



City of Sunnyvale

Agenda Item

22-0979

Agenda Date: 11/16/2022

REPORT TO HOUSING AND HUMAN SERVICES COMMISSION

SUBJECT

Consider Request from Second Harvest of Silicon Valley for Forgiveness of Community Development Block Grant (CDBG) Loan.

BACKGROUND

In 1992, the City provided a loan of \$25,000 in CDBG funds to Second Harvest of Silicon Valley to construct a food distribution center at 750 Curtner Avenue in San Jose. Since construction thirty years ago, the food distribution center has continued to operate, serving residents in Santa Clara County (Sunnyvale Community Services is a major partner), and the larger Bay Area.

The loan terms outlined in the Deed of Trust, executed in 1992, was a thirty-year term, 3% simple interest, and no payments due until the loan maturity. Upon loan maturity on July 20, 2022, principal and interest on the loan would be immediately due and payable for a total of \$47,569.86.

Earlier this year, the City notified Second Harvest of Silicon Valley that the loan was soon maturing, and the balance would be due. Soon after the notification, Second Harvest of Silicon Valley sent a letter to the City formally requesting the City to forgive the CDBG loan in full.

Staff has currently allowed a pause on payment until the Council considers this item.

The City Council will consider this item on December 13, 2022.

EXISTING POLICY

Housing Element of the General Plan

GOAL HE-5 Equal Housing Opportunities - Promote equal housing opportunities for all residents, including Sunnyvale's special needs populations, so that residents can reside in the housing of their choice.

Policy HE-5.6

Participate in the County Collaborative on Affordable Housing and Homeless Issues to support its efforts to prevent and end homelessness. Facilitate and sponsor the provision of permanent supportive housing for homeless people. Support local service providers that offer facilities and support services to homeless individuals and families, and persons at risk of homelessness.

2020-2025 Consolidated Plan, Strategic Plan-25, Priority Needs

Goal 3: Other Community Development Efforts

Description: support the provision of essential human services, particularly for special needs

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populations.

Council Policy 5.1.3 Human Services

Human Services Policy to ensure that Human Services are identified and provided in the most efficient and effective manner

Council Policy 2.3.3 Strategies for Affordable Housing and the Use of Housing Mitigation Fees

6. Continue the Single-Family Rehab Program with CDBG money, repayments from loans and any shortfall should come from the General Fund as anticipated in the Ten-Year Plan.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" with the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

DISCUSSION

On October 7, 2022, Second Harvest of Silicon Valley sent a letter to the City of Sunnyvale formally requesting that the City Council consider forgiving the total principal and interest balance of \$47,569.86 for their CDBG loan. (Attachment 2) The reason cited in the letter, specific to the loan forgiveness request, is that the agency has seen a large increase in community demand (additional 50,000 clients per month), especially during the COVID-19 pandemic and that increased demand has not stopped. Paying the loan back may disrupt operations and impact services for clients.

City Use of CDBG Loan Repayments

When federal CDBG or HOME loans are repaid, whether that be through traditional payments or loan maturity final lump sum payments, the payments are deposited as "Program Income" to the original funding source. Since this loan was funded with CDBG, the payments would be recorded as CDBG Program Income (PI). PI can then be used to fund future projects, or deposited into a Revolving Loan Fund (RLF), which is an independent fund of other CDBG accounts - and is set up for the purpose of carrying out specific activities - and those activities generate payments (i.e., loan repayments) for the purpose of carrying out the same type of activities. PI from loans funded from the RLF returns to the RLF in hopes the fund will be a self-sustaining source (i.e., staff and material expenses). Sunnyvale's RLF is Fund 2043, CDBG Housing Revolving Loan Fund; many CDBG grantees use revolving loan funds in conjunction with single-family rehabilitation programs. CDBG Program Income in Sunnyvale is a critical funding source, which is put into the City's CDBG Housing Revolving Loan Fund and used to operate the City's in-house Home Improvement Program (HIP).

This program, managed by Housing's Senior Housing Rehabilitation Specialist, provides grants and low interest deferred loans to lower income Sunnyvale homeowners. The HIP can be used to fund roof repairs, mobile home repairs, energy efficiency projects, major home repairs (e.g., bathroom remodels), paint grants, emergency grants (e.g., water heaters, sewer line repairs, etc.) and more. However, only larger loans are funded through the RLF, where smaller grants are funded through the annual CDBG entitlement funds not associated with the RLF. Table 1 below shows a snapshot of loans awarded since 2015. There remains a high demand for all HIP grants and loans, especially with seniors that have extremely low income but hope to remain in their homes and age in place.

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Table 1: RLF Loans Issued from 2015 to 2021

Fiscal Year	# of Loans	Loan Avg.	Total Loan Funds Awarded
15/16	4	\$ 18,250	\$ 73,000
16/17	0	\$ -	\$ -
17/18	1	\$ 7,562	\$ 7,562
18/19	2	\$ 67,000	\$ 134,000
19/20	1	\$ 19,000	\$ 19,000
20/21	1	\$ 19,000	\$ 19,000
21/22	2	\$ 74,500	\$ 149,000
TOTAL AVG	1.57	\$ 29,330	\$ 401,562

Housing also uses this PI to fund three quarters of one full-time staff member to manage this program from application all the way to final inspection. Due to Sunnyvale's limited annual CDBG allocation, without Program Income being deposited into the CDBG Housing Revolving Loan Fund, the HIP program would not be able to operate.

The Precedent Issue

The concern about precedent is justified, as various borrowers have approached staff during the last couple of years to inquire about the potential of modifying the terms on other City loans. This is a second formal request for loan forgiveness of CDBG funds in the past three years (Sunnyvale Community Services made a similar request in 2019 which was approved), and it is an indication that more borrowers may come forward with such requests in the future, depending on how HHSC and City Council responds to this request. HUD allows loan forgiveness or extensions but recommends they do not become a regular occurrence.

FISCAL IMPACT

If the request to forgive the CDBG loan in its entirety is approved, or if the loan is extended without payment, it would reduce projected revenues to Fund 2043, CDBG Housing Revolving Loan Fund by \$47,569.86. This revenue would not be available to fund HIP grants and loans through Project 803501 - CDBG Housing Rehabilitation Revolving Loan Fund nor associated salary costs in Program 10500 - Housing and CDBG Program. The current fund balance of the City's CDBG Housing Revolving Loan Fund is low, and loan repayments are critical to replenishing available revenue to fund ongoing operations.

PI is extremely difficult to predict as some loans are paid off early. Since 1997, PI has varied from \$1 million to \$55,000 annually. PI funds deposited into the RLF peaked at \$1.2 million in 2004 and have steadily declined to just over \$160,000 for the current fiscal year. The main reason in fund reduction in the RLF is due to a HUD program change in Program Year 2017. Prior to that change, the City was able to carry a larger RLF balance per year due to HUD not including RLF balances into their timeliness calculation. However, starting in Program Year 2018 HUD began requiring RLF fund balances in the citywide timeliness calculation, therefore the City must have an RLF balance that only reflects what can be spent each year, in an effort to avoid timeliness issues. Sunnyvale is only allowed to have 1.5x their annual allocation (roughly \$1.5 million) as a total account balance (RLF and regular CDBG entitlement funds) at the end of every fiscal year, which limits any city's availability to store funds for low PI revenue years.

HIP program operation costs average \$160,000, funded by the RLF. The RLF has a current balance of \$127,000. For fiscal year 22/23, HIP has \$100,000 in CDBG entitlement funds to operate minor grants and roof grants (nearly all of which has been allocated for specific homeowners for this fiscal year), but the HIP likely cannot award any new loans out of the RLF this fiscal year due to the low balance, unless new PI is received or this loan is repaid. Table 2 below shows the anticipated PI over the next ten fiscal years, further identifying how critical every loan payment is to continuing operation of these loans.

Table 2: Anticipated Deposits to RLF

CDBG Program Income Anticipated Through 2031	
Fiscsal Year	Amount (Rounded)
22/23	\$ 58,397.00
23/24	\$ 58,880.00
24/25	\$ -
25/26	\$ 138,528.00
26/27	\$ 88,658.00
27/28	\$ 88,058.00
28/29	\$ -
29/30	\$ -
30/31	\$ 669,983.00
TOTAL	\$ 1,102,504.00

Council Policy 2.3.3, Section 6 (Attachment 3) states that it is the City’s policy to cover any shortfall for the HIP program with the General Fund as anticipated in the long-term financial plan. There is currently no funding allocated for this purpose in the Adopted FY 2022/23 General Fund Long-Term Financial Plan and would need to be included with the FY 2023/24 Recommended Budget.

PUBLIC CONTACT

Public contact was made through posting of the Housing and Human Services Commission agenda on the City’s official-notice bulletin board, on the City’s website, and the availability of the agenda and report in the Office of the City Clerk.

ALTERNATIVES

Recommend that the City Council:

1. Approve the CDBG Loan Forgiveness request from Second Harvest of Silicon Valley in the amount of \$47,569.86.
2. Do not approve the CDBG Loan Forgiveness request from Second Harvest of Silicon Valley and require the loan of \$47,569.86 to be immediately due and payable, and authorize staff to develop a payment plan.
3. Do not approve the CDBG Loan Forgiveness request from Second Harvest of Silicon Valley, but modify the amount due and payable and/or the loan terms (e.g., interest, loan repayment date, etc.).

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RECOMMENDATION

Alternative 2: Do not approve the CDBG Loan Forgiveness request from Second Harvest of Silicon Valley and require the loan of \$47,569.86 to be immediately due and payable, and authorize staff to develop a payment plan.

While it is difficult to choose between programs, the lack of repayment of this loan negatively affects the number of homeowners who can be assisted through the HIP. Second Harvest of Silicon Valley could pursue grants from sources (to repay this loan) which would not result in less funding for another valuable activity.

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Reviewed by: Teri Silva, Assistant City Manager
Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. Reserved for Report to Council
2. Loan Forgiveness Request from Second Harvest of Silicon Valley (received October 7, 2022)
3. Council Policy 2.3.3