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## **MEMORANDUM**

TO: City Council  
FROM: Paul Roberts, Deputy City Attorney  
DATE: January 20, 2015

RE: Study pursuant to Utah Code Ann. §10-8-2(3)(e) related to a grant to the Community Development Corporation of Utah for further Idea Houses

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Last year, the City Council approved the use of grant funds to support the renovation of a blighted home on Roberta Street. The grant was seen as an opportunity to assess the effectiveness of the Community Development Corporation of Utah (“CDCU”) in accomplishing the task, and seeing whether such a program would fit in our community. The City authorized a grant of \$24,058.00 to participate in the purchase and rehab of the Roberta Street home. The renovations were completed in Fall 2014. The project came in under budget, and the City received a refund of \$2,575.00. The results of the rehabilitation were very favorable. The house has become one of the most attractive on the block, and residents came out to celebrate the project at an open house, which was well attended.

In light of the pilot project’s success, City staff and CDCU propose that the program be expanded. The program would remain the same: CDCU purchases abandoned or distressed homes pursuant to a HUD program at a substantial discount, renovates the home, and then sells the home to a qualified home-buyer. The City would contribute a similar amount of money to

each home, until the budgeted amounts have been spent. This study analyzes the potential benefits associated with the project.<sup>1</sup>

### **APPLICABILITY OF SECTION 10-8-2**

A broadened program will permit the City to allocate certain money in its housing fund to this project. As houses become available, CDCU would apply to receive those funds from the City. Staff would authorize the disbursement of these funds after reviewing the project and ensuring that the specific house meets the criteria for expenditure. Utilizing staff will expedite the process for CDCU, which often has a very short timeframe during which it can take advantage of the HUD program.<sup>2</sup> The City anticipates a cap on the City's participation in each project at \$25,000.00, with potential refunds in the case of actual expenses coming in lower than estimates. None of this investment would be directly recaptured by the City. However, the project will convert approximately three dilapidated and currently vacant houses into attractive single family homes with owners occupying the property. HUD requires purchasers of these properties to remain in the home for at least three years; otherwise the owner will be required to reimburse HUD for the benefit the owner received.<sup>3</sup> A qualified purchaser pays fair market value for the renovated home.

The funding source for this expanded project is the same source as was used in the pilot project: funds which the City received through participation in the CROWN program a number of years ago. These funds have been allocated in FY 201-15 for Housing purposes. As provided in state law, an appropriation of general funds will only be lawful if the Council finds that the expenditure provides for the "safety, health, prosperity, moral well-being, peace, order, comfort, or convenience of the inhabitants of the municipality."<sup>4</sup> Prior to making such a determination, the Council must receive a study which weighs the potential benefits, including intangible

benefits, to the City. If a study is performed, and the City Council makes such a determination, then that decision is presumed valid.<sup>5</sup>

## ANALYSIS

This study will address the following:

1. An identification of the benefit which the city will receive from the appropriation;
2. The city's purpose for the appropriation, including an analysis of the way the appropriation will be used to enhance the safety, health, prosperity, moral well-being, peace, order, comfort or convenience of the inhabitants of the city; and
3. Whether the appropriation is necessary and appropriate to accomplish the goals and objectives of the municipality in the areas of economic development, job creation, affordable housing, blight elimination, job preservation, the preservation of historic structures and property, and any other public purpose.<sup>6</sup>

The Council must also consider whether the value anticipated to be received by the appropriation is fair consideration for the city's investment.<sup>7</sup>

### **1. Benefit received.**

Like the house on 2112 South Roberta,<sup>8</sup> houses in our City are maintained in a vacant and dilapidated state. The City often responds to code enforcement and trespassing complaints for such properties. In addition to being an eyesore to the neighbors, these houses become magnets for crime. The next few sections engage in a more thorough discussion of the adverse impact of such homes on neighboring properties.

#### The Economic Problems Contributing to Abandonment and Vacancy

Building vacancy and dilapidation arise from numerous causes. In some cities, depopulation has been the driving factor, as higher-income individuals leave areas, with lower-income individuals taking their place, often in a rental capacity. The low income residents do not have the ability to pay high enough rents for landlords to profitably maintain the properties,<sup>9</sup> resulting in poorer management of the units.<sup>10</sup> The problem is also present with owner-occupied

homes. Eventually, the cost to renovate or rehabilitate a property outweighs the tax and mortgage liabilities, and the owner no longer has any incentive to invest in the property. In many cases, this leads to disinvestment or abandonment.<sup>11</sup> The only way to prevent increasing levels of abandonment is to keep the level of rehabilitation above the level of degradation.

There are multiple strategies available to combat this phenomenon. First, one may put faith in the market to correct the problem. This strategy involves no capital investment by the government, but has not proven effective in other cities. Legitimate investors will not purchase a home for more than its reasonable value and make the necessary upgrades in order to make the home a viable asset.<sup>12</sup> Additionally, the availability of new – or at least inhabitable – housing stock both within and without the city makes such a strategy ineffective. In the meantime, the neighborhood suffers from the adverse effects of the vacant home, pulling down housing values generally and making it less likely that any investment in the home will result in a profit for a developer. Nor would such a project be a likely source of funding from a private source for a homebuyer. A major source of investors at that point are “flippers,” meaning those who purchase the home, make cosmetic upgrades so that the building appears to have been updated, and then “flip” the property at an inflated price based upon false appraisals.<sup>13</sup>

Another potential solution is to assess fines and fees related to abandonment, and seek foreclosure as a remedy. The city could step into the shoes of a landlord. However, this has also proven ineffective in other cases. For instance, in New York in the 1970s and 1980s, increased costs and operating expenses led to defaults in tax payments, resulting in the city pursuing *in rem* foreclosure (the city taking possession of the building and maintaining rental agreements with the residents).<sup>14</sup> As the properties had been abandoned, and the city was the only party willing to take on the properties for the protection of its citizens, it became landlord to thousands of

residents. The city at one point owned over 5,000 buildings, and had become, as one newspaper editorial put it, “the biggest slumlord in the state.”<sup>15</sup> The cost of maintaining these buildings over the course of several decades exceeded \$10 billion.<sup>16</sup> Ultimately, the city adopted a strategy of partnering with for-profit and non-profit entities to rehabilitate residential properties.

A third possibility is that government may use public funds to leverage private investment in the community, with criteria which lead to higher levels of home-ownership and owner-occupied housing. Housing in South Salt Lake, whether multi-family or single-family, is reaching the age where additional attention is needed to keep it in habitable condition.<sup>17</sup> The City of South Salt Lake has a substantially lower median income than the State or County.<sup>18</sup> This naturally follows from the existence of aging and run-down housing – such housing attracts lower rents, and lower-income families locate within the city, resulting in higher demands on public services. Without a program to attract middle-class families and lift up residents out of poverty, it is likely that the trend of dilapidation and vacancy will rise, as will the concentration of poverty in the city. While such programs require a capital investment from the community, they can produce lasting effects for the neighborhood, if properly managed.

#### Nuisances – Current City strategies

Vacant and dilapidated buildings have been declared to be attractive nuisances by this Council on previous occasions. City code warns of the danger of such buildings “deteriorating into havens for crime and vagrancy to the degree that a nuisance is created, ruining the safe, peaceful and quiet enjoyment of neighboring properties.”<sup>19</sup> Additionally, the detrimental effect to neighborhoods and property values due to abandoned and vacant homes is well documented.<sup>20</sup> In addition to becoming an eyesore for the community, vacant and abandoned buildings become attractive nuisances, increasing the danger of criminal activity and fire.<sup>21</sup> Vacant buildings are

more frequently targeted by arsonists and represent a unique danger to firefighters entering the premises to rescue trespassers.<sup>22</sup>

The City of South Salt Lake has taken steps to abate vacant and abandoned buildings, including the creation of the Securing of Vacant Buildings and Properties Ordinance.<sup>23</sup> This ordinance has served as a tool to identify and track vacant buildings so that the city will know when those buildings have been accessed unlawfully. Ultimately, the result of the ordinance will be a boarded building, or a building which has been rehabilitated by the property owner. This has proven effective on many occasions. When that ordinance fails, the city has relied upon the Uniform Code for the Abatement of Dangerous Buildings.<sup>24</sup> The remedies under this code include court-ordered demolition,<sup>25</sup> which can be carried out by the property owner, but which usually falls to the city. However, the cost of demolition varies widely,<sup>26</sup> and city resources are limited.<sup>27</sup> For purposes of demolition, staff must select buildings which represent the highest public safety concerns and leave other vacant homes for another day.

It is hoped that the city can focus its efforts away from demolishing dilapidated properties and instead invest in the community to prevent a vacant home from becoming a long-term nuisance to the community.

#### Concerns with Demolishing Properties

Demolishing a building – while having the immediate positive effect of removing a serious health and safety problem – is not necessarily the best solution. One analyst posited that “[v]acant lots can become dumping grounds for waste, harbor rats and other vermin, and be the site of illegal activities.”<sup>28</sup> He argues that rehabilitating a property has a greater positive impact on property values than does the demolition of a dilapidated home.<sup>29</sup> Indeed, this was the experience in Baltimore, when it aggressively pursued demolition in the 1990s, resulting in gaps

in row house blocks, “trash-dumping, drug-related activities, and rat infestation.”<sup>30</sup> Neighbors may initially be thrilled with the removal of one public safety concern, only to have additional concerns arise regarding vegetation management and unsightliness.

#### Benefit of Proposed Program

The benefit provided by the CDCU program is the rehabilitation of a dilapidated home, replacing it with a habitable, owner-occupied one.

### **2. City’s Purpose for Appropriation**

As discussed previously, vacant and distressed properties have a pervasive negative effect on the neighborhood in which they are located. The purpose of residential rehabilitation programs in general is to prevent the decay of the neighborhood due to crime, falling property values, and blight.<sup>31</sup> The presence of an owner-occupied single-family home can improve the aesthetics of the neighborhood, provide additional eyes on the street, remove a potential spot for criminal conduct, and plant a stakeholder in the community where there was once a void. This will, in turn, lead to the greater safety, health and comfort of the community surrounding the home.

### **3. Necessity & Propriety of Appropriation**

In order to appropriate these funds, the Council must determine whether the appropriation is necessary and appropriate to accomplish the goals and objectives of the municipality in the areas of economic development, job creation, affordable housing, blight elimination, job preservation, the preservation of historic structures and property, and any other public purpose. It need not be demonstrated that the expenditure is the best or most appropriate use of funds; that decision is left to the discretion of the Council. In this case, the expenditure will help accomplish the goals identified in the city’s General Plan: “Vacant housing could be rehabbed

into moderate-income housing. Vacant housing can also be a resource to increase homeownership in the city, which has been a goal for many years in South Salt Lake.”<sup>32</sup> The plan also called for capital investment by the city: “Through capital planning South Salt Lake City could allocate funds for implementation of the housing plan. The priority will be the acquisition of real property[,], especially vacant undeveloped land, foreclosed properties and abandoned housing at lower than market prices.”<sup>33</sup>

The type of program being analyzed in this study is of the type contemplated by the City Council, after substantial input from citizens. Thus, the appropriation of some capital in the acquisition and rehabilitation of homes would be an appropriate use of general funds. Such expenditure will help eliminate blight, provide affordable housing, preserve property, and combat crime.

#### **4. Fair Market Value**

Staff recommends a cap of \$25,000.00 on each house, up to a total of \$63,000.00 for the entire program.<sup>34</sup> For purposes of section 10-8-2, the Council must determine whether the expected return will result in a value equal to or greater than that amount. The analysis is not limited to dollars received by the city, however. The legislature has specifically permitted the city to “consider intangible benefits received by the municipality.”<sup>35</sup> As this appropriation will be non-recoverable, the majority of benefit which will be reaped by the city will be intangible.

This study has already detailed the problems associated with vacant and dilapidated properties generally. They pose an increased demand on police and code enforcement, are more likely to catch fire, and detract from the community. Additionally, according to research conducted in Philadelphia, housing in close proximity to a vacant home was adversely affected in property value, with a higher negative effect for those in closest proximity to the dilapidated

property.<sup>36</sup> Indeed, homes located within 150 feet of abandoned houses were negatively impacted in sales price by a loss of over \$7,600 per home.<sup>37</sup> While these numbers are not necessarily transferrable to our city, similar conditions may well apply. Immediate neighbors, blocks and neighborhoods all feel the negative effects of abandoned houses. This discourages investment by middle-class families, who wish to see their home values enhanced by the neighborhood, not stifled by it. In the case of the Roberta Street home, 11 single family homes were within 150 feet of the project home, as was one duplex and a business.<sup>38</sup> Nearly three blocks of mostly single-family homes in South Salt Lake are within 500 feet of the project house. Enhancing the property values of the community bestows an intangible benefit upon the residents of the city surrounding the renovated house.

The costs associated with police and fire calls was documented in a previous study.<sup>39</sup> Police calls cost city taxpayers in 2011, on average, \$134 per call; fire calls cost \$616 per call. A code enforcement case, while less costly than a police call, requires city resources. Responding to a larger fire incident has a larger impact on city budget. Anecdotally, once a property has been identified as abandoned, it becomes a target for further vandalism and trespassing. These trespassers may light warming fires which can quickly spread, and which are not always promptly reported to authorities. At least two such fires have occurred at abandoned homes within South Salt Lake in recent memory. Additionally, if a property eventually falls into sufficient disrepair, the city may be required to demolish the property, leading to additional cost to the city – approximately \$5,000 – and resulting in a less-favorable result: a vacant field.

As mentioned previously, the program requires a purchaser to remain in the location for at least three years before the home may be sold without the homeowner reimbursing HUD for the cost of the subsidy. Assuming the purchaser complies with this requirement, the city will

also have gained a long-term resident who may lay down roots in our community. And unlike some subsidized housing projects, the home-buyer will have purchased the home for fair market value, removing the incentive for the owner to capture the value of the subsidy by selling the property at the first opportunity. Locating a viable, property-tax paying home at the location, in combination with potential sales tax expenditures within the city, also represents a benefit to the city which is difficult to quantify. The additional set of eyes on the street and in the community can lead to crime reduction.

An additional consideration is the significant cost savings which the city can capture by partnering with CDCU, rather than undergoing a project of this nature itself. By leveraging the city's contribution with the federal subsidy and CDCU's experience and legwork, the city obtains the benefits already described with a smaller infusion of city funds. The cost to acquire and rehabilitate the Roberta Street property was over \$200,000, with an anticipated sale price of \$130,000. Due to CDCU's ability to take advantage of the HUD program described above, the purchase price is reduced by half. It also makes use of its partnerships with the County and other agencies; on the Roberta Street project home, it found approximately \$6,500 for lead remediation and energy efficiency upgrades from Salt Lake County. Under a City-run program, the city would solely shoulder the risk associated with the rehabilitation and resale of the home, as well as the costs of program administration. This program places the risk and work on CDCU. The track record on loan default by loans managed by CDCU demonstrates that they are effective in educating and assisting first-time home buyers in managing resources and making their payments. Their success with the Roberta Street home also demonstrates that they can deliver the renovation within budget parameters. For the City's \$22,000 investment, a completely rehabilitated home has been added to the City's housing stock, where a blighted home once

stood. Running the program on its own, the City would have suffered at least a \$70,000 loss – approximately the same amount as would be spent on three CDCU projects. As such, if the City wishes to support a home remediation program, this one captures value for the least amount of City investment.

Nevertheless, CROWN funds are limited – perhaps funding as few as three homes of a similar nature to the Roberta Street house. If the Council approves this expenditure and wishes to continue this program after the CROWN funds are depleted, additional funding sources will need to be identified.

## **CONCLUSION**

The consideration of tangible and intangible benefits to the city with respect to this particular project supports a Council determination that this particular project is an appropriate investment of public funds. As has been shown with the Roberta Street home, rehabilitation will enrich the community and remove blight from the neighborhood. Although the city will not recapture its investment through cash payments or reimbursement, the community will receive numerous intangible benefits, and the city will save resources in the realm of police, fire and code enforcement response.

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<sup>1</sup> The literature on this subject has not changed substantially over the nine months which have passed since the Roberta Street 10-8-2 study was prepared, so this study duplicates much of the information discussed in the prior study.

<sup>2</sup> The Roberta Street house was an exception, as CDCU purchased it with the expectation that it could apply for pilot funds, which staff supported. Ordinarily, CDCU has only a few weeks to determine whether it will make the purchase, and there would be many lost opportunities if specific 10-8-2 studies and Council allocations needed to take place. Instead, staff recommends that the Council set the money aside so that it may be accessed quickly by CDCU until that money is depleted.

<sup>3</sup> See [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/reo/abtrevt](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/abtrevt). Under the program, an ACA (Asset Control Area) participant, such as CDCU, may purchase a house within revitalization census tract block groups in which FHA foreclosures would be eligible for the program. The participant receives a 50% discount from current appraised value, and uses that discount to rehabilitate the home. Unlike some HUD programs, like Good Neighbor Next Door, the rehabilitated homes are sold at fair market value. However, the home must be sold to an eligible buyer, who has a household income at or below 115% of the area median income. As an exception, police

officers, emergency responders, and school teachers receive the chance to acquire the home first, and are not required to meet the eligibility income requirement. The purpose of this program is to stabilize a neighborhood, rather than depress home values, so buyers do not receive a discount on the home.

<sup>4</sup> Utah Code Ann. § 10-8-2(3).

<sup>5</sup> *Id.* § 10-8-2(3)(b).

<sup>6</sup> *Id.* § 10-8-2(3)(e).

<sup>7</sup> *Price Dev. Co. v. Orem City*, 2000 UT 26, ¶ 26, 995 P.2d 1237.

<sup>8</sup> See Roberta House Project, Before and After Photographs, attached as Appendix A.

<sup>9</sup> See U.S. Dep't of Housing and Urban Dev., *Barriers to the Rehabilitation of Affordable Housing, Volume I: Finding and Analysis*, 4-5 (May 2001) (hereinafter "*Barriers to Rehab*") (noting that the national need for residential building rehabilitation is approximately \$623 billion, while \$227 billion of that amount is unaffordable without some kind of subsidy); see also Wood et al., *South Salt Lake: Fair Housing Equity Assessment*, Bureau of Economic and Business Research, 44 (April 2013) (draft of final study available upon request to author) (explaining that high rates of foreclosure and turnover among South Salt Lake's disadvantaged reduces the value of homes, "acting in a vicious cycle that could devalue the homes in South Salt Lake").

<sup>10</sup> James R. Cohen, *Abandoned Housing: Exploring Lessons from Baltimore*, Housing Policy Debate, Vol. 12, 417 (Fannie Mae Foundation 2001) (hereinafter "*Abandoned Housing*"); Christopher J. Allred, *Breaking the Cycle of Abandonment: Using a Tax Enforcement Tool to Return Distressed Properties to Sound Private Ownership*, Article, Better Government Competition No. 10, Pioneer Institute for Public Policy Research, 1 (2000) (hereinafter "*Breaking the Cycle*").

<sup>11</sup> Scaffidi et al, *An Economic Analysis of Housing Abandonment*, Journal of Housing Economics 7, 287-89 (1998).

<sup>12</sup> If a home which has \$100,000 of outstanding debt, but is worth only \$40,000 due to dilapidation, then it will take a major investment (acquisition costs and rehabilitation costs) and rebound in the housing market to make such a home viable in the absence of a government incentive.

<sup>13</sup> Cohen, *Abandoned Housing*, at 33-34.

<sup>14</sup> Allred, *Breaking the Cycle*, at 2.

<sup>15</sup> *Id.* at 2.

<sup>16</sup> *Id.* at 3.

<sup>17</sup> According to the U.S. Census Bureau, an estimated 70% of South Salt Lake housing structures were built before 1980. U. S. Census Bureau, *Selected Housing Characteristics, 2008-2012 American Community Survey 5-Year Estimates* (available online at <http://www.census.gov>); see also *Barriers to Rehab*, at 20.

<sup>18</sup> The median household income (2009-2013) for South Salt Lake residents is estimated to be \$35,514, while the State of Utah's is \$58,821, and Salt Lake County's is \$60,555. U. S. Census Bureau, *State & County QuickFacts* (South Salt Lake City & Salt Lake County) (available online at <http://www.census.gov>) (last visited Jan 20, 2015).

<sup>19</sup> SSL Ord. § 8.44.010.

<sup>20</sup> See generally Andrew Downs, *The Effects of the Demolition of Vacant and Abandoned Houses on Adjoining Property Conditions and Assessed Values*, Indiana Journal of Political Science, Vol. 13, 27-38 (2009/2010); Scaffidi, at 287-303; Joseph Schilling, *Code Enforcement and Community Stabilization: The Forgotten First Responders to Vacant and Foreclosed Homes*, 2 Alb. Gov't L. Rev., 101- 163 (2009).

<sup>21</sup> Schilling, *supra*, at 110-11; U.S. Fire Administration, *Vacant Residential Building Fires*, Topical Fire Report Series, Vol. 11, 1 (August 2010); Marty Ahrens, *Vacant Building Fires*, National Fire Prevention Association (April 2009).

<sup>22</sup> *Vacant Residential Building Fires, supra* at 1.

<sup>23</sup> SSL Ord. § 8.44.010 et seq.

<sup>24</sup> Adopted by reference by SSL Ord. § 15.08.090.

<sup>25</sup> The code provides an opportunity for the owner to rehabilitate the property, but the owner's failure to do so leads to the default position of city-sponsored demolition.

<sup>26</sup> Demolition of a single family home without asbestos concerns will be in the neighborhood of \$5,000.00. A lien is placed on the property, but normally takes at least five years to recoup, if it is paid at all. The demolition of a commercial, burnt-out building in 2013 cost over \$25,000.00 due to asbestos remediation and challenges associated with the site.

<sup>27</sup> The Council generally appropriates about \$15,000 each year for abatement, which covers all abatement efforts, including demolition, inoperable vehicle removal, weed abatement, graffiti removal, and other nuisances to the community. This fund is replenished by liens for previous abatement actions in part, but is often supplemented by the general fund.

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<sup>28</sup> Downs, at 29.

<sup>29</sup> *Id.*

<sup>30</sup> See generally Cohen, *Abandoned Housing*.

<sup>31</sup> See generally, National Vacant Properties Campaign, *Vacant Properties: The True Costs to Communities* (August 2005) (available online at <http://www.smartgrowthamerica.org/documents/true-costs.pdf>).

<sup>32</sup> City of South Salt Lake, General Plan, 133 (adopted December 2009).

<sup>33</sup> *Id.* at 152.

<sup>34</sup> This represents the balance of the CROWN money which the City received in 2012. Additional amounts could be allocated by the Council or the RDA, if the Council wishes to further expand this program.

<sup>35</sup> Utah Code Ann. § 10-8-2(3)(c).

<sup>36</sup> Temple University Center for Public Policy and Eastern Pennsylvania Organizing Project, *Blight Free Philadelphia: A Public-Private Strategy to Create and Enhance Neighborhood Value*, 33 (Oct. 2001) (available online at <http://astro.temple.edu/~ashlay/blight.pdf>).

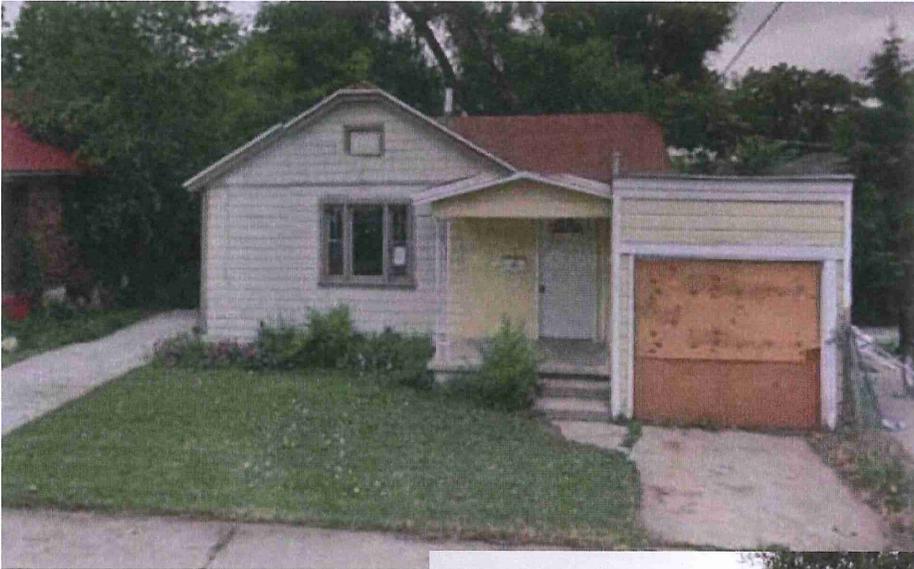
<sup>37</sup> *Id.* Homes within 300 feet suffered a loss of \$6,819 in sales, and homes within 500 feet suffered a reduction of \$3,500.

<sup>38</sup> For sake of reference, if the Philadelphia numbers were directly transferrable to the Roberta Street neighborhood, excluding the business and duplex, then the renovation has increased the value of the immediate neighborhood (within 150 feet) by over \$80,000.

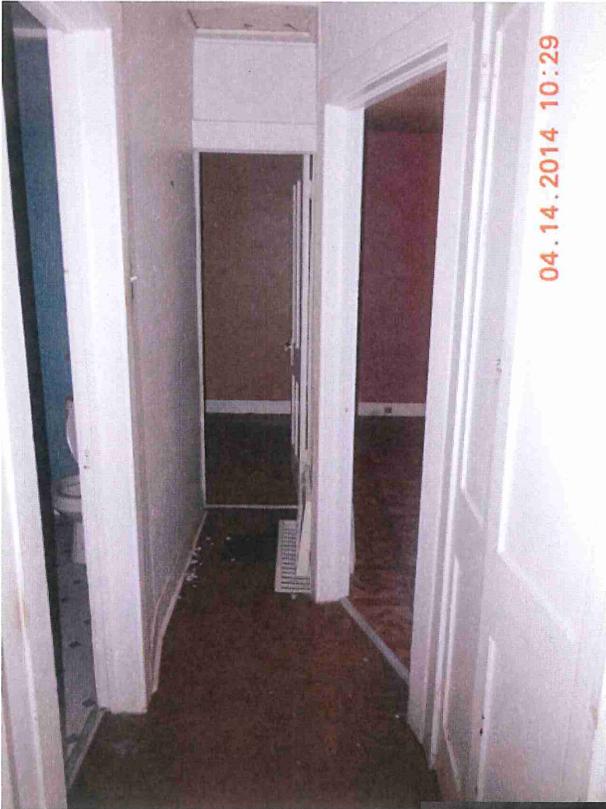
<sup>39</sup> South Salt Lake, *Business License and Residential Rental License Fee Study*, 20 (June 2011) (study conducted by Lewis, Young, Robertson & Burningham).

APPENDIX A  
Roberta House Project  
Before and After Photographs

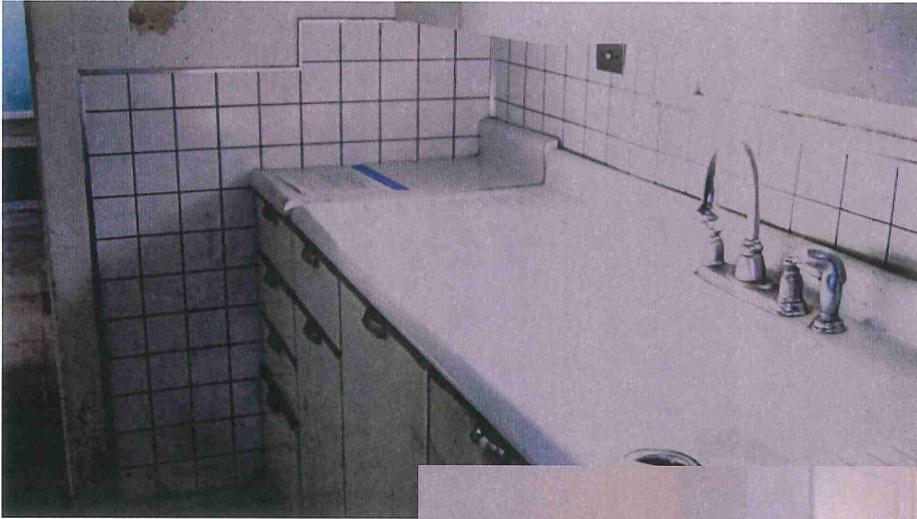
2112 RobertasStreet, South Salt Lake, Utah



2112 Roberta Street, South Salt Lake, Utah



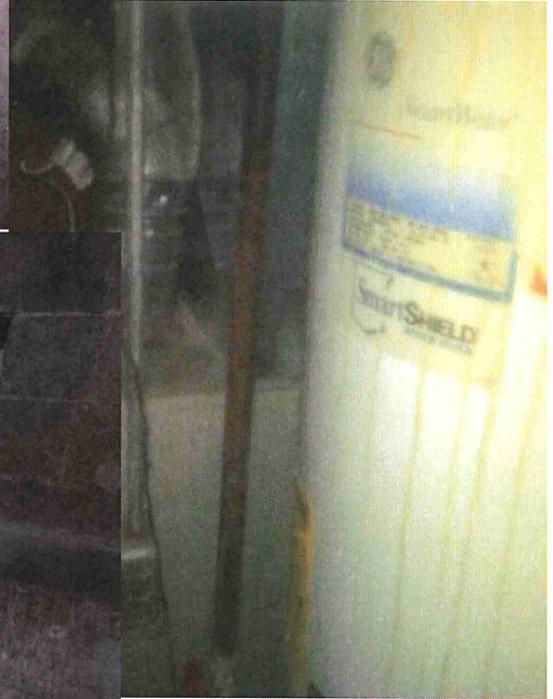
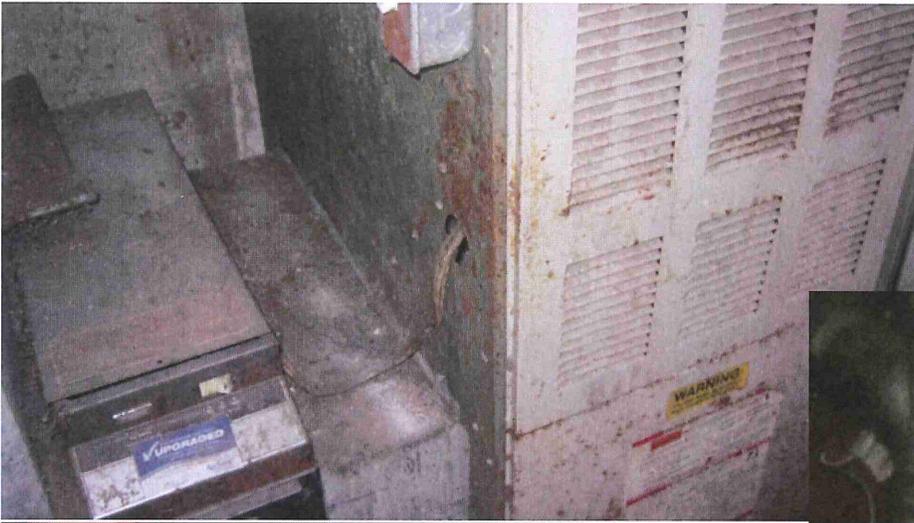
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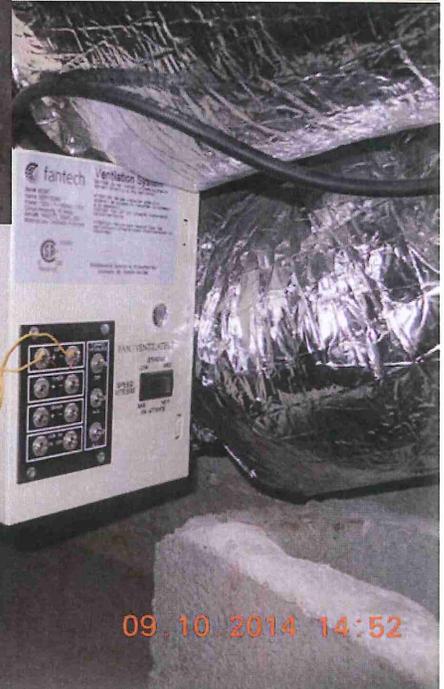
2112 Roberta Street, South Salt Lake, Utah



2112 Roberta Street, South Salt Lake, Utah



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