

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

Date: April 6, 2010
To: Council Member Goodman, Chair, Community Development Committee
Referral to: Council Member Hodges, Chair, Ways & Means/Budget Committee
Subject: **Minneapolis Neighborhood Stabilization Program 2 (NSP2)**

Recommendation: Staff recommends that the City Council:

1. Approve the program guidelines outlined in this report and direct CPED staff to issue a Request for Proposals for purchase rehab activities and a Request for Qualifications for redevelopment activities under the Neighborhood Stabilization Program 2 (NSP2) of the U.S. Department of Housing and Urban Development (HUD).
2. Authorize execution of a contract for acquisition intermediary services in support of NSP2 activities between the Twin Cities Community Land Bank LLC, a Minnesota nonprofit limited liability company, and the City of Minneapolis under the Neighborhood Stabilization Program 2 (NSP2) of the U.S. Department of Housing and Urban Development (HUD).
3. Authorize the CPED Director to make changes to the proposed NSP2 activities if necessitated by refinements made to NSP2 to meet HUD or programmatic requirements.

Previous Directives: On March 12, 2010, the City Council accepted the award of \$19,455,156 in NSP2 funds; authorized execution of the NSP2 grant 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; and authorized the execution of related NSP2 Consortium agreements. The City Council authorized 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. 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 the City of Brooklyn Park and Hennepin County.

Department Information

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Approved by: Thomas Streit, Director, Housing & Policy Development Charles T. Lutz, Deputy CPED Director
Presenters in Committee: Cherie Shoquist, Foreclosure Project Coordinator

Financial Impact: No other financial impact.

Community Impact

- 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

MINNEAPOLIS FORECLOSURE RECOVERY PLAN

In Minneapolis, 3,077 properties were foreclosed in 2008, 2,233 were foreclosed in 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 strengthen market recovery in our neighborhoods.

Minneapolis Three Point Plan for Foreclosure Recovery: (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 Plan for foreclosure recovery.

MINNEAPOLIS NEIGHBORHOOD STABILIZATION PROGRAM

In the next three years, Minneapolis NSP2 resources will provide for the financing of 70 homes, acquisition and demolition of 56 blighted properties, and rehabilitation and redevelopment of 134 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 NSP2 reinvestment. (See attached Minneapolis Neighborhood Stabilization Program 2 Map).

All funds must go to households at 120% AMI and below. NSP2 requires that 25% of all grant funds must go to households whose income is at 50% of area median income (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

Minneapolis applied and was funded for NSP2 as a consortium with Hennepin County and Brooklyn Park. The City has executed a grant agreement with HUD and consortium agreements with Hennepin County and Brooklyn Park for NSP2. The City has developed program guidelines with its consortium partners. A description of the Minneapolis NSP eligible activities, the number of properties impacted and the amount of NSP funds proposed for each activity is summarized below. (Also see the attached Minneapolis NSP2 Sources

and Uses for the Minneapolis \$15,424,156 and the City of Minneapolis Revised Budget and Activity list for the Minneapolis Consortium \$19,455,156).

Financing—\$1.5 million: Approximately 70 Minneapolis homeowners will receive up to \$20,000 in down payment and closing cost assistance. The assistance will provide affordability gap funding for homebuyers and will support Minneapolis neighborhoods in assisting the current housing market rebound. Hennepin County administered this program for NSP1 for both Hennepin County and Brooklyn Park. Hennepin County will administer the program for Minneapolis as well for NSP2. Staff analyzed the cost to administer the program (approximately \$1,400 per closing) and determined that it is reasonable based on the delivery cost for other City loan programs.

The program will provide financial assistance for low, moderate and middle income households (up to 120% of Area Median Income) to become homeowners in neighborhoods that have been impacted by the high rate of foreclosure to assist with homeowner and neighborhood stabilization. NSP requires that the eligible buyers purchase foreclosed upon homes and residential properties. The property must be located within an identified area of greatest need, in the Minneapolis NSP target area. (See attached Minneapolis Neighborhood Stabilization Program 2 Map). To meet HUD's NSP requirements the property must have a purchase price that does not exceed the area median income (currently \$276,683), be purchased at a 1% discount from the current market appraised value, meet environmental review, and meet other HUD eligibility standards. Potential homebuyers must complete a HUD-approved homebuyer education class.

Purchase and Rehabilitation—\$3.6 million: Approximately 54 units will be rehabilitated for rental. CPED will provide development gap financing to non-profit developers to rehab a foreclosed and/or abandoned property. The property will be rented to an income-qualified tenant. To meet the NSP requirements, 25% of the funds must house families with incomes at or below 50% of area median income. All the units in this category will be targeted to households at 50% area median income, or \$40,450 for a family of four in Minneapolis. Continuing affordability restrictions will be placed on the property.

CPED staff plan to issue a Request for Proposals to select non-profit developers that undertake the purchase and rehab of foreclosed multi-unit properties (two-units or higher). The City will provide on average a \$60,000 per unit development gap subsidy. The subsidy will be based on the difference between the total development cost and the after-rehab appraised value. This program will be implemented similarly to the City's NSP1 purchase and rehabilitation program.

Land Bank and Demolition—\$2 million: CPED will strategically acquire approximately 56 foreclosed properties that cannot be rehabilitated due to cost or condition, as determined by CPED construction management staff, and demolish and hold the vacant parcels (land bank) until the market is ready to absorb new development. This will facilitate a planned approach to market recovery. This activity is necessary to continue to drive the market back towards a healthy housing market.

CPED will be prepared for the future redevelopment of these properties in a viable housing market over the next 3 years with green and sustainable infill housing as a primary goal. One current effort is Bearden Place: A Design Competition in the Artists' Core, sponsored by the Builders Outreach Foundation, which encourages local and national architects to be creative in designing 4-6 units on a vacant lot in North Minneapolis, incorporating various levels of sustainable construction, live/work facilities, and artist housing.

Redevelopment—5.6 million: CPED will provide NSP2 funds for the redevelopment of demolished or vacant structures. CPED will provide on average a \$60,000 development gap financing to non-profit developers to cover the difference between the total development cost and the sales price for the purchase and rehab of a foreclosed and/or abandoned single

family home for homeownership to households at or below 120% AMI. This strategy will quickly return residents to neighborhoods hardest hit by foreclosure. The redevelopment activity is the most flexible category for neighborhood recovery efforts allowing the redevelopment of demolished or vacant structures as housing.

CPED staff plans to release a Request for Qualifications to non-profit developers that will undertake this activity. Staff will select eligible non-profit developers from the list of proposers and allow them access to the funds on a first-come, first-serve basis. The developer will be required to identify the prospective unit and submit property information to CPED for consideration for inclusion in the program. If the property meets the NSP2 requirements, an approval will be granted and a contract entered into.

The initial projects will be fully funded to cover the total development cost. This strategy is designed to minimize the need to secure interim construction financing, which is either hard to secure or may be expensive and leads to an increased development gap. Once the property is sold, the total development costs, less the development gap, is paid back to the City of Minneapolis and made available for future projects following the same process. However, because of limited NSP funds, as more properties are developed, the amount of money available for interim construction financing will be minimal and will require the developers to secure financing outside of NSP2. Financing may be secured from a traditional lender or from the Twin Cities Community Land Bank (TCCLB) which funded some NSP1 developers.

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 10 percent.

Twin Cities Community Land Bank. CPED will continue to use the services of the Twin Cities Community Land Bank (TCCLB) to facilitate the acquisition of vacant or foreclosed properties on behalf of the Minneapolis Consortium for NSP2 purchase and rehabilitation, land banking, or redevelopment activities. The budgeted funds for the TCCLB NSP2 activities over the three year life of the program are: up to \$600,000 Minneapolis, \$150,000 Brooklyn Park; and \$120,000 Hennepin County. The direction of the local HUD Office is that funding for TCCLB's NSP2 activities must be directly related to a NSP2 funded property. The City on behalf of itself and the consortium members will pay TCCLB a \$5,000 per property transaction fee. The TCCLB greatly enables the City of Minneapolis to strategically respond to the foreclosed and at-risk housing markets to effectively compete with investors who do not have community interests in mind. The TCCLB has the ability to purchase properties quickly, provides acquisition resources, and coordinates the National Community Stabilization Trust First Look Program which provides access to foreclosed properties from major lenders pre-market and at a discount.

The work of the TCCLB extends well beyond the parameters of Neighborhood Stabilization Program in its impact on the housing market in our NSP target areas. It brings significant leverage to our NSP strategies, including the nearly \$37,450,000 identified in our application to HUD for NSP funds. These funds are available with a priority to our non-profit NSP developers and are also available to other developers that meet community standards. Expanding the work of the TCCLB is the next step in our successful neighborhood recovery efforts, building on the successes of the Strategic Acquisition Fund and the First Look Program. The TCCLB is a major part of the recent Living Cities application for funding for transit oriented development. The work of TCCLB supports jobs, housing and transportation goals in the City of Minneapolis.

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 continue to “tip” our healthy housing markets in Minneapolis.