



# Preserving Rental Housing In Auburn



Presented to:  
**Auburn Mayor's Office**  
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## PRESERVING RENTAL HOUSING IN AUBURN

### 1. BACKGROUND

#### Mayors Innovation Project Technical Assistance Program (MIPTAP)

The City of Auburn, Washington, is a member of the Mayors Innovation Project (MIP), a learning network among American mayors committed to "high road" policy and governance, shared prosperity, environmental sustainability, and efficient democratic government. The Mayors Innovation Project was founded in 2005 by former Madison, Wisconsin, mayor Dave Cieslewicz and Dr. Joel Rogers, a UW-Madison professor and director of the Center on Wisconsin Strategy (COWS) and the Center for State Innovation (CSI).

Over 100 cities throughout the United States have joined MIP since its inception, participating in regular meetings and information exchanges to hear about best practices and innovative responses to the myriad issues facing city leaders. Participating cities include megalopolises like Chicago, Los Angeles, and New York; large cities like Atlanta, Boston, Denver, Milwaukee, and Seattle; and smaller cities like Cincinnati, Des Moines, Portland, Auburn and Scranton.

The Mayors Innovation Project Technical Assistance Program (MIPTAP) was launched in 2011 to provide more customized and hands-on assistance to mayors and their staffs on particular innovations or problems through a combination of applied research, policy analysis, evaluation, and recommendations for action. The Program incorporates both on-site and remote consulting to:

- Address specific policy problems or opportunities identified by individual, or groups of, MIP members.
- Provide best-practice research into model policy solutions adopted in other cities.
- Present city-specific data and evidence to drive fact-based policy design.
- Develop individually tailored solutions and implementation plans for MIP members to address the issue in question.
- Identify potential support for specific policies.

For more information on the Mayors Innovation Project, visit [www.mayorsinnovation.org](http://www.mayorsinnovation.org).

The Mayors Innovation Project grant made available a limited amount of consulting by **Public Works LLC** one of the leading firms in the country working with agencies and government leaders at the highest level – specializing in strategic planning and improving government management, policy, and efficiency. **Public Works** provides governments with professionals experienced in performance budget analysis, business processing, organizational development and design, policy analysis, program design and implementation.



## **Auburn's Low-Income Housing Challenge**

The City of Auburn's Request for Technical Assistance concerned a growing and disturbing trend of physical decline in the city's lower-income inner neighborhoods. With MIPTAP's assistance, the City sought to develop a creative and socially innovative model for successfully and positively addressing this issue. The City believed that a new policy paradigm developed with MIPTAP's assistance could provide invaluable benefits.

The City of Auburn is a 119-year-old community of 70,000 residents. As more affluent neighborhoods are growing around the outskirts of town, Auburn is developing an inner-city core of low-income neighborhoods. These neighborhoods are concentrated in the valley floor area of the City where much of the City's historic residential growth occurred until more recent hillside development took root. They characteristically have a greater than average turnover of residents, reflected in dilapidated buildings and general deterioration of City infrastructure. These neighborhoods are dominated by a mixture of owner-occupied single-family housing, renter-occupied single-family housing, and renter-occupied multi-family housing. Because of income inequalities, socio-economic influences and cultural barriers, these neighborhoods are limited in their ability to maintain and improve the physical character of their properties. Bringing that about, however, would positively influence quality of life not just for these residents but for *all* residents of Auburn.

The City of Auburn currently allocates one percent of its general fund to human services and is an entitlement City for the federal Community Development Block Grant (CDBG) program. These funding sources help the City to partner with other agencies as well as to administer programs such as the emergency home repair program. However, the amount of money available through these funding sources does not begin to equal the money required to address the needs of these at-risk neighborhoods.

The City of Auburn seeks a new policy model to effectively engage and combat the physical decline of its inner city neighborhoods. Practically, politically and financially, the City of Auburn cannot bring traditional policy and implementation approaches to address this issue. The City lacks the internal resources and experience to develop an effective solution to this concerning trend. The City asked **Public Works** to identify strategic solutions that bridge practical, innovative and creative approaches with limited to no bureaucratic or financial requirements but rather that rely on social capital, community engagement, voluntarism, sweat equity and public/private partnerships.

## **2. A NEW REGULATORY APPROACH**

The City of Auburn is unable to commit significant financial resources to addressing this issue. Auburn does possess one tremendous advantage, however: strong civic engagement across all parts of the community. Within these constraints, the City desires to achieve the following goals:

- Better-maintained rental properties.



- Landlords who care about the wellbeing of their tenants, their rental properties, and the surrounding community.
- Tenants who take pride in their homes, their apartment complexes, and their communities.
- Reversing the trend of a neighborhood in physical deterioration and decline, to one of improvement and reinvestment in well-maintained properties.
- A positive change in residents' view of their neighborhood.
- Maintaining Auburn's broad economic mix of residents.
- Keeping the entire economic spectrum of residents connected to the community.

The landlords of these properties are not adequately investing in the maintenance and upkeep of their properties, nor are they exhibiting sound property management practices. In order to improve the condition of the properties in question, either the current landlords must change their behaviors or the properties must change their landlords.

Current landlords' property management failures can be attributed to one or more of the following factors:

- 1) They are undercapitalized.
- 2) They are property management "amateurs" who don't have the knowledge or tools to maintain their properties and be a good property manager.
- 3) They have the money and the knowledge, but they don't see a return-on-investment of maintaining their properties – it is more financially beneficial to be a "slumlord."
- 4) They no longer have the energy or interest to focus on this investment and thus it is suffering from neglect.

These factors are consistent with a broad range of very different regulatory enforcement and compliance situations: In general, most individuals or businesses in any particular field desire to comply with legal requirements – whether out of real commitment to legal norms or out of fear of punishment or financial consequences.. Some fall short, whether out of genuine ignorance, laziness, or incompetence, or from a desire to avoid the burden of compliance if possible. A small minority are willful and flagrant offenders. Each of these circumstances requires a different compliance strategy by the government, especially in a world where available governmental inputs are limited and thus should be targeted to maximizing the desired outcome: Good citizen-landlords should be incentivized and rewarded; Ignorant or incompetent landlords should be educated, provided opportunities to comply, and reminded of the consequences if they don't; and truly bad actors should be made examples of.

For instance, in one regulatory setting we examined, senior managers at the California Department of Industrial Relations had categorized different classes of businesses they regulated and provided suggested estimates as to the percentages of employers falling into each category:

15% **Hostile compliers** –  
*Those who intentionally violate the law and need criminal*

*sanctions to be brought into compliance.*

30% **Hesitant compliers –**

*Those who need enforcement stimulus to comply because they wait until cited for violations before complying.*

30% **Clueless ('inhabitants of the parallel universe') –**

*Those without knowledge of minimum standards, are not connected to any employer or social network to get information about the law and how to comply, and need education and outreach about the need to comply.*

15% **Spontaneous compliers –**

*Those who comply immediately with minimum standards once they are announced rather than wait for enforcement personnel to visit the workplace.*

10% **Industry leaders –**

*Those who set and follow standards which exceed the minimum labor standards enforced by government.<sup>1</sup>*

This taxonomy of employer categories also suggests a taxonomy of enforcement and compliance strategies that corresponds fairly well with those developed by researchers studying how police, revenue collection, and other regulatory enforcement agencies have segmented their activities. Roughly a generation ago, a new paradigm for enforcement began to emerge in the field of policing. This approach called for less reliance on responding to incidents of law-breaking, and more attention, instead, to detecting and deterring violations *before* they occurred, especially through community outreach, encouraging the community to become involved in crime control itself, and attempting to remedy the conditions known to encourage or enable law-breaking.

Malcolm K. Sparrow, a policeman-turned-professor at Harvard's Kennedy School of Government, noted that regulators in such diverse fields as environmental enforcement and tax collection were soon undertaking the same sort of enforcement restructuring as policing had pioneered. One of the lessons was that, in an environment of constrained resources, *any* regulator must:

- Target its enforcement resources effectively on the worst offenders; and
- Encourage compliance among the rest through cooperative means, including incentives for going beyond minimal compliance, proactive education and outreach, labor-management cooperation, and other creative strategies.

Even at the same time as the rising popularity of “zero-tolerance” approaches, researchers and practitioners in criminal justice have found that preventive, service-oriented approaches – generally known as “community policing” or “problem-oriented policing,” produce more cost-effective reductions in criminal activity than traditional reactive, enforcement-oriented approaches. Shifting the focus to attaining desired



outcomes leads, in Sparrow's words, to "a new regulatory craftsmanship, which brings with it the ability to ... *pick important problems and fix them.*"<sup>2</sup>

### 3. A SPECTRUM OF STRATEGIES

We have applied these insights to the problem posed by Auburn's low-income housing stock: The City wishes to maintain the quality of this housing. In short, it is interested in securing a positive outcome, rather than in meting out negative sanctions – and it has very limited financial resources for doing so. It therefore wishes to leverage its considerable "social capital" – an active, involved, and diverse citizenry with a strong sense of "community" – in order to motivate its landlord population proactively to keep the City's stock of low-income housing from deteriorating.

Problem landlords are a key factor in neighborhood deterioration; however, tenants and other neighborhood residents also have important roles and responsibilities in maintaining neighborhood stability. Civic leaders in Auburn are concerned that lower income renters are not engaging in the social fabric of the community or, when they are, it is in a negative manner: Residents must be given the tools to take on these roles and responsibilities. To strengthen the deteriorating neighborhoods, residents, especially lower-income and more recent residents, need to be woven into the civic fabric through outreach, education/training and leadership development.

This requires a "spectrum" of strategies – ranging from "cooler" initiatives (in terms of the level of governmental intervention) aimed at recognizing, assisting and empowering individual, conscientious landlords – especially in accessing financial capital and economies of scale – to promoting responsible behavior by the vast bulk of well-meaning landlords, to education and outreach to those landlords who need extra encouragement to meet their civic obligations, to "hotter" sanctions for those who fail to do so and, ultimately, in strategies to remove and replace willful non-compliers. This "red" end of the spectrum culminates in more activist interventions based in the community and aimed at building positive social capital through involving tenants and other community residents. This spectrum of strategies leverages what Auburn has in abundance – *social* capital – to achieve what it otherwise could not, given limited *financial* capital.

#### 3.1. Rewarding Conscientious Landlords

##### A. An Inventory and Mapping Process

For the strategies enumerated below to succeed, Auburn needs to reach out to its landlords to inform them of opportunities and expectations that the new emphasis on neighborhood revitalization will create. To encourage the landlords to utilize better property management practices and to inform them of new tools and incentives, Auburn will need to understand who the landlords are and how to reach them. The City needs to institute an inventory and mapping process to achieve this. The basic steps involve<sup>3</sup>:

- Identifying problem properties (by walking/driving the neighborhoods).



- Mapping problem properties.
- Identifying owners of problem properties (through public records).
- Identifying those owners who are local and those who are absentee (through public records).
- Identifying where possible the property management companies of problem properties (by asking and by interviewing the property management companies).
- Overlaying crime/police call statistics.
- Overlaying code compliance statistics.

The initial survey will likely capture properties that appear run-down on visual inspection. But not all properties that appear run-down constitute problem properties from a societal point of view. An effective inventory and mapping process needs to overlay crime statistics because the number of police responses dispatched to a building is an indicator of problem properties. These police call statistics are usually readily available and are commonly used to map problem properties using GIS. A typical measure of success is the reduction in such calls. Auburn can also use code compliance statistics as an indicator since the City has such a compliance program in place.

### **B. Multifamily Property of the Year**

The City should provide an annual award given to property owners whose property rehabs help bring a positive impact to the surrounding neighborhood. The local Association of Realtors or perhaps a property insurance company could be invited to co-sponsor this award. Nominations would be open to the public and a selection committee would choose each year's winners, who would be announced at an annual luncheon or dinner held as a fundraiser for the loan pool. One example is the Chicago Good Neighbor Award sponsored by the Chicago Board of Realtors.<sup>4</sup>

## **3.2. Helping Conscientious Landlords to Improve Their Properties**

### **A. Redesign/Architectural Upgrades of the Properties**

Some of the properties were never well designed from the beginning. This raises the question whether there are low-cost, architectural design upgrades that could be applied to the buildings and be encouraged through the capital pool and the owner landlord group. All it takes is one landlord to do an improvement and often others will watch and follow. In order to determine if such upgrades are possible and financially feasible, it would make sense to see if there are a group of problem properties that are designed similarly, i.e. the two story garden apartments. This architectural challenge could then be brought to the University of Washington School of Architecture as a design contest or charette opportunity for the students. This would involve coordination of resources but is another example where no direct costs may be incurred. Students are often more than willing to have a chance to be part of a design competition; universities look for real life challenges for their students, and Auburn benefits through an upgrade of its properties. If a small amount of grant funds could be raised both the owner and the students could be given an incentive to participate in this program.



## **B. Low-Interest Loans for Rehab**

Creating a source of low-interest rehabilitation loans that “blend” market and below-market rate loans for rehabilitation and refinancing would enable owners to renovate their properties – including upgrades to the exterior – without reducing already-low cash flows or substantially raising rents. Renovating properties reverses neighborhood deterioration in multiple ways:

- The visual improvement of the exterior of the property sends a message to the surrounding community that this is a property whose owner cares about his/her real estate investment and who cares about the people who are living in the building. Additionally, the landlord is saying she/he is invested in the broader community.
- It sends a message to the tenants that they deserve safe and decent housing. The landlord is able to present the contractual agreement that “I provide you decent and safe housing and you are responsible for paying me on time and helping maintain the property through general good habits such as no littering, no loitering, no illegal activity, etc.”
- It enhances the property’s attractiveness in the rental market, can reduce short term and long term operating costs, and can increase the value of the property.

Implementing these renovations will require a targeted pool of capital accompanied by well-designed lending criteria geared towards making the loans “user-friendly.” This capital pool would be available for existing landlords who commit to upgrading their properties to certain standards and maintaining active, local property managers who want to purchase and rehab one of the problem properties. (This pool would also be available to neighborhood rehabbers, see Recommendation K, below.) Participating landlords also would be required to upgrade the properties to specified standards.

### **B.1. Sources of Capital**

This capital pool can be created with few-to-no public dollars if institutions and businesses with capital can be convinced that the ongoing deterioration and ultimate abandonment of these buildings runs counter to their self-interest. This should be readily understandable to stakeholders in the community who may already be facing a downturn in business revenues, asset values, or a suitable labor pool of employees, due to foreclosures and dilapidated properties in the neighborhood. Neighborhood stewardship should be presented as a common solution serving potential partners’ shared interests in the financial and social stability of the community in which they do business or in which their employees live. Partners to approach for participation in the loan pool include banks, credit unions, insurance companies, utilities, and hospitals as well as foundations.

- **Banks:** Bank loan rates are currently extremely low. It is a good time to borrow money if the bank is willing to lend. That can be a big “if”, because banks have tightened their lending criteria and it can be difficult to obtain loans. The credit worthiness of the owners of the problem buildings in Auburn is unknown at this

time, but creditworthy owners are eligible to borrow funds from a local bank. Many banks offer new construction and/or rehab financing and most will offer 5-year loans amortized over 20-30 years for multifamily apartment buildings. Some will offer rehab financing and permanent financing for non-owner occupied single family properties (1-4 units). Understanding the product mix of each bank and determining where they have existing products that will meet the landlord's needs and where there are unmet credit needs, will be a critical next step. The banks, however, are all subject to the Community Reinvestment Act, which requires that banks meet the credit needs of their community including the low and moderate income communities in their assessment area. The larger banks, such as Wells Fargo, US Bank and Key Bank, have personnel who work full-time in community development. These community development bankers can be strong resources and are needed as key allies in the development of a loan pool. For the smaller community banks, the bank president will need to be persuaded so that he/she can then become an ally and possibly the local champion. The list should include but is not limited to: Valley Bank, Sterling Savings Bank, Columbia Bank, and Timberland Bank. Both the larger banks and the community banks should prove to be interested in serving on a task force to address this issue.

- **Credit Unions:** Credit unions lend to their members for varied purposes, including property rehabilitation. Some focus only on consumer lending and home mortgages. A survey of the credit unions that serve Auburn would be necessary to determine whether they would be likely participants in a loan pool. Since their lending is restricted to members, it might be difficult to work with credit unions in this program.
- **Federal Home Loan Bank AHP Program:** This is a competitive grant program offered by the Federal Home Loan Bank of Seattle. The criteria changes each year but the overall goal of the program is to create affordable housing. Innovative programs are often funded. The FHLB should be considered a possible partner and depending on what products are offered, an application for funding should be considered. All applications must be sponsored by a member of the Federal Home Loan Bank. City officials should meet with FHLB to discuss feasibility.
- **Foundations:** Several Washington foundations make Program Related Investments which are low interest loans, typically 1-3%, for social impact purposes. Grants may also be available to help start a program of neighborhood revitalization. See Exhibit A for a list of foundations in the state of Washington.
- **Insurance Companies:** Property insurance companies have become increasingly involved in their communities through civic participation and also grants. State Farm, All State and other insurers active in Auburn should be approached for grants or loan participation.
- **Utilities:** Energy conservation is a key concern of many utilities. Bringing utilities into the conversation as an interested party and a source of loan and grant dollars is recommended.

- **Public Dollars:** There are many different sources of public dollars and each source has its own policy purpose and requirements. Federal sources include HOME, CDBG, and Low Income Housing Tax Credits. Public dollars are less desirable to small owner/rehabbers, as the paperwork and long-term requirements are often too costly and time-consuming for a small owner. In crafting the loan pool, it will be important to identify whether public dollars are needed and if so, which pool of public dollars is best suited to the purpose. There are ways to use the public dollars so that they enhance private and charitable capital available without layering on too many compliance requirements for the borrower. This will be a very important consideration if high usage of the loan pool is desired.

### ***B.2. Key Guidelines for Designing the Loan Pool***

- To design a pool of capital that truly obtains the objectives of the Auburn community, **the City must identify and understand the needs of the borrowers and the needs of the lenders.** Identifying the intersection of the borrowers' and lenders' needs and then expanding that intersection is a key to structuring the Pool. This is not an easy task, but there are over 800 community development financial institutions in the U.S. that have navigated this path, many of them specifically for multifamily rehab. Perhaps most importantly, Community Development Financial Institutions (CDFI's) have an excellent track record in portfolio performance. Information on best lending practices can be gleaned from CDFI experience. The needs of Auburn's property owners and lenders will only be ascertained by direct interviews or surveys with those parties, however. The city may choose to commission a targeted survey or focus groups among these stakeholders.
- A primary goal is to **maximize leverage of private sector capital while achieving policy objectives.** Banks typically differentiate real estate lending into the following categories: owner-occupied single family (1-4 units), non-owner occupied single family (1-4 units), and multifamily real estate lending (5 units plus). Each of the 3 categories has its own risks and underwriting criteria associated with it. The Loan Pool will need to offer loan products that match the alignment of the private sector capital if the private sector capital is to be leveraged. At the same time, products need to be designed so that they also meet the needs of the customer. While the private sector is generally very good at this, because the Loan Pool seeks to serve a group of customers who currently are not accessing the capital, new ideas and innovative approaches must be built into the marketing and administration of the Loan Pool. For example, if local banks are willing to make construction loans and permanent loans on apartment buildings but not on smaller non-owner occupied single family houses, public dollars might be used as a guarantee or loan loss reserve to encourage the banks to make the smaller non-owner occupied loans, or a separate fund may be started for this purpose.<sup>5</sup>

- **In the case that public funds are used directly, or as a guarantee, individual decisions on loans are made by a Loan Committee, which should be approved by the appropriate city authority.** The majority of the Loan Committee must consist of experienced apartment and construction lenders. Additional members should include other real estate professionals who are familiar with the particular circumstances of the community.
- The capital pool can be administered by an existing organization or a new organization can be formed to create and administer it. The benefits of a new organization are that its mission can be specific to the goals identified for this report and momentum and new energy can be created. The drawback to a new organization is that it takes time to organize and incorporate, recruit the right board and staff, and there are generally additional start-up and staffing costs.
- Several different organization models can work for administering the loan pool: a non-profit loan fund or a loan consortium where many lenders are asked to contribute funds into a pool that will be administered by a third party is suggested as the basic model. Since banks are typically key funders of these capital pools, **at least one “champion” among the bankers will need to be identified who can pitch the program to his/her peers.** In a relatively small community such as Auburn, one champion who is influential among the other banks’ leadership often will prove adequate to solidify support among the approximately three-to-eight banks in the Loan Pool. Ideally, a champion from a capital institution and a champion from the community could be found to ensure the broadest-based support.
- If there is an important product and the private capital is simply not willing to participate in the pool, then a small pool can be formed with public and charitable dollars to demonstrate the success of the loans. **Once the banks see a market opportunity, they will be more willing to participate in the program. Ideally, however, products can be crafted that entice the banks to participate upfront, such as, for example, single family rehab loans.**

### C. Green Lending

A positive adjunct to the foregoing capital pool would be a specialized loan for financing improvements to the buildings whose owners want to become more “green” – thereby extending the life of the building, reducing the energy costs to the landlord and the tenants, and reducing the overall carbon footprint. Local architects, developers, product representatives and building material suppliers are excellent resources for best practices in this area. An ancillary goal of the green loan program is to promote knowledge transfer to landlords so that, with the assistance of an architect or contractor, they can determine which improvements make the most sense for their properties and how to incorporate those improvements into their rehabilitation plans. The use of the “green” loan is a great way to facilitate the knowledge transfer and bring about desired improvements to the property.



Bank of America currently offers a special initiative to promote green construction and rehab in low- and moderate-income communities. Foundations such as the Home Depot Foundation<sup>6</sup> as well as utilities have both been funders of green lending programs. Samples of two different green lending programs are attached in Exhibit B.

## **4. PROMOTING RESPONSIBLE OWNERSHIP FOR CHALLENGED LANDLORDS**

### **4.1. Owner-Landlord Training Program**

This program would provide owner landlords with the knowledge to better market, manage and maintain residential rental property. Training can be delivered to owner landlords of both single family and multifamily properties. Topics include marketing, fair housing, landlord/tenant rights, eviction court, code compliance, real estate tax issues, maintenance and budgeting.

The Institute of Real Estate Management (IREM) is a national trade association that provides certification and training for those who work in the property management profession and can serve as a resource for the City of Auburn. One successful local landlord training program run by Community Investment Corporation (CIC), in Chicago, Illinois, offers the course on four consecutive evenings of three hours each for 12 hours total. The courses are led by experienced property managers, attorneys, fair housing experts and real estate tax specialists who offer their services for free. As an example of the many resources available to Auburn, a property management manual compiled by the CIC is available for free on-line;<sup>7</sup> this manual would need to be customized to King County and Auburn, but a local law firm and property management company could be approached about updating the manual on a pro bono basis to make it applicable to Auburn.

Participation in such a training program could conceivably be made a requirement for issuance of a rental housing business license. The City of Tukwila, for instance, recently established a new ordinance increasing requirements for obtaining a rental housing business license, including a point-system under which a license can be denied for deficiencies.<sup>8</sup>

### **4.2. Professional Management Assistance**

Property management is a profession that requires skill and training. Not all owners will want, or are in a position, to manage their own properties. According to the CIC, "About two-thirds of all lower-income families live in privately-owned rental properties – typically older, smaller, multifamily buildings and single family homes. Unfortunately, much of this inventory is owned by individuals without the skill and resources to manage their properties profitably. And when their rental units cannot generate enough revenue to cover basic operating costs, these owners have little choice but to cut back on

maintenance and repairs. The decision to disinvest is the first step toward the property's eventual removal from the inventory – but not before its general deterioration threatens the safety and well-being of any remaining tenants and brings down property values and investment throughout the neighborhood.”<sup>9</sup>

Individual owners, of course, could retain a professional property manager – but where, as in Auburn, many problem properties are individual, free-standing units whose owners have no other real property in the area, they are unlikely to have the interest or wherewithal to do so, nor for such properties is this likely to prove cost-effective. Groups of owners could band together and approach some of the stronger property management firms about taking on their combined properties for a reduced fee or for enhanced services due to the economies of scale; this could increase the number of well-managed rental units and improve returns for landlords even while encouraging property investments that benefit the broader community of tenants and city residents. But such group action is unlikely to occur on its own – especially given that the bulk of these landlords appear to have little to no remaining connection Auburn except for ownership of the individual (and, likely, legacy) property.

This represents a classic instance of “transaction costs” deterring a positive solution. It is an example of the role that public institutions can play by providing the “backbone” for privately-offered “apps” that solve a problem: The City could reach out to these absentee owners and aggregate them – and their buying power – for purposes of retaining such property-management services, and could also solicit competitive bids from property managers based on projected volume. Together, these actions by the City could significantly reduce the “transaction costs” and increase the chances of such a group property-improvement effort occurring. This would involve virtually no expenditures by the City, virtually no creation of additional bureaucracy, and no exercise of governmental coercion or regulation – merely catalyzing a win-win private solution. (That said, landlords choosing not to participate likely would find themselves slipping into the category of “recalcitrant landlords” facing new sanctions, described below. Pointing this out may help encourage participation in this voluntary and mutually beneficial program.)

## **5. STICKS FOR RECALCITRANT LANDLORDS**

### **5.1. Code Enforcement Program**

The City can take several steps to increase enforcement:

1. Continued enforcement of the city ordinance regarding abandoned properties is important. The civil penalty of \$500 for the first day and \$100 per each additional day is an important tool to encourage landlords to maintain their properties.



2. A systematic Code Enforcement Program can be instituted whereby all multifamily properties (two or more units) are inspected on a regular cycle – every three years minimum with problem buildings inspected more frequently. To fund the program, landlords are charged an annual fee which they can pass on to their tenants. Tukwila established a similar program under city authority in 2010, distinct from state inspection regulation, for similar reasons (to address dilapidated rental housing and maintenance issues).<sup>10</sup>
3. Tenant outreach can be conducted in conjunction with these programs whereby tenants are informed of their rights which might include being able to deposit up to half of their rent into escrow for court-ordered repairs.

## **5.2. Identification of Deadbeat Landlords**

In contrast to the Multifamily Property Award, public identification of problem landlords is a tactic derived from social norms also used in some jurisdictions to target those who do not pay their child support. A threshold would be established at which point a landlord is declared a “deadbeat landlord,” and their name printed in the local paper or plastered on a billboard or some other public place. For example, landlords who are charged civil penalties for more than 14 days may be targeted.

## **5.3. Landlord Compliance Program**

The City could institute a program designed much like traffic ticket programs in some states wherein someone can get the negative “points” waived from their license if they attend a class. In this case, a landlord who has code enforcement issues or possibly nuisance issues with their property can have the penalties reduced if they attend the landlord training program.

# **6. FACILITATING TRANSITIONS TO NEW OWNERS/LANDLORDS**

## **6.1. Creation of Neighborhood Rehabbers**

Auburn must identify its existing neighborhood rehabbers and determine if there is a larger pool of potential rehabbers.. Neighborhood rehabbers are multifamily property owners who still live in the community and are invested in actively maintaining their properties and want to acquire and renovate additional properties. Both lenders and property managers may be able to identify some of these local owners. The City should approach them to determine whether they would be interested in buying and owning some of these problem buildings. With pressure from the city on absentee landlords who are not maintaining their properties, opportunities for transfer of ownership should arise.





There are many benefits to local ownership of investment property. One of the exciting things about local people owning and rehabbing investment property is that the pool of rehabbers themselves can reflect the cultural diversity of the community. These rehabbers need to be identified upfront, cultivated by the organization that runs the pool of capital, and then organized in a formal fashion. Monthly or quarterly meetings for these rehabbers to share challenges and success stories and for them to gain more information about how to do what they do better, i.e. maintenance tips, new products, etc. will prove beneficial.

Programs structured for the neighborhood rehabbers must always keep in mind that, while they have a different sense of pride in their properties than the absentee landlord, they are still in the investment for a financial gain and requirements and asks of this group must speak to that reality. Because they are from the community, however, they will have a different incentive to maintain their property. Their investment property is no longer just a financial investment but is part of their reputation and identity in the community and thus ends up being better managed and maintained.

## **6.2. Property Donation Campaign**

Every landlord with a problem building should be advised through a series of letters of the benefits of donating their property or selling it below market cost to a specially designated non-profit organization. The City's attorney, or pro bono attorneys, should research and write the portion of the letter that describes the possible tax benefits to the landlord of making this donation. Change of ownership will be the only solution for some of the properties and this is a "carrot approach" to encouraging change of ownership. (Code enforcement is part of the "stick approach.")

This non-profit organization would serve two roles:

1. An interim holder of property until momentum is gained among the Neighborhood Rehabbers and the capital pool is available so that they are able to buy the properties at a price that allows them to do the needed improvements. In this situation, the organization is a conduit. King County Housing Authority could be an ideal partner to obtain the property donations if, as likely, they have a 501(c)(3) entity that could be used for this purpose; in addition, it may have funds available to invest in donated buildings.
2. A direct developer of affordable housing. Other possible entities for this role include the National Development Council, Valley Cities Counseling and Consultation, or any other successful non-profit housing developer in Auburn. The creation of a new non-profit housing developer is also a possibility, although if a successful partner can be identified that would be the more efficient path. One possible model – a very successful developer that also has an outstanding track record at working with a multicultural and diverse tenancy – is the Sacramento Mutual Housing Association; **Public Works** can arrange to have the Executive Director of this organization come speak to Auburn officials about the organization.

### **6.3. Financial and Homebuyer Education**

Studies have shown that low-wage earners are capable of saving when they learn the importance of saving, the basics of financial management and budgeting, and are given incentives. Financial and homebuyer education are key components to facilitating this transition for both the immigrant and non-immigrant resident. As many of Auburn's senior citizens transition out of their single-family homes, a new group of homeowners needs to be identified. Educating and grooming Auburn's current low- to moderate-income renters that are likely to consider homeownership in the future will help cultivate and prepare the next generation of homebuyer, and may help to prevent the perpetuation of problem-landlords over the long-term.

## **7. INVESTING IN SOCIAL CAPITAL**

### **7.1. Single-Family Owner Occupants**

Until an inventory is completed, it is unclear exactly how many of the deteriorated single family homes are owner-occupied, however, demographics data tell us that 70% of elderly Auburn residents live in their own homes, yielding approximately 3,000 homes occupied by elderly residents. 80% of elderly residents in Auburn are low- or moderate-income, resulting in a possible 2,400 households who may be in need of home repairs and unable to afford them. Rebuilding Together South Sound is an existing NGO that serves Auburn and provides home repair services for elderly and low income home owners. The City of Auburn participates in the Emergency Home Repair Program. Resources and policy guidance for this program should be reviewed and possibly coordinated with NGOs such as Rebuilding Together South Sound to maximize public resources and ensure the neediest and highest number of homeowners benefit.

Rebuilding Together South Sound conducts a "build day" once a year in late April and also provides year-round services. On the Rebuild Together day, homes are identified for a day of improvements where volunteers, supervised by skilled contractors, make the needed repairs to a house. Outreach to this organization would be an excellent way to build on the City of Auburn's existing knowledge of its low-income homeowner needs.

Linking a local Rotary, Lions, or other service organization to Rebuilding Together could add significant resources to the effort. These programs generate lots of involvement and excitement from volunteers, especially if the homes are occupied by elderly residents, residents with disabilities or children with disabilities, or someone in a readily identifiable difficult circumstance outside of their control. This project would be ideal for continuing to build the community fabric of Auburn across cultural and economic differences as volunteers could be recruited not just from Rotary and Lions, but from churches and other multicultural and ethnic organizations across Auburn. (See Exhibit C for more on Rebuilding Together.)

## **7.2. Community Leadership Institute**

In June 2008, HomeSight, an organization dedicated to community revitalization located in Seattle, with support from NeighborWorks America,<sup>11</sup> sponsored a Community Leadership Institute (CLI) in the Rainier Valley. The focus of CLI was to provide empowering training for local residents who want to participate in civic activities and who would like to improve their knowledge and skills around community leadership. With help from NeighborWorks professionals and local community organizers, HomeSight created an engaging series of workshops uniting diverse groups in the Rainier Valley who plan to work together effectively around civic activities. Participants have committed to broadly share the knowledge and skills gained from this training. Several participants were invited to attend a National CLI in the city of San Jose in October of 2008.<sup>12</sup> HomeSight can serve as an excellent resource for establishing an Auburn Community Leadership Institute sharing curriculum and lessons learned. One of Auburn's local organizations may already be working on this. A similar institute should be considered for Auburn's youth.

## **7.3. Community Art Projects**

There are many ways to use community art projects to help beautify a neighborhood and change the neighborhood's perception of itself. One possibility is to identify a willing landlord and a group of enthusiastic artists to design art for one of the problem apartment buildings as part of an overall upgrade by the landlord; the project might include a painted mural on one of the exterior walls, tile murals in the building, or some other imaginative project that is acceptable to the landlord, the artists, and the greater community.

Art projects provide opportunities to build a sense of community investment, improve esthetics, bring people together cross-culturally, and involve neighborhood youth. Such an effort might even produce a summer job program for Auburn youth. The City needs more fully to inventory the arts-related organizations that already exist in Auburn, but it appears that Auburn Youth Resources is one possible partner. There are many additional possibilities.

## **7.4. Community Gardens**

Community gardens are an asset to any community. Each member of the garden is given his/her own patch of land to cultivate and grow. People from all cultures grow food and community gardens are a great equalizer in human relations: The poorly-educated Mien immigrant can teach the white collar professional why their cucumbers aren't growing well. Community gardens don't just grow food, they build community. The placement of a community garden on a block where there is physical deterioration could be a way to bring more people to the block, place more eyes on the street, and put a



subtle pressure on tenants who behave against social norms and landlords who do not maintain their properties.

### **7.5. Creating a Citywide Campaign**

Many different partners and people will be asked to participate in the effort to turn around the deteriorating buildings and neighborhoods. Putting all of these efforts together into one campaign with a title and with publicity will be very effective in helping Auburn achieve its goal. Since substantial volunteerism and civic engagement are needed because financial resources are scarce, an identifiable campaign that articulates the goals will help to rally people and institutions around the effort. (See Exhibit D for a sample plan.) The campaign could sponsor a wide variety of activities from financial management classes to a community arts festival.

### **7.6. Further Community Involvement**

There are more and even better ideas. They lie in the thoughts of Auburn's residents, business owners, community advocates, landlords, civic leaders and youth. Those living in the communities where the problem properties are located and those with a vested interest in the wellbeing of those properties should be interviewed to get their ideas around what needs to be done.

## EXHIBIT A – TOP 20 FOUNDATIONS IN GIVING

Source: The Grantsmanship Center

Foundation Name	Total Annual Giving
<a href="#"><u>Bill and Melinda Gates Foundation</u></a>	\$1,355,279,478
<a href="#"><u>The Marguerite Casey Foundation</u></a>	\$29,652,086
<a href="#"><u>M. J. Murdock Charitable Trust</u></a>	\$28,099,355
<a href="#"><u>The Seattle Foundation</u></a>	\$26,389,567
<a href="#"><u>The Paul G. Allen Family Foundation</u></a>	\$25,599,408
<a href="#"><u>The Norcliffe Foundation</u></a>	\$12,642,060
<a href="#"><u>The Russell Family Foundation</u></a>	\$11,330,495
<a href="#"><u>Legal Foundation of Washington</u></a>	\$10,101,186
<a href="#"><u>Community Foundation for Southwest Washington</u></a>	\$9,438,534
<a href="#"><u>Weyerhaeuser Company Foundation</u></a>	\$8,446,462
<a href="#"><u>The Wilburforce Foundation</u></a>	\$6,834,060
<a href="#"><u>The Starbucks Foundation</u></a>	\$6,691,664
<a href="#"><u>The Stewardship Foundation</u></a>	\$6,323,531
<a href="#"><u>PACCAR Foundation</u></a>	\$6,235,655
<a href="#"><u>Campion Foundation</u></a>	\$5,549,393
<a href="#"><u>The Bullitt Foundation</u></a>	\$5,008,717
<a href="#"><u>The Medina Foundation</u></a>	\$4,042,500
<a href="#"><u>National Bureau of Asian Research</u></a>	\$3,869,763
<a href="#"><u>Nesholm Family Foundation</u></a>	\$3,339,403
<a href="#"><u>Inland Northwest Community Foundation</u></a>	\$3,331,735
<a href="#"><u>The Greater Tacoma Community Foundation</u></a>	\$3,028,940
<a href="#"><u>Ben B. Cheney Foundation, Inc.</u></a>	\$2,996,923
<a href="#"><u>ArtsFund</u></a>	\$2,991,725



<a href="#"><u>The Glaser Progress Foundation</u></a>	\$2,850,000
<a href="#"><u>Comprehensive Health Education Foundation</u></a>	\$2,429,795
<a href="#"><u>Samis Foundation</u></a>	\$2,213,815
<a href="#"><u>Windermere Foundation</u></a>	\$2,135,128
<a href="#"><u>Group Health Community Foundation</u></a>	\$1,846,477
<a href="#"><u>The Foundation for Early Learning</u></a>	\$1,759,437
<a href="#"><u>The Brainerd Foundation</u></a>	\$1,667,804
<a href="#"><u>Sherwood Trust</u></a>	\$1,440,064
<a href="#"><u>Pride Foundation</u></a>	\$1,411,571
<a href="#"><u>The Harder Foundation</u></a>	\$1,355,000
<a href="#"><u>Blakemore Foundation</u></a>	\$1,345,014
<a href="#"><u>Blue Mountain Community Foundation</u></a>	\$1,311,626
<a href="#"><u>Community Foundation of North Central Washington</u></a>	\$1,235,935
<a href="#"><u>Ginger and Barry Ackerley Foundation</u></a>	\$1,228,782
<a href="#"><u>The Lematta Foundation</u></a>	\$1,192,070
<a href="#"><u>Horizons Foundation</u></a>	\$1,052,204
<a href="#"><u>James B. Pendleton Charitable Trust</u></a>	\$990,135



## EXHIBIT B – EXAMPLES OF GREEN LENDING PROGRAMS

### ENERGY SAVERS CAN SAVE YOU MONEY! - CIC Loan Program

#### If you:

- Own a multifamily rental building of 5+ units in **Cook, DuPage, Kane, Kendall, Lake, McHenry or Will County or the city of Rockford**; and
- Are willing to allow program staff to review the energy bills for the building...

Then you are eligible for **ENERGY SAVERS**.

Energy is one of the least predictable operating costs in multi-family buildings. We can help! Since the program began, 13,000 apartment units have been audited and 4,500 units retrofitted. Of the units retrofitted, 1,400 units involving 55 loans or grants totaling \$4 million have been processed through CIC. **For a typical 24-unit building the annual savings can add up to \$10,000 per year.** You too can make an investment which can pay dividends in the future through the saving of energy through insulation, new lighting, efficient boilers, windows, thermostats, and more. Some owners have saved as much as 40% on their energy bills through this program. Here is how it works:

1. Request a **FREE**, no-obligation energy audit, which is performed by experienced professionals from the Center for Neighborhood Technology who specialize in "green" development. Since the program began in 2008, they have audited over 12,000 multifamily units.
2. If you decide you would like to go ahead and initiate energy improvements, **CIC offers low-interest loans** (currently 3.25%) to cover the costs, and these loans can be combined into an acquisition or refinance of your building. The process is not difficult. **Contact CIC Senior Loan Officer James Lackland at (312) 870-9925 or at [james.lackland@cicchicago.com](mailto:james.lackland@cicchicago.com).** There is no obligation for the call, and the sooner you call, the sooner you'll begin saving money!

***WHERE ENERGY SAVERS COMES FROM** Originally funded in 2008 with \$3.25 million from CIC, the John D. and Catherine T. MacArthur Foundation and the Grand Victoria Foundation, Energy Savers provides low-cost fixed-rate subordinate financing through CIC to fund energy retrofits when needed. In 2011 loan capital in CIC's Energy Savers Fund increased to \$7.5 million through 2014 under an agreement with the MacArthur Foundation, Chicago Department of Environment, Chicago Metropolitan Agency for Planning, and PNC Bank.*





## Green Mini Loans

A new lending program from Enterprise and the National Housing Trust Community Development Fund provides nonprofit owners and developers capital to jump-start green retrofits of older affordable rental communities.

Green mini loans provide below-market financing to incorporate green designs and techniques into preservation projects, and they can be used for standard predevelopment activities, capital needs assessments and energy audits.

Greening older affordable multifamily rental housing is not a luxury. It is a necessity to help alleviate rising utility expenses and financial burden on residents with low incomes, and preserve affordable, healthy and viable homes.

### Green Mini Loan Terms

**Loan Size:** Up to \$50,000

**Term of Loan:** 30 months, interest payable quarterly

**Repayment:** Per loan terms

**Rate:** Below market rate as set by committee, approx. 5 percent

**Fees:** 1 percent origination fee

**Security:** Borrower required to guarantee the loan, or secured by real estate

**Eligible Borrowers:** 501(c)(3) nonprofit organizations or Limited Partnerships with a nonprofit organization as the managing general partner and co-general partners or wholly-owned and controlled subsidiaries of a nonprofit

**Eligible Projects:** Existing, affordable, multifamily housing. Projects must meet the 1993 IRS Safe Harbor Guidelines which specify how a development project is deemed affordable by the IRS.

**Eligible Uses:** Standard predevelopment expenses, due diligence and third party expenses needed to apply for new and expanded federal stimulus funds and other available programs to green/weatherize affordable multifamily projects

**Experience:** Demonstrated ability to successfully manage multifamily projects and organizational capacity to complete the predevelopment process



## EXHIBIT C

From the Rebuilding Together South Sound website: [www.rebuildingtogetherss.org](http://www.rebuildingtogetherss.org)

Rebuilding Together South Sound is in an exciting period of transition and growth. A Home Modification program launched in 2007 has been incredibly successful and has allowed many homeowners to stay safe and independent in their homes with the help of new wheelchair ramps, handrails, grab bars, adapted showers and tubs, and modified kitchens. After a period of tremendous growth from 2005-2008, the capacity of Rebuilding Together South Sound has increased three-fold in the last year with the addition of two AmeriCorps members to the office. The CapacityCorps program places AmeriCorps members in participating RT affiliates across the county in order to increase the ability of affiliates to serve more homeowners. This growth has allowed for a re-evaluation of the organization and the way projects are completed. This coming year will mark the launch of the Year Round Services Program which will incorporate emergency home repairs into the existing Home Modification Program.

Our growth has been made possible by expanding existing partnerships with agencies including the Remodelers Council of the Master Builders Association of Pierce County, Paint Tacoma Pierce Beautiful and Goodwill YouthBuild, and developing exciting new partnerships with agencies such as Habitat for Humanity of Seattle-King County.

## EXHIBIT D – SAMPLE CAMPAIGN PLAN

**Keeping Auburn Awesome** is the name of a new city-wide campaign. The steering committee, convened by the Mayor, is made up of a broad group of local residents, business owners, and government representatives all committed to work together to build stronger neighborhoods, improve the quality of life for families of modest means, and to maintain and grow the active and inclusive civic network that Auburn is proud to consider its hallmark.

Each member of the steering committee, expected to comprise 40+ members, serves on one of 5 committees each charged with a different focus:

- 1) Home ownership: Helping elderly and low income homeowners retain and maintain their homes
- 2) Responsible Landlord Program: Encouraging rehabilitation and excellence in property management of the city's rental inventory. (This committee includes the development and implementation of the loan pool.)
- 3) Resident outreach: includes tenant outreach/education on consumer laws, financial management, budgeting, etc.
- 4) Leadership Development/Focus on Unity: Develops programs for adults and for youth to develop leadership skills and bring the community together, i.e. Community Leadership Institute, Multicultural Art Festival
- 5) Loan Committee for the **Keeping Auburn Awesome Loan Fund**: Authority designated to approve loans for Loan Pool associated with Responsible Landlord Program

### **Keeping Auburn Awesome** Campaign Steps

#### Step One:

Inventory of problem properties

Map problem properties

Identify owners of problem properties

Identify local owners vs. absentee owners

Do best to identify property management companies of problem properties (other data is public record, this is not)

Overlay crime statistics

Overlay code compliance statistics

#### Step Two:

Focus groups of multifamily property owners

Focus groups of single family property owners

Focus groups of owner-occupied property owners

#### Step Three:



Interview all banks located in Auburn regarding lending products related to the pool, community reinvestment act activities and grant giving;  
Interview all CDFI's serving Auburn for the same

**Step Four:**

Send community organizers door to door into problem properties/all multifamily properties to identify top 3 issues for renters

**Step Five:**

Develop a report from information gathered in steps one-to four and present it at the "Invitation to the KAALF Steering Committee" meeting –

**Step Six:** Ask each Committee member invited to recommend one or two other people for the committee

**Step Seven:** Create a KAALF steering committee – make it broad and diverse. Be sure to identify the new immigrant groups and their leadership. Other groups to include:

Community banker	CDFI representative
Clergy	Non-profit housing developer
Property Manager	Leadership from each ethnic minority
Landlord	Public official
Real estate developer	Arts organization
Renter	Large employers
Homeowner	Hospital
King County Housing Authority	Police/community safety
Local business owner	Public educator
National bank representative	Academic
Civic leader	Utility representative
Property Insurance (i.e. State Farm is known for giving civic grants)	
Home Depot (the Home Depot Foundation gives grants for community revitalization)	

**Step Eight:** Engage Steering Committee in Planning/Visioning Process

**Step Nine:** Approach all possible sources of capital and grant funding

**Step Ten:** If it can be done without dividing the Committee, see if the mapping process leads to the identification of one or two areas where key blocks could be targeted for extra focus. Having a financial partner that supports the targeting, i.e. King County Housing Authority would be helpful.

## NOTES

<sup>1</sup> “Summary of Discussion,” DIR Senior Managers Planning Conference of May 12, 1999.

<sup>2</sup> M. Sparrow, *THE REGULATORY CRAFT: CONTROLLING RISKS, SOLVING PROBLEMS, AND MANAGING COMPLIANCE* (Brookings 2000), at 9.

<sup>3</sup> For an interesting and low-cost example of neighborhood mapping, see [www.instituteccd.org/news/2791](http://www.instituteccd.org/news/2791).

<sup>4</sup> <http://www.chicagorealtor.com/displaycommon.cfm?an=1&subarticlenbr=863>.

<sup>5</sup> There appears to be precedent for this strategy under state law. The statute that prohibits “Gift of Public Funds” exempts those funds which “aid to the poor and infirm.” As a measure of what constitutes “aid to the poor,” the legislature has authorized cities and counties to assist in low income housing by loans or grants to owners or developers of such housing. See [RCW 35.21.685](#); [RCW 36.32.415](#); see also [RCW 84.38.070](#) (all municipal corporations to provide their utility services at reduced rates for low income senior citizens). In *Tacoma v. Taxpayers*, 108 Wn.2d 679, 743 P.2d 793 (1987), the Washington Supreme Court also upheld, on statutory grounds, a Tacoma ordinance authorizing Tacoma’s electric utility to finance energy conservation measures in private buildings. The ordinance was also held constitutional even though it did not fall within the authorization of article 8, section 10. The court accepted the cities’ arguments (several cities joined as intervenors in the case) that the installation of conservation measures involved a repurchase of electric energy by the city and was not an unconstitutional gift to the private owner. *Tacoma v. Taxpayers*, 108 Wn.2d at 703-05. See also <http://www.mrsc.org/subjects/governance/publicfunds.aspx#lowincome>. Nevertheless, appropriate legal guidance should be sought.

<sup>6</sup> The Home Depot Foundation provides support to registered 501(c)(3) organizations, public schools, and tax-exempt public service agencies throughout the U.S.; retail presence is not a factor.

<sup>7</sup> <http://www.cicchicago.com/landlord-resources-training/download-manual-and-forms/>.

<sup>8</sup> <http://www.mrsc.org/ords/t8o2281.pdf>.

<sup>9</sup> [www.cicchicago.com](http://www.cicchicago.com). CIC represents an excellent resource in best practices that includes decades of leadership in small building rehab. CIC provides loans to properties that both the city of Auburn and Harvard’s Joint Center for Housing Studies identified in a 2006 report as key to preventing neighborhood deterioration. CIC can serve as an important resource for Auburn. **Public Works** can facilitate an introduction.

<sup>10</sup> <http://www.mrsc.org/ords/t8o2281.pdf>.

<sup>11</sup> NeighborWorks America.

<sup>12</sup> See [www.homesightwa.org](http://www.homesightwa.org).