City of Port St. Lucie NSP1: Concentrated Community Wide Demolition Strategy for NSP1 Assisted Properties Meeting LMMA National Objective

Introduction

On March 3, 2009, the City of Port St. Lucie entered into a grant agreement with HUD for $13,523,132 in NSP1 funds. The City has used these funds to make a substantial impact in terms of clearing blight, providing affordable homeownership opportunities, and creating jobs—all within the expenditure deadline of 3/3/2013. The NSP1 funds were initially used to purchase 166 foreclosed, abandoned, and vacant residential properties. With a combination of remaining NSP1 funds, program income, and some NSP3 funding, the City has rehabilitated and sold 122 homes to low-, moderate-, and middle-income families. Another 12 homes have been repaired and are awaiting sale, one home was donated to a nonprofit, and another home (in a conversion area) was sold to a neighboring property owner. The remaining 30 homes were purchased and cleared under the City's Demolition activity. Three of these properties were transferred to the Public Works Department for drainage mitigation, one was transferred to the Utilities Department, 4 lots were reconstructed with new homes, and another 5 lots have been approved for reconstruction. As the City reviews the program for closeout, it still owns 17 cleared lots. (See Exhibit 1, "NSP Concentrated Demolition Strategy, Port St. Lucie, FL" containing specific information about each property).

The City intends to allocate expenditures for the 17 cleared lots to NSP Eligible Use D (Demolition) and to determine that the acquisition and demolition was part of a concentrated clearance strategy meeting National Objective LMMA (area benefit).

The City was required to approach the situation with a concentrated demolition strategy to effectively clear the NSP areas of greatest need of the blighting conditions resulting from abandoned substandard homes due to the basic development history of the community. Most of the homes in the NSP1 areas were built between the 1970s and 1990s, a period when many subdivisions in Florida and other southeastern states were hastily built with substandard construction methods and materials (including the composite siding, T1-11, implicated in the class-action lawsuits against Louisiana-Pacific and Weyerhaeuser). These homes, which were already vulnerable to moisture, were further structurally weakened by Hurricanes Frances (2004), Jeanne (2004), Wilma (2005), and Tropical Storm Fay (2008). The economic collapse in 2008 resulted in hundreds of abandoned homes in the City. The abandonment combined with the weakened structural conditions from the storms required the City to take a concentrated approach to conduct a coordinated, concentrated clearance of abandoned homes that were never built to last. With this re-allocation, NSP1 expenditures for these 17 properties would remain in compliance with the Housing and Economic Recovery Act (HERA), NSP policy guidance, and applicable Community Development Block Grant (CDBG) rules, as follows:

1. In the defined area containing the 17 cleared City-owned properties, over 51% of the population is below 120% of Area Median Income

2. The 25% low income expenditure set-aside for housing affordable at 50% AMI (the LH25 set-aside) has been met.

3. The homes on all 17 properties met the City's definition of a "blighted" structure before being demolished.

4. Over 25% of properties in the defined area exhibit at least one condition mentioned in the CDBG rules concerning activities to address blight on an area basis.

Specifically, the City will reallocate $707,802 ($859,802 – 152,000 already under demolition in plan budget) from Eligible Use B (Purchase and rehabilitation of homes to sell, rent, or redevelop) to Eligible Use D (Demolition of blighted structures). Compliance factors are described in further detail below.

Note: When the City transferred the four lots to public works and utilities, the transfer was noted in the narrative of DRGR, but the funds were not actually transferred from Eligible Use B to Eligible Use D (a total of $216,639 for acquisition, demolition, maintenance and disposition.)

Compliance Requirements Met

1. Income composition of concentrated demolition area

Title III of HERA requires that:

> "… all of the funds appropriated or otherwise made available under this section shall be used with respect to individuals and families whose income does not exceed 120 percent of area median income" [§2301 (f) (3) (A) (i)].

A majority of the census tracts in which the City invested NSP1 funds contain at least one of the 17 city-owned Demolition lots (7 out of 10). As established in previous agreement documents/action plans/amendments/etc., at least 51% of the population in each of these Census tracts is below 120% AMI.

2. LH25 set-aside

Title III of HERA requires that:

> "… not less than 25 percent of the funds appropriated or otherwise made available under this section shall be used for the purchase and redevelopment of abandoned or foreclosed upon homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50 percent of area median income" [§2301 (f) 3 (A) ii].

Under the LH-25% set-aside, the City anticipated purchasing 51 homes (including 13 of the 30 homes that were demolished). The City actually purchased, rehabilitated and sold 50 homes to low income households, for a total expenditure of $5,161,579, well above 25% of the original NSP1 grant amount. Thus, changing the national objective for the 17 Demolition properties will have no effect on compliance with the LH-25% set-aside.

3. Compliance with local definition of blight

According to §570.208 (b) (1) (i) of the CDBG rule, activities to address slums or blight on an area basis will meet a national objective if:

> "The area, delineated by the recipient, meets a definition of a slum, blighted, deteriorated or deteriorating area under State or local law."

The 3/14/13 HUD NSP Policy Alert, "Guidance on NSP Disposition and Demolition," specifies that each *property* demolished under a concentrated neighborhood demolition strategy must meet the local definition of a blighted structure.

For the purpose of NSP1, the City considered a blighted structure to be a structure that exhibits objectively determinable signs of deterioration sufficient to constitute a threat to the human health, safety, or welfare of the public. A structure is considered to be blighted if one of the following criteria is met:

a) The structure is open, cannot be secured against entry, and is unsafe or unfit for human occupancy; [or] the unsafe structure is secured against public entry, but it presents a threat to a neighboring property or public right of way (such as a sidewalk) because of a potential collapse or other threat;

b) The structure is determined to harbor nuisances and threats to human health, safety or welfare which may negatively impact a neighboring property; or

c) The structure presents a visual blight due to collapse or other un-repaired damage, or

d) **It is determined that repairs will cost more than economically feasible, which, in general would be more than 50%-75% of the appraised value, although mitigating factors may be considered;** or

e) The structure is lying in a state of incomplete construction, resulting in a negative view of the surrounding properties; or other similar conditions.

All demolished structures were determined to have met Criteria (d) because the repair estimates exceeded 50%-75% of the appraised value, however, the mitigating factors of unsustainable building materials, faulty construction methods and the exacerbating effects of water damage on abandoned buildings required a concentrated strategy to eliminate structures found in this condition. In units where the cost of needed repairs was within the 50-75% threshold range, factors such as warped composite siding and termite damage tipped the scales in favor of demolition. See Exhibit 1.

4. At least 25% of properties in area experience blight conditions

For a concentrated neighborhood demolition strategy to meet the national objective of addressing blight, the CDBG rule requires that the area's public improvements be in a state of general deterioration, or that:

> "At least 25 percent of properties throughout the area experience one or more of the following conditions:
>
> **(1) Physical deterioration of buildings or improvements**;
>
> **(2) Abandonment of properties**;
>
> (3) Chronic high occupancy turnover rates or chronic high vacancy rates in commercial or industrial buildings;
>
> **(4) Significant declines in property values or abnormally low property values relative to other areas in the community; or**
>
> (5) Known or suspected environmental contamination." [§570.208 (b) (1) (ii) (A)]

The financial collapse and foreclosure crisis of the Great Recession of 2008 resulted in the abandonment and deterioration of hundreds of residential and commercial structures in the Port St. Lucie area, compounding pre-existing issues such as faulty construction, weather damage, and economic decline in older neighborhood commercial areas. The census tracts included in the NSP area of greatest need met the HUD defined foreclosure risk threshold. The chart below illustrates the increase and decline in sales prices in Port St. Lucie from 2005 to 2014. The precipitous decline in prices along with the series of hurricane events and poor construction materials and methods combined to result in the significant decline in property values.

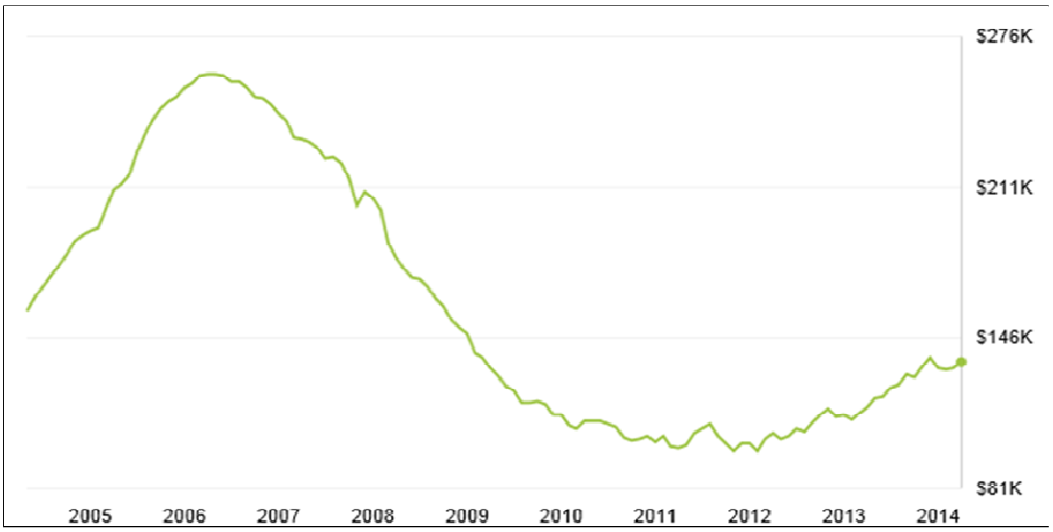
The areas of greatest need were selected based on the Foreclosure and abandonment risk scoring provided by HUD. The City used census tracts to define the areas of greatest need and all had a score exceeding 20. The City of Port St. Lucie Revised Final Amendment for the NSP1 program relied on data provided by HUD. The Plan describes the rationale for selection of the areas of greatest need:

> "HUD provided detailed default and foreclosure data for the NSP1 application and updated that information for NSP2. This information shows the vast scope of the foreclosure crisis as it exists in Port St. Lucie.
>
> Included in the data provided by HUD are the following statistics:
>
> - Rate of housing price decline from peak value to December 2008 value was 33.3% (at the time of NSP1 HUD data, the devaluation was listed at 26%).
>
> - Average percent of high cost and low leverage loans made in targeted census tracts from 2004 to 2007 is 15.1%.
>
> - Estimated number of mortgages starting foreclosure process or seriously delinquent in the past 2 years is 13,302.
>
> - Estimated foreclosure and abandonment risk score as calculated by HUD is 20 in every census tract targeted, and in every census tract in the City.

Additional local data gathered from RealtyTrac and local realtors confirms the pervasiveness of the foreclosure problem, as on a single day in May 2009 there were 2,290 homes in the foreclosure process. While these are remarkably large figures in their own right, they are even more striking in a city the size of Port St. Lucie. The City is unique in that it was originally platted with 80,000 individual quarter-acre residential lots. As a result, the foreclosure crisis for this City is not confined to a particular area but is widespread throughout our original core City boundaries."

The severe decline in property values is further illustrated by real estate data showing the historical sales price data from 2005-2014 (below).

City of Port St. Lucie, FL Historical Housing Sales Price Data 2005-2014



Source: http://www.zillow.com/port-saint-lucie-fl/home-values/

5. Reallocation of funds from Eligible Use B to Eligible Use D

As stipulated in the City's NSP1 Substantial Amendment (Feb. 27, 2012 revision), $152,000 was allocated for demolition under Eligible Use D. The acquisition, demolition and subsequent maintenance of the 17 properties resulted in a total expenditure of $862,570.71, or 6% of the total NSP1 allocation of $13,523, 132. This amount will be entered into DRGR and the QPR under Eligible Use D with appropriate transfers made out of Eligible Uses B, C or E.

Conclusion

As described above, the City of Port St. Lucie has determined that it has met the LMMA national objective as a concentrated demolition strategy for the clearance of 17 NSP1 assisted properties. The demolition of the homes on these lots was conducted in compliance with the requirements of HERA, the CDBG rule, and the 3/14/13 NSP Policy Alert "Demolition and Disposition" regarding area income

composition and blighted status of the cleared properties and other properties in the area. Moreover, the LH25 set-aside has already been met program-wide. The City requests HUD approval of the Demolition Strategy prior to processing the allocation in DRGR and QPR reporting.

The City of Port St. Lucie has expended NSP1 funds in NSP target areas in a comprehensive community wide effort to eliminate blighted structures determined to be blighted and a hindrance to the stabiliation and recovery of foreclosure impacted neighborhoods. The following definitions have guide the City in making the blighted determination to move forward with the demolition and clearance of subject properties.

*** Local Blight Def.**	**Blighted Structure defined in City of Port St. Lucie NSP1 Substantial Amendment, as amended: For the purpose of NSP1, the City will consider a blighted structure to be a structure that exhibits objetively determinable signes of deterioration sufficient to constitute a threat to the human health, safety or welfare of the public. Port St. Luce will generally consider a structure to be blighted if one of the following criteria is met:**
A	The Structure is open, cannot be secured against entry, and is unsafe or unfit for human occupancy; the usafe structure is secured against human entry, but it presents a threat to a nighborhoing property or public right of way (such as a sidewalk) because of a potential collapse or other threat.
B	The Structure is determined to harbor nuisances and threats to human health, safety or welfare, which may negatively impact a neighboring property.
C	The structure presents a visual blight due to collapse or other un-repaired damage.
D	It is determined that repairs will cost more than economically feasible, which in general would be more than 50-75% of the appraised value although mitigation factors may be considered.
E	The structue is lying in a state of incomplete constrution, resulting in a negative view of the surrounding properties, or other similar conditions.
*	Service Area LMMI- the target area census tracts meet the LMMI guidelines AND NSP Foreclosure Risk Scores

NSP Vacant Lot Survey

NSP #	Property Address	Year Built	Census Tract/Block	Service Area LMMI*	Purchase Price	Demolition Cost	Maint. Costs to 6-3-14	Total Exp. To 6-3-14	Demolition Date	Blight Definition	Specific problems
NS-001	681 SW Addie St	1976	20.05/1	yes	$ 39,000.00	$ 9,269.00	$ 6,200.25	$ 54,469.25	5/6/2009	B,C,D	Drug house
NS-006	750 NW Placid Ave	1980	15.03/1	yes	$ 36,550.00	$ 8,940.00	$ 4,707.39	$ 50,197.39	5/20/2009	B,C,D	Composition siding
NS-015	1633 SW Diamond St	2002	21.05/5	yes	$ 33,250.00	$ 10,527.60	$ 3,897.55	$ 47,675.15	8/27/2009	B,C,D	Improper construction
NS-017	1437 SW Goodman Ave	1983	21.05/4	yes	$ 40,850.00	$ 8,055.00	$ 3,686.62	$ 52,591.62	9/7/2009	B,C,D	Water damage improper construction
NS-023	2221 SW Savage Blvd	1992	21.05/4	yes	$ 45,000.00	$ 9,845.00	$ 5,509.52	$ 60,354.52	9/21/2009	B,C,D	Improper construction rot
NS-026	649 NW Bayshore Blvd	1982	15.03/1	yes	$ 37,900.00	$ 9,230.00	$ 4,509.87	$ 51,639.87	1/8/2010	B,C,D	Improper construction
NS-038	696 SW Heather St	1984	20.05/1	yes	$ 28,500.00	$ 7,610.00	$ 3,836.16	$ 39,946.16	3/3/2010	B,C,D	T1-11 siding, rot
NS-059	1568 SE Faculty Ct	1980	18.02/2	yes	$ 12,786.00	$ 6,960.00	$ 4,349.48	$ 24,095.48	3/19/2010	B,C,D	Improper construction
NS-071	470 SE Asbury	1970	20.02/3	yes	$ 16,798.00	$ 7,065.00	$ 4,959.75	$ 28,822.75	5/11/2010	B,C,D	Improper construction, sinkhole
NS-075	1929 SE Redwing Cir	1978	20.01/6	yes	$ 41,602.00	$ 7,429.00	$ 4,196.67	$ 53,227.67	1/20/2011	B,C,D	Structural defects, mold
NS-088	1573 SE Faculty Ct	1981	18.02/2	yes	$ 35,000.00	$ 5,518.00	$ 3,482.54	$ 44,000.54	8/17/2010	B,C,D	Improper construction, drainage hazard
NS-115	141 NE Surfside Ave	1977	15.03/2	yes	$ 41,216.00	$ 8,560.50	$ 5,813.77	$ 55,590.27	6/15/2011	B,C,D	Structural defects, mold, not to code

NSP Vacant Lot Survey

NSP #	Property Address	Year Built	Census Tract/Block	Service Area LMMI*	Purchase Price	Demolition Cost	Maint. Costs to 6-3-14	Total Exp. To 6-3-14	Demolition Date	Blight Definition	Specific problems
NS-125	502 NW Sherbrooke	1973	15.03/1	yes	$ 48,500.00	$ 11,982.21	$ 3,849.62	$ 64,331.83	3/24/2011	B,C,D	Improper construction, structural defects
NS-127	508 NW Avon St	1980	15.03/4	yes	$ 54,900.00	$ 11,870.00	$ 4,373.61	$ 71,143.61	11/10/2011	B,C,D	Improper construction, structural defects
NS-137	1054 SE Euclid Ln	1972	20.02/4	yes	$ 38,000.00	$ 11,907.00	$ 4,897.15	$ 54,804.15	8/25/2011	B,C,D	Not to code, uninhabitable
NS-148	2401 SE Mariposa Ave	1983	18.01/3	yes	$ 48,000.00	$ 9,769.25	$ 4,494.06	$ 62,263.31	12/14/2011	B,C,D	Improper construction, structural defects
NS-152	601 SW Seagull Ter	1983	21.05/5	yes	$ 31,680.00	$ 6,267.50	$ 3,955.64	$ 41,903.14	8/10/2011	B,C,D	Improper construction, structural defects, composition siding
				TOTALS	$ 629,532.00	$ 150,805.06	$ 76,719.65	$ 857,056.71			