



Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: March 10, 2009

To: Councilmember Lisa Goodman, Chair, Community Development Committee
Referral to: Councilmember Paul Ostrow, Chair, Ways & Means/Budget Committee

Subject: State of Minnesota award of Neighborhood Stabilization Program (NSP) funds to Minneapolis and sub-awards of NSP funds to applicants responding to Minneapolis' request for proposals (RFP) for the purchase and rehabilitation of foreclosed and/or abandoned properties.

Recommendation: Staff recommends that the City Council:

- A. Accepts an award of \$8,401,272 in NSP funds from the Minnesota Housing Finance Agency (Minnesota Housing), \$1,590,000 of which was approved by Minnesota Housing in its 2008 fall Community Revitalization Fund (CRV) round, subject to receipt of NSP funding from the Department of Housing and Urban Development (HUD);
- B. Authorizes appropriate City officials to execute a grant agreement with Minnesota Housing for the above award and sub-recipient agreements with Minnesota Housing's identified local sub-recipients for the \$1,590,000 in CRV/NSP funding;
- C. Approves the staff recommendation to award \$6,495,636 for development gap financing to 9 of 14 entities which submitted proposals in response to the City's Foreclosure Recovery Rehabilitation Program RFP, as outlined in this report;
- D. Authorizes the appropriate City officials to enter into sub-recipient and related agreements with the selected proposers; and
- E. Authorizes the CPED Director to make changes to the local sub-recipient awards if necessitated by refinements made to the City of Minneapolis' award from Minnesota Housing.

Previous Directives: On October 21, 2008, the City Council authorized staff to submit to the Department of Housing and Urban Development (HUD) an amended 2008 Consolidated Plan consisting of an application for Neighborhood Stabilization Program funding.

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Approved by: Thomas Streitz, Director, Housing & Policy Development _____

Charles T. Lutz, Deputy CPED Director _____

Presenters in

Committee: Edie Oliveto-Oates, Senior Project Coordinator

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Financial Impact

 X Other financial impact – On March 23, 2009, the Office of Grants and Special Projects will bring a report to the Ways and Means Committee requesting authorization to accept and appropriate the funds necessary to spend the Minneapolis NSP funds and the State NSP award to Minneapolis.

Community Impact

Neighborhood Notification: Each neighborhood was notified of the NSP funding and was afforded an opportunity to partake in the community review process.

City Goals: A SAFE PLACE TO CALL HOME—In five years all Minneapolis residents will have a better quality of life and access to housing and services; residents will live in a healthy environment and benefit from healthy lifestyles; the city's infrastructure will be well-maintained and people will feel safe in the city.

Sustainability Targets: This program supports the creation of affordable housing units and will have some green standards employed in the construction or rehabilitation of the units.

Other: All of the proposals were provided to the appropriate sector planners. Response received from the planning staff indicated that because the proposals do not identify specific properties the proposals lack sufficient details for review. They will be provided information on specific properties once contracts have been executed and properties are identified.

Supporting Information

Background

In July, 2008, Congress passed and the President signed the Housing and Economic Recovery Act (HERA), aimed at helping cities, individuals and families burdened by the national foreclosure crisis. This act included funding for the Neighborhood Stabilization Program (NSP), a one-time \$3.92 billion source for cities and states to address the effects of abandoned and foreclosed homes in our communities. The Department of Housing and Urban Development (HUD) administers the program.

HUD awarded \$5.6 million in NSP funding to the City of Minneapolis and \$38.5 million to the State of Minnesota. The State of Minnesota is now awarding \$8,401,272 of its NSP funds to Minneapolis.

Grantees must direct NSP funds to areas with the greatest need as demonstrated by:

- A. the number and percentage of home foreclosures in each state or unit of general local government;
- B. the number and percentage of homes financed by a sub-prime mortgage related loan in each state or unit of general local government; and
- C. the number and percentage of homes in default or delinquent in each state or unit of general local government.

The attached map identifies Minneapolis' areas of greatest need as determined by the City and the State. There is considerable overlap in these identified areas, but the areas are not identical.

Uses of NSP funds must conform to CDBG standards, except as waived or modified by the NSP program. One exception to CDBG guidelines is that the upper income limit for assisted households is increased from 80 to 120 percent of area median income.

HERA and its implementing regulations place many other restrictions on the NSP funds:

- Funds must be committed within 18 months of receipt (~9/30/10) and spent within four years (~3/30/13).
- At least 25% of the funds must be used to assist households below 50% AMI.
- When properties are purchased using NSP funds, the purchase price must be at minimum five percent below current market appraised value (based on a 60-day appraisal from the date of acquisition) with an overall 15% average discount.
- The sales price for homes assisted with NSP funds cannot exceed the cost to acquire and redevelop or rehabilitate such home or property up to a decent, safe, and habitable condition.
- Within the first five years of the program, any revenue generated from the sale, rental, or redevelopment of properties in excess of actual costs (program income), shall be recycled into the city's foreclosure mitigation program.
- After July 30, 2013, any program income must be returned to HUD, unless otherwise approved by HUD for an eligible program use.
- Funds may not be used for foreclosure prevention, demolition of non-blighted structures and general governmental costs.

The attached Foreclosure Recovery Plan Sources and Uses chart illustrates how Minneapolis has allocated its NSP funds across NSP eligible activities, including Affordability Funding, Purchase/Rehabilitation and Land Banking activities by CPED and Chapter 249 demolition activities by the Department of Regulatory Services.

State of Minnesota Application for Funding

On January 16, 2009, the City of Minneapolis submitted an application to Minnesota Housing for \$5.6 million to support the Purchase/Rehabilitation and Land Banking activities. This funding must be used in the Minneapolis zip codes that Minnesota Housing identified as areas of greatest need (High Need Zip Codes). The City of Minneapolis applied for an additional \$2 million in funding to be spent in areas outside of Minnesota Housing's identified target areas (High Need County). Due to the significant impact of the foreclosure crisis on the identified target area in Minneapolis, it was determined that to continue to maximize the impact of these funds, the additional funds would be spent in neighborhoods either divided by the zip code boundaries imposed by the state or neighborhoods contiguous to the identified target areas (see map).

The State announced that the City of Minneapolis was awarded \$8,401,272, broken down as follows:

High Need Zip Codes	-	\$5,611,272
High Need County	-	\$1,200,000
CRV Awards	-	\$1,590,000
<u>Total</u>	-	<u>\$8,401,272</u>

The Purchase/Rehab Activity

CPED will use NSP funds to provide development/value gap financing to non-profit developers to cover the difference between the cost of purchase and rehab of a foreclosed and/or abandoned property and the sale price. The property can either be sold to an income-qualified owner-occupant or rented to an income-qualified tenant.

The Land Banking Activity

CPED will strategically acquire foreclosed and/or abandoned properties that are not rehabbable due to cost and/or condition, demolish them and hold them as vacant parcels (land bank) until the market is ready to absorb new development. This approach is designed to assist with the over-abundance of properties in the market.

The Administration

The program will be locally administered by City staff. HUD allows a portion of NSP funds to be used by local governments for program administration.

Minnesota Housing funded several organizations through their fall 2008 CRV round. Four successful Minneapolis applicants were advised by Minnesota Housing that their awards would be funded with NSP funds. Minnesota Housing informed the City that the awards totalling \$1.59 million would be included in the City's NSP award and that the City would be charged with the responsibility of monitoring the awards for compliance. The projects that were funded are as follows:

Organization	Award	Targeted Households
City of Lakes Community Land Trust	\$150,000	25.4% @ 50% AMI
Greater Metropolitan Housing Corporation	\$500,000	25.4% @ 50% AMI
Twin Cities Habitat for Humanity	\$390,000	100% @ 50% AMI
Urban Homeworks	\$550,000	25.4% @ 50% AMI
Total	\$1,590,000	

CPED's Process

In preparation for submitting our NSP application to the State of Minnesota, CPED announced and issued a pre-application on December 18, 2008. The intent of the pre-application was to determine the development capacity of the interested developers and to position staff to submit a competitive application to Minnesota Housing.

During the pre-application period, three informational meetings were held with developers and other interested parties. The first meeting was held at Farview Park in North Minneapolis on December 12, 2008 to inform potential applicants of eligible activities and fund availability. The second meeting was held at Sabathani Community Center in South Minneapolis on December 22, 2008 to inform potential applicants of the process. A third meeting was held at Crown Roller Mill on January 7, 2009 to provide technical assistance and answer questions about the application. CPED received 26 pre-applications from both for-profit and non-profit developers proposing to treat over 1,000 units in the target areas of Minneapolis.

On January 16, 2009, the City of Minneapolis issued a formal Request for Proposals for the Foreclosure Recovery Rehabilitation Program (aka the Purchase/Rehabilitation activity). The proposals were due on February 17, 2009. A "Technical Assistance/Question and Answer" session was held on February 6, 2009 at Crown Roller Mill. Fourteen proposals, requesting approximately \$11.0 million to treat 516 units of housing, were received. The City has allocated \$1,464,800 in Minneapolis NSP funds and \$5,030,836 in State NSP funds for a total of \$6,495,636 in funding for this activity.

A Review Committee made up of eight City staff from four work units of CPED scored and ranked the proposals based on the ranking criteria made available to all interested applicants via the City's website and explained at the Community and Technical Assistance meetings. The Committee, based on the scoring and ranking of each application, is recommending funding 9 of the 14 applicants, as noted below:

- Alliance Housing
- City on Lakes Community Land Trust (CLCLT)
- Greater Metropolitan Housing Corporation (GMHC)
- Minneapolis Urban League
- Neighborhood Housing Services of Minneapolis (Minneapolis NHS)
- Powderhorn Residents Group (PRG)
- Project for Pride in Living (PPL)
- Twin Cities Habitat for Humanity (Habitat)
- Urban Homeworks

Funding these 9 developers will result in the rehabilitation of 236 units of housing (approximately 35% rental and 65% ownership). About 130 units will serve households at 50% AMI to meet the NSP requirement that at least 25.4% of the total funds must be targeted at households with income at or below 50% of area median income (\$40,450 for a family of four).

Staff is not recommending funding for five applicants. This decision is based on their not meeting the minimum requirements, submitting incomplete applications and/or their low ranking based on scoring. The non-recommended applicants are:

- Agape Resource International/River Heights
- Lady Spur Basketball Club (dba Brick MN)
- North East Community Development Corporation (NECDC)
- Phillips Future Trustees
- Springboard Economic Development Corporation (Springboard)

HUD has advised Minnesota Housing and the City that the contract date with HUD will be March 20, 2009. This starts the clock on the 18-month deadline to obligate NSP funds. Minnesota Housing says it intends to do some work with awardees/sub-recipients on refining the target areas, mix and structure of activities. Due to the time-sensitive nature of the NSP funding, staff recommends that the City Council authorizes the CPED Director to make any changes to the local sub-recipient awards necessitated by refinements made by Minnesota Housing to its award to the City of Minneapolis.