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TO: Human Relations Commission

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SUBJECT: Overview of the Community Development Block Grant and HOME Investment Partnership Policies

PURPOSE

The purpose of this memorandum is to provide members of the Human Relations Commission (HRC) an overview of the City's Federal Community Development Block Grant (CDBG) and Home Investment Partnership (HOME) programs, discuss a policy framework for program implementation, and preview the upcoming funding cycle for CDBG and HOME.

The recommended policies for program implementation include:

- Previous items that have been discussed with the HRC and that require follow-up.
- New items to establish a policy framework to enhance effective program implementation. Informed by recent funding cycles, the policy framework is meant to build on effective past practices and set up new procedures to improve the City's focus for allocating CDBG and HOME funds. The framework includes improvements based on feedback previously received from the Human Relations Commission.

Overall, the policy recommendations enable alignment with the goals outlined in the City's Consolidated Plan (discussed further below) and leverage staff's administrative capacity for efficient and flexible administration of the annual grants.

BACKGROUND

The City of Mountain View is an entitlement jurisdiction, which enables the City to receive annual grants on a formula basis for the Federal CDBG and the HOME programs directly from the

Department of Housing and Urban Development (HUD). To receive the annual grant, the City must develop and submit the following to HUD:

- *Five-Year Consolidated Plan*: This is a comprehensive planning document for a five-year period outlining the City's priority goals and how CDBG and HOME funding would be used to achieve those goals. The six priority goals in the City's Fiscal Year 2020-25 Consolidated Plan are:
 - Increase affordable housing for lower-income and special-needs households;
 - Establish and support programs to prevent and end homelessness;
 - Support activities that promote safety, security, wellness, and well-being for lower-income households and special-needs populations, such as seniors, abused and neglected youth, and the disabled;
 - Support programs and activities that strengthen and enhance neighborhoods;
 - Promote fair housing opportunities; and
 - Promote economic resiliency and improve workforce development and skills training.

The City's Consolidated Plan can be found at the following link: [Fiscal Year 2020-25 Consolidated Plan](#).

- *Annual Action Plans*: Developed each year to implement the Five-Year Consolidated Plan, this plan includes a summary of the activities and projects that will be funded to further the goals of the Consolidated Plan.
- *Consolidated Annual Performance and Evaluation Report (CAPER)*: This is an annual report that assesses the outcomes of activities and projects that were funded by CDBG and HOME in the prior year's Annual Action Plan as well as the City's progress towards meeting its Five-Year Consolidated Plan goals.

The main objective for these Federally funded community development programs is that funds shall be allocated to benefit low- and moderate-income persons/households. While there are similarities between CDBG and HOME, each program has its own requirements, summarized as follows:

- **CDBG**
 - **Purpose:** Help jurisdictions address their community development needs, including public service activities as well as capital projects.
 - **Use of funds:** CDBG grantees are allowed to use:
 - A maximum of 15% of the allocation towards public services.
 - A maximum of 20% of the allocation for administration.
 - A minimum of 65% of the allocation for capital projects.
 - **Eligible activities:**
 - Public service programs and activities provide social services and/or other direct support to individuals and households in need of assistance. Eligible expenses can include personnel, services, and other operating or administrative costs. Public service funds have been used for a homelessness prevention program, legal services for seniors, and services for survivors of domestic violence, to name a few.
 - Capital project activities are focused on “brick-and-mortar” type neighborhood improvement and enhancements, such as rehabilitation of affordable housing, construction of public facilities in low-income neighborhoods, and infrastructure projects. Funding allocated to affordable housing developments is typically as a loan which is repaid to the City as program income, and funding for other eligible activities is allocated as a grant. Some previously funded capital projects include the rehabilitation of The Fountains Apartments, an affordable housing development developed by MidPen Housing, and renovations of Hope’s Corner’s commercial kitchen, which allowed the nonprofit to expand services.

In addition to the requirements and restrictions noted above, the CDBG program has a timeliness test wherein a jurisdiction must not have a balance greater than 1.5 times its annual grant (approximately \$930,000 for the City) at a specific time each year. This is a challenging requirement to meet for many local jurisdictions, especially those with relatively small allocations, as in the case with Mountain View, where the Federal funding received each year is not sufficient to fund the cost of most capital projects. Failure to meet

the timeliness requirement results in a reduction of future HUD funding allocations. Over the past few years, it has been difficult to fund capital projects through the Notice of Funding Availability (NOFA) process, primarily because there has been a lack of nonprofits interested in receiving Federal funds, the City's funding allocation is relatively small for capital projects as noted above (which typically have much greater funding needs due to the size and cost of such projects), and the Federal funds have various program and reporting requirements that may be challenging for recipients to administer.

- **HOME**

- **Purpose:** Help jurisdictions fund various types of affordable housing-related programs and developments.
- **Use of funds:** HOME grantees are allowed to use
 - A maximum of 10% of the allocation for administration.
 - A minimum of 90% for eligible projects and programs.
- **Eligible activities:** All expenses must be associated with new construction or rehabilitation of housing developments. Examples include site acquisition, improvement and relocation expenses, financial assistance to eligible home buyers or owners for home purchase or rehabilitation, and tenant-based rental assistance. Typically, HOME funds allocated to affordable housing developments have been as loans and the repayment of these loans are repaid to the City as program income. All housing developed with HOME funds must serve low- and very low-income families. Examples of recently funded projects include the rehabilitation of the Ginzton Terrace apartments at 375 Oaktree Drive, an affordable housing development for seniors developed by MidPen Housing.

Note that in addition to CDBG and HOME, the City budgets an annual appropriation from the City's General Fund to provide additional resources to local nonprofits providing important public service activities. Per the City's policy, these General Funds are included in the CDBG/HOME NOFA process, which is described further below.

Funding Amounts

HUD awards program funds to entitlement jurisdictions, including the City of Mountain View, each fiscal year. Funding levels depend on the Federal budget. In recent years, the City has received approximately \$620,000 in CDBG funds and approximately \$295,000 in HOME funds annually.

The City also receives “program income” (PI) for both programs each year in the form of loan repayments from affordable housing developments whose construction or rehabilitation was funded through the program. The PI may also be used to fund public service activities, capital projects, and/or administration. The City incorporates PI in its NOFA. Because the amount of PI received each year fluctuates, and the City may receive PI throughout the year, it has been standard practice to use a placeholder of \$100,000 for PI when the NOFAs are issued. However, over the past two years, the City has received substantially greater amounts of PI than in the past. Going forward, if the City has received PI greater than the \$100,000 placeholder amount at the time of NOFA issuance, the full amount of PI will be included in the NOFA. Should additional PI be received after NOFA issuance, funding awards would be adjusted as needed.

The City annually allocates \$171,000 from its General Fund to supplement Federal funds and support human service, educational, cultural, arts, and other programs not eligible for Federal funds. Per City policy, the uses of the City’s General Funds that supplement Federal funding must align with and further the goals and strategies in the City’s Consolidated Plan and Annual Action Plan.

Each year, the Human Relations Commission (HRC) considers proposed allocations for these funds, which are then reviewed by the City Council and incorporated into the City’s Annual Action Plan. The timing and process for the upcoming NOFA funding cycle is discussed below.

Principles for Policy Recommendations Related to CDBG/HOME Program Implementation

Staff is working to develop a streamlined allocation process, which is responsive to current needs and aligns with the City’s Federal Consolidated Plan while being mindful of Federal program regulations. Included below is a suggested policy framework for developing recommendations for the CDBG and HOME NOFA funding cycle. These principles have been developed with feedback from the HRC, CDBG/HOME consultants, recipients, and HUD staff. The recommended framework to guide the City’s funding recommendations is as follows:

1. **Alignment with Consolidated Plan:** All expenditures should fund activities that further the goals of the City’s Consolidated Plan, which identifies the City’s highest-priority needs.
2. **Effective and Flexible Administration of Funds for Capital Projects:** The City has identified a number of priority capital projects, including affordable housing construction and rehabilitation, to further Consolidated Plan goals through its affordable housing pipeline. Given the substantial costs and funding complexities associated with such projects, they may face funding gaps. CDBG and HOME funds could provide critical leverage to enable priority projects to go forward. Therefore, it is important to allow for these funds to be used flexibly to meet the highest needs.

In addition, it is critical that the City uses Federal funds thoughtfully as underutilizing the CDBG funds will result in the City failing its “timeliness requirements.”

Because of these two considerations, staff recommends analyzing the best use of capital funds on an annual basis, either recommending a direct allocation to an activity with an identified need (as the City did for the Crestview Hotel conversion to housing) or undergoing a NOFA to solicit potential proposals from nonprofit organizations with capital needs.

3. **Minimum Funding Thresholds:** CDBG and HOME grants have significant ongoing reporting and monitoring requirements with which the City and its recipients must comply, placing an administrative burden on both. The requirements include environmental reviews, prevailing wage and labor compliance monitoring, site inspections, and records reviews. Due to this significant administrative requirement, it is critical that the City only fund grants for which the per-grant administrative burden is not a significant portion of the total grant amount. Therefore, staff recommends minimum funding thresholds, described below.

Minimum funding thresholds will also be useful for addressing staff capacity issues. With fewer, larger grants, staff will have more time to work with recipients to establish compliance and monitoring programs, which are important for maintaining the City’s access to Federal funds.

Policy Recommendations for CDBG/HOME Program Implementation

Based on the principles above, the following recommendations are proposed for the Fiscal Year 2023-24 funding cycle:

Table 1: Summary of Policy Recommendations for CDBG/HOME

Policy Recommendation	Considerations
Establish a minimum public service funding threshold	Minimum grant of \$7,500 for CDBG public services and General Fund grants (per Council Policy A-8)
NOFA for <u>CDBG</u> funding for capital projects <ul style="list-style-type: none"> • Bring back Minor Home Repairs • Minimum threshold for capital projects 	<ul style="list-style-type: none"> • \$30,000 per year for the Minor Home Repairs program • Minimum \$300,000 funding threshold for capital projects

Policy Recommendation	Considerations
Direct allocation of <u>HOME</u> funding for capital projects	Allocation to affordable housing projects in the City’s pipeline that are “shovel ready” to meet program requirements

- **Minimum Public Service Funding Threshold:**

The HRC has previously provided feedback about establishing a minimum funding threshold for public service grants, and this recommendation is aligned with previous HRC direction. Council Policy A-8, states that the application procedures for the General Fund grant program shall be the same as those for the CDBG public service grant program; therefore, a minimum funding threshold established for the CDBG public services grant will apply to the General Fund grant program as well.

The City typically receives applications from 10 to 12 nonprofits each for the CDBG and General Fund public service grants requesting between \$5,000 and \$50,000. Due to Federal accounting and record-keeping requirements, HUD encourages jurisdictions to fund agencies at a minimum of \$5,000 because the associated compliance costs for agencies may exceed smaller grant amounts. Staff recommends a minimum grant request of \$7,500 for the CDBG public services grants and, per policy, for the General Fund public service grants.

- **CDBG NOFA Funding for Capital Projects:** Staff recommends two capital project NOFAs for Fiscal Year 2023-24 based on identified needs that are in alignment with the Consolidated Plan goals and per eligible uses for the CDBG grant:

- **Minor Home Repairs:** Staff recommends that \$30,000 of CDBG capital projects funding be set-aside and made available for nonprofits that provide assistance to low-income homeowners with minor home repairs for grants of up to \$5,000 per household. This program was previously funded through the public services grants until 2019 and was paused during the COVID-19 pandemic. Based on community feedback, there remains a need for these services. The grant amount has been determined after reviewing past grant requests and feedback from nonprofits about average number of requests received on an annual basis.

- **Minimum Threshold for Capital Projects:** Due to reporting and monitoring regulations associated with CDBG, staff recommends establishing a minimum threshold for funding capital projects. Typically, capital funding is used for acquisition or rehabilitation activities for affordable housing developments or nonprofits serving low-income households or persons with special needs. Based on recent examples of CDBG-funded capital projects (Mora Park, which received approximately \$400,000

and Renovations at Hope's Corner, which received approximately \$200,000), staff recommends a minimum threshold of \$300,000. Administrative costs are much higher for capital projects than public service grants, and a higher minimum threshold ensures these overhead costs are not a significant portion of the grant amount. Staff will be seeking applicants who can reasonably demonstrate the organizational capacity and have a plan to comply with the requirements of CDBG funding.

If funding requests are received for less than \$300,000, they will be evaluated on a case-by-case basis. If there are remaining funds after recommending all suitable applications for the program, staff recommends allocating available CDBG funding towards the City's affordable housing projects pipeline. Most affordable housing developers are familiar with CDBG regulations, and some monitoring and reporting requirements overlap with regulations for affordable housing projects receiving State funding or project-based vouchers.

- **Direct Allocation of HOME Funding for Capital Projects:** HOME capital funds are restricted to affordable housing activities, and funds must be committed and used under a tight timeline. Over the past few years, it has been difficult to fund capital projects through the NOFA process, primarily because there has been a lack of applicants interested in receiving Federal funds as the City's funding allocation is relatively small for capital projects. These funds are better spent when combined with other funding sources to address the significant cost of affordable housing, as the City did with the Crestview Hotel project. To better leverage other City funds dedicated to affordable housing and more purposely align the funding with the City's existing goals, staff recommends not doing a NOFA for HOME funds and working with developers of affordable housing projects in the City's pipeline that are "shovel ready" to fill existing funding gaps. This approach will also help address the funding gap the City faces in funding its affordable housing pipelines.

Upcoming NOFA Timeline

Staff is preparing for the next CDBG/HOME NOFA cycle, which will include a new two-year funding cycle for Fiscal Year 2023-25 for CDBG- and General Fund-funded public services and a one-year cycle for CDBG capital projects. As noted above, it is recommended that HOME funding be directly allocated and not included in the NOFA.

The following provides the anticipated process and timeline for the upcoming NOFA cycle.

Table 2: Anticipated NOFA Timeline

Early December 2022	Notice of CDBG and General Fund funding availability
January 2023	NOFA closes; funding requests evaluated
March 2023	HRC to consider public service and capital funding applications and staff recommendations
April 2023	Council consideration of funding recommendations and Annual Action Plan
May 2023	Submittal of Annual Action Plan
July 2023	Execution of contracts

CONCLUSION

Staff recommends a new policy framework to improve the City’s implementation of the CDBG and HOME program. Staff requests HRC feedback on the proposed policy framework in advance of the upcoming NOFA cycle.

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