



**AGENCY:** City Council  
**MEETING DATE:** Jan. 27, 2020  
**DEPARTMENT:** Community Development  
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## AGENDA ITEM SUMMARY

**TITLE:**

**Receive Report and Provide Direction to Staff Regarding 2020 Community Development Block Grant Application**

**ISSUE:**

Each year, the California Housing and Community Development Department (HCD) receives an allocation from the federal Department of Housing and Urban Development (HUD) for the state Community Development Block Grant (CDBG) program. HCD makes these funds available to eligible jurisdictions through a competitive application process. This year, HCD has added an Over the Counter (OTC) application process in addition to the competitive application process. Before applying for CDBG funding, jurisdictions are required to hold a Design Phase Public Hearing to gather input about community needs for CDBG funding in order to inform City Council's selection of activities for CDBG applications. A Design Phase public hearing was held on November 21, 2019.

In order to ensure that the City is ready to apply at the next available opportunity and that potential application activities reflect City Council goals, staff is seeking preliminary input on City Council general priorities for CDBG activities and applications.

**ANALYSIS:**

The State CDBG program provides funding on a competitive and OTC basis for a variety of housing, community development, and economic development activities. State CDBG funding is available for "non-entitlement" cities with fewer than 50,000 residents and counties with fewer than 200,000 residents. The City of Fort Bragg is a non-entitlement city and is generally eligible to apply for CDBG funding under the State CDBG program.

When HCD receives a State CDBG funding allocation from HUD, the State program may combine current HUD funding with other available State funding and is required to release an annual Notice of Funding Availability (NOFA) to state the terms under which non-entitlement communities may apply for the funding. The NOFAs describe total available funding, eligible activities, eligibility requirements, and application procedures. Each eligible jurisdiction may apply for a range of activities depending upon limits imposed by each annual NOFA. For the 2018 NOFA, HCD has published that \$60 million may be available for State CDBG applications.

In the past, CDBG issued a "Super NOFA" early in each calendar year with applications due around April. Jurisdictions could generally apply for up to three major activities per grant application. Beginning in 2013, a fifty percent expenditure rule was imposed. As a result of the fifty percent expenditure rule, jurisdictions could not reapply for CDBG funding until at least fifty percent of all prior grants were expended. Through the mandated redesign of the

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CDBG program, HCD has announced that the 50% rule that has restricted the City in the past has changed. The City is eligible to apply at the next NOFA release.

### **Current CDBG Program Status**

California's State CDBG program is currently ranked last in the United States in its expenditure rates, and the state is also delinquent in HUD-required accomplishments reporting as well as state grant closeouts. At the same time, state and federal budget reductions have highlighted the need for the State CDBG program to develop program efficiencies.

HUD has directed the State CDBG program to redesign its program to ensure that funds are expended within expected timelines, that accomplishments are properly tracked and recorded in the HUD database, and that annual grants to the state are closed out with HUD within a reasonable period of time. In response to HUD, HCD and stakeholder concerns, the State Legislature passed a Budget Trailer Bill (Senate Bill 106) in 2017 that mandates a major State CDBG Program Redesign in order to streamline and improve program delivery. In July of 2018, HCD released a 221-page comprehensive report in response to Senate Bill 106 outlining proposed policies and processes to address CDBG program issues.

The redesign has been underway for more than two years. It has focused on how to increase Economic Development program utilization and performance, changes to Program Income requirements that were restrictive allowing funds to move more quickly, and increase expenditure rate. On October 15, 2019 HCD released new Program Guidelines to respond to HUD's direction and SB 106. These guidelines will be reflected in the upcoming NOFA.

Additional changes have included implementation of an OTC option for Community Development Activities that are identified as capital projects, while non-capital project will continue to be a competitive application process; Projects are exempt from the 50% rule and only apply to like programs.

### **Previous CDBG NOFA**

HCD did not release a 2019 NOFA. The 2018 NOFA was not issued until November 1, 2018 and applications were due February 5, 2019. The 2018 NOFA was similar to the 2017 NOFA with few changes. The 2020 NOFA will not be comparable to previous NOFAs with the added OTC process and the large amount of funding that will be available.

### **Process for Solicitation of Input for CDBG Applications**

Within one year of each CDBG application and prior to submittal of a CDBG application, a Design Phase public hearing must be held. The purpose of the public hearing is to provide an explanation about the CDBG program and upcoming funding opportunities, and to solicit input from the community about possible activities to include in upcoming CDBG applications. The Design Phase public hearings are not required to be held before the City Council.

On May 24, 2018, staff held a Design Phase public hearing to discuss the 2018 CDBG funding opportunities. The meeting notice was published in the Fort Bragg Advocate, posted in English and Spanish at thirteen different physical locations, announced on the City website, emailed to interested parties listed on City website notifications groups, and emailed to 44 local non-profit organizations. Four individuals attended the May 24, 2018,

Design Phase public hearing. At the meeting, staff did not receive a proposal for a “shovel ready” project for the 2018 NOFA.

Throughout the year staff met with community members and non-profits at their request to discuss proposed CDBG projects. On November 13, 2018 staff met with Charles Greenburg of Habitat for Humanity. At the meeting, staff received a proposal for a “shovel ready” project for the 2018 NOFA.

To ensure that City public infrastructure needs are also considered for CDBG applications, staff reviewed the City’s Capital Improvements Program for projects that have funding gaps and that fit CDBG’s parameters and timelines.

### **OTC Process**

Over the last several months HCD has held webinars to highlight the changes in the program. Below is a list of the requirements that will identify a project as OTC ready:

1. Project Concept Complete
2. Project Feasibility Complete
3. Project Environmental Review Complete (CEQA, NEPA, etc.)
4. Engineers Estimate/ Budget Complete
5. Bid Ready Plans and Specifications Complete
6. All Project Funding in Place
7. Site Control Obtained

A project that is identified in an OTC application is required to be “bid ready” and will be required to release bid documents 30 days after HCD provides the jurisdiction with a Standard Agreement. Capital projects that are not bid ready will not be eligible to apply for funding under the OTC process.

### **Potential 2020 OTC Project**

The only identified project that is expected to meet OTC parameters and CDBG eligibility is a Water Meter Replacement Project.

**The Water Meter Replacement Project:** Replacement of all residential and commercial City water meters. Over time water meters lose the ability to accurately calculate water use. The water meters that are currently in use are at 94.2% accuracy, resulting in revenue losses to the City. New water meters will more accurately calculate water use at 100% benefiting the customer and the City. Additionally, new water meters will almost immediately notify customers and City staff of leaks helping to save water and money. Hundreds of hours are spent each year to manually turn water meters on and off, however, new water meter software has the ability to do this electronically, saving the City time and money. The implementation of new water meters would meet the CDBG National Objective of Low-mod Area benefit and be identified as a Public Improvements project.

The table below provides a cost breakdown for the potential 2020 OTC project.

Construction & Contingency	\$2,277,137
Activity Delivery (12%)*	\$ 273,256
General Admin (7.5%)	<u>\$ 193,557</u>
Total cost	<u>\$2,743,950</u>

\*Activity Delivery includes Construction Management or Project Manager, and Labor Standards costs.

### **CDBG Funded Projects**

The City has a very active CDBG program. Since 2014 the City has applied and been awarded funding from three of the five NOFA cycles. The table below provides an overview of CDBG funding awards:

<b>NOFA</b>	<b>City Application</b>	<b>Award Amount</b>	<b>Activities</b>
2014	Yes	\$2,000,000	Homeless Facilities, Public Services, Employment Training, Microenterprise programs
2014 (OTC)*	Yes	\$836,151	Direct Financial Assistance ( loan to: Sportz Investment Inc. DBA Sport Chrysler Jeep Dodge )
2015	No	None	None
2016	Yes	\$2,000,000	Water/Sewer Imprv., Direct Financial Assistance, Planning grants, Microenterprise programs
2017	Yes	\$3,038,896	Cypress Street Parents and Friends RCFE's Proj.
2018	No	None	None

\*Over the Counter (OTC) Economic Development loans can be applied for at different times throughout a funding year.

**Potential Projects**

City staff considered other projects in the Capital Improvement Program and associated with the Council’s goals and priorities for CDBG eligibility. The Rehabilitation of the Fort Bragg Fire Department would not qualify under the upcoming 2020 NOFA as it is not Bid ready and funding had not been allocated or identified for project design and engineering. For this project to qualify under the current OTC process it would need to meet the requirements described above under ‘OTC Process.’ Additionally, for the City to apply under CDBG an analysis of the calls-for-services would need to be conducted since the Fire Department provides services to a district that is beyond City limits. CDBG could only fund a percentage of the rehabilitation based on the percentage of calls for service within City limits. Once the percentage of service was determined, additional funding to cover the non-CDBG eligible percentage would need to be in place, and this gap funding has not been allocated or identified.

Funds to construct Accessory Dwelling Units or second units is an ineligible cost under CDBG funding. New construction for housing is generally ineligible. Currently, housing rehabilitation projects or programs are very challenging to administer due to high housing costs which makes many projects ineligible.

Although staff will continue to seek public input until and after 2020 NOFA parameters are more developed, **staff is seeking general direction from City Council as to types of projects that should be sought as Council priorities.**

The following are categories of activities that are currently allowable in the State CDBG program:

Activity Category	Description	Typical Funding Range
Business Assistance Loans	Subsidized loans for businesses	Up to \$300,000
Microenterprise Assistance Program	Technical assistance, loans and grants for micro entrepreneurs	Up to \$300,000 for 30 month period
Façade Improvement Program	Façade or code-related repairs for businesses (loan/match program)*	TBD – generally up to ½ of cost
Housing rehabilitation program**	Low or no cost loans to homeowners for health & safety repairs.	Generally \$35,000 to \$100,000 depending on needs & equity
Homeownership assistance program	Silent second loans for income-qualified home buyers	Generally up to \$100,000 depending on funding gap
Public Improvements	Acquisition, construction, installation, rehab of public infrastructure/facilities	Up to \$3 million

	(water/sewer improvements, sidewalks, parks, etc.)	
Public Facilities	Acquisition, construction, rehab of non-profit facilities	Up to \$3 million
Public Services	Operating costs for new or improved services to qualifying beneficiaries	Up to \$500,000 for 1 to 3 services for 30 month period

\* This program is not currently allowed in California.

\*\* This program is very challenging with current property values, making most projects ineligible.

**RECOMMENDED ACTION:**

Provide preliminary direction to staff regarding City Council’s priorities for activities to be included in the 2020 CDBG application.

**ALTERNATIVE ACTION(S):**

No action will be taken other than to provide preliminary direction to staff, so no alternative actions are needed.

**FISCAL IMPACT:**

CDBG funds allow the City to conduct activities and complete projects to benefit the community, and in particular the City’s low- and moderate-income residents, for which funding would otherwise be unavailable. CDBG activities also create job opportunities in the community. CDBG grant administration requires significant commitment of staff time, but CDBG provides funding for administrative activities (in the past 7.5% of grant funds) that is generally adequate to service the program. There are sufficient grant funds to operate the City’s 2017 CDBG grant.

**CONSISTENCY:**

The State CDBG mission is to improve the lives of low- and moderate-income residents through the creation and expansion of community and economic development opportunities, which supports livable communities for all residents. This mission is consistent with City Priority Areas established in City Council’s April 2019 Goal Setting process including Priority Area “Jobs/Industry” (Economic Development loans and grants, Business Assistance Program and Mircotechnical Assistance); Priority Area “Quality of Life” (public improvements projects); Priority Area “Housing” (housing projects and programs); and Priority Area “Infrastructure” (community development capital projects).

**IMPLEMENTATION/TIMEFRAMES:**

If City Council provides direction to submit a 2020 CDBG application, a public hearing must be held prior to application submittal. The application due date is unknown, however, HCD has said it is likely to be 60 days after the NOFA release.

**ATTACHMENTS:**

None.

**NOTIFICATION:**

1. CDBG Activities Notify Me Subscribers