

City of San Bernardino
Neighborhood Stabilization Program 2
For Fiscal Year 2009-2010

City of San Bernardino

NSP Contact

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PROGRAM SUMMARY

In response to the national rise in subprime mortgage foreclosures and the significant costs that foreclosures impose on local municipalities and neighboring homeowners, Congress authorized \$3.92 billion for the redevelopment of abandoned and foreclosed residential properties under Title III of the Housing and Economic Recovery Act of 2008 (HERA). The funds are administered by the United States Department of Housing and Urban Development (HUD) under the entitlement grant program referred to as the Neighborhood Stabilization Program (NSP1).

In 2009 Congress appropriated an additional \$1.93 billion for foreclosure mitigation activities under Neighborhood Stabilization Program (NSP2). This latest allocation is in response to the Obama Administration's continued efforts to address the housing crisis and is authorized under American Recovery and Reinvestment Act of 2009 (ARRA). The Recovery Act directs HUD to narrow the field of qualified geographies based on need using HUD's proprietary NSP Need Calculation Tool. Proposals from the areas of highest need will be judged on: 1) capacity of the applicant to execute projects; 2) financial leveraging potential; 3) concentration of investment to achieve neighborhood stabilization; and 4) other criteria that HUD determines to be appropriate.

Under NSP2 the City of San Bernardino ("San Bernardino" or "City") is requesting \$9 million to stem the tide of foreclosures and stabilize neighborhoods. By acquiring and redeveloping abandoned foreclosed homes and other residential properties the City will achieve its goal of arresting the decline in home values and begin stabilizing neighborhoods that have disproportionately suffered from abandonment, blight and neglect.

HUD has determined a local foreclosure rate of 11.8%, the second highest among general local governments in California. Each of the City's proposed target areas identified under this announcement achieve foreclosure risk scores of 20 and vacancy scores between 14 – 18 as determined by the HUD/NSP foreclosure need map. The City NSP2 funds are targeted to areas within census tracts with a high number of foreclosures and areas with the likelihood of additional foreclosures. The City will use NSP2 to fund the purchase of foreclosed or abandoned properties in these areas to help stabilize neighborhoods. The target areas will benefit from:

- * Acquisition of properties
- * Demolition of necessary structures
- * Limited and targeted rehabilitation of worthy properties
- * Future development of low income rental housing and
- * Future development of single family homeownership opportunities

The HUD generated data reflects a high incidence of foreclosure within the target areas of need. In addition to a high foreclosure rate these neighborhoods suffer from a high crime rate, above average code enforcement incident reporting and a proliferation of abandoned and poorly maintained properties. The transformative effects of City involvement in stabilizing the target areas will ensure long-term affordability, reconnecting neighborhoods and arresting further decline.

Included in this response is a needs analysis identifying the geographic areas of greatest need within the City, and the proposed distribution and uses of NSP2 funds that are consistent with HUD regulations. Sources of information used in the preparation of this application for funding include data derived and used by HUD's proprietary tool to determine its needs assessment in allocating NSP2 funds, 2006 U.S. Census information, foreclosure information provided by RealtyTrac, and City generated Geographic Information System (GIS) data.

FACTOR 1 *NEED, EXTENT OF THE PROBLEM, MARKET CONDITIONS*

One of the most dramatic changes in financial services over the last several years has been the expansion of mortgage products. In addition to the conventional fixed-rate 30-year loan, lenders now offer a number of other mortgage products such as "interest-only" mortgages that allow a borrower to pay only the interest for the first few years of the loan, and "payment option" adjustable-rate mortgages (ARMs) that include flexible payment options for the borrower. These types of mortgages are often combined with second-lien mortgages and allow reduced documentation of creditworthiness. In 2006, these so called "nontraditional" mortgages accounted for more than one-third of all mortgage loans produced compared to 2% six years earlier. While these high-priced or subprime mortgage products can benefit some consumers, data shows subprime loans are usually marketed to less sophisticated buyers or those who may not otherwise qualify for more traditional mortgage loans. These loans eventually become unaffordable to the consumer and result in default and foreclosure.

HUD data indicates the foreclosure rate in the City of San Bernardino is 11.8% and is the second highest among municipalities in California. This determination was made by HUD based on the following: (1) the change in home values as of June 2008 compared to 2000; (2) the percentage of high cost (or subprime) mortgage loans made between 2004 and 2006; and (3) the unemployment rate as of June 2008. Additionally, for the year ending 2008 there were 2,997 foreclosed upon homes in the City, while the first quarter of 2009 reported 802 foreclosed properties for a total of 3,799 for the 15-month time frame.¹ The data provided below in Table 1 suggests the distribution of foreclosures in San Bernardino ranges from a low of 7.9% in Council Ward 3 to a high of 21.6% in Council Ward 2. This data is depicted in the attached map (Attachment "A") and shows the number and location of foreclosed residential properties within the City for the 15-month period through March 31, 2009.

Table 1. Distribution of Current Foreclosures by Council Ward

Foreclosed Homes	Citywide	Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7
Number of Homes	3,799	680	819	302	328	546	527	597
% of Homes	100%	17.9	21.6	7.9	8.6	14.3	13.9	15.8

Further analysis of HUD's data at the census tract level underscores the severity of the foreclosure crisis throughout the City. Utilizing the HUD automated index calculator, the City was able to pinpoint target areas with high foreclosure risk scores. The neighborhood assessments reveal conditions that consistently ranked the target areas at the highest range along the HUD foreclosure risk continuum. These areas are census tracts 0048.00, 0055.00, 0042.02, 0062.02 and 00740.07 (located in Wards 1, 2, 6 and 7 respectively). Each of the targeted neighborhoods garnered a foreclosure risk score of 20, and vacancy risk scores ranging from 14 to 18. Pursuant to the announcement, the City has identified an average threshold within the target geography of 20. Having achieved the highest need within the two need indices, the City believes it has met the minimum threshold to participate in NSP2.

Furthermore, each of the identified target areas listed below in Table 2 exceed the minimum threshold requirement of 18 for both Foreclosure Rate and Foreclosure Score. Closer inspection of these areas reveals they suffer from above average crime rates, poverty levels, foreclosures, blight, abandonment and absentee homeowners. The aforementioned neighborhood characteristics coupled with a persistently high foreclosure rate create the perfect opportunity for the City to take the necessary steps to intervene through an allocation of NSP2 funds.

¹ 3,799 foreclosures identified by RealtyTrac as of 03/31/2009 in the City of San Bernardino.

Table 2. HUD Foreclosure and Vacancy Determination indicators

Census Tract	Foreclosure Number	Foreclosure Rate	Foreclosure Score	Vacancy Score	Ward
0048.00	170	29.33%	20	15	1
0055.00	357	26.94%	20	18	2
0042.02	314	27.645	20	16	6
0074.07	120	25.07%	20	14	7
0062.02	236	26.03%	20	16	7
Average	239	27%	20	15.8	

Looking further at the HUD generated data, the average Foreclosure Score is 20, while the average Vacancy Score is 15.8. Additionally, the average Foreclosure Rate (estimated percentage of mortgages to start the foreclosure process or be seriously delinquent within the past 2 years) for the targeted NSP2 areas is 27%. These determinants suggest the steady continuation of foreclosures throughout the target areas.

By focusing in on the HUD-provided data, the City identified those areas with the highest foreclosure and vacancy risk scores, and projected foreclosure rates (above 11.5%) by zip code and census tract. The census tract block groups noted above are the most in need of intervention with NSP2 funds at this time. As with earlier analysis, the findings tend to reflect that census tract blocks within Wards 1, 2, 6 and 7 require the City's immediate attention utilizing NSP2 funds.

Focused Neighborhood Acquisition/Rehabilitation

The presence of High foreclosures and REO properties in particular areas of the City can provide an intervention and revitalization opportunity on a street-by-street basis. City sponsored NSP acquisition and rehabilitation efforts could substantially improve streets and block groups where foreclosures and vacant properties have magnified existing physical and social blight issues. These areas share many common traits, including:

- Poorly maintained single family and four unit homes;
- Systemic market failure of investor-owned properties;
- Heightened police and code enforcement activity; and
- Steadily declining property values.

In an attempt to attack these blighting influences, the City is proposing a focused neighborhood acquisition/rehabilitation strategy with a select group of developer intermediaries to help address the conditions noted in specific targeted areas. The City has recently entered into formal contractual arrangements with private developer partners willing to selectively acquire, rehabilitate or demolish, rebuild and maintain formerly foreclosed or abandoned properties in designated areas.

Transformation depends not only on removing the physical blight, but also in stabilizing and securing the neighborhood. Therefore, the program must be complemented by additional City efforts, including coordination of police and code enforcement efforts to reduce crime and nuisance activities, investment in public infrastructure and leveraging resources such as the City's redevelopment funds

While there are literally hundreds of foreclosed and abandoned properties available at any given time that are eligible for acquisition and rehabilitation funding through NSP2, the City intends to focus its efforts on specifically defined neighborhoods. In doing so, this would allow the City to make substantive changes quickly and effectively to address some of the City's most devastated neighborhoods. It would also simultaneously allow the City to methodically and strategically reach other neighborhoods with its existing NSP1 funds so as to address their own unique foreclosure issues identified in the original NSP application approved by HUD.

Within the recently approved HUD application, the City established a NSP1 target area map that comprised the highest levels of the following overlapping criteria: the incidence of subprime mortgages (above 41.9%), foreclosure and abandonment risk (risk scores of 20), and 18-month projected foreclosure rate (above 11.5%) by census tract. Under NSP2 the City seeks to target specific zip codes, census tracts, and neighborhoods within the original NSP1 target area. These subareas include the following locations identified below and are highlighted in Attachment "B" which show these areas overlaid on the previously approved NSP1 target area.

Subarea	Boundaries	Proposed Intervention
1	Census Tract 0062.02	Acquisition, rehabilitation and rental under professional management to income qualified households
2	Census Tract 0074.07	A combination of acquisition, demolition or rehabilitation, rental and/or resale to income qualified households
3	Zip Code 92410 Include Census Tracts 0050.00	A combination of acquisition, demolition or rehabilitation and resale to qualified home buyers
4	Zip Code 92410 Include Census Tract 0042.02	A combination of acquisition, demolition or rehabilitation and resale to qualified home buyers
5	Zip Code 92411 Include Census Tract 0048.00	A combination of acquisition, demolition or rehabilitation and resale to qualified home buyers

These subareas were selected based on the need to stabilize blighted communities, the propensity for continued foreclosure activity, foreclosure score, number of foreclosed and abandoned properties and the threat of continued blight, crime and nuisance related activities.

- Within subarea 1 the City has identified an opportunity to participate in the redevelopment of a 251 unit foreclosed apartment building. The building is situated on 11 acres that has been foreclosed and remains a blight and nuisance to the community where it is located.

Should the City be unsuccessful in utilizing funds for this specific site the resources would be re-targeted to subarea 2 where it is already in a development agreement with a third party non-profit housing developer.

- Within Subarea 2 there are 25 four-plex apartment buildings representing 100 units of potential affordable housing. This redevelopment project represents the Cities opportunity to partner with an experienced non-profit developer to provide quality affordable rental housing for up to 100 families. It would also allow the City to acquire other foreclosed and abandoned properties within the target area in order to demolish them and ultimately create better quality affordable housing to income eligible households.
- Subareas 3, 4 and 5 are opportunities for the City to acquire, renovate then resale homes to qualified homebuyers. This project entails the City partnering with development intermediaries that will manage, maintain, rehabilitate and resell previously foreclosed single-family residences to homebuyers that qualify under NSP. In certain instances where rehabilitation is cost prohibitive because of the level of disrepair with the structure the property would be slated for demolition and future redevelopment. The City has already negotiated and executed a series of agreements with intermediary developers that would provide the capacity for this activity.

Market Conditions

The most problematic aspect of the greater San Bernardino County real estate market is the continued trend in the number of foreclosed residential properties. In the 2nd quarter of 2008 lenders filed close to 11,817 notices of default, up nearly 130% from the year earlier.² With 6,251 homeowners losing their homes through foreclosure in the referenced quarter, up nearly 315% from the previous year, the City and its various housing and redevelopment resources need to play a significant role in helping to transform its residential neighborhoods.

While the County has witnessed the largest real estate collapse in its history the City has suffered a devastating blow to its residential real estate base as well. City foreclosures had grown at a rapid pace for all of 2008, and began to level off by the first quarter of 2009. Analysis shows the first quarter of 2009 resulted in 802 foreclosures which was a 20% reduction in bank owned property from the previous quarter. However, while the City has experienced a reduction in the rate of foreclosed properties, it anticipates a significant spike in foreclosure activity that will occur over the

² DataQuick Article April 22, 2009 "Golden State Mortgage Default Rates Jump to Record High"

next several months due to the removal of the statewide lender foreclosure moratoria. As the number of foreclosures is anticipated to increase dramatically, the need for City intervention to help stabilize targeted neighborhoods will also rise.

The median sales price for homes in San Bernardino, California for February 2009 to April 2009 was \$88,000. This represents a decline of 24.8%, or \$29,000, compared to the prior quarter and a decrease of 56.5% compared to the prior year.³ To stem the tide of these foreclosures, the City must continue its efforts under NSP1 and expand those strategies under NSP2 to acquire and renovate these distressed properties.

FACTOR 2 DEMONSTRATED CAPACITY

City of San Bernardino EDA Representative Projects

The City's recent experience, in the past 24 months, managing development activities similar to those which it is applying for under NSP2 include but are not limited to property acquisition, demolition, rehabilitation and providing affordable rental housing. Projects that have been undertaken involve land assembly, development, financing, homebuyer education and general affordable housing plan implementation. Some of the projects the City has overseen in the past 24 months include but are not limited to:

- Initiating the acquisition and demolition of various four-plexes located within the Meridian Apartment Project. These apartments have been a problematic and blighting influence on the west side of the City for several years. Thus far the Agency has successfully acquired nine of the properties and is looking to purchase the balance of them within the next several months. There are a total of eighteen (18) four-plex apartments (seventy-two (72) total units). Demolition has begun on the first nine City owned properties and upon successfully acquiring the balance of the properties and demolishing them a suitable developer will be sought to provide affordable housing.
- Successfully, acquiring twenty three (23) four-plex apartment buildings (ninety-two (92) units) in the area known as Arden Guthrie, relocating approximately ninety-two (92) households into new safe and sanitary housing elsewhere, undertaking the necessary environmental abatement and demolishing these structures to clear the area for redevelopment activities to include much needed commercial and retail uses and future high quality affordable housing.
- The Agency has completed the acquisition of a ten-unit (10) substandard housing complex and a four-unit (4) complex, relocated thirteen (13) tenants and demolished the substandard units for future infill housing development in the City's downtown core.

³ Statistical information identified by Realty Trac as of 05/12/2009 in the City of San Bernardino

- Assisting a developer in getting planning design approval for a proposed senior housing project in the City and assisted with the preparation of a HUD 202 grant applications, resulting in an \$11.9 million grant award for a new seventy-five (75) unit, 64,000 square feet affordable senior residential complex.
- Completed the development and issued a certificate of occupancy for a ninety (90) unit senior housing project consisting of approximately 75,000 square feet.
- Currently administers a home buyer education contract with Neighborhood Housing Services of the Inland Empire (“NHS”). For the Fiscal Year ending 2009, NHS trained approximately 1,200 potential homebuyers. Approximately 300 of these participants are considered strong home owner candidates as this group either presently lives in or works in the City of San Bernardino.

The City and its housing staff have several years of demonstrated experience in the management of activities required of NSP. The following highlights the skills and qualifications of City Housing personnel who will have day-to-day functional responsibility for implementing and administering NSP funds. An organizational chart is attached to this application as Attachment “C”.

Director of Housing and Community Development

Carey Jenkins presently serves as the Director of Housing and Community Development for the City of San Bernardino Economic Development Agency. In this capacity he is responsible for all housing preservation and production activities including the design and implementation of the City’s new comprehensive housing strategy. Prior to his appointment, Mr. Jenkins served for six years with the Community Redevelopment Agency of the City of Los Angeles where he was a redevelopment project manager for the South LA Region. While at CRA/LA he also served as a senior finance officer where he structured numerous housing and community development transactions. Prior to his work with CRA/LA, Mr. Jenkins served five years as the Manager of the Industrial Development Authority of Los Angeles where he led both the industrial development and non-profit 501(c)(3) bond programs on a city-wide basis. During his career, Mr. Jenkins has successfully managed the financing and development of over \$500 million in housing, economic development, public purpose, and community development projects.

Mr. Jenkins is a Southern California native where he received his Bachelor of Arts degree from UCLA and Masters of Public Administration, with honors, in Public Finance and Policy Analysis from California State University, Long Beach.

Project Manager

Fernando Portillo has previously worked with the County of Los Angeles Community Development Commission as a Project Manager in the housing development department, the Community Redevelopment Agency of the City of Los Angeles as a

Housing Finance Officer and the Housing Authority of the City of Los Angeles as an Assistant Director in Asset Development. Through his tenure in the above positions, Mr. Portillo has accumulated approximately 10 years of experience in affordable housing development and finance for the public sector, including the preparation of RFP/RFQ's for several multi-family and senior affordable housing projects, underwriting of government agency subsidies for single-family, senior, special needs and multi-family projects, structuring the financing for several proposed and completed affordable housing projects, and drafting and negotiating Disposition and Development Agreements and loan agreements for a variety of affordable housing projects. Mr. Portillo has also worked in the private real estate sector, having previously worked for two homebuilders in the Las Vegas area and a national, professional real estate consulting firm in Los Angeles. In addition Mr. Portillo has worked for the previous four months with the City of San Bernardino Economic Development Agency ("EDA") to assist with the implementation of its NSP housing programs.

Mr. Portillo received a Masters of Business Administration from the Anderson Graduate School of Management at UCLA and a Bachelor of Arts in economics from Occidental College.

Asset Manager

Samuel Hughes, a consultant to the City, provides the Director with support in administering its NSP program. Mr. Hughes is responsible for overseeing development partners (intermediaries) to make sure they adhere to contractual and regulatory Program objectives. Mr. Hughes will coordinate efforts amongst intermediaries, contractors, real estate agents and brokers, community based organizations and other citizen groups to ensure program objectives are met. As a former broker/owner of a private real estate company, Mr. Hughes has redeveloped and advised on the redevelopment of numerous affordable and market rate housing rehabilitation projects. And as a former project manager for a nonprofit affordable housing developer Mr. Hughes brings a wealth of information, knowledge and experience to the field of real estate and community development.

Mr. Hughes' background as a real estate and mortgage broker, as well as that of a certified construction manager coupled with his 14 years experience in the real estate field helps to provide the Agency with the capacity necessary to administer both the NSP1 and NSP2 Programs.

Mr. Hughes is a graduate of UCLA and holds certificates from the Real Estate Finance and Development Program at the Lusk Center for Real Estate at USC and the Construction Management Certification Program at California Polytechnic Pomona University.

Administrative Analyst

Shannon Johnson began working with the City of San Bernardino Economic Development Agency concurrent with attending her Masters in Public Administration Program in January, 2008. Ms Johnson currently serves as an Administrative Analyst in the Housing department, focusing her efforts on the Beautification Grant, Rehabilitation

Loan, and Mobile Home Grant programs and the Residential Receivership Program. Ms. Johnson has also been instrumental in providing support to the Agency's Director of Housing and Community Development and Project Manager on the NP. Ms. Johnson managed the procurement process for services instrumental to the Program's eventual success; including writing and issuing Request for Qualifications and conducting panel interviews for Home Inspector / Cost Estimators, Appraisers, and Environmental Services firms and recently, Ms Johnson was appointed the Agency's lead contact on the acquisition and demolition of 18 blighted and dangerous four-plex apartments.

Development Intermediary Partners

In addition to staff experience, the City has partnered with five intermediaries to help facilitate the rehabilitation efforts of both NSP1 and NSP2. Each of our partners was selected through an open and competitive procurement process and possess the qualifications necessary to achieve the objectives the Agency has identified for stabilizing the specific neighborhoods identified in this proposal. Each of the intermediaries is experienced in rehabilitating abandoned, vacant, foreclosed properties in blighted areas. The Intermediaries chosen will manage, maintain, rehabilitate and resell previously foreclosed single-family residences to homebuyers that qualify under NSP. For each property acquired by the City the selected Intermediaries will be invited to submit proposals for rehabilitating, managing, marketing and reselling the property. These Intermediaries will be responsible for managing the property from the moment they enter into a contract with the City until the time they resell the property to a Qualified Homebuyer. Below is a brief description of each of the City's qualified intermediaries.

- (1) The Nunez Team has extensive knowledge and over 20 years experience in the acquisition of single family residences for the purpose of rehabilitation and resale. During this time the Nunez Team completed over 150 projects. Having worked with both private investors and local government municipalities the Nunez Team has garnered the respect in the development community within the neighborhoods the City will target with NSP2 Funds.
- (2) Jamboree Housing in partnership with Stratus Development together have over 20 years of housing development experience and a combined market value just under \$1 billion. This development team has over 4,700 units under management. As a nonprofit affordable housing developer, Jamboree possesses the skill sets necessary to help the City achieve its goal of stabilizing neighborhoods by providing the necessary mission-driven compassion for low and moderate households while Stratus, a for profit developer, brings added fiscal capability along with its 15-year history of real estate development and construction expertise.
- (3) ANR Industries is among the most qualified companies in Southern California to redevelop distressed residential neighborhoods, particularly when these efforts involve rehabilitating bank-owned properties. Since the company's inception in 1995, ANR's primary focus has been working in

areas that have been negatively affected by adverse economic conditions, and they have a long history of rehabilitating foreclosed properties in multiple roles: fee-based general contractor; investor, developer; and partner to local government and nonprofit organizations. ANR's breadth of experience with a varied client base has allowed them to develop significant expertise assessing the most cost effective rehabilitation repairs, from budgets of less than \$10,000 to over \$100,000 per unit. Since 2004 ANR has completed over 43 rehabilitation projects.

- (4) GFR Enterprises has provided foreclosure sale and maintenance service to lenders in Southern California since 1976. With over 33 years of experience GFR Enterprise is positioned to effectively develop any of the abandoned foreclosed homes. Having previously partnered with the City to develop affordable housing, GFR possesses the tract record to supply the City with a housing product that conforms to all City building standards. GFR Enterprises has redeveloped over 400 units and continues to partner with local municipalities as they attempt to achieve affordable housing goals.
- (5) Mary Erickson Community Housing (MECH) is a non-profit corporation and a designated Community Housing Development Organization (CHDO), serving South Orange County and the greater Inland Empire, including the City of San Bernardino. Formed in 1991, MECH owns and operates five apartment buildings, housing more than 80 lower-income family members. MECH's experience developing and managing affordable housing will assist the City in achieving its goals and objectives as outlined within this proposal. MECH will be primarily responsible for addressing the NSP requirement associated with providing housing opportunities for individuals and families at no greater than 50% AMI. This will be accomplished through the City's acquisition, rehabilitation and rental program.

Each intermediary will be responsible for securing the property, maintaining utilities service, establishing a scope of work, finalizing a budget and a project timeline, conducting weekly on-site project inspections, managing relationships with all sub-contractors, verifying permits and City compliance, administering lien releases, advertising the homes for sale through various local media, conducting mass mailings targeted at potential homebuyers, and partnering with NHS to ensure that prospective Qualified Homebuyers attend a City approved homebuyer education course.

Given the intermediaries' collective ability to execute on the above mentioned program activities coupled with City's extensive staff experience in redevelopment, as well as the completed and ongoing affordable housing projects being overseen, the City is confident it possesses the capacity to achieve the objectives of NSP2 within the program period time frame.

FACTOR 3 SOUNDNESS OF APPROACH

By acquiring and redeveloping abandoned foreclosed homes and other residential properties the City will achieve its goal of arresting the decline in home values and begin stabilizing neighborhoods that have disproportionately suffered from abandonment, blight and neglect. Given the scope of the foreclosure crisis, the City has opted to transform neighborhoods by targeting its resources in the hardest hit census tracts within the City. In accordance with the Recovery Act, the City plans to use NSP2 funds as follows:

- (1) Rental housing opportunities for households at or below 50% AMI,
- (2) Acquisition, rehabilitation and resale of single family homes, and
- (3) Acquisition and demolition for future development.

In adhering to program stabilization goals and objectives, the City will diligently pursue the acquisition of foreclosed homes within the specific target areas identified by HUD to stem the tide of foreclosures and prevent the further decline of home values. With a current foreclosure rate of 11.8% as identified by HUD and an average foreclosure risk score of 20 within the target area the data clearly indicates the City would benefit by the use of NSP2 funds. The data further suggests that by targeting the NSP2 funds in the identified census tract block groups, the City will be able to utilize these funds consistent with Section 2301(c)(2) of HERA.

Current data points to an upcoming wave of foreclosures within the zip codes of some of the City's proposed NSP2 target areas. The information provided below attempts to identify the potential number and magnitude of the problem and helps to identify potential targeting opportunities for Program funds.

Census Tract	Zip Code	REOs	Pre-Foreclosure	Total Distressed Properties
0042.02 0055	92410	268	187	455
0074.07 0062.02	92404	548	401	949
0048	92411	488	239	727
Total		1,304	827	2,131

A. PROPOSED NSP2 PROGRAMS

1. Rental Housing Opportunities for Households at or below 50% AMI: This program allocates \$2,400,000 of NSP2 funds for the provision of rehabilitated affordable rental housing. This complies with and slightly exceeds the NSP2 requirement that at least 25% of the grant be allocated to address the housing needs of individuals and households whose income does not exceed 50% of AMI. This activity will be carried out by MECH under a contractual relationship with the Agency. MECH was identified for this activity through their response to a competitive notice of funding availability application process carried out by the City in the fall of 2008.

The City plans to allocate money to complete this type of redevelopment within Subarea 2 (census tract 0074.07). This area of the City suffers from above average unemployment, poverty, crime and a significant number of foreclosed or abandoned properties. The Agency has identified the area bounded by Argyle Avenue, Guthrie Street, 18th Street and 20th Street, plus the row of four-plexes immediately to the east of Guthrie Street on Sunrise Lane (please see Attachment "D" for a map of this area) where it intends to start acquiring foreclosed four-plexes for the purpose of rehabilitating them and renting them to households at or below 50% of AMI or demolishing them and holding them for future redevelopment opportunities. The Agency plans to use funds from NSP2 to rehabilitate and operate selected four-plexes in this area, primarily those along the north side of 19th Street and those on Sunrise Lane immediately east of Guthrie Street and to demolish those structures that are no longer habitable. The Acquisition and rehabilitation component will be carried out by MECH whereas the acquisition and demolition strategy will be handled by the City.

The urgency to implement the Rehabilitation Program is evidenced by the destructive real estate market and community conditions currently affecting the neighborhood mentioned above. Within this neighborhood, there are 71 parcels, most of them with four-plexes on them and the others vacant lots. Of these parcels, twenty-two are currently in foreclosure. Also impacting the community is the high crime rate in the area. From January of 2007 through March of 2009 there were approximately 356 crime occurrences in the neighborhood and surrounding area, which again is significantly higher than the City average.⁴ Given the urgency of community conditions, the opportune availability of funds and current real estate market prices, there is now a perfect window of time in which to mitigate the negative conditions currently affecting neighborhoods such as the one being targeted with NSP2 funds. This project aims to purchase 25 four-plexes (100 dwelling units) for rehabilitation purposes over the three-year project period. The project budget for this segment of the program calls for \$2,400,000 in NSP2 funding. Below is a preliminary budget for this component of NSP activities and does not consider the proposed demolitions to take place in the immediate area which are a companion to the overall acquisition and rehabilitation strategy.

⁴ Based on City of San Bernardino Code Enforcement and Police Department data

Preliminary Budget – Acquisition/Rehabilitation and Rental

Funding Source	Acquisition Rehab/Rental⁵
Current Funding	
NSP1	\$2,100,000
20% Set Aside	\$1,000,000
Other	
Subtotal	\$3,100,000
Future Funding	
NSP State	\$1,025,000
NSP2	\$2,400,000
CDFI	\$850,000
20% Set Aside	
other	
Subtotal	\$4,275,000
TOTAL	\$7,375,000

2. Acquisition, Rehabilitation and Resale: This program allocates **\$4,300,000** of NSP2 funds for the acquisition and rehabilitation of single-family homes through participating developer/contractors (intermediaries). These intermediaries have been retained through a Request for Proposals (RFP) process and have been vetted by Agency staff.

The purpose of the acquisition, rehabilitation and resale program is to purchase and rehabilitate foreclosed homes and residential properties for sale to income qualified home buyers. The areas of greatest need which will benefit from this activity will be those areas that have high foreclosure risk scores according to HUD, show signs of neighborhood degradation and need of revitalization and have homes that would be affordable to purchase for those households that have an income equal to or less than 120% of area median income. The action plan required to fulfill this objective includes the following steps:

1. The City would purchase foreclosed property at or below the regulated discount.
2. The City would contract with one of its selected intermediaries to rehabilitate, maintain and market the single-family unit for re-sell.
3. The rehabilitated property would then be resold to income qualified buyers.

The City proposes to implement this strategy within census tracts 0048.00 and .0042.02. The anticipated project includes areas with foreclosure scores of 20.

⁵ TOTAL Development cost per fourplex = \$295,000 (acquisition, relocation, rehab, carrying costs) or \$7,375,000 for the entire acquisition rehabilitation and rental component

These areas are plagued by abandoned and foreclosed homes in need of rehabilitation and are bounded by 5th Street, 9th Street, Mount Vernon and the 215 Freeway which encompasses one targeted area while the other is bounded by Macy Street, 9th Street, Porter and Mount Vernon which reflect the boundaries of the second target area.

In focusing on these areas the City is adhering to the HUD requirement of “Deep Targeting,” and is prepared to use these and other City resources to reduce the number of foreclosed properties and revitalize these neighborhoods with new home ownership opportunities. The following is a preliminary budget for the acquisition, rehabilitation and resale program.

Preliminary Budget – Acquisition/Rehabilitation and Resale

Funding Source	Acquisition Rehab/Resale
Current Funding	
NSP1	\$3,700,000
20% Set Aside	\$1,000,000
Other	
Subtotal	\$4,700,000
Future Funding	
NSP State	
NSP2	\$4,300,000
20% Set Aside	\$1,000,000
other	
Subtotal	\$5,300,000
TOTAL	\$10,000,000

3. Acquisition, Demolition and future Redevelopment: This program is designed to address abandoned or foreclosed upon residential units in physical conditions too costly for rehabilitation. With a budget of **\$1,400,000**, this program will allow for the acquisition, demolition and future redevelopment of acquired sites. One of the leading possibilities for the reuse of demolished parcels might be a quality senior housing complex within Subarea 2 (census tract 0074.07). Another opportunity might be single family home ownership opportunities for income qualified buyers once the market stabilizes and demand for new housing returns.

While the opportunities for redevelopment are years into the future, now is the optimal time to start acquiring properties in this area given the availability of funds, favorable market conditions and the urgency of the foreclosure problem. Within Subarea 2 (census tract 0074.07) the City has identified up to 27 blighted and dangerous four-plexes for possible demolition. Please see the preliminary budget that identifies the funds the City is allocating for acquisition and demolition activities. Based on current market prices, the aggregate budget identified below could allow the City to acquire and demolish up to 32 blighted and dangerous residential properties that could be redeveloped at a future date:

Preliminary Budget – Acquisition and Demolition

Funding Source	Acquisition and Demolition
Current Funding	
NSP1	\$600,000
20% Set Aside	\$1,000,000
Other	
Subtotal	\$1,600,000
Future Funding	
NSP State	
NSP2	\$1,400,000
20% Set Aside	\$1,000,000
Other	
Subtotal	\$2,400,000
TOTAL	\$4,000,000

Administration: Administration of the program will not exceed 10% (\$900,000) of the NSP award and 10% of program income. It is anticipated the City will utilize its existing platform of in-house staff and contract consultants originally procured under NSP1 to implement efforts associated with NSP2. Additionally, and in keeping with NSP1, the delivery platform already established to expend NSP1 funds will be used for NSP2. The only significant differences are the funds from the two programs will be tracked separately and NSP2 Funds will be targeted to and used exclusively in the 5 Subareas as specified in this application.

Table 3 illustrates the various income groups benefitting from specific NSP2 activities. All activities will be performed within the NSP required time frame with start dates varying by proposed activity.

The proposed outcomes from the City’s use of NSP2 funds over the project period are estimated to produce in excess of 160 units of affordable housing (100 acquisition, rehabilitation and rental; 41 acquisition, rehabilitation and resale; and 19 acquisition and demolition). The affordable housing will serve to stabilize neighborhoods that have disproportionately suffered from blight, neglect, abandonment, vacancy and foreclosures. The production numbers stated below generally take into account NSP2 and other funds that are identified in Table 4. Should the City allocate an additional amount of its own resources (for example, redevelopment agency 20% housing set aside funds) over and above what is identified this would have the effect of increasing the overall number of properties positively impacted by the Program.

**Table 3. Housing Units Expected to be Produced by Area Median Income
And Project Timeline**

Income Group	Proposed Activity	Units	Project Start Date/End Date
≤ 50 AMI	Acquisition, rehabilitation and rental of foreclosed or abandoned multi-family properties.	100	<u>Start Date:</u> Within 90 days of approval by HUD. <u>End Date:</u> Within two years after initiation of construction and/or rehabilitation.
≤ 120% of AMI	Acquisition, rehabilitation and resale of foreclosed upon or abandoned single-family homes.	41	<u>Start Date:</u> Within 90 days from approval by HUD. <u>End Date:</u> 3 years from approval by HUD.
	Acquisition and demolition of foreclosed upon or abandoned single-family homes.	19	<u>Start Date:</u> Within 90 days from approval by HUD. <u>End Date:</u> 3 years from approval by HUD.
Total Proposed Affordable Housing Units:		160	

B. DEFINITIONS AND DESCRIPTIONS

Blighted Structure: The City of San Bernardino uses the State of California’s definition of blight as found at California Health and Safety Code Sections 33030 and 33031.

Affordable Rents: For NSP2 assisted rental activity, “affordable rents” shall be defined as 30% of the household’s adjusted income, less utility allowances as adopted by the County of San Bernardino Housing Authority for the Section 8 program, as appropriate. HUD’s Fair Market Rent Schedule for the Riverside-San Bernardino-Ontario metropolitan area will be used. Should any gap be present, funds for this gap will be required from other sources of funding.

Ensuring Continued Housing Affordability of Rental Housing: To ensure continued affordability of NSP2 assisted rental housing, the program will include an annual certification of occupancy including adequate verifiable documentation of income

pertaining to each member of the qualifying household. In addition, Grantee will impose affordability covenants for a period of fifty-five (55) years through a deed restriction. This is consistent with other multifamily and senior housing developments the Grantee has subsidized in the past under California Redevelopment Law.

Ensuring Continued Housing Affordability of Ownership Housing: To ensure continued affordability of NSP2 assisted ownership housing, the program will impose affordability covenants for a term not to exceed forty-five (45) years, commensurate with the source of program funding and consistent with Grantee's existing down payment assistance program. This will be enforced through deed restrictions and will also require annual certification of owner occupancy and documentation to support proof thereof. This is consistent with the City's existing homebuyer down payment assistance program and is consistent with both California Redevelopment Law and the State of California CalHome Program.

Housing Rehabilitation Standards: NSP2 assisted rehabilitation activities will be conducted in accordance with all local, state, and federal codes, statutes, and regulations and/or homeowner association or mobile home park rules, and historic preservation requirements, as applicable, and will comply with California Green Building Standards Code, as incorporated in Part 11 of the California Code of Regulations, Title 24, also known as the California Building Standards Code. Furthermore, grantee has established building standards for all intermediaries to follow as a part of this program. These standards were created by a third-party engineering and construction management firm and adhere to all of the codes, statutes and limitations identified above.

C. LOW INCOME TARGETING

Low-Income Statutory Requirement: At least \$2,400,000 or approximately 27% of the total award, under the NSP2 will be allocated to providing housing opportunities to households at or below 50% of AMI. Properties will be targeted for acquisition based upon, among other things, those multifamily housing projects with a history of public service calls, documented conditions associated with poor management and those sites that are generally considered to be a blighting influence on the surrounding community. The grantee's approved and qualified affordable housing developers intermediaries would have the opportunity to use these funds to acquire rehabilitate and manage such properties under a new professional management agreement.

D. ACQUISITIONS & RELOCATION

Demolition or Conversion of Low- and Moderate-Income Housing: Based on current estimates, Grantee anticipates demolishing or converting no more than 30 dwelling units that currently benefit households at or below 80% of AMI as a direct result of NSP2-assisted activities.

Grantee will generate preliminary title reports on those properties it intends to acquire looking for, among other things, any deed restrictions associated with affordability. Should there be deed restrictions, Grantee will arrange for those restrictions to remain after the structure is rehabilitated and new occupants for the property are identified.

In the unlikely event the Grantee identifies a property that is beyond repair that must be demolished that also has affordability covenants tied to it, the City will make note of this. Next, Grantee will either: (1) attempt to replace the demolished structure with a new structure on the same site with affordability covenants that are at least as restrictive as the original, or (2) identify a different residential site to apply those affordability covenants.

Number of Proposed Affordable Housing Units to be Produced: Table includes the number of NSP2 affordable housing units Grantee estimates can be produced over the term of the program for households whose incomes do not exceed 50% of AMI and 120% of AMI, respectively.

FACTOR 4 LEVERAGING OTHER FUNDS AND REMOVAL OF SUBSTANTIAL NEGATIVE EFFECTS

The purpose of the NSP is to assist in the revitalization of neighborhoods through the acquisition and redevelopment of foreclosed properties that might otherwise become abandoned and/or is a source of blight within their communities. The NSP funding will be leveraged with other available funding sources to protect neighborhoods, stimulate the City’s economy and provide safe, sustainable, and affordable homes. The table below outlines the use of other available funds in connection with Program implementation and administration over the next 3 years. None of the public resources allocated to this program are derived from federal sources other than the NSP project budget.

Table 4. Summary of Funding Activity and Proposed Number of Units Created By NSP2 and Units Created by all Other Funding Sources

ACTIVITY	CITY NSP2 FUNDS	OTHER PUBLIC FINANCING (local&NSP1)	PRIVATE FUNDING (CDFI)	TOTAL	# UNITS NSP2	# UNITS ALL FUNDS
(a.) Homebuyer Assistance		\$300,000		\$300,000		
(b.) Acquisition Rehabilitation & Rental	\$2,400,000	\$4,125,000	\$850,000	\$7,375,000	100	100
(c.) Acquisition Rehabilitation & Resale	\$4,300,000	\$5,700,000		\$10,000,000	41	95
(d.) Demolition	\$1,400,000	\$2,000,000		\$3,400,000	19	32
(e.) Administration	\$ 900,000	\$ 300,000		\$1,200,000		
TOTAL	\$9,000,000	\$12,425,000	\$850,000	\$22,275,000	160	227

Insert **rubric** information here.

Removal of substantial negative effects – i.e. demos at 19th and Sunrise language.

The current foreclosure crisis has created numerous negative effects within the City. Nowhere is this seen more than in Subarea 2 (census tract 0074.07). This area is dominated by four-plex apartment complexes with a history of absentee ownership. Thus far the City has identified as many as 27 foreclosed properties that are in various stages of disrepair. Many of these properties are foreclosed and are so poorly maintained that a number of them have been targeted for demolition by the City. Those that remain will be acquired by a third party developer that is under contract with the City to provide housing to those whose income is no greater than 50% of AMI.

The City anticipates that by conducting a strategy of limited acquisition and rehabilitation of selected properties and demolishing the remaining non-viable housing stock this area will be poised for a positive turn around. This will allow the neighborhood, which is predominantly populated with single family residences and a newly built elementary school, to move beyond the current negative effects caused directly by the existing poor quality four-plex housing that has experienced complete market failure and is plaguing this area of the City. This will also have the positive effect of lessening the drain on the City's resources through lowered public service calls, health and safety violations and related code enforcement activities.

In addition to the immediate benefits brought about by rehabilitation and rental to income qualified residents under the singular ownership of a qualified non-profit owner, the City has long-range plans for the parcels identified for demolition. On the parcels that are scheduled to be demolished, the City proposes to create housing opportunities for both low-income seniors and moderate-income first time home buyers. Based on initial analysis, the City estimates that as many as 70 units of affordable senior housing could be constructed and up to 40 units of new single family residential housing for moderate income, first-time homeowners could be built over the next 5 to 7 year period. This proposed housing production is based on the available acreage that could be made available, current zoning that allows for this type of housing and the local political will that is supporting such a change to this area of the City. A site map of the area is attached to this application as Attachment "D".

FACTOR 5 ENERGY EFFICIENCY

Transit Accessibility

The City is aware of the importance of public transportation and its role in preserving affordability. The location of the City's redevelopment projects in relation to public transportation are a high priority to the City. To this end, the opportunity to allow families to reduce household expenditures by choosing to live in neighborhoods with lower transportation costs because they are located near public transit is a critical component of the City's overall redevelopment plan.

In support of this policy, priority will be given to those properties that are within ¼ mile of public transportation. The public transportation option will be in the form of bus service provided by OmniTrans, the public transportation system serving the greater Inland Empire area.

The benefits of this strategy are enhanced by the fact that many of the local bus lines in the City have drop offs at the station that serves as the terminal point of the Los Angeles-San Bernardino Metrolink commuter train system that services residents residing in the greater Inland Empire with Los Angeles, the largest employment center in all of Southern California. This line also has direct links to Orange County which is another major employment hub for the region.

Green Building

In achieving its goal of providing quality affordable housing, the City plans to direct intermediaries to adhere to green building standards which are consistent with HUD guidelines. Materials installed shall be of such kind and quality to ensure that the dwelling will provide acceptable durability, economy of maintenance and adequate resistance to weather, moisture, corrosion and fire. Furthermore, the City may request evidence of a material's compliance with the requirements of the structure's plans and specifications and these standards. Generally, product labels are considered acceptable evidence. The City will further require that the intermediaries carry out a durability evaluation or conduct a building assessment to determine if the materials to be used comply with any green building strategies.

To guide this process, all intermediaries will be required to adhere to the City's building standards that were developed specifically for NSP rehabilitation projects. These standards were created by a third party engineering and construction management firm and addresses Green Building protocols endorsed by the United States Green Building Council. A synopsis of the green building components has been attached to this application as Attachment "E." The full document with all City NSP building standard components is available upon request.

Sustainability discussion to be placed here.

Demolition and Salvage/Reuse

Intermediaries shall make salvageable materials from any project available for reuse prior to demolition. It shall be the responsibility of the intermediaries to notify deconstruction/salvage companies and to recover the maximum amount of salvageable designated recyclable and reusable materials prior to demolition. Recovered or salvaged materials may be given or sold from the premises where they were recovered or salvaged. Often times they may be removed to reuse warehouse facilities for storage or sale. Title to reusable or recyclable materials forwarded to the operator of a recycling facility, landfill, or other disposal facility will transfer to the service provider upon departure of the materials from the site.

To facilitate this process, the City has procured a pool of demolition contractors that will adhere to the proscribed salvage/reuse standards established by the City. These standards will be a part of the demolition contractor's contractual obligation.

Neighborhood Transformation

The City's NSP2 activities are consistent with an established comprehensive multi-jurisdictional plan that addresses economic and housing revitalization. The Inland Valley Development Authority (IVDA) and participating jurisdictions, including the City, have entered into an agreement whereby jurisdictions have agreed to administer IVDA's Low and Moderate Income Housing Funds to increase and improve the communities' supply of low and moderate housing available at affordable housing costs to persons and families of low and moderate and very low income households. IVDA is a joint powers authority comprised of the Cities of Colton, Loma Linda, San Bernardino and the County of San Bernardino (the "County"). The IVDA was formed in response to the federal government's decision to close the Norton Air Force Base. Under the California Redevelopment Law (CRL), specific authority was granted to these jurisdictions to form a redevelopment project area within the territory surrounding, adjacent, or in proximity to the Norton Air Force Base.

Pursuant to the current IVDA affordable housing program, the 20% housing set-aside funds are transferred by the IVDA to the member agencies, who in turn use these funds for specific affordable housing development activities either within the portion of the IVDA Project Area situated within each of the member agency's jurisdiction or elsewhere in the territorial jurisdiction of the member agency. Each member agency provides the IVDA with an annual written report on the member's use of such affordable housing funds.

Place information concerning the Agency's redevelopment project areas here.