

City of Brooklyn Park Request for Council Action

Agenda Item No:	5.1	Meeting Date:	June 15, 2009
Agenda Section:	Public Hearing	Originating Department:	Community Development
Resolution:	2009-	Prepared By:	Kim Berggren Jason Aarsvold
Ordinance:	N/A		
No. of Attachments:	4	Presented By:	Kim Berggren
Item:	Public hearing regarding authorizing application to US HUD for Neighborhood Stabilization Program 2, authorizing development and execution of the consortium agreement, and authorizing the Brooklyn Park Economic Development Authority to administer the Agreement		

City Manager's Proposed Action:

MOTION _____, SECOND _____, TO ADOPT RESOLUTION 2009-___ AUTHORIZING APPLICATION TO US HUD FOR NEIGHBORHOOD STABILIZATION PROGRAM 2, AUTHORIZING DEVELOPMENT AND EXECUTION OF THE CONSORTIUM AGREEMENT, AND AUTHORIZING THE BROOKLYN PARK ECONOMIC DEVELOPMENT AUTHORITY TO ADMINISTER THE AGREEMENT

Overview:

Brooklyn Park, in partnership with Minneapolis, Hennepin County, and other local partners, has been preparing to apply to the US Department of Housing and Urban Development (HUD) for Neighborhood Stabilization Program 2 (NSP2) funds to assist with foreclosure recovery efforts. Approximately \$2 billion is available nationwide on a competitive basis for the following purposes:

- 1) Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans for low- and moderate-income homebuyers
- 2) Purchase and rehabilitation of homes and residential properties that have been abandoned and foreclosed upon, in order to sell or redevelop such homes and properties
- 3) Establish land banks for homes and residential properties that have been foreclosed upon
- 4) Demolish blighted structures
- 5) Redevelop demolished or vacant properties as housing

The purpose of this agenda item is to:

1. Authorize staff to submit to HUD an application for the NSP2 funds under the American Recovery and Reinvestment Act, 2009, by July 17, 2009, as a consortium member with Hennepin County and the City of Minneapolis. Minneapolis is the lead applicant and would submit the application on behalf of the consortium.
2. Authorize staff to develop and the City Manager to execute a consortium agreement with the City of Minneapolis and Hennepin County, as required by the NSP2.
3. Hold a public hearing to take comments on the application to HUD, and set the public comment period for Brooklyn Park Neighborhood Stabilization Program 2 for June 16 - June 26, 2009.

Primary Issues/Alternatives to Consider:

Brooklyn Park's Foreclosure Response Plan

NSP2 funds, if received, will be used to expand the City's NSP1 program and could affect an additional estimated 125 foreclosed units in Brooklyn Park. Unlike NSP1, HUD will award the NSP2 funds on a competitive basis. If received, these funds will be critical in bringing Brooklyn Park's foreclosure recovery plan to scale, helping the City implement the third strategy in its foreclosure response plan, which includes: 1) foreclosure prevention, 2) preservation of foreclosed housing, and 3) foreclosure recovery.

NSP2 funds would be targeted at the most challenged housing in Brooklyn Park. The target geography for NSP2 is larger than was allowable under NSP1. The target geography was determined using HUD's foreclosure score and staff's knowledge of the housing stock. The area includes all census tracts in the community excluding the two most northern tracts and the southeastern tract (See attachment 5.1B).

NSP1 activities are underway in Brooklyn Park. On April 27, 2009, the City Council authorized execution of a Subrecipient Agreement with Hennepin County to receive approximately \$3.7 in NSP1 funds. At that time, the Council directed the Brooklyn Park Economic Development Authority (EDA) to administer the agreement. The EDA has since entered into agreements with two developers to assist with acquisition, rehabilitation, and resale of foreclosed properties and the EDA continues to develop and implement programs to utilize the NSP1 dollars for foreclosure recovery in the community.

The NSP 2 Application and Consortium Agreement

To meet the minimum qualifications to apply for NSP2 funds, Brooklyn Park, Hennepin County, and Minneapolis staff coordinated a partnership, which NSP2 calls a consortium. A consortium is two or more private or public nonprofit organizations with the capacity and experience to carry out proposed NSP2 activities. Minneapolis was identified as the lead applicant of the consortium, and will submit to HUD an application for the NSP2 funds by July 17, 2009.

According to the NSP2 requirements, a consortium agreement must be executed by all consortium members and submitted with the application. The agreement will include contributions and responsibilities of each consortium member, the division of NSP 2 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. The second agreement will include activities and timetables for completion and demonstrate necessary and reasonable costs.

As detailed in the attached table (5.1C), the consortium's total NSP2 application is approximately \$48.2 million and will impact up to 1,075 units. This total includes approximately \$4.2 million for Hennepin County, \$5.8 million for Brooklyn Park, and \$38.2 million for Minneapolis.

The NSP2 Plan

Similar to the NSP1 program, HUD imposed several requirements and restrictions on the NSP2 funds, loosely following the requirements of the Community Development Block Grant (CDBG) program. For example, 75% of the dollars must be used to benefit individuals at or below 120% of area median income and 25% of the dollars must be used to benefit individuals at or below 50% of area median income. HUD also requires the NSP2 funds to be spent within three years, homes to be purchased at a discount, and environmental standards to be met.

The following summarizes the intended uses of the NSP2 dollars in Brooklyn Park.

A) Financing/Down Payment and Closing Cost Assistance (50 Properties with \$0.5 Million)

Brooklyn Park will make available an average of \$10,000 per homebuyer for down payment and closing cost assistance. This activity will closely resemble the program being developed and administered by Hennepin County under the NSP1 program, as well as the Minneapolis Advantage program.

B) Purchase/Rehab (70 Properties with \$4.2 Million)

Brooklyn Park will use an average of \$60,000 per unit to provide development value gap financing to for-profit and 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 rehabilitated properties will be sold to income-qualified owner-occupants. In some cases, buyer assistance will also be used to support the new buyer.

C) Land Banking (3 Properties with \$0.45 Million)

In collaboration with Minneapolis and Hennepin County, Brooklyn Park will use a portion of the NSP2 funds to support land banking activities, including the efforts of the Twin Cities Community Land Bank LLC (TCC Land Bank). 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 encouraging re-use or redevelopment of vacant property. A portion of the NSP2 funds will be used by the TCC Land Bank to establish and operate the TCC Land. Once established, the TCC Land Bank will be available for Brooklyn Park to utilize if the City wants to purchase and set aside properties for future redevelopment. (See attachment 5.1D for additional details)

D) Demolition (0 Properties with \$0)

Brooklyn Park's NSP2 plan does not include funds for demolition because NSP2 discourages demolition and because the City has funds available for demolition activities under the NSP1 program.

E) Redevelopment (2 Properties with \$0.2 Million)

The current NSP2 strategy prioritizes rehabilitation of abandoned and foreclosed homes and residential properties over other properties for redevelopment. However, the strategic rebuilding of approximately two homes on vacant lots at an average development gap of \$100,000 per property will assist in meeting the 50% of area median income requirement and stabilize neighborhoods. Brooklyn Park would partner with a non-profit organization, such as Habitat for Humanity, to accomplish this activity.

F) Administration (\$0.45 Million)

NSP2 will be 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 1.5% of the administrative fees for the Hennepin County and Brooklyn Park funds.

Budgetary/Fiscal Issues:

To increase the competitiveness of the application to HUD for NSP2 dollars, Brooklyn Park needs to demonstrate how the NSP2 dollars will leverage local resources. Staff is recommending that the Brooklyn Park Economic Development Authority (EDA) set aside \$500,000 in available EDA funds to assist with interim construction financing for partners participating in the NSP 2 purchase/rehabilitation program. Financing terms would include:

- available for a up to 100% of the total development costs
- secured with a mortgage against the purchased property

- zero or low interest (less than 3%)
- due in full at re-sale of the property to an owner-occupant

This information about leveraged funds will be included in the application to HUD. If NSP2 funds are awarded to Brooklyn Park, the EDA will be asked to take official action to set aside the dollars.

In addition, if NSP2 funds are received, a significant amount of staff time will need to be dedicated to administering NSP2 programs. All costs incurred related to NSP2 can be covered with NSP2 funds and NSP2 allows for up to 10% of the awarded funds to be used for administration; therefore, there would be no negative impact on the budget and some time of existing staff currently charged to the general or EDA fund can be paid with NSP2 funds.

Attachments:

- 5.1A RESOLUTION
- 5.1B MAP OF TARGET GEOGRAPHY
- 5.1C NSP2 FORECLOSURE RECOVERY PLAN SOURCES AND USES
- 5.1D TWIN CITIES COMMUNITY LAND BANK

RESOLUTION #2009-____

RESOLUTION AUTHORIZING APPLICATION TO US HUD FOR NEIGHBORHOOD STABILIZATION PROGRAM 2, AUTHORIZING DEVELOPMENT AND EXECUTION OF THE CONSORTIUM AGREEMENT, AND AUTHORIZING THE BROOKLYN PARK ECONOMIC DEVELOPMENT AUTHORITY TO ADMINISTER THE AGREEMENT

WHEREAS, The US Department of Housing and Urban Development (HUD) created the Neighborhood Stabilization Program 2 (the "NSP2") to provide assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities; and

WHEREAS, the City of Brooklyn Park can apply for HUD's NSP2 funds as a consortium member with the City of Minneapolis and Hennepin County; and

WHEREAS, the City of Brooklyn Park needs to enter into a Consortium Agreement (the "Agreement") with the City of Minneapolis and Hennepin County that describes contributions and responsibilities of each consortia member, the division of NSP 2 funds, and a commitment to follow NSP2 requirements; and

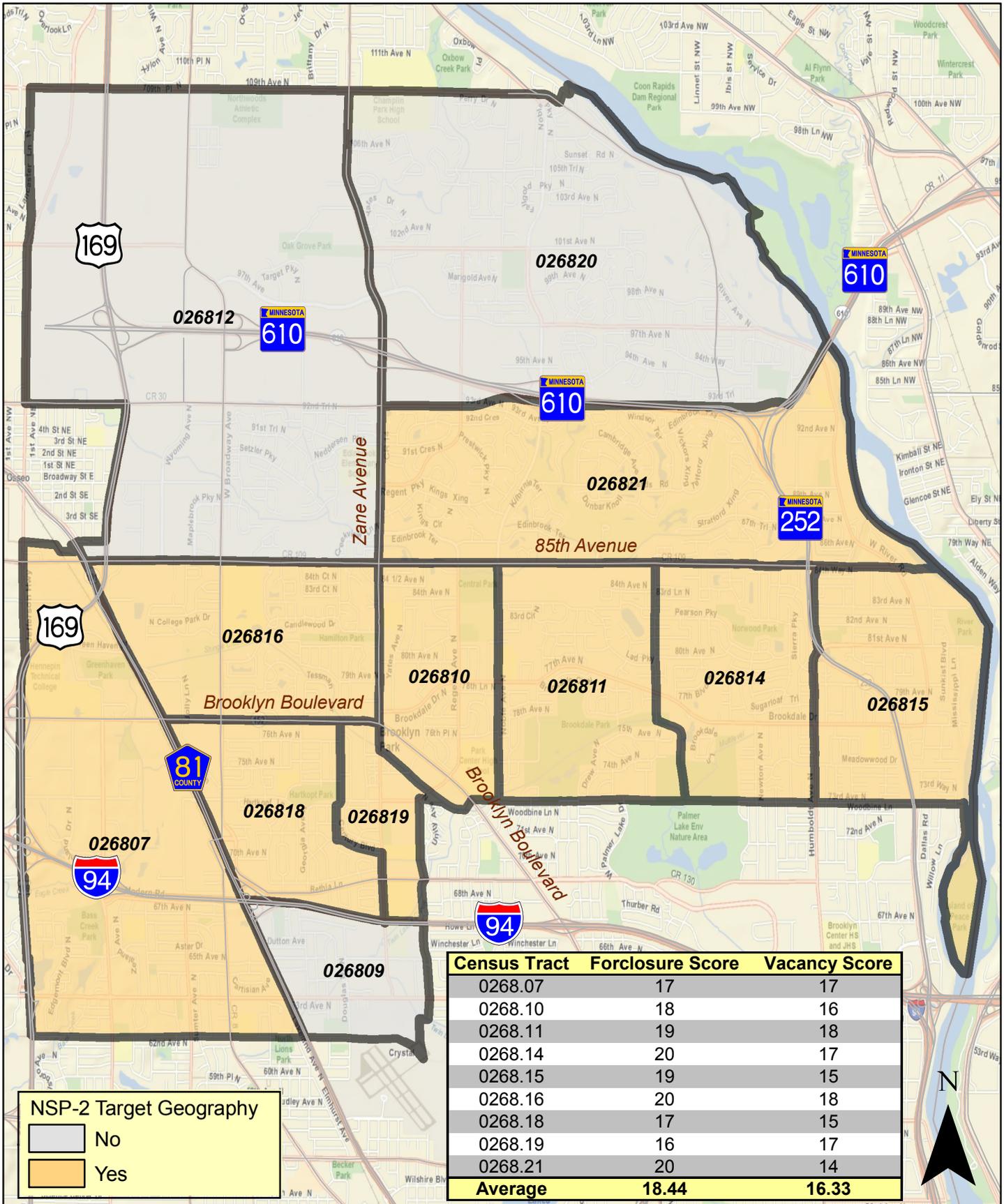
WHEREAS, an objective of the Brooklyn Park Economic Development Authority (the "Authority") is to protect and enhance Brooklyn Park's economic vitality and livability and the Authority has the ability to administer the NSP2 funds in accordance with the Agreement.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Brooklyn Park:

1. That city staff is authorized to submit to HUD an application for the NSP2 funds under the American Recovery and Reinvestment Act, 2009, by July 17, 2009, as a consortium member with Hennepin County and the City of Minneapolis. Minneapolis is the lead applicant and would submit the application on behalf of the consortium.
2. That city staff is authorized to develop, and the Mayor or the City Manager are authorized to execute, a Consortium Agreement with the City of Minneapolis and Hennepin County, as required by the NSP2, on behalf of the City.
3. That the Brooklyn Park Economic Development Authority (the "Authority") is hereby authorized and directed to administer the Agreement on behalf of the City, including execution of such third party agreements or such other documents as are necessary to receive and administer funds from the NSP 2.



Brooklyn Park NSP-2 Foreclosure Recovery Target Geography



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 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 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.

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