



CITY COUNCIL AGENDA REPORT

MEETING DATE: May 19, 2009

ITEM NUMBER:

SUBJECT: Public Hearing for Fiscal Year 2009-2010 Funding Priorities for Community Development Block Grant (CDBG) and HOME Investment Partnership Program (HOME)

DATE: MAY 7, 2009

FROM: CITY MANAGER'S OFFICE/HOUSING AND COMMUNITY DEVELOPMENT

**PRESENTATION BY: MURIEL ULLMAN, NEIGHBORHOOD IMPROVEMENT MANAGER
ALMA PENALOSA, MANAGEMENT ANALYST
MIKE LINARES, CDBG & HOME COORDINATOR**

FOR FURTHER INFORMATION CONTACT: MURIEL ULLMAN, NEIGHBORHOOD IMPROVEMENT MANAGER (714) 754-5167

RECOMMENDATION

That the City Council hold a Public Hearing to:

1. Approve recommended allocation for the Fiscal Year 2009-2010 Community Development Block Grant (CDBG) Application.
2. Approve recommended allocation for the Fiscal Year 2009-2010 HOME Investment Partnership Grant.
3. Approve resolution (Exhibit A) authorizing the City Manager to act as the official representative of the City in order to submit the Annual Action Plan (Exhibit B) and all certifications and assurances contained therein, and directing and authorizing the City Manager to act in connection with the submission of the Annual Action Plan, and to provide such additional information as may be required.

BACKGROUND

Costa Mesa is a Housing and Urban Development (HUD) entitlement City which is automatically eligible to receive Community Development Block Grant (CDBG) and HOME Partnership Program Grant (HOME) funds. These two (2) HUD programs annually provide over \$2 million to the City and support an array of services that either assist low and moderate income persons and/or arrest blight in deteriorated neighborhoods. HOME funds must be used solely to increase housing opportunities for low-income residents living in Costa Mesa.

In April of 2005, the City Council approved the 2005-2009 Consolidated Plan. The Consolidated Plan is a five (5) year planning document required by HUD for all communities receiving entitlement community development funds. It was approved via a collaborative process with the local community whereby a unified vision for community development actions was established. The Consolidated Plan offers local jurisdictions the opportunity to integrate the various housing and community development programs into effective neighborhood strategies thereby creating a platform for strategic planning designed to reduce duplication of effort at the local level. The Plan must include the following elements: a projection of housing needs for the next five (5) years, a discussion of specific housing problems including cost burdened households, substandard housing and overcrowding; community development and infrastructure needs; and a homeless needs analysis. Finally, the Plan provides priority needs and objectives and a one year Action Plan. The priorities in the 2005-2009 Consolidated Plan were utilized to determine the programs and projects listed in the 2009-2010 Budget.

ANALYSIS

The Housing and Community Development Division is responsible for administration of the City's CDBG and HOME Grants. All CDBG funds must be utilized to achieve one (1) of three (3) national objectives: elimination of slum and blight, benefit to low and moderate persons and/or meet an urgent need. CDBG and HOME programs must also reflect activities outlined in the Consolidated Plan.

A. CDBG FUNDS

The City of Costa Mesa has been notified by HUD that it's FY2009-2010 CDBG Grant will be \$1,361,264. This represents a very slight increase of approximately \$12,000 or almost 1% from the current fiscal year. Additional CDBG funds being budgeted include \$109,000 in Program Income and \$46,000 in prior years' funds for a total CDBG budget of \$1.516 million. Of the grant amount, a maximum of fifteen percent (15%) may be utilized for Public Service Grants and a maximum of twenty percent (20%) is to be allocated for administration. HCD is proposing allocation of these funds as follows:

Total Funds Available:

\$ 1,516,264

Existing Programs

20% Administration (includes Fair Housing Contract at \$25,000)	\$ 272,252
15% Public Service Grants**	\$ 204,189
Code Enforcement (includes funding for 3 full-time staff)	\$ 322,511
“Neighbors for Neighbors” (includes funding for 2 events per year)	<u>\$ 91,747</u>
Total Budgeted for Programs	\$ 890,699

New Projects

Staff solicited project requests from Department Heads, Division Managers, and the City Council. The City Manager reviewed all proposals and recommended the following projects for funding:

- 1) Street Improvement Project at Center St from Pomona to Anaheim Ave \$ 410,000
- 2) Alley Improvement Project at Anaheim Ave from Plumer to Center St. \$ 110,000
- 3) Bethel Towers \$ 105,565
(ongoing project in negotiations)

Total Budgeted for New Project Requests \$ 625,565
(Refer to page 31 of the Action Plan for a map of projects.)

Total Unappropriated Funds \$ - 0 -

**Note: At the time of the 3R Committee Meeting, the FY09-10 CDBG Grant amount had not been received from HUD and an estimate was used to determine the Public Service Grant distributions. At that time the 3R Committee voted to appropriate any additional Public Service Grant funds into Capital Improvement Projects. The \$204,189 reflects the full 15% allocation which includes a \$1,848 overage that per the Committee’s direction will be appropriated to the Bethel Towers Capital Improvement Project unless the City Council decides to appropriate it elsewhere.

B. HOME FUNDS

The City of Costa Mesa has been notified by HUD that it's FY2009-2010 HOME Program Grant will be \$761,235. This represents an increase of approximately \$76,000 or 11% from the current fiscal year. Additional HOME funds being budgeted include \$19,844 in prior years HOME admin fund for a total HOME budget of \$781,079. Of the grant amount, a required fifteen percent (15%) may be utilized for an eligible CHDO Project and a maximum of ten percent (10%) is to be allocated for administration. HCD is proposing allocation of these funds as follows:

Total Funds Available:	\$ 781,079
<u>Existing Programs</u>	
Administration	\$ 95,967
15% CHDO Reserve	\$ 114,186
Single Family Rehab Loan Program (includes funding for approx. 7-8 loans)	\$ 356,976
Neighborhood Improvement Grant Program (includes funding for approx. 8 grants plus salaries)	<u>\$ 213,950</u>
<i>Note: Carryover funds from FY08-09 will be added to above Single Family Rehab Programs for addtl loans and grants.</i>	
Total Budgeted for Programs	\$ 781,079
Available for New Projects/Programs	\$ - 0 -

C. HOUSING PROJECT STATUS – Bethel Towers

Currently, staff has designated \$105,565 for Bethel Towers from 09-10 CDBG funds and \$255,065 from FY 08-09 RDA funds for a total of \$640,565. It is suggested that an additional \$105,565 be allocated to this project from FY09-10 CDBG funds. This project consists of installation of wet fire protection and other such improvements for this 18-story, 270 unit low income senior housing complex. Over the past year, staff has conducted Tier I and Tier II Structural Analyses as well as a feasibility study listing different alternatives and their attendant costs. They have met with Bethel Towers management and are currently discussing two different scopes of work with them. These scenarios have also been reviewed by the Building and Fire Prevention Divisions to make sure they are feasible. It is anticipated that this project will be brought back to the City Council and Redevelopment Agency in Summer 2009 so that staff may receive direction as to how to proceed.

The affordability covenants on Bethel Towers are scheduled to expire in 2017. In consideration for any financial assistance which this project receives, the City will be asking for long term affordability covenants. This project is listed in the recently adopted Housing Element as a City sponsored at-risk preservation project.

It is important to note that these funds still have limited leveraging power in the private market and would probably produce between 2 and 5 units. Additionally, Council/Agency needs to keep in mind that Bethel Towers will cost anywhere from \$1,000,000-\$4,000,000, depending upon the scope of work. Should the larger scope be undertaken, staff would evaluate the feasibility of a discretionary HUD Section 108 loan. This loan could be paid back utilizing future CDBG funds over the next few years.

Setting aside funds for Bethel Towers now may be prudent until such time as we have tied down firmer budget and financial alternatives and receive further direction from the City Council/Redevelopment Agency regarding this project.

D. ECONOMIC RECOVERY ACT OF 2008 AND THE AMERICAN RECOVERY AND AMERICAN REINVESTMENT ACT STIMULUS PROGRAMS

The Economic Recovery Act of 2008 was signed into law by the Bush Administration. It was initiated due to the significant rise in foreclosures across America over the last year. It included millions of dollars for foreclosure prevention programs such as the Neighborhood Stabilization Program (NSP I) mentioned below. The American Recovery and Reinvestment Act (ARRA) was signed into law by the Obama Administration in February 2009. It includes \$13.61 billion for projects and programs administered by the Department of Housing and Urban Development, nearly 75 percent of which was allocated to state and local recipients for infrastructure, neighborhood stabilization and homeless prevention.

All of the stimulus programs mentioned above are in the process of being developed by Housing and Community Development staff. They have abbreviated citizen participation requirements and HUD grantees are expected to commit and expend all funds in an extremely short time frame. HUD is urging Grantees to be prudent in their expenditure of funds and to ensure they have the capacity to deliver services in a timely manner before committing themselves to these programs. Due to billions of dollars being disbursed throughout America, both HUD and the State will be scrutinizing jurisdictions' internal controls and increasing their monitoring of local cities.

CDBG-R Funds:

The City is scheduled to receive approximately \$360,000 in CDBG-R funds. These funds may be used to assist low-and moderate income persons in target areas pursuant to eligible activities found in the original CDBG regulations. They should be similar to regular CDBG funds with regard to HUD requirements, but HUD is asking cities to target projects which will be under contract during the beginning of the next fiscal year. Funds should maximize job creation and economic benefit. The public

input process is anticipated to be abbreviated as grantees might have as little as four weeks to submit a plan after the guidance is issued.

It is anticipated that the CDBG-R funds be spent on the Jo Ann bike path project. Funds will be utilized for design and construction including the removal and replacement of fencing along the south side of the Joann Street bike trail (the curved fencing on the north side of the bike trail is to be protected in place); new landscape and irrigation system; new safety lighting system, rehabilitation of the existing bike trail between Harbor Boulevard and the Corporation Yard; and constructing a new Class 1 bike trail on the west side of Harbor Boulevard between Fair Drive and 2299 Harbor Boulevard.

HUD has informed its Grantees that the CDBG-R funds will be considered part of the 2008-2009 Action Plan. Hence, staff will process an amendment to the existing 2008-2009 Action Plan once the final regulations are received.

Homeless Prevention Funds:

The City has been notified that it has been appropriated \$560,000 in Homeless Prevention funds. These funds may be used to provide financial assistance and services to either prevent individuals and families from becoming homeless or help those who are experiencing homelessness to be quickly re-housed and stabilized.

Staff presented this program and received authorization to proceed at the April 21, 2009 City Council Meeting. Currently Staff is working on the preparation of the Request for Proposals to solicit non-profits with whom to partner in the expenditure of these funds. It is anticipated that Staff will return to the City Council with a proposed Program and non-profit partner selection in early to mid-August.

Neighborhood Stabilization Program (NSP I)

Last July, the U.S. Housing and Urban Development allocated a total of \$3.92 billion to all states and particularly hard-hit areas trying to respond to the effects of high foreclosures. HUD's new Neighborhood Stabilization Program (NSP 1) will provide targeted assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. Eligible activities include establishment of financing mechanisms for purchase and rehabilitation of foreclosed homes; purchase and rehabilitation of abandoned properties and redevelopment of demolished or vacant properties. Only properties located in places "with the greatest percentage of home foreclosures," subprime mortgages and/or significant foreclosure risk will be eligible for funds.

"Tier 1" funds went to jurisdictions with greatest need as determined by a complex formula based on number of local foreclosure starts as a percentage of statewide foreclosure starts and local foreclosure rate as a percentage of the total state foreclosure rate. Although Costa Mesa did not receive Tier I funds from HUD, it may apply for "Tier 2" State NSP 1 funds (\$311,000) provided it combines its

allocation with other jurisdictions in the County through a joint agreement to meet or exceed the state mandated \$1 million threshold.

Based on the above, staff has formed a partnership with the cities of Fullerton and La Habra. However, based on staff training administered by the State on May 5, all applications for funding must be received by the State no later than June 15, 2009. A joint cooperation agreement outlining the roles of all three cities is currently being prepared and will be presented to all three city councils in all three cities at the beginning of June. At that time, City Council can decide whether or not it wishes to pursue these funds and to approve and/or amend staff recommended activities. Whereas federal grants such as the HOME Program typically have a 24 month commitment deadline, NSP 1 requires that all funds be committed within 6 months (December 2009) and expended by March of 2010. Hence, the State will be looking for a City's internal capacity to get the program up and running quickly. This will be challenging for cities due to the myriad of new rules including procurement standards, subrecipient agreements, loan documents, etc. In summary, based on the abbreviated implementation time frame and the myriad of regulations surrounding the expenditure of funds, staff will most likely be recommending either a foreclosure acquisition program or a foreclosure rehabilitation program.

NSP 2

Even before the NSP 1 money was available to cities, the Obama Administration introduced the new Neighborhood Stabilization Program (NSP 2) in March, 2009 as part of the "American Recover and Reinvestment Act of 2009". Program regulations should be unveiled in July 2009. Although cities have not yet received HUD guidelines, it is commonly thought that NSP 2 will be similar to NSP 1 except that allocations will be disbursed on a competitive vs. entitlement basis.

D. REDEVELOPMENT & RESIDENTIAL REHABILITATION (3R) COMMITTEE

At its March 24, 2009 meeting, the 3R Committee reviewed the above proposed allocation of CDBG & HOME funds and passed several motions approving the CDBG and HOME budgets and the Annual Action Plan as presented.

Concerns raised by the Committee included the following:

- Concerns about the CDBG-R stimulus funds being used to provide the most stimulation of the local economy and how the proposed funding of the Joann Bike Path would create jobs, etc.
- The cost of Bethel Towers (a privately owned building) and the owner's contribution and commitment.
- The cost of staff overtime at the Neighbors for Neighbors events. Some members suggested using additional volunteers in place of staff.
- The committee also voted to allocate any additional CDBG funds received after the fact to Capital Improvement Projects.

Staff responses to the concerns were as follows:

- The CDBG-R funds are being used to fund the Joann Bike Path which will result in jobs being created and retained such as design, construction, engineering, etc. Additionally, this project was previously being funded out of the General Fund. The release of these funds will allow for the City to use these funds for other General Fund projects which may also stimulate or retain jobs. Additionally, Staff asked the 3R to submit suggested other uses for these funds after the meeting to be included in the Council recommendations. No suggestions were received by Staff.
- The City is doing this project because it furthers the objective of the creation and preservation of affordable housing in the City. Renovation and rehabilitation of senior housing are both a consolidate plan and housing element goal. The owner equity contribution concern is paralleled by Staff and has been relayed to Bethel Tower's staff. It is expected that the owner will make a contribution and the City will not bear the full cost of rehabilitation.
- Volunteers do the majority of the work at the Neighbors for Neighbors events. Staff is kept to a minimum but is necessary to provide expertise and supervision as the work is being done on private residences. As an example, for the Spring NFN event that occurred on May 2, 2009 there were 134 volunteers and 16 city staff.

2009-2010 ACTION PLAN

The 2009-2010 Fiscal Year is the fifth and final year of the current 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 2009-2010 Action Plan begins July 1, 2009 and ends June 30, 2010. The Action Plan includes several HUD required components including:

- A list of federal, non-federal and private funds expected to be available to address priority needs and objectives.
- A descriptions of the activities the City will undertake in 2009-2010 to meet priority needs.
- A description of the geographic distribution of federal assistance.
- An outline of the activities that will be undertaken to address the needs of the City's households at-risk of homelessness, those currently homeless, and persons that are not homeless but have special needs
- An evaluation of how the additional strategies outlined in the Consolidated Plan will be addressed during 2009-2010.

- A discussion regarding certain program requirements for the CDBG and HOME programs.
- A description of the standards and procedures used to monitor activities carried out in furtherance of the Consolidated Plan and the Action Plan.
- Various certifications related to the implementation of the Consolidated/Annual Action Plan, and the CDBG and HOME programs.

FISCAL IMPACT

For fiscal year 2009-2010, the City will receive a total of \$1,361,264 in Community Development Block Grant (CDBG) funds. The 2009-2010 CDBG Budget also includes \$155,000 in additional program income and prior years' funds. Therefore, the total amount of available CDBG funds for 2009-2010 is \$1,516,264.

For fiscal year 2009-2010, the City will receive \$761,235 in HOME Investment Partnership Program (HOME) funds. Additional HOME funds being budgeted include \$19,844 in prior years' funds. Therefore, the total amount of available HOME funds for 2009-2010 is \$781,079.

ALTERNATIVES CONSIDERED

The City can choose not to fund the proposed projects and/or ask staff to research other eligible activities. However, this would delay submission of the Annual Action Plan to HUD and subsequently, receipt of grant funds for FY09-10.

LEGAL IMPACT

There is no adverse legal impact anticipated by the Council's taking the recommended action(s), based upon the documents and information provided to this office.

CONCLUSION

The existing programs listed in the respective budgets represent City Council priorities as expressed in the HUD Consolidated Plan and Community Objectives. New projects represent requests submitted to staff and reviewed by the City Manager and staff for adherence to the above-mentioned criteria.

As required by HUD, a notice was published on April 15, 2009 inviting the public to comment during the thirty-day (30) comment period. The Comment period began on April 15, 2009 and will conclude on May 15, 2009.

It is recommended that the City Council:

1. Approve recommended allocation for the Fiscal Year 2009-2010 Community Development Block Grant (CDBG) Application, including entitlement funds and reallocation of prior year's funds.
2. Approve recommended allocation for the Fiscal Year 2009-2010 HOME Investment Partnership Grant.
3. Approve resolution authorizing the City Manager to act as the official representative of the City in order to submit the Annual Action Plan and all certifications and assurances contained therein, and directing and authorizing the City Manager to act in connection with the submission of the Annual Action Plan, and to provide such additional information as may be required.

Allan L. Roeder
City Manager

Muriel Ullman
Neighborhood Improvement Manager

Attachments: [Exhibit A – Resolution](#)
[Exhibit B – Annual Action Plan](#)