Appendix A

The California Neighborhood Stabilization Program
Calculation and Distribution of the State's Allocation

As part of the funding permitted under the Neighborhood Stabilization Program (NSP), the Department of Housing and Urban Development (HUD) allocated approximately $384.5 million to 46 CDBG entitlement cities and counties in California and $145,071,506 to the State of California. According to HUD's guidelines for the distribution of these funds, states receiving grants for the NSP must target the funds toward areas of greatest need, identified as having the following conditions:

1. The greatest percentage of home foreclosures;
2. The greatest percentage of homes financed by a subprime mortgage related loan; and
3. Likely to face a significant rise in the rate of home foreclosure.

To meet these requirements, the State of California's Department of Housing and Community Development (Department), which is responsible for implementing the NSP in the State, is proposing to allocate the funds through the following three tiers:

- In Tier 1, the Department will exclude those jurisdictions that received an allocation from HUD either directly or indirectly through an Urban County agreement. All other jurisdictions are eligible for consideration. However, the Department will limit the minimum allocation under Tier 1 to $1 million.
- In Tier 2, the Department will allow jurisdictions that did not receive allocations in Tier 1, due to the minimum threshold of $1 million, to apply for funds if they combine with other jurisdictions through a joint agreement to meet this threshold. Counties will be permitted to receive any allocated amounts not requested by their cities, provided their total allocation meets the minimum threshold of $1 million.
- In Tier 3, the Department will distribute 25 percent of the State's allocation plus up to 5 percent for general administrative costs to cities and counties that can meet HUD's requirement for housing targeted to households at or below 50 percent of area median income.

The following sections provide an overview of the methodology used to determine the allocations.

Preliminary Determinations

Prior to calculating the allocations for the cities and counties, the Department made the following determinations:

1. The Department used data made available by HUD at the following website:http://www.huduser.org/publications/commdevl/nsp/nsp_fc_a-.html. The zip file named CountyPlace.zip encompasses all of the factors used in the Department's allocation formula to the Census Designated Place (CDPs) and Place levels.

2. In contrast to HUD's allocation formula, the Department did not incorporate vacancy rate as a factor in its methodology. HUD used the vacancy rate as a factor in measuring abandonment risk in order to account for the problem of abandonment in several states, such as Michigan at 2.51 percent, and Mississippi at 3.16 percent. California's 90-day vacancy rate for high-cost loan areas is considerably lower at 0.2 percent, followed only by Alaska, Vermont and Oregon out of 50 states. A survey by the Department of 52 cities, counties and non-profits revealed that the majority of these entities had waiting lists of homebuyers. Because of these factors, the Department determined that the vacancy rate should not be considered in determining the allocation formula.

3. The Department adjusted California's allocation by the State's general administrative funds, and by the anticipated costs for the 25 percent of funds reserved for households at or below 50 percent of area median income, including the administrative funds for this activity. The Department calculated these adjustments as follows:

Original HUD Allocation	$145,071,506
Less: Targeted Households (including General Administration)	<38,176,712>
Less: State's General Administration	<7,253,575>
Total Allocation Available for Tiers 1 & 2 (including General Administration)	$99,641,219

4. The Department excluded from Tier 1 of its allocation methodology all of the entitlements, including any cities that are part of an Urban County agreement, that received a direct NSP allocation from HUD.

5. Under Tier 2, jurisdictions must reach a minimum allocation of $1 million through a joint agreement with contiguous cities or the county in order to receive funding.

   All counties listed under Tier 2 (including counties that have received direct funding from HUD) will be able to apply for any allocation for which cities within their county do not apply, provided that the total combined allocation is $1 million or more.

6. Under Tier 3, jurisdictions eligible to receive a direct NSP allocation from HUD or included in Appendices B and C will be able to apply to the State for funds. Non-profit housing developers will be eligible to apply to the State for funds for NSP eligible multi-family rental projects located within an eligible jurisdiction. To ensure compliance with the lower-income targeting requirement and to maximize the funding impact in the communities, under Tier 3, the entire amount requested from the Department by successful applicants must be used to house individuals or families under the 50-percent AMI. To support the implementation of this activity, the Department will provide up to 5 percent for general administrative costs to jurisdictions.

Development of the Allocation Formula

To develop its allocation formula, the Department took the following steps:

Step 1. Adjusted HUD's sub-allocation formula as follows:

1. Excluded the 90-day vacancy rate.
2. Included a ratio, which represented a jurisdiction's foreclosure rate divided by the balance of the state foreclosure rate, where

Foreclosure Rate= Number of Foreclosure Starts/Number of mortgages.

Step 2. Calculated the following factors:

- Number of Foreclosure Starts = HUD's foreclosure rate X estimated number of mortgages
- Balance of the State's Foreclosure Starts= HUD's calculated statewide foreclosure starts – the sum of foreclosure starts for cities and counties directly funded by HUD, including cities that are part of Urban County agreements = 131,555
- Foreclosure Rate = HUD's estimated foreclosure rate for each jurisdiction in the State based on changes in home prices, percentage of high-cost loans, and unemployment rate.
- Balance of the State Foreclosure Rate = 5.59%
- Foreclosure Ratio = A jurisdiction's foreclosure rate/balance of the State's foreclosure rate.

- Pro-Rata Ratio = A ratio used to adjust for a difference in the calculation of the allocations based on the Jurisdictional Allocation formula and the actual amount available = 0.92

Step 3: Used the above adjustments and factors to develop the following formula:

Jurisdictional Allocation=

(Jurisdiction's number of foreclosures/Balance of the State's number of foreclosures)

X

(Jurisdiction's foreclosure rate/Balance of the State's foreclosure rate)

X

(State's allocation of $99,641,219)

X

(Pro-rata Ratio)

Step 4: Used the formula to calculate the allocation for each jurisdiction. See the following example.

Example: City of Merced

Using the above formula and HUD's data, the calculation of the City of Merced's NSP allocation is as follows:

1,339 Merced's Foreclosure Starts **x** 12.2% Merced's Foreclosure Rate x
$99,641,219 x 0.92=131,555 Foreclosure Starts in CA 5.59% Foreclosure Rate in
CA= $3,144,403.

Note: The resulting allocation is above $1 million; therefore, the jurisdiction is eligible for a direct funding from the State.

Tier 1: Direct Allocations

Objective: To allocate funds to the jurisdictions with greatest need. To identify jurisdictions with the greatest need, the Department has targeted both entitlement and non-entitlement jurisdictions (excluding jurisdictions within an urban consortium directly funded by HUD) that did not receive a direct allocation from HUD.

Eligibility: To receive a direct allocation under Tier 1, the jurisdiction's allocation based on the formula must equal or exceed $1 million.

Methodology: In Tier 1, the Department calculated allocations to cities and counties based on a combination of the number and per mortgage percentage of home foreclosures for each jurisdiction. To maximize the impact of these allocations, the Department set a minimum funding limit of $1 million and set aside any allocations below this amount for Tier 2.

Results: See Appendix B for a list of the jurisdictions that are eligible to apply for direct funding from the Department.

Tier 2: Joint and Cumulative Allocations

Objective: To allow jurisdictions that did not receive allocations under Tier 1 an opportunity to receive funds and to permit counties the choice to obtain unallocated funds assigned to their cities and unincorporated areas.

Eligibility: The minimum joint or county cumulative funding allocation for Tier 2 is $1 million. To be eligible to receive an allocation under Tier 2, the jurisdiction's allocation based on the formula must be at least $100,000 but less than $1 million.

Methodology: To establish the floor level for Tier 2, the Department considered using the median housing prices per county and researched the current DataQuick and California Association of Realtors' Housing Price reports available at the time. After reviewing the available data, the Department determined that the county-level median housing prices may not accurately reflect all of the neighborhoods in California, due to various concentrations of high-priced cities certain counties. The Department found that going to the city and neighborhood level is more appropriate. For many of the counties, the range in the median housing prices for the cities and neighborhoods started at or around $100,000. Specifically, as of October 2008, 22 of 32 counties for which data was available through DataQuick's Price Medians by County and City showed the lowest level of the median price housing at or around $100,000. Given the fact that NSP is a program intended to address needs at the neighborhood level, the Department decided to set the floor level for the allocations under Tier 2 at $100,000.

In consideration of the above information, the Department will permit jurisdictions in Tier 2 with calculated allocations below the minimum threshold of $1 million to combine their allocations with other contiguous jurisdictions through a joint agreement to meet or exceed this threshold. For purposes of the Department, "contiguous" jurisdictions represent jurisdictions that are located within the boundaries of the same county. If these jurisdictions are unable to meet the minimum threshold of $1 million through a joint application with other contiguous jurisdictions, the Department will re-allocate to their respective counties any amounts not used. The counties must apply for these funds and distribute them in accordance with the needs of the jurisdictions representing the areas of greatest need. If the counties in turn cannot meet the minimum threshold of $1 million, the Department will re-allocate the funds to Tier 3.

Results: See Appendix C for a list of the jurisdictions that are eligible to receive funds under the Department's Tier 2 provided (1) they apply jointly with at least one or more contiguous jurisdictions and/or the county and (2) their combined allocation equals or exceeds $1 million. Appendix C also identifies the total allocation available to the counties under Tier 2.

The counties may adjust their directly allocated amount to include funds not used by their respective cities. Again, the Department will re-allocate any unused funds from Tier 2 to Tier 3.

Tier 3: Allocations for the 50-Percent Targeted Income Group

Objective: To allocate NSP funds to areas of greatest need for households at or below 50 percent of the area median income, based on HUD's and the Department's methodology using a combination of the number and percentage of home foreclosures throughout the state.

Eligibility: To be eligible to apply for funds under Tier 3, the jurisdiction must be one of the 46 jurisdictions eligible to receive a direct NSP allocation from HUD, or be one of the jurisdictions funded through the Department's Tiers 1 or 2 (For a complete list of jurisdictions eligible under Tiers 1 and 2, see Appendices B and C.) Non-profit housing developers will be eligible to apply for funds under Tier 3 for multifamily rental housing projects located within one of the eligible jurisdictions.

Methodology: For Tier 3, the Department has set aside 25 percent of the State's NSP allocation to be used to fund housing for households at or below 50 percent of the area median income. The Department intends to allocate the funds through an over-the-counter, Notice of Funding Allocation process. In order to prevent the exclusion of areas of greatest need throughout the State, the Department may utilize geographic distribution targets consisting of the Northern, Southern and Central Valley regions. The Department will prioritize the grant applications based on greatest need as determined by the criteria established by HUD's allocation formula. The Department will further prioritize by capacity and readiness.

Results: Jurisdictions and non-profit entities eligible to receive funds under Tier 3 must apply to the Department.