

MEMORANDUM

TO: Members of the Senate and House Local Government Committees

FROM: Bernie Gallagher, JBC Staff (866-4957)

SUBJECT: Federal Neighborhood Stabilization Plan

DATE: January 15, 2009

At the Senate and House Local Government Committee hearing with the Joint Budget Committee on January 13, 2008, a member requested of the Joint Budget Committee additional information pertaining to the federal Neighborhood Stabilization Plan (NSP). Please find an explanation below.

Overview:

In late September 2008, the U.S. Housing and Urban Development (HUD) Secretary allocated \$3.92 billion to all states and particularly hard-hit areas in an effort to respond to the effects of high foreclosures. Named the Neighborhood Stabilization Program (NSP), this initiative will provide emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. The NSP provides grants to every state and certain local communities to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes. The program is authorized under Title III of the Housing and Economic Recovery Act of 2008 which became law on July 30, 2008.

How the Federal Moneys Can be Used:

This funding is intended to stabilize neighborhoods. To do this, State and local governments can: (1) buy abandoned or foreclosed homes; (2) redevelop demolished or vacant properties; (3) demolish or rehabilitate abandoned, foreclosed or blighted properties; (4) offer down payment and closing cost assistance to low- to moderate-income homebuyers; and (5) reuse properties for affordable rental housing. In addition, these grantees can create "land banks" to assemble, temporarily manage, and dispose of vacant land for the purpose of stabilizing neighborhoods and encouraging re-use or redevelopment of property.

NSP Allocation to Colorado:

Colorado received \$53.1 million as a part of the HUD Neighborhood Stabilization Program allocation. The state received the 19th greatest award, or 1.4 percent of the total \$3.92 billion available for grants related to this program. For perspective on how much this relates to what other states received, Florida (\$541.4 million), California (\$529.6 million), Michigan (\$263.6 million), and Ohio (\$258.1 million) received 40.6 percent of the total allocation. Congress intended this funding to go to areas of greatest need based on the number and percent of foreclosures, as well as

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subprime-related mortgages, delinquencies, and defaults. Congress stipulated that each state receive a minimum of \$19.6 million, however many states received significantly more than this mandatory minimum.

NSP Allocation in Colorado:

The initial grantee universe is comprised of the 1,201 state and local governments currently funded in federal FY 2008 under the regular Community Development Block Grant (CDBG) formula. However, if a local government receives an allocation based on their relative need of less than \$2 million, its allocation amount is rolled up into the state government grant. Of the 1,201 eligible state and local governments, 308 grants were made to states and local governments. In Colorado, five grants were allocated as shown in the following table.

Neighborhood Stabilization Program -- Grant Allocations to Colorado	
Grantee	NSP Grant Amount
State Program (all grants < \$2.0 million) ¹	\$34,013,566
City of Denver	6,060,170
Adams County	4,600,211
City of Aurora	4,474,097
City of Colorado Springs ¹	3,904,989
Total	\$53,053,033

¹ Reflects the amount to be administered by DOLA.

Program Requirements:

There are no matching requirements however, 25 percent of funds must benefit those earning less than 50 percent of the Average Median Income (AMI) of the locality receiving the funds and these funds may not be used to benefit those with AMI above 120 percent. Further, NSP funds must be expended within 18 months of receipt, however any moneys earned on the grants received can be reinvested over a five year period ending July 30, 2013. Any properties that are purchased cannot be held longer than 10 years (land banking) and families purchasing the properties must undergo a minimum of 8 hours of home ownership counseling. HUD strongly encourages green building and energy efficient improvements in all NSP activities and long-term affordability.

Action Taken By DOLA:

Colorado submitted to the Department of Housing and Urban Development its plan on December 1, 2008. The Department is expecting receipt of the State Program allocation on January 15, 2009. The plan is targeting areas with the greatest need, per the spirit of the federal legislation. The

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Department understands that different strategies are necessary for different neighborhoods. Thus, the Department will seek to combine and leverage all state- and federally-based resources currently available, to better leverage all funding, enabling the Department to assist more local governments (e.g., HOME grants, Community Development Block Grant, Mineral and Energy Impact Assistance Grants, and Private Activity Bonds). The Department is also heavily collaborating with other state recipients including Adams County and the cities of Aurora and Colorado Springs and has begun initiating requests for proposals from realtors, appraisers, title companies, inspection companies, commercial lenders, community development financing institutions, and other professionals to implement the legislation.