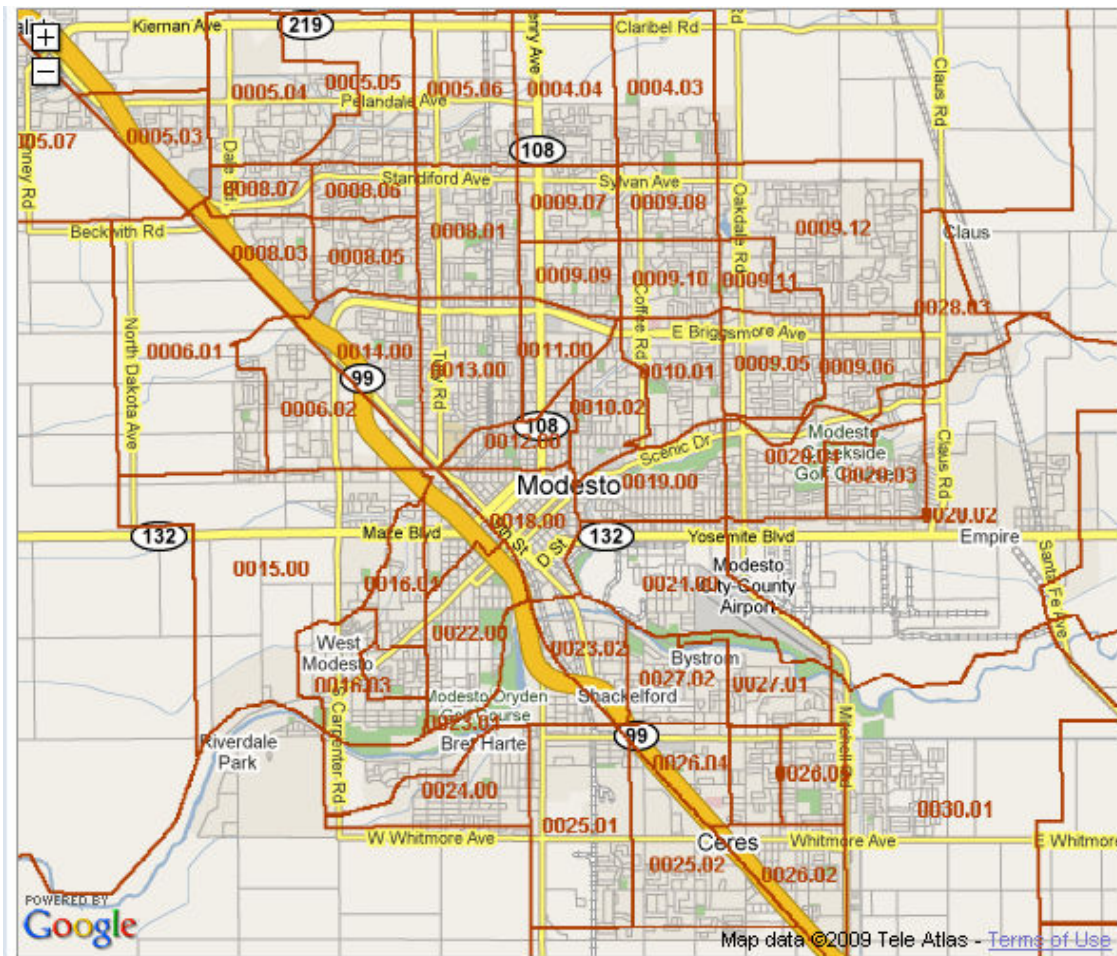


City of Modesto

Neighborhood Stabilization Program 2 CFDA : 14.256

Factor 1: Need/Extent of the Problem

The City of Modesto is centrally located within California and in heart of one of the greatest agricultural areas of our nation. Modesto offers the diversity and facilities of a metropolitan city, but still maintains an atmosphere of old-fashioned hospitality and small town charm. As the seat of Stanislaus County, Modesto is the sixteenth largest city in California with over 210,000 citizens.



With mild weather year-around and located just over an hour from San Francisco, San Jose and Sacramento, Modesto has transformed from a small farming community into a bedroom community for commuters into the business hubs of our state. The economic boom exploded in the early 2000's and households found that they could find affordable housing in Modesto and commute into the bay area or the state capital for work. This created a great opportunity for homeownership. The unfortunate result was that housing

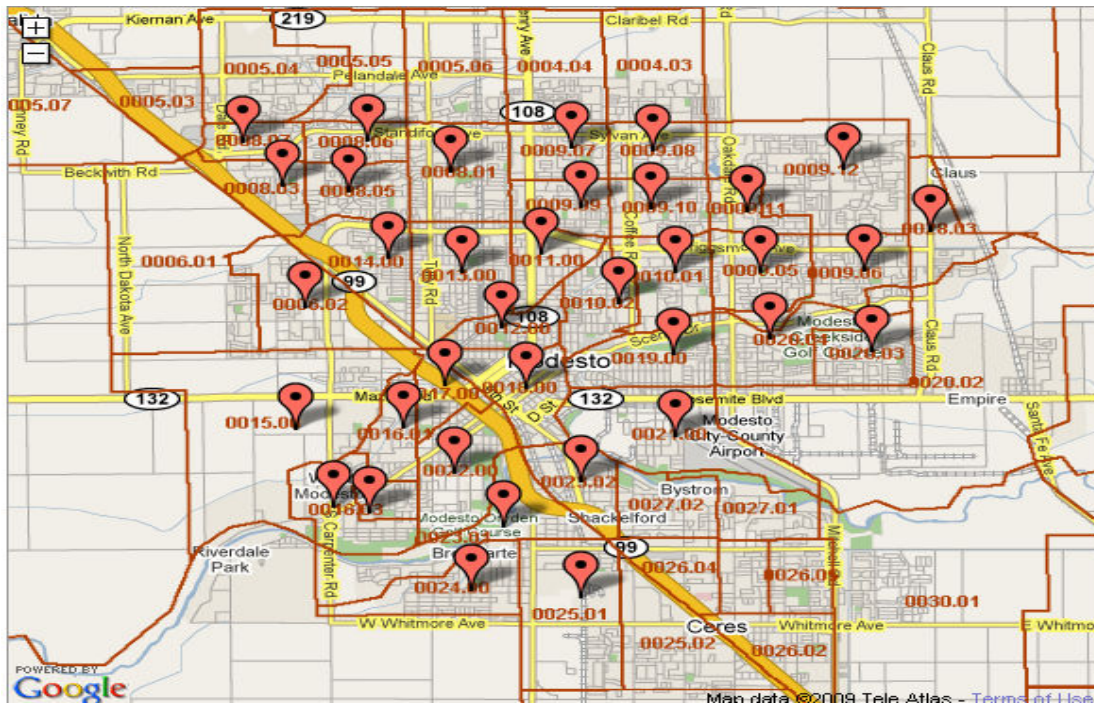
prices rose drastically and quickly closed the market to local citizens. When the economy started to turn, the City of Modesto was one of the first to feel the effects. The housing bubble burst and people in development related jobs were displaced. These were some of the first signs of many more issues to come. The residual impact of the foreclosure tragedy is that there is a ripple effect across the community including decline of neighborhoods, reduced tax revenue, diminished home equity, high unemployment rates and other crisis for families loosing their homes and jobs.

The urban sprawl from the bay area halted. People lost their jobs, and had no reason to commute; many got into subprime mortgages and could no longer make their payments. There was a mass exodus out of the Central Valley and back into the bay area. School enrollment declined as families moved back to areas where they could have more hope finding employment. The unemployment rate in Modesto has risen from 9 percent to approximately 17 percent in the past six months.

Once the housing market dried up, the ripple effects caused further distress in the community. Unemployment has drastically increased and foreclosure filings have risen considerably over the last two years. There are areas where the majority of the neighborhood is vacant. Developers abandoned lots, and homes are empty. Vagrants have vandalized homes, blight has increased and entire neighborhoods are distressed.

Target Geography:

The City of Modesto electronically submitted the target area, application number 818076867. The target area has an overall average score of 19.94. The foreclosure crisis has caused severe and neighborhood decline is widespread in the city.



The target area is focused on the following Census Tracts:

Census Tract	Foreclosure Score	Vacancy Score	Max Score
0019.00	20	16	20
0020.04	20	15	20
0020.03	20	11	20
0009.06	20	17	20
0009.05	20	15	20
0009.12	20	13	20
0021.00	20	20	20
0018.00	20	18	20
0012.00	20	16	20
0010.02	20	15	20
0010.01	20	15	20
0011.00	20	18	20
0013.00	20	17	20
0016.01	20	19	20
0022.00	20	18	20
0016.04	20	14	20
0006.02	20	16	20
0008.03	20	16	20
0008.05	20	18	20
0008.01	20	16	20
0009.09	20	17	20
0009.10	20	17	20
0009.11	20	9	20
0008.07	19	13	19
0024.00	20	17	20
0023.01	20	18	20
0023.02	20	17	20
0015.00	20	16	20
0025.01	20	14	20
0017.00	20	18	20
0014.00	20	16	20
0016.03	20	18	20
0008.06	20	13	20

0009.07	19	15	19
0009.08	20	14	20
0028.03	20	12	20
Average Max Score			19.94

Market Conditions and Demand Factors

Since January 2009, the number of foreclosed properties in California ascended to 222,326 and continues to rise. About 40,000 homes have been foreclosed in Stanislaus County since January 2007, costing lenders billions in unpaid mortgages. During May 2009, 614 homes were foreclosed in Stanislaus County; the number of trustee filings had increased drastically and 387 Bank owned properties were listed for sale. Stanislaus County continues to rank as number two in the nation for foreclosed properties.

In addition to the devastating impact these foreclosures have on the affected households, they are also causing a spillover effect by depressing the value of nearby homes—most owned by families who are paying their mortgages on time.

Rating Factor 2: Demonstrated Capacity of Applicant and Relevant Organizational Staff

Past Experience of the applicant

The City of Modesto is an entitlement community through the U.S. Department of Housing and Urban Development (HUD). Modesto is well versed in HUD regulations and has a successful Community Development Block Grant (CDBG) program. City staff is experienced in working with the real estate and development community as well as with the federal government.

Modesto received a direct allocation of funding for the Neighborhood Stabilization Program (NSP1) through the Housing and Economic Recovery Act of 2008. City staff has attended several training conferences and developed a comprehensive approach to NSP 1.

The City of Modesto hosted an event in May of 2009 titled “Homeownership Modesto” which explained the Neighborhood Stabilization Program and the City’s plan to implement the program. More than 1000 people attended the event and were educated on the mortgage process, and how to become responsible homeowners as well as how to participate in the NSP1.

Management Structure

The City of Modesto, Parks, Recreation and Neighborhoods Department, Housing Unit has staff with an average more than 30 years of experience working with HUD programs. The following people will be working together as cohorts to implement and monitor NSP2.

- Director/Housing and Urban Development Manager with more than 26 years of experience in the public sector. This person will oversee and participate in the development of the programs, assign activities to the team members, monitor workflow and implement the procedures necessary to carry out the programs. The Director will also provide direction to the other team members working with the program.
- Administrative Analyst, CDBG Program Manager has more than 7 years administering and managing grant funds. The Administrative Analyst currently oversees the NSP1 and will also oversee and manage NSP2. The CDBG Program Manager will coordinate the duties of the other team members, negotiate contracts, and ensure compliance of all HUD regulations.
- Senior Community Development Specialist has more than 9 years of experience working with HUD programs and is the current administrator of the Down Payment Assistance Program and the American Dream Down Payment Initiative. The Down Payment Assistance Program will be managed by this person.
- Administrative Analyst I has a marketing and business background and will work with the programs to ensure outreach to the citizens of Modesto. This position will work with marketing the programs and ensuring that the City reaches out to minority and women owned businesses, and will also monitor that the City further affirms fair housing.
- Budget Analyst has more than 20 years of budget experience and will be monitoring funding to make sure that all regulations are followed and that percentages are met. This position will also ensure transparency of funding and monitor any budget related inquiries.
- Environmental Review Specialist has more than 24 years of experience with the environmental regulations and the rehabilitation requirements in relation to HUD programs. The Environmental Specialist will be processing the environmental reports and facilitating any testing needed for the projects. This position is also a specialist with Davis Bacon and will ensure that the projects remain in compliance with the regulations.
- Housing Financial Specialist has 35 years of experience working with finance, including loan documents and proformas. This person will manage the underwriting process of the loans for the Neighborhood Stabilization Program. In addition, all accounts payable and accounts receivables will be processed with the Housing Financial Specialist.
- Housing Rehabilitation Specialist has 20 years of experience working with municipal Housing Rehabilitation Programs. One asset that will serve the programs is that the Rehabilitation Specialist is a draftsman and can draft plans for rehabilitation jobs, or new construction. This position will coordinate the rehabilitation projects including ensuring that the rehabilitation projects meet the Housing Quality Standards.

- Building Inspection will coordinate with the Housing Rehabilitation Specialist on all inspections to ensure that Housing Quality Standards are met, as well as verifying that all City codes are met.
- The NSP intern specialist has a background in construction and a Masters in Public Administration. This position will work with the other staff to ensure that project tasks and milestones are met. This position will also monitor all invoices and requests for funding to ensure that the “Buy American” provision is met as well as that the costs for the rehabilitation of properties is reasonable.
- The Public Information Technician will develop press releases, collateral materials and advertisements to promote the Neighborhood Stabilization Program.
- Support staff will work with all of the positions to process reports and assist citizens with the program guidelines.

The City of Modesto also has an established list of Appraisers who provide appraisals that are in conformity with the appraisal requirements of the URA at 49 CFR 24.103. These approved appraisers will be assigned to properties that are presented to the City of Modesto to ensure accurate and responsible appraisals.

The City of Modesto has also provided workshops to local real estate agents, brokers and property management and development businesses to educate these groups on the Neighborhood Stabilization Program and the regulations and continued affordability requirements of the program.

Rating Factor 3: Soundness of approach

Proposed Activities

As part of NSP2 the City of Modesto plans to do more than just stabilize neighborhoods. By creating a more comprehensive approach and stabilizing the underserved population, not only will our neighborhoods benefit, but the entire community will benefit. Modesto, like most metropolitan cities faces challenges with homelessness. The societal burdens that homelessness places on a community are arguably some of the most important issues effecting communities across the nation. In hard economic times not only do these problems worsen, but there are less social services available to assist the already underserved populations.

In partnering with non-profit organizations that have not only the capacity but also the experience in acquiring and rehabilitating properties, the City can utilize the NSP2, to assist with the overarching Ten Year Plan to End Homelessness. The City of Modesto plans to partner with the Housing Authority of the County of Stanislaus to be the lead development partner in acquiring and rehabilitating foreclosed properties. The Housing Authority of the County of Stanislaus would also work with the Center for Human Services to provide the housing to transitional foster and homeless youth that are between the ages of 18-28. Twenty-five percent of this funding will serve those at or below 80 percent of the median income and with seventy-five percent of the funding to be utilized for those at or below 50 percent of the median area income. This program will provide

housing for this special population so that they can focus on education and finding employment.

When foster youth are forced out of the foster care system at the age of 18, they are not prepared and the many become homeless. Based on a report from the Children's Advocacy Institute titled "Expanding Transitional Services for Emancipated Foster Youth: An Investment in California's Tomorrow" published in January 2007; programs for emancipated foster youth fail to provide comprehensive assistance and services.

- 65% emancipate without a place to live
- Less than 3% go to college
- 51% are unemployed
- Emancipated females are 4 times more likely to receive public assistance than the general population
- In any given year, foster children comprise less than 0.3% of the state's population, and yet 40% of persons living in homeless shelters are former foster children. A similarly disproportionate percentage of the nation's prison population is comprised of former foster youth.

In working with the Center for Human Services and the Community Services Agency, there is a serious increase in homeless youth between the ages of 18-28. Recent studies show that an average young person must rely on parental support during their transitional years and does not become self-sufficient until their late twenties. With the economic crisis, there are more and more children entering the foster system in their teen years, and even more who don't enter the system, but become homeless.

For the Emancipated Foster and Homeless Youth program, the City of Modesto would allocate \$6,000,000 in funding to acquire and rehabilitate approximately 35 residential properties where these youth can have a place to call home. During these formative years, the focus needs to be on learning the life skills needed to become self sufficient, as well as gaining the education or training to enter the workforce and become a productive approach. By providing a basic need – housing, these children can focus on becoming adults. This program would reduce the overall cost that society pays for services; it can help to avoid expenses associated with the use of mental health services, homelessness, use of welfare beyond TANF such as food stamps, substance abuse and second generation foster care are all risk factors that can be mitigated by providing housing, and giving the youth a clean start.

Another area of partnership will be between the City of Modesto and Stanislaus Community Assistance Project (SCAP) to provide \$6,000,000 in funding for the acquisition and rehabilitation of homes to help services those with mental health or substance abuse issues. SCAP has a history of developing supportive housing and assisting persons with disabilities. Twenty-five percent of this funding will serve those at or below 80 percent of the median income and with seventy-five percent of the funding to be utilized for those at or below 50 percent of the median area income. SCAP plans to redevelop 30 units and provide services to those with mental health or substance abuse

issues. This housing will provide a place where the participants can focus on addressing the problems they face in order to become stable.

Many challenges face persons with mental health or substance abuse issues. There are times when these two issues tend to go hand and hand in a lot of cases and are even at times co-diagnosed. Many people coping with mental health issues turn to some sort of drug or alcohol as a means attempt to relieve stressful situations. Persons dealing with mental health or addiction issues that go untreated are often encounter more barriers to employment, tend to be in poorer physical health, and have more contact with the legal system.

In the last two decades, competition for increasingly scarce low income housing grew so intense that those with disabilities such as addictive and mental disorders were more likely to lose out and find themselves on the streets. Increases in the denial of services or premature and unplanned discharge brought about by managed care arrangements may be contributing to the continued presence of seriously mentally ill persons within the homeless population, who turn to drugs and alcohol as a means of self medication. Untreated addictive disorders do contribute to homelessness. For those with below-living wage incomes and just one-step away from homelessness, with a tendency for an addictive disorder, any major stressor may provide just the catalyst to plunge them into residential instability. And for people who are addicted and homeless, the health condition may be prolonged by the very life circumstance in which they find themselves. Without a stable place to live, recovery often remains out of reach. For persons dealing with an addiction, housing is the first step on the road to sustainable recovery.

The Down Payment Assistance Program will follow the City's current program and will provide funding for citizens at or below 120% of the median area income to become homeowners. With NSP2 funding in the amount of \$5,500,000 for the Down Payment Assistance Program, it is estimated at approximately 55 households will be able to have the dream of becoming homeowners.

The Acquisition and Rehabilitation program funding for \$5,000,000 will provide funding for organizations to purchase and rehabilitate foreclosed homes in order to either resell or rent those homes to persons that are at or below 120% of the median area income. It is anticipated that approximately 50 properties will be resolute again.

The Administration and Planning oversight of the NSP2 will ensure that regulations are met, that the funding is transparent and any person, developer, entity or organization receiving funding from the City of Modesto will be monitored on a regular basis. Staff will provide outreach and education on the NSP2.

Emancipated Foster/Homeless Youth	\$6,000,000
Substance/Mental Health	\$6,000,000
Down Payment Assistance Program	\$5,500,000
Acquisition & Rehabilitation	\$5,000,000
Administration and Planning	\$2,500,000
Total Funds	\$25,000,000

Project Completion Schedule

The City of Modesto has put many processes in place with the Neighborhood Stabilization Program 1. Staff built upon existing policies and procedures, and where there were gaps, programs were modified to follow the NSP1 regulations. Staff has developed relationships with local developers and contractors. The City has developed standardized agreements and templates to make the programs flow. There is also an approved list of appraisers that understand the requirements of the program. This background work has positioned the City of Modesto to be able to execute agreements and allocate funding in a streamlined approach. The City is confident that 50 percent of the funding will be expended and a minimum of 100 units completed within two years. In the third year the remaining funding will be expended and approximately an additional 70 units completed.

Income Targeting for 120 percent and 50 percent of Median

All programs will ensure that the income guidelines are strictly enforced. For the Down Payment Assistance Program as well as the Scattered Site Acquisition and Rehabilitation, homes will be target to those at or below 120 percent of the median area income. For the For the Emancipated Foster and Homeless Youth Program as well as the Mental and Substance Abuse Program the targeted population will be varied with twenty-five percent to those at or below 80 percent of the median income and with seventy-five percent of the funding to be utilized for those at or below 50 percent of the median area income. It is anticipated that the majority of the funding for the For the Emancipated Foster and Homeless Youth Program as well as the Mental and Substance Abuse Program will be utilized for those at or below 30 percent of the median area income.

Continued affordability

All affordability covenants for the Down Payment Assistance Program and the Scattered Site Acquisition and Rehabilitation will be calculated based on existing HOME regulations. For example, if a loan is made for acquisition and rehabilitation of a property for rental housing in the amount of \$40,000 an affordability covenant of no less than 15 years would apply. The Incentive Transfer Program will have an affordability covenant of no less than 40 years. HOME regulations will be followed in determining all affordability covenants per 24 CFR 92.252 (e)(f).

For the Emancipated Foster and Homeless Youth Program as well as the Mental and Substance Abuse Program the affordability covenant will be for a minimum of 55 years. This will ensure continued affordability for these very vulnerable populations.

Consultation, outreach, communications

The Public Information Technician will send out press releases upon notice of funding award. Collateral materials will also be created to provide an understanding of the Neighborhood Stabilization Program. Outreach will be done to women and minority owned businesses by sending flyers, and additional information regarding ways to access and participate in the NSP.

Full consultation and training sessions will be provided to real estate agents, property management companies and mortgage brokers to explain the regulations and the purpose of the program. We will affirmatively further fair housing and provide marketing and outreach materials in English and in Spanish.

If the City of Modesto receives funding for NSP2, public meetings to promote the program will begin in the local community centers. The City has an established partnership with several local HUD certified housing counselors, and will facilitate the process of assisting persons interested in the Down Payment Assistance Program to get the required 8 hours of housing counseling.

Performance and Monitoring

All activities will be desktop monitored on a regular basis with on-site monitoring on a quarterly basis. If projects are not following the NSP2 regulations, funding will be pulled and will need to be paid back by the participant.

Rating Factor 4: Leveraging other funds, or removal of substantial negative effects

A twenty-five percent leveraging match will be encouraged by any organization utilizing NSP funding for the Scattered Site Acquisition and Rehabilitation activity. A one percent match of the sales price is required for the Down Payment Assistance Program. All activities will require that negative effects and decline of neighborhoods ceases.

Rating Factor 5: Energy Efficiency Improvement and Sustainable Development Factors

Energy efficiency improvements, green building techniques and sustainable development factors will be key components to NSP2. For any rehabilitation projects, deconstruction and recycling will be supported. The City of Modesto will promote sustainable materials and overall reduction of carbon emissions.

Rating Factor 6: Neighborhood Transformation and Economic Opportunity

The City of Modesto is a community dedicated to growth, progress and the quality of community life. The City will utilize the Neighborhood Stabilization Program to strengthen neighborhoods from within, and transform them into a safe, vibrant and healthy place to call home.

The City of Modesto has a strong history of working well together with citizens and ensuring constant communication with our partners in the community. Community organizations, as well as the citizens of Modesto, have come together on many occasions to help those in need. The City's neighborhoods are beginning to lose morale and will require an immense investment of time and resources to bring them back to happy and healthy neighborhoods. The City of Modesto plans to focus on the targeted areas to work toward housing rehabilitation and providing economic development for our citizens.

The Modesto area has a large population of skilled labor workers and will encourage that all NSP participants utilize local vendors and get our citizens back to work. The way to ensure success of the program is not to only revitalize the neighborhoods, but to also provide economic opportunities to Modesto businesses and Modesto residents.