ITEM NO. 17

# STAFF REPORT

# CITY OF OCEANSIDE

DATE: March 16, 2011

TO: Honorable Mayor and City Councilmembers

FROM: Neighborhood Services Department

SUBJECT: **APPROVAL OF THE FY 2011-2012 COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM BUDGET; APPROVAL TO ALLOCATE FUNDING FOR VARIOUS HOUSING AND COMMUNITY DEVELOPMENT ACTIVITIES, PLANNING, AND PROGRAM ADMINISTRATION; AND, APPROVAL TO ALLOCATE GRANT FUNDING FOR VARIOUS PUBLIC SERVICES AND HOMELESS PROGRAMS**

## SYNOPSIS

Staff recommends that the City Council approve the FY 2011-2012 Community Development Block Grant (CDBG) program budget; and approve the allocation of funding for various eligible activities.

## BACKGROUND

The U.S. Department of Housing and Urban Development (HUD) manages four grant programs through the Community Planning and Development (CPD) office:

- Community Development Block Grant (CDBG) Program for housing rehabilitation, capital improvements, public services, economic development, and other community development activities
- HOME Investment Partnership (HOME) program to promote homeownership for low-income families and to develop new rental housing for low- and very low-income individuals and families
- Emergency Shelter Grants (ESG) program for activities to prevent homelessness, support transitional housing for formerly homeless individuals and families, and provide essential services to homeless individuals and families.
- Housing Opportunities for Persons with AIDS (HOPWA) program to provide housing and supportive services for persons disabled by AIDS, and for their families.

The City does not receive ESG or HOPWA funds.

All activities funded through one of the CPD programs must meet one of three National Objectives:

1. Primarily benefit low- and moderate-income individuals, families and neighborhoods;
2. Prevent or eliminate slums and blight;
3. Meet an urgent local need (such as the firestorms in San Diego County).

Congress appropriates funding for the CPD programs as part of the HUD/Transportation appropriations bill; HUD then determines the entitlement for each participating jurisdiction by a formula based on a number of factors including population and the age of housing in the jurisdiction. The primary objective of the CDBG Program is the development of viable urban communities, principally for low- and moderate-income persons, through decent housing, a suitable living environment and expanded economic opportunity. The City may allocate its CDBG funding to a range of eligible activities, including housing rehabilitation, capital improvement projects, public services, economic development, and other community development activities.

HUD regulations require that the City use HOME funding to promote homeownership or to develop housing projects affordable to low- and very low-income individuals and families, such as the *La Mision* mixed-use development on Mission Avenue or the Lil Jackson senior housing project on Lake Boulevard.

HUD regulations require that a participating jurisdiction adopt a five-year Consolidated Plan for Housing and Community Development and annual Action Plans. The Consolidated Plan demonstrates how a local jurisdiction will address the national goals of decent housing, a suitable living environment, and expanded economic opportunity for all residents, and lists the City's objectives for affordable housing, homeless services, community services, neighborhood revitalization and economic development. The Consolidated Plan shows how the City will use available financial resources including the block grant funds, City funds and other resources to implement plans and activities that address the objectives. The City Council adopted the 2010-2015 Consolidated Plan on May 5, 2010; this plan will expire on June 30, 2015.

The five-year Consolidated Plan provides the framework for the City's annual Action Plan. The Annual Plan presents the specific strategies and activities the City will undertake to fulfill the goals and objectives of the Consolidated Plan during a particular year, and shows how available resources will be used during that year as determined by the City Council. The draft 2011-2012 Action Plan will be available for public review and comment on March 31, 2011; staff will submit the plan to the City Council on May 4, 2011.

On October 14, 2009, the City Council approved a number of changes to the CDBG program:

1. The City Council approved renewing CDBG public services funding for 2010-2011 and 2011-2012 only for organizations and agencies that provide services or programs that serve residents of the lowest-income neighborhoods of the City

through activities and programs in the City's recreation centers, resource centers and senior centers, conditional upon the availability of funds from HUD for the CDBG program. CDBG program regulations limit public services funding to fifteen percent of the total amount awarded to the City. The City did not accept new applications for CDBG public services for 2011-2012.

2. The City Council deobligated CDBG public services funding for organizations that were awarded CDBG services grants for housing programs, and allocated funding for these programs out of the Mortgage Revenue Bond (MRB) Fund. Continued funding from the MRB available balance is questionable, especially as bonds issued for projects are paid off.

On February 24, 2010, the City Council approved a Neighborhood Revitalization Strategy Area (NRSA) Plan for the Crown Heights and a portion of the Eastside neighborhoods; the HUD Los Angeles Field Office approved this NRSA Plan with a starting date of July 1, 2010. One of the benefits of the HUD approval is that the City may fund public services programs in the NRSA beyond the fifteen percent cap on such services, thus freeing up CDBG funds for the community resource centers.

Neighborhood Services Department staff prepare the overall CDBG budget (Exhibit A) with funding recommendations under the categories of Administration and Planning, Housing Rehabilitation, Neighborhood Revitalization, Code Enforcement, payment of principal and interest against loans received through the Section 108 Loan Guarantee Program, and Code Enforcement. The city will not know its allocation of 2011-2012 CDBG funds until later this year and thus cannot now compute the amount of funds that could be used for capital improvement project. Once the City does learn what available funds it will have, the City will issue a request for proposals for eligible capital projects. The City is working on developing proposals for economic development projects for 2011-2012. Any proposed allocations of CDBG funds for capital improvement or economic development projects will be brought to the City Council for approval.

As of March 1 Congress had not appropriated funds to HUD for federal fiscal year 2011, which includes funds for the FY 2011-2012 CDBG program. The City anticipates a minimum ten percent reduction from FY 2010-2011 with the possibility of a more significant reduction.

## ANALYSIS

In October 2009, the City Council approved awarding CDBG grants for public services in FY 2010-2011 and FY 2011-2012 to those organizations that were funded in 2009-2010, and only to such organizations that provide services or programs to serve residents of the lowest-income neighborhoods of the City through activities and programs in the City's recreation centers, resource centers and senior centers It is necessary for the City Council to approve grant awards each year based on the actual entitlement funding. The list of subrecipients awarded CDBG funding by the City Council in FY2010-2011 and the amount of funding is shown in Exhibit A. The Council

directed in 2010 that these grants be carried forward for 2011-2012, conditional upon the availability of funds.

1. Public Services Funding

The Public Services category includes services and programs for youth, senior citizens, adults with disabilities, homeless persons and other activities that benefit low- and moderate-income individuals, families and neighborhoods. HUD regulations restrict the use of CDBG funds for public services to no more than 15 percent of the sum of the annual entitlement plus program income from the prior year. The City anticipates that CDBG funds for 2011-2012 will be at least ten percent less than what was received in 2010-2011, with the capped amount for public services projected at $250,000. If CDBG entitlement funds for 2011-2012 are significantly less than this estimate, the City will adjust subrecipient grant awards by the percentage difference. The City Council has previously directed that no public services grant be less than $7,500; with the possible significant reduction in available funds, the City recommends that this policy be lifted for FY 2011-2012 to allow funding for eligible subrecipients. Since CDBG public services funding in 2011-2012 is a renewal of the current year's awards, the ad hoc Application Review Committee did not meet. The list of agencies and programs recommended for CDBG public services funding in 2011-2012 is shown in Exhibit A. This list has been adjusted based on Council action to limit funding to programs and activities that work out of City resource centers, parks and recreation facilities, and senior centers, and that serve CDBG-eligible neighborhoods. CDBG funds must be used to supplement, not supplant other funding.

Three current subrecipients are not recommended for continued funding:

- The Board of Directors of the Oceanside Boys and Girls Club has determined that the Junior Seau Fitness Center / Club 55 Senior Fitness program is not part of their core mission and has closed this program. Residents who had been using the facility are seeking to identify a way to continue a senior fitness program on the site. The City retains the right to use the facility when it is not being used by the Club.
- Camp Fire USA – San Diego and Imperial Council has experienced significant financial problems in the current recession and closed the Crown Heights Center for a number of months. Camp Fire USA did not submit an application for renewed funding for 2011-2012.
- The Ivey Ranch Park Association has regularly been delinquent in submitting reports on public services activities (Camp Ivey summer camp) and on progress on development of a child development center for which the Council approved CDBG capital project funding. The reports submitted by the Association have not always been in compliance with contract requirements. Through a Public Records Request submitted to the City in January of this year, the City has learned that the Association is subject to current civil litigation that could have a severe detrimental impact on the Association's finances. The City does not support continued funding for Ivey Ranch Park Association's summer camp program.

2. Neighborhood Revitalization

The City will work with Community HousingWorks as a Community-Based Development Organization (CBDO) to be eligible for exemption from the fifteen percent cap on funding for public services in the NRSA. The NRSA strategy plan was approved by HUD to begin July 1, 2010; this approval will allow the City to contract with Community HousingWorks as a CHDO for implementation of NRSA objectives and strategies including economic development projects. Regulations governing the NRSA Program allow the City to contract with an agency to develop public services in the NRSA neighborhoods beyond the fifteen percent cap on such programs. Exhibit A shows an allocation of $25,000 to Community HousingWorks for NRSA project implementation. The proposed CDBG budget further will fund two community resource center staff persons for in the Crown Heights and Eastside neighborhoods.

The City is working to develop a NRSA economic development strategy, centering on support for micro-enterprise projects and improvements to San Diego Street between Mission Avenue and Bush Street.

3. Homeless Prevention and Homeless-serving Programs

The American Recovery and Reinvestment Act (ARRA) of 2009 appropriated $1.5 billion for a Homelessness Prevention Fund. This fund supports the Homelessness Prevention and Rapid Re-Housing Program (HPRP). The HPRP provides funds for short- or medium-term rental assistance, security and utility deposits, utility payments, case management and other services for individuals and families who are at risk of becoming homeless, and the rapid re-housing of homeless individuals and families. Funds may not be used for shelters, transitional housing or programs for chronically homeless individuals. The City received $742,791 for the program; the City must spend sixty percent of the funds within two years and 100 percent within three years; the City is in compliance with all HPRP requirements. The Neighborhood Services Department manages HPRP activities in Oceanside in partnership with social service agencies and local school districts.

The City funded other homeless-serving programs including the regional winter shelter program managed by the Alliance for Regional Solutions in FY 2010-2011 with an allocation from the Mortgage Revenue Bond (MRB) Fund. The available balance in the MRB Fund has steadily declined due to payoff of bonds issued in past years and limited issuance of housing bonds in recent years. Exhibit A shows support for homeless-serving programs with funds from local housing programs.

4. Housing Programs

In October 2009, the City Council approved the deobligation of CDBG public services funds for agencies that provide emergency housing services and supportive services, and allocated funds from the Mortgage Revenue Bond (MRB) Fund to replace the CDBG funds. In the past few years some bonds have been paid off and the City has not issued a substantial amount in new bonds for affordable housing, resulting in a decline in the MRB Available Balance. This will limit funds available to the City for emergency housing services from the MRB Fund in 2011-2012. The City does receive

$60,000 each year designated for housing programs through the agreements with Habitat for Humanity – San Diego and the Libby Lake Village project. The Neighborhood Services Department proposes to allocate funds for emergency housing services based on the amount of funds available from these two sources. The proposed amounts and proportional reductions are shown in Exhibit A.

5. Capital Improvement Projects

Once the City learns its CDBG allocation for 2011-2012 and what funds might be available for capital projects, the City will issue a Request for Proposals for capital improvement projects. Any such project applications must come from eligible organizations, meet one of the National Objectives, and fulfill one of the objectives of the CDBG Program. The ARRA of 2009 appropriated additional CDBG funding to be awarded according to the standard CDBG formula; the City was awarded $485,796 of CDBG-Recovery Act funds. On October 14, 2009, the City Council awarded CDBG-Recovery Act funds to a number of projects; the status of these projects is as follows:

- Improvements to the Country Club Senior Center have been completed.
- Kitchen expansion at the Mental Health Services - Family Recovery Center has been completed.
- New roofs for the Women's Resource Center (WRC) transitional housing facility and the emergency shelter have been installed; the WRC is currently seeking bids to renovate the parking lot at the transitional housing facility.
- New diagnostic equipment has been installed at the North County Health Services Oceanside Mission Mesa Women's Clinic.
- Energy efficiency and conservation projects have been completed at the YMCA Oz North Coast Shelter (energy efficient windows and upgrades to the electrical system) and at the North County Alano Club (energy efficient windows).

The City anticipates completing all CDBG-Recovery Act projects by June 30, 2011.

6. Enhanced Code Enforcement

CDBG funds have supported code enforcement activity to enhance enforcement activity in targeted low-income neighborhoods for the past nine years. This program has been very successful in alleviating spot blight conditions that cause established neighborhoods to decline, both in appearance and in property value. Enhanced code enforcement has been of particular importance as part of the Calle Montecito Neighborhood Revitalization Strategy, and will be a significant component of the Crown Heights revitalization program. The 2010-2011 DCDBG Program funded two code enforcement officers for work in the NRSA neighborhoods; the proposed 2011-2012 CDBG budget will fully fund three Code Enforcement officers for this work. The additional CDBG-funded code enforcement officer will be dedicated to proactive code enforcement instead of being limited to responding to complaints of code violations. This will be a new and expanded activity for the City and will have a significant impact on improvements in the NRSA neighborhoods.

HUD has informed the City that CDBG funds allocated for Code Enforcement may not be used for the Graffiti Tracker Program, for ordinary graffiti-removal costs or for neighborhood cleanup activities, as these activities are considered public services. The

draft budget shown provides public services funding for neighborhood clean-ups.

A program audit by HUD staff noted that code enforcement activities supported by CDBG funds must be balanced with housing rehabilitation programs for both owner-occupied and rental units. The City has a successful rehabilitation program for owner-occupied homes (loans) and mobilehomes (grants). A rental rehabilitation program including tenant-based rental rehabilitation (TBRR) was approved by the City Council on March 2, 2005; the City targets rental rehabilitation funds for projects in the Crown Heights neighborhood.

7. Administration, Planning, and Housing Rehabilitation

The Administration and Planning category includes housing program development, grants administration, activities to promote fair housing and management of neighborhood revitalization programs. HUD regulations restrict administration and planning activities to no more than 20 percent of the entitlement plus current year program income; the proposed budget of $350,000 is at this limit.

The Neighborhood Services Department manages housing rehabilitation programs including loans to low-income homeowners and grants to very low-income mobilehome owners. The downturn in housing prices and consequent loss of equity for many homeowners has made it difficult for them to qualify for the single-family rehabilitation program. As a result, the Department has increased the number of mobilehome improvement grants. Due to the limited number of loans made in the past two years the City has accumulated a significant amount of unused rehabilitation funds. In order to reduce the amount of obligated but unused rehabilitation program funds the City will not include an allocation for additional funds for loans or grants in the 2011-2012 CDBG budget. The budget does include $130,000 for project management and loan services.

8. Other CDBG-Funded Activities

The City received $3,500,000 through the Section 108 Loan Guarantee Program for construction of Fire Station 7; payments on this loan began in 2008-09 and will continue for twenty years, with $270,161 budgeted for 2011-2012.

9. Allocation Process

Action by the City Council will be to approve, modify or deny the overall CDBG budget, and approve allocation of CDBG public services funding. Once the Council takes action on CDBG allocations, staff will incorporate the proposed activities into the Program Year 2011 Action Plan along with other housing and community development activities. The 2011-12 Action Plan will include all activities supported by HUD funding, including funds from the HOME Investment Partnership Program to increase the supply of affordable housing and to assist low-income first-time homebuyers.

The draft Action Plan will be available for public review beginning March 31. Following a 30-day comment period, the City will submit the 2011-2012 Action Plan to the Council on May 4, 2011, for review and approval. The City anticipates that Congress will have enacted a budget including funding for CDBG for FY 2011-2012 before that date, and will adjust the proposed budget accordingly. The City must submit an approved one-year Action Plan to the HUD Los Angeles Field Office for review no later than May 13, 2011.

CDBG entitlement funds will be available for expenditure beginning July 1, 2011; the availability of funds may be delayed due to the lateness of Congressional appropriations; The City cannot sign contracts with CDBG subrecipients or approve payments until the City has signed funding agreements with HUD and completed all environmental reviews.

Public services grants to subrecipients are limited to no more than $35,000. Capital improvement projects have no specific upper limit, but when the City awards CDBG funds in excess of $50,000 for capital projects, the subrecipient signs forgivable loan documents with the requirement that the funded project serve low- and moderate-income individuals, households or neighborhoods for at least five years.

## FISCAL IMPACT

The approved FY 2011-2012 CDBG grant allocations will be incorporated into the City's FY 2011-2012 budget. CDBG-funded projects and activities do not require matching funds from the General Fund or the subrecipient agency. CDBG funds that are not allocated remain in a contingency fund until allocated; HUD encourages participating jurisdictions to use entitlement funds in a timely manner. Public services allocations must be used by the end of the particular program year; capital projects should be completed within twenty-four months. CDBG funds must supplement and may not supplant other funds.

The City receives CDBG program income from repayment of homeowner rehabilitation loans in varying amounts from year to year; such income has been low in the current program year and is expected to remain low in FY 2011-2012. Program income must be used before drawing down funds from the U.S. Treasury. CDBG regulations limit funding for public service activities to fifteen percent of entitlement funds plus program income, and funding for program administration and planning to twenty percent of the same figure. As a result, the City estimates that no more than $250,000 will be available for allocations to public services and $350,000 for administration and planning for FY 2011-2012. The City seeks to remain below the 20 percent cap for administration and planning.

The proposed CDBG budget and allocation of funds for 2011-2012 are based estimates since Congress has not appropriated funds to HUD for the current federal fiscal year; these allocations may need revision once HUD releases awards for 2011-2012. The City will increase or decrease CDBG public services grants based on the percentage increase or decrease in the amount made available to the City. City staff will bring any revisions to the 2011-2012 CDBG budget and allocation of public services funds to the City Council on May 4, 2011, as part of the approval of the Action Plan.

## COMMISSION OR COMMITTEE REPORT

Since the City Council approved renewing funding of 2009-2010 CDBG subrecipients in 2010-2011 and 2011-2012, the ad hoc application review committee did not meet this year. The goals, objectives and strategies of the 2011-2012 Action Plan will be

presented to the Housing, Parks & Recreation and Community Relations Commissions in March and April.

## CITY ATTORNEY'S ANALYSIS

The City Council is authorized to hold a public hearing in this matter. Consideration of this matter should be based on the testimony and evidence presented at the hearing. After conducting the hearing, the Council shall adopt, modify or deny the recommendations contained in this report. The supporting document has been reviewed and approved as to form.

## RECOMMENDATION

Staff recommends that the City Council approve the FY2011-2012 Community Development Block Grant (CDBG) program budget; and, approve the allocation of funding for various eligible activities.

PREPARED BY:

John A. Lundblad
Management Analyst

SUBMITTED BY:

Peter A. Weiss
City Manager

REVIEWED BY:

Michelle Skaggs Lawrence, Deputy City Manager

Margery M. Pierce, Director, Neighborhood Services

Teri Ferro, Director, Financial Services

ATTACHMENTS:
Exhibit A: Proposed FY 2011-2012 CDBG Budget

## Community Development Block Grant Program
## 2011-2012 Budget and Allocation of Funds

| Revenue | 2010-11 | Option 1 90% | Option 2 80% |
|---|---|---|---|
| a. CDBG Entitlement based on 2010-11 actual | $ 1,960,622 | $ 1,765,560 | $ 1,568,498 |
| b. CDBG Program Income (estimated) | $ 65,000 | $ 35,000 | $ 35,000 |
| c. Contingency available for allocation | $ - | - | - |
| **Total Revenue (est.)** | **$ 2,025,622** | **$ 1,800,560** | **$ 1,603,498** |
| | | | |
| **Expenditures** | | | |
| **a. Admin/Planning: CDBG 20% line 5** | | | |
| 1. Housing Program Development | $ 185,000 | $ 175,000 | $ 160,000 |
| 2. Fair Housing Programs | $ 10,000 | $ 10,000 | $ 10,000 |
| 3. Grants Administration | $ 150,000 | $ 150,000 | $ 150,000 |
| 4. Neighborhood Revitalization | $ 30,000 | $ 20,000 | $ - |
| **Total Administration and Planning** | **$ 375,000** | **$ 355,000** | **$ 320,000** |
| | | | |
| **b. CDBG Public Services: 15% of line 5** | | | |
| 1. Parks & Recreation Teens* | $ 18,600 | $ 18,600 | $ 18,600 |
| 2. Parks & Recreation 4 Kids Sake* | $ 18,200 | $ 18,200 | $ 18,200 |
| 3. Angel's Depot Food for a Week | $ 8,540 | $ 7,686 | $ 6,192 |
| 4. Brother Benno Foundation | $ 14,148 | $ 12,733 | $ 10,257 |
| 5. Boys & Girls Club Gangbusters | $ 22,308 | $ 20,077 | $ 16,173 |
| 6. Boys & Girls Club Libby Lake | $ 12,000 | $ 10,800 | $ 8,700 |
| 7. Boys and Girls Club Senior Fitness | $ 9,176 | $ - | $ - |
| 8. Interfaith Community Services | $ 7,804 | $ 7,024 | $ 5,658 |
| 9. Ivey Ranch Park Association | $ 7,542 | $ - | $ - |
| 10. North County Health Services | $ 15,000 | $ 13,500 | $ 10,875 |
| 11. Senior Citizens Association Senior Nutrition | $ 34,400 | $ 30,960 | $ 24,940 |
| 12. VCC Teen REACH | $ 23,600 | $ 21,240 | $ 17,110 |
| 13. Community Resource Centers* | $ 112,669 | $ 95,000 | $ 95,000 |
| 14. North County Lifeline (in NRSA funds 2010) | $ 10,400 | $ 9,360 | $ 7,540 |
| 15. Camp Fire USA (in NRSA funds 2010) | $ 10,000 | $ - | $ - |
| 16. Neighborhood Clean-up Activities | $ - | $ 5,000 | $ - |
| **Total Public Services** | **$ 324,387** | **$ 270,180** | **$ 239,245** |
| *No reductions to City programs | *max - $303,843* | *max - $270,084* | *max - $240,524* |
| | | | |
| **c. Neighborhood Revitalization Programs** | | | |
| 1. Community HousingWorks NRSA implementation (part of 20% admin & planning) | **$ 25,000** | **$ 25,000** | **$ 25,000** |
| | | | |
| **d. Housing Rehabilitation*** | | | |
| 1. Single Family Rehabilitation Loans | $ 320,000 | $ - | $ - |
| 2. Mobilehome Rehabilitation Grants | $ 100,000 | $ - | $ - |
| 3. Program Management and Loan Services | $ 130,000 | $ 130,000 | $ 130,000 |
| **Total Housing Rehabilitation** | **$ 550,000** | **$ 130,000** | **$ 130,000** |
| *The City will fund housing rehabilitation programs in 2011-2012 with unused funds from prior years. | | | |
| | | | |
| **e. Code Enforcement Programs** | **$ 255,136** | **$ 431,061** | **$ 431,061** |
| | | | |
| **f. S.U.N. 2011** | **$ 100,000** | | **$ -** |
| | | | |
| **g. Section 108 Loan Payment / OFD Sta 7** | **$ 267,703** | **$ 270,161** | **$ 270,161** |
| | | | |
| **h. Unallocated funds** | **$ 503,396** | **$ 319,158** | **$ 188,031** |
| | | | |
| **Total 2011-2012 CDBG Budget** | **$ 2,025,622** | **$ 1,800,560** | **$ 1,603,498** |
| | | | |
| **i. Local housing program funds** | | | |
| 1. Casa de Amparo | $ 7,500 | $ 6,750 | $ 6,000 |
| 2. Fraternity House | $ 7,600 | $ 6,840 | $ 6,080 |
| 3. Women's Resource Center Emergency Shelter | $ 11,820 | $ 10,638 | $ 9,456 |
| 4. YMCA Oz North Coast Shelter | $ 17,800 | $ 16,020 | $ 14,240 |
| 5. Winter Shelters / Homeless Task Force | $ 40,000 | $ 40,000 | $ 40,000 |
| **Total** | **$ 84,720** | **$ 80,248** | **$ 75,776** |