

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

**Date:** March 23, 2010

**To:** Council Member Lisa Goodman, Chair, Community Development

**Subject:** Minneapolis Neighborhood Stabilization Program (NSP1) Overview

## **Recommendation:**

1. Authorize the CPED Director to make changes to the Minneapolis NSP1 award allocation if necessitated by changes in housing market conditions or to meet Department of Housing and Urban Development or Minnesota Housing programmatic requirements.

**Previous Directives:** The Minneapolis City Council authorized the reallocation of NSP1 funds as follows: on December 4, 2009 \$150,000 allocated to the City of Minneapolis for land banking activities to the Twin Cities Community Land Bank to establish and operate the land bank for homes and residential properties that have been foreclosed upon and on October 16, 2009, purchase and rehabilitation funds or additional development gap financing on an as needed basis to the non-profit entities participating in the City's Foreclosure Recovery Rehabilitation Program. March 10, 2009 the Community Development Committee requested an overview of the Minneapolis Neighborhood Stabilization Program (NSP) at a future Committee meeting 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 funding.

## **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**

- Other financial impact: On March 23, 2009, the Office of Grants and Special Projects reported to the Ways and Means Committee requesting authorization to accept and appropriate the funds necessary to spend the NSP awards from the State and from HUD.

## **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.

## **Supporting Information**

The Minneapolis Neighborhood Stabilization Program implements the reinvestment strategy of the Minneapolis Foreclosure Recovery Plan. An overview of the proposed Minneapolis NSP funding allocation by eligible activity and expected outcomes is provided below.

## **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.

### **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.

**\$14 million** in HUD Neighborhood Stabilization Program (NSP) funds support the reinvestment strategy of the Minneapolis three point foreclosure recovery plan.

## **MINNEAPOLIS NEIGHBORHOOD STABILIZATION PROGRAM**

NSP1 resources will provide financing for at least 25 to 50 homes, demolition of approximately 200 blighted structures, acquisition of nearly 100 properties, and rehabilitation or redevelopment of approximately 165 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 Neighborhood Stabilization Program 1 Target Areas Map).

The Minneapolis foreclosure recovery plan strategies for neighborhood reinvestment with NSP1 funds remain essentially the same as at the time of application in 2008. Changes in housing market conditions and changes to meet Department of Housing and Urban Development or Minnesota Housing programmatic requirements have resulted in the need to reallocate NSP1 resources as outlined below. NSP1 funds are 46% obligated. NSP1 funds must be 100% obligated by September 30, 2010 and spent by March 30, 2013. CPED strives to provide the greatest flexibility to our non-profit community developers to successfully implement NSP1 within existing requirements and timelines.

### **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

A description of each of the Minneapolis NSP1 eligible activities followed by the change in number of units or properties impacted and the amount of NSP funds originally planned in 2008 and currently allocated in 2010 for each activity is summarized below. (See attached

Total NSP1 Obligation and Total NSP1 Obligation for Purchase, Rehabilitation and Redevelopment).

**A. Financing:** CPED will provide down payment and closing cost assistance to meet the affordability gap in homeownership opportunities for homebuyers, which will be tied to homes rehabilitated with NSP1 funds and may include buyers at the HUD required 50% of area median income, \$40,450 for a family of four. This activity will expand homeownership incentives and promote Minneapolis neighborhoods in preparing the housing market for a rebound.

Financing 2008: \$500,000 for 50 units – 2010: \$500,000 for at least 25 units. NSP1 financing dedicated to down payment and closing cost assistance in 2008 envisioned providing 50 additional homebuyers with the Minneapolis Advantage loan. To meet the HUD requirement to bring homeowners at 50% of area median income into NSP1 rehabilitated homes, flexibility in providing up to \$20,000 in assistance to 25 homebuyers is necessary.

**B. Purchase and Rehabilitation:** CPED will 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 will be sold to an income-qualified owner-occupant or rented to an income-qualified tenant. Of the 145 units, 99 will be targeted to households at 50% area median income, or \$40,450 for a family of four in Minneapolis, to meet NSP requirements. Approximately 35% of the units will be rental and 65% will be ownership. This strategy will return residents to neighborhoods hardest hit by foreclosure.

Purchase and Rehabilitation 2008: \$6,485,636 for 219 units – 2010: \$5,946,636 for 145 units. NSP1 purchase and rehabilitation development gap needs have increased from the estimated \$25,000 per unit identified in 2008. The competition in the foreclosed housing market, lenders foreclosure moratorium, rise in short sales and success in foreclosure prevention efforts coupled with decline of available leverage and loans resulted in the need to increase development gap financing as negotiated with each of the nine non-profit NSP1 developers. Some funds may be shifted between the purchase and rehabilitation activity and the redevelopment activity because the redevelopment activity is more flexible.

Other changes to the initial allocations include the Minneapolis Urban League request to withdraw their proposal as a Developer receiving \$675,000 through the Neighborhood Stabilization Program (NSP) award for the purchase and rehabilitation of 27 foreclosed and/or abandoned properties. On October 16, 2009 the Minneapolis City Council awarded Ethnic Home Housing (NH Housing) \$350,000 in NSP funds for the purchase and rehabilitation of 10 foreclosed or abandoned properties and authorized the CPED Director to distribute the remaining \$325,000 for additional development gap financing on an as needed basis to support the non-profit entities participating in the City's Foreclosure Recovery Rehabilitation Program. The \$325,000 in gap financing will be allocated to CPED project related costs.

**C. Land Bank and D. Demolition:** 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. This approach will assist with the over-abundance of properties in the market. The Department of Regulatory Services will address 100 properties on the Chapter 249 Vacant and Boarded Building list that require demolition. Funds may be recycled to address additional properties. This activity is necessary to drive the market back towards a healthy housing market.

Land Bank 2008: \$4,288,212 for 120 units - 2010: \$2,702,212 for 92 units, and Demolition 2008: \$1,700,000 for 200 units - 2010: \$3,186,000 for 192 units. NSP1 land banking and demolition activities have changed from \$4,288,212 for CPED land bank and \$1,700,000 for

Regulatory Services demolition activities impacting a combined 120-200 properties primarily due to the HUD reporting requirements for each activity. Properties requiring demolition and identified for CPED land bank activities must be reported to HUD in the demolition activity as well.

**E. Redevelopment:** The redevelopment activity is the most flexible category for neighborhood recovery efforts allowing the redevelopment of demolished or vacant properties as housing.

Redevelopment 2008: \$0 – 2010: \$649,000 for 19 units. CPED shifted purchase and rehabilitation activity funds to the redevelopment activity for the non-profit NSP1 developers who strategically purchased foreclosed homes for NSP before HUD programmatic requirements were fully developed. NSP1 redevelopment activities were originally reserved, as the 2008 strategy prioritized the rehabilitation of abandoned and foreclosed homes and residential properties over other properties for redevelopment.

**Administration: \$1,019,391.** NSP is 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.

The \$14 million in NSP1 funds along with the \$15.5 million in NSP2 funds make the Neighborhood Stabilization Program 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.

Considering 100% of the award needs to be obligated by September 20, 2010, CPED staff have commenced discussions with each of the developers about their ability to meet the deadline. Staff seeks Council authority to authorize the CPED Director to de-obligate awards and re-allocate them to other developers or eligible activities that will ensure a successful implementation of the grant.