

PROPOSAL: NEIGHBORHOOD STABILIZATION PROGRAM – II AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The Neighborhood Stabilization Program – 2 (NSP-2) is one of the initiatives of the American Recovery and Reinvestment Act of 2009, also known as the “economic stimulus.” The program was modeled after the Neighborhood Stabilization Program – 1 (NSP-1) created in the Housing and Economic Recovery Act of 2008. NSP-1 is a formula-based entitlement program that distributed funding to local governments to acquire vacant, bank-owned foreclosed properties and rehabilitate them to re-enter the occupied-housing stock. The benefit of the program is threefold: banks dispose of foreclosed properties; neighborhoods have fewer vacant houses; and income-eligible households benefit from newly renovated homes. The City of Tallahassee was allocated \$2.94 million through the State of Florida to acquire properties through NSP-1. The City Commission approved the plan for the use of NSP-1 funds at the March 25, 2009 City Commission meeting. The City is expected to enter a contract with the Department of Community Affairs (DCA) in June 2009 and will begin implementing the program.

Properties in foreclosure continue to be a problem across the country, prompting the U.S. Congress to add the Neighborhood Stabilization Program – 2 (NSP-2) to the American Recovery and Reinvestment Act of 2009. NSP-2 is a competitive program rather than an entitlement program. NSP-2 regulations are virtually identical to NSP-1 with few exceptions: the eligible target area for NSP-2 is smaller, the required discount for acquisition is 5% rather than 15%, and there are fewer layers of regulation than the State NSP-1 program.

Target Geography

One difference between the NSP-1 regulations and NSP-2 is the rating system of eligible geographies where NSP-2 may be spent. The U.S. Department of Housing and Urban Development (HUD) released new data in May 2009 related to the risk of foreclosure by census tract. The new data had a rating scale of 1 – 20 and scored both foreclosure risk and vacancy risk caused by foreclosure. To apply for funds, selected census tracts must score an average of 18 in one of the two categories. The result for Tallahassee was to narrow the NSP-1 target geography for the NSP-2 program. Eligible census tracts qualified for the program under the vacancy risk category. Staff analyzed eligible census tracts and the potential of acquiring foreclosed properties. NSP-2 requires that funding must be spent in every selected census tract. Staff proposes that the City concentrate NSP-2 funds in census tracts 19.00, 10.01, and 11.01 (*see NSP-2 map*). The census tracts are located within the Southern Strategy Area, targeted for redevelopment and reinvestment in the Tallahassee Comprehensive Plan. The advantage of this NSP-2 target area is that the census tracts are at least partially within the Frenchtown-Southside Community Redevelopment Area (F/S CRA). CRA funds may be used in conjunction with NSP-2 funds for greater impact.

Program Criteria

NSP-2 funds may only be used to address bank-owned foreclosed properties. The minimum award that can be requested from HUD is \$5 million to assist at least 100 units to return to the

occupied housing stock. No more than 10% of the funds may be used for administrative costs. Households that occupy the rehabilitated or redeveloped housing shall not earn more than 120% of area median income (AMI) and at least 25% of the NSP2 funds must be used to assist households earning less than 50% AMI. The NSP-2 application requires Tallahassee to select eligible NSP-2 activities that would address the highest priority local needs. Eligible activities through the NSP-2 program are as follows:

- A. Housing Finance mechanisms for purchase of foreclosed homes.
- B. Purchase and rehabilitate homes that have been foreclosed upon.
- C. Land banking: must be built and occupied within 10 years.
- D. Demolition of blighted structures (limited to 10% of award).
- E. Redevelop demolished or vacant properties as housing.

Citizen Participation

To get feedback about proposed activities and to satisfy the citizen participation requirements staff advertised a public meeting, and a meeting of the Community Improvement Advisory Council (CIAC). The public meeting will be held June 9 and the CIAC meeting will be held June 10, 2009. The public comment period will be open from June 3 to June 30, 2009. This summary of the NSP2 program will be posted on the City of Tallahassee website during the comment period.

Proposed Use of NSP-2 Funds

Staff estimates the budget will be as follows:

Strategy	Amount allocated	Estimated housing units
Administration (10%)	\$1,000,000	0
Purchase and rehabilitate homes that have been foreclosed upon	\$9,000,000	100
TOTAL	\$10,000,000	100

Staff believes that \$100,000 per unit would be needed to acquire and successfully rehabilitate vacant foreclosed housing units for re-occupation. Acquisition costs in Tallahassee are likely to be at least \$50,000 per unit. The Housing Division operates several specialized rehabilitation programs using state and federal housing assistance funds to bring low-income owner-occupied and rental housing up to code. Some homeowners take advantage of multiple rehabilitation programs to correct the health and safety issues within the homes. Some homes require \$40,000 - \$50,000 of repairs. In addition to bringing the housing units up to code, the City will use green building techniques and add energy efficiency improvements for improved long-term affordability. The energy efficiency improvements will add to the cost of rehabilitation.

Housing data for Tallahassee has shown that there is a shortage of rental housing units for very low-income households. The City Commission has expressed the desire to expend housing

assistance funds on multi-family rental units. Annual allocations of federal, state, and local housing assistance funds have not sufficiently addressed the rental housing need because of program requirements and homeownership priorities. Staff believes focusing all NSP-2 funds on rental housing will result in needed housing units for very low-income households. The NSP-2 requires that all housing units serve households earning less than 120% of area median income (AMI). Nearly all of the NSP-2-assisted housing units will be targeted for households earning less than 80% AMI and at least half the units rehabilitated will be targeted for households earning less than 50% AMI. The provision of different housing types and costs is a policy of the Southern Strategy Area Plan within Tallahassee's Comprehensive Plan. The NSP-2 program is consistent with the goals of the Community Redevelopment Area.

The City proposes to use all NSP-2 funds to rehabilitate housing rather than demolish and redevelop housing. Rehabilitation preserves the original character of the neighborhood homes and it is more economical. HUD limited the amount of NSP-2 funds that could be used to demolish housing to 10% because it is preferable to preserve housing.

Implementation of NSP-2 funds

The Department of Economic and Community Development (ECD) is the agency responsible for the implementation of NSP-2. ECD developed a Housing Assistance Plan for NSP-1, that was approved for submittal to the Florida Department of Community Affairs at the March 25, 2009 City Commission meeting. The NSP-1 plan for implementation includes the NSP-eligible activity to acquire and rehabilitate housing. The NSP-1 program requires the City to use "green" or environmentally-friendly building practices will be used to the greatest extent possible, follow Davis Bacon labor standards, enforce affordable rent limits, and follow all other federal regulations associated with the Community Development Block Grant program. The NSP-2 program follows the same regulations as NSP-1. The Housing Assistance Plan approved by the City Commission will apply in the implementation of NSP-2.

The City's Real Estate Division and Housing Division will partner on the acquisition of foreclosed properties. The Real Estate Division has years of experience acquiring property for the City, and each staff member is a licensed real estate professional. Properties acquired in NSP-2 must be purchased at a 5% discount or greater, below appraised value. The Housing Division will contract out services for rehabilitation work on the acquired properties. The Housing Division already operates several housing rehabilitation programs totaling approximately \$1.5 million in assistance per year. During construction, staff will make frequent visits to properties to verify compliance with all regulations. A desk audit will be performed for every pay request submitted by a contractor. The City Auditor's Office will internally monitor acquisition and rehabilitation activities for NSP-2 to ensure transparency as required by the American Recovery and Reinvestment Act of 2009.

The City will partner with experienced non-profit or for-profit agencies to manage the housing units. The City will enter into management contracts with the property managers to ensure the housing units are affordable for a minimum of 15 years. Property managers will verify the income-eligibility of rental housing residents once per year at the time of lease. The City will

monitor the income-eligibility of tenants, rent limits and the management of units in an annual monitoring visit.

Timeline for NSP-2

Tallahassee must submit its application for funding to HUD by July 17, 2009. HUD expects to make decisions on the NSP-2 awards by December 1, 2009. As with the other economic stimulus funds, one of the federal objectives of the NSP-2 is to expend the funds quickly. Half of the NSP-2 funds must be spent within two years of the City entering a contract with HUD and 100% must be spent within three years of the City entering into a contract with HUD.

Action	Date of completion
Notice published in newspaper, COT website	June 3
Public hearing	June 9
CIAC meeting	June 10
Long Range Target Issue meeting discussing proposed use of NSP-2 funds	June 17
City Commission meeting – approve proposed use of NSP-2 funds, authorize application	July 1
Send signed NSP-2 application Overnight Mail	July 14
HUD makes decision about NSP-2 awards	December 1
Half the NSP-2 funds must be spent	@ January 1, 2012
Full amount of NSP-2 funds must be spent	@ January 1, 2013