

Grantee: Detroit, MI

Grant: B-11-MN-26-0004

July 1, 2012 thru September 30, 2012 Performance Report



Grant Number:

B-11-MN-26-0004

Obligation Date:**Award Date:****Grantee Name:**

Detroit, MI

Contract End Date:

03/10/2014

Review by HUD:

Submitted - Await for Review

Grant Amount:

\$21,922,710.00

Grant Status:

Active

QPR Contact:

Fern Clement

Estimated PI/RL Funds:

\$0.00

Total Budget:

\$21,922,710.00

Disasters:

Declaration Number

NSP

Narratives

Summary of Distribution and Uses of NSP Funds:

Executive Summary

On October 19, 2010, HUD released the Neighborhood Stabilization Program Three (NSP3) Notice with the requirements for the new allocation of NSP funds that we authorized under Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). The Act provides \$970 million in new NSP funding to states and local governments to continue to assist in the redevelopment of abandoned and foreclosed homes. NSP3 represents a third round of funding through HUD's Neighborhood Stabilization Program. As one of the cities with the highest home foreclosure rate among the nation's 100 largest metropolitan areas, the city of Detroit has suffered tremendous impacts as a result of this crisis. With over 67,000 foreclosed properties, 65% of which remain vacant, the City of Detroit recognizes that the \$21.9 million allocation must be implemented in a manner that is strategic, efficient and yields great results. Noting that Detroit faced several challenges prior to this crisis, including a shrinking population still spread across a large land mass, a market where the supply of housing exceeded the demand, a declining tax base, older housing stock, and an old infrastructure system to name a few, we recognize the need to strategically utilize these funds to stabilize neighborhoods hardest hit by the foreclosure crisis, devise proactive remedies for anticipated future foreclosure activity, and foster market recovery for enhanced quality of life. This plan details the City of Detroit's strategy for utilizing these funds to achieve the goals for which the program was designed. While the foreclosure problem is widespread, touching almost every neighborhood in the city, investing these funds on a citywide basis will not yield the impact or results needed. As such, we have used the data to determine a targeted approach, focusing on five neighborhoods. By targeting the allocation, the opportunity for sustained impact is significantly higher. Once implemented, this plan will result in stabilization of neighborhoods most severely impacted by foreclosure and abandonment, reversal of the decline of neighborhood housing values, significant elimination of blighted and abandoned structures, and stimulation of other investment in and around the target neighborhoods. To apply for the allocation of \$21,922,710, the City of Detroit, through the Planning and Development Department has proposed the following use of funds in the Substantial Amendment to the 2010-11 Consolidated Annual Action Plan. The proposed budget breakdown is as follows:

Planning and General Administration	\$ 2,192,271
Acquisition/Rehabilitation	\$13,538,168
Financing Mechanisms	\$ 3,500,000
Demolition	\$ 1,192,271
Redevelopment	\$ 1,500,000
Total	\$21,922,710

The City of Detroit NSP 3 Substantial Amendment proposes to use funds in the following target areas:

- Grandmont Rosedale (Census Tract 5431, Block Groups 001 and 002; Census Tract 5429, Block Group 002)

The area is composed of two non-contiguous areas (one to the north and another south). The area to the north is bounded by McNichols to the north, Southfield Freeway to the east, Florence to the south and Sunderland to the west. The area to the south is bounded by Fenkell to the north, Southfield Freeway to the east, Lyndon to the south and Faust to the west.



- Warrendale (Census Tract 5463, Block Group 002 and Census Tract 5462, Block Group 007)

The area is bounded by Elmira and Joy to the north, West Outer Drive, Trinity and Pierson to the east, Tireman and Warren to the south and Hazelton and Parkland to the west.

- Palmer Woods / North Central (Census Tract 5383, Block Group 001)

The area is bounded by Seven Mile to the north, Woodward to the east, McNichols to the south and Pontchartrain and Hamilton to the west.

- Northend (Census Tract 5325, Block Groups 001-003 and Census Tract 5324, Block Groups 002 and 003)

The area is bounded by Gladstone and Clairmont to the north, Woodward to the east, Grand Boulevard to the south and the Lodge Freeway to the west.

- East English Village (Census Tract 5018, Block Group 003)

The area is bounded by Wavenly to the north, Kensington to the east, Mack to the south and Bedford to the west. NSP3 requires grantees to use at least 25% of the funds allocated, \$5,480,678, for the purchase and redevelopment of abandoned or foreclosed homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50% of the area median income (AMI). All activities funded by NSP3 must benefit low, moderate, and middle-income persons whose income does not exceed 120% of the area median income.

How Fund Use Addresses Market Conditions:

NSP3 funds will be used to implement activities in all of the Eligible use categories. The use of NSP funds will address market conditions described in the plan in the following ways that are intended to counter the negative effects:

- The high volume of housing units that have been foreclosed upon in Detroit and their relatively low sales prices have created an opportune time for lower income households who typically may not qualify for market rate mortgages to enter the housing market. This will increase homeownership levels in many of eth target communities that are losing residents.
 - The provision of first and second mortgages using NSP funding through financing mechanisms are intended to provide alternative mortgage sources and thereby stimulate lending through traditional lenders.
 - The use of NSP for development financing and the City’s work with lenders and the appraisal community is intended to slow down the decline in housing values in the City.
 - The securing of vacant and foreclosed upon properties through the use of NSP and land banking strategies will reduce incidence of declining values due to the actions of irresponsible real estate investors in the target areas.
 - The removal of blighted structures and redevelopment through new construction has the dual effect of enhancing the physical environment and providing homeownership opportunities in the NSP target areas.
 - The acquisition, redevelopment and resale or rental of vacant abandoned and foreclosed houses will reduce the attendant community decay caused by these structures and return revenue to the City coffers.
 - The use of lease-purchase options for buyers who have no credit or poor credit will create phased homeownership opportunities and improve the financial conditions of families.

NSP3 METHODOLOGY

The Neighborhood NSP3 Score.

The minimum needs score for NSP3 targeting eligibility within target area geography’s state: the neighborhoods identified by the NSP3 grantee as being the areas of greatest need must have an individual or average combined index score for the grantee’s identified target geography that is not less than the lesser of 17 or the twentieth percentile most needy score in an individual state. For example, if a state’s twentieth percentile most needy census tract is 18, the requirement will be a minimum need of 17. If, however, a state’s twentieth percentile most needy census tract is 15, the requirement will be a minimum need of 15. If more than one neighborhood is identified in the Action Plan, HUD will average the Neighborhood Scores, weighting the scores by the estimated number of housing units in each identified neighborhood

The high cost mortgage rate.

Home Mortgage Disclosure Act data showing the percent of primary mortgages executed between 2004 and 2007 that were high cost. This is the Census Tract level rate.

The estimated rate of mortgages Serious Delinquent (90+ or more days delinquent or in foreclosure) in June 2010.

HUD used a July 20 extract of county level serious delinquency rates from McDash Analytics to develop a predictive model using public data that was available for every Census Tract in the United States. The predictive model, which was weighted on number of mortgages in each county, was able to predict most of the variance between counties in their serious delinquency rate (R-square of 0.821). The model used is as follows:

NSP3 Downloadable Data Files – Data Reflect Market Conditions For the Second Quarter of 2010 0.523 (intercept)

+0.476 Unemployment Change 3/2005 to 3/2010 (BLS LAUS)

-0.176 Rate of low cost high leverage loans 2004 to 2007 (HMDA)

+0.521 Rate of high cost high leverage loans 2004 to 2007 (HMDA)

+0.090 Rate of high cost low leverage loans 2004 to 2007 (HMDA)

-0.188 Fall in Home Value Since Peak (FHFA Metro and Non-Metro Area)

The predictive model was applied at the Census Tract level to calculate a Serious Delinquency Rate for each Census Tract. Percent persons



estimated less than 80% AMI in this target geography for purposes of determining Area Benefit eligibility for CDBG. From Census 2000. To qualify for area benefit under CDBG, the target area needs to be 51% or more LM.

Percent persons estimated less than 120% AMI in this target geography for purposes of determining Area Benefit eligibility for NSP. From Census 2000. To qualify for area benefit under NSP, the target area needs to be 51% or more LMMI.

Estimated number of completed foreclosures in the target area in the past year.

Each geographic area was allocated its estimated share of completed foreclosures in the state (from RealtyTrac Count of REO completions July 2009 to June 2010) based on its estimated share of serious delinquent borrowers (calculated for each geographic area as $HMDA * SDQ_RATE$). Estimated number of properties needed to make an impact in identified target area. There is not magic to thimber, it is presuming that a minimum of 20% of REO in a target area would need to be addressed to make a visible impact. The purpose of this variable is to encourage grantees to select target areas that are small enough so that their NSP investment has a chance of stabilizing a neighborhood. Nationwide there have been over 1.9 million foreclosure completions in the past two years. NSP 1, 2, and 3 combined are estimated to only be able to address 100,000 to 120,000 foreclosures. To stabilize a neighborhood requires focused investment.

NSP 3 Methodology

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LOCAL DATA USED:

The Number of Owner-occupied Houses vs. Renter occupied.

This was used in order to see if there are enough homeowners to make an impact in this area with more funding. Data supplied by "Claritas 2008".

Housing vacancy rate and Owner Occupancy.

This is used to determine if vacancies are an issue, which could impact efforts to improve the area. Data supplied by "Data Driven Detroit".

2009 and 2010 Wayne County Tax Foreclosure Data.

Foreclosed Buildings was used to give a somewhat better indication of local foreclosure trends. This was used to better reflect the current active in Detroit, sometimes served as a better view of activity than the National data, which was supplied by HUD.

The Number of Single Family Structures that are Owner Occupied.

This is used to determine if enough owners reside in the area to positively impact our efforts. Data supplied by "Data Driven Detroit" and "Claritas 2008", respectively.

The Number of Vacant Residences.

This is used to determine if there are opportunities to get structures to rehab, if not badly damaged. Data supplied by "Data Driven Detroit".

The Number of Demolition Permits issued in 2010, and number of structures that were a part of the City's BING 3000 program demolition program.

This is used to determine demolition activity in the area. Data supplied by the City of Detroit.

The Number of City-owned Residential Structures.

This is used to determine if there are opportunities to get city-owned structures to rehab, if not badly damaged. Data supplied by the City of Detroit.

The following is additional HUD/NSP3 data used in this Report:

Neighborhood NSP3 Score: 20

State Minimum Threshold NSP3 Score: 17

Total Housing Units in Neighborhood: 476

Area Benefit Eligibility

Percent Persons Less than 120% AMI: 88.80

Percent Persons Less than 80% AMI: 73.10

Neighborhood Attributes (Estimates)

USPS Residential Addresses in Neighborhood: 404

Residential Addresses Vacant 90 or more days (USPS, March 2010): 96

Residential Addresses NoStat (USPS, March 2010):

Foreclosure Estimates

Total Housing Units to receive a mortgage between 2004 and 2007: 110 Percent of Housing Units with a high cost mortgage between 2004 and 2007: 67.10

Percent of Housing Units 90 or more days delinquent or in foreclosure: 24.6

Number of Foreclosure Starts in past year: 14

Number of Housing Units Real Estate Owned July 2009 to June 2010: 12

Supporting Data

Housing Finance Agency Home Price Index through June 2010): -34

Place (if place over 20,000) or county unemployment rate June 2005*: 13.5

Place (if place over 20,000) or county unemployment rate June 2010*: 22.9



Ensuring Continued Affordability:

The City of Detroit, as part of the NSP 3 requirement, "for sale" property, "rental" units and "lease-to-own" properties will require a "deed restriction" and/or "affordable housing restriction" that will mandate and require compliance during the continued period of affordability, described in the City of Detroit's NSP requirements, policies and procedures. In addition, the continued affordability compliance will be a part of any "Development Agreement" implemented between the City and the Developer/Non-profit owner/sponsor.

Definition of Blighted Structure:

The City of Detroit's definition of blighted structure is as follows: (A) "Blighted area" and "slum" mean an area in which at least seventy per cent of the parcels are blighted parcels and those blighted parcels substantially impair or arrest the sound growth of the state or a political subdivision of the state, retard the provision of housing accommodations, constitute an economic or social liability, or are a menace to the public health, safety, morals, or welfare in their present condition and use.

(B) "Blighted parcel" means either of the following:

(1) A parcel that has one or more of the following conditions:

- (a) A structure that is dilapidated, unsanitary, unsafe, or vermin infested and that because of its condition has been designated by an agency that is responsible for the enforcement of housing, building, or fire codes as unfit for human habitation or use;
- (b) The property poses a direct threat to public health or safety in its present condition by reason of environmentally hazardous conditions, solid waste pollution, or contamination;
- (c) Tax or special assessment delinquencies exceeding the fair value of the land that remain unpaid thirty-five days after notice to pay has been mailed.

Definition of Affordable Rents:

The City of Detroit shall use, as a minimum, the HOME regulations definition for affordable rents. The NSP program adopted section 92.252(a), (c), (d) and (f) of the HOME rental requirements and therefore the maximum HOME rents that can be charged are the lesser of: (1) the fair market rent for existing housing for comparable units in the area as established by HUD under 24 CFR Part 888.111; or (2) A rent that does not exceed 30 percent of the adjusted income of a family whose annual income equals 65 percent of the median income for the area, as determined by HUD, with adjustments for number of bedrooms in the unit. The City of Detroit has adopted that HOME Low rents can be used for families below 50% AMI, the HOME High rents for persons between 51 and 80% and the HUD fair market rents for families between 81% and 120% of AMI.

The NSP assisted rental units shall remain affordable for terms relative to per unit subsidy. (Affordable terms will range from five (5) to twenty (20) years, based on per unit subsidy).

The maximum HOME rent limits are recalculated by HUD periodically after determination of fair market rents and median incomes. The City will issue the most current affordable rent charts as they become available from HUD. Regardless of changes in fair market rents and median income over time, the rents for a NSP project are not required to be lower than the rent limits for the project in effect at the time of the project commitment.

Housing Rehabilitation/New Construction Standards:

The City of Detroit, Planning and Development Department (P&DD) continually reviews, upgrades and enhances its property rehabilitation standards. The last formal comprehensive revision to the Performance Standards occurred in November 2008. In addition to rehabilitation and new construction standards, all projects must address lead based paint and other environmental hazards. "Green Building Practices" are strongly encouraged and energy efficiency upgrades are required. Please be advised that additional requirements are listed below:

- All moderate rehabilitation must meet these standards, which shall include replacing older obsolete products and appliances (such as windows, doors, lighting, hot water heaters, furnaces, boilers, air conditioning units, refrigerators, clothes washers and dishwashers) with Energy Star-46 labeled products.
- All gut rehabilitation or new construction (i.e., general replacement of the interior of a building that may or may not include changes to structural elements such as flooring systems, columns or load bearing interior or exterior walls) of residential buildings up to three stories must be designed to meet the standard for Energy Star Qualified New Homes.
- All gut rehabilitation or new construction of mid - or high-rise multifamily housing must be designed to meet American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) Standard 90.1-2004, Appendix G plus 20 percent (which is the Energy Star standard for multifamily buildings piloted by the Environmental Protection Agency and the Department of Energy).
- Water efficient toilets, showers, and faucets, such as those with the Water Sense label, must be installed.

Vicinity Hiring:

The City of Detroit, to the maximum extent possible, will encourage the hiring of qualified and skilled City of Detroit residents for employment opportunities resulting from the implementation of the NSP 3 program, who reside within the vicinity of the NSP 3 project. In addition, the City will seek to contract with contractors and small-business owners who reside within the vicinity of the project. Contractors will be encouraged to advertise in the local newspapers and conduct outreach with local non-profit partnerships and the City's Detroit Workforce Development



Department to identify eligible residents for employment opportunities, when feasible.

Procedures for Preferences for Affordable Rental Dev.:

Beneficiaries will be permitted to rent for a period consistent with the HOME Program guidelines relative to per unit subsidy. (Affordable terms will range from five (5) to fifteen (15) years, based on per unit subsidy).

Grantee Contact Information:

NSP3 Program Administrator Contact Information:

Name (Last, First): Winters, Marja

Email Address: mwinters@detroitmi.gov

Phone Number: 313-224-1598

Mailing Address: 65 Cadillac Square, Suite 2300, Detroit, MI 48226

Overall	This Report Period	To Date
Total Projected Budget from All Sources	N/A	\$21,922,710.00
Total Budget	\$0.00	\$21,922,710.00
Total Obligated	\$0.00	\$0.00
Total Funds Drawdown	\$0.00	\$0.00
Program Funds Drawdown	\$0.00	\$0.00
Program Income Drawdown	\$0.00	\$0.00
Program Income Received	\$0.00	\$0.00
Total Funds Expended	\$0.00	\$0.00
Match Contributed	\$0.00	\$0.00

Progress Toward Required Numeric Targets

Requirement	Required	To Date
Overall Benefit Percentage (Projected)		0.00%
Overall Benefit Percentage (Actual)		0.00%
Minimum Non-Federal Match	\$0.00	\$0.00
Limit on Public Services	\$3,288,406.50	\$0.00
Limit on Admin/Planning	\$2,192,271.00	\$0.00
Limit on State Admin	\$0.00	\$0.00

Progress Toward Activity Type Targets

Activity Type	Target	Actual
Administration	\$2,192,271.00	\$2,192,271.00

Progress Toward National Objective Targets

National Objective	Target	Actual
NSP Only - LH - 25% Set-Aside	\$5,480,677.50	\$17,538,168.00

Overall Progress Narrative:

NSP3 3rd Quarter 2012 QPR



During the third quarter, the City of Detroit made progress towards implementing its NSP3 program.

The City submitted a substantial amendment to the 2010-2011 Consolidated Plan that included changes to the NSP3 proposed budget. This moved more funds into the Demolition and Redevelopment Uses and eliminated the Financing Mechanisms Use. Also, the areas of greatest need were expanded to include a few more strategically located Census tracts within neighborhoods with market strength by the City. For the expanded areas, P&DD held community meetings in each target area and secured approval from the City Council before submitting its request to HUD. HUD approved the City's request in late September.

The City has allocated \$2,192,271.00 in NSP3 for demolition activities. During the third quarter, potential NSP3 demolition sites were identified that would complement other NSP investments. The City focused on obligating and expending NSP2 and CDBG-R funds for demolition during this quarter, so NSP3 demolition will start after those programs are completed. Attention was also given to improving processes for procurement, contracting, and financial management.

The City will utilize \$15,038,168 of the NSP3 funds to work with developers to conduct both rehabilitation and new construction for both rental and homeownership projects. The City published a public notice in late June and held four public meetings between July 9-12 located in different target areas including neighborhoods in the West, Central, East and Southwest areas of the City. Local stakeholders including nonprofit organizations, residents and neighborhood developers generally attended these meetings. In some cases there was little support communicated about proposed areas while in others stakeholders made recommendations to refine the boundaries of the expansion, noted specific properties to include, and commented on developers they would support because of their past experience completing redevelopment activities. The City incorporated the feedback from the public meetings as they made final adjustments to the expanded areas.

The City issued separate homeownership and rental NOFAs, each with both an RFP and an RFQ component. The RFP/RFQ was released on July 20th with responses due on August 13th. The RFP provided an opportunity for developers to apply for funds for specific rental or homeownership development projects in the target areas utilizing properties selected by them. The RFQ provided an opportunity for developers who wish to participate in the development and rental of City-selected properties yet to be determined, and were not proposing a specific project. The City received 2 homeownership project proposals and 6 developers applied to be named a qualified homeownership developer. The City received 12 rental project proposals and 4 developers applied to be named a qualified rental project developer. City staff reviewed and scored these applications, and is prepared to provide awards in the 4th quarter.

The City identified 41 properties on the Wayne County property tax foreclosure list in the NSP3 areas. The Detroit Land Bank Authority (DLBA), as a subrecipient to the City, was provided with \$2.9M to purchase and secure these foreclosed properties and complete the relevant due diligence actions. Because fewer tax-foreclosed properties have been identified than projected, it appears that actual costs may be less, allowing for some funds to be reallocated in the next quarter. Prior to the purchase of the tax foreclosed properties, the City will direct the DLBA to conduct environmental review, valuation, research the existence of tenant protections issues, and carry out assessments for lead and asbestos abatement. DLBA will purchase the properties that successfully complete this phase of due diligence. DLBA will then proceed to conduct pre-construction energy audits, order surveys and title reports, and installs security systems. Unless feasibility has been rejected following these steps, DLBA will transfer the properties to City qualified developers approved through the afore-mentioned procurement process. Once the awards are made, the City will need to amend its Action Plan to reflect these final award amounts.

Staff is in the process of correcting PAR forms so time spent on NSP 3 activities can be properly documented and drawn down from the Administration line. Drawdowns will begin in the 4th quarter.



Project Summary

Project #, Project Title

Project #, Project Title	This Report Period	To Date	
	Program Funds Drawdown	Project Funds Budgeted	Program Funds Drawdown
001, Acquisition and Rehabilitation	\$0.00	\$13,538,168.00	\$0.00
002, Demolition	\$0.00	\$1,192,271.00	\$0.00
003, New Construction of Houses	\$0.00	\$1,500,000.00	\$0.00
004, Administration	\$0.00	\$2,192,271.00	\$0.00
005, Financing Mechanisms	\$0.00	\$3,500,000.00	\$0.00
9999, Restricted Balance	\$0.00	\$0.00	\$0.00



