Neighborhood Stabilization Program

On September 4, 2008 at 9:30 a.m., Doug Harsany, of the Office of Housing and Community Partnerships (OHCP), initiated a conference call regarding the Neighborhood Stabilization Program.

A roll call was read by Dana Leas, of OHCP, and the list of participants is attached.

To begin the meeting, Mr. Harsany stated that he had provided the participants with a copy of the recently enacted HR 3221, which established the Neighborhood Stabilization Program, and the purpose of today's conference call was to obtain input from the conference call participants regarding the formulation of the program's requirements, including the distribution of funds (formula or competitive), potential thresholds to funding, rational use of data to analyze need, and opportunities and challenges associated with each of the eligible activities.

The first topic discussed was the distribution of funds.

Program Funding Allocations

William J. Graves, the Community Development Division Director, stated that until more guidance is provided from the U.S. Department of Housing and Urban Development (HUD), no entity is guaranteed funding and that the traditional entitlement/non-entitlement relationships may not apply to this program.

Paul Herdeg, of Cuyahoga County, suggested that the State of Ohio use the same calculations that HUD is using to determine funding allocations and that entitlement communities that do not get funds directly from HUD should get funding from the State of Ohio.

Dale Hartle, of the Ohio Regional Development Corporation, suggested that Ohio review the capacity of grant administrators across the state to determine which entities can spend the funds in a timely manner.

Fritz Leighty, of Leighty and Snider, Incorporated, suggested that capacity to administer this program is important, since it does not focus solely on rehabilitation and that buying and selling property is an extremely complicated process, especially if the activities must be completed within 18 months.

Mr. Harsany reviewed the participants' comments by noting that the State of Ohio also believes that the capacity to administer the Neighborhood Stabilization Program will be important to the program's success and that local and regional partnerships will also be important to this program.

Jack Riordan, of the Ohio Conference of Community Development, stated that the State of Ohio may want to limit the number of grant recipients for this program and encourage a regional approach to addressing vacant and abandoned properties, especially since there is limited capacity to address the legal complexities of redeveloping properties, and because of the need to meet HUD's constraints regarding the 50 percent/120 percent low- and moderate-income beneficiary requirements.

Mr. Hartle stated that the idea of regional collaboration sounds good, but in reality it is difficult for units of local government to work together quickly, as the obstacles are numerous.

Mr. Leighty agreed with Mr. Hartle's assessment, but stated that the State of Ohio may require consortiums.

William J. Graves, of the Community Development Division, asked if Mr. Riordan was suggesting that the funds be awarded to regional nonprofit organizations.

Mr. Riordan replied that he was not suggesting that the funds be awarded to regional nonprofit organizations.

Mr. Herdeg stated that local governments should be the lead award recipients and should maintain control of the funds at the local level.

Mary Crockett, of the City of Xenia, agreed that the funds should be awarded to units of local government.

Mr. Herdeg stated that if the state is concerned that local governments would be unable to work together quickly, a timeline could be provided where if the entities could not agree within a specified amount of time about the expenditure of funds, then a regional nonprofit could be considered as the award recipient.

Mr. Harsany then asked the participants to move to the next topic.

Potential Thresholds for Funding

Mr. Harsany asked the conference call participants if the State of Ohio should consider “need” as a threshold.

Mr. Hartle stated that he believed that one of the program’s thresholds should be the capacity to administer the program.

Mr. Leighty suggested two thresholds: (1) the award amount must be significant enough to make an impact in a community; and (2) there must be a demonstrated need for the funds, but in rural areas targeting the funds to “neighborhoods” would not work because there are no traditional neighborhoods in those areas like in urban cities, where the “need” may seem greater.

Mr. Herdeg stated that there is significant need in suburban areas also.

Hal Keller, of the Ohio Capital Corporation, stated that there should be a threshold to ensure that the funds have an impact.

Karen Banyai, of the Ohio Housing Finance Agency, agreed that there needs to be comprehensive plan for using housing funds to avoid a hit or miss approach.

Mr. Riordan asked if there are any data sources available to meet the formula for distributing the funds that was included in the legislation. He added that the legislation requires percentage data, not numbers.

Mr. Harsany replied that the data may be available from two commercial sources, Data Quick and RealtyTrac, and from public sources, which were outlined in testimony by Todd Robertson, of HUD, during a Joint Hearing before the Subcommittee on Domestic Policy and the Subcommittee on Housing and Community Opportunity.

Mr. Leighty urged the State to use data that is available across the state so that the same measurement is used to measure “need” in both urban and rural areas.

Ms. Crockett stated that she has been searching for the applicable data at the county or city level, with no success.

Kermit Lind, of Cleveland Marshal College of Law, stated that it would be helpful for the State of Ohio to provide guidance regarding system coordination to ensure: entities are collecting data in the same categories and; compatibility for ease of merger, evaluation and planning, especially for a regional approach.

Mr. Riordan stated that the funds are not limited to expenditure for single-family homes.

Mr. Graves stated that the program is focused on the redevelopment of residential vacant and abandoned properties and that “used by” may mean committed. No definition of redevelopment was provided. However, the legislation does require that not less than 25 percent of the funds must be used to house families with incomes at or below 50 percent of the area median income, which could mean rental property.

Mr. Harsany stated that the foreclosure crisis in Ohio is beginning to have an impact on rental properties.

Mr. Herdeg stated that there is not a lot of time to crunch the numbers regarding need and therefore it would be beneficial to receive that data from the State.

Mr. Crockett agreed.

Mr. Riordan stated that the number of data sources used to determine funding levels should be limited to reduce the number of appeals the State may receive if numerous data sources are used to determine need.

Mr. Leighty stated that the State should review the data used by HUD to determine its funding allocations for the program.

The group was then directed to the next topic of conversation.

Eligible Activities

1. 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.

   Mr. Harsany asked if the conference call participants believed that this would be a useful activity. Mr. Herdeg, Mr. Hartle and Mr. Leighty stated that this should be an eligible program activity in Ohio.

   Mr. Lind stated that soft seconds are challenging to administer as time passes by.

   Mr. Leighty suggested that the State avoid establishing rigid guidelines for the program funding.

   Ms. Crockett questioned the need to return any program income generated by the program to HUD and suggested that a letter be sent to share Ohio's concerns about of some of the issues concerning the legislation.

   Mr. Riordan indicated that it may be too late for a letter.

   Michael Hiler, of OHCP, stated that program income decisions are based on the amount of program income generated and the time period in which it is generated.

   Mr. Herdeg stated that it is important that mixed-income development be permitted.

2. 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.

   Mr. Hartle stated that this activity is very viable and that award recipients will want to undertake this activity.

   Mr. Herdeg stressed that some entitlement communities will be requesting funds from the State and, in those instances, it important that the community be allowed to use their own rehabilitation standards and not the State's Residential Rehabilitation Standards.

   Mr. Harsany stated that "redevelopment" was not defined by the legislation and it will be interesting to see if and how HUD defines the term.

   Mr. Herdeg also asked about the area benefit analysis and how an award recipient will be able to demonstrate that an activity is benefiting the targeted households.

   Mr. Harsany stated that this question will need to be answered for all of the activities, not just this one.

   Mr. Riordan suggested that perhaps an area wide benefit could be used.

The group was then directed to the next eligible activity.

3. Establish land banks for homes that have been foreclosed upon.

   Mr. Herdeg stated that legislation at the State level is being considered to allow counties to establish land banks.

   Mr. Leighty stated that land banking for rural counties is not a viable option.

   Ms. Crockett agreed.

Mr. Lind stated that there is an important distinction between land banking entities and land banking units of local government. House Bill 602 allows for both strategies, it allows large counties to contract with municipalities to land bank, but does not preclude special purpose entities from land banking.

4. Demolish blighted structures.

Mr. Leighty indicated that a lot of award recipients will want to demolish blighted structures with the funds.

Mr. Herdeg suggested that the State limit this activity.

5. Redevelop demolished or vacant properties.

Mr. Hartle stated that allowing demolition could be tied to this activity, allowing award recipients to demolish if a rebuild plan is in place.

Mr. Lind stated that in many situations it is difficult to obtain a clear title on properties. However, entities can use a "public nuisance" civil action to obtain a priority lien, which moves faster than other foreclosures, such as a "tax" foreclosure.

Mr. Leighty stated that the legal difficulties could be a capacity problem for some units of government.

Mr. Lind suggested that it is important to establish a "S.W.A.T." team of specialists to address the legal ramifications and work.

Mr. Leighty suggested that such an undertaking should be an eligible project expense.

Mr. Harsany stated that to address such issues it is important to establish partnerships.

Mr. Riordan suggested that because of liability, there my need to a nonpublic entity involved with the purchase of property.

Mr. Harsany thanked the conference call participants for their input regarding the topics discussed and reminded the participants that the next conference call regarding the Neighborhood Stabilization Program will be held on September 9, 2008 at 1 p.m.

During that call, the following topics will be discussed: the rational use of funds in rural areas and small to medium sized communities, the rational use of funds in larger urban areas, effectively dealing with the 25% set aside for those at or below 50% of the area median income, how to get the funds spent quickly, and ensuring administrative capacity and managing grant progress.

Mr. Riordan suggested that the group also discuss the foreclosure effects on renters and housing for persons who are foreclosed upon.

The conference call ended at 10:30 a.m.

Attachment