



AGENCY:	City Council
MEETING DATE:	July 8, 2024
DEPARTMENT:	Community Development
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## AGENDA ITEM SUMMARY

### **TITLE:**

**RECEIVE REPORT, CONDUCT PUBLIC HEARING AND PROVIDE DIRECTION TO STAFF REGARDING 2023 AND/OR 2024 COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM INCOME APPLICATION**

### **ISSUE:**

Every year, the California Department of Housing and Community Development (HCD) releases a funding opportunity under the Community Development Block Grant (CDBG) program. Funds for the program are made available to HCD from the United States Department of Housing and Urban Development (HUD). As a non-entitlement jurisdiction, the City is eligible to apply for grants through the CDBG program.

Some CDBG-funded programs, such as a Business Assistance Loan Program or Housing Rehabilitation Program, may result in funds being repaid to the City. These funds become Program Income (PI), and are held in a Program Income account until the City enters into a contract with HCD that allows for the use of such funds. Recently, the City utilized PI funds (in addition to 2020 CDBG funds) for the Code Enforcement Program. As this contract between the City and HCD has expired, it is now time for the City to submit an application to HCD for the use of existing PI funds. As standard CDBG contracts are for a three-year period, the City may include existing and projected PI for the next three years in the application request.

As with annual CDBG funding, in order to be eligible to use PI, the City must hold at least two public hearings to solicit public input: one during the design phase and one before submitting an application to HCD. The purpose of this design phase public hearing is to ensure that the public has an opportunity to give input regarding potential projects and programs for the City Council to consider applying for with PI. After considering the information received from the public, City Council may direct staff regarding application preparation for a PI application.

### **ANALYSIS:**

#### **CDBG Background**

The primary federal objective of the CDBG program is the development of viable urban communities by providing decent housing and a suitable living environment and through expanding economic opportunities, principally, for persons of low- and moderate-income. "Persons of low and moderate income" are defined as families, households, and individuals whose incomes do not exceed 80 percent of the county median income, adjusted for family or household size. CDBG partners with rural cities and counties to improve the lives of their low- and moderate-income residents through the creation and expansion of community and economic development opportunities in support of livable communities. CDBG funds are

provided as grants for a wide range of activities directed toward Economic Development (ED), improvement of community facilities and infrastructure, neighborhood revitalization, and public services. All CDBG activities must meet one of the following National Objectives: benefit low- and moderate-income persons; aid in the prevention or elimination of slums and blight; or meet certain urgent community needs. Depending on the type of project or program, benefit can be provided directly to low-moderate-income persons, or to a predominantly low-moderate income area.

HCD assigns Matrix Codes to eligible activities, which are used in the application process. A list of eligible activities entitled Matrix Code Definitions and a table linking Matrix codes to allowable National Objective Codes are attached herein. These tools from the 2022 NOFA cycle may helpful in determining how a proposed project or program fits into the CDBG program. Files from the 2022 round have been provided instead of files from the 2023 round, as the 2023 round was restricted to Waitlisted applications and projects, and should be taken as guidance, as changes, such as not allowing Code Enforcement as a standalone, could apply. Also attached, and perhaps of the most relevance, is a document entitled 2023 PI Only Accomplishment Matrix; this document includes the matrix codes eligible under the 2023 PI Only solicitation.

Below are HCD's current CDBG household income limits, effective May 1, 2024 and updated annually:

Persons in Household	1	2	3	4	5	6	7	8
Extremely Low 30%	\$19,000	\$21,700	\$24,400	\$27,100	\$29,300	\$31,450	\$33,650	\$35,800
Low 50%	\$31,650	\$36,200	\$40,700	\$45,200	\$48,850	\$52,450	\$56,050	\$59,700
60% Limit	\$37,980	\$43,440	\$48,840	\$54,240	\$58,620	\$62,940	\$67,260	\$71,640
Moderate 80%	\$50,650	\$57,850	\$65,100	\$72,300	\$78,100	\$83,900	\$89,700	\$95,450

PI must be used for CDBG-eligible activities and must be identified in the contract between HCD and the City. Typically, PI is included in a contract in a "not to exceed" amount, which allows the City to contract for use of future expected PI receipts for a three-year period. There are two ways to apply to expend PI:

1. Submit a PI only application to HCD. These are accepted on a rolling basis, and simply need to meet threshold requirements for a PI-eligible activity. Eligible activities under this solicitation are more limited than those in the expected 2024 NOFA.
2. Add PI to an application under the annual NOFA cycle, increasing the total amount for the potential award. For instance, the City could apply for an OTC Project with a limit of \$3.3 million under the 2024 NOFA, including an additional \$570,000 in PI funds for a total of \$3.87 million.

Applying under the PI only solicitation would result in funds available for expenditure sooner than the 2024 NOFA, as the application would route for review and contracting before the

surge of NOFA applications. Staff has analyzed the allowable PI only activities and has two recommendations for potential PI only applications:

1. Business Assistance Loan Program: Utilizing PI funds for a Business Assistance Loan Program is a way to keep earning PI as additional loans are repaid. This would be a beneficial use of PI funds, especially if the City will not be applying for such a program under the 2024 NOFA. This would both spur economic development and ensure continued PI, which can then be used for eligible CDBG activities in the future. Leveraging PI as an ongoing resource can help to ensure future CDBG funding in an increasingly competitive landscape.
2. 2022 Streets Rehabilitation Project Alternate: If the Council prefers to utilize PI funds for a project, the Council may also consider applying for the unfunded portion of the 2022 Streets Rehabilitation Project, for which the City applied under the 2023 CDBG NOFA, but was unsuccessful. The total project was estimated at approximately \$533,000, which is within the expected PI receipts for the next three years.

**RECOMMENDED ACTION:**

Consider public input and provide staff direction regarding City Council's priorities for use of Program Income for a Program Income only application.

**ALTERNATIVE ACTION(1):**

Consider public input and provide staff direction regarding City Council's priorities for use of Program Income as an addition to a 2024 NOFA application.

**ALTERNATIVE ACTION(2):**

No action. Under this alternative, the City would not submit any applications for or including expenditure of PI funds.

**FISCAL IMPACT:**

CDBG funds allow the City to conduct activities and complete projects to benefit the community, 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 that is generally adequate to service the program.

**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); Priority Area "Quality of Life" (public improvements projects); and Priority Area "Infrastructure" (community development capital projects).

**IMPLEMENTATION/TIMEFRAMES:**

If City Council provides direction to submit a PI only application, another public hearing must be held and a resolution must be approved prior to application submittal. Staff will submit the application as soon as possible following adoption of a resolution.

If City Council provides direction to include PI in a 2024 CDBG application, another public hearing must be held and a resolution must be approved prior to application submittal. The NOFA will likely be released in late July, and the application portal will likely open late August and close late October. In order to have the greatest chance of OTC award, staff should be prepared to submit OTC applications as soon as the portal opens. For this reason, the required resolution and second public hearing should be completed in early August. Competitive applications may be submitted any time during the application window.

**ATTACHMENTS:**

1. Public Hearing Notice
2. Matrix Code Definitions
3. Matrix Code-National Objective Table
4. CDBG 2019 Final Guidelines Amended 3.23.2022
5. CDBG NOFA 2022 Amendment 2
6. 2023 PI Only Accomplishment Matrix

**NOTIFICATION:**

1. CDBG "Notify Me" Subscribers