



REQUEST FOR COUNCIL ACTION

To: Honorable Mayor and Members of the City Council

**From: Henry Holling
Interim City Manager**

AGENDA DATE REQUESTED: February 10, 2009

ACTION REQUESTED: AUTHORIZE THE CITY OF PEORIA TO APPLY FOR \$4 MILLION OF NEIGHBORHOOD STABILIZATION PROGRAM FUNDS FROM THE STATE OF ILLINOIS

BACKGROUND: An early response by the federal government to the ongoing national economic downturn was the creation of the Housing & Economic Recovery Act of 2008 (HERA). HERA included numerous subsections related to mortgage lending and the major Government Sponsored Enterprises (Fannie Mae & Freddie Mac). A provision of HERA, commonly referred to as the Neighborhood Stabilization Program (NSP) provided funds to cities, counties, and states for the stabilization of housing stock impacted by foreclosure. A total of \$3.92 billion was set aside for the NSP.

All current CDBG recipients were eligible to receive a direct appropriation of NSP funds. However, the community or state had to further qualify based on an analysis of the following criteria: percent and number of foreclosures, percent, and number of high cost loans, percent, and number of delinquent loans, and the local unemployment rate. Only communities with a formula allocation of more than \$2 million would receive direct funding. If a community qualified for funding, but would receive less than \$2 million, their entire allocation would be transferred to the state for future sub-allocation.

The City of Peoria did not qualify for direct funding, as our formula allocation was \$806,203. Fourteen communities in Illinois did receive direct funding. **Attachment A** provides a list of all communities in Illinois that were eligible to receive funding and their actual formula allocation.

As the City of Peoria was not eligible to receive direct funding, we have the option to apply for funding through the State of Illinois. The State has \$53 million available for sub-allocation to cities and counties. The allocation will be based upon a competitive application process. The application should be released in February 2009. City Planning Staff have worked with Councilmen Turner and Jacob on designing a draft application that best fits the current housing market in Peoria.

Data: _

In order to assist communities in selecting target areas for NSP funds, HUD released a significant amount of data related to foreclosures and vacancy. **Attachment B** is a packet of maps that relate the data in a geographic form. These maps include:

1. Estimated High Cost Loan Rates by Census Tract: This map shows the percentage of all mortgage loans in each Census Tract that is considered High Cost (more than 3 points above prime).
2. Estimated Foreclosure Rates: This map shows the estimated foreclosure rate based upon trend data analysis by HUD. For reference purposes, the estimated overall foreclosure rate for the City of Peoria is 3.8%
3. 90-Day Delinquency: This map shows the percent of all mortgage loans that are 90 or more days delinquent; a leading indicator of foreclosure.
4. USPS Residential Vacancy Rate: This map uses data from the United States Postal Service to show the residential vacancy rate by Census Block Group.
5. Foreclosure Abandonment Risk Score: The "Risk Score" was created by HUD using an analysis of all available data. A score of 1 or 2 would indicate an extremely low risk of widespread foreclosures; a score of 9 or 10 would indicate an extremely high risk of widespread foreclosures.

In addition to the HUD information, the City has obtained actual foreclosure activity data from RealtyTrac. This up to date information provides the actual location of all properties in Peoria that are currently in the foreclosure process. **Attachment C** contains two maps:

1. Location of all properties currently in default: A property in default has a lis pendence filed, but the property has not yet gone to auction or been taken back by the lender. There are 455 properties in Peoria currently in default.
2. Location of lender owned properties: This map shows the location of all properties that have gone through foreclosure and have been taken back by the lender. These properties are typically referred to as "bank owned," "real estate owned," or "REO" properties. There are 170 properties in Peoria currently in REO status.

Eligible Activities and Allocations:

There are several eligible activities under the NSP regulations.

1. Home Buyer Program – the City would purchase foreclosed properties, rehabilitate them to minimum code, and sell them to eligible homebuyers.
2. Rental Program – the City would purchase foreclosed properties, rehabilitate them to minimum code, and rent them to eligible renters.
3. Residential Financing Program – the City would provide financial incentives (down payment / closing costs) to eligible homebuyer to assist them in purchasing foreclosed properties.
4. Demolition Program – the City would acquire and demolish foreclosed properties that were a blighting influence on the community. These properties would be redeveloped at a future date.
5. Land Bank Program – the City would purchase foreclosed properties and land bank them until an appropriate development opportunity arises.
6. Redevelopment – the City would construct a new housing unit on a lot that had been foreclosed upon.
7. Administration – the City can use up to 10% of the total allocation for costs associated with the administration of the program.

The State of Illinois has determined that the funds under their control will be set aside as follows:

- Home Buyer Program – 20%
- Rental Program – 30%
- Residential Financing Program – 15%
- Demolition Program – 3%
- Land Bank Program – 5%
- Redevelopment Program – 17%
- Administration – 10%

Further, the State of Illinois has determined that the funds will be available to communities in Illinois as follows:

- Non-CDBG Entitlement Areas – 40-50%
- CDBG Entitlement Areas – 40-50% (this is where the City of Peoria would fall)
- CDBG Entitlement Areas & NSP Direct Grantees – 10%

Following this formula, approximately \$21 - \$26 million of the State allocation would be available to CDBG Entitlement communities that did not receive direct NSP funding.

The potential funding by program area for CDBG Entitlement communities is as follows:

- Home Buyer Program - \$4.2 – \$5.2 million
- Rental Program – \$6.3 – \$7.8 million
- Residential Financing Program - \$3.1 – \$3.9 million
- Demolition Program - \$630,000 - \$780,000
- Land Bank Program - \$1 - \$1.3 million
- Redevelopment Program - \$3.5 – 4.4 million
- Administration - \$2.1 - \$2.6 million

Eligible Households:

In order to qualify for assistance through programs funded with NSP allocations, a household must have an income less than 120% of area median. This is substantially higher than the basic CDBG requirement to serve households with incomes less than 80% of area median. However, the NSP regulations do require that at least 25% of all assisted households have incomes less than 50% of area median. The State will also prioritize funding to areas where larger percentages of assistance are directed to very low (less than 50%) income households. **Attachment D** provides an income breakdown for Peoria.

Timeliness Requirements:

As one of the primary purposes of the NSP funds is to quickly impact the negative economic conditions on neighborhood, there are strict timeliness requirements attached to the use of the funds. All NSP funds must be obligated to projects within eighteen (18) months of receipt. Further, all NSP funds must be expended within four (4) years of receipt. Using this timeline, any funds received by the City of Peoria would have to be expended before March or April 2013.

State Application Criteria:

Although the State application has not yet been released, information is available as to the criteria that will be used to rank applications for funding. The criteria include:

1. **Area of Greatest Need:** This refers to both the areas of greatest need in the community, and the areas of greatest need in Illinois. The City of Peoria ranks 10th on the list of CDBG Entitlement Communities that did not receive direct NSP funding. This ranking may reduce our level of competitiveness, although there are areas within Peoria that rank as very high need on a statewide basis.
2. **Readiness to Proceed:** Because of the rapid turnaround time for obligation and expenditure, applicants must be able to show that they are ready to proceed with their projects at the time of application to the State.
3. **Capacity:** All applicants must be able to show that they have the necessary capacity to carry out the activities in a timely manner. The City of Peoria, with an established track record of timely investment of federal funds, should be competitive in this area.
4. **Community Impact:** Applications will be judged based upon their impact on the community. Clustering and geographic targeting is encouraged.
5. **Income Targeting:** Although the NSP income requirements indicate that only 25% of all persons assisted have incomes less than 50% of AMI, the State will rank applications that target very low-income populations higher than those that just follow the base regulations.
6. **Special Needs Targeting:** The State will also reward applications that identify some targeting for special needs populations. These populations include: the elderly, homeless, disabled,

City of Peoria Application Recommendation:

Based on the information above, the recommendation is that the City of Peoria apply for \$4 million in NSP funding from the State of Illinois. The specific breakdown of the funding request, including an estimate of the number of units that would receive service is provided in **Attachment E**.

It is further recommended that the City of Peoria application indicate that all funds will be restricted to areas that have received a score of 9 or 10 on the HUD Foreclosure Abandonment Risk Score. Please see **Attachment B** for this map. In general, this would restrict NSP activities to the Southside, Near Northside, Averyville, East Bluff, Center Bluff, and portions of the West Bluff.

Because of the anticipated quick turnaround time for the State application, approval of this recommendation will authorize the submission of an application without further Council approval. However, if the State application is substantially different from the outline approved in this recommendation, an update will be brought back to Council.

Impact on Personnel and Current City Funds:

If the City of Peoria were awarded \$4 million in NSP funding, portions of the 10% Administrative set-aside would have to be used for personnel costs. Current City staffing and workload would not allow for such a

significant expansion of services and programming. It is recommended that any new personnel be retained on a contractual basis, as the funding for the position would only last as long as the programming. Positions that may have to be added would include Grants Coordinator and Housing Rehabilitation Specialist. It is recommended that the purchase and sale of real estate be contracted out to local Realtors.

The receipt of NSP funds by the City of Peoria would most immediately impact the current use of HOME funds by the City. HOME funds are currently used for down payment assistance, new construction, and rehabilitation of existing residential structures. The NSP funds would supplant the HOME funds in many of these areas, and new uses would have to be found for the HOME funds. If NSP funds were received by the City, a recommendation on how to continue to manage timely investment of HOME funds would be brought to Council for approval.

Link to Current Stimulus Bill:

As you are aware, a new Economic Stimulus Bill is making its way through Congress. The House and Senate versions of this bill include additional funding for the NSP program, as well as supplemental CDBG, HOME, and ESG funding for communities throughout the nation. Until the bill is signed into law by the president, and the federal government determines an allocation formula for the funds, it is impossible to predict the impact of this new round of funding on the City of Peoria. However, based upon the usual CDBG, HOME, and ESG allocation to the City, and upon the criteria attached to the first round of NSP funding, it can be assumed that some funding will flow to Peoria, either directly, or through the State of Illinois.

FINANCIAL IMPACT: Potential increase of the City budget by \$4 million over four years.

NEIGHBORHOOD CONCERNS: NA

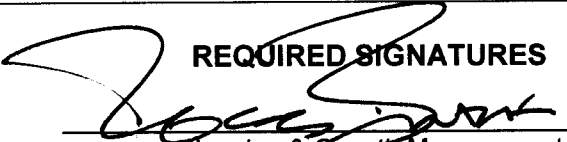

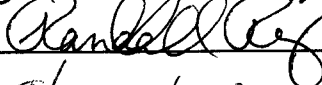
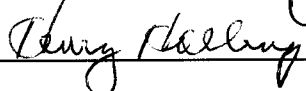
IMPACT IF APPROVED: The City would apply for NSP funding from the State of Illinois once the application becomes available.

IMPACT IF DENIED: The City would not apply.

ALTERNATIVES¹: An alternate or modified application could be submitted.

EEO CERTIFICATION NUMBER: NA

RELATIONSHIP TO THE COMPREHENSIVE PLAN: Neighborhood Vision: "Our Neighborhoods are safe, Attractive, and Desirable Places in which to Live."

REQUIRED SIGNATURES	
Department Director	 _____ Planning & Growth Management
Finance Director	 _____ (Certification of Availability of Funds)
Corporation Counsel	 _____
City Manager	 _____

¹ If necessary, this section to be used to explain alternate purchases that would be more energy efficient and a justification for choosing otherwise.

State	Community	NSP Allocation	Local Foreclosure Rate	Local Abandonment Risk	Statewide Foreclosure Rate	Statewide Abandonment Risk
IL	ILLINOIS STATE PROGRAM	\$53,113,044	4.3% Medium		5.1% High	
IL	AURORA	\$3,083,568	6.1% Medium		5.1% High	
IL	CHICAGO	\$55,238,017	6.4% High		5.1% High	
IL	CICERO	\$2,078,351	8.6% High		5.1% High	
IL	COOK COUNTY	\$28,156,321	5.9% Medium		5.1% High	
IL	DU PAGE COUNTY	\$5,176,438	3.7% Low		5.1% High	
IL	ELGIN	\$2,159,623	6.2% Medium		5.1% High	
IL	JOLIET	\$3,531,810	7.2% High		5.1% High	
IL	KANE COUNTY	\$2,576,369	3.9% Low		5.1% High	
IL	LAKE COUNTY	\$4,600,800	3.5% Low		5.1% High	
IL	MCHENRY COUNTY	\$3,085,695	4.0% Medium		5.1% High	
IL	ROCKFORD	\$2,287,004	7.2% High		5.1% High	
IL	ST CLAIR COUNTY	\$2,262,015	5.1% Medium		5.1% High	
IL	WILL COUNTY	\$5,160,424	5.0% Low		5.1% High	

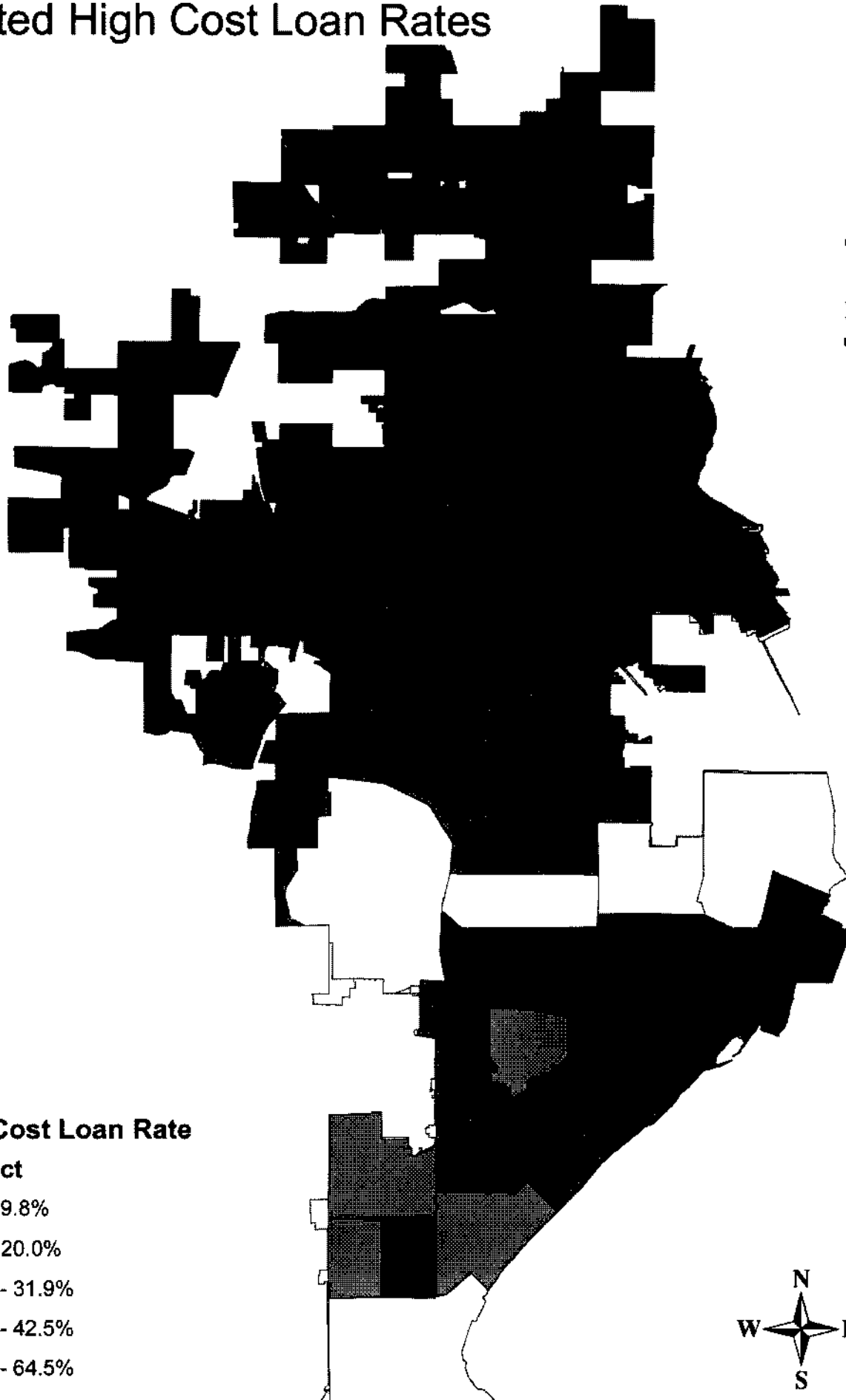
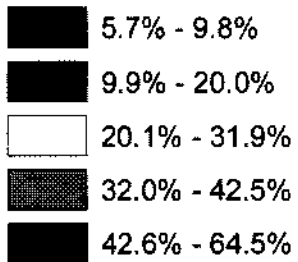
Note: Foreclosure start rate is sum of foreclosure starts over 18 months; estimated for local areas. Risk score based on vacancies in Census Tracts with high rates of high cost loans. See methodology.

Attachment A

City of Peoria Estimated High Cost Loan Rates

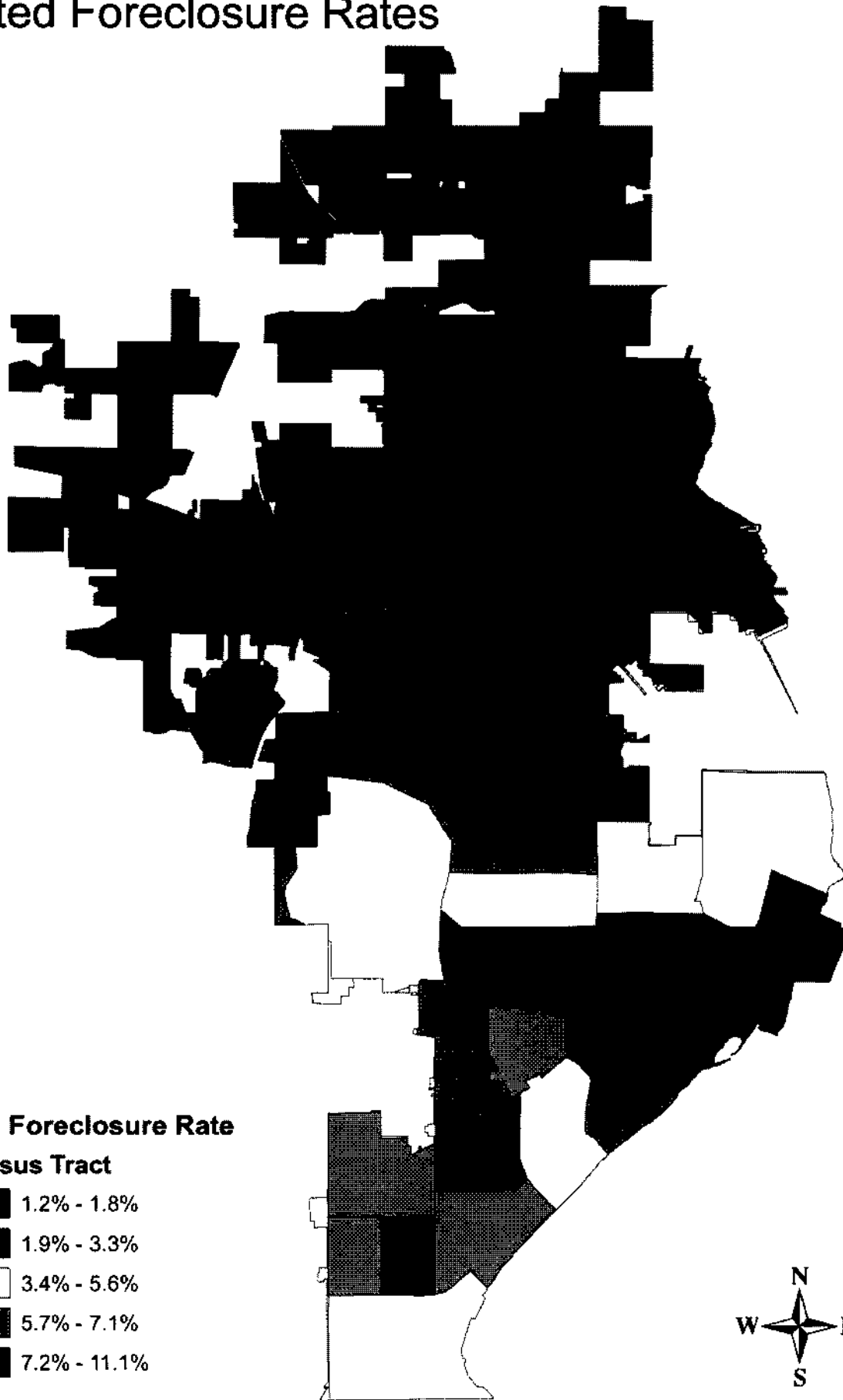
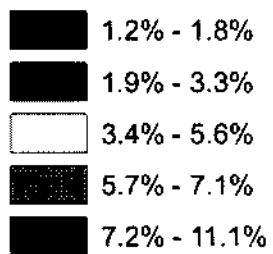
Attachment B

Est. High Cost Loan Rate Census Tract

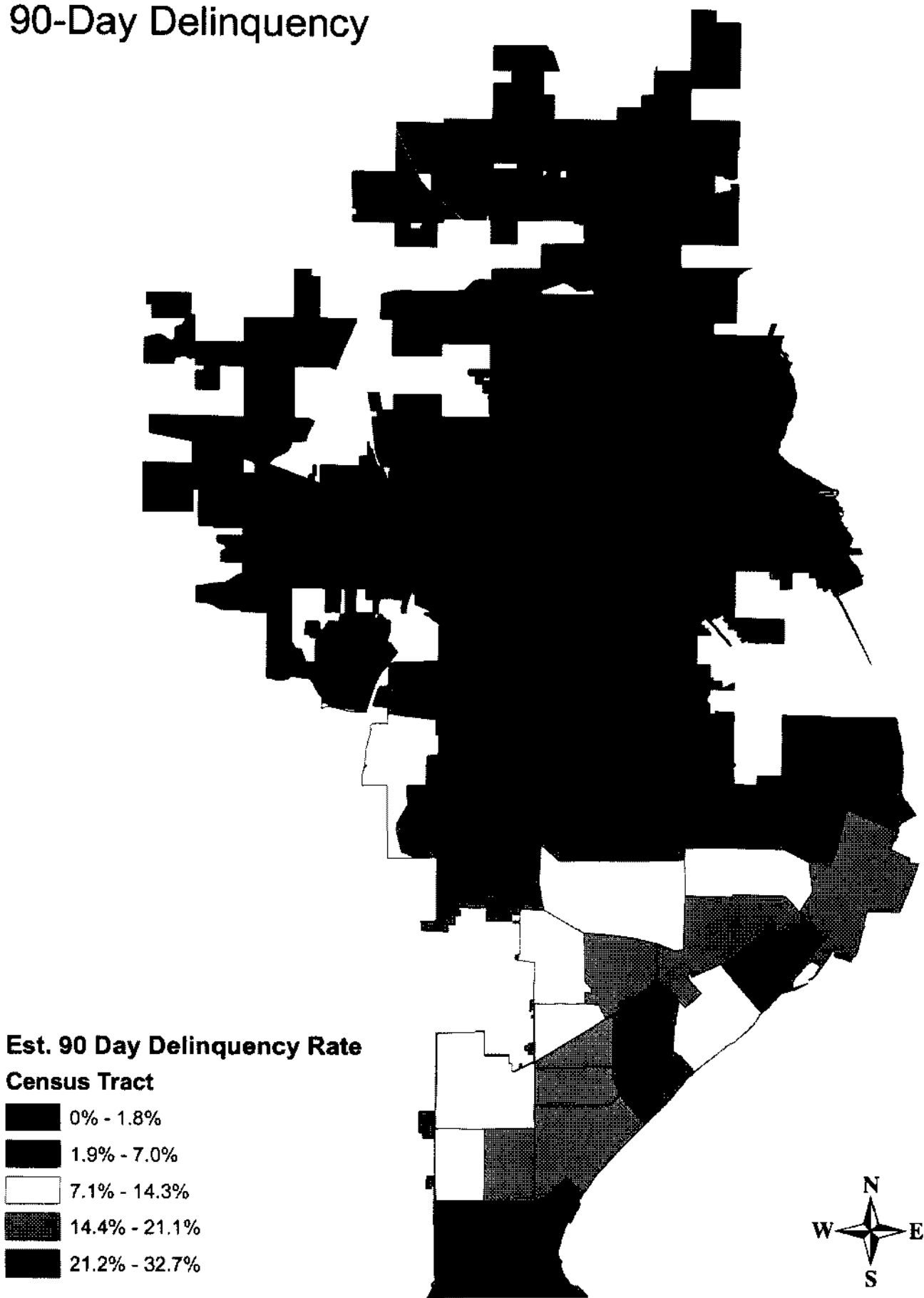


City of Peoria Estimated Foreclosure Rates

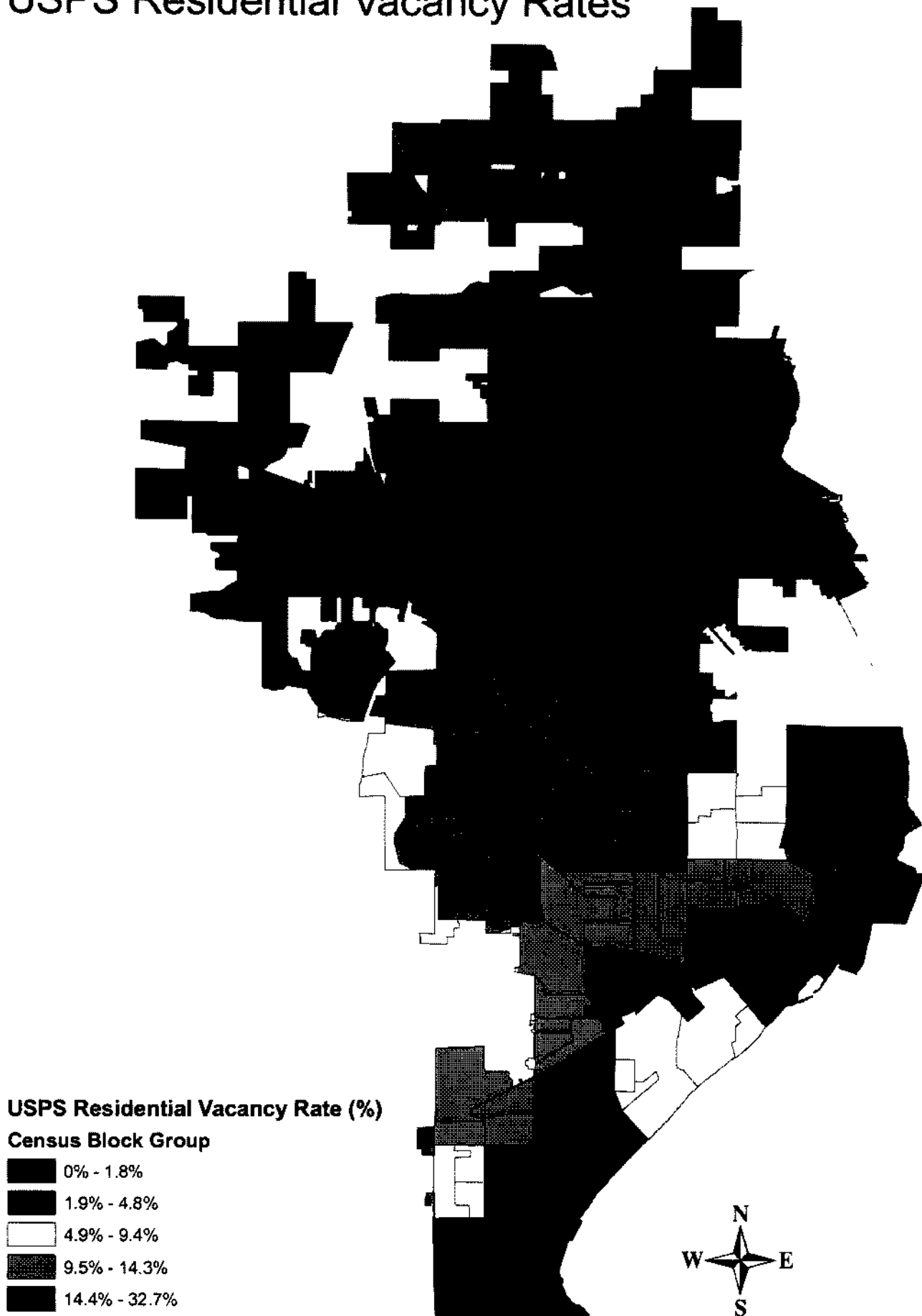
Est. Foreclosure Rate Census Tract



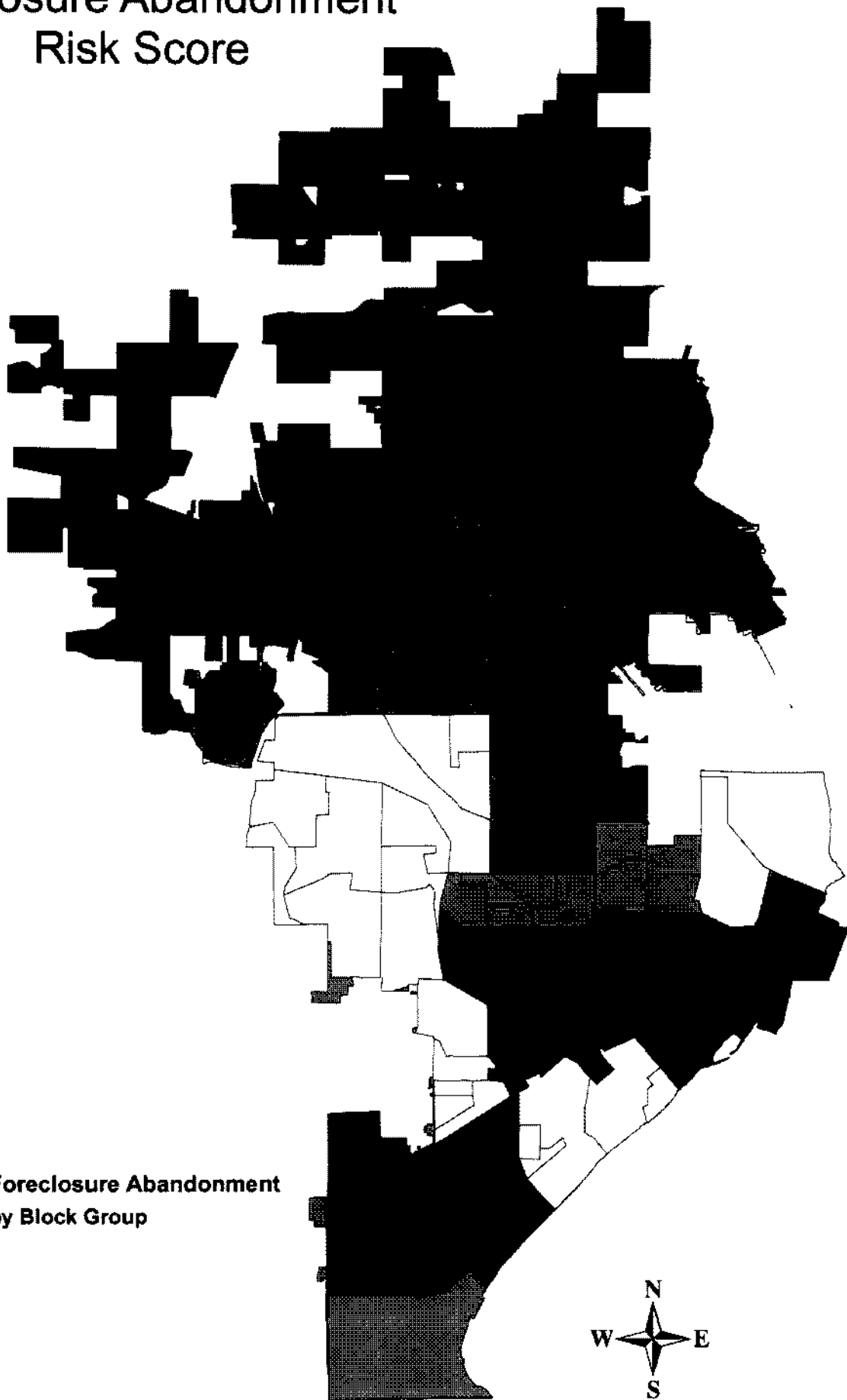
City of Peoria 90-Day Delinquency



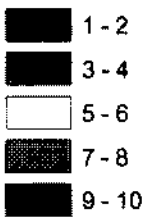
USPS Residential Vacancy Rates



Foreclosure Abandonment Risk Score

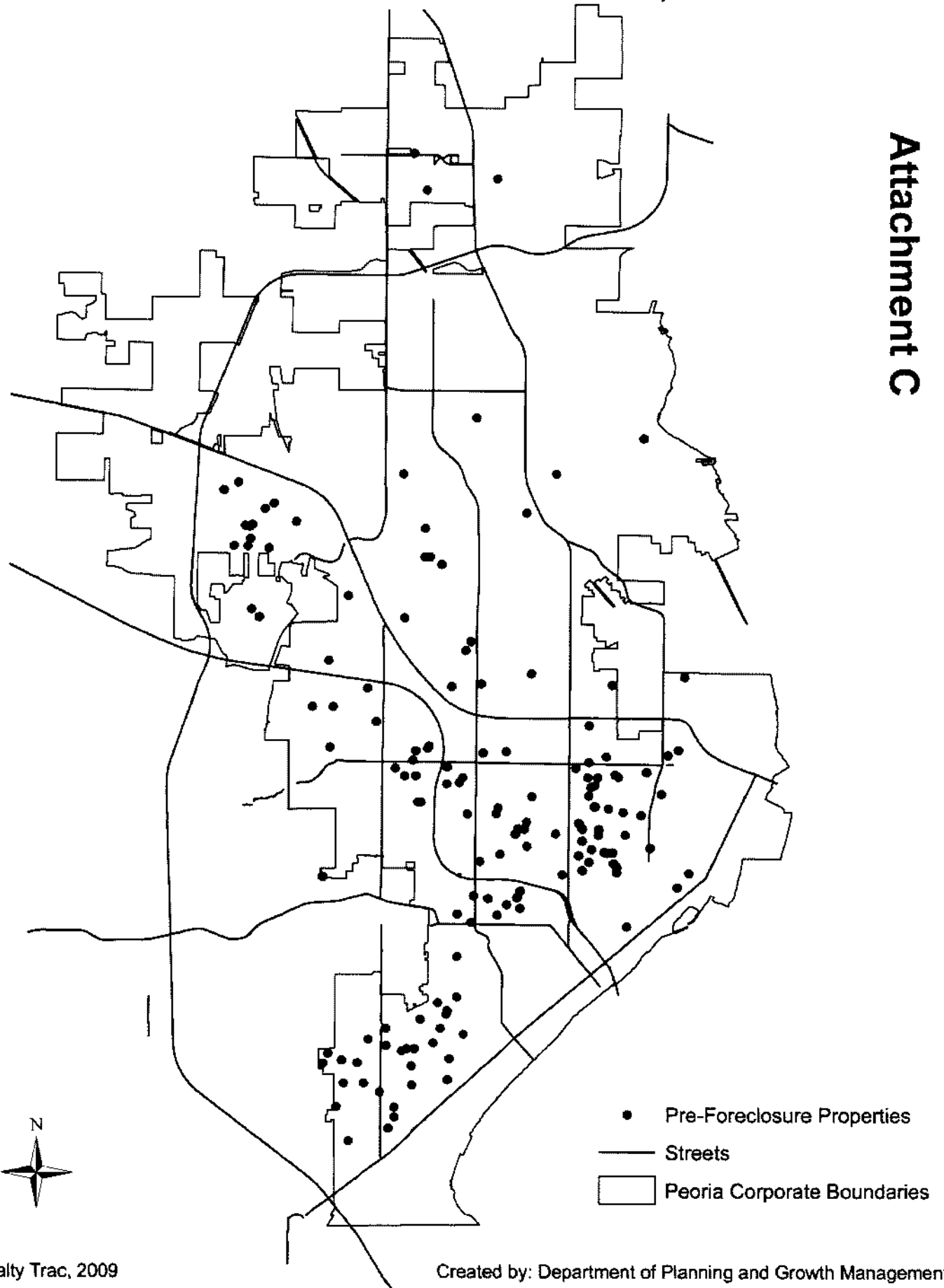


Estimated Foreclosure Abandonment Risk Score by Block Group

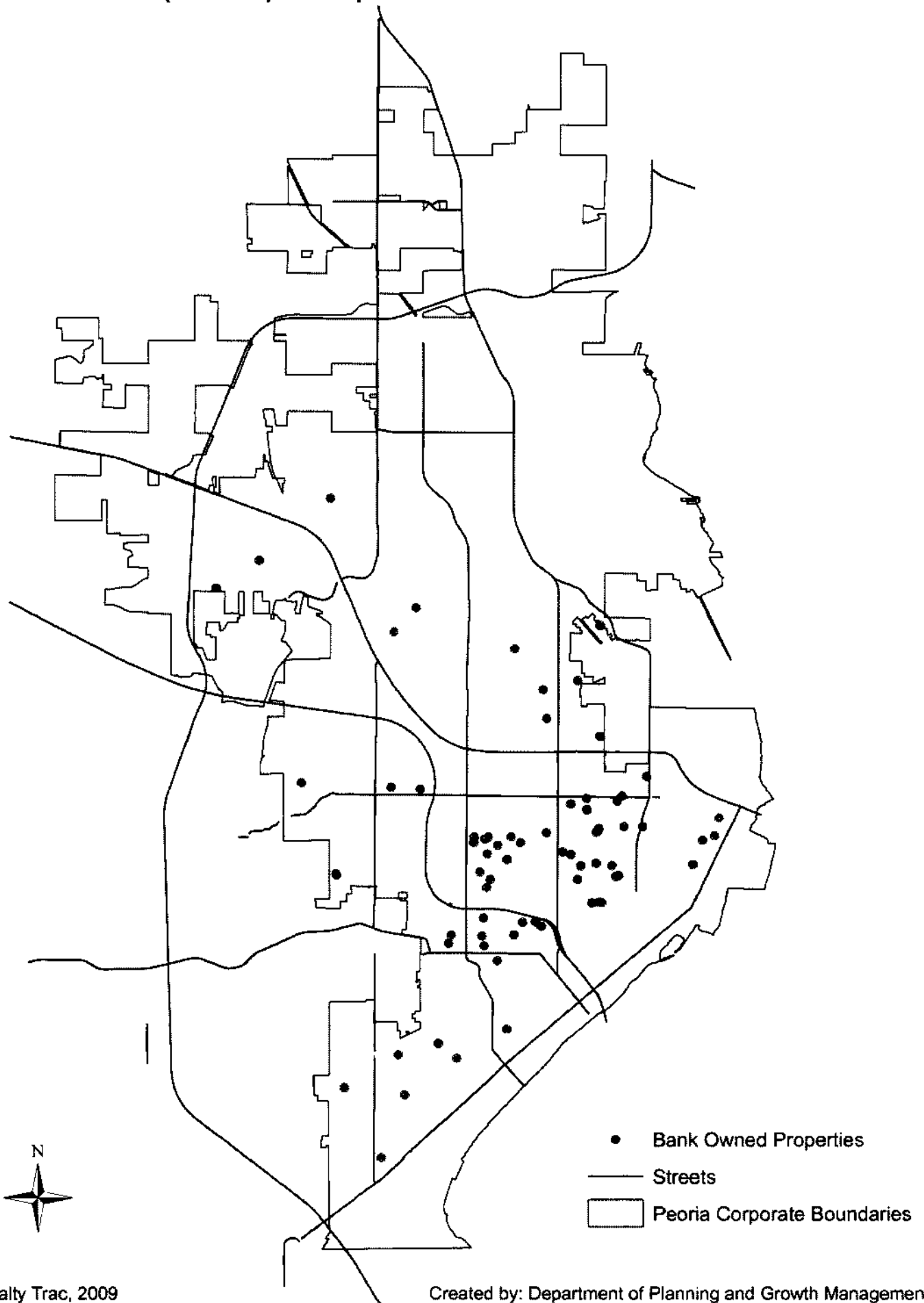


Pre-Foreclosure Properties (Lis Pendens and Notice of Foreclosure)

Attachment C



Bank Owned (REO) Properties



2008 Income Limits	1 Person	2 People	3 People	4 People	5 People	6 People
50% AMI	\$22,200	\$25,350	\$28,550	\$31,700	\$34,250	\$34,250
80% AMI (regular CDBG)	\$35,500	\$40,550	\$45,650	\$50,700	\$54,750	\$58,800
120% AMI	\$53,250	\$60,850	\$68,450	\$76,100	\$82,150	\$88,250

Neighborhood Stabilization Program

02/10/2009

ATTACHMENT D

		Total	Year 1	Year 2	Year 3	Year 4	
State %	Local %	Request					
10%	10%	\$ (400,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	Admin Support
15%	38%	\$ (1,500,000)	\$ (375,000)	\$ (375,000)	\$ (375,000)	\$ (375,000)	Direct purchase assistance
3%	5%	\$ (200,000)	\$ (50,000)	\$ (50,000)	\$ (50,000)	\$ (50,000)	Purchase & Demo
20%	31%	\$ (1,250,000)	\$ (312,500)	\$ (312,500)	\$ (312,500)	\$ (312,500)	Purchase, Rehab, & Sell
30%	0%	\$ -	\$ -	\$ -	\$ -	\$ -	Purchase, Rehab, & Rent
5%	0%	\$ -	\$ -	\$ -	\$ -	\$ -	Purchase & Hold
17%	16%	\$ (650,000)	\$ (162,500)	\$ (162,500)	\$ (162,500)	\$ (162,500)	Redevelopment of Vacant Land
100%	100%	\$ (4,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	

	Units Assisted	Year 1	Year 2	Year 3	Year 4	
Financial Assistance	150	37	37	38	38	\$10k each
Demolition	33	8	8	8	9	\$6k each
Home Buyer	16	4	4	4	4	\$80k each
Rental	0	0	0	0	0	
Land Bank	0	0	0	0	0	
Redevelopment	5	1	1	1	2	\$120k each
Total	204	50	50	51	53	
Avg Investment per Unit	\$ 19,644					

Neighborhood Stabilization Program Recommendation
10-Feb-09

ATTACHMENT E