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3-24-09

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 17, 2009
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER 
SUBJECT: CONSIDERATION OF A RESOLUTION AUTHORIZING SUBMISSION OF AN APPLICATION FOR NEIGHBORHOOD STABILIZATION PROGRAM FUNDING FOR TARGETED ACQUISITION OF FORECLOSED PROPERTIES

ISSUE: Targeted foreclosure assistance.

RECOMMENDATION: That City Council approve a resolution authorizing the submission of an application during the first round of funding (due before April 3, 2009) to the Virginia Department of Housing and Community Development (DHCD) for \$936,955 in Neighborhood Stabilization Program (NSP) funding to acquire, rehabilitate and re-sell at least four foreclosed properties in the Hume Springs Community of Alexandria.

BACKGROUND: The NSP Program was authorized under Title III of the federal Housing and Economic Recovery Act (HERA) of 2008. NSP funding is being provided as targeted emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight. NSP funding will follow the general guidelines of the Community Development Block Grant (CDBG) Program, although assistance to higher income individuals (up to 120% of the area median income) have been authorized under NSP. At least 25% of NSP funds must serve households below 50% of area median income. Properties acquired using NSP funds must be purchased at discounts of at least 15% below the appraised value.

In Virginia, due to the volume of foreclosures, direct allocations of NSP funds were provided by the federal government only to Fairfax County (\$2.8 million) and Prince William County (\$4.1 million). An additional \$38.7 million was allocated to Virginia to assist communities State-wide most affected by foreclosure activity. DHCD is administering Virginia's NSP Program and has set aside \$20 million in funding for the Open Submission Program which ends on April 3, 2009, and an additional \$10 million in funding under its Competitive Program which ends on June 1, 2009. An application for funding by the City may be considered for funding under either of these programs. This request is for funding under the Open Submission Program.

Applicants may request up to \$2 million in NSP funding under the Open Submission Program and up to \$1 million through the Competitive Program. Criteria for funding include the applicant's demonstrated need for funding, the proposed impact on the selected neighborhoods, leveraging of non-NSP resources, readiness, and capacity to implement the proposed activities. All revenue generated by NSP activities must be returned to DHCD. DHCD will establish a Performance Pool which will be an ongoing source of NSP funding for high performing grantees.

DISCUSSION: Virginia's NSP program is designed to serve communities with concentrated areas of foreclosed and abandoned properties, generally defined as having a sustained foreclosure rate of 10%, characterized by properties that have been bank-owned or vacant and abandoned for at least 90 days. While foreclosure activity in the City has increased dramatically over the past two years, growing from only 20 residential foreclosures in 2006 to more than 360 in 2008, no Alexandria communities have been identified that have the sustained foreclosure rate of 10%. The program is not well-suited to jurisdictions like Alexandria where neighborhood foreclosure rates are generally below the 10% threshold and where the majority of foreclosures (66% in 2008) have been in residential condominiums. For similar reasons, Arlington County staff has indicated that they will not seek funding request under the current round of the NSP program.

This application does not include condominiums for several reasons. DHCD staff has expressed concern about funding condominium acquisitions under the NSP Program due to high carrying costs and the general volatility of condominiums in today's market. Issues with deferred maintenance of amenities and commons areas, along with concerns regarding the possible impact on long-term affordability due to special assessments or unusually high condo fees in some of the City's distressed condo developments are also problematic. Staff analysis indicates that foreclosed properties in areas of the City that initially appeared most promising for NSP, such as the condominium communities west of the Landmark Mall area, were found to be less competitive than expected because the majority of foreclosed units have been re-sold within a relatively short time frame. In reviewing three condominium communities with considerable foreclosure activity (Saxony Square, Mayflower Square, and The Seasons), staff found that of 60 foreclosures that occurred since 2008 in these communities, only 19 units, or 28.3%, were found to still be bank-owned properties as of February 27, 2009. Although 17 of the 19 units had been Real Estate Owned (REOs) for more than 90 days, they constitute well below 10% of any of the three complexes, with the highest being 3.6% at The Seasons. Even looking at individual buildings or sections of The Seasons, the percentages do not approach the 10% guideline. Staff hopes to continue to pursue development of a program for the acquisition of condominiums in the City's West End and will continue working with DHCD to resolve its concerns about such a program.

Given these limitations and the dynamic situation surrounding foreclosure activity, Office of Housing staff believes that the Hume Springs and Lynhaven communities are the most favorable eligible target areas for intervention using NSP resources, with Hume Springs being the most likely neighborhood to receive funding. Data from the Department of Housing and Urban Development (HUD) confirm that these communities have been concentrated areas of recent

sub-prime lending (more than 26% of all loans) between 2004 and 2006 and are rated by HUD as having the highest risk of foreclosure of any area in Alexandria. Staff research shows that since January 2008, 25 of the 152 homes (16.4%) in Hume Springs (Mark Drive, Edison Street, and Dale Street) have been foreclosed, listed as short sales, or withdrawn from sale and soon to be undergoing foreclosure. Thirteen of these properties have been re-sold with the remaining 12 units being listed as Real Estate Owned (REOs) and short sales. Based on information from the Metropolitan Regional Information Service (MRIS), at least five of the short sales are now in the process of foreclosure. Because West Reed Avenue has had more limited foreclosure activity, it has been excluded from the Hume Springs target area for the purposes of this application.

The attached map provides an overview of the proposed target area and pending foreclosure activity in Hume Springs. The requested funding level reflects the number of units within Hume Springs that are currently identified as meeting DHCD's definition of vacant, abandoned or foreclosed and therefore eligible for NSP funding. Program funding will be awarded on a competitive basis and additional funding may be available in the future through DHCD performance pool. In addition, new NSP funding was approved as a part of the recent economic stimulus package, the American Recovery and Reinvestment Act of 2009 (ARRA).

To implement the proposed activity efficiently, the Office of Housing proposes partnering with two local nonprofit entities; the Alexandria Housing Development Corporation (AHDC) and Rebuilding Together Alexandria (RTA). The City will assemble a management team, as required under the program, with representatives from each of these agencies, as well as from the Office of Building and Fire Code Administration, the Department of Real Estate Assessments, a real estate agent, a mortgage lender, and a homeownership counselor.

As a nonprofit, AHDC can acquire and dispose of property more quickly than can the City itself. RTA would employ its cadre of skilled and unskilled volunteer labor to rehabilitate acquired units. RTA will complete basic repairs to the units to ensure that no code violations exist and that the units are energy efficient. NSP funds will be used to acquire supplies and materials for the property rehabilitation and to install energy efficient appliances. The Office of Housing will assist with marketing the units to well-qualified, low income first-time homebuyers to purchase the units at affordable prices. Home buyers will be required to complete the City's homebuyer training program and receive individual counseling before being approved to purchase. City down payment assistance, available through the Homeownership Assistance Program (HAP) will be provided to ensure that payments are affordable to program participants. To the extent that below market rate mortgage financing is available through the Virginia Housing Development Authority's SPARC (Sponsoring Partnerships and Revitalizing Communities) Program, these funds will also be used to further reduce and stabilize a homebuyer's monthly housing costs.

When the houses are sold to the targeted buyers, the net proceeds (if any) would be returned to the State. The City's primary financial assistance would take the form of loans which using federal HOME monies would be returned eventually to the City for reuse.

FISCAL IMPACT: No direct costs to the City and potential annual revenue of approximately \$5,715 to support staffing costs for implementation of the program. Leveraged funds will be provided through existing programs administered by the Office of Housing and RTA. The total

non-NSP funding to be leveraged for this initiative is estimated to equal approximately 27.6% of the total NSP request. It is estimated that \$936,955 in NSP funding will leverage \$258,443 in non-NSP monies from the following sources:

- Down payment assistance (\$200,000) using Home Investment Partnerships Program (federal HOME funds);
- Lead-based paint inspections (\$9,000) funded through the federal Community Development Block Grant (CDBG) Program;
- In-kind staffing costs and contribution of volunteer labor (\$35,208) provided by RTA to complete rehabilitation of identified properties;
- In-kind City staffing costs (\$5,715);
- Homeownership education and counseling using Housing Trust Fund monies (\$520); and
- Home buyer contributions (\$8,000) to down payment and closing costs.

ATTACHMENTS:

Attachment 1. Resolution Authorizing Submission of NSP Application

Attachment 2. Map of Hume Springs Community

STAFF:

Mark Jinks, Deputy City Manager

Mildrilyn Stephens Davis, Director, Office of Housing

Helen McIlvaine, Deputy Director, Office of Housing

Shane Cochran, Program Implementation Division Chief, Office of Housing

RESOLUTION NO. ____

WHEREAS, in accordance with Virginia Department of Housing and Community Development application procedures for its Neighborhood Stabilization Program, it is necessary that a request by Council be made in order that the City may be considered for funding under this new federal program; and

WHEREAS, the City of Alexandria recognizes the destabilizing effects of foreclosure, vacancy and abandonment on certain residential neighborhoods within the City; and

WHEREAS, the City of Alexandria wishes to apply for Neighborhood Stabilization Program funds to improve housing conditions and to stabilize the Hume Springs community by acquiring and rehabilitating eligible homes.

WHEREAS, the City plans, subject to approval of fiscal year 2010 program budgets by City Council and by the Department of Housing and Urban Development, to expend \$200,000 in federal HOME funds, \$9,000 in federal Community Development Block Grant funds, \$520 in local Housing Trust Fund, and receive \$35,208 through in-kind services and volunteer labor through Rebuilding Together Alexandria, to serve four low-income households, of which at least one household will be very low-income.

NOW THEREFORE BE IT RESOLVED, that the Council of the City of Alexandria, Virginia requests that the Department of Housing and Community Development accept and consider an application for \$936,955 in Neighborhood Stabilization Program funds

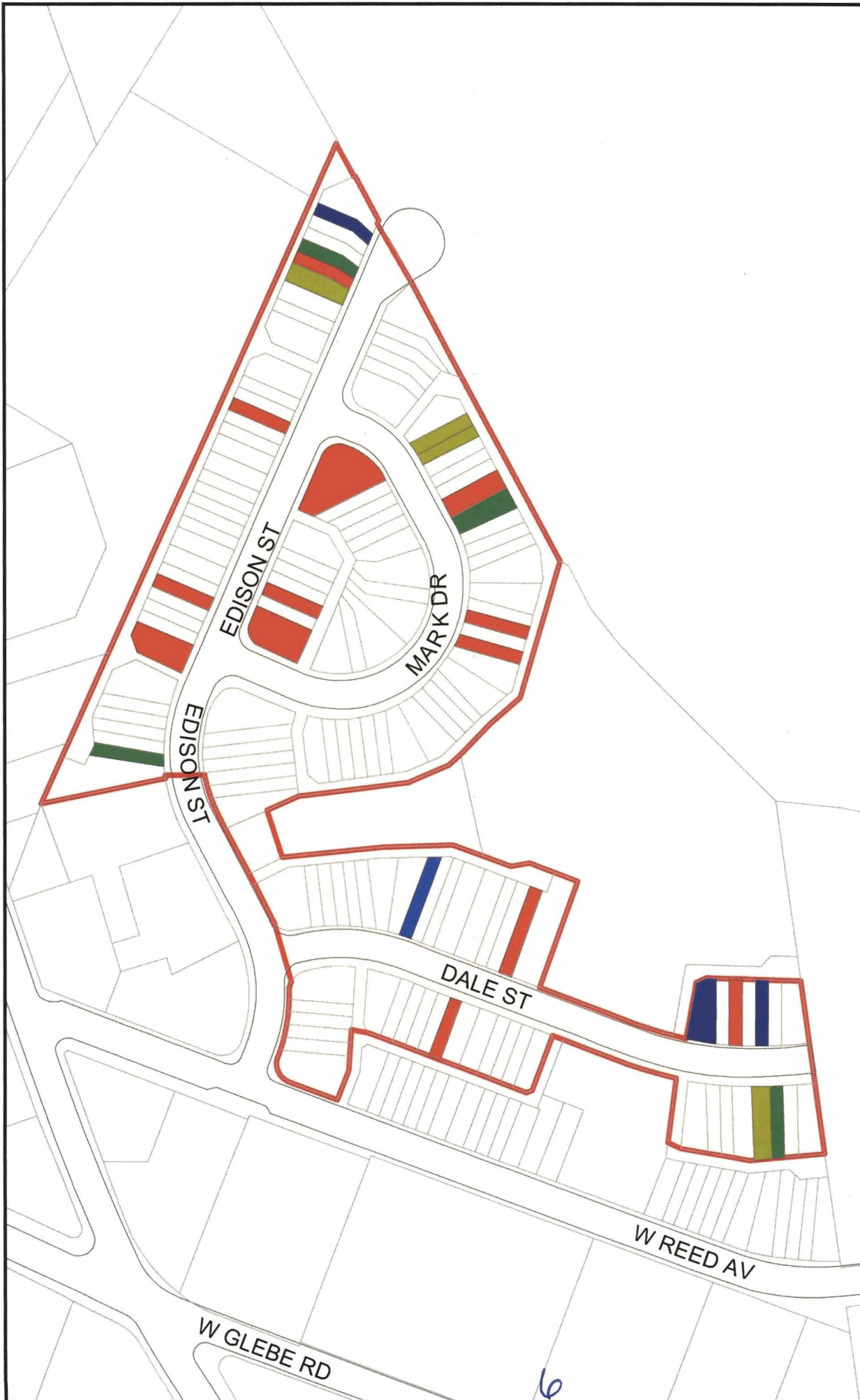
BE IT FURTHER RESOLVED, that the Council of the City of Alexandria hereby authorizes the City Manager to execute any agreements necessary to advance this application.

ADOPTED: _____

William D. Euille Mayor

ATTEST:

Jacqueline M. Henderson, CMC City Clerk



Hume Springs Community

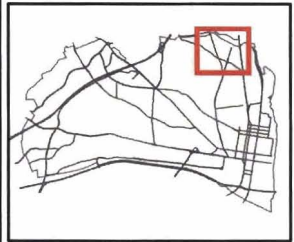
Legend

Foreclosures 2008

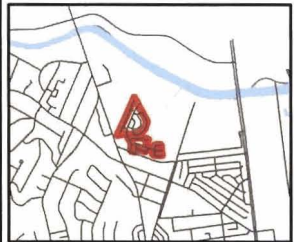
Status

- Current REO
- Re-Sold
- Short Sale
- Active
- Short Sale
- Under Contract
- Withdrawn
- Hume Springs Community
- Parcels
- Roads

City View



Area View



This map was produced by the GIS Division of the Department of Planning and Zoning, City of Alexandria, Virginia.

Mapping Standards
 Coordinate System - NAD83 State Plane Virginia North
 Projection - Lambert Conformal Conic
 Map Units - Feet



Map Produced:
02-10-2009



RESOLUTION NO. 2326

WHEREAS, in accordance with Virginia Department of Housing and Community Development application procedures for its Neighborhood Stabilization Program, it is necessary that a request by Council be made in order that the City may be considered for funding under this new federal program; and

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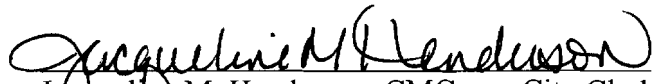
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ADOPTED: March 24, 2009



WILLIAM D. EULLE MAYOR

ATTEST:



Jacqueline M. Henderson, CMC City Clerk