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## **THE NEIGHBORHOOD STABILIZATION PROGRAM** **SECOND SUBSTANTIAL AMENDMENT**

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### ***INTRODUCTION***

On April 15, 2008, the Contra Costa County Board of Supervisors approved the County's FY 2008/09 Annual Action Plan of the Five Year (2006 – 2010) Consolidated Plan for Community Development Block Grant (CDBG) funds. On November 18, 2008, the Board of Supervisors approved a Substantial Amendment to the Action Plan to include the Neighborhood Stabilization Program (NSP).

### ***REVISIONS***

The purpose of this second substantial amendment to the annual action plan is to incorporate the following three changes:

1. Add special needs housing providers as eligible purchasers of the rehabilitated homes.  
Activity 1, Revolving Fund for Purchase and Rehabilitation, was originally designed to be a program where rehabilitated homes would be sold to low, moderate, or middle income (LMMI) purchasers. Different groups who work with and/or house people with special needs commented that they would like the opportunity to purchase these homes. This amendment would expand this activity to sell homes to LMMI or agencies that would use the home for housing for people with special needs.
2. Add an analysis of presumed affordability for the target areas as an alternative method of insuring long term affordability of the rehabilitated homes.  
Activity 1, Revolving Fund for Purchase and Rehabilitation, stated buyers of the rehabilitated homes would enter into either resale restrictions or shared appreciation loans to ensure the long term affordability of those homes. However, the NSP regulations allow a third alternative: Presumed affordability of homes in the affected neighborhoods. Presumed affordability will be used as the affordability mechanisms in all High Priority Areas, except Oakley<sup>1</sup>, when the home is sold at a market price and without NSP downpayment assistance. Homes

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<sup>1</sup> An analysis of market conditions did not support the use of presumed affordability in Oakley.

# DRAFT

sold below market in all High Priority Areas will have a recapture provision equal to the difference of the market value and the sales price.

The High Priority Areas are continuing to decline in value. Contra Costa County has significant inventory of vacant homes, many of which are affordable without subsidies or assistance to middle income purchasers. The current market is providing more choice in housing types and locations than has been seen in over ten years. Home sellers with existing resale restrictions are not finding buyers willing to enter into resale restrictions, even in highly desirable neighborhoods<sup>2</sup>. The resale restriction is the only reason given by real estate agents as the negative feature of these homes. Therefore, requiring resale restrictions in the neighborhoods that are facing significant decline due to the foreclosure crisis will effectively prohibit home sales.

An analysis of the High Priority areas showed that homes in these neighborhoods are, in relation to the larger Contra Costa market, modest in size, amenities, and price, and are projected to remain so over the life of the affordability period. While geographically disbursed, the High Priority areas are similar in many respects. The homes are on average about 15 years older and 20 percent smaller than typical in the County. Home ownership rates average 54 percent compared to the County average of 69 percent. Part, or all, of each of the High Priority areas are designated redevelopment areas (RDAs). The RDAs use tax increment financing to reinvest in the communities, improve infrastructure, and facilitate residential and commercial investment.

To determine affordability over time, each target area was analyzed as follows:

- a. Median sales price change over time<sup>3</sup>. The average annual increase from 2000 to 2008 was applied to the 2008 median sales price and increased by the same percentage for ten years.
- b. The average annual increase in the HUD median income for the same period was used to anticipate future income changes.
- c. The amount of mortgage a middle income buyer (100% AMI for this analysis)<sup>4</sup> could afford was calculated using FHA underwriting standards, including an allowance for FHA insurance payment.

This analysis showed that homes in the High Priority areas are likely to stay affordable to middle, and in North Richmond moderate, income buyers over time.

### 3. Fund activity 5, Demolition and Land Banking, with up to \$200,000.

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<sup>2</sup> Owners of resale restricted homes in Alamo Creek and Somerset subdivisions in Danville are demonstrating good marketing efforts, but are not receiving purchase offers.

<sup>3</sup> Median sales price information was available by zip code, which includes an area larger than the High Priority areas. This resulted in higher median prices being used in the analysis. Therefore, the High Priority areas are more affordable than the analysis shows.

<sup>4</sup> North Richmond was shown to be affordable over time to moderate income households.

# DRAFT

During the drafting of the Substantial Amendment, it was assumed that land banking activities would be associated with the purchase of sites with substandard structures that required demolition. However, there are foreclosed sites that could be obtained for very little or no money. The funds budgeted to this activity would be used for demolition, site security and holding costs.

Funds for this activity would come from either Activity 1, Revolving Fund for Purchase and Rehabilitation and/or Activity 3, Downpayment/Shared Appreciation Loans.

## ***PUBLIC COMMENT***

Public meetings were held on November 11, 2008 and January 29, 2009 to discuss the implementation of NSP. These revisions were discussed at those meetings.

The draft NSP Second Substantial Amendment was posted on the County's website on June 1, 2009. A notice was published in all editions of the Contra Costa Times and on the Internet on June 1, 2009.