



## Agenda Report

18-102

Agenda Date: 3/20/2018

### REPORT TO COUNCIL

#### **SUBJECT**

Fiscal Year 2018-19 Annual Plan for the use of Federal Housing and Urban Development Funds

#### **BACKGROUND**

The City's Housing and Community Services Division oversees several programs that provide services to low income residents within the City of Santa Clara. These programs are funded through multiple sources including the City's General Fund, "Program Income" generated by the repayment of loans previously issued by the City, and grant monies given to the City by the Federal Department of Housing and Urban Development (HUD) in the form of Community Development Block Grant (CDBG) and Home Investment Partnerships (HOME) funds. Following the procedures established in the City's Citizen Participation Plan, the City holds two public hearings as part of its annual allocation of HUD funds. The public hearing on March 20 provides an opportunity for community members to give input on a preliminary proposed distribution of HUD funds. Following the City Council hearing on the preliminary recommendations, the Draft Annual Plan will be made available for public review for 30 days and then a Final Annual Plan will be presented to City Council for approval on May 8, 2018.

Program elements funded by CDBG funds overall must comply with a requirement that at least 70% of expended funds provide benefit to low- and moderate-income people. Additionally individual activities must, at a minimum, serve 51% low- and moderate-income people. Eligible CDBG activities include funding of local non-profit organizations, housing rehabilitation, new construction and/or rehabilitation of public facilities, infrastructure improvements, and acquisition of property for a qualified use.

CDBG funds may be used to support the work performed within the community by non-profit organizations, referred to as Public Service Agencies. Public Service Agencies interested in receiving CDBG grant funding submit applications to the City and the City grants funding through a competitive process dependent upon the funding availability. For a proposed public service activity to be eligible to receive CDBG funding, it must qualify as meeting one of the following three national objectives of the CDBG program:

- a) Benefit low and moderate income people;
- b) Aid in prevention or elimination of slum or blight; or,
- c) Meet emergency needs when local financial resources are not available.

Public Service Agency applicants typically make a presentation at the preliminary hearing in support of their applications.

## **DISCUSSION**

Staff has prepared the FY 2018-19 budget recommendations for the use of the CDBG and HOME funds as detailed in Attachment 1. Based on the feedback from the members of the public through public engagement meetings, an alternative funding scenario that requires General Fund monies is detailed in Attachment 2. A comprehensive Description of Activities that would be conducted using the City's CDBG and HOME funds is provided as Attachment 3.

### **CDBG Funds Allocation for Public Service Agencies**

Per HUD guidelines, the City may allocate up to 15% of its estimated CDBG budget (entitlement funds and program income) plus 15% of the previous year's CDBG Program Income for Public Service Agency grants. Staff recommends that the City allocate the maximum amount of CDBG funds available for Public Service Agency Requests in order to best support local community services. Based on the anticipated grant amount and the anticipated program income, this would allow up to \$176,807 of Federal Funds be allocated for Public Service Agencies in FY 2018-2019.

The City conducted outreach to solicit requests from qualifying Public Service Agencies for this year's available CDBG funding and received eleven applications requesting a total funding amount of \$249,000, which exceeds the allowable amount for the FY 2018-2019. Staff has prepared FY 2018-19 public service award recommendations as detailed in Attachment 1, based on a budget of \$176,807. Following an initial screening for consistency with HUD requirements, the recommended distribution of these funds amongst Public Service Agencies is based upon the evaluation of applications to the degree to which they would help the City achieve the goals described in the City's Five Year (2015-20) Consolidated Plan.

As part of its community engagement initiative, the Housing Division invited all Public Service Agencies to attend the Citizens Advisory Committee (CAC) meeting on Monday, February 26, 2018. Representatives from the various agencies provided overviews of their programs and were available for a brief question and answer period. Attendees at the meeting expressed appreciation for how valuable Santa Clara's local service providers are to local residents and a desire to expand these programs beyond the funds available.

While the maximum CDBG awards allocated for Public Service Agencies in FY 2018-2019 is \$176,807, feedback from the CAC and public outreach meetings requested that Staff search for alternative sources of money in order to narrow the public service funding gap. In response, Staff has determined that the Public Service Agency needs could be substantially met with \$221,500 in funding, roughly \$45,000 above the spending cap of \$176,807 allowed by HUD for CDBG public service awards. Attachment 2 outlines an alternative funding allocation with use of \$45,000 funded from the General Fund for Public Service Agencies for Council consideration if referred for discussion to the FY 2018/19 Budget Study Session.

### **CDBG Funds Allocation for City Programs**

As proposed, the remainder of the City's CDBG funding would be allocated to expand the City's Neighborhood Conservation and Improvement Program (NCIP), which supports housing rehabilitation for low income residents. In recent years, the City's ability to implement NCIP projects has slowed due to the inability to use HOME funds. The HOME program has limits on post-rehabilitated home values. In the past NCIP projects would not exceed the limit, but in the most recent years the City has not had any proposed NCIP rehabilitation projects which would qualify under the limitation. In the current fiscal year the City received eligible NCIP applications in excess

of the CDBG funding available for NCIP in the City's budget. While the NCIP is also funded by program income (e.g., repayment of loans granted in prior years), this funding is unpredictable and recently has not been sufficient in combination with the CDBG funding to meet the full demand. The proposed increased allocation of CDBG funds to the NCIP for the upcoming fiscal year will allow the City to improve and expand the NCIP program in response to community needs.

#### HOME Funds Allocation

HOME funds can only be used to support projects that directly result in affordable housing. Typical activities that can be funded include housing rehabilitation, new construction, property acquisition, and tenant-based rental assistance. All HOME funds must benefit low-income households (while the CDBG Program may also be used to benefit moderate income households). Except for owner-occupied housing rehabilitation activities, there is a minimum 5 to 20 year affordability requirement for units assisted by HOME funds; essentially, rents are restricted to affordable rent levels as defined by HUD. The HOME Program requires that the City provide 25% local matching funds to leverage the federal grant to the City. Santa Clara satisfies this requirement by using its City Affordable Housing Fund to help subsidize the City's Tenant Based Rental Assistance (TBRA) program.

As proposed, HOME funds would continue to be allocated to fund the City's TBRA program as this program has proven to be an efficient and successful use of HOME funding. Prior to the current fiscal year, HOME funds had also been allocated to the NCIP, but as noted above, NCIP projects no longer meet HUD criteria for use of HOME funds due to rising land values.

#### Contingency Language

In the past, HUD has instructed jurisdictions to delay submitting Final Annual Plans for approval until after the U.S. Congress has completed the appropriations process for fiscal HUD funding. HUD further advised that grantees may conduct citizen participation on its Draft Annual Plan (with estimated funding amounts) according to its normal timetable and procedures and in doing so should include "contingency provision" language in its Annual Plan to account for variations in allocation amounts. Accordingly, Staff has proceeded with the City's Draft Annual Plan and recommends that the Plan include the following contingency language: "appropriations that exceed the estimated funding amount will be allocated to the Neighborhood Conservation and Improvement Program (NCIP) (CDBG funds) and Tenant Based Rental Assistance (TBRA) (HOME funds) programs respectively to match the actual allocation amounts announced by HUD for fiscal year 2018-19. In the event of a funding decrease, all proposed activity allocations will be proportionately decreased from estimated funding levels to match the actual allocation amounts announced by HUD for fiscal year 2018-19."

#### Consistency with the Five Year (2015-20) Consolidated Plan

The City's adopted 2015-2020 Consolidated Plan provides policy guidance for the administration of the City's HUD funded activities. The following is a brief summary of the HUD funded Goals as identified in the Consolidated Plan. (See Attachment 4 for greater detail).

- Goal One: Affordable Housing
- Goal Two: Homelessness
- Goal Three: Public Services

- Goal Four: Fair Housing
- Goal Five: Economic Development
- Goal Six: Public Facilities

### Conclusion

As described above and in the attached documents, the proposed allocation of the City's available CDBG and HOME grant and program income funds would be used to address a diverse set of programs that align with the City's goals for affordable housing, as identified in the Consolidated Plan. The proposed Public Service Agency funding would leverage partnerships with other community agencies to increase the supply and quality of affordable housing available within the community, support fair housing, and provide housing and services for low income households, special needs, and homeless populations. The City would also continue to fund its housing rehabilitation, rental assistance programs, and transitional housing programs with direct City oversight. The proposed allocation for administration would be consistent with the City's move toward cost recovery and enable the necessary staffing levels for program administration.

### FISCAL IMPACT

The combined (CDBG and HOME) FY 2018-19 federal entitlement grants will provide the community with an estimated \$1,203,192 in grant funding and an estimated \$400,000 in program income to support the goals set forth in the City's Consolidated Plan. An estimated \$280,691 of this funding will be set-aside to supplement the Housing Division's administrative and staffing costs incurred by these grants. The City Council can also consider referring the discussion for a one-time appropriation of General Fund monies in the amount of \$45,000 to the 2018-2019 budget study session. This would create a one-time increase in General Fund allocation for these services.

### ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(5) in that it is a governmental organizational or administrative activity that will not result in direct or indirect changes in the environment.

### PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email [clerk@santaclaraca.gov](mailto:clerk@santaclaraca.gov) <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

On February 26, 2018, Staff attended the Citizen Advisory Committee (CAC) meeting as part of its community outreach program to present the City's proposed uses of HUD funds, to solicit feedback for the proposed programs, and to hear presentations from Public Service Agencies. Attendees at the CAC emphasized the importance of the services provided to the community by the Public Service Agencies and encouraged Staff to find a way to more fully fund them.

**ALTERNATIVES**

1. Approve the Funding Proposal Summary (Attachment 1).
2. Note and file the oral and written testimony received at the public hearing on March 20, 2018 for consideration of Fiscal Year 2018-19 funding recommendations.
3. Refer to the FY 2018/19 Proposed Budget Study Session a discussion to potentially fund a one-time appropriation of General Fund monies in the amount of \$45,000.
4. Any other Council direction.

**RECOMMENDATION**

Alternatives 1 and 2:

1. Approve the Funding Proposal Summary as detailed in Attachment 1.
2. Note and file the oral and written testimony received at the public hearing on March 20, 2018 for consideration of Fiscal Year 2018-19 funding recommendations.

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Reviewed by: Andrew Crabtree, Director of Community Development

Reviewed by: Angela Kraetsch, Director, Finance

Reviewed by: Brian Doyle, City Attorney

Reviewed by: Manuel Pineda, Assistant City Manager

Reviewed by: Walter C. Rossmann, Chief Operating Officer

Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. Proposed Budget for Distribution of HUD Funds
2. Alternative Funding Allocation for Distribution of HUD and General Fund funds
3. Description of HUD Funded Activities
4. Consolidated Plan Goals