



# Council Communication

Office of the City Manager

Date

June 22, 2009

Agenda Item No. 22  
Roll Call No. 09-  
Communication No. 09-423  
Submitted by: Larry Hulse, Community  
Development Director

## AGENDA HEADING:

Authorizing the City Manager to develop an application to the State of Iowa for the Neighborhood Stabilization Program II funds.

## SYNOPSIS:

Recommend approval to authorize the City Manager to develop and submit an application in conjunction with the State of Iowa for Neighborhood Stabilization Program II funds allocated from HUD.

## FISCAL IMPACT:

Amount: Up to \$6,000,000 in potential revenue

Funding Source: Community Development Block Grants (CDBG)

## ADDITIONAL INFORMATION:

The American Recovery and Reinvestment Act of 2009 (ARRA) allocated \$2 billion in additional funding for the Neighborhood Stabilization Program. This additional funding is commonly referred to as NSP2. The City has received \$3.9 million of NSP1 funds through the Iowa Department of Economic Development (IDED). The City plans to utilize these funds to redevelop approximately 90 foreclosed and abandoned properties.

There are several substantial differences between NSP1 and NSP2. Unlike NSP1, NSP2 is a competitive application process. Because NSP2 was created by the ARRA, Davis-Bacon labor standards apply to all NSP2 funded activities; however, Congress is currently debating a bill which eliminates the Davis-Bacon requirements on NSP2 funds. Until clarification occurs, staff will proceed under the assumption that Davis-Bacon requirements will apply to this funding.

There is also a difference in the areas eligible to receive NSP2 funds. Unlike NSP1, where the City was able to create a project area, HUD has created a vacancy and foreclosure index score between 1-20, with 20 being areas with the most severe vacancy and foreclosure concerns. In order to apply for NSP2 funds, the project area must have an average minimum index score of 18. This reduces the number of eligible Census Tracts to receive NSP2 funds. NSP2 also has a minimum program requirement of \$5 million and redevelopment of 100 housing units.

After an initial examination of the NSP2 program, the City's best option moving forward was to work with the State of Iowa on their application rather than submit an application from the City of Des

Moines. The City's portion of the State application will concentrate on two items: redeveloping foreclosed homes in Distressed Neighborhoods and redevelopment of multi-family housing along strategic corridors.

Foreclosed homes in our Distressed Neighborhoods tend to be larger, older, and have more severe structural concerns than houses in other areas. Although there is currently funding available for redeveloping foreclosed homes in Distressed Neighborhoods, there are many homes where the subsidy levels of NSP1 are not enough to feasibly redevelop the site. Providing a larger subsidy to assist with the redevelopment of homes in Distressed Neighborhoods can assist with the stabilization and revitalization of the impacted neighborhoods.

Because of the restrictions associated with the NSP2 funds and the limited capacity of our non-profit housing agencies, these funds are best utilized to redevelop strategic locations along commercial corridors. Because the NSP2 program will assist individuals and families up to 120% Area Median Income (AMI), we believe these funds could be allocated for several larger scale residential and mixed use redevelopment opportunities.

Currently staff is still examining ways to best utilize NSP2 funds. This is a difficult process as Congress and HUD have been issuing several significant program amendments to both NSP1 and NSP2 in the last few weeks. Staff is also concerned about the capacity of our local housing agencies to implement the NSP2 program. These concerns are magnified by the Davis-Bacon requirements that are attached to the use of these funds. Several non-profits are unable to meet these requirements, which diminishes the capacity to administer this program. Because of the rule changes and the limited capacity to implement the program, it is possible that staff may ultimately recommend to Council that these funds are not suitable for the City to utilize.

#### **PREVIOUS COUNCIL ACTION(S):**

Date: June 8, 2009

Roll Call Number: 09-996

Action: Neighborhood Stabilization Program Contract with the Iowa Department of Economic Development (IDED). Moved by Vlassis to adopt. Motion Carried 7-0.

Date: February 23, 2009

Roll Call Number: 09-341

Action: On the City's plan to spend CDBG Neighborhood Stabilization Program Funds. (Council Communication No. 09-105) Moved by Coleman to adopt. Motion carried 7-0.

Date: December 8, 2008

Roll Call Number: 08-2159

Action: Authorizing the City Manager to develop and submit a plan to the State of Iowa to spend the allocated \$3,900,000 Neighborhood Stabilization Program funds to provide emergency assistance

redeveloping abandoned and foreclosed homes. (Council Communication No. 08-732) Moved by Hensley to adopt; refer to the City Manager to provide details about this program at a workshop. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

It is anticipated that future sub-agreements and funding allocations may be approved by Council.

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