

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

Date: March 2, 2010
To: Council Member Lisa Goodman, Chair, Community Development Committee
Referral to: Council Member Betsy Hodges, Chair, Ways & Means/Budget Committee
Subject: **Minneapolis Neighborhood Stabilization Program 2 (NSP2) Funds**

Recommendation: Staff recommends that the City Council:

- a) Accept and authorize appropriation and disbursement of the award of \$19,455,156 in United States Department of Housing and Urban Development (HUD) Neighborhood Stabilization Program 2 (NSP2) funds as authorized and appropriated under the American Recovery and Reinvestment Act of 2009 and the Housing and Economic Recovery Act of 2008; including:
- b) Increase the 2010 Revenue Budget for the Community Planning and Economic Development agency fund 01300 Grants – Federal (01300 – 8900900 -3210008) by \$19,455,156;
- c) Amend the 2010 General Appropriation Resolution by increasing the Community Planning and Economic Development agency fund 01300 Grants – Federal (01300-8900220) appropriation by \$19,455,156;
- d) Authorize the execution of the NSP2 grant agreement between HUD and the City of Minneapolis as lead in a Consortium with the City of Brooklyn Park and Hennepin County with HUD approved allocations of \$15,424,156 to the City of Minneapolis, \$2,344,000 to the City of Brooklyn Park and \$1,687,000 to Hennepin County;
- e) Authorize the execution of NSP2 Consortium agreements between the City of Minneapolis and the City of Brooklyn Park for \$2,344,000 in NSP2 funds and between the City of Minneapolis and Hennepin County for \$1,687,000 in NSP2 funds; and
- f) Authorize the CPED Director to make changes to the Minneapolis and Consortium award allocations if necessitated by refinements made to the NSP2 award to meet HUD or programmatic requirements.

Previous Directives: On June 16, 2009, the City Council authorized staff to submit to the Department of Housing and Urban Development (HUD) an application for Neighborhood Stabilization Program 2 (NSP2) funding as lead applicant in a Consortium with Hennepin County and the City of Brooklyn Park and authorized staff to develop and execute Consortium agreements with Hennepin County and the City of Brooklyn Park as required by the NSP2 application.

Department Information

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

Financial Impact:

X Action requires an appropriation increase to the Operating Budget

X Action provides increased revenue for appropriation increase

Neighborhood Notification: Each Neighborhood was notified of the NSP2 application 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.

Supporting Information

The Minneapolis Neighborhood Stabilization Program implements the reinvestment and market 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 below. Programs for each eligible activity will be further developed and brought forward as recommendations for City Council approval. NSP2 funds awarded will be reallocated between Consortium members in proportion to the application request. (For Minneapolis Consortium allocations, see attached NSP2 Sources and Uses).

MINNEAPOLIS FORECLOSURE RECOVERY PLAN

In Minneapolis, 3,077 properties were foreclosed in 2008, 2,074 were foreclosed through November 2009, and another 2,500 are projected to be foreclosed in 2010. The City of Minneapolis' focus on prevention, reinvestment and market reposition in 2010 and beyond will lead to market recovery in our neighborhoods.

Minneapolis strategies to recover a healthy housing market are: (1) Prevention: continue foreclosure prevention outreach and counseling; (2) Reinvestment: pursue aggressive property acquisition and promote property development; and (3) Repositioning: engage in community building and marketing efforts.

Nearly \$15.5 million in HUD NSP2 funds will support the reinvestment strategy of the Minneapolis three point foreclosure recovery plan.

MINNEAPOLIS NEIGHBORHOOD STABILIZATION PROGRAM

It is estimated that in the next three years, Minneapolis NSP2 resources will provide for the financing of 70 homes, rehabilitation of 54 units, acquisition and demolition of 56 blighted properties, and redevelopment of 80 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 attached Map of NSP2 Proposed Census Tracts).

NSP2 requires that 25% of all grant funds must go to households at 50% of area median income (AMI) and below. All funds must go to households at 120% AMI and below. NSP2 also requires that the Minneapolis Consortium must put into productive use or mitigate the

negative effects of at least 100 abandoned or foreclosed homes. All funds must be expended by February 11, 2013; 50% of the funds must be expended by 2012.

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 and residential properties that have been foreclosed upon
- D. **Demolish** blighted structures
- E. **Redevelop** demolished or vacant properties as housing

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

Financing/Down Payment and Closing Cost Assistance 70 Units \$1.5 Million

CPED will make down payment and closing cost assistance available to meet the affordability gap in homeownership opportunities for homebuyers, which may include buyers at the HUD required 50% of area median income. This activity will expand homeownership incentives and promote Minneapolis neighborhoods in preparing the housing market for a rebound.

Purchase/Rehab 54 Units \$3.5 Million

CPED will use NSP2 funds to provide development gap financing to non-profit developers to cover the difference between the cost of purchase and rehab of a foreclosed and/or abandoned single family home or rental property (two-units or greater) for homeownership or rental to households at or below 50% AMI. The units will be primarily for rental.

Land Banking 56 Properties \$2.6 Million

CPED will strategically acquire foreclosed or abandoned properties that cannot be rehabbed due to cost or condition, demolish them and hold then as vacant parcels (land bank) until the market is ready to absorb new development. This approach will assist with the over-abundance of properties in the market. CPED will continue to pursue a partnership with the Twin Cities Community Land Bank to facilitate the acquisition and holding of blighted properties.

Demolition 56 Properties \$1 Million

CPED will demolish blighted foreclosed or abandoned properties that cannot be rehabbed due to cost or condition acquired in the land banking activity. This activity is necessary to drive the market back towards a healthy housing market.

Redevelopment 80 Units \$5.2 Million

CPED will provide NSP2 funds for the redevelopment of demolished or vacant properties. This strategy will quickly return residents to neighborhoods hardest hit by foreclosure. The units will be primarily for homeownership.

Administration \$1.6 Million

NSP2 will be locally administered by City staff and monitored across the Consortium for compliance with federal requirements. Administrative costs incurred under the program are covered under an allowable administrative fee of ten percent.

The Neighborhood Stabilization Program 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.