

**MINUTES
ST. CLAIR SHORES CITY COUNCIL STUDY SESSION
APRIL 12, 2010**

City Council Study Session, held in the Council Chambers, located at 27600 Jefferson Circle Dr., St. Clair Shores, Michigan.

Present: Mayor Hison, Council Members Frederick, McFadyen, Rubello, Rubino, Rusie and Walby

Also Present: City Manager Hughes, City Clerk Kotowski, Directors D'Herde, Koto, Rayes and City Attorney Albright

1. CALL TO ORDER, ROLL CALL AND PLEDGE OF ALLEGIANCE

Mayor Hison called the meeting to order at 7:02 p.m. Ms. Kotowski, City Clerk, called the roll with a quorum present. The Pledge of Allegiance was recited by those in attendance.

2. AUDIENCE PARTICIPATION ON AGENDA ITEMS (2 MINUTE TIME LIMIT)

Keith Bammel, 23163 Gladhill, Agenda Items 3 and 4. Mr. Bammel spoke on the definition of neighborhood stabilization and added that over improving a home can have a negative impact on homeowners competing to sell their homes or trying to refinance their homes.

Chris Vitale, 28701 Grant, Agenda Item 3. Mr. Vitale purchased and renovated homes in the past and noted the estimates in the packet are high numbers. He inquired whether the City is stabilizing the neighborhood or building luxury homes.

Richard Swanquist, 21815 Bon Brae, Agenda Items 3 and 4. Mr. Swanquist worked in real estate development and believes the City has unrealistic expectations of this program. He spoke about the "best house on the block" being hard to sell and not wanting tax dollars spent on real estate development. He proposed holding on to vacant lots until the market recovers and the City can sell them.

Mayor Hison stated that at the last regular Council meeting, it was recommended to have this Study Session to fully explain the two programs the City participates in.

Mr. Hughes noted that Ms. Koto and Mr. Rayes are working on the programs along with two real estate agents that have been selected through a competitive bid process, Mario Como (NSP) and Eric Goosen (\$1 HUD Program).

3. UPDATE ON THE NEIGHBORHOOD STABILIZATION PROGRAM (NSP)

Ms. Koto spoke on the Neighborhood Stabilization Program (NSP) for which the City submitted an application in January 2009 and entered the program in March 2009. The City was awarded up to \$1.7 million grant funds through the Michigan State Housing Development Authority to perform the acquisition, rehabilitation and disposition of foreclosed homes within the area that is roughly south of 9 Mile Road, except homes that are in the flood zone. Of the total grant amount, at least 25% of \$425,000 must be spent on housing for individuals and families whose income does not exceed 50% of the area median income.

Ms. Koto submitted information (appraisals, proposed cost estimates, proposed rehabilitation plans, MSHDA ProFormas and costs to date) on eight out of nine homes that are part of the NSP program. The purchase of the last home was approved by Council at the April 5, 2010 meeting and closing has not yet occurred. Four of the homes were part of the \$1 HUD Program and the remaining were purchased from banks or HUD as they have been foreclosed upon. For tonight's presentation purpose, Ms. Koto will present one of the homes, 20011 Avalon, and explain the process and proposals of the program.

St. Clair Shores was one out of seventeen communities that applied for the Neighborhood Stabilization Program and received the grant based on a submitted plan, approved by Council in January 2009, to strictly acquire, rehabilitate and sell foreclosed homes.

Surrounding communities are involved in similar plans. Roseville and Royal Oak added the down payment assistance plan, using funds from the grant to help qualifying families with the down payment.

Sterling Heights, Warren and Clinton Township received money directly from the Federal government and most of them engaged into a buyer rehab program. The buyer finds a home and works together with the community to rehabilitate the house. St. Clair Shores did not choose that route because there is a significant lag of time.

3. UPDATE ON THE NEIGHBORHOOD STABILIZATION PROGRAM (NSP) cont'd.

Communities that are using such plan have not had much success and are transitioning to our type of plan.

Ms. Koto added that demolishing properties could have been an eligible activity, however the plan submitted by the City did not include demolition and therefore no money has been allocated for this activity. The main reasoning for this decision was that the City would still have to sell the vacant land to a low income family. In addition, the property has to be a primary residence; therefore, the buyers would have to build a house right away, and most likely will not be able to secure financing for the construction of a brand new house.

Mayor Hison stated that the funds are being provided through a grant to rehabilitate homes as a benefit to the community, by repairing and occupying vacant homes.

Ms. Koto added that buyers must keep the home as their primary residence for fifteen years. The program was created so that buyers can not flip the houses. In addition, if cash is not available for the purchase price, buyers have to secure a mortgage with a fixed interest rate with taxes and insurance escrowed. MSHDA provides financing with low interest rates, currently in the 4% range.

The goal is to finish the rehab work by the end of July 2010 and put them on the market right away. Ms. Koto went to a training session on how to best spend the grant money; they suggested building the best house on the block, because we want people to buy the homes and move into the Shores. It is important to keep in mind, that only certain people can qualify to purchase these homes and that the City is competing with more suburban communities that have these proposed amenities and are also participating in the NSP program.

The length of the program is up for discussion. The money generated from the sales goes back into the program and the City can continue for 48 months from the start of the program. If the City chooses to cease the program, the remainder of the grant is returned back to the State.

Ms. Koto will check with the City Assessor on how the taxed value is affected by the proposed improvements. As for insurance, the City holds a construction mortgage with MSHDA – recorded with Macomb County, and the City's normal insurance carrier will cover the homes until sold. In addition, contractors that bid on the rehab work are required to submit bid and insurance bonds.

Mr. Rubello inquired how the City determines which houses to buy. Ms. Koto replied that houses need to be foreclosed (bank or HUD owned) and be south of 9 Mile Road excluding the flood zone. At this stage in the game, the City would not be able to amend the plan and resubmit it to the State to include demolition work. The pricing of the proposed work will be bid out competitively and be brought before City Council for approval. The numbers provided tonight were just estimates to have an overview range of renovation costs.

Some of the eight houses that were \$1 HUD homes and moved to NSP, have non-reimbursable expenses. Ms. Koto explained that there are three NSP programs. The one the City engaged in is NSP 1. The other two are competitive grants based on applications submitted by communities.

Ms. Rusie stated that some of the proposed improvements are out of line and asked how the Title company is picked. Ms. Koto responded that work will be bid out competitively and the City has used the seller's Title companies.

Ms. Rusie commented on the high inspection fees. The City is using a company that returns mold samples within the same day, where other firms take weeks to return these reports.

Mr. Frederick commented on the demolition of the homes. Ms. Koto noted that 20319 Avalon was a previous \$1 HUD home and was considered for demolition because it was in bad shape. But having vacant lots throughout the City is not the best option for making the community look better and bringing new faces to the City. Therefore, the house has been transferred to the NSP program and will be rehabilitated. The four HUD homes were transferred to this program to double the inventory without having to go out and purchase homes.

Developers can not purchase homes or parcels. Buyers have to meet the income guidelines and the property needs to be owner occupied as a primary residence for at least 15 years.

Ms. Koto explained that appraisal service was bid out and Gary Edgar came in much lower than the other quotes. Mr. Edgar appraised all the NSP homes; all homes were purchased under their appraised value. The six architects that were previously approved by Council to be used for this program have submitted proposed rehabilitation plans and cost estimates for the necessary repairs.

3. UPDATE ON THE NEIGHBORHOOD STABILIZATION PROGRAM (NSP) cont'd.

Mr. Rubello inquired how the appraised value is calculated in regards to the 21230 12 Mile house discussed at the last meeting. Eric Goosen, Real Estate One, is a licensed appraiser but has been hired by the City as a real estate broker. An appraisal is defined as an opinion of value and is only valid for three to four months. It is common to have a new appraisal done and get different numbers because the market values continue to decrease. Appraisers use comparables up to 90 days back. There are new federal laws that give very strict guidelines on how appraisals can be performed. In addition, realtors are not allowed to speak with the appraisers and are not allowed to change an appraisal.

Ms. Rusie pointed out that 21230 12 Mile's appraiser has used a home which closed on July 17, 2009. She asked if the appraised value of a home would normally increase once improvements are made to a house. She inquired why the house was initially put on the market with mold. Mr. Rayes replied that it was Council's direction to sell the homes "as is" to avoid borrowing General Fund money because at that time there was no cash generated by the \$1 HUD Program.

Ms. Koto added that the City plans to sell the homes at market value of similar renovated homes. She explained the MSHDA ProForma for 20011 Avalon. Every home was tested for lead at a cost of \$450. MSHDA recommended a 20% contingency for proposed costs. The affordability and market table can have a gap between the price a buyer can afford and the purchase price of a home. The City buys down the gap with funds from the \$1.7 million grant; however, the sale price remains the purchase price which is used for valuation.

Mr. Hughes clarified that the supplemental money assisting the buyers comes from the NSP grant. No money is being used from the General Fund. If the grant is not used in totality, the money will be given back to the State.

Ms. Koto added the homes are to be sold at a loss which can not exceed \$120,000 loss per house (NSP guidelines).

The City asked the architects to propose a renovation plan and costs associated with the work. Some architects submitted detailed specs, but others were more generic. The City provided some guidance to the architects: ceramic tile for all homes for durability purposes, master suites (to compete with northern communities), salvage wood floors, simple cabinetry and all new appliances, including a washer and dryer (MSHDA requirement). The appliances must be energy star and washers must have low water usage. Currently, none of the homes have appliances. The City's bulk purchaser does not carry residential grade appliances but Ms. Koto will look at the suggested Whirlpool bulk purchase.

Mr. Hughes proposed to Mayor and Council, if they would like, a tour of the homes could be arranged.

Contractors will be required to walk through each property before submitting a bid. They can bid on more than one house; however, the bids have to be submitted separately. Ms. Koto hopes to present these bids to Council on May 17, 2010.

In addition to all the renovations, NSP funds can also be used to retrofit homes for buyers with mobility issues or other necessary needs.

4. UPDATE ON THE HUD \$1 HOME PROGRAM

Mr. Rayes presented the income levels for the \$1 HUD Program, which are slightly less than the NSP program. Four homes were transferred into the NSP Program (20011 Avalon, 20319 Avalon, 22655 Carolina, 20009 Rosedale), four were demolished (22727 Francis, 22100 Grand Lake, 21904 Lakeview, 21620 Rosedale) and four were traded – one for the family rental, one for an elderly couple whose house burnt down, and two for additional parking space.

The City has sold six homes: 19519 Chalon, 28100 Gladstone, 23022 Hoffman, 23130 Hoffman, 22709 13 Mile Road and 21228 Yale. Because of these sales, the program is in a positive cash position and can continue on. Offers are pending on the houses on Grove and 12 Mile Road.

Rehab work has been done at 21020 Bon Heur and 22511 Dorion. Both homes lack a garage which is a drawback to their sale. Mr. Rayes is looking at the cost and benefits of building a garage on Dorion and if decided to do so, the project will come before Council for approval.

He explained how HUD homes become available in the City; HUD receives the homes back from their mortgage program when they are foreclosed on. They go on the market for ninety days and if they are not sold, HUD offers them to communities for one dollar. The City monitors the HUD website on a weekly basis to see what else can be acquired.

4. UPDATE ON THE HUD \$1 HOME PROGRAM cont'd.

Some of the homes are in very bad shape and need to be demolished. HUD is now considering tearing the houses down before giving them to the City. They ask for a letter from a certified engineer to outline the damages and the need for demolition; we use Ron Supal who is a certified engineer. If the City passes on a house, HUD places it back on the market.

Mr. Rubello asked about exterior maintenance and fixes. Mr. Rayes responded that it was Council's direction to hire landscaping companies to maintain and clean up the exterior, limiting the repairs because the program at that time was borrowing General Fund money. At this point, the program is self funding.

The homes will be listed at fair market value, taking into consideration if repairs are needed.

The funds generated by sales can be used to acquire and fix more homes and/or it can be used for proposed Community Development projects, such as improvements to neighborhood parks, infrastructure repairs in neighborhoods, and acquisition and demolition of substandard housing. A plan for the use of the money must be submitted to HUD for approval.

The \$1 HUD program has been around for a long time but St. Clair Shores did not have foreclosure issues and therefore did not participate. In addition, the program started out with 21 homes. The City tried to work with veterans to buy some of these homes, but no veterans showed interest in purchasing.

Ms. Koto added the NSP program requires contractors to shop for supplies in the Shores and a portion of the general force has to be made up of low income individuals. Money has to be earmarked by June 30, 2010 and Ms. Koto asked Council's direction on whether to increase the inventory or keep it at the nine homes we currently have.

Mr. Rubino asked the real estate agents if selling a house for less than the market value can hurt others with a house on the market. Mario Como, Realty Executives, noted that all the homes listed through these programs are listed at today's market value.

Mr. Como spoke of the challenge the Home Valuation Code of Conduct created for the real estate industry. The legislature's idea was to correct the rapid rise of the housing market; unfortunately, it's causing things to go in the opposite direction.

The properties that are sold by St. Clair Shores, HUD homes or foreclosures are excluded from valuations for property tax purposes.

Mr. Como noted that neighbors should want an over improved house on the block because it will increase their value. He added that the City has a great opportunity to own and manage these vacant homes locally.

Mr. Como stated the inventory of homes for sale in St. Clair Shores has decreased (600 in January 2009 to 369 in April 2010). Demand is up and supply is decreasing. The prices have reached the bottom and sales will most likely decrease after the tax credit ends on April 30. The goal of the credit was to absorb inventory, which it did accordingly.

5. AUDIENCE PARTICIPATION (5 MINUTE TIME LIMIT)

James Kelly, 23142 N. Rosedale Ct., suggested not including appliances in the renovated homes to give buyers the chance to bring in what they prefer. He talked about costs associated with building a detached garage.

Richard Swanquist, 21815 Bon Brae, talked about the real estate development business. He stated the estimates provided by the architects are inflated and that the City should only allow legitimate contractors to bid on these projects.

Nicole Bammel, 23163 Gladhill, is a realtor and discussed appraised values. Ms. Bammel did not appreciate some of the words used tonight and stated that St. Clair Shores is not Macomb Township and most properties do not have master suites and first floor laundries.

Keith Bammel, 23163 Gladhill, expressed his concern about over improving a home and the stabilization of the neighborhood.

Mayor Hison thanked all residents for their comments and concerns. The programs will be evaluated before moving forward.

6. ADJOURNMENT

Motion by McFadyen, seconded by Frederick to adjourn at 9:43 p.m.

Ayes: All – 7

ROBERT A HISON, MAYOR

MARY A. KOTOWSKI, CITY CLERK