

Request for City Council Committee Action from the Department of Community Planning & Economic Development – CPED

Date: June 16, 2009
To: Council Member Lisa Goodman, Chair, Community Development Committee
Subject: **Neighborhood Stabilization Program 2 (NSP2)**

Recommendation:

1. Authorize staff to submit to HUD an application for the Neighborhood Stabilization Program 2 funds under the American Recovery and Reinvestment Act, 2009 by July 17, 2009 as lead applicant in a consortium with Hennepin County and the City of Brooklyn Park.
2. Authorize staff to develop and execute consortium agreements with Hennepin County and the City of Brooklyn Park as required by the Neighborhood Stabilization Program 2.
3. Set the public comment period for Minneapolis Neighborhood Stabilization Program 2 for June 16- June 26, 2009 with an opportunity for public comment before the City Council Community Development Committee, scheduled for Tuesday, June 16, 2009.

Previous Directives: On March 31, 2009 the Community Development Committee received and filed an overview of the Minneapolis Neighborhood Stabilization Program (NSP) and approved the State of Minnesota award of NSP funds to applicants responding to Minneapolis' request for proposals (RFP) for the purchase and rehabilitation of foreclosed and/or abandoned properties. On October 21, 2008 the City Council authorized staff to submit to the Department of Housing and Urban Development (HUD) and amended 2008 Consolidated Plan consisting of an application for Neighborhood Stabilization Program 1 funding.

Department Information

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| Prepared by: Cherie Shoquist, Foreclosure Project Coordinator, 612.673.5078 Approved by: Thomas Streitz, Director, Housing & Policy Development_____ Charles T. Lutz, Deputy CPED Director_____ Presenters in Committee: Cherie Shoquist, Foreclosure Project Coordinator |
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Financial Impact

- Other financial impact: If awarded, NSP 2 funds will provide an increase to the Capital and Operating budgets and increased revenue.

Community Impact

- Neighborhood Notification: Each Neighborhood was notified of the NSP funding and 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: Green standards will be employed in construction and rehabilitation of affordable housing units developed under this program.

Background/Supporting Information

MINNEAPOLIS, BROOKLYN PARK AND HENNEPIN COUNTY NSP 2 APPLICATION

Minneapolis is seeking to submit to HUD an application for the Neighborhood Stabilization Program 2 funds under the American Recovery and Reinvestment Act, 2009 by July 17, 2009 as lead applicant in a consortium with Hennepin County and the City of Brooklyn Park. A consortium is two or more private or public nonprofit organizations with the capacity and experience to carry out proposed NSP2 activities.

A consortium agreement must be executed by all consortium members and submitted with the application by July 17, 2009 that includes: contributions and responsibilities of each consortia member, the division of NSP2 funds and a commitment to follow NSP2 requirements. After NSP2 selection, but before the grant is awarded, the lead member must enter into a separate consortium funding agreement with each consortium member that must be executed by December 1, 2009 that includes activities and timetables for completion and demonstrates necessary and reasonable costs.

The total NSP2 application is approximately \$48 million and will impact approximately 875-1,075 units. This includes approximately \$4 million for Hennepin County, \$6 million for Brooklyn Park, and \$38 million for Minneapolis. (See attached Neighborhood Stabilization Program 2009 (NSP2) Foreclosure Recovery Plan Sources & Uses for Hennepin County, the City of Brooklyn Park and the City of Minneapolis).

MINNEAPOLIS FORECLOSURE RECOVERY PLAN

The Minneapolis NSP2 implements the reinvestment and repositioning strategies of the Minneapolis Foreclosure Recovery Plan. An overview of the proposed Minneapolis NSP2 funding allocation by eligible activity and expected outcomes is provided in the NSP Eligible Activities section below.

In Minneapolis 3,077 properties were foreclosed in 2008 and another 3,000 are projected to be foreclosed in 2009. Data for 2010 will be compiled for the NSP2 application. The Results Minneapolis Healthy Housing Indicators reports will assist in guiding neighborhood reinvestment over time. The City of Minneapolis' focus on prevention, reinvestment and market reposition in 2009 and beyond will lead to market recovery in our neighborhoods.

Strategies to Recover a Healthy Housing Market:

- 1. Prevention:** Continue foreclosure prevention outreach and counseling
- 2. Reinvestment:** Pursue aggressive property acquisition and promote property development
- 3. Repositioning:** Engage in community building and marketing efforts

The award of **\$14 million** in HUD NSP1 funds and the application for **\$38 million** in NSP2 funds will support the reinvestment and repositioning strategies of the Minneapolis three point foreclosure recovery plan.

MINNEAPOLIS NEIGHBORHOOD STABILIZATION PROGRAM

NSP1: Starting in summer 2009, NSP1 resources will provide for the demolition of 200 blighted structures, acquisition of 120 properties, and rehabilitation of 175 properties. Minneapolis received the HUD NSP contract for \$5.6 million on March 20, 2009 and the

Minnesota Housing NSP contract for \$8.4 million on May 29, 2009. Community developers participating in the Purchase and Rehabilitation Program received notice of funding on March 31, 2009. Contracts with community developers are being finalized and properties for purchase have been identified.

NSP2: Starting in 2010, NSP2 resources may provide for down payment and closing cost assistance of 200 properties, the rehabilitation of 275 properties, the acquisition and land banking of 300 properties, and the redevelopment of 10 properties in Minneapolis neighborhoods hardest hit by foreclosures, primarily in North, Northeast and South Central Minneapolis. Foreclosed and/or abandoned homes and residential properties will be acquired strategically near existing public investment and community corridors to maximize the neighborhood and market impact of NSP reinvestment. (See the attached map of Neighborhood Stabilization Program 2 Eligible Area that also shows the Neighborhood Stabilization Program 1 target area).

NSP Eligible Activities:

- A. Establish **financing** mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties
- B. **Purchase and rehabilitate** homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop
- C. Establish **land banks** for homes that have been foreclosed upon
- D. **Demolish** blighted structures
- E. **Redevelop** demolished or vacant properties

NSP requires that 25% of funds received must be targeted to households at or below 50% of area median income.

A description of the Minneapolis NSP2 eligible activities, the approximate number of properties impacted and the rounded amount of NSP2 funds proposed for each activity is summarized below.

Financing/Down Payment and Closing Cost Assistance 200 Properties \$2 Million

CPED will make available an average of \$10,000 per homebuyer for down payment and closing cost assistance. This activity will include buyers at the HUD required 50% of area median income. Given HUD requirements, these funds will be well suited for homes rehabilitated with NSP funds. This activity may closely resemble the Minneapolis Advantage Program guidelines and will expand homeownership incentives and promote Minneapolis neighborhoods in preparing the housing market for a rebound.

Purchase/Rehab (275 Properties) \$16.5 Million

CPED will use an average of \$60,000 per unit 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. Over a third of the homes will be targeted to households at 50% area median income to meet NSP requirements. The property will be sold to an income-qualified owner-occupant or rented to an income-qualified tenant. This strategy will return residents to neighborhoods hardest hit by foreclosure.

Land Banking (300 Properties) \$15.6 Million

CPED will strategically acquire foreclosed or abandoned properties that cannot be rehabbed due to cost or condition, demolish them and hold them as vacant parcels (land bank) until

the market is ready to absorb new development. Some of these funds will be used to support the establishment of the Twin Cities Community Land Bank. These approaches will assist with the over-abundance of properties in the market and alleviate costs associated with long-term holding of property by the city.

The Twin Cities Community Land Bank LLC (TCC Land Bank) is a newly organized nonprofit limited liability company established by the Family Housing Fund to assemble, manage, and dispose of property and vacant land for the purpose of stabilizing neighborhoods and encourage re-use or redevelopment of urban property. NSP2 funds will be used by the TCC Land Bank to: establish and operate TCC Land Bank; acquire homes and residential property that have been foreclosed upon; pay for holding costs; and to dispose of these homes and residential property within 10 years. (See attached NSP2 Application, Twin Cities Community Land Bank).

Demolition (0 Properties) \$0

NSP2 limits demolition activities to 10% of funding with some exceptions. With the recycling of funds from NSP 1, the Department of Regulatory Services will continue to address properties on the Chapter 249 Vacant and Boarded Building list that require demolition. While this activity is necessary to drive the market back towards a healthy housing market, an increase in this activity with NSP2 funds is not necessary.

Redevelopment (10 Properties) \$0.5 Million

The current NSP strategy prioritizes rehabilitation of abandoned and foreclosed homes and residential properties over other properties for redevelopment. However, the strategic rebuilding of approximately 10 homes on vacant lots at an average development gap of \$50,000 per property will assist in meeting the 50% of area median income requirement and stabilize neighborhoods.

Administration \$3.6 Million

NSP will be locally administered by City staff and monitored for compliance with federal and state requirements. Administrative costs incurred under the program are covered under an allowable administrative fee of ten percent. As lead applicant, Minneapolis will receive and additional 1.5% of the administrative fees for the Hennepin County and Brooklyn Park funds.

The Neighborhood Stabilization Program 2 is a key component of the Minneapolis Foreclosure Recovery Plan based on strategic and timely government intervention for reinvestment and repositioning the market place to the extent necessary to "tip" the market toward restoring a healthy housing market.