TO: HONORABLE CITY COUNCIL

ATTENTION: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: APRIL 1, 2008 CMR: 185:08


RECOMMENDATIONS
Staff and the CDBG Citizens Advisory Committee (CAC) recommend that the Finance Committee recommend that the City Council:

1. Allocate CDBG funding as recommended by staff and the Citizens Advisory Committee (CAC) in the draft 2008/09 Action Plan.

2. Authorize staff to submit the 2008/09 Action Plan to Department of Housing and Urban Development (HUD) by the May 15, 2008 deadline.

3. Authorize the City Manager, on behalf of the City, to execute the 2008/09 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 2005-2010 Consolidated Plan, adopted by Council on May 9, 2005 and amended on May 7, 2007, is a 5-year strategic plan of action that addresses priority housing and community development needs. It also sets specific goals for attaining identified objectives. Each year, an Annual Action Plan is prepared to identify specific projects to be funded to implement the Consolidated Plan. The Consolidated Plan and the Annual Action Plan updates are required by HUD 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 goal for the 2005-2010 five-year period is to provide 125 units of permanent, affordable housing. Palo Alto’s CDBG program continues to be 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. All of the proposed projects for CDBG funding for fiscal year 2008/09 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.

The City has 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 2008/09, the maximum available for public services is $127,672.

2) Planning and Administration: This category is used to reimburse for fair housing activities, CDBG program management, oversight and coordination, environmental reviews, and CDBG-related 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 2008/09, funding is limited to a maximum of $148,229. The City’s reimbursement for the cost of administering the CDBG program is limited by this cap. Although the actual cost of administering the program is higher than the recommended funding allocation, this recommendation is the maximum reimbursement allowed given this year’s grant allocation. The balance of CDBG
administrative costs, approximately $20,000, is charged to the City’s General Fund.

3) Capital Projects: Capital improvement activities such as housing land acquisition, purchase of existing rental housing, rehabilitation, accessibility, and public improvements are the primary focus of the City’s CDBG program. There are no funding limitations in this category.

CDBG Applications
Applications for the 2007/09 two-year funding period were mailed to area housing and human service providers on October 5, 2006 and posted to the City’s website. A notice announcing the availability of applications for 2007/08 and 2008/09 CDBG funding was published in the Palo Alto Weekly on October 6, 2006. A proposal-writing workshop was conducted on October 30, 2006 to assist applicants with program regulations and project eligibility questions. The completed applications were due December 8, 2006.

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 seven-member Citizens Advisory Committee (CAC), six 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 were: Donald Mendoza (HRC Liaison), Carol Anderson, Susie Brain, Jeff Chen, Terry Godfrey, Michael Jakoby, and Richard Schoelerman. Richard Schoelerman was selected by the Committee as spokesperson. The funding recommendations previously made by the Committee and approved by Council in May 2007 were preliminary recommendations for the second year of the two-year cycle; therefore the CAC met on three occasions in January and February 2008 to review and finalize those funding recommendations. A new housing application received from the Palo Alto Housing Corporation was also discussed at these meetings.

DISCUSSION
2008/09 Funds Available for Allocation
The total amount available for allocation in fiscal year 2008/09 is $1,813,106. The City’s 2008/09 CDBG grant is $676,148, a decrease of approximately five percent over the prior year’s grant of $712,032. There are $440,341 in funds remaining from previous projects that are being reallocated to new projects. This amount includes $383,929 that had been allocated to Bridge Housing in fiscal year 2007/08 for their Fabian Way Senior Housing project. The CDBG funds were to be used for land acquisition because that is one of the few CDBG-eligible expenses in new housing development. Bridge needed to close escrow on the property in July 2007, which was prior to the completion of the National Environment Policy Act (NEPA) environmental review. CDBG regulations require that an environmental review be completed prior to the expenditure of CDBG funds. Bridge Housing will instead receive $600,000 from the City residential fund in fiscal year 2008/09. The City residential fund money can be used for other purposes on the project and is not limited to acquisition expenses. Also included is $65,000 in program income (income generated directly from the use of CDBG funds) expected to be received in
2008/09, plus $17,365 in program income received in previous years in excess of the estimated amount. The City received a loan repayment of $114,252 from Adolescent Counseling Services for the sale of its Caravan House property, which is included in the total available for allocation. The City will also be receiving approximately $500,000 in loan repayments from the Sheridan Apartments ($165,000) and Palo Alto Gardens ($335,000). The estimated loan repayment amount is also included in the total funds available for allocation.

In summary:

- $676,148 FY 2008/09 CDBG entitlement grant from HUD
- $440,341 Reallocation of other previous funds
- $5,000 Estimated program income for 2008/09 from the City’s Housing Improvement Program (HIP), a single-family residential rehabilitation program that is no longer operational
- $60,000 Estimated program income for 2008/09 from the Palo Alto Housing Corporation that is generated when rental income exceeds expenses on specific properties acquired or rehabilitated with CDBG funds
- $17,365 Actual program income received in previous years in excess of the estimated amounts that were allocated
- $114,252 Caravan House Loan Repayment
- $165,000 Estimated Sheridan Apartments and loan repayment
- $335,000 Estimated Palo Alto Gardens loan repayment
- $1,813,106 TOTAL AVAILABLE FOR ALLOCATION

The City received 17 applications for funding from outside organizations totaling $1,397,329 for FY 2008/09. The City is also in the process of soliciting applications for a fair housing provider through a joint Request for Proposals (RFP) with the cities of Mountain View, Sunnyvale and Gilroy. Because the provider has not been selected yet, staff and the CAC are recommending a specific dollar amount to be allocated to the selected provider.

In addition, the City received an application from the Palo Alto Housing Corporation in February 2008 for the acquisition of land for the development of affordable housing. The requested amount for this project is $3,000,000. In accordance with the City Affordable Housing Fund Guidelines, funding applications for housing projects may be submitted at any time throughout the year. The total requested amount in FY 08/09 CDBG funding is $4,397,329.

**FY 08/09 - Funding Recommendations**

The chart on the following page shows the applications that were received accompanied by the CAC and staff funding recommendations. For public service requests, the staff and CAC recommended allocation of at least a portion of the requested funding for all the applicants except for Mid-Peninsula Alano Club, Catholic Charities – Housing Search Services and the Day Worker Center of Mountain View. Funding was not recommended for the Alano Club because staff and the CAC had concerns regarding the organization’s financial and administrative expertise. Staff and the CAC did not recommend funds for...
the Day Worker Center because these services do not benefit a significant number of low income workers in Palo Alto. Staff and the CAC determined that funding for the Housing Search Services is currently provided by other agencies in Palo Alto. Attachment A is a narrative explaining the funding requests and funding recommendations in more detail. It should be noted that changes in the allocations might be necessary in the event that the City’s entitlement grant is increased or decreased when the President signs the actual federal budget for the 2008/09 fiscal year.

The following capital projects were considered for the 2008/09 fiscal year:
- ESO’s Housing and Energy Services Program
- Eden Housing/Community Housing Alliance’s 875 Alma Street Senior Housing Program,
- Lytton Gardens’ new shower enclosure project
- Stevenson House’s interior common area renovation project, and
- Palo Alto Housing Corporation’s 488 West Charleston Road Housing Project.

Staff and CAC recommended funding only the Palo Alto Housing Corporation (PAHC) project for the 2008-2009 fiscal year in an amount totaling $1,538,577 because the creation of new affordable housing is the top priority in the City’s 2005-2010 Consolidated Plan. The project will also be able to draw down all of the CDBG funds awarded by the next March 2009, which will ensure that the City meets HUD’s standards for the timely expenditure of CDBG funds. Staff and the CAC are also recommending that program income from the Sheridan Apartments and Palo Alto Gardens loan payments be allocated to the PAHC project. The estimated program income that will be received is approximately $500,000. The Eden Housing/Community Housing Alliance project is still very preliminary; Eden will be encouraged to seek funding for construction subsidies from City housing funds, once it is closer to secure its planning entitlements. Since staff is still working with Lytton Gardens and Stevenson House to complete other CDBG funded projects from previous fiscal years, the recommendation is to encourage Lytton and Stevenson House to submit an application during the next funding cycle. Staff and the CAC do not recommend funding for ESO because the agency has declared bankruptcy and is no longer in operation.
# Funding Recommendations for Fiscal Year 2008-2009

<table>
<thead>
<tr>
<th>Applicant Agency</th>
<th>2007/2008 Funding</th>
<th>2008/2009 Funding Request</th>
<th>CAC/Staff Recommendations</th>
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<tbody>
<tr>
<td><strong>Public Services</strong></td>
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<tr>
<td>1. Catholic Charities Housing Search Services</td>
<td>-0-</td>
<td>20,000</td>
<td>-0-</td>
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<tr>
<td>2. Catholic Charities Long-Term Care Ombudsman</td>
<td>7,500</td>
<td>7,800</td>
<td>7,800</td>
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<td>3. Dayworker Center of Mountain View Dayworker Center</td>
<td>-0-</td>
<td>15,000</td>
<td>-0-</td>
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<tr>
<td>4. Emergency Housing Consortium Off the Streets Program</td>
<td>7,500</td>
<td>15,000</td>
<td>7,500</td>
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<tr>
<td>5. Emergency Housing Consortium Palo Alto HOMES</td>
<td>7,500</td>
<td>10,000</td>
<td>7,500</td>
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<tr>
<td>6. InnVision/Clara-Mateo Alliance Adult Singles/Couples Housing Program</td>
<td>17,500</td>
<td>35,000</td>
<td>17,500</td>
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<tr>
<td>7. InnVision/Clara-Mateo Alliance Family Housing Program</td>
<td>17,500</td>
<td>25,000</td>
<td>17,500</td>
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<td>8. InnVision/Urban Ministry Opportunity Center/Urban Ministry Program</td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
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<tr>
<td>9. Mid-Peninsula Alano Club MPAC Operations</td>
<td>-0-</td>
<td>10,000</td>
<td>-0-</td>
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<tr>
<td>10. Palo Alto Housing Corporation SRO Resident Support Services</td>
<td>25,000</td>
<td>42,245</td>
<td>30,000</td>
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<tr>
<td>11. Peninsula Association for Retarded Children &amp; Adults (PARCA) Page Mill Court</td>
<td>-0-</td>
<td>10,000</td>
<td>Application Withdrawn</td>
</tr>
<tr>
<td>12. Shelter Network – Haven Family House Homeless Palo Alto Families &amp; Single Adults Total Public Services (Cap $127,672)</td>
<td>8,500</td>
<td>30,000</td>
<td>8,500</td>
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<tr>
<td><strong>Fair Housing/Administration</strong></td>
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<td></td>
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<tr>
<td>13. Fair Housing Services (Provider to be determined through RFP)</td>
<td>26,800</td>
<td>26,800</td>
<td>26,800</td>
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## FUNDING RECOMMENDATIONS

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<tbody>
<tr>
<td><strong>14. City of Palo Alto</strong>&lt;br&gt;Program Administration</td>
<td>124,536</td>
<td>186,900</td>
<td>121,429</td>
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<tr>
<td><strong>Total Administration (Cap $148,229)</strong></td>
<td>151,336</td>
<td>213,700</td>
<td>148,229</td>
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### CAPITAL PROJECTS

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<tr>
<td><strong>15. Economic and Social Opportunities</strong>&lt;br&gt;Housing and Energy Services Program</td>
<td>-0-</td>
<td>60,000</td>
<td>-0-</td>
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<tr>
<td><strong>16. Eden Housing/Community Housing Alliance</strong>&lt;br&gt;875 Alma Senior Housing</td>
<td>-0-</td>
<td>500,000</td>
<td>-0-</td>
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<tr>
<td><strong>17. Lytton Gardens</strong>&lt;br&gt;New Shower Enclosures</td>
<td>-0-</td>
<td>103,300</td>
<td>-0-</td>
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<td><strong>18. Palo Alto Housing Corporation</strong>&lt;br&gt;488 W. Charleston Road Housing Project</td>
<td>0</td>
<td>3,000,000</td>
<td>1,538,577²</td>
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<tr>
<td><strong>19. Stevenson House</strong>&lt;br&gt;Interior Common Area Renovation</td>
<td>144,259</td>
<td>270,284</td>
<td>-0-</td>
</tr>
<tr>
<td><strong>Total Capital (Cap $1,538,577³)</strong></td>
<td></td>
<td></td>
<td><strong>1,538,577</strong></td>
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<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>1,813,106</strong></td>
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¹Changes may be necessary if the amount of funding is increased or decreased when the President signs the budget.

²The recommendation includes $1,372 in unallocated funds from the public service cap and $500,000 in projected program income from Palo Alto Gardens and Sheridan Apartments. It may be necessary to modify the amount of funding depending on the actual amount received from Palo Alto Gardens and Sheridan Apartments.

³The total capital cap includes $1,372 in unallocated funds from the public service cap and $500,000 in projected program income from Palo Alto Gardens and Sheridan Apartments.
Commitment of Funds
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 employs monetary sanctions against jurisdictions that exceed the regulatory standard. For this reason, all funding applications were scrutinized to insure the readiness of the program or project to move forward and expend funds in a timely manner.

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 5, 2008. Subsequently, the Annual Action Plan and Consolidated Plan update will be submitted to HUD to meet the May 15, 2008 deadline, pending Council approval.

POLICY IMPLICATIONS
All of the applications recommended for funding in fiscal year 2008/09 are consistent with the priorities established in the City’s adopted Consolidated Plan for the period 2005 to 2010. They are also consistent with the housing programs and policies in the adopted Comprehensive Plan.

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 are 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, HUD and NEPA regulations have been satisfied for each particular project.

ATTACHMENTS
Attachment A: Staff and CAC recommendations for FY 2008/09 CDBG Funding
Attachment B: 2008/09 Draft Annual Action Plan

PREPARED BY: Eloiza Murillo-Garcia, Planner - CDBG

DEPARTMENT HEAD: STEVE EMSLIE, Director Planning and Community Environment
CITY MANAGER APPROVAL:

EMILY HARRISON
Assistant City Manager

cc: CDBG Citizens Advisory Committee Members
2008/09 CDBG Applicant Agencies