

PASCO COUNTY, FLORIDA  
INTEROFFICE MEMORANDUM

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TO: Honorable Chairman and Members of the Board of County Commissioners      DATE: 5/27/09      FILE: CD09-322

THRU: Michael Nurrenbrock OMB Director      SUBJECT: Use of Funds in the Community Development Division

FROM: George Romagnoli, AICP Community Development Manager      REFERENCES: All Commission Districts

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It is recommended that the data herein presented be given formal consideration by the Board of County Commissioners.

DESCRIPTION AND CONDITIONS:

Funding for the Community Development Division (CDD) was consistent for the ten years proceeding 2007. The County's federal funding stayed flat, or in the case of Community Development Block Grants (CDBG), slowly decreased. The State Housing Initiatives Partnership (SHIP) funds increased and then hit a plateau. Loan repayments grew to a peak from 2005-2007, and then rapidly declined. This year, the County received the \$19.4 million Neighborhood Stabilization Program (NSP).

For most of the County's history, CDBG was the largest federal grant the County administered. Pasco first received CDBG funds in 1986, and hired a consultant to run its program. The Community Development Division (CDD) was instituted in 1992, principally to operate that program.

The CDBG Program is a result of the consolidation of several categorical grant programs in 1974. Counties must have a population of 200,000 in order to receive direct funding from the Department of Housing and Urban Development (HUD). CDBG funds must be used to address one of three national objectives:

- 1) Aid low and moderate income persons and areas
- 2) Eliminate slum and blight
- 3) Address items that are an urgent need or emergency condition

For most of its history, CDBG projects funded through Pasco County were projects that were proposed by not-for-profit agencies or other County agencies. Projects funded over the years has included Angelus Building Expansion; Dade City, Land O'Lakes and Claude Pepper Senior Centers; Zephyrhills YMCA; Crystal Springs Fire Station; Farmworker's Self-Help Norma Learning Center; New River Library; Stanley Park; Burkes Park; Sam Pasco Park; the Suncoast Food Bank; and the Rap House.

In 1995 that changed. CDD proposed that the Carver Heights neighborhood near Dade City receive new water and sewer lines and new roads and drainage. This project received \$2.1 million in funding. Other neighborhoods targeted include East Brown Acres, Otis-Moody, and Tommytown (Holiday Hills was also a targeted neighborhood, but only housing activities were performed, no infrastructure).

The Tommytown project was the largest neighborhood project that the County attempted. It consists of over 75 city blocks, approximately 475 homes, few paved streets and water lines, and large amounts of dilapidated and abandoned housing. The estimated project cost was \$15 million, more than 5 times the annual CDBG allocation. Because of the large cost, Pasco County applied for a Section 108 loan. Section 108 allows local governments to borrow against future CDBG allocations for a large immediate payment. Pasco County was approved for \$13 million in Section 108 funds.

As drawings and specifications were completed, the estimated cost increased. Additionally, the area size was increased with the addition of the neighborhoods south of Lock Street to the limits of Dade City. However, another event occurred – the current economic recession. This caused many construction companies to submit very competitive bids, which occurred for this project.

It is not allowed to pay the Section 108 loan early, so the projected extra \$3.5 million is available to the County for other projects. Earlier this year, CDD proposed to the Board that these funds be used for other neighborhood projects. We are not yet ready to propose to the Board which neighborhoods will be recommended, but we will propose a different tactic – selecting only a few blocks in an area, instead of an entire neighborhood.

The State Housing Initiatives Partnership (SHIP) Program was created in 1992 as the centerpiece of the William E. Sadowski Affordable Housing Act. It created something no other state had – a dedicated source of affordable housing funding for local governments, and funding for state rental programs. The SHIP Program was distributed by population to all counties and many of the larger cities (none in Pasco County). There were

few rules to SHIP as compared to federal programs – 30% of funding had to be spent on families that earned less than 50% of the median income, 30% of funding had to be spent on families that earned less than 80% of the median income, with the balance available for those that earned less than 120% of the median income. Also, 75% of each allocation had to be spent on construction, and 65% of the funds had to be spent on homeownership.

SHIP funds were used for every type of housing program Pasco County offered. Homebuyer assistance, owner-occupied rehabilitation, foreclosure prevention assistance, tax and insurance payments, rental assistance payments, and rental project funding. The three Pasco Habitat for Humanity chapters received more in SHIP funding than from any other source. SHIP funding was used for the housing projects in targeted neighborhoods that caused, for example, the homeownership rate in East Brown Acres to increase by 20%.

SHIP originally received four cents of the seventy-cent Documentary Stamp Tax, which was later increased to ten-cents, and then to twenty-cents. As the Local Housing Trust Fund received more and more funds, the Legislature began to siphon off these funds to non-housing projects, and then capped how much money could go into the trust fund at all. Almost \$1 billion was diverted and taken from affordable housing over the last five years by the Legislature. Pasco County's share of those diverted funds was almost \$40 million.

This year, there is no SHIP money budgeted in the State budget. The State created a new program called the Florida Homebuyer Opportunity Program, which will be distributed according to the SHIP formula to local governments. This money will be used for downpayment assistance for first time homebuyers to advance and take advantage of the tax credit that is available to them through the Internal Revenue Service. If there are funds unspent after December 1, those funds can be used for any eligible SHIP project. SHIP was budgeted in 2008-2009 year for \$161 million, and Pasco County was to receive \$3.8 million. They have only sent us \$1.8 million. We are not sure how much money we will receive next year through this program, but we estimate it will be \$400-\$600,000.

The HOME Investment Partnership Program (HOME) was created in 1990. HOME is the largest single federal program that provides funding to expand the supply of affordable housing. HOME may be used for homeownership, rehabilitation and rental programs. Over the years, Pasco County has used HOME funds for large homeownership projects and housing replacement projects for homeowners. With the reduction of SHIP funding, we will probably use HOME principally for owner-occupied rehab projects. Ironically, HOME was one of the reasons that SHIP was created. HOME requires a match of \$1 for every \$4 spent. HOME also requires that 15% of funds go towards particular not-for-profit agencies.

The Neighborhood Stabilization Program (NSP) was created in 2008 as a response to the foreclosure crisis. Funds can be used to purchase, rehabilitate and dispose of foreclosed and abandoned properties, demolish substandard housing, and build new homes in vacant and infill lots. Funding was determined by formula, and Pasco County received \$19.4 million, the 17<sup>th</sup> largest allocation in the country. Those funds are being spent now. As of May 28, 2009, our Pasco Opportunity Program agencies have acquired 7 properties, have contracts for 11 more, and are rehabilitating 10 properties that were acquired with other funds. One property has been approved but not yet closed under the Homebuyer Assistance Program.

There is a new NSP allocation available, through the 2009 Stimulus funding. NSP II is a competitive application and not a formula allocation. The application is due on July 17, 2009. The rules are generally the same as NSP I, but there are some items that will require policy decisions by the Board. The first issue is targeting. In NSP I, areas were chosen generally on the spine of US Highway 19 and US Highway 301:

These areas were chosen because they had a higher "foreclosure score" than the state average. The score was determined by actual amount of foreclosure sales, foreclosure lawsuits (lis pendens), and housing vacancies. This was for an 18 month period through 2006.

NSP II has also determined a "foreclosure score" this time for 2006 and 2007. They have ranked census tracts with scores of 0-20, with the same criteria as above, with 20 having the highest foreclosures. In order to meet the threshold for consideration, the County must submit census tracts that have an average score of 18. HUD has been very uncommunicative on questions regarding this grant application. We have asked that if we chose census tracts that are 20 scores only, will we receive a higher score than if we just averaged a score of 18. While HUD has been uncommunicative, CDD's reading of the grant application convinces us that if we include tracts less than 20, we will receive a lower score. For that reason, we recommend that the Pasco County application only include Census Tracts with scores of 20.

There is a negative ramification of choosing Census Tracts with 20 scores. Under NSP I, we could not include the non-cooperating CDBG cities of Dade City, Zephyrhills, and Port Richey. Only part of Zephyrhills has a 20 score. Because of the tight scoring potential, we would recommend that Dade City and Port Richey not be included in the grant application. They can submit their own application, which we can help write and administer for them if they are successfully funded. We will have to have an agreement with Zephyrhills to be included, and also with New Port Richey, even though they are part of our CDBG jurisdiction.

Another issue is the eligible areas themselves. There are new areas eligible, and there is some overlap. At this time, we cannot tell whether it will be a detriment to the application on whether to include already used targeted areas or not. We seek Board direction on this issue.

Another issue is leverage. HUD will give points for the more funds that are leveraged with the application. Again, HUD has not given us a lot of direction on what counts as leverage. Usually, federal funds cannot be used as leverage, but there may be exception for this grant. We have identified properties under the control of

CDD, the Tree Fund, and Government Acquisition Impact Fees as possible leverage items. We also have talked to several financial institutions about their involvement. We can leverage SHIP and HOME money (even if we do not receive an allocation from these funds, we do have loan repayments and other program income funds that can be used). Use of these funds would limit their usage for other programs, but the potential of receiving a large federal grant that could help with the County's housing crisis is appealing. We would propose to use up to \$1.5 million from each fund to use as leverage over the next three years.

The amount of how much to apply for is still in question. The minimum grant is \$5 million. We would like to leverage at least \$1 for \$1.

In NSP I, Pasco County had four major programs; the Pasco Opportunity Program (not-for-profit agencies purchasing properties, rehabilitating them, and selling them to eligible families); the Homebuyer Assistance Program (providing homebuyer and purchase-rehabilitation assistance to eligible families); Demolition of substandard housing; and Special Needs Rental Housing. In NSP II, we will include those programs again, but we will also add a lease-option program in cooperation with the Coalition for the Homeless.

ALTERNATIVES AND ANALYSIS:

This memo is principally for informational purposes. Guidance is requested on questions regarding the Neighborhood Stabilization Program.

RECOMMENDATION AND FUNDING:

Because of the quick deadline required to implement the program, and the incomplete information from HUD regarding the application, the Community Development Division is requesting policy guidance from the Board.

GR/GR