THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: March 12, 2010 REPORT NO: 10-015

ATTENTION: Public Safety and Neighborhood Services Committee
Agenda of April 7, 2010

SUBJECT: Neighborhood Stabilization Program Second Revision Hearing

REQUESTED ACTION:
Accept the proposed revision to the Neighborhood Stabilization Program (NSP) Substantial Amendment and forward to the City Council for approval and adoption.

STAFF RECOMMENDATION:

Adopt the Requested Action.

SUMMARY:

The Neighborhood Stabilization Program (NSP) is a one-time supplemental Community Development Block Grant (CDBG) program that enables states and local governments to assist in the redevelopment of abandoned and foreclosed homes and residential properties in those areas hardest hit by the foreclosure crisis. Through the Housing and Economic Recovery Act of 2008 (HERA), the U.S. Department of Housing and Urban Development (HUD) has awarded stimulus funding to states and local governments to carry out, on an expedited basis, eligible activities under NSP.

The City of San Diego, as a CDBG entitlement grantee, received $9,442,370 in NSP funds. In order to access this funding, the City of San Diego submitted an application in the form of a Substantial Amendment to the Consolidated Plan 2009 Action Plan (NSP Plan) to HUD on November 25, 2008. The City has a deadline of September 30, 2010 to obligate all NSP funds to specific eligible projects or return any unobligated funds to HUD. The City then has an additional 30 months to expend all NSP funds.

A key requirement of the NSP grant is that "no less than 25 percent of the funds appropriated or otherwise made available under this section [Section 2301 of HERA] shall be used for the purchase and redevelopment of abandoned or foreclosed homes or residential properties will be used to house individuals or families whose incomes do not exceed 50 percent of area median income." This requirement is commonly referred to as the 25% Low-Income Set-Aside, and corresponds to the Acquisition/Rehabilitation and Rental to Low-Income Tenants activity identified in the NSP Plan. If the City's NSP program did not meet the 25% Low-Income Set-Aside, the program would be considered not in compliance with its grant agreement with HUD and the City would risk recapture by HUD of its entire NSP grant.

The City's NSP Plan currently states that, to meet the 25% Low-Income Set-Aside, "SDHC [San Diego Housing Commission, the City's NSP subgrantee] and or a community-based, non-profit partner would purchase vacant foreclosed properties in the areas of the city most impacted by the foreclosure crisis (Council Districts 3, 4, 7 and 8). These properties will then be rehabilitated and rented to families earning 50% AMI or less at initial occupancy. SDHC or a community-based, non-profit partner would retain these units within its portfolio and will be responsible for all property management functions."

To date, the SDHC has received only one viable proposal for a project that would comply with the requirements of the 25% Low-Income Set-Aside and the Acquisition/Rehabilitation and Rental to Low-Income Tenants activity. The project, located in Council District 3, is being proposed by Affirmed Housing, a for-profit affordable housing developer. If pursued, the Affirmed Housing project would allow the City to obligate and expend $3.6 million of its NSP grant (38%) and meet the Low Income Set-Aside requirement.

In order to proceed with the Affirmed Housing project, the SDHC has requested that City staff seek City Council approval of a revision to the language in the NSP Plan, pages 6 and 19, to add the category of for-profit developers to the entities that may participate in the Acquisition/Rehabilitation and Rental to Low-Income Tenants activity. For-profit developers are allowed to participate in NSP activities under the NSP program regulations.

FISCAL CONSIDERATIONS:

This action will not result in any fiscal impacts to the City's General Fund. Funds are available from the U.S. Department of Housing and Urban Development.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

City Council – November 18, 2008: Approval of first NSP Substantial Amendment and appropriation of grant funds.

City Council and Housing Authority – September 15, 2009: Approval of first revised NSP Substantial Amendment to add Acquisition/Rehabilitation and Resale to Eligible First-Time Homebuyers activity and transfer of $1.7 million from the Financing Mechanism activity tothe Acquisition/Rehabilitation and Resale activity.

Public Safety and Neighborhood Services Committee – April 7, 2010: Recommendation to Council to approve Neighborhood Stabilization Program Second Revision.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

A Public Notice for the proposed reallocation is being published in the Union Tribune and the City's CDBG program webpage (www.sandiego.gov/cdbg/general). The public will have an opportunity to comment when the City Council considers adoption of the reallocation at a public meeting.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Residents of low and moderate income communities.

Beth Murray
Deputy Director
Economic Development Division

William Anderson, FAICP
Director
City Planning & Community Investment

Attachments:

1. Excerpts from NSP Substantial Amendment Showing Proposed Edits

Report to the City Council No 10-015
Attachment 1 Revised:

Excerpts from NSP Substantial Amendment Showing Proposed Edits home would be expected to provide a 3% down payment and any excess closing costs beyond the SDHC grant.

Eligible homebuyers must be FTHBs (not having owned a residence within the past three years). Household gross income cannot exceed 120% AMI ($86,500 for a family of four). The buyer must be pre-approved, with verifiable household income, in good credit standing, and provide 3% of final sales price for their down payment. The buyer would also be expected to pay any excess closing costs over the SDHC 3% closing costs grant. Maximum housing expense and other credit debts would not be able to exceed 42% total debt ratio of gross household income.

SDHC would offer local banks assistance to sell their REOs through our FTHB programs if they offer single family residences and condos at prices 5% below appraised values. Banks with REOs, FTHB program lenders, real estate agents, home buyer counselors, and the SDHC would all advertise the availability of eligible REOs with assistance from the SDHC modified FTHB program.

Appraised values would need to be determined for eligible REO properties. Buyers who have been pre-approved would need to make the offer to purchase the eligible REO from the bank subject to a mutual agreement on an adjusted actual rehab cost to be determined later. For pre-1979 residences, SDHC will obtain bank authorization for lead testing and schedule a lead test within one week and arrange access to the home from the bank.

The bank would complete the underwriting for their 70% 1st Trust Deed and forward the loan package to the SCHC Loan Management staff for underwriting the SDHC 2nd Trust Deed and closing cost grant. When both loans are approved, the buyer would select a contractor from the submitted bids. The buyer would sign the bank and SDHC loan documents and construction contract. Escrow would receive the bank's 1st Trust Deed amount, the buyer's 3% down payment, the SDHC 3% closing cost grant and a portion of the SDHC 2nd Trust Deed to complete the purchase escrow, pay the bank the negotiated purchase price and close within 30 to 45 days.

Depending on the price discounts that can be achieved in the REO negotiation phase the number of homeowners that could be assisted with the $6.4 million (total grant less the 25% low income set aside and 10% administration) that can assist up to 120% AMI:

- Home priced at $200,000 (plus $30,000 rehab) would assist 92 buyers
- Home priced at $250,000 (plus $30,000 rehab) would assist 75 buyers

Acquisition/Rehabilitation & Rental for Low Income Tenants (Section 2301(f)(3)(A)(ii))

There is a low income set aside provision in HERA where at least 25% of the NSP funds must be utilized for the benefit of families at or below 50% AMI. The City would once again grant the 25% to SDHC for administration as a sub-recipient of the funds for this program. SDHC has developed a program which would be modeled on SDHC's Public Housing Disposition plan.

Pursuant to HUD regulations, a tenant earning less than 50% AMI can only spend up to 30% of their income on housing. This restriction means that the income generated off of the rents for families at 50% AMI does not provide enough capital to maintain and operate the units at an acceptable level. Therefore, utilizing the Section 8 voucher program, the family would still pay only 30% of their income in rent, however the voucher would allow SDHC to realize higher rents through the subsidy from HUD. This additional income from the voucher would allow SDHC to maintain, operate and even expand the program.

To do this, SDHC and or a community-based, non-profit partner or for-profit developer would purchase vacant foreclosed properties in areas of the city most impacted by the foreclosure crisis (Council Districts 3, 4, 7 and 8). These properties will then be rehabilitated and rented to families earning 50% AMI or less at initial occupancy. SDHC or a community-based, non-profit partner or for-profit developer would retain these units within its portfolio and will be responsible for all property management functions.

With a rehabilitated cost of $300,000 per unit being utilized, this assumes all homes will contain three bedrooms and a high standard for rehabilitation including lead based paint remediation as required.

In order to proceed expeditiously in response to the current crisis, it is recommended that SDHC pay cash for all costs associated with the acquisition and rehabilitation of the units and lease-up to eligible families, then leverage the properties utilizing conventional financing to the greatest extent feasible and repeat the acquisition/lease-up process.

Eligible households will receive a Project Based Housing Choice Voucher to be used first to assist the family with a rental subsidy and eventually as a Section 8 Homeownership opportunity. It is expected that through the use of Project Based Section 8 vouchers the increased revenue stream will allow for the purchase and rehabilitation of a greater number of foreclosed homes. It is estimated that approximately 30 self-sustaining rental homes could be created.

Redevelop Demolished or Vacant Properties (Section 2301(c)(3)(E))

In certain instances, the condition of specific units may warrant demolition instead of rehabilitation. A primary basis would be the proposed cost of rehabilitation. In such cases where the rehabilitation costs exceed the acquisition costs, staff would consult with the City's Development Services Department of Inspections regarding the structural soundness of the house. If deemed appropriate, demolition would occur. Plans to develop the parcel as an infill unit or units would commence as soon as practicable and may necessitate the partnership with local non-profit developers. Several redevelopment options would be considered. One option would be to sell the parcel to a non-profit developer for new construction; another option would be to make it available to a non-profit developer for special needs housing. Other possible uses under this activity type might include vacant, foreclosed properties that allow for the expansion or improvement of a public facility.

Activity 3

(1) **Activity Name:**
Acquisition/Rehabilitation & Rental for Low Income Tenants

(2) **Activity Type:** **(include NSP eligible use & CDBG eligible activity)**
NSP – acquisition/rehabilitation/rental;

CDBG – 24 CFR 570.201(a) acquisition, and 24 CFR 501.202, rehabilitation.

(3) **National Objective: (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP Notice—i.e., ≤ 120% of area median income).**
Beneficiaries will be low-income clientele, as defined by the NSP Notice. All participants will be restricted to the income levels below 50% as promulgated by HUD for this purpose.

(4) **Projected Start Date:**
Upon release of the funding by HUD.

(5) **Projected End Date:**
As long as funds are available (additional funds such as program income, may be allocated to this activity depending on the success of the acquisition/rehabilitation and rental portions of the NSP program and changing neighborhood dynamics as areas become more stabilized) and continued acquisition/rehabilitation/rental of properties continues, these funds will end no later than July 2013.

(6) **Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)**
San Diego Housing Commission
1122 Broadway, Ste. 300
San Diego, CA 92101
Administrator: Steve Snyder, (619) 578-7545, steves@sdhc.org
The City of San Diego's Community Investment Department will assist in the oversight of the program.

(7) **Location Description: (Description may include specific addresses, blocks or neighborhoods to the extent known.)**
Citywide, but staff has identified those neighborhoods south of El Cajon Blvd. and east of State Route 163 as the areas of greatest need and where NSP funds and activities will be given the highest priority.

(8) **Activity Description:**
Include a narrative describing the area of greatest need that the activity addresses; the expected benefit to income-qualified persons; and whether funds used for this

activity will be used to meet the low income housing requirement for those below 50% of area median income.

For housing related activities, include:
- **tenure of beneficiaries--rental or homeownership;**
- **duration or term of assistance;**
- **a description of how the design of the activity will ensure continued affordability.**

For acquisition activities, include:
- **discount rate**

For financing activities, include:
- **range of interest rates**

This activity is for the acquisition/rehabilitation/rental of foreclosed upon properties and will be reserved strictly for household earning less than 50% AMI. The San Diego Housing Commission or a community-based, non-profit organization or for-profit developer will purchase single family residences and the San Diego Housing Commission will issue each tenant a Project-Based Section 8 voucher. The unit will remain in the portfolio of the Housing Commission~~'s~~ or community-based, non-profit partner or for-profit developer~~'s portfolio~~ until the family can purchase the unit or it is offered to another eligible family. This will in turn allow each family to enter into the long term possibility of homeownership. The family will always pay no more than 30% of their income pursuant to HUD Section 8 regulations. By leveraging the increased rental revenue generated by the voucher, the Housing Commission will be able to seek out additional leveraging through conventional loan mechanisms and expand the program.

(9) **Total Budget: (Include public and private components)**
The initial budget from NSP funds is $2,124,533. Private components are not included, presuming worst-case scenario. Presuming the best-case scenario would assume a leveraging component for the expansion of the product. This activity, depending on interest rates being offered by the lending institutions at the time, may result in the leveraging of the NSP funds at a 4:1 ratio. Note that this is the primary NSP activity for the low income set aside portion of the funding, and the budget may be increased by reduction of other activity budgets should circumstances warrant.

(10) **Performance Measures (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels of households that are 50 percent of area median income and below, 51-80 percent, and 81-120 percent):**
This activity is providing housing opportunities through the acquisition/rehabilitation/rental of foreclosed upon homes and residential properties. The performance measurement outcomes will be measured by the number of rental units provided to families making at or below 50% AMI. This activity is not expected to assist any households over 50% AMI. The initial anticipated number of families to be served by this product is 30.