



Request for City Council Committee Action

Date: Tuesday, October 21, 2008
To: Councilmember Lisa Goodman, Chair, Community Development
Committee and members
Referral to: Public Safety and Regulatory Services
Ways and Means

**Subject Mayor's Recommendation on Neighborhood Stabilization Program
from U.S. Department of Housing and Urban Development**

Recommendation

1. Amend the City's 2008 Consolidated Plan and 2008 adopted budget as presented in the updated CDBG Schedule 4(attached).
2. Set Public Hearing for 2008 Consolidated Plan Amendment for Community Development Committee meeting of November 18, 2008.
3. Authorize staff to submit to HUD an Amended 2008 Consolidated Plan consisting of an application for Neighborhood Stabilization funds by December 1, 2008.

Previous Directives

The City's 2008 consolidated plan was adopted on April 2008.

Approved by _____ R.T. Rybak, Mayor

Presenters in Committee Tom Streitz, Director, Housing & Policy Development,
Community Planning and Economic Development
Henry Reimer, Director Inspection Services,
Regulatory Services

Financial Impact (Check those that apply)

No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)

Action requires an appropriation increase to the Capital Budget

Action requires an appropriation increase to the Operating Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain):

Request provided to the Budget Office when provided to the Committee Coordinator

Background/Supporting Information:

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

The City expects to receive \$5.6 million directly from this source. Additional funding may be made available by the State of Minnesota, through their \$38.5 million allocation. Grantees must direct 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 subprime mortgage related loan in each State or unit of general local government; and
- C. the number and percentage of homes in default or delinquency in each State or unit of general local government.

This does not preclude program benefits being used wherever needed; however, the City must demonstrate that funds will be of primary benefit to areas of highest impact.

The goal of the legislation is federal assistance to local communities to deal with the effects of foreclosure and restore local housing markets: new or rehabbed housing for homeowners and renters, treatment of abandoned and vacant properties, eliminate blighting influences of properties in neighborhoods with high numbers of foreclosures and abandoned properties, and financing options to stabilize and grow the housing market. Otherwise, these funds conform to CDBG standards. One exception to CDBG guidelines, however, is that the upper income limit for assisted households and individuals is raised from the 80 percent of metropolitan median income found in the CDBG program, to 120 percent of metropolitan median income for Neighborhood Stabilization Program activities. Additionally, the Neighborhood Stabilization Program requires that 25% of the funds received must be targeted to households earning at or below 50% of the area median income (AMI).

Restrictions placed on the funds by the Act and its implementing regulations include:

- The funds must be committed within 18 months of receipt, and spent within four years.
- Not less than 25% of the funds must be used for housing low-income individuals or families whose income is below 50% of the area median income (\$1.4 million of \$5.6 million)
- Rehabilitation spending may include energy efficiency and conservation measures
- Purchases of properties must be at minimum 5 percent below current market appraised value (must be based on a 60-day appraisal from the date of acquisition)

- Properties can be sold for only an amount equal to or less than 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 (AKA, program income) shall be recycled back into the cities' 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
- General governmental costs

Mayor's Recommendation for Uses of Neighborhood Stabilization Program Funding to Minneapolis:

The chart below shows eligible uses of Neighborhood Stabilization Program funds according to federal legislation, and the Mayor's proposal for how Minneapolis would use their \$5.6 million in funds to support foreclosure recovery activities.

HERA/NSP Foreclosure Recovery Plan Uses and Programs

Eligible Uses	CDBG Correlated Eligible Activities	Organization and Program (\$5.6m*)
A. Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft seconds, loan loss reserves, and shared equity loans for low and moderate income homebuyers	Activity delivery cost: <ul style="list-style-type: none"> ▪ Administrative costs; management, oversight and coordination 	CPED Foreclosure Recovery Low-Income Homeownership and Rental Program*
B. Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties	<ul style="list-style-type: none"> ▪ Acquisition ▪ Disposition ▪ Relocation ▪ Direct homeownership assistance ▪ Rehabilitation and preservation 	CPED Foreclosure Recovery Rehabilitation Program
C. Establish land banks for homes that have been foreclosed upon	<ul style="list-style-type: none"> ▪ Acquisition ▪ Disposition 	CPED Foreclosure Recovery Land Bank Program
D. Demolish blighted structures	<ul style="list-style-type: none"> ▪ Clearance for blighted structures only 	Regulatory Services Demolition of Blighted Structures
E. Redevelop demolished or vacant <u>properties</u>	<ul style="list-style-type: none"> ▪ Acquisition ▪ Disposition ▪ Public facilities and improvements ▪ Public services for 	

	housing counseling ▪ Relocation ▪ Direct homeownership assistance	
--	---	--

* The Neighborhood Stabilization Program requires that 25% of the funds received (\$1.4 million) must be targeted to households at or below 50% of the area median income.

A. FINANCING: CPED is meeting with PPL, Habitat for Humanity, City of Lakes Community Land Trust, and other community partners to develop options for the targeted low-income requirement. Staff is awaiting a response from HUD regarding whether these funds can be used for a contract for deed-like program or if HUD really expects meeting the 25% target through redevelopment activities that include rental housing components. **Mayor's recommendation: \$500,000**

B. PURCHASE/REHAB: CPED is working with the Metropolitan Consortium of Community Developers to coordinate foreclosed property rehabilitation with both non-profit and for-profit developers. Additionally, Minnesota is the national pilot in launching the First Look Program. The First Look Program is one where The National Community Stabilization Trust (Enterprise Community Partners, Housing Partnership Network, Local Initiatives Support Corporation and NeighborWorks America) in collaboration with the state and local government will coordinate the transfer of real estate owned (REO) properties from financial institutions nationwide (Wells Fargo, Fannie Mae, CitiGroup, JP Morgan Chase and others) to local housing organizations. In Minneapolis, Greater Metropolitan Housing Corporation will be the first point of contact for the First Look Program, coordinating the distribution of properties to non-profit and for-profit developers or the City of Minneapolis and ultimately to homeowners. CPED will use Neighborhood Stabilization Program funds to provide value gap financing to partners cover the difference between cost of purchase and rehab of property and final sale price. **Mayor's recommendation: \$1,464,800**

C. ACQUISITION AND LAND-BANKING: CPED will strategically acquire vacant foreclosed properties that are not rehabbable, demolish them and hold them as vacant parcels (land bank them) until the market is ready to absorb new development of owner-occupied housing units. This approach is designed to assist with the over-abundance of properties in the market. **Mayor's recommendation: \$1,515,200**

D. DEMOLISH: Blighted structures attract criminal activity and negatively impact neighborhood livability. Regulatory Services currently has over 900 properties on the 249 Boarded and Vacant Property List. Demolition is recommended only after Regulatory Services conducts a thorough and individual analysis of each nuisance property prior to determine viability for rehabilitation. Regulatory Services will use Neighborhood Stabilization Program funds to demolish blighted structures on the 249 List. **Mayor's recommendation: \$1,700,000**

E. REDEVELOPMENT OF VACANT/DEMOLISHED PROPERTIES: At this time no specific activities are identified for this eligible use. The rationale for this decision stems from the over-saturation of the housing market. Staff do not believe that placing more units on the market at this time is worthwhile. **Mayor's recommendation: \$0**

PROGRAM ADMINISTRATION: HUD allows a portion of Neighborhood Stabilization Program funds to be used by local governments for program administration. Funds will support program administration at CPED, the Finance Department and Intergovernmental Relations. **Mayor's recommendation: \$420,000**

Total Mayor's Recommendation on Neighborhood Stabilization Program funding: \$5,600,000

HUD Timeline and Public Hearing:

HUD has set December 1, 2008 as the deadline for cities to provide their completed action plans for allocation of these funds. Not meeting this deadline will result in HUD reallocating the funds to the State.

Staff will be providing HUD an approved budget and implementation action plan as an amendment under the City's 2008 Consolidated Plan on December 1, 2008. HUD regulations for the Neighborhood Stabilization Program recognize the tight timeframes imposed by Congress to get these funds out in the community. Therefore, HUD gives grantees a 15-day public comment period as an alternative to a local citizen participation plan. Staff will issue the amendment for public comment on November 10, 2008.

A public hearing before the Community Development Committee is requested to be held on November 18, 2008 to conform to City's Consolidated Plan Amendment citizen participation process.