



CITY COUNCIL AGENDA REPORT

MEETING DATE: MAY 2, 2017

ITEM NUMBER: PH-1

SUBJECT: PUBLIC HEARING FOR FISCAL YEAR 2017-2018 FUNDING PRIORITIES FOR THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) AND HOME INVESTMENT PARTNERSHIPS PROGRAM (HOME)

DATE: APRIL 13, 2017

FROM: DEVELOPMENT SERVICES DEPARTMENT/HOUSING AND COMMUNITY DEVELOPMENT

**PRESENTATION BY: WILLA BOUWENS-KILLEEN, AICP, ZONING ADMINISTRATOR
MIKE LINARES, CDBG/HOME COORDINATOR**

**FOR FURTHER INFORMATION CONTACT: MIKE LINARES, CDBG/HOME COORDINATOR
714.754.5678 mike.linares@costamesaca.gov
WILLA BOUWENS-KILLEEN, AICP, ZONING ADMINISTRATOR
714.754.5153 willa.bouwens-killeen@costamesaca.gov**

RECOMMENDATIONS

1. Hold Public Hearing regarding the 2017-2018 Annual Action Plan.
2. Approve recommended allocation of \$1,000,000 for the Fiscal Year 2017-2018 estimated Community Development Block Grant.
3. Approve recommended allocation of \$340,000 for the Fiscal Year 2017-2018 HOME Investment Partnerships Grant.
4. Approve resolution (Attachment 1) to authorize the following:
 - City Manager to act as the official representative of the City in order to submit the 2017-2018 Annual Action Plan (Attachment 2) and all certifications and assurances contained therein;
 - City Manager to act in connection with the submission of the Annual Action Plan;
 - City Manager to approve changes and provide additional information as may be required.

BACKGROUND

Costa Mesa is a recipient of certain Housing and Urban Development (HUD) funds; the Community Development Block Grant (CDBG) and HOME Investment Partnerships Grant (HOME). These two HUD programs annually provide approximately \$1.3 million to the City and can be used for an array of services that assist low and moderate-income persons.

The Housing and Community Development Division (HCD) of the Development Services Department is responsible for administration of the City's CDBG and HOME grants. CDBG and HOME programs and projects must reflect the needs outlined in the City's Consolidated Plan. The Consolidated Plan is a five-year planning document required by HUD for all communities receiving community development funds. The current Consolidated Plan was approved by the City Council in May of 2015, and covers Fiscal Year (FY) 2015-2016 through FY 2019-2020. Pursuant to CDBG and HOME program regulations, the City has prepared the draft 2017-2018 Annual Action Plan in order to comply with HUD's requirements and for the City to continue to receive these federal funds.

The Annual Action Plan is the one-year expenditure plan for the use of HUD funds. The City is required to submit the action plan to HUD by May 15, 2017; however, to date, the 2017 Federal budget has not been approved. HUD has provided guidelines for preparing and submitting the Annual Action Plan during this intervening period. HUD has advised communities to continue with the Annual Action Plan process in anticipation of the approval of the 2017 Federal budget. The draft Action Plan should include a proviso that the City will proportionally increase or decrease funding allocations to match actual allocations once CDBG and HOME allocations are announced by HUD. Consistent with this directive, for FY 2017-2018, the City is estimating it will receive \$1,000,000 in CDBG funds and \$340,000 in HOME funds. These allocations represent a modest increase of 0.97% for CDBG and 0.38% for HOME from current year funding levels. The priority housing and community development needs identified in the 2015-2019 Consolidated Plan were utilized to determine the proposed programs and projects presented for FY 2017-2018 funding consideration.

ANALYSIS

As a recipient of CDBG and HOME funds, the City of Costa Mesa is required to prepare a five-year strategic plan known as the Consolidated Plan. The Consolidated Plan must be prepared every three to five years. The current Consolidated Plan was approved by the City Council in May 2015 and its five-year cycle will end on June 30, 2020.

The Consolidated Plan identifies priority housing and community needs, and lays out the City's five-year plan to address these needs. Priority needs are identified as either a high or low need. Activities that address a high priority need will be funded by the City during the five-year period provided adequate resources are available. Low priority needs will most likely not receive funding; however, if resources are available and the

respective need increased in importance, funding could be allocated in future years. Table 1 provides a summary of housing and community needs identified in the current Consolidated Plan:

Table 1: 2015-2019 Consolidated Plan Priority Goals & Outcomes

Goal	Category	Priority Need	Need(s) Addressed	5-Yr. Goal Outcome Indicator
Owner Occupied Housing Rehabilitation	Affordable Housing	High	Owner Occupied Housing	Rehabilitate 50 Housing Units
Rental Housing Rehabilitation	Affordable Housing	Low	Rental Housing Acquisition / Rehabilitation	Rehabilitate 1 Housing Unit
Rental Housing Acquisition	Affordable Housing	Low	Rental Housing Acquisition / Rehabilitation	Acquire 1 Rental Housing Unit
Code Enforcement	Affordable Housing	High	Housing Code Enforcement	Enforce Codes of 1,250 Housing Units
Emergency Shelter	Homeless	High	Homeless Services & Housing	10 Persons Assisted
Transitional Housing	Homeless	High	Homeless Services & Housing	75 Persons Assisted
Rapid Re-housing	Homeless	High	Homeless Services & Housing	25 Households Assisted
Homelessness Prevention	Homeless	High	Homeless Services & Housing	10 Persons Assisted
Tenant-Based Rental Assistance	Homeless	Low	Homeless Services & Housing	1 Household Assisted
Senior/Frail Elderly Services	Special Needs	High	Services for Elderly/Frail Elderly	2,500 Persons Assisted
Services for Disabled	Special Needs	High	Services for Disabled	150 Persons Assisted
Youth Services	Non-Housing Community Development	High	Youth Services	2,500 Persons Assisted
Low and Moderate Income Persons	Non-Housing Community Development	High	Services for Low & Moderate Income Persons	750 Persons Assisted
Public Facilities	Non-Housing Community Development	High	Public Facilities	Public Facility Benefit: 2,500 Persons
Public Infrastructure Improvements	Non-Housing Community Development	High	Public Infrastructure	Public Infrastructure Benefit: 7,500 Persons
Program Administration	Administration	High	Program Administration	Other: 5 Years

Annual Action Plan

The Annual Action Plan outlines how the City will allocate both CDBG and HOME funds for eligible activities that address the priority needs identified in the Consolidated Plan. Both CDBG and HOME have specific program requirements, for example, CDBG funds must be utilized to achieve one of three national objectives: Elimination of slums and blight, benefit to low- and moderate-income persons, or meet an urgent need. HOME funds must be used to preserve or increase housing opportunities for low-income residents living in Costa Mesa.

Outlined below are the programmatic recommendations by staff to address the Consolidated Plan's priorities. Proposed budgets for FY 2017-2018 CDBG and HOME funds are also listed below:

CDBG FUNDS

The City anticipates HUD will award the City \$1,000,000 in CDBG funds for FY 2017-2018. An additional \$150,000 in prior year CDBG funds are also available for programming in FY 2017-2018. Staff is recommending funding in four primary program areas; 1) code enforcement, 2) capital improvements, 3) public services grants, and 4) program administration.

Code Enforcement

CDBG funds may be used for code enforcement activities provided the program primarily benefits low- and moderate-income persons, and that such code enforcement "together with public or private improvements, rehabilitation, or services to be provided," may be expected to arrest the decline of the area. The crux of this regulation is that any CDBG-funded code enforcement activity must have a direct nexus to the rehabilitation or improvement of housing in an eligible area. For FY 2017-2018, a total of \$320,000 will be allocated to support the work efforts of two full-time code enforcement officers and one full-time clerical support staff. The enforcement activity of these two officers will be limited to Census Tract Block Groups identified by HUD (see Attachment 3 of Annual Action Plan).

Capital Improvements

CDBG funds may be used to improve public facilities and/or infrastructure provided the primary beneficiaries are low- and moderate-income Costa Mesa residents. For FY 2017-2018, HCD and Public Services Department staff are recommending \$480,000 in CDBG funds for one capital project: Pomona Avenue Roadway Improvements between West 18th Street and West 16th Street.

Public Service Grants

The City is allowed to allocate up to 15 percent of its annual CDBG allocation for public service grants. As authorized by the City Council, HCD staff solicited proposals from nonprofit agencies that serve Costa Mesa residents. Based on the City's estimated FY 2017-2018 CDBG grant allocation, a maximum of \$150,000 is available for public service grant funding. On March 2, 2017, the City's Ad-Hoc Housing and Public Service Grants Committee (H&PSG Committee) interviewed grant applicants, rated and ranked applications, and developed public service grant funding recommendations. Attachment 3 provides a summary of the H&PSG Committee's rating, ranking and grant

recommendations for the City Council's consideration. Attachment 3 also includes a summary of grant applications and a three-year funding history of CDBG public service grants. Complete public service grant applications can be found on the City's webpage (<http://www.costamesaca.gov/cdbg>). Grant recommendations are also listed in the proposed CDBG budget below.

Administration

HUD allows the City to allocate up to 20 percent of its annual grant for planning and program administration. Based on the estimated FY 2017-2018 grant, a maximum of \$200,000 is available for program administration. Eligible program administration expenditures include program staff salaries and benefits, contract services, legal services, and direct program operating costs.

Proposed FY 2017-2018 CDBG Budget

AVAILABLE FUNDS		
2017-2018 CDBG Allocation (Estimate)	\$1,000,000	
Prior Year Funds	\$150,000	
	TOTAL:	\$1,150,000
PROPOSED PROGRAMS/PROJECTS		
Code Enforcement		
▪ Salary & Benefits - 2 FT Officers & 1 FT Clerical	\$286,302	
▪ Allocated/Misc.	\$33,698	
	Subtotal:	\$320,000
Capital Improvement Projects		
▪ Residential Street Improvements - Pomona Ave. (between 18 th St. and 16 th St.)	\$480,000	
	Subtotal:	\$480,000
Public Service Grants (15% Maximum)		
▪ Fair Housing Foundation (required)	\$20,000	
▪ Community SeniorServ – Senior Meal Programs	\$25,000	
▪ Council on Aging – Orange County	\$17,000	
▪ Youth Employment Services	\$16,000	
▪ Colette's Children's Home	\$16,000	
▪ Families Forward	\$16,000	
▪ Mercy House Transitional Living Center	\$25,000	
▪ Trellis	\$15,000	
	Subtotal:	\$150,000
Administration (20% Maximum)		
▪ CDBG Program Administration	\$200,000	
	Subtotal:	\$200,000
	TOTAL:	\$1,150,000
Total Unappropriated Funds		\$0

HOME FUNDS

HCD staff estimates the City's FY 2017-2018 HOME Grant allocation will be \$340,000, an increase of approximately 0.38 percent (\$1,290) from the current year grant. Additional HOME funds being budgeted include \$85,178 in prior year program funds for a total HOME budget of \$425,178. From the FY 2017-2018 grant, a required 15 percent must be utilized for an eligible Community Housing Development Organization (CHDO) project, and a maximum of 10 percent may be allocated for administration. Staff is proposing to allocate FY 2017-2018 HOME funds for three core activities; 1) single-family housing rehabilitation loans and grants, 2) CHDO reservation, and 3) program administration.

Housing Rehabilitation

HOME funds may be used to improve and preserve the City's supply of owner-occupied housing for households with an income up to 80 percent of the County median. Staff is recommending continued funding of the City's Single Family Housing Rehabilitation Loan and Grant programs. A total of \$255,000 is allocated for these programs. In addition to the allocation of HOME funds by HUD, the City also receives income when prior funded housing rehabilitation loans are repaid. Program income may be used for any HOME eligible activity. The City is required to utilize program income before it uses new grant funds; therefore, program income received during the fiscal year will be utilized for housing rehabilitation programs. The City is also allowed to keep up to 10% of program income funds for HOME administration expenditures. The HOME program does require that funds be committed within 24 for months of the grant award date.

CHDO

HOME program regulations require that a minimum of 15% of an annual grant allocation be utilized by a Community Housing Development Organization (CHDO). CHDO's are typically nonprofit organizations specializing in the development of low-income affordable housing. No qualified project is identified at this time; however, based on the City's estimated FY 2017-2018 HOME grant, \$51,000 has been set-aside for a potential CHDO project. Additionally, the 2017-2018 Annual Action Plan is recognizing \$51,107 in prior year CHDO funding. Recognition of these funds will provide the City flexibility to fund a CHDO project.

Administration

HUD allows the City to allocate up to 10% of its annual grant for HOME program administration. Based on the estimated FY 2017-2018 grant, a maximum of \$34,000 is available for HOME program administration. The City also has \$34,071 in prior year HOME Administration funds that will be available during the fiscal year. Eligible program administration expenditures include program staff salaries and benefits, contract services, legal services, and direct program operating costs.

Proposed FY 2017-2018 HOME Budget

AVAILABLE FUNDS		
2017-2018 HOME Allocation (Estimate)	\$340,000	
Prior Year HOME Admin Funds	\$34,071	
Prior Year HOME CHDO Funds	\$51,107	
	TOTAL:	\$425,178
PROPOSED PROGRAMS/PROJECTS		
Housing Rehabilitation		
<ul style="list-style-type: none"> ▪ Housing Rehabilitation Loans & Grants (approx. 1 loan @ \$50,000 and 10 grants, plus program staff salary and benefits) 	\$255,000	
	Subtotal:	\$255,000
CHDO Reservation – 15% of Current Year Grant – Project to be determined	\$51,000	
Prior Year CHDO Reservation – Project to be determined	\$51,107	
	Subtotal:	\$102,107
Administration (10% Maximum)		
<ul style="list-style-type: none"> ▪ FY 2017-2018 HOME Program Administration ▪ Prior Year HOME Program Administration 	\$34,000 \$34,071	
	Subtotal:	\$68,071
	TOTAL:	\$425,178
Total Unappropriated Funds		\$0

CalHome

The HOME program requires that the City provide a 25% match for every program dollar expended. In recent years the City has utilized surplus match generated by projects funded with HOME and other resources such as redevelopment. With the elimination of redevelopment funding in 2012, the City has not accumulated any additional HOME match. HCD staff has identified a potential funding source that may potentially be utilized as HOME match. In 2007, the City received \$120,000 in State housing funds via the CalHome program. CalHome was a State of California affordable housing program that provides financial resource for a variety of housing activities that benefit lower income households. 2016 was the final year for this program. However, program participants (i.e., cities and counties) may be allowed to keep program income generated by CalHome funded activities.

Based on HCD records, two CalHome loans have been repaid. HCD staff has confirmed with the City's Finance Department that \$98,000 in CalHome loan repayments is available for programming in FY 2017-2018. Additionally, HCD staff has verified that the City has existing CalHome program policies and procedures and related agreements and forms. In order to utilize these funds, the City must submit a *CalHome Reuse Account Plan* to the State Department of Housing and Community Development (State HCD). HCD staff is proposing to implement CalHome as part of the 2017-2018 City Budget. HCD staff will prepare and submit the *CalHome Reuse Account Plan* to State HCD. Program policies, procedures and forms will also be

revised as necessary. Once authorized to utilize CalHome funds by State HCD, staff will return to the City Council with program implementation details.

HUD Funding Delay

The 2017-2018 Fiscal Year will be the third year of the 2015-2019 Consolidated Plan cycle. The Action Plan is the link between the goals and objectives listed in the Consolidated Plan with actual projects and activities to be carried out during a 12-month period or fiscal year. The specific time frame covered by the 2017-2018 Action Plan begins July 1, 2017 and ends June 30, 2018. The 2017-2018 Action Plan is attached to this Agenda Report as Attachment 2.

Typically, a Federal budget is proposed by the president and approved by the Congress prior to the beginning of the Federal fiscal year (i.e., October of a given year). In recent years, political gridlock has resulted in a delay in approving a budget. Such delays prevent HUD from notifying the City of CDBG and HOME allocations. HUD has recently issued guidance to communities that allows initiation of the Annual Action Plan preparation process as long as a proviso is provided that outlines how a community will adjust the funding for proposed activities once grant allocations are announced by HUD. The draft 2017-2018 Annual Action Plan includes a provision that indicates all activities recommended for funding will be proportionally increased or decreased from estimated funding levels to match actual allocations once announced by HUD.

Ad-Hoc Housing and Public Service Grants Committee

Recently, City Council requested updates on the activities of the various committees they appoint. Since HCD must appear before Council annually as a means to review the Annual Action Plan and budget allocation for the coming fiscal year, it was felt to be an appropriate opportunity to forward the committee's update.

The Ad-Hoc Housing and Public Service Grants Committee (H&PSG) meets, at minimum, two times a year. One meeting occurs in the Spring to review applications for public service grants, recommending which recipients and how much they should receive to Council as part of the annual review of the Annual Action Plan and budget allocation. The second meeting occurs in the Fall, at which time the committee reviews the Consolidated Annual Performance and Evaluation Report of the past fiscal year. Both meetings are noticed, public hearings. The H&PSG held two meetings in 2016, consistent with this description.

Occasionally, additional meetings may be scheduled on an as-needed basis for matters such as a change in policy or procedures. Those meetings, too, are noticed to allow the public to attend and/or comment. As needed, the information is forwarded to City Council for their action. No additional meetings were held by the H&PSG in 2016.

NOTICING REQUIREMENTS

As required by HUD, a notice was published on March 30, 2017, inviting the public to review and comment on the draft document during a thirty-day (30) comment period. The comment period began April 1, 2017, and concludes May 1, 2017.

FISCAL IMPACT

No financial impacts are anticipated. Staff anticipates the City will receive \$1,000,000 in CDBG funds for FY 2017-2018. An additional \$150,000 in prior year funding is also available. HUD will reimburse the City up to these amounts for eligible CDBG program expenditures.

Similarly, staff anticipates the City it will receive \$340,000 in HOME funds for FY 2017-2018. An additional \$85,178 in prior year funding is also available. HUD will reimburse the City up to these amounts for eligible HOME program expenditures.

As indicated above, funding for activities identified in the 2017-2018 Annual Action Plan will be proportionally increased or decreased in order to match actual CDBG and HOME allocations approved and announced by HUD.

ALTERNATIVES CONSIDERED

City Council can choose not to fund the proposed programs and projects as recommended by staff and reallocate CDBG or HOME funds to other eligible activities. Council could also direct staff to not submit the Action Plan; however, if the City does not submit the Plan, HOME funds will most likely be returned to the U.S. Treasury and the City's CDBG funds will be distributed proportionally among all other Orange County jurisdictions that receive CDBG funds.

LEGAL IMPACT

No adverse legal impact is anticipated.

CONCLUSION

The draft 2017-2018 Annual Action Plan was prepared according to HUD regulations, and outlines how the City will utilize estimated FY 2017-2018 CDBG and HOME funds to meet the objectives and goals of the Consolidated Plan. It is recommended that the City Council hold a public hearing to obtain additional public input regarding the draft 2017-2018 Annual Action Plan, and approve a resolution authorizing the City Manager to submit the Action Plan to HUD on behalf of the City of Costa Mesa.

JAY TREVINO
Development Services Department
Consultant

WILLA BOUWENS-KILLEEN
Zoning Administrator

MIKE LINARES
CDBG/HOME Coordinator

STEPHEN DUNIVENT
Interim Finance Director

Attachments: [1 – Resolution](#)
[2 – Draft 2017-2018 Annual Action Plan](#)
[3 – FY 2017-2018 CDBG Public Service Grant Recommendations](#)