



DATE: April 22, 2014

CATEGORY: Public Hearing

DEPT.: Community Development

TITLE: **Fiscal Year 2014-15 CDBG/HOME Funding Cycle – Public Hearing**

RECOMMENDATION

1. Allocate an estimated \$480,000 in Community Development Block Grant (CDBG) and \$658,000 in Home Investment Partnership Program (HOME) funds to Fiscal Year 2014-15 capital projects (Attachment 1 to the Council report).
2. Allocate the maximum allowable amount, currently estimated at \$100,000 in CDBG funds, to existing public service programs as shown on Attachment 2 of this Council report.
3. Allocate the maximum allowable amount, currently estimated at \$110,000 in CDBG and \$22,000 in HOME funds, for the management and administration of the CDBG and HOME programs.
4. If the actual allocations, program income, and/or carryover are more or less than the amounts estimated, proportionally allocate the difference to the capital project agencies based on their awarded funding levels up to the amounts requested; proportionately allocate the maximum allowable increased or decreased CDBG allocation and program income to public service agencies up to the amounts requested; proportionately allocate the maximum allowable increased or decreased CDBG and/or HOME allocation and program income to administration; and carry over the remaining funds to Fiscal Year 2015-16 capital projects.
5. Adopt the 2014-15 Action Plan in Attachment 3, as amended by the City Council's decisions, and authorize the City Manager to execute the required forms and certifications and submit this document to the U.S. Department of Housing and Urban Development.
6. Adopt a policy where changes in the final HUD CDBG allocations that exceed 20 percent of the estimated HUD allocations are brought back to a Council hearing to

award the changes in funding to public service agencies; and proportionately allocate the increase of approximately \$10,000 over the estimate adopted for Fiscal Year 2013-14 to the public services agencies up to the amount requested.

BACKGROUND

Annually, the City receives CDBG and HOME funding from the U.S. Department of Housing and Urban Development (HUD) that is allocated to public service programs and capital projects benefitting lower-income households. A portion of the funding is also used for administration. While capital project applications are considered for funding every year, public service applications are accepted biennially. Fiscal Year 2014-15 is the second year of the two-year cycle for public service agencies, so only capital projects are being considered in this round of funding.

The purpose of this Public Hearing is for the Council to consider the Human Relations Commission's (HRC) capital project funding recommendations, make final funding decisions on the Fiscal Year 2014-15 CDBG and HOME allocations, and adopt the City's 2014-15 Action Plan. The HRC held its recommendations hearing on March 6, 2014. The funding recommendations from that hearing are provided in Attachment 1 and summarized later in this report.

ANALYSIS

Fiscal Year 2014-15 CDBG/HOME Funding

The estimated CDBG and HOME allocations, program income, and unused funds from completed projects (reprogrammed funds) are shown below in Table 1. Since the March 6, 2014 HRC hearing, City staff has received information from HUD that the CDBG and HOME allocations will likely be around \$540,000 and \$240,000. Roughly \$100,000 in CDBG and \$160,000 in HOME program income is anticipated to also be available for Fiscal Year 2014-15. The actual amount of unused funds from completed projects that could be reprogrammed to Fiscal Year 2014-15 activities will not be known until the end of the fiscal year. If the total funding is less or greater than the estimates, the funding level awarded to agencies will be proportionately adjusted.

Table 1: Estimated CDBG and HOME Funding for Fiscal Year 2014-15

	Estimated CDBG Funds Fiscal Year 2014-15	Estimated HOME Funds Fiscal Year 2014-15
HUD Fund Allocation	\$540,000	\$240,000
Program Income ¹	\$100,000 ²	\$160,000
Reprogrammed Funds ³	\$50,000	\$280,000
Available Funds	\$690,000	\$680,000

As shown in Table 2, the estimated 2014-15 CDBG allocation is less than the Fiscal Year 2013-14 amount, while the HOME allocation is slightly higher. For Fiscal Year 2013-14, HUD applied unused stimulus funds from the 2009 American Recovery and Reinvestment Act, which increased the allocations to jurisdictions. This one-time funding was only available for Fiscal Year 2013-14 and was used to offset funding cuts. HUD has indicated that it may apply unused Fiscal Year 2013-14 disaster recovery funds to help sustain funding levels in Fiscal Year 2014-15. If not, the actual CDBG and HOME funding will be less than estimated.

**Table 2: Comparison of CDBG and HOME Allocations
for Fiscal Years 2013-14 and 2014-15**

	CDBG Funds		HOME Funds	
	Fiscal Year 2013-14	Fiscal Year 2014-15 (Estimated)	Fiscal Year 2013-14	Fiscal Year 2014-15 (Estimated)
HUD Fund Allocation	\$565,400	\$540,000	\$220,900	\$240,000
Program Income	\$0	\$100,000	\$0	\$160,000
Reprogrammed Funds	\$49,700	\$50,000	\$23,000	\$280,000
Available Funds	\$615,100	\$690,000	\$243,900	\$680,000

¹ Program income is generated from loan repayments. Program income collected in Fiscal Year 2013-14 cannot be used for public services or capital projects until Fiscal Year 2014-15.

² Only \$100,000 of the \$125,000 in program income is available for Fiscal Year 2014-15 because \$25,000 was applied to Fiscal Year 2013-14 administrative activities as directed by Council on April 23, 2013. Program income may only be used for administrative activities within the fiscal year it is received.

³ Reprogrammed funds consist of unused funds from completed projects and may be used for capital projects but not for public services.

The amount of HOME reprogrammed funds is higher than usual due to a Fiscal Year 2013-14 project approved for \$175,000, which did not proceed. The sponsor, Habitat for Humanity East Bay/Silicon Valley, proposed to purchase, rehabilitate, and resell an existing condominium but found that the sales prices of existing condominiums were too high to accommodate this model in Mountain View.

Although HUD is using one-time funds when or if available to stem funding declines, the CDBG and HOME funds have become secondary in financing new affordable projects. For the past three years, they have been primarily used to fund rehabilitation work at existing subsidized projects. Regarding HOME, the allocation is now so low that funding rehabilitation work at existing subsidized complexes has become difficult without program income. Even with program income, projects must be phased, which at times is not feasible, or funding pooled over multiple years to provide an adequate funding source. HOME funds must be committed (placed under agreement) within two years of their receipt and spent within four years, which compounds the challenge of pooling funds.

The County of Santa Clara is forming a HOME consortium with Palo Alto, Milpitas, Cupertino, and Gilroy to collectively pool the HOME funds that those jurisdictions would individually receive into a viable affordable housing funding source. The pooled funds would annually amount to about \$800,000 and the County envisions rotating the funding among jurisdictions based on their construction-ready projects and/or using them to fund regional housing options for the homeless. If Mountain View's HOME funds decline significantly more within the next two years, the Council may want to consider joining the County consortium when the application period reopens in 2017.

The CDBG funds have also declined but are more flexible than HOME funds. CDBG funds may be used for public service programs and community development activities that benefit low-income areas, in addition to affordable housing projects. Use of CDBG funds for other allowable activities has helped the City meet the annual expenditure deadline. By April 30 of every year, the City's unspent funds balance cannot exceed 1.5 times the annual allocation. The City is on track to meet the April 30, 2014 expenditure deadline, but if the CDBG funding is not sustained or restored, there will continue to be a priority placed on smaller or phased projects where the funds can be spent quickly.

Fiscal Year 2014-15 CDBG/HOME Allocations

HUD regulations allow jurisdictions to use 20 percent of the CDBG and 10 percent of the HOME allocation and program income for administration. Up to 15 percent of the CDBG allocation and prior year program income may be used to fund public service

programs. Remaining funds are available for the capital projects. The Fiscal Year 2014-15 estimates for the allowable uses are shown below on Table 3.

Table 3: Fiscal Year 2014-15 CDBG and HOME Estimates

Fiscal Year 2014-15	CDBG Funds	HOME Funds
Administration	\$110,000	\$22,000
Public Services	\$100,000	N/A
Capital/Housing Projects Budget	\$480,000	\$658,000
Totals	\$690,000	\$680,000

Administration Funding

Roughly \$110,000 in CDBG and \$22,000 in HOME will be available for Fiscal Year 2014-15 administrative activities. Since Fiscal Year 2006-07, the amount of administrative funding allowed under CDBG and HOME has not been enough to cover administrative expenses, such as personnel, contract services, general office, and office space rent. Housing Impact Fees and Below-Market-Rate Housing (BMR) funds are used for this funding gap. Whenever possible, 20 percent of CDBG and 10 percent of HOME program income allowed for administration is applied to the administrative budget to help offset the funding deficit.

CDBG Public Service Funding

The Fiscal Year 2014-15 estimated CDBG public service funding is about \$100,000, which is about \$15,000 higher than the current fiscal year \$84,813 allocation due to program income. Fiscal Year 2014-15 funding is shown in Attachment 2 and includes \$5,000 for each of the two new agencies, Silicon Valley Independent Living Center (SVILC) and Vista, per Council direction in the Fiscal Year 2013-14 funding cycle.

Proportional distribution of the remaining \$5,000 program income results in full funding up to requested amounts for all existing agencies except InnVision Shelter Network, who will receive about \$11,000 of their \$20,000 in requested funding. Under Federal regulations, agencies may not receive more than their requested amounts. Public service funding that is not allocated or used cannot be carried over to the following fiscal year.

Capital Project Funding

About \$480,000 in CDBG and \$660,000 in HOME funds is estimated to be available for Fiscal Year 2014-15 capital projects. The City has received three CDBG funding requests and one combination CDBG/HOME application as shown below in Table 4.

Table 4: Fiscal Year 2014-15 Funding Requests

Sponsor	Project	CDBG Funding Requested	HOME Funding Requested
Mid-Pen Housing	Tyrella Gardens Apartments Rehabilitation 56 very low-income family units	\$167,000	\$658,000
Rebuilding Together Peninsula (RTP)	Safe at Home Program (Minor home repair and accessibility modifications)	\$10,000	N/A
Habitat for Humanity	Home Repair and Accessibility Program	\$200,000	N/A
City of Mountain View Public Works Department	Rengstorff Park Lighting	\$350,000	N/A
Total Amount of Funds Requested		\$727,000	\$658,000
Estimated Amount of Funds Available		\$480,000	\$658,000
Difference in the Amount of Funds Requested and the Estimated Available Funding		\$247,000	\$0

The total amount of CDBG funding requested is \$727,000 and the one HOME request totals \$658,000. The CDBG funding requests exceed the estimated amount available by \$247,000. More information on the Fiscal Year 2014-15 capital projects is provided in the next section. Detailed project descriptions and the project applications are provided in Attachment 4.

HRC RECOMMENDATIONS

On March 6, 2014, the HRC heard presentations from the agencies seeking capital project funding and made the funding recommendations in Table 5 for Council consideration. A summary of the recommendations and project descriptions follow Table 5. The considerations provided to the HRC for evaluating the funding requests are provided in Attachment 1.

Table 5: HRC Recommendations for Fiscal Year 2014-15 Capital Projects

Agency	Program/Project	CDBG Funding Recommendations	HOME Funding Recommendations
Rebuilding Together Peninsula	Safe at Home Program	\$10,000	N/A
Habitat for Humanity East Bay/Silicon Valley	Single-Family Rehabilitation Program	\$0	N/A
MidPen Housing	Tyrella Gardens Rehabilitation Project	\$167,000	\$658,000
City of Mountain View Public Works Department	Rengstorff Park Safety Lighting	\$303,000 ⁴	N/A
Estimated Amount of Funds Available		\$480,000	\$658,000

Notes: These recommendations are based on estimates, and the allocations to agencies will be proportionately adjusted once the actual CDBG and HOME funding is known in accordance with the summaries below.

Summaries of HRC Recommendations and Project Descriptions

- **Full funding for proposed rehabilitation work at Tyrella Gardens Apartments** using all available HOME funds supplemented with CDBG funds. Currently those amounts are estimated to be **\$658,000 in HOME funds and \$167,000 in CDBG funds.**

MidPen is requesting \$825,000 for energy-efficiency-related improvements at Tyrella Gardens Apartments, a 56-unit subsidized rental complex serving very low-income families. Funding would be used toward the installation of a solar photovoltaic system, energy-efficient lighting and water-saving landscaping/irrigation improvements. The property is eligible to receive both CDBG and HOME funds. The request was split to apply all available HOME funds to the

⁴ The \$303,000 in remaining estimated CDBG funds is slightly higher than the \$299,000 estimate the HRC used for their recommendation because the estimated CDBG allocation and amount of reprogrammed funds have been updated for this report.

project since, unlike CDBG, HOME funding can only be used for affordable housing.

Funding would be awarded in the same manner as rehabilitation funding was granted for rehabilitation work at The Fountains and San Veron Park rental complexes: a 35-year, no-interest loan, with a 10-year payment deferment period, and repayment based on residual receipts.

- **Full funding for Rebuilding Together Peninsula’s Safe at Home Program at \$10,000 in CDBG funds.**

Rebuilding Together Peninsula (RTP) is requesting \$10,000 that would be leveraged with other funding to provide low-income homeowners free minor home repairs and provide both low-income homeowners and tenants accessibility modifications. Typical work would include adaptive steps, installation of grab bars, new locks, and repair of leaky faucets and other basic maintenance to serve a minimum of five households, up to \$2,000 per household. Depending on demand during the first year, RTP may expand the program to more households in future funding requests.

- **No funding to Habitat for Humanity’s Rehabilitation Program at this time.**

Habitat for Humanity East Bay/Silicon Valley (Habitat) requested \$200,000 to perform repairs to single-family homes related to improving indoor air quality, resident safety, and building preservation. Work would include window and roof replacement, accessibility modifications, and exterior siding repairs that would be financed with a deferred, zero-interest, 15- or 30-year term loan, depending on the amount of rehabilitation work. Approximately 22 low-income households would be served at a maximum of \$15,000 per household. For repairs that cost less than \$1,000, Habitat would collect a \$50 fee.

Although Habitat and RTP have been in existence for over two decades, RTP has more experience in implementing a minor home repair and accessibility program that meets Federal regulations. Also, RTP’s Safe at Home program caters to lower-income senior and disabled households with basic maintenance services that are free and not financed as suggested under Habitat’s rehabilitation model.

Currently, the Consolidated Plan goals and objectives do not include single-family rehabilitation outside of small, minor repairs. If Council wishes to fund Habitat’s program, it is recommended that Habitat revise its model to provide comprehensive rehabilitation that is eligible for HOME funding. HOME funds

may be used for a large-scale, single-family home rehabilitation program, but not the limited-focus, special-purpose repairs proposed by Habitat. It is also recommended that Habitat reapply in October 2014 when the application period for the next funding cycle opens and the Consolidated Plan is revised. If Council is interested in funding Habitat this year, then staff will need to amend the Consolidated Plan, and the item will come back to Council on consent this fall.

- **Partial funding to the Rengstorff Park Lighting Project using \$303,000⁵ in estimated remaining CDBG funds.**

The Public Works Department is requesting \$350,000 in CDBG funds to install lighting in Rengstorff Park to increase public safety. The funding would be spent in the first phase of the project for new LED lighting around the park near the tennis court area. Associated work would also include upgrading the electrical system and conduits. The CDBG funding would be leveraged with Park In-Lieu Fees and possibly State grant funds for which the City applied in December 2013 to help offset the estimated \$730,000 cost to improve lighting throughout Rengstorff Park.

Summary of HRC Deliberations

The HRC's discussions began with deciding whether to fund both RTP's and Habitat's rehabilitation programs. Habitat, during its presentation to the HRC, suggested they could reduce their funding request to \$30,000 instead of \$200,000. However, this change would require a new application with a revised scope of work that could be submitted in the next funding cycle. Several Commissioners expressed interest in funding Habitat, but it was unclear what type of rehabilitation work could be performed at the lower funding level, which would not duplicate the services offered by RTP's Safe at Home Program.

The Commissioners also had extensive discussion about whether to fund housing activities versus the Rengstorff Park Lighting Project. A few of the Commissioners felt that the City had adequate funding for the Rengstorff Park Lighting Project, but others liked the idea of using Federal funds where possible to help conserve local funding. One of the Commissioners questioned the need to provide rehabilitation funding for the Tyrella Gardens rehabilitation project, specifically concerned that the project was initially approved with the knowledge that reserves would not be adequate to cover future capital maintenance needs. Staff and the applicant explained that Tyrella

⁵ The \$303,000 in remaining estimated CDBG funds is slightly higher than the \$299,000 estimate the HRC used for their recommendation because the estimated CDBG allocation and amount of reprogrammed funds have been updated for this report.

Gardens Apartments serves very low-income families. City funding is needed for rehabilitation at this and other deed-restricted, subsidized properties because they are not able to increase rents to build reserves as quickly or in the same manner as market-rate properties. In addition to extending the useful life of the property, the rehabilitation work has an emphasis on energy efficiency to reduce operating costs and residents' utility bills.

On a five-to-two vote, the HRC made the recommendations noted earlier in the report – full funding for the Tyrella Gardens Rehabilitation Project and Rebuilding Together's Safe at Home Program and partial funding using remaining CDBG funds for the Rengstorff Park Lighting Project. One of the dissenting voters was in favor of more discussion on funding to the Tyrella Gardens Rehabilitation Project and the other questioned the need to use Federal grant funds for the Rengstorff Park Lighting Project.

THRESHOLD POLICY FOR HUD ALLOCATION

In most years, the City has only an estimate of the HUD allocations when the Council makes funding decisions, so the Council has authorized staff to proportionately allocate changes in the actual final HUD allocation. Fiscal Year 2013-14 was the first year the HUD allocation for public services agencies has increased in the past eight years, except the years where HUD allocated Federal stimulus funds. The Fiscal Year 2013-14 public services allocation was approximately \$10,000 higher than the \$75,000 estimate due to a one-time increase in the HUD allocation.

In certain situations, the Council may wish to delegate authority to staff to allocate the difference, but there may be a threshold where Council would want to make funding decisions. The Council could establish a policy where an increase or decrease in the public services budget could be brought back to Council for consideration if it exceeded a certain percentage of the HUD allocation. Given that the public services HUD allocation has ranged from \$75,000 to \$114,000 in the past five years, a 20 percent threshold is recommended. This is conservative enough not to result in significant increases to the agencies and a high enough percentage to avoid having to frequently return to Council on funding decisions.

For example, using a 20 percent threshold, the \$10,000 increase to the \$75,000 estimated Fiscal Year 2013-14 HUD allocation would be proportionately allocated and not require another Council hearing, but an increase over \$15,000 would be brought back to Council. The Council could choose a different threshold percentage or choose not to establish a threshold. Choosing a lower threshold percentage would probably result in more Council meetings on CDBG funding. A threshold below 15 percent would affect

Fiscal Year 2013-14 funded agencies that were anticipating a slight increase in funding based on the additional HUD allocation.

FISCAL IMPACT

The recommended actions regarding the allocation of CDBG and HOME funds to capital projects, public services, and administration will not impact the General Fund. Adoption of the Fiscal Year 2014-15 Action Plan will also not impact the General Fund as the document contains policies and programs for use of Federal CDBG and HOME funds.

There are public service agencies that are not eligible for CDBG funding which receive General Fund support and are reviewed with the CDBG/HOME funding cycle (refer to Attachment 2). Since this is the second year of the two-year funding cycle, the General Fund-supported agencies would typically receive funding in the same proportion as the Fiscal Year 2013-14 allocations. Final decisions regarding the General Fund public services budget will be made by the City Council during the annual City budget approval process.

CONCLUSION

The purpose of this hearing is for the City Council to consider Fiscal Year 2014-15 capital project funding requests, adoption of the Fiscal Year 2014-15 Action Plan, and to confirm Fiscal Year 2014-15 CDBG and HOME funding for administration and public services. After the Council makes final decisions, staff will, as necessary, amend the Fiscal Year 2014-15 Action Plan, and submit it to HUD for that agency's consideration prior to the May 15, 2014 deadline.

ALTERNATIVES

- Fiscal Year 2014-15 Capital Projects—The Council may choose to increase, decrease, or not award funding to certain capital projects.
- Threshold Policy for HUD Allocation—The Council could choose a different percentage threshold or choose to not establish a threshold.
- Provide other direction to staff.

PUBLIC NOTICING

A legal notice was published in the *San Jose Post Record* and display ads were published in the *Mountain View Voice*. Notices regarding this agenda item were mailed to over 120 organizations and groups on the CDBG/HOME Interested Parties list, posted on the City's web page, and announced on Channel 26. A link to this report was provided to the HRC.

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- Attachments:
1. Fiscal Year 2014-15 Capital Project Considerations
 2. Fiscal Year 2014-15 CDBG and General Fund Public Service Agencies
 3. [Draft 2014-15 Action Plan](#)
 4. [March 6, 2014 Human Relations Commission Staff Report and Attached Capital Project Funding Applications](#)