TO: HONORABLE CITY COUNCIL
ATTENTION: FINANCE COMMITTEE
FROM: CITY MANAGER DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT
DATE: APRIL 6, 2004 CMR: 190:04
SUBJECT: PROPOSED FISCAL YEAR 2004/05 COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUNDING ALLOCATIONS AND DRAFT ACTION PLAN

REPORT IN BRIEF

This report transmits the recommendations of City staff and the Citizens Advisory Committee (CAC) for the expenditure of $929,440 in FY 2004/05 Community Development Block Grant (CDBG) funds. The draft Fiscal Year 2004/05 Action Plan includes the funding recommendations, contingency recommendations, a commitment of CDBG funds for an affordable housing project, and the second year of a two-year funding cycle coordinated with the Human Services Resource Allocation Process (HSRAP) beginning in fiscal year 2003/04.

RECOMMENDATION

Staff and the CDBG Citizen’s Advisory Committee recommend that the Finance Committee recommend to the City Council approval of the following:

1. Allocate CDBG funding as recommended by staff and the Citizens Advisory Committee (CAC) in the final 2004/05 Action Plan update to the Consolidated Plan for the period 2000 to 2005.

2. Commit CDBG funds to repay the General Fund for a portion of the CDBG-eligible site acquisition costs in connection with a new affordable housing project if a site can be identified and acquired in 2004/05.
3. Authorize staff to submit the 2004/05 Action Plan to the Department of Housing and Urban Development (HUD) by the May 15, 2004 deadline.

4. Authorize the City Manager, on behalf of the City, to execute the 2004/05 application and Action Plan for CDBG funds and any other necessary documents concerning the application, and to otherwise bind the City with respect to the application and commitment of funds.

BACKGROUND

Consolidated Plan

The 2000-2005 Consolidated Plan, adopted by Council on May 8, 2000, is a strategic plan of action that addresses priority housing and community development needs, and sets specific goals for attaining identified objectives. The Consolidated Plan and the Annual Action Plan updates are a requirement in order for the City to receive federal funding from programs such as the Community Development Block Grant (CDBG) or HOME Investment Partnership Act. The Draft 2004/05 Annual Action Plan update has been made available for public review and comment during the period March 22 to April 22, 2004 (Attachment B).

The primary need identified in the Consolidated Plan is for affordable housing for low-income persons or persons with special needs. The goal for the five-year period is to provide 125 units of permanent, affordable housing. Palo Alto’s CDBG program is directed toward expanding and maintaining the affordable housing supply, promoting housing opportunities and choices, maintaining and improving community facilities, and providing supportive services for targeted low-income groups, including persons who are homeless, persons with disabilities, the elderly, and other special needs groups. In 2002, the City Council approved a two-year funding cycle for CDBG applications similar to the HSRAP process. All of the proposed projects for CDBG funding for fiscal year 2003/04 and fiscal year 2004/05 address the priority housing and supportive service needs identified in the adopted Consolidated Plan.

CDBG Regulations

The City of Palo Alto receives funds annually from HUD as an entitlement city under the CDBG Program, authorized by Title I of the Housing and Community Development Act of 1974 (the Act), as amended. The primary objective of the Act is “the development of viable urban communities by providing decent housing and a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income.”
HUD regulations require that all activities must meet one of the three national objectives of the CDBG Program:

- Benefit low- and very low-income persons;
- Aid in the prevention or elimination of slums or blight; or
- Meet other community development needs having a particular urgency, or posing a serious and immediate threat to the health or welfare of the community.

Palo Alto has historically expended all of its CDBG funds on projects benefiting low- and very-low-income persons.

There are three primary CDBG program activity areas:

1. Public Services: Social service activities that benefit low-income persons. The maximum amount that can be expended under this category is 15 percent of the grant allocation and 15 percent of the program income for the previous year. For fiscal year 2004/05, the maximum available for public services is $129,000.

   Public Service Cap Calculation:
   
   2004/05 Entitlement Grant (Est.) $816,000
   Program Income – HIP 2003/04* (Est.) $34,000
   Program Income – PAHC 2003/04* (Est.) $10,000
   $860,000 x 15% = $129,000

2. Planning and Administration: This category may be used to reimburse for fair housing activities, CDBG program management, oversight and coordination, environmental reviews, and general planning activities. Federal regulations limit the amount that can be spent in this category to 20 percent of the grant and 20 percent of the estimated program income for the following year. For fiscal year 2004/05 funding is limited to a maximum of $172,000.

   Planning/Administration Cap Calculation:
   
   2004/05 Entitlement Grant (Est.) $816,000
   Program Income – HIP 2004/05* (Est.) 34,000
   Program Income – PAHC 2004/05* (Est.) 10,000
   $860,000 x 20% = $172,000

*Federal regulations require the public service and planning/administration caps to be calculated on program income for different years.
3. Capital Projects: Capital improvement activities such as housing acquisition, rehabilitation, accessibility, and public improvements are the primary focus of the CDBG program. There are no funding limitations in this category.

CDBG Applications
Applications for 2003/05 funding were mailed to area housing and human service providers on October 16, 2002 and posted to the City’s website. A notice announcing the availability of applications for 2003/04 and 2004/05 CDBG funding was published in the Palo Alto Weekly in October 2002. A proposal-writing workshop was conducted in November 2002 to assist applicants with program regulations and project eligibility questions. The City received 18 applications for funding totaling $1,298,365 for FY 2003/04 and 15 applications for funding totaling $1,102,153 for FY 2004/05.

Citizen Participation
The City follows a Citizen Participation Plan to encourage public participation in the CDBG allocation and assessment process. The Citizen Participation Plan calls for a nine-member Citizens Advisory Committee (CAC), eight of whom are selected by the Mayor. One slot on the CAC is reserved for a member of the City’s Human Relations Commission (HRC). Members of this year’s CAC are: Adam Atito, Jeff Blum (HRC Liaison), Irvin Dawid, Chris Kelly, Steven Mullen, Elsbeth Newfield, Jeffrey Rensch, Sylvia Smitham and Heather Trossman Kushlan. Heather Trossman Kushlan was selected as the Committee’s spokesperson. The CAC met weekly during January and February 2003, to discuss and evaluate the applications, interview the applicant agencies and come to a consensus on funding levels for both the 2003/04 and 2004/05 funding. In addition, the CAC toured local applicant sites on two separate days. The funding recommendations made by the Committee and supported by Council in 2003 were preliminary for fiscal year 2004/05; therefore, the CAC met only on three occasions in January and March 2004 to review and finalize those funding recommendations.

DISCUSSION
In addition to the annual funding allocations for the three primary CDBG program activity areas, several new circumstances are addressed in this report.

Two-Year Funding Allocation Process
Pursuant to Council direction on May 16, 2002, staff has implemented a two-year funding allocation process, coordinated with Palo Alto’s Human Services Division cycle for the Human Resource Allocation Process (HSRAP). The two-year process provides the opportunity for City and non-profit staff to undertake longer-term strategic planning and maximize available funding resources. Fiscal year 2004/05 is the second year of the two-year funding cycle.
Expenditure Rates

HUD regulations require that CDBG funds be expended in a timely manner. The regulatory requirement is that no more than 1.5 times a jurisdiction’s annual entitlement grant amount may remain in the letter of credit 60 days prior to the end of the program year. In an effort to reduce the backlog of unspent CDBG funds, HUD informed all jurisdictions of a new policy to employ monetary sanctions against jurisdictions that exceed the regulatory standard. Failure to meet the expenditure standard by May 1, 2005 will cause HUD to reduce the City’s next grant by 100 percent of the amount in excess of 1.5 times the annual grant. For this reason, all funding applications were scrutinized by staff and the CAC to insure the readiness of the program or project to move forward and expend funds in a timely manner. To date, the City has been able to meet its expenditure standard.

Commitment of CDBG Funds

On May 13, 2002, the City Council allocated $1,000,000 to the City’s Housing Fund to help defray site acquisition costs for a new affordable rental housing project, committing future years CDBG funds, i.e. FY02/03, 03/04 and 04/05. HUD regulations permit allocations from future year’s funding if the request precedes the expenditure and the action had been noticed and identified in the Consolidated Plan or Action Plan updates. For example, if the site were acquired in FY02/03, CDBG funds could be loaned from the General Fund and paid back from the balance in the CDBG Housing Development Fund and from future CDBG allocations. The City Council allocated $118,500 of FY02/03 funds with the balance of $881,500 funds to be split among FY03/04 and 04/05. The request was modified for fiscal year 2003/04 because a site had not yet been identified and the CDBG Housing Development Fund was allocated $100,000.

Since a new housing site has not been identified and given HUD’s new mandate for timely expenditure of funds, staff recommends an allocation of $439,312 for fiscal year 2004/05 for predevelopment and/or site acquisition costs if a site is identified in fiscal year 2004/05. However, if a site is not identified in fiscal year 2004/05, staff and the CAC recommend that the funds be used for another CDBG-eligible project. One alternative is to provide funding if needed for the construction of the Opportunity Center’s services facility for site clean up or another eligible activity related to the Opportunity Center.

2004/05 Funds Available for Allocation

The total amount available for allocation this year is $929,440. The City’s 2004/05 CDBG grant is $816,000, a 3.1 percent increase over the prior year’s grant of $791,000. $11,540 in funds remaining from previous projects is being reallocated to new projects. Also included is $44,000 in program income (income generated directly from the use of CDBG funds) expected to be received in 2004/05, plus $57,900 in program income received in previous years in excess of the estimated amount.
In summary:

- $816,000 FY 2004/05 CDBG entitlement grant from HUD*
- 11,540 Reallocation of other previous funds
- 34,000 Estimated program income for 2004/05 from the City’s Housing Improvement Program (HIP), a single-family residential rehabilitation program that is no longer operational
- 10,000 Estimated program income for 2004/05 from the Palo Alto Housing Corporation that is generated when rental income exceeds expenses on specific properties acquired or rehabilitated with CDBG funds
- 57,900 Actual program income received in previous years in excess of the estimated amounts that were allocated

$929,440

*The amount of entitlement grant is not officially confirmed until the President has signed a budget bill approved by the United States Congress.

Funding Recommendations – FY 04/05

The chart on the following page shows the applications that were received and the CAC and staff funding recommendations. It should be noted that changes may be necessary in the event that the City’s entitlement grant is increased or decreased when the President signs the actual budget. Attachment A is a narrative explaining the funding requests and funding recommendations in more detail.

Staff and the CAC recommend the same level of funding as in fiscal year 2003/04 for public service projects, with the exception of Urban Ministry/InnVision based on its performance to date. Urban Ministry/InnVision has significantly exceeded its goals in the current fiscal year. It proposed serving a total of 850 unduplicated individuals during fiscal year 2003/04 and had served over 4,000 people by December 31, 2003.

In the fair housing/administration category, staff and the CAC recommend funding at the same level for fair housing services and a small increase for CDBG program administration and support. The reason for the increase is that the City will need to prepare an update to the Consolidated Plan (a five-year plan required by HUD) by May 2005 for the period of July 1, 2005 to June 30, 2010.

Five applications for capital projects were received in fiscal year 2004/05. Staff and the CAC recommend funding for four of the five capital projects. Lytton Gardens applied for a total of $109,695 to be divided over fiscal years 2003/04 and 2004/05 for a kitchen renovation project. Lytton Gardens was not awarded funding in fiscal year 2003/04 because it had proposed spreading the project over two years, which would have made the project very difficult for the City to administer. Staff and the CAC recommend full funding on the condition that the rehabilitation project is compressed into two months as
opposed to two years to reduce prevailing wage monitoring costs. Lytton Gardens staff has indicated the project can be completed in a two-month timeline. Palo Alto Housing Corporation applied for funding to renovate the Barker Hotel, a 26-unit single-room occupancy (SRO) hotel in downtown Palo Alto in either of the two years of the funding cycle. Staff and the CAC did not recommend funding for the Barker Hotel in fiscal year 2003/04 because the project was of a less urgent nature than some of the other projects. Staff and the CAC recommend full funding for the Barker Hotel renovation project in fiscal year 2004/05. In addition, staff and the CAC recommend funding for the Stevenson House hot water pipes project and the CDBG housing development fund.

Economic and Social Opportunities (ESO) received funding in fiscal year 2003/04 to assist 26 Palo Alto households and also applied for fiscal year 2004/05 funding. It has assisted a total of 53 households, however 52 of these households were located at one senior housing project. Outreach efforts to date have not resulted in a variety of households accessing this program. Staff and the CAC do not recommend funding for accessibility and energy efficiency upgrades; however funding may be supported in the future if the outreach program is restructured.
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<td><strong>PUBLIC SERVICES</strong></td>
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<td>1. Catholic Charities</td>
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<td>Long-Term Care Ombudsman</td>
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<td>2. Emergency Housing Consortium</td>
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<td>Palo Alto HOMES Program</td>
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<td>3. Palo Alto Housing Corporation</td>
<td>22,300</td>
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<td>SRO Resident Support Services</td>
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<td>4. Shelter Network – Haven Family House</td>
<td>19,000</td>
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<td>Transitional Housing for Homeless Families</td>
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<td>5. Clara-Mateo Alliance</td>
<td>20,900</td>
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<td>Family Shelter &amp; Services/Elsa Segovia Center</td>
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<td>6. Clara-Mateo Alliance</td>
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<td>Single/Couple Shelter &amp; Services</td>
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<td>7. Urban Ministry</td>
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<td>Homeless Drop-in Center</td>
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<td>8. St. Vincent de Paul</td>
<td>9,500</td>
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<td>Day Worker Center</td>
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<td><strong>Total Public Services (Cap $129,000)</strong></td>
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<td>235,192</td>
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<td><strong>FAIR HOUSING/ADMINISTRATION</strong></td>
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<td>9. Project Sentinel</td>
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<td>10. City of Palo Alto</td>
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<td>Program Administration</td>
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<td><strong>Total Administration (Cap $172,000)</strong></td>
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<td><strong>CAPITAL PROJECTS</strong></td>
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<td>11. Community Housing Inc.</td>
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<td>Lytton Gardens Kitchen Renovation</td>
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<td>12. Palo Alto Housing Corporation</td>
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<td>Barker Hotel Improvement Plan</td>
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<td>13. Economic and Social Opportunities</td>
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<td>-0-</td>
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<td>Housing and Energy Services Program</td>
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<td>14. Stevenson House - Senior Housing</td>
<td>45,200 for Bathtub upgrades</td>
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<td>Safe Showers Program</td>
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<td>15. City of Palo Alto/ Housing Development Fund</td>
<td>100,000</td>
<td>500,000</td>
<td>439,312</td>
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<td>Pre-development of New Rental Housing Project</td>
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<td><strong>Total Capital Projects (Cap $628,440)</strong></td>
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<td>628,440</td>
<td>929,440</td>
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<td><strong>TOTAL</strong></td>
<td>1,102,153.56</td>
<td>929,440</td>
<td>929,440</td>
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*Changes may be necessary if the amount of funding is increased or decreased when the President signs the budget.
POLICY IMPLICATIONS
All of the applications recommended for funding in fiscal year 2004/05 are consistent with the priorities established in the City’s adopted Consolidated Plan for the period 2000 to 2005. They are also consistent with the housing programs and policies in the adopted Comprehensive Plan.

TIMELINE
Funding recommendations made by the Finance Committee will be forwarded to the City Council for review and approval at a public hearing scheduled for May 3, 2004. The funding allocations and Annual Action Plan update will be submitted to HUD by the May 15, 2004 deadline.

ENVIRONMENTAL REVIEW
For purposes of the National Environmental Policy Act (NEPA) and the California Environmental Quality Act (CEQA), budgeting in itself is not a project. HUD environmental regulations for the CDBG program is contained in 24 CFR 58 “Environmental Review Procedures for Title I Community Development Block Grant Programs”. The regulations require that entitlement jurisdictions assume the responsibility for environmental review and decision-making under NEPA. Prior to the commitment or release of funds for each of the proposed projects, staff will carry out the required environmental reviews or assessments, and certify that the review procedures under CEQA, and HUD and NEPA regulations have been satisfied for each particular project.

ATTACHMENTS
Attachment A: Staff and CAC recommendations for FY 2004/05 CDBG Funding
Attachment B: 2004/05 Draft Annual Action Plan Update of the Consolidated Plan for the period 2000 to 2005

PREPARED BY: ___________________________________________________________________
Eloiza Murillo-Garcia, Associate Planner - CDBG

DEPARTMENT HEAD: __________________________________________________________________
STEPHEN EMSLIE
Director of Planning and Community Environment

CITY MANAGER APPROVAL: __________________________________________________________________
EMILY HARRISON
Assistant City Manager
cc: CDBG Citizens Advisory Committee Members
    2004/05 CDBG Applicant Agencies