
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Neighborhood Stabilization Program (NSP) Plan Proposal

OVERVIEW

On November 18, 2008 the San Diego Housing Commission (SDHC) will request action from the City Council to accept \$9,442,370 in funds from the U.S. Department of Housing and Urban Development (HUD) for the purpose of acquiring, rehabilitating, and the re-sale of foreclosed or vacated/abandoned residential properties within designated areas, defined as being of “greatest need” in the City of San Diego. Furthermore, the City must adopt the NSP Action Plan and resolution in order to meet a December 1, 2008 deadline for submittal to HUD.

Title III of the Housing and Economic Recovery Act of 2008 (HERA), passed on July 30, 2008, appropriates \$3.92 billion of grant funds under the Neighborhood Stabilization Program for states and local governments to purchase and redevelop abandoned or foreclosed properties. Funding has been targeted to areas with the greatest needs based on the extent of foreclosures, subprime mortgages, and mortgage delinquencies and defaults.

All 50 states and more than 250 local municipalities received grants, with each state receiving at least \$19.6 million. Over \$529 million is anticipated to be received by 47 grantees within the State of California. Attachment A details the amount by municipality for the State.

Pending approval of the City’s application following submittal by the December 1, 2008 deadline, funds are tentatively expected to be available by February 2009, must be obligated by June 30, 2010 and expended by December 31, 2012.

On October 29, 2008 the Land Use and Housing Committee, under the direction of Councilmember Hueso, moved to forward the application to the City Council for consideration.

The purpose of this report is to provide an overview of the Neighborhood Stabilization Program allocation and eligibility requirements and to provide to the Council a summary of the SDHC application and impacts on the City of San Diego.

FISCAL/POLICY DISCUSSION

Allocation Requirements

The HERA legislation stipulates that allocations are to be made to areas not exceeding 120% Area Median Income (AMI) (\$86,500 for a family of four) and no less than 25% be allocated to areas of up to 50% AMI (\$39,500 for a family of four) based on a funding formula established by HUD on the following criteria:

- number and percentage of home foreclosures in each State or unit of general government
- the number and percentage of homes financed by a subprime mortgage related loan in each State unit of general local government; and
- the number and percentage of homes in default or delinquency in each State or general local government

Additionally, priority must be given to areas

- with the greatest percentage of home foreclosures
- with the highest percentage of homes financed by a subprime mortgage related loan; and
- identified by the State or unit of general local government as likely to face significant rise in the rate of home foreclosures

In its report to Council, SDHC has determined that in San Diego eligible areas range from Mira Mesa in the north to San Ysidro in the south, with the greatest concentration of predicted foreclosures rate in the next 18 months in the communities of Golden Hill, North Park, City Heights, Barrio Logan and Encanto, within City Council Districts 3, 4, 7, and 8 (Districts 3 and 7 share the neighborhood of City Heights.)

Eligible Uses

HUD has identified the following five eligible activities:

- a. Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-seconds, loan loss reserves, and shared-equity loans for low- and moderate-income homebuyers;
- b. Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties;
- c. Establish land banks for homes that have been foreclosed upon;
- d. Demolish blighted structures; and
- e. Redevelop demolished or vacant properties

In its report to Council, SDHC has indicated that they will primarily focus their efforts on two of these above activities:

- A financing mechanism to ensure affordability (silent second and rehabilitation loan package) primarily for families buying units that have been rehabilitated through the NSP program, and
- Acquisition/rehabilitation and rental. As required under the legislation, 25% of the funds will be used to serve residents earning up to 50% AMI

Eligible Activity	Amount
Financing Mechanism for First Time Home Buyers (up to 120% AMI)	\$6,123,600
Acquisition/Rehabilitation & Rental for Low Income Tenants (up to 50% AMI)	\$2,124,533
Redeveloping Demolished or Vacant Properties	\$200,000
Homebuyer Education Counseling	\$50,000
NSP Program Administration	\$944,237
TOTAL	\$9,442,370

These two activities will allow for the purchase of additional homes and creation of new affordable housing units in our community. SDHC staff has indicated that the focus has been primarily on these two activities because existing programs are already in place to support these activities. The financing mechanism will help support the SDHC First Time Home Buyer’s program, which currently has limited funds and cannot meet the current demand for assistance. SDHC staff has noted that given the relatively significant time constraints in obligating and expending these funds, the plan of focusing on existing programs enables the most efficient and effective use of funds.

As illustrated in the chart above, in addition to the two primary activities; \$200,000 will be utilized for developing demolished or vacant properties; \$50,000 will be allocated for homebuyer education counseling and approximately \$900,000 for NSP program administration. Additionally, SDHC will match the anticipated grant of \$50,000 designated for counseling with an additional \$50,000 of SDHC funds.

The inclusion of \$200,000 in the activity of redeveloping demolished or vacant properties is in response to discussion at the October 29, 2008 LU&H Committee meeting, at which time interest to research and examine such options was expressed. SDHC staff has indicated that pending future developments, such as an increase in vacant or demolished properties, SDHC will have the ability to shift allocation between those activities proposed in its application.

CONCLUSION

The IBA supports Council authorizing San Diego Housing Commission as a sub-recipient of the Neighborhood Stabilization Program and the adoption of the NSP Plan and resolution.

[SIGNED]

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Attachment A - California State, County and Local NSP Allocation chart