

## Two Rivers Community Land Trust (TRCLT) Qualified Capital Improvements (QCI) Policy and Procedure

### 1. PURPOSE AND GOALS

**Whereas:** *It is in the best interest of TRCLT to encourage homeowners make improvements to their homes, and*

**Whereas:** *TRCLT desires to establish incentives for homeowners, through the shared equity formula, to make improvements to their homes, and*

**Whereas:** *TRCLT wishes to work with owners to ensure homes are maintained and updated to prolong the useful life of the homes in the Two Rivers portfolio, and*

**Whereas:** *TRCLT desires to have a clear definition of capital improvements and those items eligible for capital improvements, and*

**Whereas:** *Routine maintenance is the responsibility of the homeowners and is not included in the shared equity incentive.*

**Whereas:** *While, TRCLT desires to encourage home improvements, its first priority in approving improvement plans is to preserve affordability of homes.*

**Therefore:** *This policy describes the process and guides eligibility for the implementation of the shared equity incentive program for capital improvements.*

**Goals:** The goal of this policy is to recognize the value of homeowner improvements that either add market value to their properties or long term-value (extend the useful life) by creating an exception to the shared equity formula for these improvements. Secondly, the goal of this policy is to distinguish what is maintenance and therefore the responsibility of owners as described in Section 7.5 of the ground lease, and what are capital improvements that are eligible for the shared equity exception as described in this policy.

### 2. DEFINITIONS

**Capital Improvements:** Capital improvements are the addition of a permanent structural change or the restoration of some aspect of a property that either enhances the property's overall value or increases its useful life.

Typically, if you are replacing something versus fixing it or refinishing it, it is a capital improvement. Examples of capital improvements are:

- Fixing a defect or design flaw;
- Creating an addition, enlargement, or expansion;
- Creating an increase in capacity, productivity, or efficiency;
- Rebuilding property after the end of its useful economic life;
- Replacing a major component or structural part of the property; and
- Adapting property to a new or different use.

**Maintenance:** Maintenance is defined as repairs or upkeep and do not significantly increase the value of the property. These generally include smaller repairs, replacing carpet, installing window treatments, painting, repairing walls, and landscaping. These improvements have a

relatively short lifespan (even though they can be expensive) and are not considered a capital improvement. Recurring activities like inspections, cleaning, testing, replacing parts, etc., are expected to be performed on a routine basis to keep the property in operating condition are not capital improvements. Additionally, minor repairs and maintenance jobs like changing door locks, repairing a leak, or fixing a broken window do not qualify as capital improvements.

**Grey Areas:** There are grey areas where an improvement that would ordinarily be deemed maintenance is instead a capital improvement. For example, while replacing a toilet, re-flooring, and painting can cost thousands of dollars, they are typically deemed maintenance because they don't have a long useful life. However, if they were done as part of an entire bathroom remodel, the entire expense would be deemed a capital improvement.

Rule of thumb with carpet: if it is replacing existing carpet, it is maintenance.

**Qualified Capital Improvements (QCI):** Qualified Capital Improvements are those improvements made to the existing structures (your home, garage...anything on top of the land) on the Premises at the Ground Lessees' expense. QCIs must cost at least \$2,000.

**Track 'A' Improvements:** Appraisal-based improvements that increase the market value of the property.

**Track 'B' Improvements:** Cost-based system replacements or major system upgrades that add useful life.

### **3. GENERAL INFORMATION**

#### **Two Approaches for Qualified Capital Improvements:**

TRCLT desires to recognize improvements done by homeowners that add either ***market value or long-term value***. Thus, the resale formula provides for two tracks for Qualified Capital Improvements: **Track A**—appraisal-based improvements for additional spaces (e.g., bathrooms, bedrooms, family rooms, etc.) and **Track B**—cost-based for significant systems replacements or upgrades. Track B is a new addition to the Capital Improvements Policy because TRCLT recognizes that many improvements do not typically increase market value in an appraisal but do increase a home's useful life.

##### **Track A.**

At the time of sale, the resale formula recognizes 100% of the increased appraised value directly attributed to the improvements. In short, this amount is set aside from the shared equity from the resale formula and is directly added into the listing price for the homeowner/seller.

##### **Track B.**

At the time of sale, the resale formula recognizes 50% of the cost (after any rebates) of major systems replacements done within five years of the resale. If you sell the home within five

years after the approved work was performed, you will receive 50% of the actual costs (after any rebates) as a credit to be added to the listing price for the homeowner/seller.

**List of Eligible Qualified Capital Improvements**

<b>Item</b>	<b>Details</b>	<b>Track A or B</b>
Garage addition		A
Kitchen remodel		A
Bathroom remodel		A
Build-out or conversion of basement or attic space		A
Small addition to existing home		A
Solar panels		A
Central Air Conditioning		A
Roof	Total roof replacement with minimum lifespan of 30 years	B
Siding		B
New kitchen cabinets		B
Concrete/asphalt driveways or sidewalks		B
Decks		B
Appliances		B
Plumbing	Replacement of Plumbing systems such as water heaters, boilers, pumps, etc.	B
Electrical	Re-wiring of electricity deemed unsafe	B
Furnaces	Replacement of furnace with one of at least 98% energy efficient	B
Insulation	Addition to walls, floors or ceilings to meet energy standards	B
Doors/windows	Energy Star Compliant	B
Floors	Replace carpet with wood	B
Foundations, shoring up porches, etc.		B

TRCLT *may* approve projects not on this list if it can be show that the project will increase the useful life or market value while maintaining the home’s affordability.

As a rule, TRCLT will approve proposed QCIs provided the Homeowner follows the process described, the proposed funding of project is reasonable, and the proposed work does NOT significantly affect the future affordability of the property. After completing the improvement, the property still needs to be affordable to someone making 80% or less of the area median income.

Improvements that would negatively affect future affordability or alterations to the structure that would reduce the number of bedrooms are examples of projects denied.

Contractors must be licensed, bonded, and insured. This requirement is for the homeowner's protection. If a licensed contractor is not required, the homeowner will need to demonstrate he/she has the knowledge and experience to perform the proposed Improvement.

If a QCI involves work, that is a combination of Track A and Track B, the default is Track A.

Only **completed, pre-approved projects** will be eligible for the shared equity credit. For example, if approved for an additional bedroom with an egress window but at the time of resale only the egress window was completed, no credit is given.



### Qualified Capital Improvements Application and Procedure

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Address: \_\_\_\_\_

Contact Phone: \_\_\_\_\_ Email: \_\_\_\_\_

Please briefly describe your proposed improvement(s):

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Estimated Work Start Date: \_\_\_\_\_ Estimated Work Completion Date \_\_\_\_\_

There Improvement (s) are:

\_\_\_\_\_ Track A: improvements that add market value (a pre-appraisal will be required)

\_\_\_\_\_ Track B: Significant systems upgrades (that add useful life)

#### Step 1. Provide Requested Documents and Information

Items needed to review request:

- Pre-construction estimates and/or budget of projected costs. (This is to help you, as homeowner, to determine if the work is affordable and is for homeowner benefit only. Collecting estimates and budgeting projected costs is a best practice with a home improvement project. Be sure to think about a contingency amount as every project has some unexpected surprises.)
- Detailed plans and drawings if appropriate, of proposed Qualified Capital Improvement(s) to property per the contractor's scope of work.

- Source(s) and amount of QCI funding. If financing the QCI, TRCLT will want evidence that the loan will be amortized over a fixed period with a defined end date. TRCLT reserves the right to require the homeowner to have additional reserves.
- List of required permits to be requested (check with your local community).
- Name(s) of proposed contractor(s) and proof they are licensed, bonded, and insured. You can ask them for this information.
- Pre-construction, the homeowner and TRCLT will get a Broker Price Opinion from a mutually acceptable Realtor. A Broker Price Opinion from a Realtor is a step up from a market analysis but is less expensive than a full appraisal. It should provide a good baseline. The homeowner and TRCLT will pay for the Broker Price Opinion equally with the first of the two opinions paid by the homeowner.

**Step 2. Staff Review**

TRCLT staff will review your QCI application once all the items listed above are received. A determination will be made within 20 days, and a decision letter will be sent. If approved, TRCLT will need to meet with the homeowner and contractor to determine the timeline and process. If the application is not approved, the homeowner can appeal to the TRCLT Board of Directors.

**Step 3. Begin QCI Construction**

TRCLT staff will review the work and progress on QCIs at agreed upon intervals of construction.

The Homeowner will notify TRCLT once the QCI work is complete. All QCI work must be completed within one year of TRCLT approval.

Homeowners will be responsible for documenting all QCI work, such as invoices, scope of work, permits, approvals, etc., and ensuring copies are made for TRCLT files.

**Step 4. Determine Increased Value**

Once the QCI construction is complete, the homeowner and TRCLT will get a post-construction broker price opinion from a mutually acceptable Realtor (preferably the same person who conducted the pre-construction opinion. The homeowner and TRCLT will pay for the broker price opinion equally.

Homeowner signature \_\_\_\_\_ Date \_\_\_\_\_



**Qualified Capital Improvements Acknowledgement**

This acknowledgement, dated \_\_\_\_\_ between \_\_\_\_\_ (HOMEOWNER) and Two Rivers Community Land Trust acknowledges the following:

HOMEOWNER currently owns and resides at \_\_\_\_\_ that is subject to Two Rivers Community Land Trust Ground Lease dated \_\_\_\_\_.

**TRACK A IMPROVEMENTS**

You added the following improvements/spaces in accordance with Two Rivers Community Land Trust’s Qualified Capital Improvement Plan:

IMPROVEMENT	SQ FT	COMPLETION DATE
_____	_____	_____
_____	_____	_____

If/when HOMEOWNER elects to refinance or resell their home, 100% of the dollar value identified by a fee simple appraisal and attributed only to the TRACK A IMPROVEMENTS shall be added to the Purchase Price determined by the resale formula spelled out in Section 10 of the ground lease.

**TRACK B IMPROVEMENTS**

You made the following improvements in accordance with Two Rivers Community Land Trust’s Qualified Capital Improvement Policy:

IMPROVEMENT	ALLOWABLE COSTS	COMPLETION DATE
_____	_____	_____
_____	_____	_____

