



MEMORANDUM

Community Development Department

DATE: March 7, 2019

TO: Human Relations Commission

FROM: Tim Wong, Housing and Neighborhood Services Manager
Wayne Chen, Assistant Community Development Director

SUBJECT: **Recommendations for Fiscal Year 2019-20 Community Development Block Grant and Home Investment Partnership Capital Project Funding Requests and Consideration of 2018-19 Annual Action Plan Amendment**

RECOMMENDATIONS

1. Approve staff funding recommendations for the Fiscal Year 2019-20 Community Development Block Grant (CDBG) and Home Investment Partnership (HOME) capital project funding requests summarized below and in Attachment 1. If the CDBG and HOME capital budget increases, proportionately allocate any excess funding to all the CDBG and HOME agencies up to each requested amount.
2. Approve the 2018-19 Annual Action Plan amendment revising the funded activity from accessibility improvements to a fire sprinkler system and bathroom remodel for Hope's Corner.

MEETING PROCEDURES

1. Hear presentations from the agencies seeking Fiscal Year 2019-20 CDBG and HOME funding.
2. Make funding recommendations on the Fiscal Year 2019-20 CDBG and HOME funding requests.
3. Consider approving the 2018-19 Annual Action Plan amendment.

BACKGROUND

Public Hearings for the CDBG/HOME Funding Cycle

Every year, the City receives and allocates Federal CDBG and HOME funds from the U.S. Department of Housing and Urban Development (HUD). The City allocates its CDBG and HOME funds to implement affordable housing and community development projects and to fund public service programs and other eligible activities that benefit low-income persons and areas.

To use the CDBG and HOME funds, the City must facilitate an application process and hold a minimum of two public hearings to approve use of the funds. To initiate the funding cycle, the City circulates an application announcement to public service agencies, affordable housing developers, and other groups. This Human Relations Commission (HRC) meeting constitutes the first public hearing as part of the Fiscal Year 2019-20 funding process. The City Council will hold the second hearing in April 2019 to make final funding decisions.

HUD has not yet announced the City's CDBG and HOME allocation for Fiscal Year 2019-20. Generally, HUD releases the allocations 30 days after the approval of the Federal budget. On February 15, 2019, HUD released a memo providing entitlement jurisdictions with further direction on how to proceed with scheduling and submitting its Annual Action Plan. Similar to previous years, annual action plans will be due 60 days after the City receives its allocation from HUD, or August 16, 2019, whichever is the earlier of the two dates. However, since the City Council is the approving body for the CDBG and HOME recommendations and they do not meet in July or August, staff is continuing with its normal process to meet standard guidelines.

For planning purposes, staff has assumed that the City will receive \$500,000 in CDBG funding with \$100,000 in CDBG program income and an additional \$200,000 in HOME funding. These were the same estimated amounts from last year. Staff has included a recommendation that if the HUD-allocated amount exceeds or falls short of the estimated amount, the recommended grants would be adjusted proportionately.

Only capital project funding requests are being considered at this meeting. Capital project applications are annually considered, while public service programs are funded on a two-year cycle. Public service applications were heard on February 7, 2019. Public service agencies funded in Fiscal Year 2020-21 will continue to receive funding in Fiscal Year 2019-20 proportionate to the available budget.

ANALYSIS

2019-20 CDBG/HOME Funding

When factoring in the HUD allocation and program income (i.e., loan repayments from completed capital projects), the City estimates it will have around \$600,000 in CDBG and \$200,000 in HOME funds available in Fiscal Year 2019-20, as shown in Table 1.

Table 1: Estimated Fiscal Year 2019-20 CDBG Funding

Sources of Estimated CDBG Funds	CDBG	HOME
Allocation from HUD	\$500,000	\$200,000
Program Income	\$100,000	\$0
Total	\$600,000	\$200,000
Uses of CDBG Funds		
Administration	\$120,000	\$20,000
Public Services	\$90,000	N/A
Capital Projects	\$390,000	\$180,000
Total	\$600,000	\$200,000

The City reserves 20 percent of the CDBG (roughly \$120,000) and 10 percent of the HOME (about \$20,000) HUD allocation and program income for administration, as allowed under Federal regulations. Up to 15 percent of the CDBG allocation and program income may be used for public services. Remaining funds are available for capital projects.

For Fiscal Year 2019-20, the City estimates it will have \$100,000 in CDBG program income from capital loan repayments. All of the HOME funds available last year were used for a rehabilitation project, the Shorebreeze Apartments. There is no anticipated HOME program income, so the amount available for Fiscal Year 2019-20 consists of the HUD allocation.

Fiscal Year 2019-20 Capital Project Requests

Using the current estimates, approximately \$390,000 in CDBG funds and \$180,000 in HOME funds could be allocated to capital projects. There are three capital funding requests to consider as shown in Table 2: three CDBG requests, in which one of the

CDBG requests is also eligible for HOME funding. The funding applications are provided in Attachments 2 through 5.

Table 2: 2019-20 Capital Project Funding Requests

Sponsor	Project	CDBG Funding Requested	HOME Funding Requested
Palo Alto Housing	Demolition and soft costs for the new construction of 70 affordable studio units	\$470,000	\$180,000
Community Health Awareness Council	Replacement of HVAC system	\$99,847	N/A
City of Mountain View	Rengstorff Park Aquatic Center Replacement	\$500,000	N/A
Total Amount of Funds Requested		\$1,069,847	\$180,000
Estimated Amount of Funds Available		\$390,000	\$180,000

The amount of CDBG funding requested exceeds the estimated available amount by about \$680,000. Below are project summaries, followed by considerations the HRC may find helpful for evaluating the CDBG and HOME capital project funding requests.

CDBG National Objectives

The authorizing statute of the CDBG program requires that each activity funded, except for program administration and planning activities, must meet one of three national objectives as follows:

1. Benefit to low- and moderate-income (LMI) persons;
2. Aid in the prevention or elimination of slums or blight; and
3. Meet a need having a particular urgency (referred to as *urgent need*).

Palo Alto Housing – 950 West El Camino Real

Palo Alto Housing (PAH) is proposing to construct 70 studio units and one, 2-bedroom manager's unit. The 70 studio units will be affordable to persons earning 70 percent AMI and below. Thirty percent (30%) of the units may be available for adults with developmental disabilities.

The project costs for the new construction is approximately \$49 million. The applicant has requested \$650,000 for the demolition of the existing structure, Taco Bell, and other soft costs associated with the project.

Demolition and soft costs associated with the development of affordable housing are eligible for both CDBG and HOME funding. While PAH did not specifically request HOME funding, since it was the only application eligible for HOME funding, staff recommends using HOME funds for the project.

Community Health Awareness Council – Replacement of Clinic HVAC System

Community Health Awareness Council (CHAC), a nonprofit based in Mountain View, is requesting \$99,847 in funding to replace their 30-year-old HVAC system at their clinic, located at 590 El Camino Real in Mountain View. The HVAC system is reaching the end of its service life where some compressors have already failed and the system is at risk of complete failure.

CHAC's mission is to provide affordable mental health services for those in need. They do this through outreach and programs to schools, its Family Resource Centers, and its clinic. At the clinic, the public can receive individual, family, and group counseling for anxiety, depression, domestic violence, substance abuse, and other issues. In Fiscal Year 2018, 780 clients received services through the clinic. Approximately 47 percent of the clients served at the clinic are Mountain View residents. Incomes are self-reported and CHAC reports that 59 percent of the clients report a household income of less than \$65,000 per year; 41 percent of the individual counseling clients report a household income of less than \$35,000 per year.

The rehabilitation of a public facility owned by a nonprofit organization is an eligible CDBG capital activity.

City of Mountain View – Rengstorff Park Aquatics Center Replacement

The City is requesting \$500,000 for the demolition and replacement of the existing Rengstorff Park Aquatics Center. The pool is approximately 60 years old and the configuration of the pool and facilities are dated and unable to meet the needs of a modern municipal aquatics program.

An issue with the application is that it may not meet one of the three National Objectives. Previously, Rengstorff Park was funded in Fiscal Year 2015 for parking lot lighting improvements to improve safety and lessen crime. It met the National Objective of elimination of slums and blight. However, since that time, the park has seen a number of improvements, so this application no longer meets HUD's definition of slums and blight. In trying to meet the objective to benefit low-/moderate-income persons, HUD requires that at least 51 percent of the population that the activity serves meets that criteria. While the Aquatic Center is in a Census tract that has approximately 60 percent of the households that are low income and with adjacent Census tracts containing Block Groups with low-income households making up more than 60 percent of the population, it must be taken into account that the Aquatic Center serves the entire City. Based on the latest Census estimates, the City's low-/moderate-income household percentage is 37.5 percent. In other words, 37.5 percent of the City's households are low-/moderate-income households. Therefore, it does not meet a National Objective. Because of that, staff does not recommend funding for this project.

Key Considerations for the CDBG and HOME Projects

Funding proposals are evaluated based on their consistency with the City's Consolidated Plan and on assessment factors (refer to Attachment 6). The Consolidated Plan is a five-year planning document that identifies housing and community development needs, analyzes existing Federal resources, and establishes strategies and priorities for addressing the identified needs.

The City's 2015-2020 Consolidated Plan identifies the following goals to use the Federal funds it receives to benefit low-income persons and areas:

- Goal No. 1: Support affordable housing for lower-income and special-needs households.
- Goal No. 2: Support activities to prevent and end homelessness.

- Goal No. 3: Support activities that provide basic needs to lower-income households and special-needs populations, such as seniors, abused and neglected youth, and the disabled.
- Goal No. 4: Support programs and activities that strengthen neighborhoods.
- Goal No. 5: Promote fair housing opportunities.

Due to the limits of available funding, not every request can be granted.

Assessment factors are considered to help in the recommendations for funding allocations.

Key assessment factors include:

- Need for project: Does the project address the most urgent needs of lower-income residents? Will the project address the needs of lower-income residents as identified in the City's Consolidated Plan?
- Number and percentage of low-income Mountain View residents served: How many Mountain View residents would be served by the project? Are at least 51 percent of the Mountain View residents served low income, as required by Federal regulations?
- Project Schedule: Is there a realistic schedule indicating when funds will be needed, when the project is to be implemented, and when it will be completed? Does the project provide for the expeditious expenditure of funds?
- Leveraging of funds: Does the agency have any other funds or funding commitments to assist in financing the project?

Additional Considerations for the CDBG Projects

- By April 30 of every year, CDBG jurisdictions must not be holding more than 1.5 times the annual grant for that year. However, the requirement has become challenging to meet for many local jurisdictions, especially those with small allocations such as the case with Mountain View. Funding fewer, larger activities

could enable the City to spend the funds in a timely manner and meet the annual CDBG expenditure requirement.

Additional Considerations for the HOME Projects

- The HOME funds are restricted to affordable housing activities and accompanied by very detailed monitoring and reporting requirements. Therefore, the CHAC HVAC replacement and the City Rengstorff Aquatic Center rehabilitation are not HOME-eligible activities. HOME funds must be committed (placed under agreement) within a two-year period and 15 percent of the funds must be reserved to a Community Housing Development Organization (CHDO)—an organization that develops affordable housing.

RECOMMENDATIONS

- **Full funding for CHAC's HVAC replacement.** The funding would be used for the replacement of the HVAC for the CHAC clinic. The clinic serves persons and households in need of mental health services. Funding for the replacement would help CHAC maintain the clinic in good condition.
- **Partial funding for proposed affordable housing development at 950 West El Camino Real, allocating all remaining CDBG funds, estimated at \$290,153.** Use of CDBG funds for the demolition of the existing structure and other soft costs in preparation for the development of City deed-restricted, subsidized units helps increase the City's affordable housing inventory, benefitting the lower-income residents.
- **Reserve all available HOME funds, estimated at \$180,000 for the proposed affordable housing development at 950 West El Camino Real.** Subsidized rental units are in high demand, and this project would add needed subsidized units to the City's housing stock. Use of HOME funds for this project would enable the City to commit all of the available funds and comply with HOME's two-year deadline. HOME funding for the new units at 950 West El Camino Real would also reduce the amount of local housing funds that would be used for this project, helping to conserve them for other projects. HOME funding for new units at 950 West El Camino Real is consistent with prior Council action to use the Federal funds for new affordable development projects. Because PAH is not a CHDO, they will have an option to become a CHDO to receive the 15 percent CHDO set-aside. If they do not choose to become a CHDO, then the 15 percent CHDO set-

aside will be carried over into the next fiscal year. The 15 percent CHDO set-aside amount is estimated to be approximately \$30,000.

- **No funding for City Rengstorff Park Aquatic Center rehabilitation.** Because of the limited funds and not being able to meet a National Objective, staff recommends that this application not be funded.

Staff’s recommendations can be summarized in the table below:

Table 3: 2019-20 Capital Project Funding Recommendations

Sponsor	Project	CDBG		HOME	
		Funding Requested	Staff Rec.	Funding Requested	Staff Rec.
Palo Alto Housing	Demolition and soft costs for the new construction of 70 affordable studio units	\$470,000	\$290,153	\$180,000	\$180,000
Community Health Awareness Council	Replacement of HVAC system	\$99,847	\$99,847	N/A	N/A
City of Mountain View	Rengstorff Park Aquatic Center Replacement	\$500,000	N/A	N/A	N/A
Total		\$1,069,847	\$390,000	\$180,000	\$180,000
Estimated Funding Available		\$390,000		\$180,000	

2018-19 ANNUAL ACTION PLAN AMENDMENT

The City Council approved the 2018-19 Annual Action Plan on April 24, 2018, which included an allocation of \$191,784 to improve access to Hope’s Corner, a facility that serves homeless, low-income persons and special needs populations. The proposed work included removal of architectural barriers in the facility and the addition of ADA-compliant ramps.

Because of contractor timing issues, the accessibility and ADA work was completed prior to the execution of the CDBG contract. HUD requires that the contract be executed prior to any work being performed. Staff met with the applicant to see if there was any additional work that could be performed at the facility that meets HUD requirements and City goals. It was determined that the CDBG funds could pay for the installation of a new fire sprinkler system and the rehabilitation of a bathroom.

Per the City's Citizen Participation Plan, which is a HUD-required document for each jurisdiction to plan for citizen participation, any change in eligible activities is considered a "substantial amendment." The Plan states that citizens will be provided a minimum of 30 days to comment on the proposed changes prior to the changes being implemented. To ensure public participation, staff is presenting this substantial amendment to the HRC and recommends approval of the substantial amendment.

The substantial amendment to the Fiscal Year 2018-19 Annual Action Plan, along with the 2019-20 Annual Action Plan, will be noticed 30 days prior to the April 23, 2019 City Council meeting where the Council will consider the HRC funding recommendations along with approval of the 2018-19 Amendment and 2019-20 Annual Action Plan.

ALTERNATIVES

1. Support staff recommendations.
2. Provide other input for funding recommendations.

CONCLUSION

The HRC will make capital project funding recommendations for Fiscal Year 2019-20 on March 7, 2019. The HRC's recommendations will be presented to the City Council on April 23, 2019, which will make final funding decisions. The City Council's funding decisions will then be incorporated into the City's annual Action Plan that will be submitted to HUD prior to that agency's submittal deadline.

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- Attachments:
1. Summary of Fiscal Year 2019-20 CDBG and HOME Capital Project Funding Requests
 2. [PAH Funding Application](#)
 3. [CHAC Funding Application](#)
 4. [City of Mountain View Funding Application](#)
 5. [Assessment Factors](#)