

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

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: 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.

Neighborhood Stabilization Program 2009 (NSP 2) Foreclosure Recovery Plan Sources & Uses

NSP 2 Eligible Use	Hennepin County		Brooklyn Park		Minneapolis		Total	
	Funds	Units	Funds	Units	Funds	Units	Funds	Units
A. Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties	\$ 1,350,000	135	\$ 500,000	50	\$ 2,000,000	200	\$ 3,850,000	385
B. Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop	\$ 1,200,000	20	\$ 4,200,000	70	\$ 16,500,000	275	\$ 21,900,000	365
C. Establish and operate land banks for homes and residential properties that have been foreclosed upon ¹	\$ 800,000	5	\$ 450,000	3	\$ 15,600,000	300	\$ 16,850,000	308
D. Demolish blighted structures	\$ -	0	\$ -	0	\$ -	0	\$ -	0
E. Redevelop demolished or vacant properties as housing	\$ 500,000	5	\$ 200,000	2	\$ 500,000	10	\$ 1,200,000	17
Subtotal	\$ 3,850,000	165	\$ 5,350,000	125	\$ 34,600,000	785	\$ 43,800,000	1075
Administration ²	\$ 327,250		\$ 454,750		\$ 3,598,000		\$ 4,380,000	
TOTAL³	\$ 4,177,250	165	\$ 5,804,750	125	\$ 38,198,000	785	\$ 48,180,000	1075
25% Requirement⁴	\$ 1,044,313		\$ 1,451,188		\$ 9,549,500		\$ 12,045,000	

Footnotes

¹Some of these funds will be used to support the Twin Cities Community Land Bank, subject to each jurisdiction's board approval.

²NSP2 limits administration to 10% of total award. Hennepin County and Brooklyn Park will receive 8.5% of their total award for administration. Minneapolis will receive the remainder for administration as the lead entity.

³There may be duplication in the total unit count (i.e. the down payment program under Activity A could be used to purchase a property rehabbed in Activity B).

⁴NSP2 requires that 25% of the funds received must be targeted to households at or below 50% of area median income.

Assumptions

A. Financing: \$10,000 average per homebuyer for down payment and closing cost assistance.

B. Purchase and Rehabilitate: \$60,000 average per unit for value gap, and in Brooklyn Park for value gap and homebuyer assistance.

C. Land Bank: \$100,000 for Hennepin County and Brooklyn Park and \$50,000 for Minneapolis average per property for acquisition, demolition and holding costs.

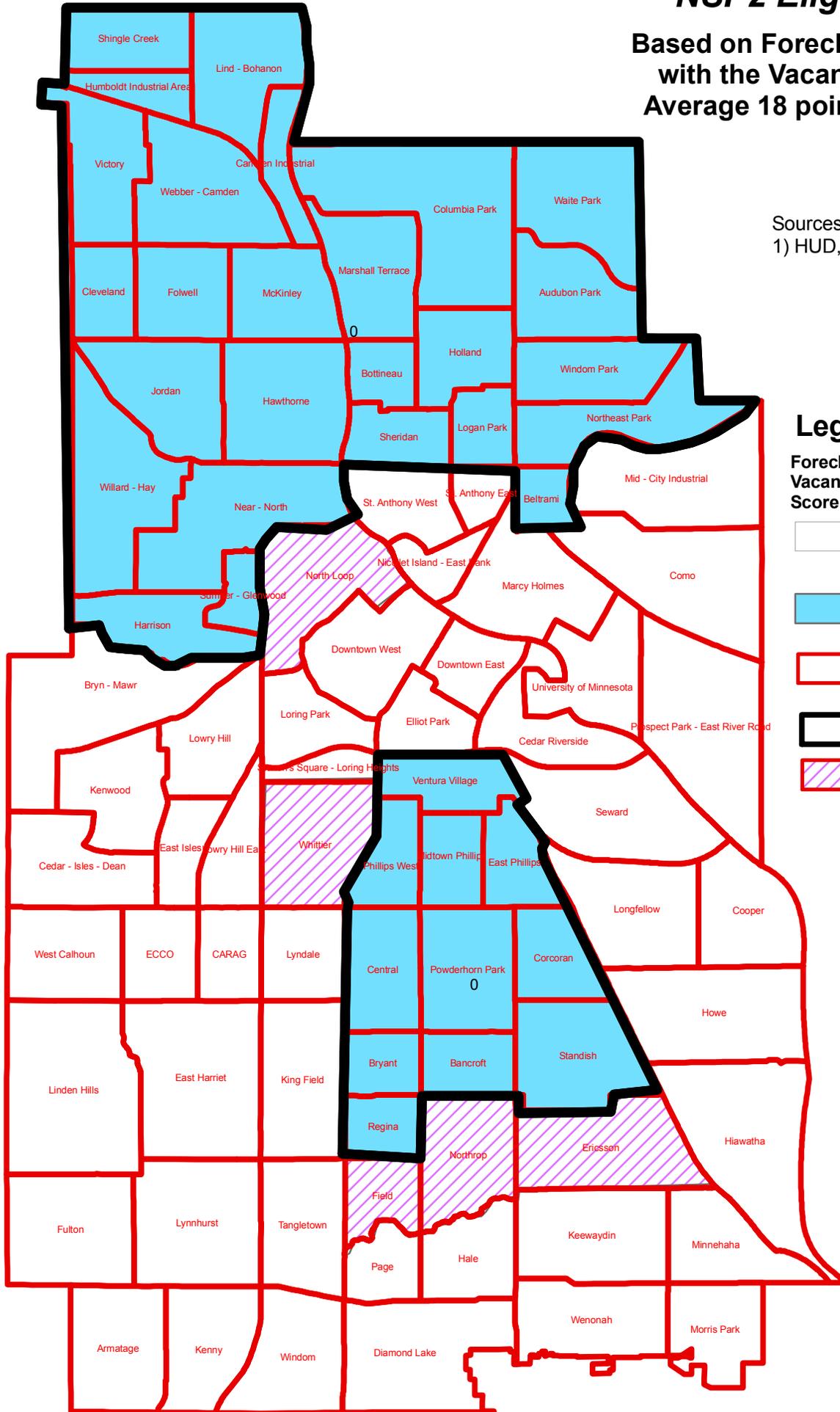
D. Demolition: No NSP2 funds are allocated to demolition. In Minneapolis, NSP1 Funds will be recycled for regulatory services demolition.

E. Redevelop: \$100,000 for Hennepin County and Brooklyn Park and \$50,000 for Minneapolis average per property for new construction to assist in meeting low income requirements.

NSP2 Eligible Area Map

Based on Foreclosure rate combined with the Vacancy rate Risk Score Average 18 point and Higher (18.05)

Sources:
1) HUD, by Census Tract



Legend

Foreclosure rate combined with Vacancy rate Average Risk Score by Census Tracts

- Less than 18 point
- Average 18 and higher point for Foreclosure and Vacancy rate
- Neighborhood
- NSP2 Target Area
- NSP1 Target Area



City of Minneapolis
Department of Community Planning
& Economic Development - CPED

Created by CPED Research
June 8, 2009

NSP2 Application
Cities of Minneapolis and Brooklyn Park, Hennepin County, Minnesota
(the "Consortium")

Twin Cities Community Land Bank

The City of Minneapolis is requesting funding to acquire and land bank 300 properties at a cost of \$50,000 per property. The City of Brooklyn Park is requesting funding to acquire and land bank 3 properties at a cost of \$100,000 per property. Hennepin County is requesting funding to acquire and land bank 5 properties at a cost of \$100,000 per property.

In addition, the Consortium is requesting \$1,050,000 to establish and operate Twin Cities Community Land Bank, based on \$350,000 per year for three years.

The Consortium intends to acquire and land bank foreclosed property purchased through the *First Look Program* and the *Targeted Bulk Purchase Program* of the National Community Stabilization Trust and similar programs. After purchase, the foreclosed property will be land banked in one of the two following ways:

I. Land Banking with the Consortium: Properties purchased through the NSP1 program will be land banked with Minneapolis, Brooklyn Park, and Hennepin County. The Consortium will continue this program of land-banking by the Consortium members for some, but not all, of the properties purchased with NSP2 funds.

II. Land Banking with Twin Cities Community Land Bank: Some of the properties purchased with NSP1 funds and NSP2 funds will be banked with a new metropolitan-wide public-private partnership land bank, Twin Cities Community Land Bank. A description of the new land bank is set out below.

The Consortium members (acting separately) will decide on a property by property basis which properties to deposit in Twin Cities Community Land Bank, will be based on criteria that have been established for this purpose. Twin Cities Community Land Bank will operate in the seven county metropolitan area of Minneapolis/ Saint Paul, Minnesota. The City of Saint Paul will also be banking properties purchased with NSP funds with Twin Cities Community Land Bank. Additional counties and cities will be added as the capacity of Twin Cities Community Land Bank increases.

III. Twin Cities Community Land Bank's Guiding Principles: The benefits of the new Twin Cities Community Land Bank are best described by its guiding principles:

1. to enable the efficient, effective holding and marketing of properties acquired through various neighborhood recovery efforts.
2. to reduce the public cost of holding land through efficiencies of coordination and scale.
3. to efficiently and creatively aggregate capital to support a very large scale land acquisition, disposition and marketing effort.
4. to provide opportunities for community and neighborhood engagement in the development of foreclosed properties particularly among communities of color.
5. to promote best practice in planning and design including high architectural standards, energy efficiency, green land and construction standards, and linkage of housing development to transportation.

6. to coordinate housing policies and programs with broader community development objectives including jobs, economic opportunities, transportation, public safety, schools, human services, and homeownership counseling and support, particularly among communities of color.
7. to provide affordable, sustainable homeownership opportunities for low and moderate-income families, and to reduce the disparity between ownership rates for whites and communities of color.
8. to provide business and contracting opportunities for communities of color.

IV. Description of Twin Cities Community Land Bank: Twin Cities Community Land Bank LLC is a newly organized nonprofit limited liability company established to assemble, manage, and dispose of property and vacant land for the purpose of stabilizing neighborhoods and encouraging re-use or redevelopment of urban property. Twin Cities Community Land Bank is designed to operate on a large scale, over a broad geographic area, with a long view toward development and re-building communities, and as a public-private partnership coordinating across multiple communities of interest. It will coordinate housing policies and programs with broader community development objectives, including jobs, economic opportunities, transportation, public safety, schools, human services, and homeownership counseling and support.

Twin Cities Community Land Bank is organized as a unique public-private partnership. The owner of Twin Cities Community Land Bank is the Family Housing Fund, a nonprofit corporation recognized by the IRS as a supporting organization of government, and governmental entities appoint a majority of the Family Housing Fund's board members. Twin Cities Community Land Bank extends this public-private partnership one step further by including representatives of governmental entities on its board of governors. The two layers of public-private partnership will ensure that the activities of Twin Cities Community Land Bank are approved by partner governmental entities and consistent with their goals. Additional community interests, such as neighborhood and community organizations, nonprofit and for-profit developers and other real estate experts, and communities of color, are also represented on the board and on a community advisory committee.

Twin Cities Community Land Bank operates in the geographic region of the seven county metropolitan area of Minneapolis/Saint Paul, Minnesota. The initial targeted focus of Twin Cities Community Land Bank is in Hennepin County and Ramsey County, and in particular in the cities of Minneapolis, Saint Paul, and Brooklyn Park; this focus will expand over time to include all seven counties. Twin Cities Community Land Bank will acquire properties that have been abandoned or foreclosed upon, lost to tax forfeiture, or acquired by cities, counties, and community development corporations for land bank purposes. NSP1 and NSP2 funds will be used to purchase mortgage foreclosed properties. Twin Cities Community Land Bank will maintain, demolish structures if appropriate, assemble, clean-up, facilitate redevelopment of, market, and dispose of the land-banked properties. Twin Cities Community Land Bank will not hold a property purchased with NSP funds for more than 10 years without obligating the property for a specific, eligible redevelopment and will dispose of the property purchased with NSP funds for home ownership or responsible rental usage consistent with NSP income requirements. Other properties held by Twin Cities Community Land Bank (non-NSP funded) may be disposed of for market rate housing and commercial and mixed uses if appropriate for arresting neighborhood decline. Properties may be sold at or below market rate, depending on the desired outcome and funding restrictions (including NSP).

The challenge is large: some estimates of rebuilding the near north side of Minneapolis alone are in the range of \$100 million. Tackling comprehensive rebuilding and revitalization

of all distressed urban neighborhoods in Hennepin and Ramsey Counties and the greater metropolitan area will be even more costly. The opportunity presented by Twin Cities Community Land Bank is a comprehensive and coordinated approach of government and private sector partners to meet this challenge and to access new and significant capital investment.

V. NSP2 Operational Detail:

Acquisition: NSP2 acquisition funding will be used to purchase targeted foreclosed residential properties from lenders as quickly and as efficiently as possible through the *First Look Program* and the *Targeted Bulk Purchase Program* of the National Community Stabilization Trust, and similar programs. These properties may be purchased directly by Twin Cities Community Land Bank or by community development corporations and governmental entities and transferred to Twin Cities Community Land Bank. Properties will be purchased in targeted neighborhoods affected most by the foreclosure crisis, as identified by HUD census tracts and Twin Cities Community Land Bank's public and private partners. Properties will be banked with Twin Cities Community Land Bank if it is determined that they cannot be returned to home ownership or responsible rental usage at the time of purchase and that a longer term strategy of community revitalization is necessary and prudent.

Interim Property Use and Management: All properties will be stabilized and properly maintained in accordance with local ordinances. Remediation of contaminated land will be undertaken. Structures may be demolished or boarded and secured. It is possible that some properties may be used for rental purposes. Maintenance, upkeep, demolition, and rental management will be arranged with contracted entities. Efforts will be made to achieve economies of efficiency and scale with respect to operation and property management costs. The applicable city and county, park board, and local neighborhood groups shall provide input on appropriate interim uses. Interim uses shall advance the goals of neighborhood stabilization and revitalization, but will be temporary, not permanent uses.

Disposition: Twin Cities Community Land Bank's disposition strategy to achieve the goal of stabilizing neighborhoods and encouraging re-use and redevelopment of urban property will inform choices made on which properties to acquire. Properties will be marketed and disposed of consistent with long term objectives as well as applicable land use ordinances and comprehensive plans. A vigorous and innovative marketing plan will be employed. Rehabilitation and new construction will be undertaken by developers before or after sale by Twin Cities Community Land Bank and will be coordinated with the applicable public and private partners. Best practices in planning and design will be promoted. Redevelopment requirements will include high architectural standards, energy efficiency, green land and construction standards, linkage of housing development to transportation, and consistency with the NSP2 requirement that properties remain affordable as long as feasible.

fb.us.4071088.01