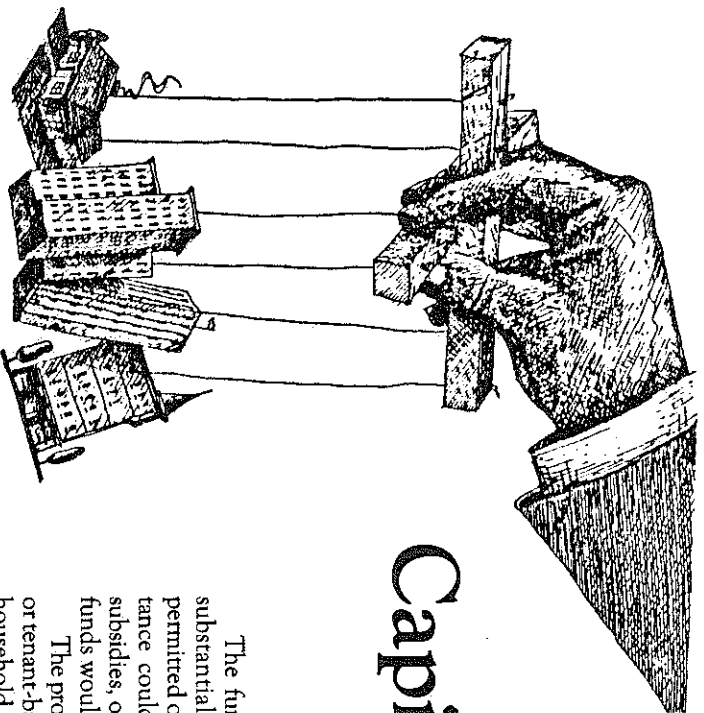


At the rally, members of participating orders gathered behind their banners. Left to right: Sisters Cecelia Ferland, Janice Loiselle, Antonius Lindsay, Barbara Willett, and Louise Foisy. In addition to being Sisters of Mercy, Cecelia is Finance Officer and Louise is Fund Manager of ICE's Revolving Loan Fund.

because of you, we hear again, 'I was homeless and you took me in. And more than that, you empowered me and gave an example for others to follow.'"

Coverage of the event in the Boston Globe and, by Associated Press wire in many local papers prompted people to call for information on individual investment opportunities. Inspired by the story of the Catholic Collaborative, a regional Protestant denominational office increased its promised investment in one of the participating community loan funds from \$5000 to \$50,000.

Growing out of an LCWR/CMSM housing task force which approached ICE in October, 1987, the Collaborative is significant in its size, its character and its mission. It is unique as the largest number of religious organizations to join in a community investment initiative, and as an initiative of the Leadership Conferences. For many of the participating groups, it is their first experience with community investment while others have been engaged for a decade. But all have pledged themselves to a process of reflection and deepening commitment over time. More-



In Summary Capital Hill Housing Proposals

BY PRENTICE BOWSHER

The bill was introduced by Housing and Community Development Subcommittee Chair Henry B. Gonzalez (D-TX).

Capital Grants

A different financing mechanism—one-time capital grants—is proposed in the Affordable Housing Act (HR 4990) for the construction, rehabilitation, and acquisition of 7.5 million affordable housing units.

The units would be distributed geographically, based on the size of the very-low-income renter population, the number of very-low-income families paying more than 30 percent of their income for rent, rental vacancy rates, public housing waiting lists, and physically inadequate housing.

The bill would encourage community-based organizations to develop, construct, and manage housing.

The capital grants would provide for construction or rehabilitation, and ongoing operating assistance would assure affordability.

The bill would authorize first-year appropriations of \$15 billion. Revenue would be generated from the alternative minimum income tax, excise tax increases on tobacco products, reduced deductions for business meal and entertainment expenses, and taxing the full capital gain on inherited capital assets.

The bill was drawn from proposals by the Institute for Policy Studies' Working Group on Housing. It was sponsored by the Community for Creative Non-Violence, and introduced by Barney Frank (D-MA).

Cheshire Housing Trust Gets \$500 Million Grant
New Affordable Housing Program To Be Supported
BY ALDENE FREDENBURG
The Cheshire Housing Trust will use a novel idea, aided by half a million dollars in Federal Community Development money, to open the door to affordable housing for many area residents. The Federal grant will help buy and renovate single and multifamily housing.

From the Keene Business Journal: A bit of wishful thinking.

Rehab for the Homeless

An unusual housing supply source—in rem properties acquired through foreclosure or by local governments—is proposed by the Permanent Housing for Homeless Americans Act (HR 5046).

The bill would authorize appropriations of \$300 million for each of two years for aid to local governments to rehabilitate such abandoned properties. There are some 50,000 in rem apartments in New York City, for example, and 2,000 in Washington, D.C. It is estimated.

The bill also would provide funds to repair uninhabitable and vacant public housing units.

Altogether, the bill would authorize appropriations of \$2 billion for each of two years.

The bill was drafted by the National Coalition for the Homeless. It was introduced by Bruce Vento (D-MN) and Patricia Saitki (R-HI). □

These groups regularly publish information on current public policy developments in housing:

Housing Assistance Council
1025 Vermont Ave. NW, Suite 606
Washington, DC 20005
(202) 842-8600
Rural issues

Low Income Housing Information Service
1012 14th St. NW, Suite 1006
Washington, DC 20005
(202) 662-1530

Write for a comparison of proposed housing bills. See "Bookshelf" on page 4 for recent publications on housing policy.

Prentice Bowsher, of Prentice Bowsher Associates, Washington, D.C., is a consultant on low-income housing development issues. A member of ICE's Board of Trustees, Prentice kindly agreed to prepare this summary of pending national housing legislation.

Legislative authority for federal housing programs will expire next September, and the deadline will focus attention on one of America's most intractable problems—providing decent affordable housing for all its citizens.

At issue will be the federal role in housing the poor. The Reagan Administration reversed a 40-year trend of growing federal support; its new direction will be on the line in the coming debate.

Any heavy new spending in addition to the present \$7 billion annual level, will raise concerns about the federal deficit, with the threat of mandatory spending cuts—"sequestering"—if deficit-reduction targets are missed under the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act.

As a result, at least some early proposals try to be "revenue neutral," by offsetting higher spending with selected tax increases, or by shifting funds to housing from other programs, such as military or space.

An array of housing proposals already is emerging, even before a new Administration takes office. Some target specific providers, such as community-based development organizations; some propose new funding approaches, such as one-time capital grants. At least one takes a comprehensive approach.

The National Affordable Housing Act

Probably the most comprehensive approach has appeared in the Senate in a bipartisan proposal from Alan Cranston (D-CA) and Alfonse D'Amato (R-NY), the Chair and ranking Republican on the Housing and Urban Affairs Subcommittee. It covers homeownership affordability, preserving affordable rental housing, and providing housing for people with special needs, such as the homeless, the elderly and handicapped, and poor families with small children. In a deliberate political move, early versions carried no price tag.

The proposal is called the National Affordable Housing Act. Its homeownership provisions would allow first-time homebuyers to make downpayments from their individual retirement accounts, would extend mortgage revenue bonds and mortgage credit certificates, and would make FHA mortgage insurance more readily available.

Its rental provisions would create an Office of Affordable Housing Preservation in the Department of Housing and Urban Development, would create a federal Home Corporation to administer a housing opportunities partnerships (HOP) program, and would replace housing vouchers and Section 8 certificates with rental credits.

Funds for the housing partnerships program would come from HOP investment certificates issued by state or local agencies and purchased by the Home Corp.

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ICE is a nonprofit corporation providing technical and financial assistance to community land trusts, limited-equity co-ops, community loan funds, and related grassroots organizations, as well as providing information and educational materials to the public.

Editorial Coordinators:
Lisa Berger and Chuck Martel



One Million Dollar Pension Fund Investment in the Burlington Community Land Trust

The vast social investment potential of pension funds is only beginning to be tapped. In the spring of 1987, the Burlington Employees' Retirement Fund, a city-employees pension fund, signed an agreement detailing the terms of its \$1 million investment in the Burlington Community Land Trust (BCLT). This is the first example of a pension fund investment in a community land trust.

More than any other community land trust, BCLT has received substantial technical and financial support from local and state government agencies. This support has enabled BCLT to produce and preserve affordable housing in an extremely inflated real estate market. But without a significant amount of low-interest capital, BCLT's acquisition efforts would have been stalled. Since incorporating four years ago, BCLT has acquired 61 units. Of these, 29 have been acquired and two refinanced in the 1987-88 fiscal year with loans from the pension fund.

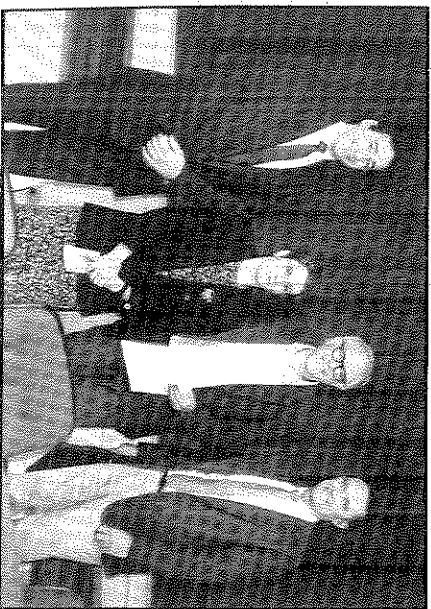
Several years ago, the Burlington City Council directed the Burlington Employees' Retirement System (BERS) to divert from South Africa and invest some funds in a local initiative that in some way addresses an identified local need. While some public pension funds have begun to help meet local needs by financing state and local home mortgages and small and medium-sized businesses, such investments are uncommon. It is even more unusual for pension funds to make direct loans to local nonprofit developers such as BCLT.

Once the pension fund had divested from South Africa, BCLT, in conjunction with the city's Community and Economic Development Office, submitted the first of several proposals to BERS regarding a \$1 million investment in BCLT's properties. The pension fund treated this investment much as it would any other, by seeking an acceptable rate of return. Since BCLT needed low-interest capital in order to provide affordable housing, the two groups had to work out a creative arrangement in order to meet these requirements. A year later, in 1987, an agreement was signed, and the money became available.

Terms of the Investment

BERS established two revolving lines of credit, one for \$300,000 and the other for \$700,000, that BCLT could draw on to finance purchase or improvement of its properties. The \$700,000 pool is targeted for multi-family

Cindy Reid



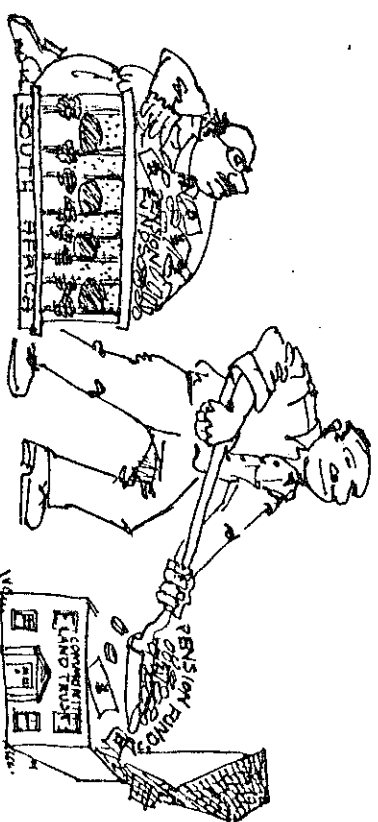
BCLT Board member Mark Severance, Board President Meg Pond, Burlington Mayor Bernie Sanders, and Burlington Employees' Retirement System Board member Jim Strouse announce the BCLT/Pension Fund agreement.

properties at 5½ % with a 20 % share in the appreciated value at the end of the loan period. The \$300,000 is loaned at 6½ % with a 10 % share for the pension fund. BCLT has two years to borrow the full \$1 million. The loans are on a quarterly payment schedule, amortized over a 25-year period, with a "balloon" payment of the principal due at the end of 10 years from the date of the note or upon sale of the property.

In other words, if BCLT buys a property using funds from BERS, it can sell the improvements to the leaseholder who has financing from another source, and repay BERS—or it can pass the BERS loan on to the leaseholder for the remaining term of the loan. There is no penalty for prepayment, and if BCLT repays a BERS loan within the two-year term, the land trust can reborrow those funds to finance another property. If a loan is paid off after April 20, 1989, then those funds are out of the loan pool.

When each loan is terminated (upon sale or after 10 years), BERS receives an additional return on a portion of the increased market value in the property proportional to

the original share of the value financed by BERS. So, if BCLT purchases a property valued at \$100,000, BERS finances \$50,000, and the market value at the time of resale is \$150,000, then (assuming that no portion of the appreciation is the result of improvements) BCLT would owe BERS an additional \$2500, in the case of the 6½ % money, or an additional \$5000 in the case of the 5½ % pool. In this way, the pension fund has an opportunity for growth in its net earnings above the 5½ % and 6½ % guarantee, and BCLT has the use of the money at these lower interest rates over the life of the loans.



Marilyn Andrews

PENSION FUNDS AND COMMUNITY INVESTMENT

The following information about pension fund investing is adapted from a talk given by Randy Barber of the Center for Economic Organizing for the National Association of Community Development Loan Funds. Randy works with labor unions on strategic and financial issues.

How can pension funds be characterized? There are three types of pension funds. In the private sector there are corporate pension funds, which are exclusively controlled by the employer, and there are union pension funds which are jointly trusted by labor and management. Investments by the private sector funds are regulated under the Employee Retirement Income Security Act (ERISA). The third type of pension fund is the public-employee pension plan which is typically regulated at the state or local level. These plans are worth in the neighborhood of five to six hundred billion dollars.

As investors, pension funds have certain characteristics that are important to understand. First of all, they are passive investors. Pension funds, with very few exceptions, aren't staffed. Secondly they are conservative investors. They have a strong bias toward very large capitalization companies. Even though pension funds have a more stable, more predictable, more knowable liability structure than any other large financial institution, the typical pension fund will insist on 99% liquidity. In most instances, pension fund owners—participants—don't have a voice in investment decisions.

What is the potential for pension fund investments in community development efforts? It is difficult to assess what pension funds can do in an alternative way. It is a slow, agonizing, incremental and uneven process of people trying to figure out how to do something that is pretty unprecedented—that is to become a player in the capital markets with a set of criteria that are added on to the kind of risk, return, liquidity, and other criteria that are usually used in the investment industry. We still have a huge lack of mechanisms, vehicles, skills and people who actually can do a technically sound job of structuring transactions.

Housing accounts for at least 75 to 80% of the so-called alternative investments that have been done by pension plans, with various kinds of job-creating investments accounting for the rest.

The two groups to focus on are unions and people in the public sector. Pension funds associated with the building trades unions have been the most active funds

BCLT is confident that the additional costs can be refinanced without making the payments unaffordable. Financial projections done by BCLT, assuming 10 to 14 % yearly inflation rates in the market value, indicate that even with the shared appreciation arrangement, the effective cost of the loan would be lower than current bank-lending rates.

Acquiring Properties

BCLT works hard to find ways to reduce the percentage of the pension fund's participation in any one project. At the negotiating table, BCLT has become skilled at getting the best price on properties that it wants. Every dollar that it pays below the market value reduces the appreciation share claimed by the pension fund. Also, BCLT has access to grant monies (including \$150,000 in Community Development Block Grant funds and \$150,000 in grants and loans from the Vermont Housing and Conservation Trust Fund) and looks for owner-financing and mortgage assumption opportunities from the seller. These techniques also allow the million dollars to go farther.

BCLT hopes to set up limited-equity cooperatives in the multi-unit buildings through enabling legislation recently passed in the Vermont legislature. Tim McKenzie, Director of BCLT, said he would like to sell several of these properties within the two-year "revolving" time frame to enable BCLT to borrow the money again and give BERS the added return (over the 5½ or 6½ %), to induce the pension fund to make additional investments. The \$1 million represents about 1/20th of the pension fund's portfolio. In the spring of 1988, BERS extended the overall credit line by \$45,500 to enable additional acquisitions.

Through its low-interest investment, the retirement fund is making a great

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involved in job-creating investments. They have a direct self-interest in this. Unlike almost any other kind of investment you can name, there is a very direct connection between an investment and a job. There are about a dozen real-estate financing foundations each involving a half-dozen to a dozen union-related pension plans that make decisions on financing such transactions. Some of them have placed upwards of \$250 million in various kinds of union-related construction, though most of it has been in downtown commercial real estate. Unions are also getting involved in other types of efforts, such as helping to create cooperatives.

In the public sector you find an openness to new things. And it's something that can be worked politically in terms of getting in the door. In a number of states you've actually seen legislatures change laws to permit targeted or socially responsible investing by public pension funds. For example, there are a dozen states in the country in which their public-employee pension funds have now become the largest single source of secondary-market financing for their housing market.

How can we attract pension fund participation? First of all you have to have a good deal. Approach them with some kind of return that is comparable to what is available in the general market for the level of risk they're going to achieve. Some pension funds have targeted their deposits to leverage bank loans to local development projects. The FDIC has taken the position that pension funds purchasing CDs or depositing money in federally insured national banks will be insured up to \$100,000 per participant. So a pension plan could, if it had 100 participants, put \$10 million in and have it completely FDIC insured.

Pension funds can be asked for a letter of credit. By pledging collateral, with some form of commitment fee, they can help lower the borrowing cost of a specific deal without actually having to put their assets up.

I also think that you can negotiate with pension funds over terms of transaction. For instance, you can make them into equity or quasi-equity investors. You can structure transactions so that they're more flexible in terms of covering cash flow—so there's greater cash flow toward the end of the deal as opposed to the beginning. If you can demonstrate that, in terms of present value, the yield is comparable, I think that you can talk about structuring pretty imaginative things.

Pension funds are a massive source of capital. And they are financing more things than they were ten years ago that are positive and alternative. You all represent a base of infrastructure, knowledge and skill, and if you are willing to plan for the long term—putting together technically sound and competent proposals—you will be able to find investors who are willing to listen to you. □