Written Testimony of Richard Amos, Director of Housing Services at St. Stephen's Human Services, Inc.

The mission of St. Stephen's Human Services is to end homelessness. We carry out our mission of ending homelessness by serving over 6,200 people each year through homelessness prevention assistance, street outreach, shelter, transitional and permanent housing, support services, employment programming and more. Our programs fulfill immediate needs and help people grow increasingly self-sufficient in order to not return to homelessness. Our vital partnerships with other service providers, government, and the community ensure services are not duplicated and the need for systems change is addressed.

PROGRAMS

1) **Emergency Shelter** provides safe, sober shelter, meals, advocacy and housing assistance to men experiencing homelessness. We also offer a specialized Shelter Employment program and an on-site savings program to save toward independent housing.

2) **Kateri Residence** is a transitional housing program for homeless American Indian women in recovery and their children. An alumnae aftercare program provides subsidized housing and support as women transition to independence and work toward long-term sobriety.

3) **Housing Services** helps families and singles move out of shelters with subsidized housing and support services. We provide homelessness prevention assistance and special housing for pregnant women and we also run an ex-offender housing program and partner to operate the STRONG (STRengthening Our Next Generation) program for young mothers.

4) **Employment and Family Services** works with parents to help them transition from government assistance to self-reliance by obtaining and maintaining employment.

5) **Alliance of the Streets** publishes and distributes the *Handbook of the Streets*, a resource guide for area homeless services. We provide monthly representative payee services, assist people in obtaining birth certificates and voicemail boxes and provide holiday meals.

6) **The Free Store** provides clothing and small household goods to people in need.

7) **The Human Rights Program** assists formerly or currently homeless individuals in self-advocacy. Together, we organize to improve public policy and educate community groups about homelessness with a learning opportunity called *A Day in the Life*.

8) **Programs to End Long-Term Homelessness** works to find permanent housing for long-term homeless individuals and support them in their new housing. Programs include the Collaboration on Housing Resources (COHR), Frequent User Service Enhancement initiative (FUSE), and the Street Case Management project (Street CM).

9) **Street Outreach** works with people living on the streets in Minneapolis and community members who are concerned about them. The outreach team is a first contact for the homeless to begin the process of finding housing and services needed for stability.

10) **zAmya Theater Project** (formerly an independent 501 (c) (3) organization) recently became a program of St. Stephen's Human Services. zAmya works with people experiencing homelessness

to perform community-based theater with an emphasis on increasing awareness and understanding about homelessness.

New Activities

- Our Housing Services program developed specialized housing for pregnant women and mothers with young children and began a housing partnership with Twin Cities RISE to provide housing to the homeless men of color in their employment training program.

- St. Stephen's Human Services is leading an effort to create an **Oral History of Homelessness** by documenting this socio-economic time in our nation's history through the collection of first-person narratives and portrait-style photographs of people experiencing homelessness. Over 250 interviews/portraits have been collected throughout the state to date.

CLIENT POPULATION

St. Stephen's Human Services assists families with children and single adults who are experiencing homelessness and poverty. We have the expertise to serve a diverse population including homeless recovering American Indian women and their children, families and single adults staying in shelters and those who are at risk of eviction or foreclosure, homeless pregnant women and young mothers, ex-offenders, the long-term homeless on the streets and the most frequent homeless users of detox, shelter, and jail who are cycling through the system with barriers such as joblessness, mental illness, addiction, criminal history and a lack of education.

ORGANIZATIONAL SERVICE STATISTICS (July 1, 2008 to June 30, 2009)

For the last fiscal year, we have accomplished our mission of ending homelessness by:

Serving the most vulnerable

Households served (unduplicated)…………………………………………… 3,905

Adults served (unduplicated count)…………………………..……………… 3,949

Children served (unduplicated count)………………………………………… 2,252

Long-term homeless housed & received support services (unduplicated count) 546

Creating housing opportunities and preventing homelessness

Families and Adults without children housed & received support services…….. 946

Households prevented from eviction or foreclosure…………………………… 488

Housing stability maintained 12 months after being housed………………………90%

Building capacity for self-support

Job placements by Employment and Family Services (EFS) and

Shelter Employment Program……………………………………….……………… 345

Percentage of EFS clients retaining job for 6 months…………….…………… 85%

Handbook of the Streets distributed……………..…………………………… 26,064

Women in Kateri programs learning parenting and life skills ………….. 100

Educating the community

Participants in *A Day in the Life* learning program about homelessness……….. 326

What trends are you seeing in terms of the number and types of people seeking assistance? How is the foreclosure crisis impacting ourwork?

We are seeing more working people seek housing /rental assistance a few months ago the shelters were busting at the seams and the Rapid exit workers had to increase the numbers of families they moved in order to not use hotels. Our prevention line receives calls daily where families have moved into housing only to find out that the house is in foreclosure and they'll have to move again. Also, there is competition for the rental affordable housing, and it reduces the selection options for the population we serve. As an innovative process we are working with legal aid to prevent these families from going into shelters by assisting them with their relocation search/funding if their house has been foreclosed on.

The Rapid Exit Program is a program where families are screened before going into shelters, accessing their level of barriers e.g. evictions, criminal history, bad credit, no rental history, and other then referred to the case manager who best serves these levels to obtain housing and assist with stabilizing their housing during the 6 month Supportive Housing Program process and we utilize Family Homeless Prevention and Assistance Program funding. Our program places around 3,905 persons a year into housing and we are having an 85% success rate with people staying out of Hennepin County funded shelters over 1 year.

The federal lawmakers can speed the process up from beginning to end it may take a project 9 or 10 months to turn around and we aren't even talking funding released yet. If there could be a fast track process for tried and true developers where the lawmakers work with them to turn a project around and not cause the neighborhood to look bad waiting on this development to come online it would be great for all concerned.

What other resources are needed from the federal level? How could those resources be better targeted to meet your needs?

We know how to end homelessness. We simply need to go to scale with the effective interventions that are for the most part, being implemented.

A three-pronged strategy of

- Prevention,
- Rapid Re-Housing for the 80% of the homeless who end up on the streets/shelters
- Affordable housing with support services for the 20% of the homeless who are disabled

The greatest resources that are currently missing from the federal level are housing subsidies. It is ironic and tragic that while federal housing assistance for low-income renters has been reduced dramatically in the past 30 years, federal housing assistance for homeowners has doubled since the early 80's. Providing low-income renters with subsidies will end homelessness for the vast majority of households who end up on the streets. The withdrawal of the federal government from intervening in the housing market at a meaningful level has left state housing authorities and local governments to come up with their own meager resources to take on the challenge.

Housing: Homeless Prevention, Rapid Exit are programs aimed at ending homelessness

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Marge Wherley, Rapid Exit Program: 612-348-4829
LuAnn Schmaus, Public Affairs: 612-348-7865

Fast facts

- ▲ Hennepin County's Homeless Prevention program helped nearly 2,189 families and more than 477 adults between 2007 and 2008; 95 percent of families and 95 percent of single adults were stable for six months or more. The average cost was $875 per family or $610 per adult.
- ▲ Between 2007-2008, Hennepin County's Rapid Exit program helped more than 1,276 families and 451 adults leave shelter for permanent housing; 95 percent of families and 90 percent of adults remain out of shelter for at least six months after their cases are closed. The average cost is approximately $1,100 per family and $850 for adult households.
- ▲ One episode of homelessness for a family is estimated to cost $5,000.
- ▲ People at risk of losing housing can call 2-1-1 for the United Way's First Call for Help for information about programs that may help. If you need legal help to keep your housing, call Legal Aid (Minneapolis residents: 612-334-5970) or HomeLine (suburban residents: 612-728-5767).

Hennepin County
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Closing the door on homelessness in Hennepin County

Hennepin County uses a variety of strategies and programs in an effort to end homelessness. Two of the county's programs, Rapid Exit and Homelessness Prevention, have drawn national attention for their innovative approach and cost-effectiveness. These approaches impact both the front and back doors of homelessness.

Homeless Prevention program helps keep families in housing

Homeless Prevention provides short-term financial help or legal assistance to help keep people in their existing housing. The target population for this program is people who normally can afford their own housing but are at risk of losing it due to an unforeseen financial crisis. The program is funded by a mix of state, federal and county funds.

Rapid Exit helps homeless families find and secure housing

Despite efforts to prevent homelessness, there are still people who lose their housing and end up at an emergency shelter or in secure waiting. Rapid Exit strives to get people out of shelters and back into stable living situations as soon as possible.

Rapid Exit is unique because it quickly and efficiently assesses the specific housing barriers that people must overcome and gets them immediately referred to services that address the issues. This helps get people out of shelters and into stable housing as rapidly as possible. Services are provided by nonprofit organizations. A citizen-based advisory committee assists in program planning and implementation. The program is funded by a mix of state, federal and county funds.

How much do the programs save?

One episode of homelessness for a family is estimated to cost $5,000, which is mostly paid with county dollars. Homeless Prevention spends approximately $610 to help an individual or $875 to help a families maintain their housing. Rapid Exit spends less than $1,100 to help a family and $850 for adult households.

Why is Rapid Exit on the list of national best practices?

The Rapid Exit services are tailored to clients' needs. This is accomplished with a flexible provider system that:

- Offers the ability to quickly change services to respond to changing client needs.
- Uses a client assessment-and-referral process to assure that the "right" amount of services is provided.
- Focuses on outcomes, not processes or services.
- Allows for greater creativity in providing services.

Foreclosures

THE MINNEAPOLIS FORECLOSURE RESPONSE

Three Point Plan

City of Minneapolis / CPED

City of Minneapolis
Department of Community Planning & Economic Development – CPED

PREVENTION

Counseling Assistance

Homeowners were two months behind on their mortgage payments, due to unforeseen medical expenses, when they attended a City-sponsored foreclosure workshop. At the workshop, they were able to speak directly with their lender. As a result, the family was able to work out a plan and prevent foreclosure.

What the City is Doing

The City is continuing aggressive prevention strategies as long as foreclosure rates remain high. The costs associated with a foreclosed property average $78,000. Foreclosure counseling and prevention costs, on average, $500 per person assisted. Minneapolis has invested $1.1 million in prevention since 2007. This annual investment assists 1000 households, and half of those receiving intensive support will avoid foreclosure.

Strategy

City of Minneapolis Mortgage Foreclosure Prevention Program funds will continue to assist the Minnesota Homeownership Center in homebuyer education, foreclosure counseling and the issuance of loans for reinstatement. Proposed funding for these programs will be $660,000 in 2009.

REINVESTMENT

Cluster Development

Make big changes in a small area. That's the idea behind the City's focus on six targeted geographic areas or "clusters" on the Northside. In partnership with the Northside Home Fund and neighborhood organizations, the City is focusing on the redevelopment of vacant and boarded homes, community outreach and organizing, foreclosure prevention and the establishment of a development partnership to identify and implement residential development opportunities within the clusters.

The Hawthorne neighborhood's EcoVillage Cluster, designed to become a green, stable and healthy neighborhood, is supported by a $500,000 grant from the Home Depot Foundation.

Courtesy, PPL

What the City is Doing

The City is working with partners to rebuild neighborhoods that have experienced large numbers of foreclosures. The City acts aggressively to acquire property and remove blighted structures as a top priority. A single, abandoned property on a block can reduce the value of nearby homes by 15 percent. The City works with partners to acquire properties that are in foreclosure, and then rehabs them to resell to eligible buyers.

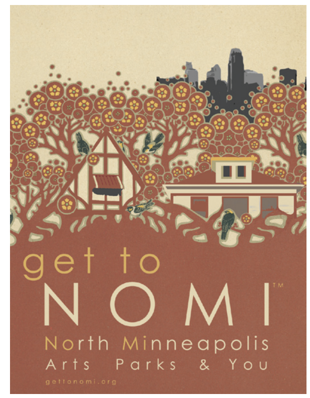
Strategy

The City is at work envisioning a healthy housing market, ensuring that development helps rebound the market. Housing and Economic Recovery Act funds will provide subsidies for rehabilitation of up to 100 properties. The National Community Stabilization Trust may make available hundreds of foreclosed properties for bulk purchase at a reduced rate and provide access to $30 million to assist in acquisition and rehabilitation.

REPOSITIONING

NOMI Marketing Strategy

"Get to NOMI" (short for North Minneapolis) is a grassroots marketing campaign geared to promote the Northside's arts, parks, businesses, affordable housing and other amenities. The NOMI branding strategy is led by neighborhood groups, residents and local real estate agents. The community has led various home tours throughout the Northside, showcasing the amenities of the neighborhoods and attracting new homebuyers.



Courtesy, NOMI

What the City is Doing

As properties are acquired, the City and its partners are working collaboratively to reposition neighborhoods for market recovery. To rebuild a healthy housing market in neighborhoods affected by foreclosures, the City works with neighborhood and community-based marketing efforts to bring new buyers to the neighborhoods. The City's goal is to engage the private market as much as possible in achieving a stable, healthy housing market in its communities.

Collaboration on other neighborhood-based initiatives to market and promote neighborhoods and city living includes University Alliance, Phillips Partnership, Northside Home Fund cluster developments, Northside Arts Collective and many others.

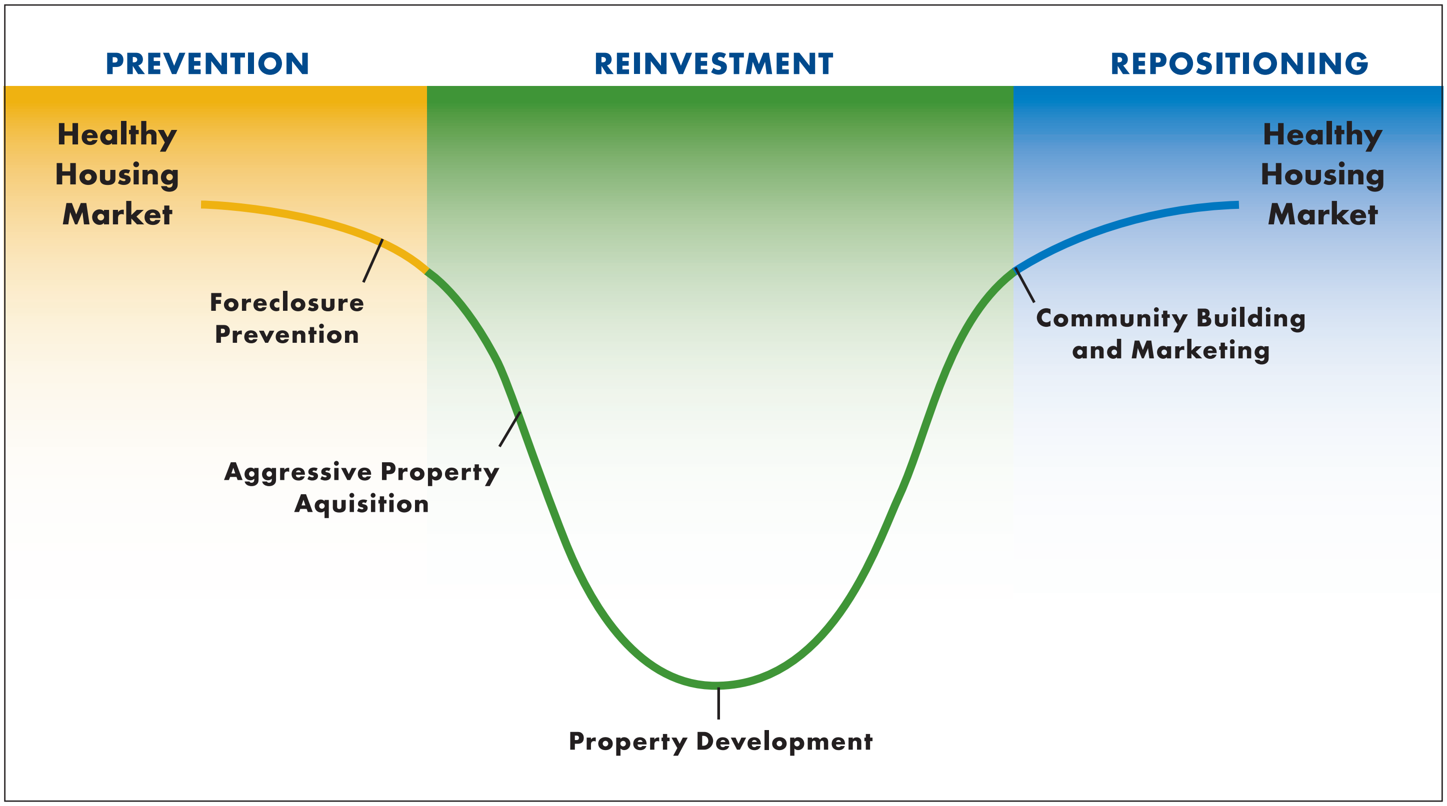
Strategy

The City will expand its homeownership incentives, like the Minneapolis Advantage program, which provided down payment and closing cost assistance to 50 homebuyers in areas highly impacted by foreclosure in 2008, and has proposed funding to assist an additional 50 homebuyers in 2009. Federal Home Loan Bank funds, if awarded, could expand the Minneapolis Advantage program, targeting down payment assistance to 150 low-income homebuyers of foreclosed properties.

Foreclosure Recovery Plan

CITY OF MINNEAPOLIS DEPARTMENT OF COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT (CPED)

In Minneapolis 3,077 properties were foreclosed in 2008 and another 3,000 are projected for foreclosure in 2009. About one-third of the foreclosed homes are condemned and boarded, or registered as vacant. The City of Minneapolis' focus on prevention, reinvestment and market reposition in 2009, and beyond, will lead to market recovery in its communities.



PREVENTION

Strategies to Recover a Healthy Housing Market

Employ **foreclosure prevention** outreach and counseling as foreclosures rise and as the housing market begins to decline. Continue aggressive prevention strategies as long as foreclosure rates remain high.

REINVESTMENT

Pursue **aggressive property acquisition** when the housing market is low and properties are inexpensive. Develop multiple strategies to compete with investors in order to prevent the turnover of single-family homes to rental.

Promote **property development** when the market is poised for recovery to drive the market back towards a healthy housing market. Clearly envision a healthy housing market prior to the development stage to ensure that development helps to drive the market to rebound. Some factors to consider include income mix, rental and homeownership mix, design and amenities.

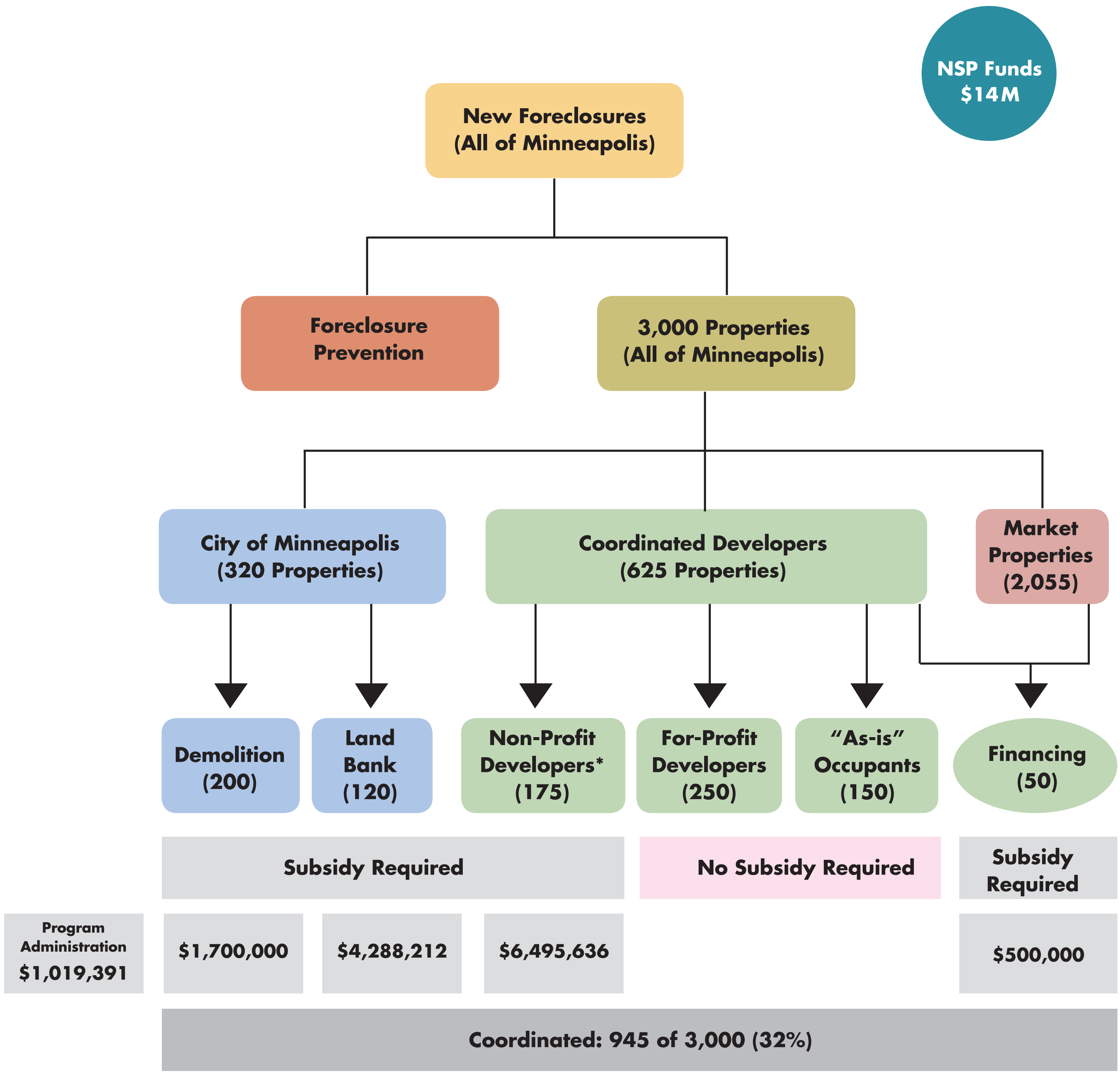
REPOSITIONING

Engage in **community building and marketing** efforts to prepare the market for a rebound. Expand homeownership incentives and engage in neighborhood-based initiatives to market neighborhoods and city living.

For more information on the City of Minneapolis' response to foreclosure, please visit our website www.ci.minneapolis.mn.us/foreclosure/

HERA Neighborhood Stabilization Program (NSP)

MINNEAPOLIS FORECLOSURE RECOVERY PLAN



** HERA's Neighborhood Stabilization Program requires that 25% of the funds received must be targeted to households at or below 50% of area median income (AMI), or $40,450 in Minneapolis. 175 properties will yield 236 units.*

Notes: There may be duplications in the numbers of coordinated properties. The number of properties may project the ability to recycle funds.

issue brief

Economic Trends, Foreclosures and County Budgets

June 2008

NACO National Association of Counties

The Voice of America's Counties

Economic Trends, Foreclosures and County Budgets

A Publication of the Research Division of NACo's County Services Department

Written by Alex Welsch
Associate Research Director

June 2008

NACO National Association of Counties
The Voice of America's Counties

About NACo – The Voice of America's Counties

The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo provides essential services to the nation's 3,066 counties. NACo advances issues with a unified voice before the federal government, improves the public's understanding of county government, assists counties in finding and sharing innovative solutions through education and research, and provides value-added services to save counties and taxpayers money. For more information about NACo, visit *www.naco.org*.

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Introduction

Economic shifts in housing markets combined with the potential for a recession have generated a climate of financial instability for many U.S. county governments. Foreclosures, declining property values and property tax revenue shortfalls are consistently making headlines, but county governments are also affected by spillovers from these trends such as a tightening of credit markets and added demand for social services. This issue brief provides background on economic trends, explains how the trends impact county budgets in different regions, and finally describes some ways that some counties are responding to particular challenges related to foreclosures and revenue shortfalls.

County budgeting

A county budget is essentially a plan for using a county government's financial resources. The plan details expected revenues and projected expenditures. From county to county, the length and timing of budget cycles vary. For example, Johnson County, Iowa has an annual budget with the fiscal year beginning in July and ending in June[1]. In contrast, Hillsborough County, Florida has a biennial cycle lasting two fiscal years, each from October through September[2]. During the fiscal year, current budget performance analysts compare the "approved" budget with "actual" revenues and spending. Unexpected events such as a widespread decrease in property values, new state or federal mandates, or an increase in energy costs may lead to a situation where costs exceed revenues. The effect of these events may be immediate as with a spike in energy prices or more lagged as with shortfalls caused by a downward trend in property values. Depending on how events unfold, county staff and elected officials make adjustments to balance the budget.

County revenues and changes in the economy

According to the 2002 Census of Governments[3] published by the U.S. Bureau of Census, county governments generally collect sixty-two percent of revenues from "own sources" such as property taxes, sales taxes, fees and charges or, less commonly, income taxes. Intergovernmental revenues account for the rest. Altogether, counties receive three percent of their revenue from the federal government, 33 percent of their revenue from their home states, and two percent from local governments.

A combination of foreclosures and an economic slowdown affect most if not all these components of county revenue. First, since property taxes account for 57 percent[4] of counties' self-generated funds, declining property values related to foreclosure clearly impact county revenues. Less directly, an economic slowdown can have a significant impact on intergovernmental sources of revenue. Without increased federal spending in response to economic instability, reductions in federal income tax revenues would likely result in cuts in federal appropriations for state and local government programs. In addition, most state governments collect income taxes but are almost uniformly subject to state constitutional balanced budget requirements. Therefore, barring a substantial "rainy day" reserve fund kept by the state government, or an increase[5] in state taxes, a slowdown would result in reduced state contributions to county budgets[6].

Locally, a slowdown can by itself affect multiple county own-source revenue streams. A slowdown would probably coincide with a reduction in demand for housing, lower property values and then lower property tax revenues. In addition, since people with lower incomes or lower wealth tend to consume less, sales or gross receipts tax revenues are also affected by an economic slowdown and declining property values. These trends would reduce revenues.

On the expenditure side, county governments may have difficulty controlling costs during a downturn. Contractual wage increases, health insurance costs, energy costs, and mandated program costs may continue to rise even as revenues decline relative to budgeted amounts. This year, the executive from Putnam County, New York projected in his state of the county speech[7] that if revenue did not increase to keep pace with rising costs, property tax payers would face a 22 percent increase. Since this would not be politically feasible, the county executive concluded in this scenario that discretionary programs would have to be cut severely. Other counties are anticipating similar challenges as they look ahead to the next budget cycle.

A slow down

The prevailing assessment is that the U.S. economy has slowed, and is currently in, or at risk of, a recession. Estimates of gross domestic product (GDP) do indicate a slowdown, though not yet a clear indication of a national level recession. The Bureau of Economic Analysis (BEA) estimates that real[8] GDP grew 2.2 percent from 2006 to 2007. In the last quarter of 2007 and the first quarter of 2008, annualized rates of growth were 0.6 percent and 1.0 percent respectively. Growth rates vary regionally, though. Looking at particular regions, from 2006 to 2007, real GDP growth was negative in Delaware, Michigan and New Hampshire according to BEA estimates. In contrast, growth was positive and above four percent in Oklahoma, Texas, Washington, the District of Columbia, New York and Utah.

1 See Johnson (2007).

2 See Hillsborough (2006).

3 See Census (2005).

4 See Census (2005).

5 For an interesting discussion of local governments' fiscal options during a recession, see Orszag and Stiglitz (2001).

6 For analysis of early state reactions to the recession in 1991, see Gold and Richie (1991). The authors found a mix of actions to cut spending, or alternatively support local governments.

7 See Bondi (2008). The county entered the 2008 budget cycle with a surplus, but the executive expressed concern about the impacts of a potential recession and foreclosures.

8 Economists adjust for inflation when calculating real GDP. In contrast, nominal GDP is reported in the current year's dollars.

Trends look more recessionary for some sectors and groups. In line with housing market difficulties discussed below, investment expenditures on new[9] residential housing declined in both 2006 and 2007. Labor market trends also present significant challenges ahead. Total non-farm payroll employment declined in each consecutive month from January to June 2008, according to the Bureau of Labor Statistics. The latest employment figures add to the concerns already raised by troubled housing markets.

Housing market instability and foreclosures

Numbers tracked by the National Association of Realtors (NAR), the Mortgage Bankers Association (MBA), the U.S. Bureau of Census and several other financial and housing sector institutions illustrate an underlying instability in housing markets. Consider the following items.

- Housing starts[10] for one-family units declined by 28.6 percent from 2006 to 2007. Housing starts for buildings with 2 units or more declined 8 percent. Numbers in both of the categories also decreased from 2005 to 2006.[11]
- U.S. home prices fell three percent from January 2007 to the same month in 2008, according to OFHEO data.[12]
- The number of sales of existing homes declined 23 percent, and the number of monthly sales of new homes declined 34 percent, from January 2007 to January 2008, according to NAR.
- More than 2.2 million foreclosure filings were logged against 1.3 million properties nationwide in 2007, according to RealtyTrac[13].
- The seasonally adjusted delinquency rate for mortgages on one-to-four-unit residential properties stood at 5.82 percent of all loans outstanding in the fourth quarter of 2007 and then 6.35 percent for the first quarter of 2008, according to the MBA. These are record rates.
- The percentage of loans in the foreclosure process was 2.04 percent of all loans outstanding at the end of the fourth quarter of 2007, according to the MBA. The percentage increased to 2.47 percent in the first quarter of 2008.
- For the last quarter of 2007, the rate of foreclosure starts and the percent of loans in the process of foreclosure were at their highest levels ever, according to MBA [14].
- Home equity – the value of the properties minus the mortgages against them – has fallen below 50 percent for the first time, according to the Federal Reserve[15].
- The Congressional Joint Economic Committee recently estimated that 2 million Americans would lose their home in 2008 or 2009, according to Forbes.com[16].

The above items illustrate problems in the housing and mortgage banking sectors as well as the significant impacts on many homeowners' ability to pay mortgages or maintain home equity.

Given counties' involvement with property transactions and sheriffs' sales, county officials will likely have quality access to local foreclosure information. Evaluation of recent and longer term foreclosure trends will aid county officials as they consider community solutions and weigh potential budget impacts.

Housing market challenges vary regionally

While real estate volatility and foreclosures have been in the national headlines, certain areas of the country have been more affected than others.

Shifts in home prices are one measure. Data released in February by the NAR comparing the 4th quarters of 2006 and 2007 show a general decline in existing U.S. median single-family home prices and median condominium prices. However, prices for these types of properties rose in about half the metro area markets tracked by the association.[17]

Table 1. Counties with high numbers of foreclosures and negative equity in 2007.

County	% of foreclosures with Negative Equity
Wayne County, Mich.	39%
Clark County, Nev.	23%
Maricopa County, Ariz.	16%
Riverside County, Calif.	19%
Los Angeles County, Calif.	10%

Source: Woolsey, Matt. 2008. America's hardest-hit foreclosure spots. *Forbes.com*. January 28.

9 See BEA; the residential component of real gross private domestic investment showed negative growth at -4.6 percent in 2006 and -17.0 percent in 2007.

10 The number of residential building construction projects begun during a specific period of time.

11 See Census (2008).

12 See OFHEO (March 25, 2008); based on purchase prices of houses with mortgages that have been sold to or guaranteed by Fannie Mae or Freddie Mac.

13 See RealtyTrac (January 29, 2008).

14 See MBA (March 6, 2008).

15 See Bajaj (2008).

16 See Woolsey (2008).

17 See NAR (2008). See also Krauss and Nixon (February 15, 2008).

As for foreclosures, according to the MBA, California and Florida accounted for 30 percent of foreclosure starts in the U.S. in the last quarter of 2007. The states of Michigan, Ohio and Indiana also had high starts.[18] According to RealtyTrac[19], the overall foreclosure rate for the 100 largest U.S. metro areas was 1.3 percent of households. However, the five metro areas in this group with the most foreclosures had rates above three percent. On the bottom end of the top 100, five metro areas had foreclosure rates below 0.2 percent of households.

Homeowners in regions or neighborhoods in declining makets may experience "negative equity" that in turn increases the likelihood of foreclosures. In this situation, houses are worth less than the amount that homeowners owe on their home loans. Forbes.com, using data from RealtyTrac, has highlighted counties experiencing foreclosures combined with negative equity as shown in the Table 1 above for 2007. For example, Forbes reported that, 39 percent of owners who foreclosed in Wayne County, Mich. held negative equity.

If there are county and state level differences and differences from year to year, economists have not fully identified why foreclosures are high in one area but not the other. Still, economists have studied mortgage industry practices, regional income trends and the extent to which homes in an area are appreciating or depreciating to find at least partial answers[20].

Changes in loan and mortgage practices

Several changes in loan practices have been identified as factors affecting foreclosure[21]. Foremost, subprime loans were offered to individuals who might not qualify for prime rate loans. In line with new practices, loans were also structured with more flexible interest rates, lower down-payment[22] requirements, and combinations of standard mortgages with "piggy back" or secondary loans. Subprime lending increased dramatically, so that by 2006, these loans accounted for 20 percent of all one-to-four unit family mortgage originations[23].

Flexible loan options were offered through adjustable rate mortgage (ARM) loans that would be "reset" to become flexible after a three- or five-year period. Large numbers of these loans were reset in recent years as interest rates increased. A substantial number of loans - about 1.5 million - are scheduled to reset in 2008[24], which may result in balloons or higher payments for existing borrowers, depending on interest rate activity. Table 2, with data from MBA, shows that both prime and subprime ARM loans, though a smaller percentage of loans outstanding, represent a large proportion of foreclosures started.

Table 2. Percent loans outstanding per type of loan, and foreclosure starts per type of loan (fourth quarter 2007).

	Percent of Loans Outstanding	Percent of Foreclosures Started
Prime Fixed	65%	18%
Prime ARM	15%	20%
Subprime Fixed	6%	12%
Subprime ARM	7%	42%
FHA	7%	8%

Source: MBA. 2008. Press release: Delinquencies and foreclosures increase in latest MBA national delinquency survey. Washington D.C.: Mortgage Bankers Association, National Delinquency Survey. March 6.

Changes in loan and mortgage practices have combined with other developments in what might be called spillovers.

Spillovers, credit markets

Foreclosures on both prime and subprime mortgages have had a range of impacts on a variety of credit markets, some affecting local government. One way this happened is through "securitization," where banks or brokers re-package mortgages into financial instruments and sell them to investors. In turn, investors use the securities, or anticipated revenues from the securities, as collateral to make additional loans or investments. The increase in mortgage defaults has led rating agencies, such as Moody's, to reduce ratings on firms or funds holding larger amounts of the more risky mortgage-backed securities[25]. In this way, foreclosure problems have spilled-over into other credit markets that affect county governments in at least four ways.

First, county governments collect revenues from taxes and other sources and hold reserves during the budget year as periodic budget allocations are made. For example, property tax revenues may be collected at once, but county employees are paid every month. To increase revenues, county treasurers often invest reserve funds in local banks or in local government "investment pools" often run by their state government. A pool's investments may be affected by an economic slowdown, and a small[26] number of pools with investments in mortgage-backed securities have experienced problems. Notably, Florida local governments' access to funds was dis-

18 See MBA (March 6, 2008).

19 See RealtyTrac (February 13, 2008).

20 McGranahan (2007).

21 See Gerardi and coauthors (2007).

22 The median down payment on a home was 9 percent in 2007, down from 20 percent in 1989; see Leland (February 29, 2008), citing a survey by the National Association of Realtors.

23 See Bernanke (2008), citing Inside Mortgage Finance.

24 See Bernanke (2008).

25 See Wong (2007).

26 See S&P (2007).

rupted[27] when the state froze withdrawals from its pool in late 2007. The action was in response to rapid withdrawals made by local governments that had become concerned about the investment pool's exposure to risks related to subprime mortgage securities or "distressed assets[28]." This example illustrates that county government liquidity and revenues can be affected in surprising ways by information about an investment pool's portfolio.

Second, the ratings of bond insurers influence local governments' ability to sell bonds, which are often insured before sale. However, rating institutions have considered downgrading several major bond insurance companies due to exposure from mortgage-backed securities. As a consequence, the ability of local governments to issue bonds with the most secure ratings was called into question. If unable to obtain high ratings on bonds, local governments would be required to pay a higher return to offset the added risk to investors. In brief, the cost of issuing debt increases[29] adding to the cost-side of the county's budget ledger.

Third, and related to the second point, local governents have had difficulty issuing or financing debt, and they have been less able to obtain new funds or to refinance existing debt. Miami-Dade County[30], for example, faced the prospect of higher interest rates when its aviation department bonds failed to attract investors in the auction-rate securities market in March 2008. This type of security may have a term of up to 30 years, but interest rates are reset periodically at short term intervals. Typically, investors have the opportunity to sell this type of security at each auction. When an auction fails however, current investors are unable to sell. But, they do receive a higher rate of interest from the local government.[31] In the Miami-Dade case, some of the auction rate securities were to be insured by bond insurance companies. But these bond insurance companies' own ratings were under review. With that and the tightening of credit markets, investors declined to buy the securities. So, in the short term, the local government had to accept higher debt financing costs.[32]

Finally, troubled credit markets affect retailers. Commercial-retail sales vary dramatically from season to season, and retailers depend on short term loans to fill inventories during the year. The slowdown, coupled with credit market trends, has caused lenders to withhold loans or increase interest rates in certain areas of the country. This situation increases operating costs and may add to the number of store closures that occur in the retail sector. Due to the trends, the International Council of Shopping Centers is projecting an increase in store closings relative to 2007[33]. The projection raises questions about a spillover to yet another sector.

27 See Murakami (December 4, 2007); see also S&P (2007); and see SBA (2008).

28 See Sink (December 10, 2007).

29 See Byers (February 11, 2008).

30 See Ortiz (March 6, 2008).

31 See Smith (February 25, 2008).

32 See Levy (March 31, 2008).

33 Barbaro (April 15, 2008).

Higher lending costs, disruptions in liquidity or lower returns from investment pools all generate budgetary challenges. With all the other emerging constraints on local government revenue, the tightening of credit markets could not be less timely.

Spillovers, foreclosures and local revenue

The effect of foreclosures on property taxes is fairly direct. First, distressed borrowers may stop paying taxes, and foreclosures that lead to demolition may result in properties being removed from the tax base altogether. Second, research shows that foreclosures affect neighboring properties. For example, in a case study focused on Chicago using data from the end of the last decade, analysts[34] found that "a conventional foreclosure within an eighth of a mile of a single-family home results in a decline of 0.9 percent in value." As property values are reassessed in communities with declining housing markets, property tax revenues also decrease.

Other county revenue streams will also be affected. A reduction in wealth among homeowners will cause them to reduce consumption; local businesses will have lower sales; and counties with sales taxes will collect less revenue. To the extent that counties operate utilities or collect fees for water, gas or electricity services, revenues may also decline.

Spillovers, new costs and expenditures for local government

An economic slowdown coupled with foreclosure activity affects more than just revenues. County governments affected by foreclosures will increase expenditures on prevention programs, property maintenance and legal resolution. In an economic downturn, demand for social services also increases.

A study[35] of foreclosures' impact on the City of Chicago and Cook County provides a sense of associated local expenditures. Researchers from the Home Preservation Foundation (HPF) found that the foreclosure process involved coordination of more than a dozen city and county agencies. New expenses arose from policing and fire suppression, demolition contracts, building inspections, legal fees, and recordkeeping expenses associated with managing the foreclosure process. Even after the foreclosures occurred, costs mounted with the responsibility for securing and/or demolishing housing units, and for maintaining yards or clearing trash. Finally, police noted in interviews that abandoned properties had to be monitored for signs of gangs, drug dealing and other criminal[36] activity. The HPF study established several local government cost scenarios for the city of Chicago as shown in Table 3. While the numbers will vary from community to community, county governments may use the cost scenarios

34 See Immergluck and Smith (2006).

35 Apgar and Duda (2005).

36 See Immergluck and Smith (2006) for citations on a relationship between foreclosure and violent crime.

as a starting point to generate local cost estimates. Table 1a in the appendix shows the particular line item costs that were used in scenario calculations.

Table 3. Foreclosure cost scenarios in the city of Chicago

Scenario	Net Costs
Vacant and secured properties municipal cost	$430
Vacant and unsecured properties municipal cost	$5,358
Vacant, unsecured properties tracked for demolition municipal cost	$13,452
Properties abandoned before foreclosure is completed	$19,227
Abandoned properties damaged by fire municipal cost	$34,199

A Home Preservation Foundation study established the following local government cost scenarios of foreclosures using Chicago and Cook County budget and administrative data for 2003 and 2004. Source: Apgar, William C. and Duda, Mark. 2005. Collateral damage: the municipal impact of today's mortgage foreclosure boom. Minneapolis, Minn.: Homeownership Preservation Foundation. May 11.

A different set of expenditures relate to social services. Foreclosures combined with homelessness clearly affect counties that work with shelters, food banks and provide services to children. Many renters and owners evicted from foreclosed properties will face substantial moving costs and possibly higher rent situations. Others will move in with friends or family or become homeless. First Focus, a children's advocacy group estimates that 2 million children will be directly affected by foreclosures. The estimate suggests substantial disruptions for a range of public services such as shelters and schools[37]. Inadequate resources to attend to these disruptions will in turn have long term consequences and generate long term costs for affected communities.

A slowdown or recession also has implications for social services. As an example, Putnam County New York's executive observed in his 2008 state of the county speech[38] that, during the 1991 recession, Home Relief case loads more than doubled, and Aid to Families with Dependent Children increased from 166 to 281 families[39]. In 2008, the county estimated that costs for its "Safety Net" program would increase by $324,000 before any cost-shifting that might occur as a result of proposed changes to the state government's budget. Putnam county also projected a $71,000 increase in expenditures for Temporary Assistance for Needy Families (TANF), again, before any cost shifting by the state. These elements of Putnam County's program history and its projections illustrate the pressures of an economic slowdown on county social service systems.

Other analysis is helpful in projecting impacts of unemployment on health programs. A Kaiser Foundation[40] study focused on healthcare indicates that a one percent increase in the unemployment rate would drive up enrollment in Medicaid and SCHIP by one million non-elderly adults and children. The same rise in unemployment would also increase the number of uninsured by 1.1 million people. As counties have a role in health care delivery and finance in the majority of states, these effects of an increase in unemployment would add new costs and responsibilities for counties.

The U.S. poverty rate in 2006 was 12.3 percent,[41] which is higher than in 2001 when many state and local governments also faced significant budget pressures. These poverty figures suggest that state and local governments may be less able to confront the emerging budget situation with all the spillovers from the troubled housing and mortgage sectors.

Pressures on county social services:

A Kaiser Foundation study estimates that a one percent increase in unemployment will increase the number of uninsured by 1.1 million people.

Local responses, adjusting budgets

Depending on when financial difficulties arise, pressures may affect the current operating budget, a proposed budget for the next fiscal year, or several budget cycles down the line. A slowdown that affects constituents' income is likely to affect fees and/or sales taxes in both the immediate and the longer term since residents will decrease use of utilities and retail consumption. On the other hand, changes in property values will have a lagged affect on property tax revenues. This occurs since property tax assessments are readjusted periodically with the timing varying from county to county. When assessed values change and revenue shortfalls or surpluses become apparent, county officials respond to imbalances.

In a recent budget address, the mayor[42] of the Lexington-Fayette Urban County Government noted that there are "three ways to solve such a problem: increase revenue, decrease expenses, or some combination of the two." A NACo Research Division scan[43] of recent media reports of counties facing budget shortfalls also shows counties taking steps along these lines. In terms of reducing expenditures, the media reports

37 See Amour (June 25, 2008) and Lovell and Issacs (2008).

38 See Bondi (2008).

39 The county population was roughly 84,000 in 1990; in 2005 it had increased to about 102,000.

40 See Dorn and co-authors (2008).

41 See Census (2008a).

42 See Newberry (2008).

43 See NACo (March 24, 2008).

provided examples of counties proposing or adopting the following strategies:

- salary and wage freezes;
- reductions in overtime allocations;
- hiring freezes;
- postponement of recruitment for new or vacant positions;
- postponement of cost of living increases;
- early retirement programs;
- layoffs;
- departmental spending cuts;
- departmental reorganization;
- service reductions, such as reducing library hours or jail visitation hours;
- postponement of capital spending for projects without external support; and
- deferred maintenance.

Pressures on county social services:
First Focus, a children's advocacy group estimates that 2 million children will be directly affected by foreclosures.

As for increasing revenues, the scan of news reports provided examples of counties proposing or adopting the following strategies:

- increasing fees (e.g. sewer, water, garbage fees, recreation programs);
- passing a levy to support a particular county service (e.g. swimming pools);
- increasing property tax rates on residential and/or commercial properties;
- increasing income tax rates;
- increasing the sales tax rate or utility rates;
- selling assets (e.g. nursing home); and
- pursuing supplementary funds such as tobacco settlement monies.

Some county governments have also invited public or expert panels to weigh-in on choices. In response to 2008 budget difficulties, Shelby County, Tenn. and Macomb County, Mich. each held meetings to allow for input and recommendations on strategies and options for cost-savings[44].

With or without this kind of public discussion, county governments face tough choices. Reducing spending on social services, education, infrastructure, or on maintenance of current capital assets may have negative consequences for the economic environment that influences long term quality of life and a county's fiscal health. Other tough choices relate to how counties will deal with the fallout from the housing and mortgage markets. County strategies are evolving.

44 See Meek (February 22, 2008) and Selweski (March 19, 2008).

Some local responses to foreclosures

Many county governments are establishing or reinforcing initiatives to prevent current foreclosures and to reform the foreclosure process to affect future trends. In addition, absorbing vacant and foreclosed properties into low income or workforce housing inventories has also found a place on county officials' agendas.

Prevention initiatives make use of the significant information resources and communications capacity of county governments and their community partners. County recorders, with access to property databases and foreclosure filings, are in a position to alert homeowners of certain risks. For example, a county recorder in Montgomery County, Ohio has taken steps to identify the most active subprime lenders in the county and alert their customers of potential problems before interest rates are reset[45]. A Hennepin County, Minn. foreclosure task force similarly recommended[46] contributing data to the Minneapolis "Early Warning System." More broadly, Minnesota state legislators are exploring options for a statewide database to compile city and county foreclosure information[47]. While privacy issues are a concern, better access to information could lead to more timely application of prevention initiatives.

General counseling, referral services and hotlines have also been among the tools adopted by state and county partnerships. As examples, Dakota County, Minn., Washtenaw County, Mich., Lucas County, Ohio and Summit County, Ohio provide information either directly or through community partners on some or more of the following:

- credit counseling options;
- loan modification options;
- tactics to avoid predatory lending;
- residents' rights after a sheriff's sale;
- foreclosure redemption periods;
- state, county and federal financing programs; and
- county delinquent tax assistance and installment programs.

Counties are largely limited in their authority[48] to require changes in mortgage practices of lenders and brokers in their communities. Nevertheless, prevention programs and creative uses of property information may have an effect on local outcomes.

45 See Greenblatt (2008).

46 See Hennepin (2008).

47 See Crump (2008).

48 Counties do have the option to participate in state level reform coalitions, however. Several states have adopted legislation in response to the rise in foreclosures. See for example, HF1004 adopted by Minnesota Legislators in 2007 or Ohio's SB 185 also enacted in 2007.

In addition, streamlining and reforming the foreclosure process has been a priority for counties such as Ohio's Cuyahoga. A commissioners' report[49] written in 2005 includes the following strategies:

- early intervention programs;
- counseling assistance to families in default;
- targeted assistance and support of non-profits in hotspot areas;
- redevelopment through blight prevention initiatives;
- priority processing of vacant properties in court dockets;
- streamlining foreclosure hearings;
- adding staff in the clerk of courts office;
- increasing staff and equipment in the sheriffs office for related tasks;
- augmenting the surcharge on foreclosure proceedings to offset costs;
- increasing education around and prosecution of related fraud; and
- lobbying for state legislation affecting county government responses to foreclosures and abandoned properties.

The commissioners have since established several partnerships based on their earlier recommendations.[50]

Other policy alternatives are geared toward filling vacant properties subsequent to foreclosure. These include a range of acquisition proposals with goals focused on community stability, workforce housing and low-income housing.

Land banks are one option. For example, Wayne County, Mich. runs a land bank that acquires and resells vacant properties, as well as foreclosed and criminally seized homes. Working with partners, the county resells the homes to residents within six months, and any revenues generated go to fund foreclosure prevention programs for county residents[51].

In the past several years, counties with high value real estate have also studied workforce-housing problems. For instance, Placer County Calif. performed community surveys[52] in 2005 to identify income-housing gaps for several categories of public employees. The income gap measured for teachers – with a starting salary of $34,000, but facing a median home price of $420,000 dollars – was $89,000. The calculation for a new sheriff's dispatcher revealed a similar gap.

Fairfax County, Va. and Montgomery County, Md. have also both struggled with housing affordability generally and with workforce housing. There are proposals among Fairfax supervisors and Montgomery commissioners to purchase and then sell foreclosed properties as affordable units[53]. In Wayne County, foreclosures are numerous, and local governments there are actively seeking to acquire foreclosed properties and provide incentives for local government employees to live within local jurisdictions. The county and its local jurisdictions are cooperating with HUD to respond to foreclosure problems in this way.

Conclusion

Current instability in housing markets and the threat of a slowdown have led to challenges for many county budget makers. The threats have the potential to affect all sources of county revenue as well as a county's ability to issue debt for capital projects. The combination of troubled housing markets and a recession would reduce resources available to counties when they are most needed. Counties provide numerous social, environmental and community services. In hard economic times, demand for social services such as aid to foster care children as well as health care for children, the elderly and the indigent is likely to increase. Many counties are grappling with challenges associated with foreclosures and associated costs. Dialogue among county, state and federal officials is essential to plan combined strategies and an appropriate federal fiscal policy response.

49 See Cuyahoga (2005).

50 See the Website: *www.dontborrowtroublecc.org*.

51 See Gray (April 13, 2008).

52 See Placer (2005).

53 See Gardner (March 29, 2008); see Miller (April 2, 2008).

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Appendix

Table 1a. Net Foreclosure-Related Municipal Costs in Chicago

1	Lis Pendens Filing Recorder of Deeds	($13)
2	Operate Chancery Court Multiple County Agencies	($43)
3	Register Sale and New Owner Recorder of Deeds	($13)
4	Delegate Agency Foreclosure Prevention Funding Dept. of Administrative Hearings (DOAH)	$96
5	Vacancy Intake Department of Buildings (DOB) and Others	$3
6	Building Inspections DOB	$364
7	Maintain Vacant Building Registry DOB	$36
8	Serving Notice to Secure Department of Law (DOL) and Sheriff	$715
9	Boarding, Lien Issuance DOB, DOL	$1,445
10	Prepare Case for Administrative Hearing DOL	$2,690
11	Administer DOAH DOAH	$78
12	Prepare Housing Court Case DOL	$4,203
13	Administer Housing Court Multiple County Agencies	$228
14	Police Call Police Department	$315
15	Police Make Arrests Police Department	$180
16	Initial Notice of Demolition DOB	$165
17	Notice of Impending Demolition DOB	$75
18	Demolition by Contractor, Lien Issued DOB, DOL	$6,000
19	Property Tax Losses from Demolition n/a	$4,307
20	Prepare and Try Demo Case DOL, DOB	$5,884
21	Administer Demo Court Multiple County Agencies	$228
22	Unpaid Property Tax Losses n/a	$506
23	Unpaid Utility Tax Losses n/a	$51
24	Unpaid Water Usage Water Department	$162
25	Mow Lawn/Remove Trash Department of Streets and Sanitation	$5,000
26	Fire Suppression Fire Department	$14,020

These net costs are specific to Chicago and Cook County. To assess costs that arise from the foreclosure process in Chicago, the Home Preservation Foundation used Chicago and Cook County budget and administrative data for 2003 and 2004. Estimates for 26 foreclosure-related activities are listed above in this table. The costs are net of funds recovered for foreclosure-related services. Source: Apgar, William C. and Duda, Mark. 2005. Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom. Minneapolis, Minn.: Homeownership Preservation Foundation. May 11.

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