



CITY COUNCIL AGENDA REPORT

MEETING DATE: 6/2/09

ITEM NUMBER:

SUBJECT: NEIGHBORHOOD STABILIZATION PROGRAM (NSP) 1

DATE: MAY 18, 2009

FROM: CITY MANAGER'S OFFICE / HOUSING & COMMUNITY DEVELOPMENT

PRESENTATION BY: MURIEL ULLMAN, NEIGHBORHOOD IMPROVEMENT MANAGER

FOR FURTHER INFORMATION CONTACT: MURIEL ULLMAN AT (714) 754-5167

RECOMMENDATION:

That the City Council:

1. Approve the Resolution and Joint Partnership Agreement by and between the Cities of Costa Mesa, La Habra and Fullerton (Attachment A).
2. Authorize the City Manager to approve and execute the Sub-Recipient Agreement by and between the City of Costa Mesa and City of Fullerton in a form approved by the City Attorney
3. Authorizes staff to release a Request for Proposal for a foreclosure acquisition and/or down payment assistance and rehabilitation program.
4. Approve the Residential Anti-Displacement and Relocation Assistance Plan.

BACKGROUND:

Last July, the U.S. Housing and Urban Development allocated a total of \$3.92 billion to all states and particularly hard-hit areas trying to respond to the effects of high foreclosures. HUD's new [Neighborhood Stabilization Program](#) (NSP 1) provides targeted assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. Only properties located in places with the greatest percentage of home foreclosures, sub-prime mortgages and/or significant foreclosure risk are eligible for funds. Eligible uses include:

- Establishment of financing mechanisms for the purchase and redevelopment of foreclosed homes and residential properties, including such mechanisms as soft-seconds, loan loss reserves, and shared-equity loans for low-and moderate-income homebuyers;
- Purchase and rehabilitation of homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties;
- Establishment of land banks for homes that have been foreclosed upon;

- Demolition of blighted structures; and
- Redevelopment of demolished or vacant properties.

For the foreclosure acquisition/down payment assistance program, properties must be purchased at a 15% discount from a lender accompanied by a recent appraisal and must be vacant in order to avoid relocation payments. Only households earning up to 120% of the Orange County Median are eligible to participate in any of the NSP programs.

“Tier 1” funds went to jurisdictions with greatest need as determined by a complex HUD based formula based on the number of local foreclosure starts as a percentage of statewide foreclosure starts and local foreclosure rate as a percentage of the total state foreclosure rate. Although Costa Mesa did not receive Tier 1 funds from HUD, it may apply for “Tier 2” State NSP 1 funds (\$303,000) provided it combines its allocation with other jurisdictions in the County through a joint agreement to meet or exceed the state mandated \$1 million threshold. Based on the above, staff began negotiations with the cities of La Habra and Fullerton in attempt to form a joint partnership in order to reach the required threshold. Fullerton has agreed to be the lead agency since they will be receiving \$608,623.

The State delayed releasing the Notice of Funding Availability (NOFA) until early May 2009. Training was held on Wednesday, May 6th. Because of the abbreviated time frame for State application submittal (June 15th) as well as the two mandatory public hearings to be held by the lead agency (one of which must be heard 15 days prior to the second hearing and prior to application submittal), citizen participation and program development is already underway. The joint partnership agreement is presented to you tonight so that Costa Mesa can formally approve the tri-city partnership, application submittal and program concept.

Because of the State delay in issuing the NOFA, cities have an abbreviated time frame within which to develop and implement the program. Cities are required to commit 75% of their funds no later than December 2009 with all funds obligated no later than March 2010.¹ Additionally 45 days prior to the March 2010 date, (February 15, 2010) unspent funds may be turned over to the other JPA partners if Costa Mesa is unable to obligate these funds. This is an extremely aggressive time when one considers that not only does the program have to be approved by the legislative body, but the request for proposal must be issued, developer chosen, contract negotiated and funds committed. The State will also be looking for the cities’ internal capacity to get their programs up and running quickly when it evaluates the program submittal.

ANALYSIS:

Eligible Areas

Attachment B is a map of foreclosed properties and high-risk areas as defined by HUD. These areas are located mainly in the northern and southern parts of the City and lie partially in CDBG target areas. Based on information obtained from a local realtor, there are currently 13 trustee pending sales and 3 foreclosed properties which are available from lenders. Recent data obtained from Code Enforcement Division reveals that there are over 400 properties in various states of foreclosure in the City.

¹ As a point of reference, the HOME Program allows cities to commit funds within 24 months and expend funds within 5 years.

Program Options

Staff has been working for several weeks with both the cities of Fullerton and La Habra in the development of a sound NSP 1 program structure. Notwithstanding the above, implementing a successful NSP program will be challenging for cities such as Costa Mesa due to the limited number of lender owned vacant foreclosed properties as compared to other areas. This combined with expedited commitment/expenditure timelines; time needed for contract negotiation and complex regulations governing the program have prompted staff to recommend that NSP funds be committed to a foreclosure acquisition and rehabilitation and/or down payment assistance programs. These programs would be administered by an experienced housing development organization. All properties would be purchased by the organization and sold and rehabilitated (if needed) for purchase by low and moderate-income buyers. All buyers would be expected to contribute either sweat equity or a minimal down payment. NSP assisted properties would be subject to continued affordability based on statutory requirements of both the Redevelopment Agency Health and Safety Code and the HOME program. No profits could be made on the home sales. Staff is also suggesting that the \$303,000 in NSP funds be combined with redevelopment first time homebuyer funds so as to make a greater impact in the community for a total of approximately \$600,000.

The cities of La Habra and Fullerton will also be recommending a foreclosure/acquisition program to their city councils. In fact, since all three cities will only be receiving approximately \$1,300,000 they are hoping to release a joint RFP and hire one housing development organization to purchase foreclosures in all three cities.

Joint Partnership Agreement

In its allocation methodology for NSP 1, HCD established a minimum threshold of \$1 million in order for jurisdictions to receive funds under Tiers 1 or 2. To reach this threshold, jurisdictions eligible to receive an allocation of less than \$1 million need to enter into a joint agreement with other cities in the county, providing these jurisdictions are also eligible to receive State NSP funds as listed under Tiers 1 or 2, and their combined allocations meet or exceed the minimum threshold. As stated above, the City of Costa Mesa has already started working with the cities of Fullerton and La Habra in pursuit of each jurisdiction's NSP allocation.

Sub-recipient Agreement

Where a participating unit of general local government carries out an eligible NSP-activity funded by the lead grantee, these entities are responsible for executing a written sub-recipient agreement with the units of government containing the minimum requirements found at 24 CFR 570.503 before disbursing any NSP funds for any such activity or project. The sub-recipient agreement must remain in effect during any period that the unit of local government has control over NSP funds and activities, including program income. The lead agency is to retain documentation.

Residential Anti-Displacement and Relocation Assistance PLAN

In order to apply for NSP 1 funds, the City is required to prepare and submit an approved Residential Anti-Displacement and Relocation Assistance Plan. The Plan's objective is to ensure that eligible persons who may be displaced or are displaced as a result of the City's Housing & Community Development programs and projects receive required relocation advisory assistance and benefits as mandated by federal and state laws. (Attachment C)

ALTERNATIVES CONSIDERED:

The City of Costa Mesa can decline NSP 1 funds and choose not to entire in a joint partnership agreement with the cities of La Habra and Fullerton.

LEGAL REVIEW:

The City Attorneys' Office prepared the Joint Partnership Agreement in compliance with the NSP requirements, as well as the Sub-Recipient Agreement between Costa Mesa and Fullerton

CONCLUSION:

It is recommended:

1. That the City Council approve the Resolution and Joint Partnership Agreement by and between the cities of Costa Mesa, La Habra and Fullerton (Attachment A).
2. That the City Council authorize the City Manager to approve and execute the Sub-recipient Agreement by and between the City of Costa Mesa and City of Fullerton in a form approved by the City Attorney
3. That the City Council authorizes staff to release a Request for Proposal for a foreclosure acquisition and/or down payment assistance and rehabilitation program.
4. That the City Council approve the Residential Anti-Displacement and Relocation Assistance Plan (Attachment C).

Muriel Ullman
Neighborhood Improvement Manager

Thomas R. Hatch
Assistant City Manager

Kimberly Hall Barlow
City Attorney

[Attachment A - Resolution and Joint Partnership Agreement by and between the Cities of Costa Mesa, La Habra and Fullerton](#)

[Attachment B - Map of Foreclosed Properties in Costa Mesa](#)

[Attachment C - Residential Anti-Displacement and Relocation Assistance Plan](#)