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### REPORT TO COUNCIL

#### SUBJECT

Consider Draft 2016 Housing and Urban Development (HUD) Action Plan

#### REPORT IN BRIEF

The City must submit an Action Plan to HUD every year in order to receive entitlement grants from the Community Development Block Grant (CDBG) and the HOME Investment Partnerships (HOME) Programs. The draft 2016 HUD Action Plan (“Action Plan”) provided in **Attachment 1** has been prepared in accordance with federal requirements governing the use of these entitlement grants, including the citizen participation requirements. HUD is the federal agency that administers and regulates these grants. The Action Plan sets forth the proposed uses of the CDBG and HOME funds projected to be available in the coming fiscal year, as shown in Table 1 in the Discussion section of this report. These funds may be used for eligible community development activities to meet the priority and/or unmet needs, primarily of lower-income residents, described in the City’s HUD Consolidated Plan.

Staff recommends that Council approve the 2016 Action Plan as provided in **Attachment 1**, and authorize the City Manager to execute all required assurances and forms for submittal to HUD.

The Housing and Human Services Commission (HHSC) reviewed the Draft 2016 Action Plan and recommended its approval (Alternative 1) at its meeting on April 20, 2016. Draft minutes of that meeting are provided in **Attachment 4**. The final Action Plan must be submitted to HUD by May 15, 2016.

#### BACKGROUND

HUD requires entitlement grantees to submit a single, consolidated application, referred to as a Consolidated Plan, for its approval prior to disbursing these grants. These plans must describe the grantee’s relevant community needs and proposed uses of CDBG, HOME, and other available funds. HUD approved the City’s 2015-2020 Consolidated Plan in July 2015. HUD also requires grantees to adopt and submit an Action Plan every year, with annual updates regarding funding availability, any changes in community needs, and activities proposed to be funded with the new grant funds. Upon HUD approval, the annual Action Plans are appended to the Consolidated Plan, which is drafted and submitted to HUD every five years. The 2016 Action Plan will be the second Action Plan to be added to the 2015-2020 Consolidated Plan.

#### **CDBG and HOME Programs**

The CDBG program was established by the Housing and Community Development Act of 1974, Public Law 93-383. The program provides annual grants to counties and larger cities, including Sunnyvale, to enable them to “develop viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for low and moderate-

income persons.” CDBG regulations define “low and moderate” as households earning not more than 80% of area median household income (i.e., what the City and the State of California refer to as “lower-income households”). The median income limits are established annually by HUD for each metropolitan area in the U.S.

CDBG funds may be used for activities that “principally benefit” lower-income households, including but not limited to: housing rehabilitation, construction or renovation of public facilities, such as community centers and emergency shelters, and infrastructure, public services, energy conservation, economic development and job creation/retention efforts. In Sunnyvale, it is difficult to demonstrate lower-income benefit according to the HUD-required method for some types of activities, particularly those that use the “area benefit” method, so the full range of CDBG activities is not necessarily feasible in Sunnyvale and other higher-income communities. Certain activities are generally prohibited in the CDBG regulations, such as: acquisition, construction or renovation of general government buildings (i.e., city halls, schools, etc.); political activities; subsistence payments; and construction of new housing by government agencies, among others.

The HOME Program was established by the National Affordable Housing Act of 1990. It provides funding only for activities that assist housing affordable to lower-income households. Eligible activities include housing construction, rehabilitation, and acquisition, and first time home buyer and/or tenant-based rental assistance. HOME funds may be used to assist rental housing intended for clients transitioning out of homelessness, such as permanent or transitional supportive housing, but not for public facilities, such as emergency shelters.

## **EXISTING POLICY**

### **2015-2020 HUD Consolidated Plan:**

- Goal A Assist in the creation, improvement, and preservation of affordable housing for lower-income and special needs households.
- Goal B Alleviation of Homelessness
- Goal C Support provision of essential human services, particularly for special needs populations.
- Goal D Expanding Economic Opportunities

### **Human Services Policy 5.1.3**

The City shall make its best efforts to provide supplemental human services, which include but are not limited to emergency services, senior services, disabled services, family services, and youth services.

## **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 it 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.

Although site-specific projects may be identified in the Action Plan, such as the construction of Benner Plaza, approval of the Plan does not constitute a formal commitment for those projects. Prior to the City’s commitment to a specific project or release of funds for any proposed project, federal and state environmental reviews will be completed for that project.

## **DISCUSSION**

In order to develop the Action Plan each year, staff analyzes the City's ongoing programs eligible for CDBG and/or HOME funds, such as the Home Improvement Program, accessibility curb retrofits, and Tenant Based Rental Assistance (TBRA), and also seeks proposals from the community for programs and projects to be funded with available CDBG and HOME funds in the coming fiscal year. Funding requests for human services are considered on a competitive basis every other year, and conditional funding awards are made for a two-year term. Because FY 2016-17 is the second year of the two-year cycle, human services proposals were not solicited this year. However, capital projects proposals are typically considered every year, as explained below.

### **Capital Projects Request for Proposals (RFP)**

For the purposes of CDBG funding, capital projects may include housing rehabilitation projects, public facility or public infrastructure projects, and certain types of economic development projects defined in the CDBG statutes and regulations. For HOME funding, capital projects may include several types of affordable rental housing projects: new construction, rehabilitation, or acquisition. Staff issued an RFP for CDBG and/or HOME capital projects in January 2016 and received three proposals by the deadline.

The following proposals were received:

- A MidPen Housing proposal requesting \$300,000 in HOME funds for a new affordable housing project (Benner Plaza);
- A MidPen Housing proposal requesting \$500,000 in CDBG funds for a public infrastructure project (the Persian Drive sidewalk extension); and
- A Sunnyvale Community Services proposal requesting approximately \$404,000 for an economic development project called "Work First Sunnyvale," a workforce development program for homeless job seekers.

The proposals are available online at *HUDPrograms.inSunnyvale.com*. The staff scoring committee evaluated the proposals based on the priority needs described in the City's 2015-2020 Consolidated Plan and related City plans and policy documents, and scored the proposals based on the point system provided in the RFP. Each member of the committee independently scored each proposal, and the scores for each proposal were averaged. The Housing and Human Services Commission held a public hearing on the proposals received during its March meeting, and recommended funding all three proposals consistent with the staff recommendation. Detailed project descriptions, evaluations, and funding recommendations are provided in **Attachment 2**.

Conditional funding allocations for the capital project proposals and for the additional activities listed below are included in the budget provided in the 2016 Action Plan and summarized in Table 1 herein:

- Human services grants;
- the Home Improvement Program (grants for minor home improvements);
- ADA curb retrofit project to improve disabled access;
- Fair Housing services, and
- Program Administration

All of these activities are eligible for the indicated funding type and amount recommended, based on federal regulations associated with these grants, and all of them meet one or more priority needs as

identified in the City’s 2015-2020 Consolidated Plan.

In addition to the above activities, other funds not required to be listed in the 2016 Action Plan remain available for other ongoing Housing programs, including the TBRA and Housing Rehabilitation programs.

**Funding Availability**

As shown in Table 1 below, staff estimates that nearly \$1.4 million in CDBG funds and nearly \$704,000 in HOME funds will be available for new activities next fiscal year. This funding includes the FY 2016 entitlement grants, program income, disencumbered funds, and reserve fund balances. The total may increase slightly if additional program income is received in either fund by the end of June. This does not include other amounts already budgeted and/or committed to certain activities, such as TBRA and Housing Rehabilitation.

**HUD Spending Limits for Public Services and Administration**

HUD regulations set limits on how much entitlement grantees can allocate for program administration and public services activities. CDBG administration is limited to 20% and public services are limited to 15% of CDBG grant and program income funds (but not disencumbered funds or fund balance). There are some nuances and slight differences in the way these limits are calculated, as set forth in the CDBG regulations. Based on these limits and the current funding estimates, no more than \$237,410 in CDBG funds can be allocated for administration, and no more than \$193,058 can be provided for public services next fiscal year. HOME regulations limit funding for administration to no more than 10% of the entitlement grant and 10% of program income received in prior years, which may be carried over from year to year if not used in full (the “HOME PI Admin Reserve”). The amount allocated for HOME administration complies with this requirement.

**Proposed CDBG and HOME Activities**

The amount of CDBG and HOME funding available and the activities proposed to be funded in 2016 are shown in Table 1 below and in **Attachment 1**.

**Table 1: Available Funds and Recommended Allocations in 2016 Action Plan**

<b>AVAILABLE FUNDS</b>	<b>CDBG</b>	<b>HOME</b>
FY 2016-17 Entitlement Grants	\$1,037,051	\$307,196
Excess FY 2015-16 Program Income / HOME Admin PI Balance	\$70,000	\$46,610
Estimated FY 2016-17 Program Income	\$150,000	N/A
Disencumbered/Fund Balance	\$127,679	\$350,044
<b>TOTAL</b>	<b>\$1,384,730</b>	<b>\$703,850</b>
<b>RECOMMENDED ALLOCATIONS</b>		
<b>Administration</b>		
Administration	\$217,410	\$77,330
Fair Housing	\$20,000	N/A

<b>Subtotal</b>	<b>\$237,410</b>	<b>\$77,330</b>
<b>Housing Rehabilitation (Owner-Occupied)</b>		
Home Improvement Program	\$50,037	N/A
Deposit to Revolving Loan Fund	\$150,000	N/A
<b>Subtotal</b>	<b>\$200,037</b>	<b>\$0</b>
<b>Affordable Rental Housing</b>		
Benner Plaza: New Construction of Affordable Rental Housing	N/A	\$600,000
Benner Plaza: Project Management / Program Delivery	N/A	\$26,520
<b>Public Facilities</b>		
Persian Drive Sidewalk Extension	\$200,000	N/A
ADA Curb Retrofits	\$150,000	N/A
<b>Subtotal</b>	<b>\$350,000</b>	<b>\$0</b>
<b>Economic Development</b>		
WorkFirst Sunnyvale (CBDO Activity)	\$404,225	N/A
<b>Public Services</b>		
Human Services Grants	\$193,058	N/A
<b>TOTAL</b>	<b>\$1,384,730</b>	<b>\$703,850</b>

*Administration:*

Administration includes the City’s expenses for staffing and implementing the CDBG and HOME programs. This includes the costs of public outreach, holding hearings, publishing notices, developing the RFPs, evaluating proposals, grant contract management, tracking of grant funds and program income, sub-grantee monitoring, reporting, and compliance with federal requirements such as environmental, labor, anti-discrimination, and fair housing regulations. Indirect costs (overhead for expenses incurred by internal service departments) and fair housing services are also included in program administration.

*Housing Rehabilitation (Owner-Occupied)*

The Home Improvement Program provides grants for minor home improvements (energy efficiency upgrades, exterior painting, emergency repairs and accessibility improvements). The revolving loan fund (RLF) provides funding for larger loans to lower-income home owners for major housing rehabilitation projects. Homes must be owned and occupied by a lower-income household to be eligible for this program, except for the Home Access Grant, which is also available to lower-income renters. The deposit of \$150,000 to the RLF, and the remaining available balance in the RLF, will provide funding for rehabilitation loans for owner-occupied homes including mobile homes, and for program delivery.

*Affordable Rental Housing:*

This category of activities includes funding for development of Edwina Benner Plaza, a new 66-unit affordable rental housing project for low-income households located at 460 Persian Drive managed by MidPen Housing Corp. The project will include a range of one- to three-bedroom units, with at least three of the units reserved for homeless applicants. The housing will be restricted for an affordability term of at least 55 years. Construction is expected to begin in March 2017, if MidPen can

obtain all needed financing by then, and is expected to be completed approximately two years later. The project received its Planning permits in January 2016 and a commitment of \$5 million in Sunnyvale Housing Mitigation (HM) funds in February 2016. The project is described in more detail in **Attachment 2**. The HOME funding for this project was sought to improve the project's score in the leverage category in a highly competitive application process for State Affordable Housing Sustainable Communities (AHSC) funds. In addition to the funding for direct construction, a small amount is also allocated for project management and program delivery.

*Public Services (Human Services):*

CDBG funds may be allocated for a wide variety of public services, as long as a majority of the clients are lower-income persons, and the services address the priority needs identified in the Consolidated Plan. The services may be provided by the City itself, or sub-granted to qualified service providers in accordance with CDBG regulations. The City has an established Human Services Policy and competitive grant process for awarding CDBG public service funds to eligible non-profit agencies on a two-year cycle.

FY 2016-17 is the second year of the two-year funding cycle. During the second year of funding, the City does not solicit applications; rather, those agencies which have met or exceeded performance standards receive approximately the same grant amount for a second year, based on the amount of available CDBG funds. Due to the decrease in CDBG program income received in 2015 compared to the prior year, each of the 2016 human service grants funded with CDBG will be approximately 10.2% lower than in the prior year, a pro rata decrease based on the amount available for CDBG human services grants. A list of the 2016 CDBG grant amounts, by grantee name, is provided in **Attachment 3**. General Fund grants for human services are on this list and will be included in the recommended City budget, but they are not included in the Action Plan.

*Public Infrastructure:*

Public infrastructure projects may be funded by CDBG if they are located in census tracts that have a certain minimum percentage of lower-income households, according to HUD's census data, or if they are used to make accessibility improvements to public infrastructure.

- **ADA Curb Retrofits**

The 2016 Action Plan includes providing \$150,000 for ADA curb retrofits and related accessibility improvements to existing public sidewalks and/or crosswalks in the City. Work must be completed in accordance with all applicable CDBG regulations, including Section 3 and Davis Bacon wage compliance. CDBG funds may not be used to replace other sources of funding that would otherwise be available; therefore the infrastructure projects selected for CDBG funding are those that are either new or currently unfunded in the City's Capital Improvement Plan.

- **Persian Drive Sidewalk Extension**

This project consists of construction of a new public sidewalk and associated infrastructure along the south side of Persian Drive between Morse and Borregas Avenues, where there is currently no sidewalk. The new sidewalk would provide the future residents of Benner Plaza and other residents of the surrounding Morse Park and Lakewood neighborhoods with safe pedestrian/bike access into Moffett Park via the existing bike/pedestrian bridge over Highway 237, located near the corner of Borregas Avenue and Persian Drive. The project is described in more detail in **Attachment 2**.

***Economic Development:***

The “Work First Sunnyvale” Program, described further in **Attachment 2**, is in its fourth year of operation and is administered by Sunnyvale Community Services in partnership with Downtown Streets Team and Our Daily Bread. The program provides homeless and at-risk, very low income clients with job readiness training, job placement services, career counseling and related supportive services. The goal of the program is to help the clients obtain long-term employment and/or increase their earning power over time, in order to obtain housing, stabilize their lives, and increase self-sufficiency. The program, begun as a pilot program in 2012, has been very successful in helping its clients graduate and maintain employment and housing, far exceeding national benchmarks of success for employment programs for homeless people. In addition, by obtaining employment, many of the clients have been able to obtain housing, in some cases through other affordable housing programs offered by the City or other entities in the County. The program qualifies for CDBG funding as a Community-based Development Organization (CBDO) economic development activity.

**FISCAL IMPACT**

The recommended action will not impact the General Fund. Approval of the Action Plan is required to enable the City to receive two federal grants (CDBG and HOME) amounting to over \$1.3 million for next fiscal year. The recommended funding allocations in the Action Plan make use of these grant funds and related program income for various purposes consistent with the grant program regulations.

**PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

Notice of public hearings, including a 30-day public comment and review period, was posted at City Hall and published in the Sunnyvale *Sun* newspaper on March 25, 2016.

A draft of the 2016 Action Plan was made available for public review at the One Stop Counter at City Hall, at the Sunnyvale Library, and was posted on the City Housing website during the 30-day review period. The HHSC held a public hearing in March on the proposed capital projects and recommended approval of the funding recommendations included in the Action Plan, and approved the Action Plan, as shown in Attachment 1, at its April meeting. Draft minutes of that meeting are provided in Attachment 4.

**ALTERNATIVES**

1. Approve the 2016 Action Plan as presented in Attachment 1 and authorize the City Manager to execute all required assurances and forms for submittal to HUD.
2. Approve the 2016 Action Plan with modifications and authorize the City Manager to execute all required assurances and forms for submittal to HUD.

**RECOMMENDATION**

Alternative 1: Approve the 2016 Action Plan as presented in Attachment 1 to the report, and authorize the City Manager to execute all required assurances and forms for submittal to HUD.

Approval of the Action Plan will allow the City to receive the 2016 CDBG and HOME grants and use them for a variety of affordable housing and community development programs consistent with the priority community needs described in the City's 2015-2020 Consolidated Plan. In addition, most of the funding allocations in the Action Plan will leverage a substantial amount of additional funding for these programs and projects from other sources, including private sector, state and local funding sources.

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### **ATTACHMENTS**

1. Draft 2016 Action Plan
2. Capital Project Proposals
3. Human Services Grants
4. Draft Minutes of the April 20, 2016 HHSC Meeting