

### **Background**

The State of Delaware and its subrecipient, Kent County, operate a Neighborhood Stabilization Program (NSP) that purchases and rehabilitates foreclosed and abandoned properties and transfers those properties for residential use in established target areas. The properties are sold to qualified families or granted to nonprofit organizations, in partnership with the Diamond State Community Land Trust. This activity is funded by both NSP1 and NSP2 funds under Use B of the Department of Housing and Urban Development (HUD) guidelines. The locations of these activities are different for each of the two funding sources. Kent County has requested an amendment to their program that would expand the target area of the NSP2-funded activities and the Delaware State Housing Authority (DSHA) is considering that proposal. (Because DSHA is receiving NSP Technical Assistance (TA) from HUD, the State has asked TDA Consulting, the TA provider, to assist with this request and the necessary substantial amendment that it presents to the State's NSP2 Action Plan.)

### **Description of Proposed Amendment**

The State proposes to enlarge the target area of Kent County's NSP2 program by adding four additional Census tracts where the County may purchase, rehabilitate, and transfer foreclosed/abandoned properties for the purpose of stabilizing selected County neighborhoods. The additional Census tracts are 410, 415, 430, and 433 -- combined former 2000 Census tracts 406 and 408. Three of the four Census tracts in the expanded area are contiguous to the current target area and are contiguous or are located within the NSP 1 zip code areas of Kent County. One Census tract lies outside the target area. Housing conditions in all Census tracts continue to present a need for further attention from the program. (See attached map.) The purpose of the program will not change nor will the scope of its activities and its beneficiaries. The program will continue to feature a 25% set aside of expenditures targeted to families with incomes at or below 50% Area Median Income (AMI). Kent County will continue to apply the same methods for ensuring continued affordability used in the program. However, adding the Census tracts will modestly change the location and address even greater needs. Expanding the target area will enable the State to carry out the same specific, eligible NSP activity authorized by HUD in 2009 and further stabilize housing conditions in Kent County.

### **Funding**

Kent County expects to use NSP2 program income that it is presently receiving from the sale of Use B projects to fund the purchase, rehabilitation, and transfer of foreclosed/abandoned properties in the expanded target area. Grant funds from both the NSP1 and NSP2 awards have been expended, and only program income from the NSP2 will be available to spend. The NSP1 program will soon be ready for closeout. Expanding the target area for the remaining program income will better utilize the partnership with the Diamond State Community Land Trust and position the NSP2 program for closeout as well.



**Justification**

Kent County submitted a written request to DSHA on February 2, 2015 that explains difficulty finding suitable properties for use of the NSP2 funds where it may purchase, rehabilitate, and transfer foreclosed/abandoned properties. Whereas, NSP1-funded activities actively occurred in a target area where an adequate supply of properties was available, the NSP2-funded activities struggle to occur in a separate target area that lacks suitable properties. In spite of those struggles, the County met its expenditure deadline for an NSP2 grant and has otherwise demonstrated a capacity to accomplish NSP program goals. The Division of Planning at Kent County, under the direction of the Assistant Director, will exercise responsibility for managing and reporting program performance, including use of the program income during the period that DSHA must monitor the NSP2 program activities.

The County has provided market analysis that supports the substantial amendment. Examining available real estate in the current NSP2 area (Census tracts 402.02, 405, 418.01, and 422.02), their analysis finds a corresponding lack of opportunities to purchase foreclosed and abandoned properties. The analysis notes higher foreclosure rates and increased opportunity to purchase foreclosed and abandoned properties in the four additional Census tracts (Census tracts 410, 415, 430, and 433). Demographic characteristics in the expanded set of Census tracts appear to be similar to those in the current target area. Both the current and expanded areas were originally determined to be "high need" neighborhoods in the original program description. In its original application for the NSP2 grant, the State of Delaware committed to returning a minimum of 100 abandoned or foreclosed homes back to productive use and it has fulfilled that commitment through the full expenditure of the grant.

See attached table from HUD with local level data on foreclosures sorted by estimated foreclosure rate; [http://www.huduser.org/portal/datasets/nsp\\_foreclosure\\_data.html](http://www.huduser.org/portal/datasets/nsp_foreclosure_data.html).

Additional information that enables a complete review of the proposal is attached.

**Amendment Process**

HUD regulations recognize that NSP grantees from time to time may need to make amendments to their approved action plans. Because NSP follows CDBG regulatory guidelines, NSP grantees must adhere to 24 CFR 91.505 (a) amendments to the plan. Those regulations require a jurisdiction to amend a plan when changing the "purpose, scope, location, or beneficiary of an activity". NSP Alert 2014-04 specifically states that:

"If a grantee adds or subtracts Census tracts from their target area this would change the location and would trigger an amendment."

DSHA has corresponded with Kent County and is currently working with the subrecipient to make the State of Delaware's NSP2 Program a complete success. The State realizes that the proposal will require a substantial amendment to the State of Delaware's HUD-approved Action Plan (including public comment) and will require HUD approval in Washington, DC. Because NSP2 awards were based on a competitive scoring process, the amendment process is different than granting amendments to NSP1 & NSP3 programs. Any substantial amendment could affect a grantee's competitive score. An NSP Policy Alert, referencing the NOFA, states that:



“No amendment to an approved application may be made unless HUD rates the approved application as amended and it scores high enough to have been selected for funding under the NSP2 competition.”

Consequently, DSHA has made this proposal for the substantial amendment available for public comment. DSHA will summarize the public comments received and then submit the substantial amendment to HUD for the special review and approval.

**Intended Action**

If approved, the State of Delaware will authorize Kent County to enlarge its target area for the NSP2-funded program. The substantial amendment to the NSP2 program would add Census tracts 410, 415, 430, and 433 (combined former 2000 Census tract 406 and 408). Kent County would operate its NSP2 program in an expanded area. The action would stabilize additional Kent County neighborhoods through the purchase, rehabilitation, and transfer of foreclosed and abandoned properties in Delaware.



## ATTACHMENT

The following is additional information that enables a complete review of the proposal with respect to other NSP2 Rating Factors that are potentially effected by the possible substantial amendment.

DSHA believes that the body of the proposal addresses the first three rating factors: 1) Need/Extent of Problem; 2) Demonstrated Capacity and Relevant Organizational Staff; and 3) Soundness of Approach. Those factors clearly relate to the basis for the amendment, and they are covered in the preceding pages. An NSP2 Amendment, however, must address all six factors considered in Delaware's original 2009 NSP2 application. Therefore, the three additional factors are briefly addressed below in the order they appear in HUD's Template for an NSP2 Amendment Submission.

### Leveraging

In the original 2009 NSP2 application, Kent County pledged a portion of their NSP allocation to Delaware's statewide New Market Tax Credits (NMTCs) structure to bring additional funds to the communities in need. NMTCs, have now expired. They were a complicated financial mechanism that required close monitoring to ensure that investors get the tax credits, and the communities get the benefits of additional investment. However, Delaware received an allocation of \$10,007,009 of which \$467,017 was invested in Kent County. Part of the program income now available for the expanded NSP2 program (approximately \$176,126) is the result of the original leveraging strategy.

### Energy-Efficiency Improvements and Sustainable Development Factors

DSHA requires Kent County to strategically incorporate modern, green building and energy-efficiency improvements in all NSP activities to provide for long-term affordability and increased sustainability and attractiveness of housing and neighborhoods. DSHA does not anticipate that any new homes will be built using NSP2 funds in Kent County, nor is any demolition expected to occur. For all gut and moderate rehabilitation, DSHA encourages the use of deconstruction techniques and requires that all procurement policies for NSP2 indicate that Energy Star products will be used in all rehabilitation. Identified Census tracts do have convenient bus service or commuter rail service. In addition, properties to be assisted have good transit accessibility.

### Neighborhood Transformation and Economic Opportunity

DSHA has certified that all NSP activities are consistent with an established plan. Delaware's NSP2 strategies of investing in, preserving, and stabilizing existing neighborhoods are consistent with established local Comprehensive Plans, completed every five years by all counties and municipalities in Delaware addressing land use, transportation, housing, and economic development. Kent County's plans can be viewed at the following website:  
<http://www.co.kent.de.us/Departments/Planning/Zoning/compplanupdate.htm>