

NSP3 Evaluation: Criteria for Targeting Areas

February 2011

Research and Evaluation Unit



Introduction

Under the third round of the Neighborhood Stabilization Program (NSP3), HUD has provided Minnesota Housing with \$5,000,000 for allocation across the state.

To stabilize a neighborhood, HUD recommends that grantees select target areas small enough so that at least 20 percent of the foreclosures in the target area receive assistance. HUD has estimated, by block group, the number of REO properties and foreclosures starts between July 2009 through June 2010, and the number of properties that need assistance to have a stabilizing impact. Together, Minnesota Housing and entitlement communities have been allocated \$12 million total for NSP3. Minnesota Housing based initial analysis on the assumption that each property will receive \$50,000 in assistance that will stay in the property after the sale to a homeowner. With that assumption, Minnesota Housing and entitlement communities will be able to assist approximately 224 foreclosed properties (90 properties with funding from Minnesota Housing). If these 224 properties are to account for 20 percent of the foreclosed properties in target areas, Minnesota Housing needs to narrow the target areas so that they include no more than 1,120 foreclosed properties.

After further guidance from HUD that impact must be achieved with initial investment dollars and not with program income recycling, the target areas and estimated total number of properties Minnesota Housing will be able to assist will be less than 90, and are currently estimated at 63. Furthermore, while Anoka County was initially identified as a potential awardee, the County decided not to pursue additional funding from Minnesota Housing as of February 11, 2011.

Based on Minnesota Housing's initial analysis and subsequent negotiations, the following table lists potential awardees that have been preliminarily selected to receive NSP3 funding from Minnesota Housing. The map on the next page displays general target areas within each grantee area.

Table 1: Minnesota Housing's Selection of Potential Awardees

	NSP-3 Funding	
	Initial Funding Assignment from Minnesota Housing	Directly from HUD
<i>NSP Entitlement</i>		
Anoka County	--	\$1,226,827
Hennepin County	\$1,100,000	\$1,469,133
Minneapolis	\$720,000	\$2,671,275
St. Paul	\$707,143	\$2,059,877
<i>Metro Non-Entitlement</i>		
Dakota County	\$600,000	
Ramsey County	\$572,857	
<i>Greater Minnesota</i>		
Big Lake	\$800,000	
Total	\$4,500,000*	\$7,427,112**

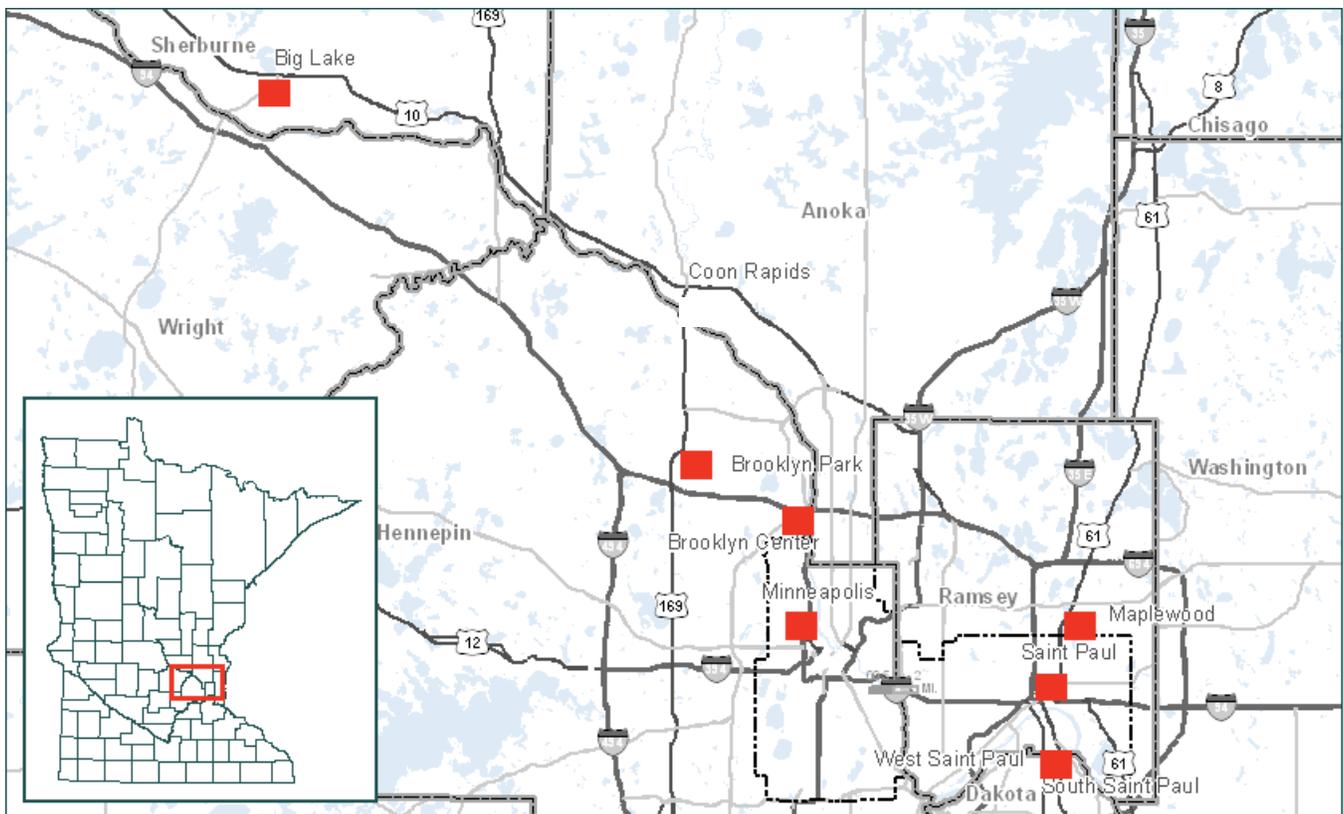
* Less 10% admin (\$500,000). ** Total, not less admin (potentially 10%),

Selection Criteria

Minnesota Housing used five criteria to select areas for potential funding. The criteria are: previous recipient of NSP1 Funds, significant foreclosure impact, access to transit or access to jobs, areas of high to moderate levels of rental housing, and marketability. Through this analysis, Minnesota Housing narrowed potential target areas to an area containing an estimated 5,711 foreclosures¹. To have a stabilizing impact, Minnesota would need to assist 1,142 of these properties. However, Minnesota has the funds to assist only 224 (90 of which would be assisted by Minnesota Housing funds). Minnesota Housing worked with potential awardees to further refine these target areas.

The map below displays general target areas based on current selection criteria as well as further consideration of capacity and impact and work with potential awardees to further narrow target areas. View detailed maps for each area and a detailed list of block groups in Appendix 1.

Map: Current Target Areas



¹ In Minnesota, foreclosures are based on estimated foreclosure starts between July 2009 and June 2010.

Individual Criteria

Individual criterion maps and supporting data are displayed in Appendix 2. Details on data methodology are in Appendix 3.

Primary Requirements

- 1) Area is previous recipient of NSP1 funds (City or County).
 - For the purposes of a first pass selection, areas had to receive funds from Minnesota Housing under NSP1. With only \$5 million and a HUD emphasis on impact, Minnesota Housing decided to only work with experienced NSP administrators. See Map 1 in Appendix 2.
 - **Results after step 1: Estimated foreclosures in these cities and counties = 24,480 | Estimated properties needing investment to achieve impact = 4,878.**
- 2) Significant foreclosure impact.
 - HUD provides a foreclosure need score for each census tract in the state and considers a score of 17 and above to be a high need area. Minnesota Housing narrowed its selection to areas with a score of 17 or higher. See Map 2 in Appendix 1.
 - In addition to considering the HUD score, Minnesota Housing narrowed the foreclosure impact areas to those that either have a high foreclosure score based on internal analysis of LPS Applied Analytics foreclosure data OR areas that were previously targeted areas in NSP1. Map 3 displays Minnesota Housing's high need foreclosure areas using data from LPS Applied Analytics. Map 4 displays NSP1 targeted areas for Minnesota Housing funding. Map 5 shows the census tracts with a score of 17 or higher than intersects a Minnesota Housing defined high need area or NSP1 target area.
 - **Results after step 2: Estimated foreclosures in narrowed target areas = 7,613 | Estimated properties needing investment to achieve impact = 1,520.**

Local Market Priorities

Note for local market priorities, the state is broken into three geographic regions for analysis that include: 1) Core cities of Minneapolis and Saint Paul, 2) Suburban 7 County Metro, and 3) Greater Minnesota.

- 3) Access to transit **OR** Access to jobs.
 - Access to transit was considered in three tiers: First, areas in the core cities that are within ½ mile of a high frequency network stop. Second, areas in suburban metro or Greater Minnesota that have transit stops within ½ mile for areas served by a transit authority with fixed route service (Twin Cities Metro, Duluth, Rochester, and St. Cloud). Third, for areas in Greater Minnesota without a transit authority, areas with established dial-a-ride programs are also considered (research limited to communities with previous NSP1 allocations). See Map 6 in Appendix 2.
 - Access to jobs was considered by proximity to areas with large numbers of low and moderate wage jobs defined by each region. For the core cities, jobs within 1 mile are considered; for suburban metro and Greater Minnesota, jobs within 5 miles of the census tract are considered. Low and moderate wage jobs are defined as those with annual earnings of less than \$40,000. Map 7 in Appendix 2 displays the census tracts that have a

large number of jobs within the specified distance. For each census tract in the state, we used GIS (Geographic Information System) software to identify the number of low and moderate wage jobs within the specified distance of that tract. Then, for each regional type (core city, suburban metro, and Greater Minnesota), we determined the tract with the median number of jobs within the specified distance. For a tract to be selected, its number of jobs must be greater than the median for its regional type. For example, based on all the census tracts in Greater Minnesota, the median tract has 2,414 jobs within five miles. In Map 7, all the census tracts in blue have more than 2,414 jobs within five miles.

- **Results after step 3: Estimated foreclosures in narrowed target areas = 7,188 | Estimated properties needing investment to achieve impact = 1,438.**

4) Rental housing

- Percentage of housing units that are rented in a given area was also examined. We narrowed the selections to areas that are not predominantly areas of high homeownership. For that tract to be selected, its rental rate had to be at or above the 25th percentile for the region type. For example, in Greater Minnesota, we selected the 75 percent of census tracts with the highest rental rates and eliminated the 25 percent with the highest homeownership rates. Map 8 in Appendix 2 displays areas within each region that meet the threshold.
- **Results after step 4: Estimated foreclosures in narrowed target areas = 5,711 | Estimated properties needing investment to achieve impact = 1,142.**

Market Conditions

HUD recommends reviewing general market conditions for target areas prior to developing a strategy for use of NSP3 funds. Marketability was not a part of the initial selection process; rather, it is considered an informational piece for planning program activities and further refinement of the target areas.

5) Marketability

- A current analysis of market data by zip code from the Minneapolis Area Association of Realtors suggests that foreclosed properties are selling relatively quickly in the current market, while traditional properties (which exclude foreclosure or short sale) are selling much more slowly. Thus, our recommendation to recipients is that they need to be prepared to move quickly to purchase foreclosed properties, but have the capacity to hold the properties for a period of time after rehabilitation before they sell.
- To assess the general market conditions of an area, month's supply of inventory is evaluated. Zip codes with less than four months supply represents an active market while four to ten months of inventory indicates a moderate to slow market. A market with more than ten months of inventory is very slow. Map 9 in Appendix 2 displays data on the month's supply inventory by zip codes.
- To assess the rental market conditions of an area, vacancy data are evaluated using Marquette Advisors' *Apartment Trends*. A vacancy rate of five percent is considered a balanced rental market. Analysis of Marquette submarkets are displayed in Map 10 of Appendix 2.

Other Considerations

At the conclusion of our data analysis, an estimated 1,142 properties in the target areas would require assistance to have impact in those neighborhoods. See Table 2 on page 8 for a summary of NSP need scores, estimated foreclosures, and impact for the 13 communities that had been initially selected through the GIS analysis. Map 10 is the rental data.

To reduce the properties needing assistance so that it is closer to 90 for Minnesota Housing funding, and 224 overall, Minnesota Housing further narrowed the target areas by considering grantee capacity and the level of need (the number of foreclosures in the potential target area). Because Washington County, Buffalo, and Monticello had difficulty meeting obligation deadlines under NSP1 (and consequently had their NSP1 grants reduced), Minnesota Housing eliminated them from consideration to receive NSP3 funds. These communities are highlighted in red in Table 2, found on page 7.

To further narrow the selected communities, Minnesota Housing eliminated from consideration communities in which the identified target areas had less than 100 foreclosures. (See column 2 in Table 2.) These communities are highlighted in yellow in the table. Finally, the selected communities are highlighted in green.

Potential Funding Levels

After this selection process, Minnesota Housing made preliminary funding assignments using the following criteria:

- The minimum funding allocation had to be at least \$500,000. Each community needed sufficient funding to have an impact.
- The amount of funding is based on the number of foreclosed homes that need assistance to have an impact in the community. However, there is one caveat. To ensure as a region that the non-entitlement communities in the Twin Cities metro area and Greater Minnesota receive a “fair share” of funding, we included the foreclosures from the six initially selected communities that were eliminated from consideration in the previous step (Scott, Washington, Duluth, St. Cloud, Buffalo, and Monticello) in the analysis and assigned their “need” to the selected communities from the same region.

To accomplish the allocation process and meet the listed criteria, we first allocated funds by region (NSP3 entitlement, metro nonentitlement, and Greater Minnesota). For each region, we calculated the number of impact properties (column 3 in Table 2) and determined each region’s share of the overall total (column 4). As a reminder, the impact properties represent 20 percent of the foreclosures in the target areas. These percentages determined how much of the total NSP3 funding (Minnesota Housing assigned and HUD directly assigned) that Minnesota Housing believed should be allocated to each region. For example, the entitlement communities have 84.1 percent of the impact properties (column 4) and should receive approximately \$10 million (column 5). Likewise, the metro nonentitlement and Greater Minnesota regions each have eight percent of the funds and should each receive about \$950,000. For the metro nonentitlement areas, we split the funds between Dakota and Ramsey counties (column 12) because they have essentially the same number of impact properties (respectively 21 and 22 properties; see column 3). For Greater Minnesota, all the funding will go to Big Lake.

For the entitlement communities, we decided to use two criteria to assign funds to the four communities – each community’s share of NSP-3 funds directly allocated by HUD (column 6) and each community’s share of impact properties (column 7). HUD did its own assessment of need and

determined that Anoka County should get 16.5 percent of the funds, Hennepin 19.8 percent, Minneapolis 36.0 percent, and St. Paul 27.7 percent (column 6). Based on the number of impact properties in each community’s target areas (as defined by Minnesota Housing), Anoka should get 20.5 percent of the funds, Hennepin 29.4 percent, Minneapolis 28.1 percent, and Saint Paul 22.0 percent (column 7). We decided to split the difference between these two allocation formulas (column 8). Column 9 shows the resulting dollar distribution of the \$10 million. Column 11 shows how much each entitlement community would receive from Minnesota Housing after subtracting off the amount of funding that the entitlement communities will receive directly from HUD (column 10).

To ensure a minimum grant of \$500,000 and to provide funds in \$50,000 increments, Minnesota Housing adjusted the funding levels. Column 12 shows these preliminary funding allocations. Minnesota Housing reduced Big Lake’s preliminary allocation to \$800,000 because the city needs to assist only 15 properties to have an impact in the city’s highest priority block groups. With \$800,000 the city could assist 16 properties, assuming a subsidy of \$50,000 per property.

Negotiations with Potential Grant Subrecipients

Minnesota Housing worked with each potential subrecipient to further narrow their target areas to a handful of block groups. After funding levels and analysis were completed, HUD provided further guidance that NSP3 funds must create impact with initial investment and not money left in the property after sale. For example, if a subrecipient purchased a foreclosed home for \$50,000, invested an additional \$100,000 in rehabbing that home, and sold the home for \$100,000, total development costs are \$150,000. If NSP3 funds were used to leverage total development costs, that \$150,000 is used to establish units assisted for impact rather than the \$50,000 subsidy left in the property after sale. Minnesota Housing worked with each potential subrecipient to determine whether they would need to use NSP3 funds for full project funding, and reduced target areas accordingly.

On February 11, 2011, Anoka County decided not to pursue additional NSP3 funds from Minnesota Housing Finance Agency’s appropriation. Initially, \$600,000 was set aside for Anoka County. That \$600,000 was redistributed across the other Metro subrecipients based on the present estimates of need by each community to accomplish completing full additional units and the share of initial allocation. The below table shows the properties that each subrecipient is proposing to provide assistance to.

Table 3: Minnesota Housing's Potential Subrecipients and Proposed Number of Properties to Receive Assistance

	Initial Funding Assignment	Proposed Property Count*
NSP Entitlement		
Anoka County	-- (removed 2/11/2011)--	--
Hennepin County	\$1,100,000	19
Minneapolis	\$720,000	10
St. Paul	\$707,143	8
Metro Non-Entitlement		
Dakota County	\$600,000	4
Ramsey County	\$572,857	12
Greater Minnesota		
Big Lake	\$800,000	16
Total	\$4,500,000	69

*total property count may change after receipt of final program description.

Conclusion

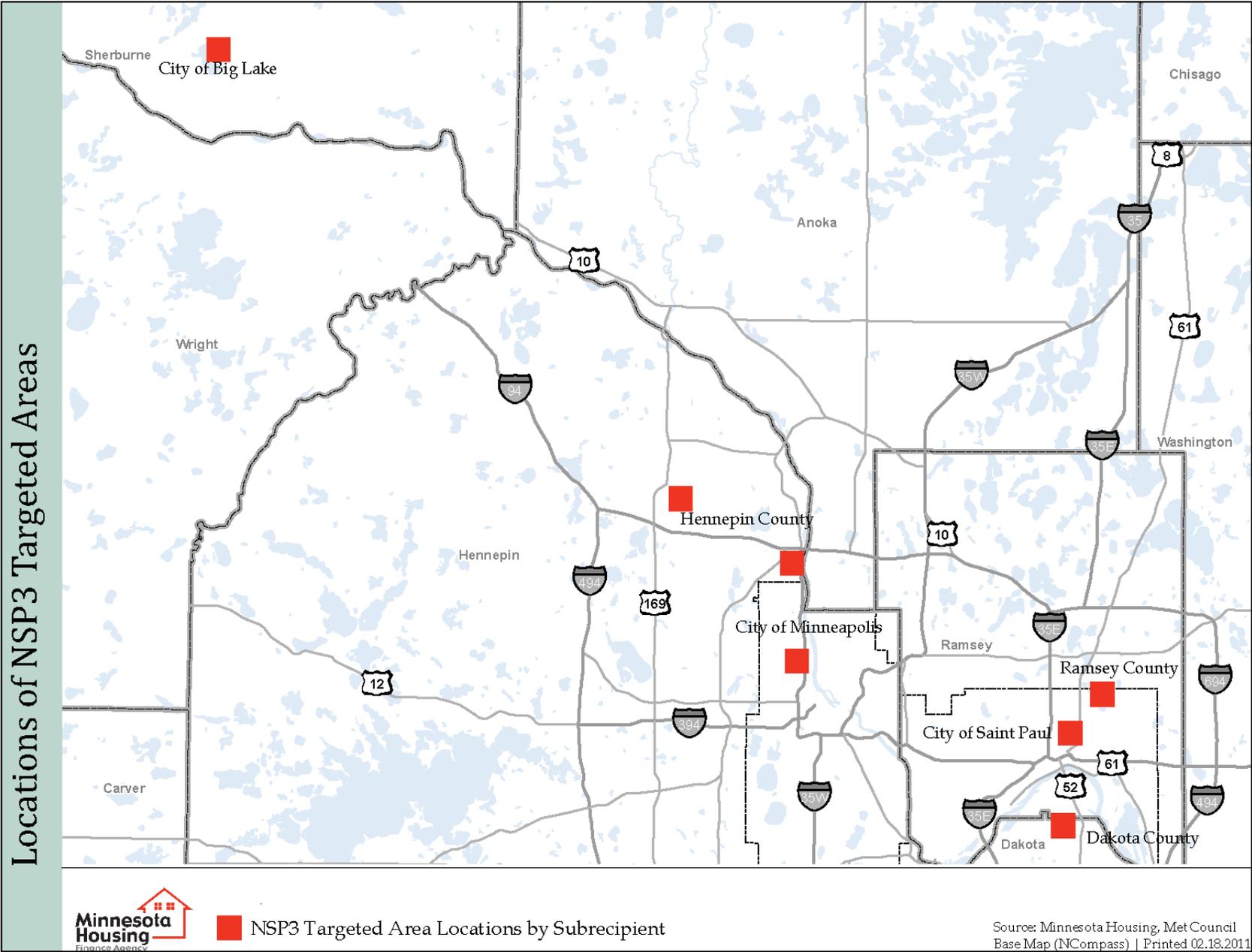
Minnesota Housing analyzed five criteria for selecting target areas: previous recipient of NSP1 Funds, significant foreclosure impact, access to transit or access to jobs, areas of high to moderate levels of rental housing, and marketability. In the target selection areas meeting these criteria, an estimated 1,142 properties would require assistance to have a stabilizing impact. To reduce the properties needing assistance so that it is closer to 90 for Minnesota Housing funding, and 224 overall, Minnesota Housing further narrowed the target areas by considering grantee capacity and the level of need (the number of foreclosures in the potential target area). The resulting set of potential grant awardees initially included four entitlement communities: Anoka County, Hennepin County, City of Minneapolis, and City of Saint Paul. In nonentitlement communities, the potential awardees include, in the metro, Dakota County and Ramsey County, and in Greater Minnesota, the City of Big Lake. As of February 11, 2011, Anoka County chose to not accept additional funding from Minnesota Housing.

Table 2: Summary of Funding Analysis

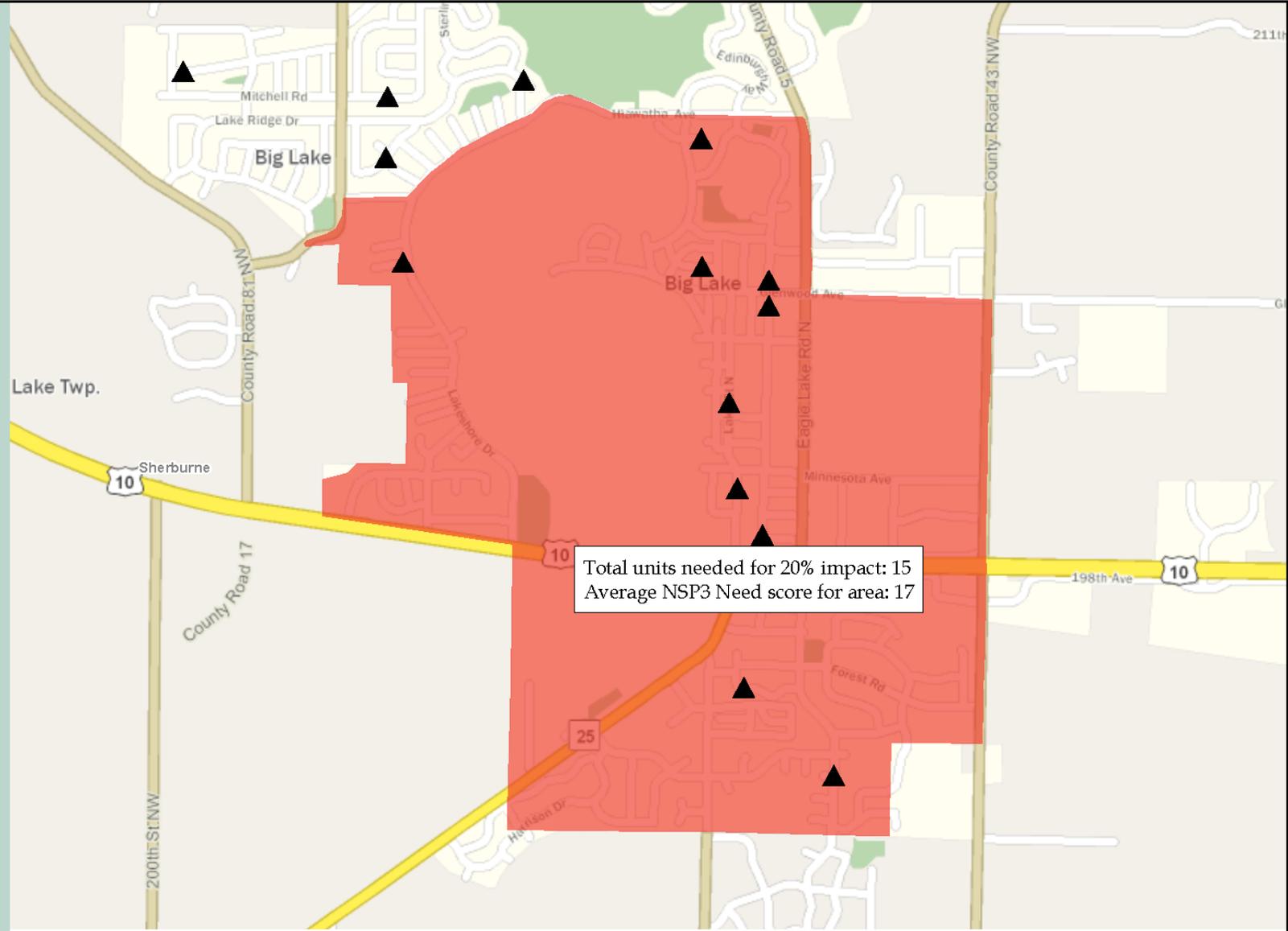
Column #	1	2	3	4	5	6	7	8	9	10	11	12
	Avg. NSP Need Score	Estimated Foreclosures	IMPACT: Sum of Properties Needing Assistance	Region's Share of Impact Properties	Total Regional Funding Based on Share of Impact Properties	Share of Direct HUD Funds (see column 10)	Share Impact Properties from Entitlement Communities	Average of Two Shares	Total Entitlement Community Funding Based Average Shares Figures	NSP3 Funds Directly from HUD	Minnesota Housing Funding for Entitlement Communities: Total Funding Less HUD Direct	Preliminary Funding Assignments for Negotiations
NSP ENTITLEMENT COMMUNITIES		4,785	960	84.1%	\$10,026,294	100.0%	100.0%	100.0%	\$10,026,294	\$7,427,112	\$2,599,182	\$2,700,000
Anoka County	17.7	983	197			16.5%	20.5%	18.5%	\$1,856,822	\$1,226,827	\$629,995	\$600,000
Henneping County	18.4	1,382	282			19.8%	29.4%	24.6%	\$2,464,246	\$1,469,133	\$995,113	\$950,000
Minneapolis	19.2	1,340	270			36.0%	28.1%	32.0%	\$3,213,003	\$2,671,275	\$541,728	\$600,000
St. Paul	19.4	1,080	211			27.7%	22.0%	24.9%	\$2,492,222	\$2,059,877	\$432,345	\$550,000
TWIN CITIES METRO NONENTITLEMENT COMMUNITIES		462	91	8.0%	\$950,409						\$950,409	\$1,000,000
Dakota County CDA	17.3	108	21								\$475,205	\$500,000
Scott County CDA	17.0	53	10									
Ramsey County HRA (No St. Paul)	19.2	113	22								\$475,205	\$500,000
Washington County HRA	17.7	188	38									
GREATER MINNESOTA COMMUNITIES		464	91	8.0%	\$950,409						\$950,409	\$800,000
City of Duluth/St. Louis County	17.0	9	2									
St. Cloud HRA	17.0	33	5									
City of Big Lake	17.0	143	28								\$950,409	\$800,000
City of Buffalo	17.0	97	37									
City of Monticello	17.0	182	19									
ALL REGIONS		5,711	1,142	100.0%	\$11,927,112				\$10,026,294	\$7,427,112	\$4,500,000	\$4,500,000

*note, this analysis included Anoka County allocation.

Appendix 1 - Map Series of Detailed Target Areas and Detailed list of Block Groups



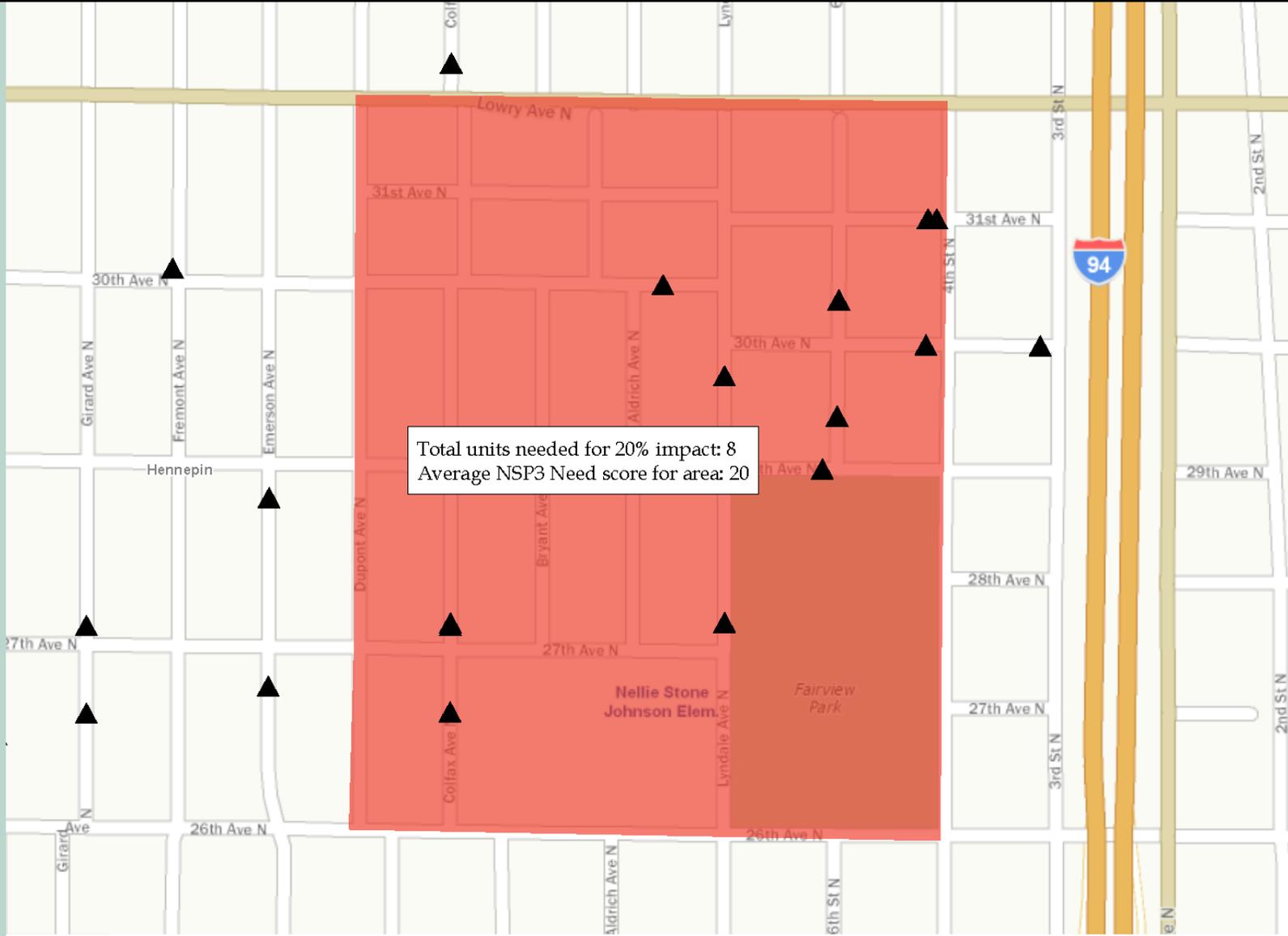
1 Targeted NSP3 Block Groups for City of Big Lake



- Primary Targeted Area (with total units needed for 20% impact)
- Nearby activities through NSP1

Source: Minnesota Housing, Met Council
Base Map (NCompass) | Printed 02.22.2011

2 Targeted NSP3 Block Groups for City of Minneapolis



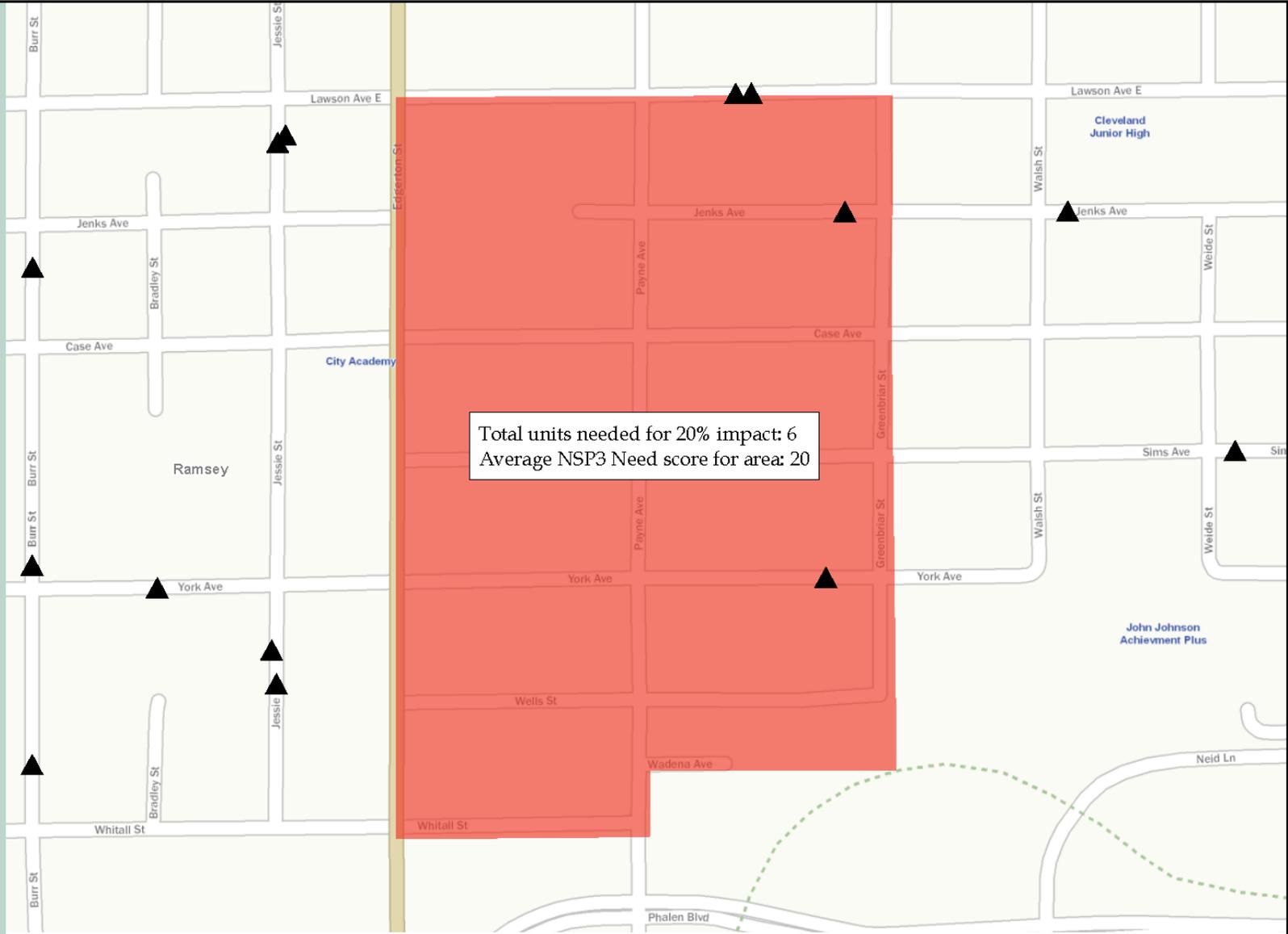
Total units needed for 20% impact: 8
Average NSP3 Need score for area: 20



- Primary Targeted Area (with total units needed for 20% impact)
- Nearby activities through NSP1

Source: Minnesota Housing, Met Council
Base Map (NCompass) | Printed 02.22.2011

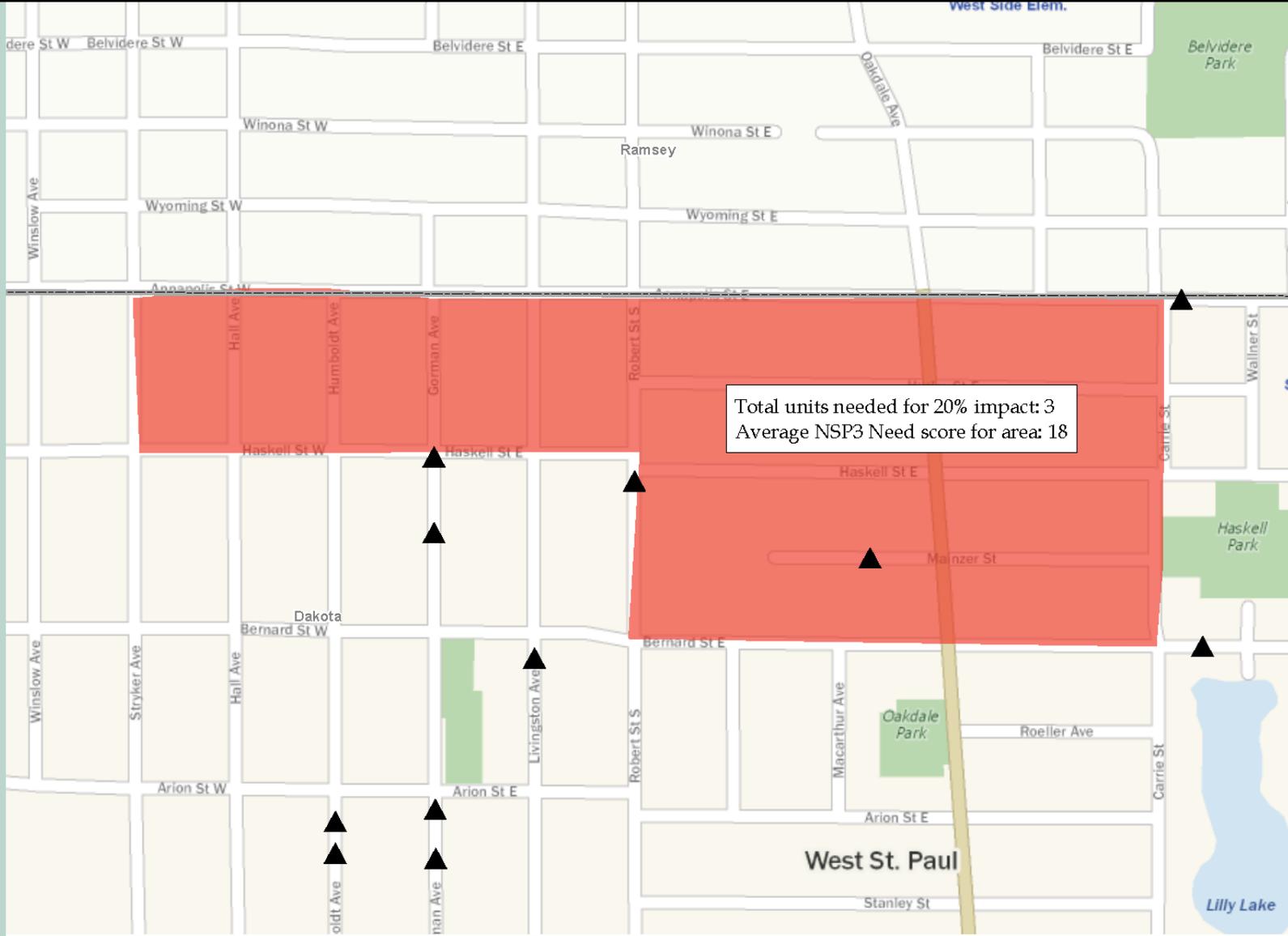
3
Targeted NSP3 Block Groups for City of Saint Paul



- Primary Targeted Area (with total units needed for 20% impact)
- Nearby activities through NSP1

Source: Minnesota Housing, Met Council
Base Map (NCompass) | Printed 02.22.2011

4 Targeted NSP3 Block Groups for Dakota County



- Primary Targeted Area (with total units needed for 20% impact)
- Nearby activities through NSP1

Source: Minnesota Housing, Met Council
Base Map (NCompass) | Printed 02.22.2011

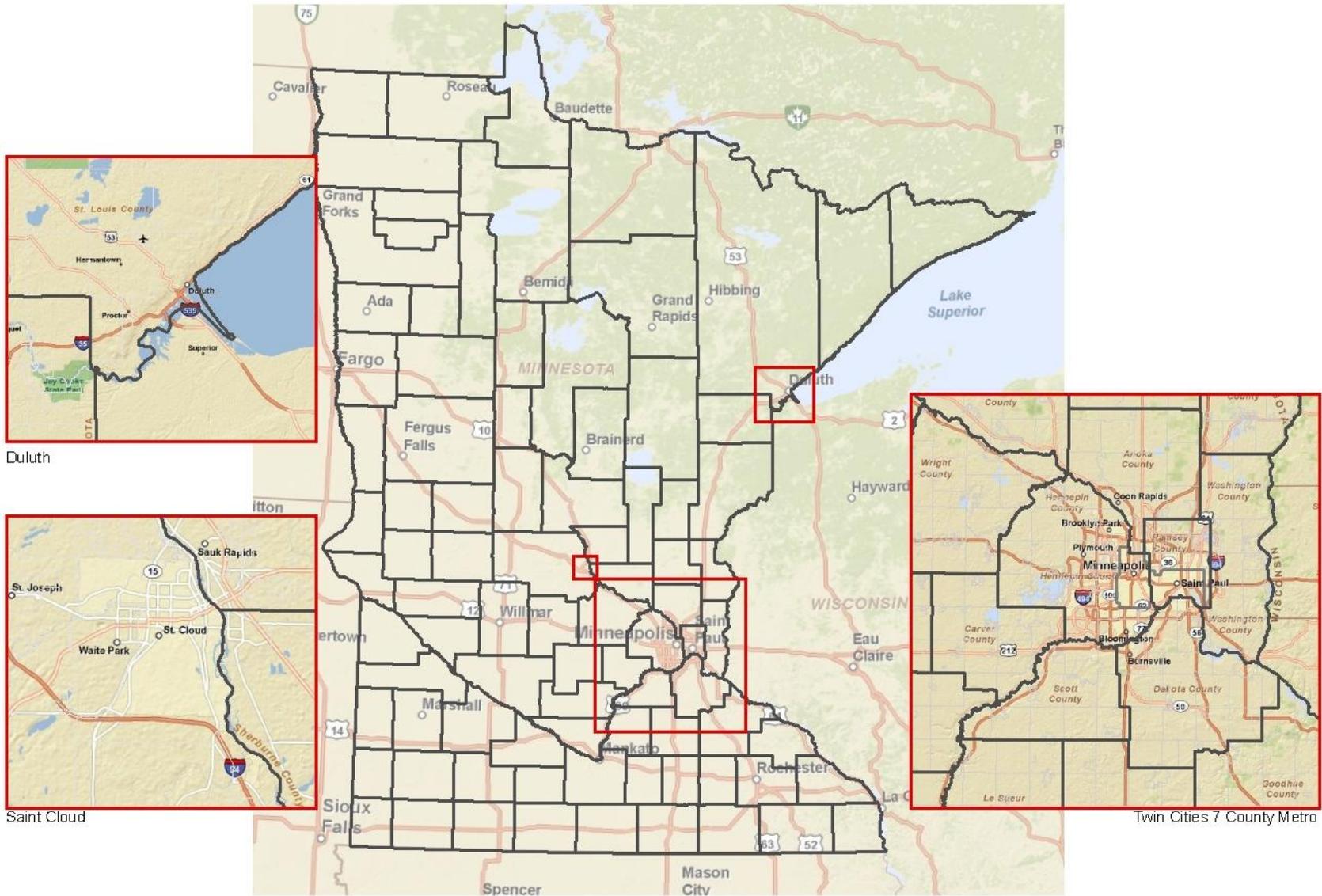
Detailed List of Block Groups Targeted by Subrecipients

Sub Recipient	City	Block Group ID
Dakota County	West St. Paul city	270370601014
Ramsey County	Maplewood city	271230423021
Ramsey County	Maplewood city	271230423022
Ramsey County	Maplewood city	271230423023
Ramsey County	Maplewood city	271230423024
Ramsey County	Maplewood city	271230423025
City of Big Lake	Big Lake city	271410304024
City of Big Lake	Big Lake city	271410304022
City of Big Lake	Big Lake city	271410304023
City of Big Lake	Big Lake city	271410304024
City of Minneapolis	Minneapolis city	270531016001
City of Minneapolis	Minneapolis city	270531016002
City of Minneapolis	Minneapolis city	270531016003
City of Saint Paul*	St. Paul city	271230310003
City of Saint Paul*	St. Paul city	271230315004
Hennepin County	Brooklyn Center city	270530206001
Hennepin County	Brooklyn Center city	270530206002
Hennepin County	Brooklyn Park city	270530268163
Hennepin County	Brooklyn Park city	270530268183

*Saint Paul's target area is smaller than a block group but includes parts of these blockgroups.

Appendix 2 – Map Series of Individual Criteria

]



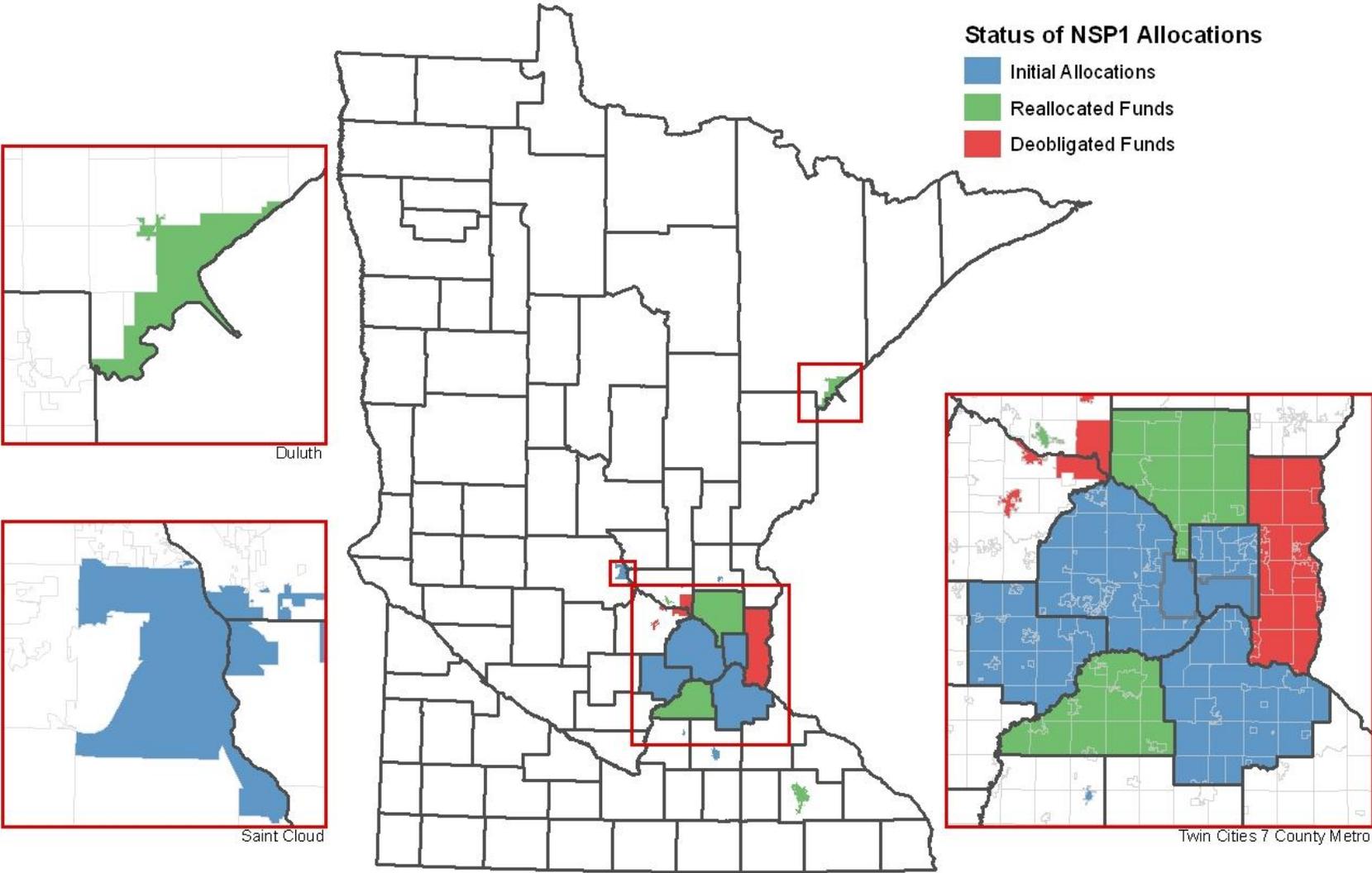
Source: ESRI, 2010.

Map 1

Criteria 1) NSP1 Recipients

Status of NSP1 Allocations

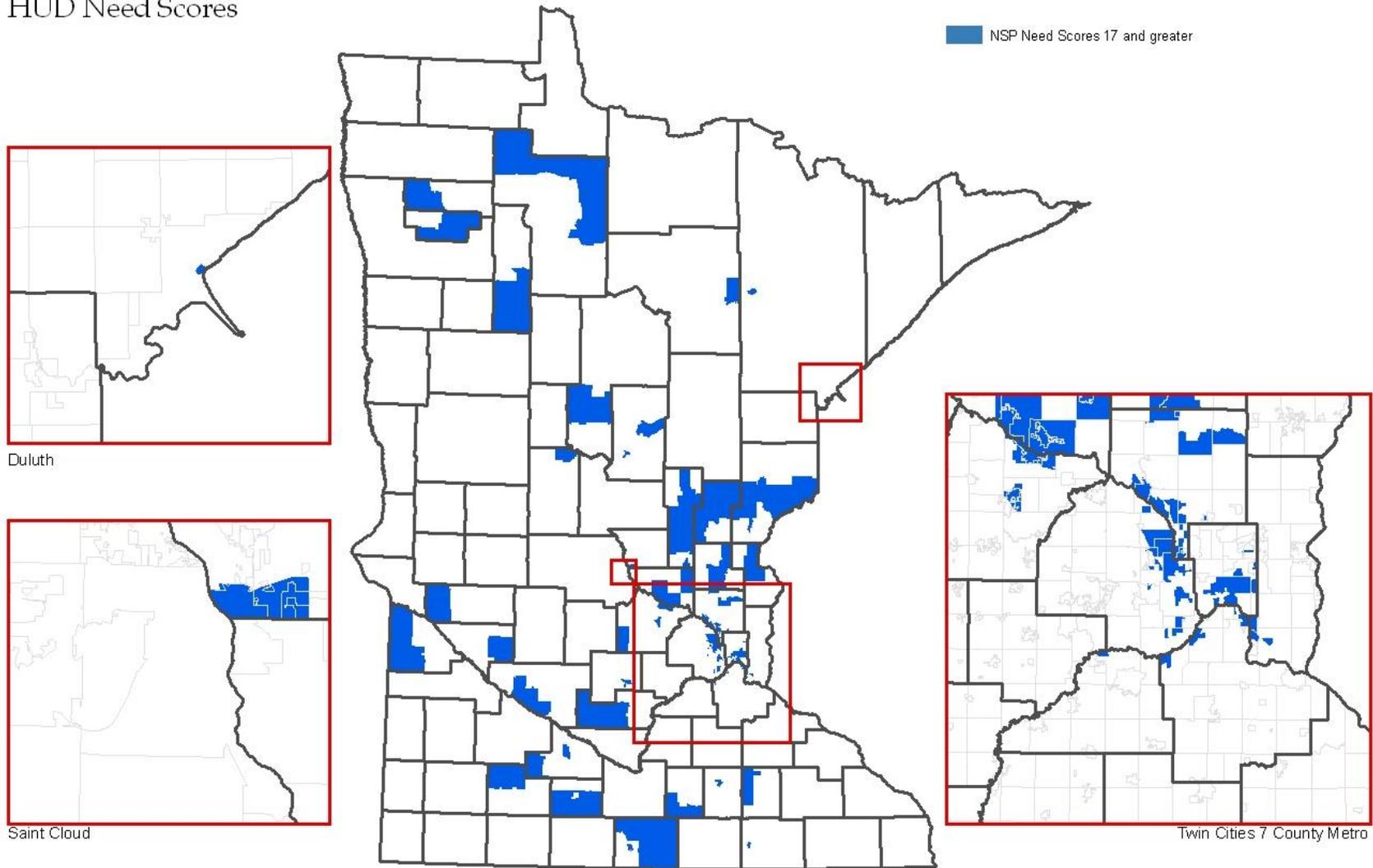
- Initial Allocations
- Reallocated Funds
- Deobligated Funds



Source: Minnesota Housing.

Map 2

**Foreclosure Impact
HUD Need Scores**

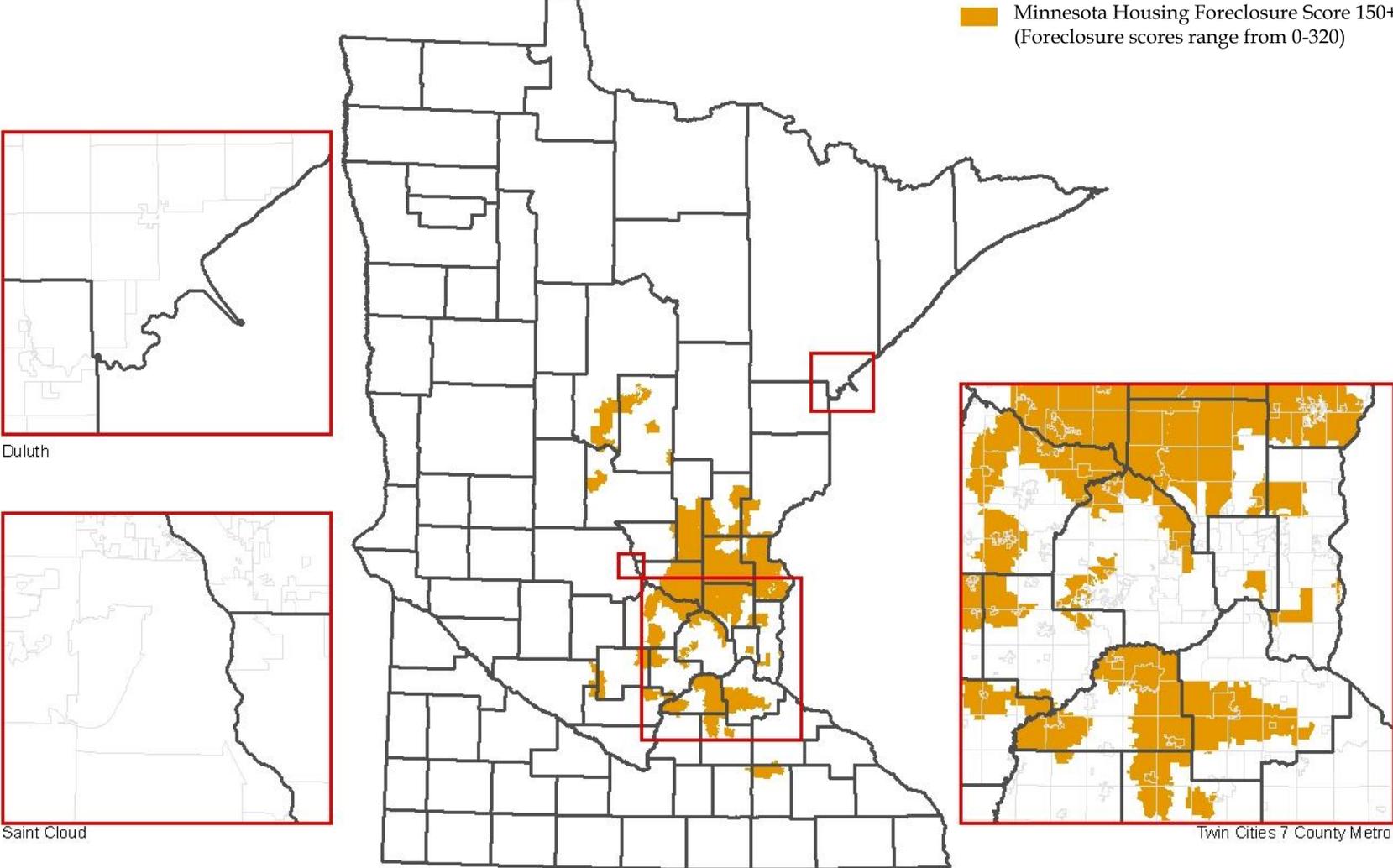


Source: HUD, 2010.

Map 3

Foreclosure Impact

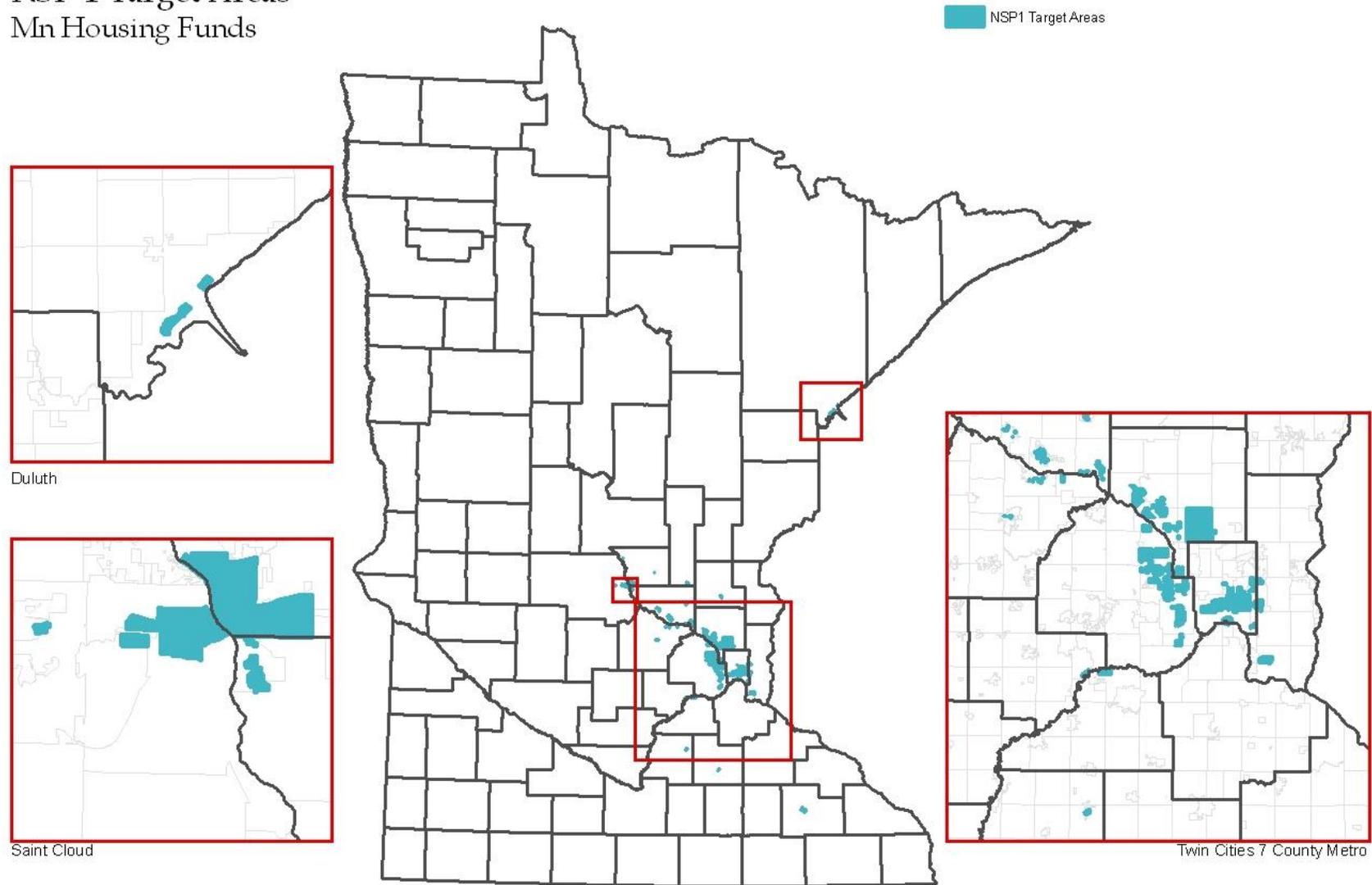
Minnesota Housing High Need Foreclosure Area, based on data from LPS Applied Analytics



Source: Minnesota Housing analysis of data from LPS Applied Analytics, 2010.

Map 4

**NSP-1 Target Areas
Mn Housing Funds**

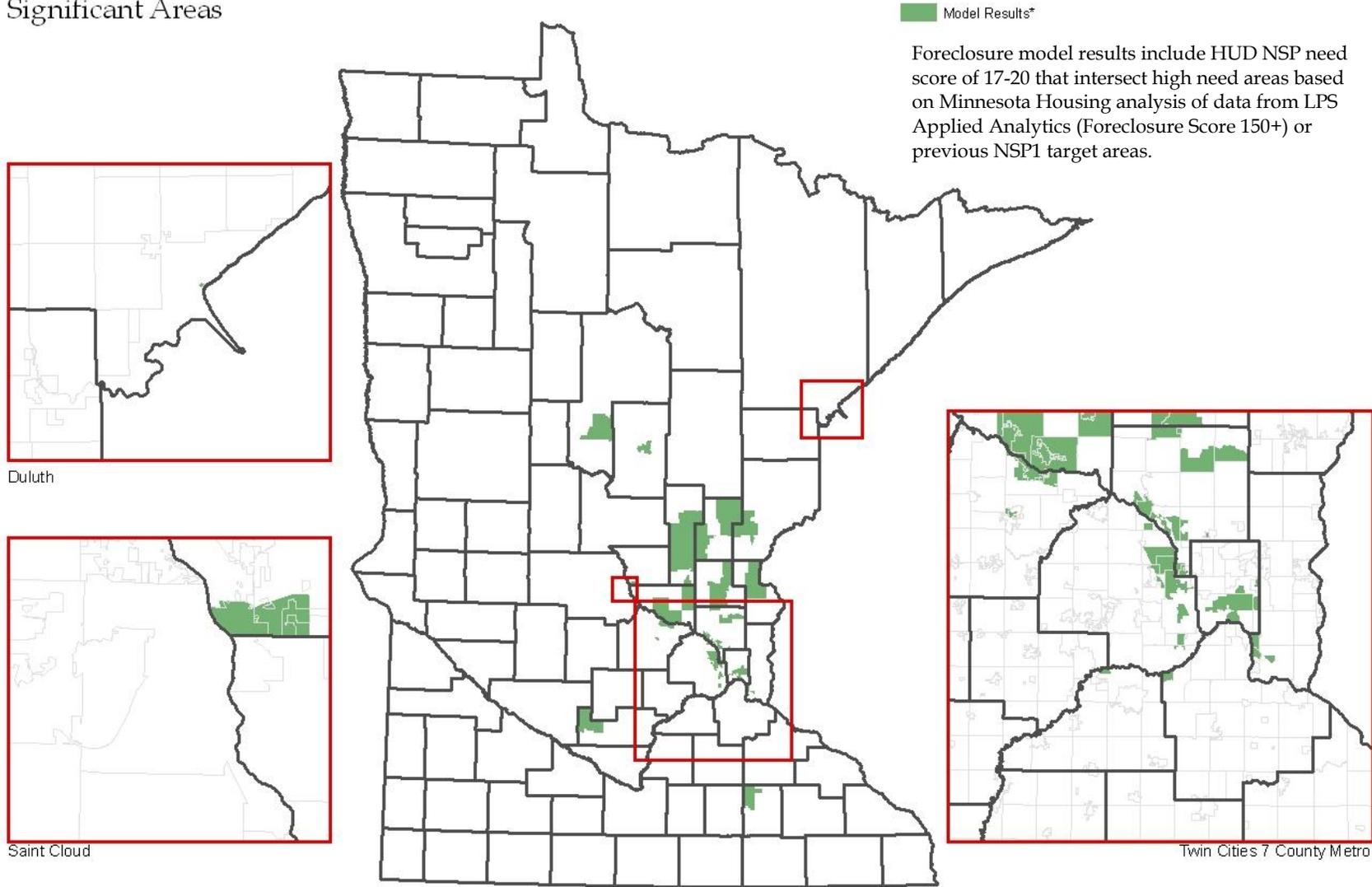


Minnesota Housing.

Source:

Map 5

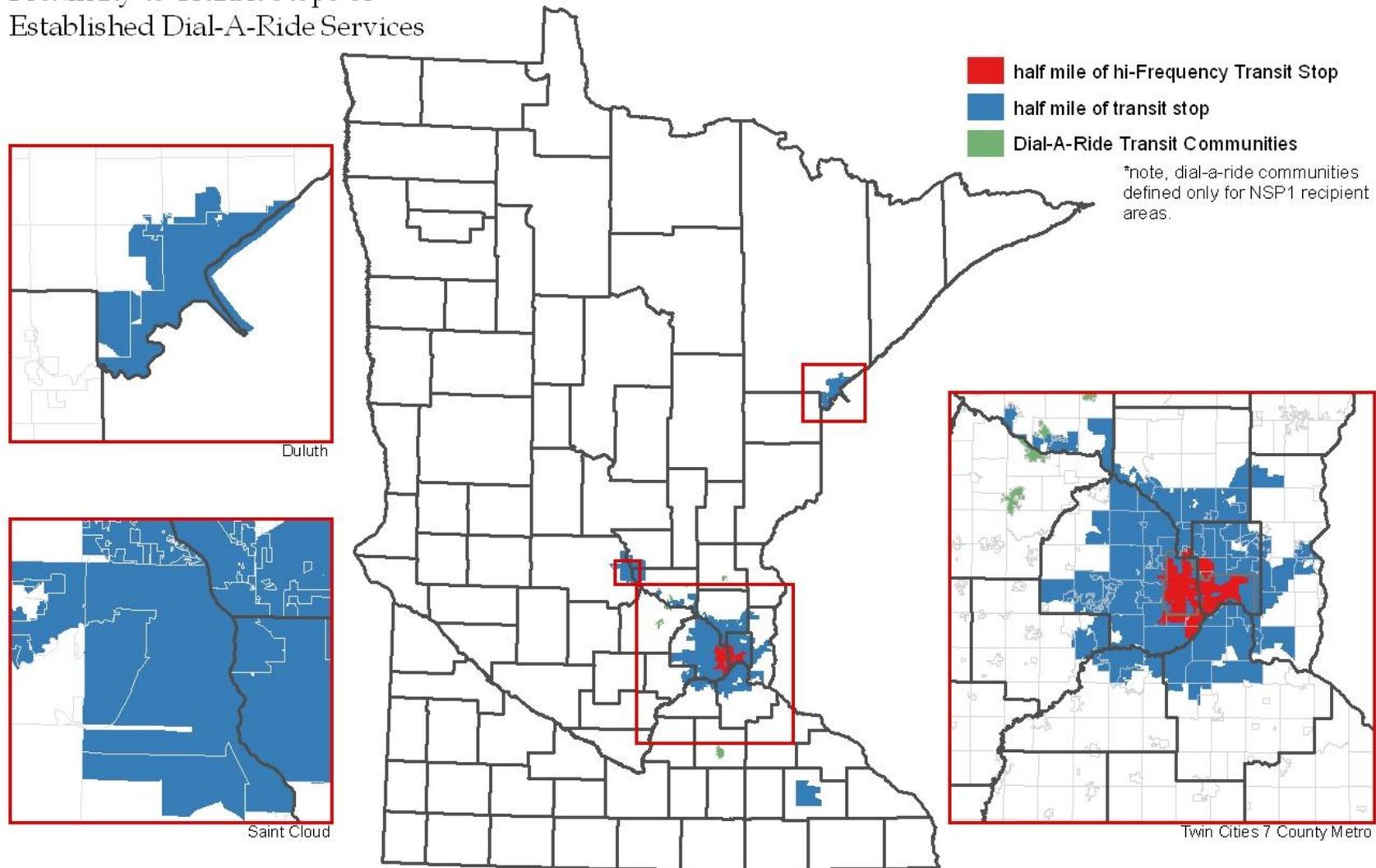
Criteria 2) Foreclosure Impact
Significant Areas



Source: Minnesota Housing analysis.

Map 6

Criteria 3a) Access to Transit
Proximity to Transit Stops or
Established Dial-A-Ride Services



Source: Metro Transit, MnDOT, Duluth Transit Authority, Cities of Rochester and Saint Cloud, 2010.

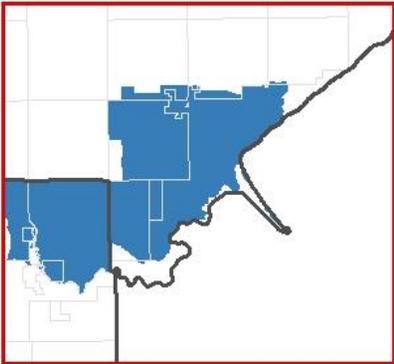
Map 7

Criteria 3b) Access to Jobs
Proximity to Lower Wage Jobs

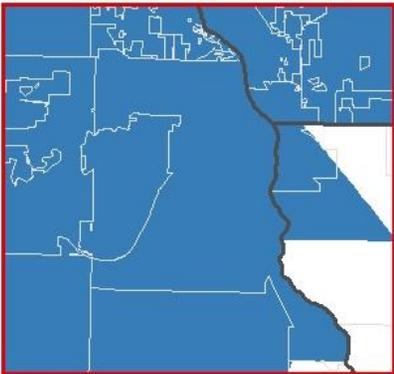
Jobs within 1 mi - MSP STP | Jobs within 5 mi - Suburban Metro | Jobs within 5 mi - Greater MN

6,314 - 70,771 84,516 - 265,349 2,414 - 138,364

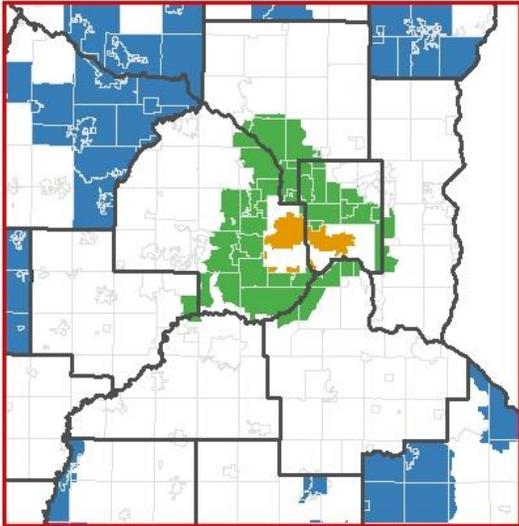
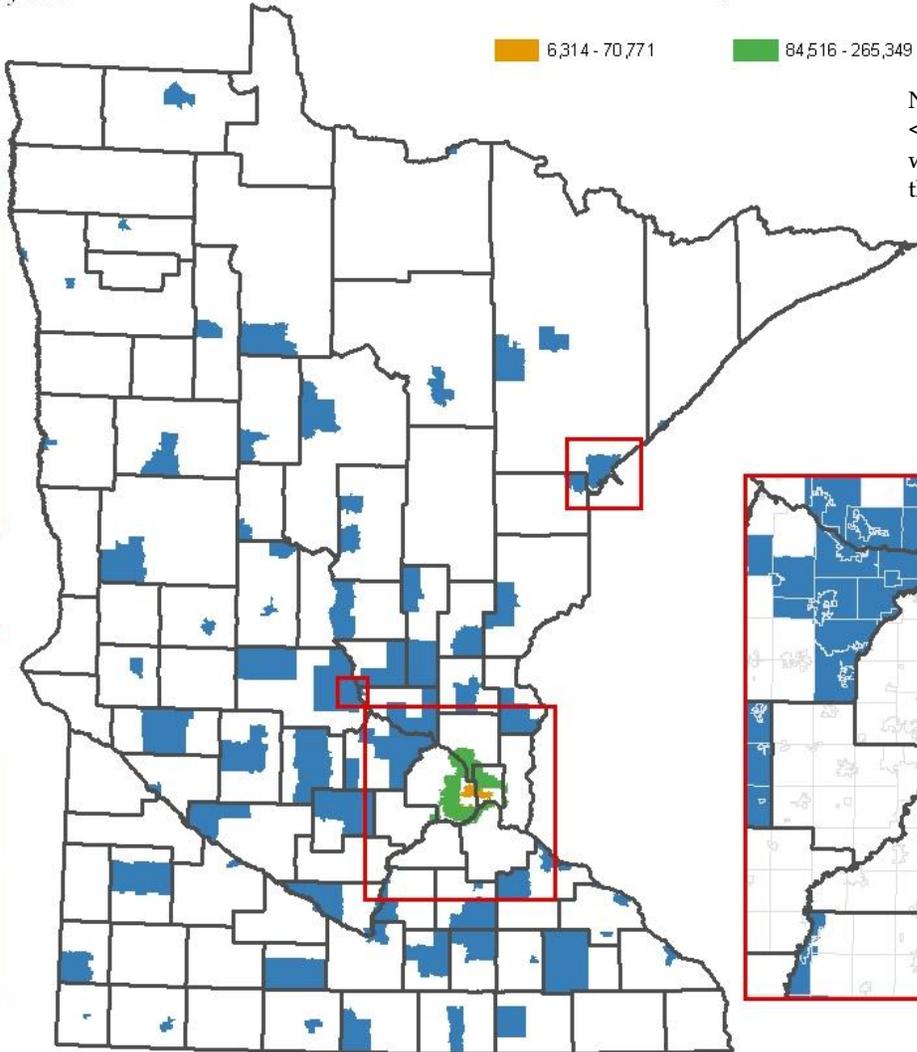
Notes, low wage jobs are classified as earning <\$40,000 annually. Number of jobs are those within the specified distance. The lower bound is the median for the region.



Duluth



Saint Cloud



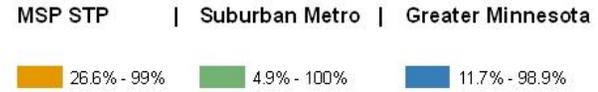
Twin Cities 7 County Metro

Source: Local Employment Dynamics program of the US Census, 2008,

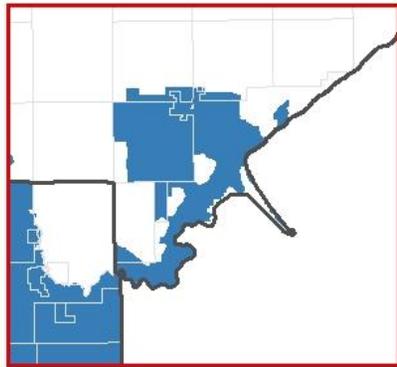
Map 8

Criteria 4) Rental Housing
Percent Units Rented - 2000

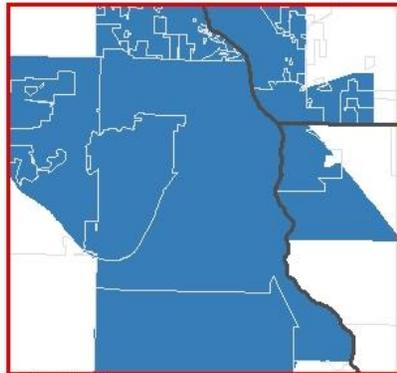
Rental Rate Percentages



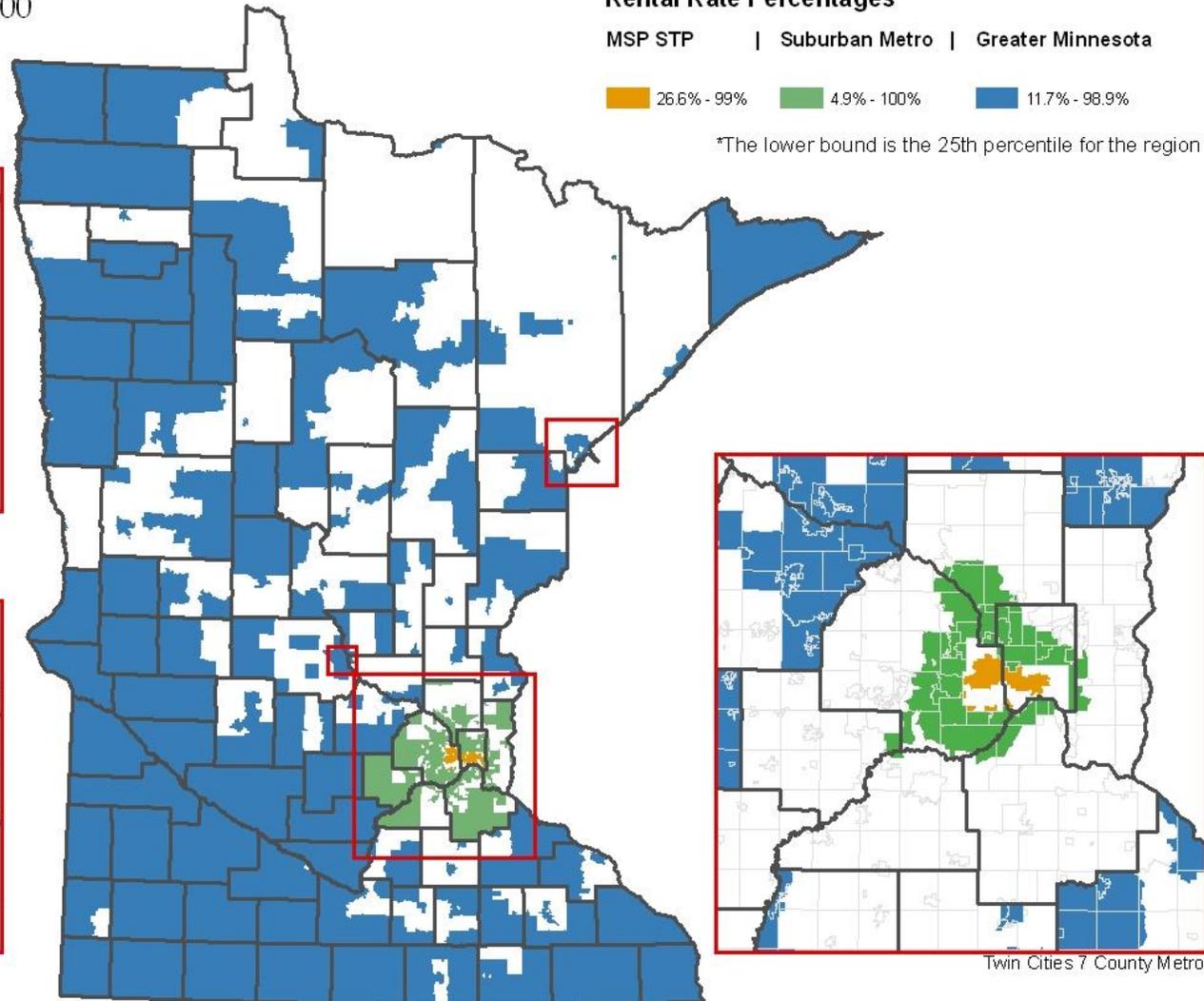
*The lower bound is the 25th percentile for the region



Duluth



Saint Cloud



Twin Cities 7 County Metro

Source: US Census, 2000.

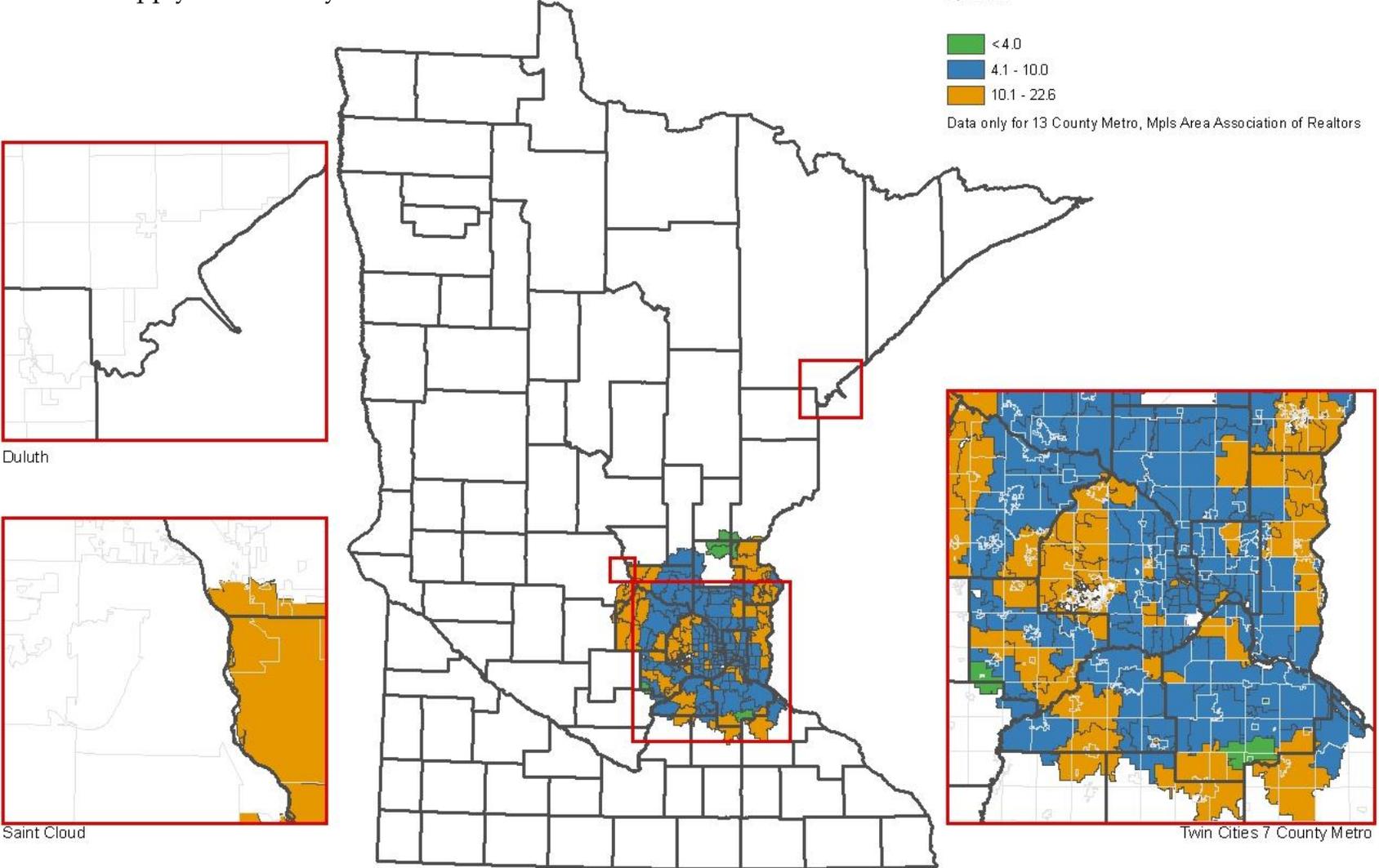
Map 9

Criteria 5) Marketability
Month's Supply of Inventory

Months Supply Inventory (Traditional)
Q3 2010

- < 4.0
- 4.1 - 10.0
- 10.1 - 22.6

Data only for 13 County Metro, Mpls Area Association of Realtors

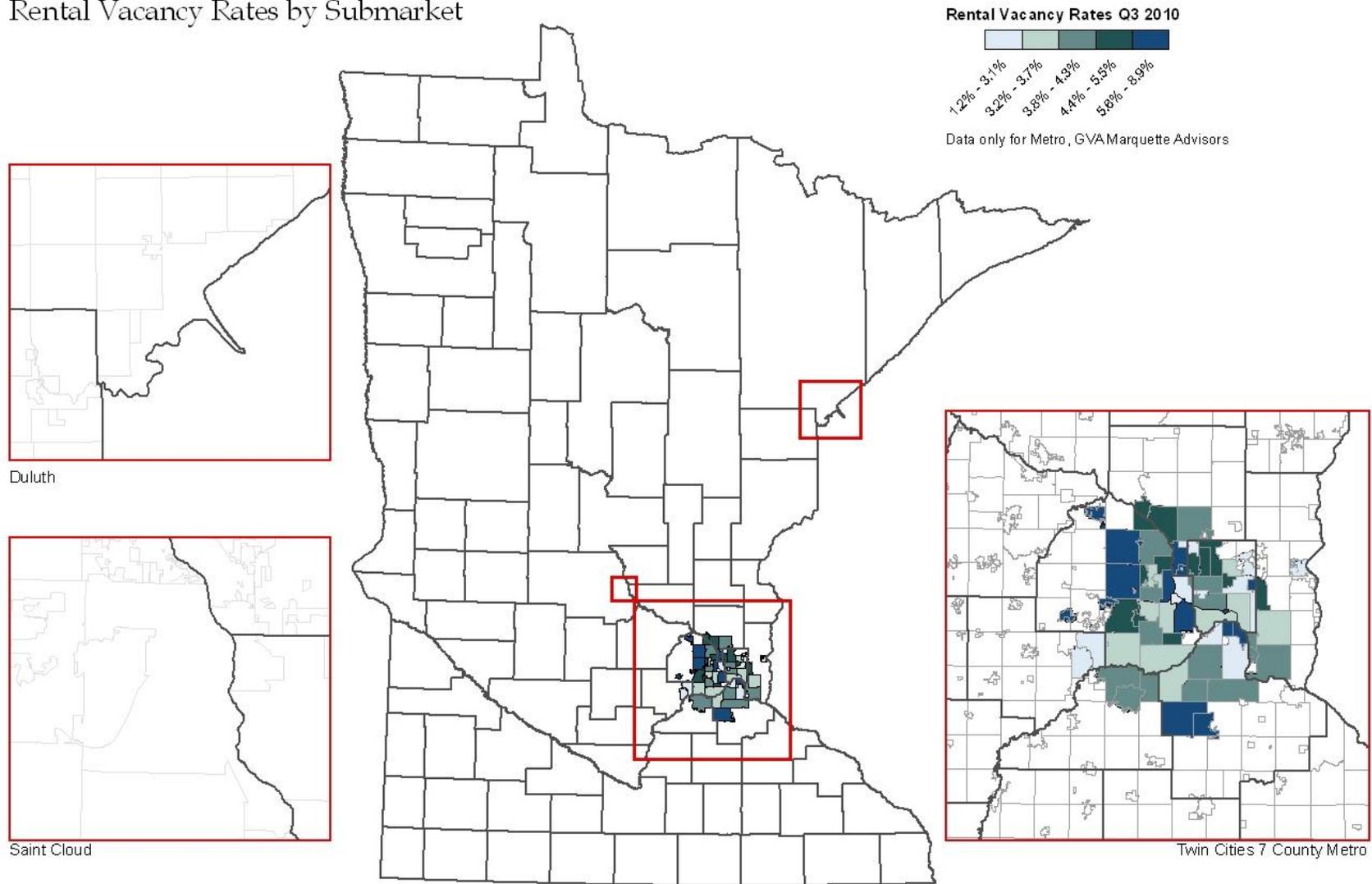


Source: Minneapolis Area Association of Realtors, 2010.

Map 10

Criteria 5) Marketability

Rental Vacancy Rates by Submarket



Source: Marquette Advisors, 2010.

Appendix 2 – Data Methodology

	Criterion	Data Source	Data Resolution	Definition/Spatial Query
1	Area is previous recipient (City or County) of NSP1 funds.	Internal (Minnesota Housing)	Block Group	All block groups selected that intersect with a previous recipient's area.
2	Significant Foreclosure Impact. (Primary HUD Requirement)	HUD Download / McDash	Tract / Zip Code	Foreclosure assessment model; choosing areas with a NSP need score of 17 or greater, then selecting those areas that intersect a moderate to high foreclosure index in LPS Applied Analytics analysis or those areas that intersect an NSP1 targeted area.
3a	Access to Transit	Major Transit Providers (Duluth, St. Cloud, Rochester, TC Metro) & MN DOT for dial-a-ride (county/city service links)	Block Group	Selection differs by region. For the core cities of Minneapolis and Saint Paul, areas within ½ mile of a hi-frequency network are selected, for suburban 7 county metro areas within ½ mile of a transit stop are selected, and for greater Minnesota, areas that are served by an established dial-a-ride program are selected.
3b	Access to Jobs	LED - Workplace Area Characteristics – 2008 (total jobs by earnings categories, where earnings <=40,000 annually).	Tract	Within each region (Core Cities of Minneapolis and Saint Paul, suburban 7 county metro, and Greater Minnesota), the areas with access to the 50th percentile of jobs and above are selected. The values are the 50 th percentiles within each region are: For Minneapolis-St. Paul, jobs within 1 mile >= 6,314 For Suburban Metro, jobs within 5 miles >= 84,516 For Greater Minnesota, jobs within 5 miles >= 2414
4	Rental Housing	US Census 2000	Tract	For all regions, areas with units rented above 25 th percentile are selected. The valued within each region are: For Minneapolis-St. Paul, rental rate >= 0.266 For Suburban Metro, rental rate >= 0.049 For Greater Minnesota, rental rate >= 0.117
5	Marketability	Minneapolis Area Association of Realtors / GVA Marquette Advisors	Zip Code / Market	For the 13 County Metro, zipcodes with Month's Supply Inventory between 4-10 months for traditional properties are considered for 3 rd Quarter 2010. For areas reported by GVA Marquette Advisors, rental rates at 5% are considered balanced.