



REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: December 16, 2008

SUBJECT: Public Hearing on the Neighborhood Stabilization Program

Report in Brief

The City of Woodland received a preliminary award of \$468,395 under the Neighborhood Stabilization Program (NSP) to purchase, redevelop, and finance foreclosed homes and rental properties in the City. To apply for the funds the California State Office of Housing and Community Development (HCD) requires two public hearings. The first public hearing is required to accept comments on the program design phase.

Staff recommends that the City Council hold a public hearing on the Neighborhood Stabilization Program to accept comments on the program design phase and the proposed use of the funds in Woodland for low and moderate income homebuyers.

Background

In July of this year, Congress passed the Housing and Economic Recovery Act of 2008, also known as H.R. 3221 which included an allocation of \$3.9 billion dollars in funds to cities, counties and states for the purchase and redevelopment of foreclosed housing to stabilize local neighborhoods. On September 26th, the U.S. Department of Housing and Urban Development (HUD) announced its allocation list and program requirements for the Neighborhood Stabilization Program (NSP) as it has now been named. These funds can be used for five eligible activities:

1. The establishment of financing mechanisms for the purchase and redevelopment of foreclosed homes and rental properties, including low interest loans, downpayment assistance, silent seconds, loan loss reserves, and shared-equity loans for households of 50-120% of area median income (AMI);
2. The purchase and rehabilitation of homes and rental properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties;
3. The establishment of land banks for homes that have been foreclosed upon;
4. The demolition of blighted residential structures; and
5. The redevelopment of demolished or vacant residential properties.

Because of the lower relative number of foreclosed units, Woodland did not receive a direct allocation from HUD. Instead, HCD received a direct allocation of \$145 million which it will disburse to individual jurisdictions after an application process. The maximum each jurisdiction can receive was announced November 14th. From that allocation, collectively, Woodland, West Sacramento, and Yolo County can receive \$1,319,114 in Neighborhood Stabilization funds. Woodland's individual allocation is \$468,395.

In order to obtain these funds Woodland, West Sacramento, and Yolo County must establish a Memorandum of Understanding (MOU) and submit a joint application when the Notice of Funding Availability (NOFA) is released in January 2009. Woodland cannot apply for their portion of funds without the other two jurisdictions.

Staff met with West Sacramento and Yolo County representatives on Wednesday, November 19th to discuss their program design ideas, who would be the lead agency and how the administration funds would be distributed. At the conclusion of the meeting, the three jurisdictions had outlined a schedule to include two public hearings in time for the application's submittal as required by the State. It was determined it would be appropriate to hold the first public hearing to receive comments prior to January and Woodland staff scheduled that public hearing for the December 16 Council meeting. The representatives still need to who will be the lead agency and how the administration funds would be distributed or who the lead agency would be.

The NSP does not require matching funds. The program does allow for administration expenses. Under the State's allocation, the State will receive five percent of each allocation and the eligible local governments will receive five percent, for a total of 10 percent for administration costs per the program legislation. Depending on how the MOU is structured and who the lead agency will be, the maximum amount of administration funds the City will receive to manage the program is approximately \$23,000.

Discussion

With these funds, staff is proposing to assist low and moderate income homebuyers (50-120% AMI). Because of the need to coordinate with two other jurisdictions and the fact that program guidelines are still being drafted, it is not yet clear what the details of the program might be. Some options are that the City can buy homes directly, rehabilitate them and resell them. Under this option, the City would be limited to assisting 2-3 households. An alternative option is to offer financial assistance to buyers. The City may also attempt to reduce the levels of financial assistance needed by limiting the program to areas outside the floodplain (to avoid the high cost of flood insurance) or properties that do not require payment of Mello-Roos bonds. These provisions would expand eligibility to more buyers and cover more projects. Using only NSP funds, staff estimates the City could assist approximately four to six households if the program was focused on homebuyer assistance. If the NSP funds can be leveraged with Community Development Block Grant (CDBG) funded Housing Rehabilitation loans or other funds, it is estimated that approximately six to eight households could be assisted. Staff estimates there are about 100 foreclosed homes in Woodland.

In order to increase efficiency and speed of implementation, City staff expects to use the existing homebuyer assistance program with its network of private lenders, real estate agents, and NeighborWorks' loan packaging services.

One issue that can significantly impact program design is that HCD has not yet decided if grantees will be able to retain the program income (repayments on loans or home sales), or if the program income funds must be returned to HCD. If program income must be returned to HCD, it would be beneficial to the City to use its CDBG funds for housing rehabilitation loans because it can retain program income generated from those loans.

Another public hearing is being scheduled for January 20, 2009 to meet HCD's requirements and to request approval to submit the application and execute the MOU.

Fiscal Impact

With this program, the City could receive approximately \$23,000 for administration costs. In addition, staff does not anticipate the need for matching funds or any obligation from the General Fund to administer the program.

There may be a short term fiscal impact because the City needs to advance the funds for the program and must wait to be reimbursed by HCD. This reimbursement can take up to three months.

Public Contact

A public hearing notice was published in the Daily Democrat and was posted in the City Council agenda.

Council Committee Recommendation

Staff will brief the Affordable Housing Subcommittee on the program in order to provide the opportunity to comment on the design of the program before the application is submitted in January 2009. A briefing did not occur prior to the public hearing due to the timing of when instructions from HUD were received and the meeting with West Sacramento and Yolo County staff.

Alternative Courses of Action

1. Hold a public hearing on the Neighborhood Stabilization Program to accept comments on the program design phase and the proposed use of the funds for homebuyer assistance loans and housing rehabilitation loans to low and moderate income homebuyers.
2. Do not hold the public hearing and cease further consideration of utilizing the NSP funds.

Recommendation for Action

Staff recommends that the City Council approve Alternative No. 1.

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