

REPORT TO HOUSING AND HUMAN SERVICES COMMISSION

SUBJECT

Consider Draft 2018 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 federal entitlement grants from the Community Development Block Grant (CDBG) and the HOME Investment Partnerships (HOME) Programs. The draft 2018 HUD Action Plan ("Action Plan") provided in Attachment 2 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.

The City Council is scheduled to hold a public hearing and consider this item on May 22, 2018.

Staff recommends that the Commission recommend to City Council Alternative 1: Approve 2018 Action Plan as shown in Attachment 2.

BACKGROUND

HUD requires entitlement grantees, (cities, counties and states), to submit an application, referred to as a Consolidated Plan, every five years, to maintain eligibility for CDBG and HOME Program grants. Sunnyvale's last Consolidated Plan was approved in 2015 and covers fiscal years 2015/16 through 2019/20. In addition, every year these grantees must submit an annual "Action Plan" to HUD for its approval in order to obtain the grant for the coming fiscal year. The Action Plans describe the grantees' local needs and the projects and programs to be funded with the grant funds in the coming fiscal year. Upon HUD approval, the annual Action Plans are appended to the five-year Consolidated Plan. The 2018 Action Plan will be the fourth Action Plan to be added to the City's 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, or what the City and the State of California refer to as "lower-income households". The CDBG and HOME lower-income limits are established annually by HUD for

each metropolitan area in the U.S. The lower-income limit (80% of median) for these federal programs in the Sunnyvale-San Jose metropolitan area is currently nearly \$94,000 for a household of four, with adjustments for larger or smaller households. That means that, to be eligible for most types of CDBG or HOME assistance, the household's gross, pre-tax annual income cannot exceed that amount. HUD adjusts the area income limits based on local housing costs and local median income data, so the higher limits in the Sunnyvale area (Santa Clara County) are due to both of those factors being quite high compared to national or state levels.

Eligible Activities

CDBG funds may be used for activities that "principally benefit" lower-income households, such as: housing rehabilitation, public facilities and infrastructure, public services, energy conservation, economic development and job creation/retention. Certain activities are prohibited by CDBG regulations, such as acquisition, construction or renovation of general government buildings (i.e., city halls, schools, etc.); political activities; subsistence (welfare) payments; and construction of new housing.

The HOME Program was established by the National Affordable Housing Act of 1990. It provides funding for lower-income housing efforts, including construction, rehabilitation, and acquisition of affordable housing, first-time home buyer assistance, and tenant-based rental assistance. HOME funds may be used to assist permanent rental housing for clients transitioning out of homelessness, but not for 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. The action is also exempt under the National Environmental Policy Act ("NEPA") pursuant to 24 CFR 58.34 (a)(1) and (3) as it relates to the development of plans and strategies and is an administrative and managerial activity. Although site-specific projects may be identified in the Action Plan, approval of the Plan does not constitute a formal commitment for those projects. Before formally committing or releasing funds for a specific project, staff will complete applicable federal and state environmental reviews for those projects.

DISCUSSION

Funding Availability

This year the federal budget was adopted much later than usual, on March 23, 2018. The appropriations bill allows HUD sixty days from that date (May 23) to inform all the entitlement grantees of the amount of their FY 2018 grants. HUD has advised staff to include contingency provisions in the draft Action Plan to allow the various activity funding allocations to be adjusted, if needed, once the entitlement grant amounts are known, without processing a formal Action Plan amendment, which would require additional public hearings and another thirty-day comment period.

Consistent with HUD guidance, staff has developed the draft funding allocations based on an assumption that CDBG and HOME funding levels will remain approximately the same as last year, but is aware that this may prove to be incorrect and adjustments may be required later in the process (e.g., prior to the final budget adoption by City Council in June). Due to the amount of uncertainty, staff has attempted to keep the recommended allocations as simple as possible to allow for relatively straightforward adjustments later, if needed.

In addition to the FY 2018 grants, staff estimates that a total of roughly \$400,000 in CDBG program income will be received by the end of the current fiscal year, not including amounts deposited into the Housing Rehabilitation Revolving Loan Fund (RLF). Program income consists of loan payments on prior CDBG loans, as well as interest accrued in the fund. Staff also projects that \$150,000 in CDBG program income will be received during FY 2018/19. A portion of the FY 2017 program income (\$150,000) was allocated last year through the 2017 Action Plan as required by HUD. Therefore, only the net amount (\$250,000) is available to allocate to new uses next fiscal year.

As shown in Table 1 below, staff estimates that nearly \$1.8 million in CDBG funds and approximately \$960,000 in HOME funds may be available for new activities to be implemented next fiscal year. These amounts include FY 2018 entitlement grants, program income, disencumbered funds, and any balances from prior years' grants. These totals may increase or decrease if the entitlement grant amounts vary from the estimates, or if more program income is received than the current projections. Because of this uncertainty, staff has developed contingency allocations based on two alternative scenarios in case the estimates shown in Table 1 are incorrect: one if the FY 2017 entitlement grants are approximately 90% of what they were the prior year, and another if they are 110% of the prior year. These contingency allocations are provided in the Action Plan (Attachment 2). Please see Table 1 below for details.

Table 1: Funds Available

<i>All Amounts are Estimates</i>	CDBG	HOME
Estimated FY 2018 Entitlement Grant	\$1,100,000	\$310,000
Net FY 2017 Program Income	\$250,000	\$411,000
Estimated FY 2018 Program Income	\$150,000	n/a
Disencumbered/Fund Balance	\$268,000	\$191,000
Total Available for FY 2018	\$1,768,000	\$962,000
<i>Information Only:</i>		
<i>Human Services Cap</i>	\$225,000	n/a
<i>Admin Cap</i>	\$250,000	\$72,100

Activities funded from the CDBG Revolving Loan Fund are not required to be included in the Action Plan tables, but are included in the Projects Budget. These include an allocation for housing rehabilitation loans, which are available for lower-income mobile home and single family home owners, and rehabilitation program operations.

Action Plan Development

When developing the draft Action Plan, staff analyzes the City's ongoing programs eligible for CDBG and/or HOME funds, such as the Home Improvement Program 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 second year, and conditional funding awards are made for a two-year term.

RFP Process

The City released an RFP in January 2018 to solicit proposals for affordable housing/capital projects from eligible agencies. In response, the City received one capital project proposal, for the WorkFirst Sunnyvale program, provided in the commission's March meeting materials. The staff scoring committee evaluated the proposal based on the priority needs described in the City's 2015-2020 Consolidated Plan and related City plans and policy documents, and scored the proposal based on the point system provided in the RFP. At its March meeting, the Commission recommended funding this proposal in the amount requested (\$416,000). This allocation is included in the draft Action Plan (Attachment 2). The March meeting minutes are provided in Attachment 3.

HUD Spending Limits for Public Services and Administration

HUD regulations limit how much entitlement grantees can allocate for program administration and public (human) services activities. CDBG administration is limited to 20% and public services are limited to 15% of CDBG grant and program income funds (no administrative funding is available from disencumbered funds or fund balance). There are nuances and slight differences in the way these limits are calculated, as set forth in the CDBG regulations. As shown in Table 1, staff estimates that no more than \$250,000 in CDBG funds can be allocated for administrative and planning (including fair housing), and no more than \$225,000 can be provided for public services, for 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 recommended to be allocated for HOME administration complies with this requirement.

Proposed CDBG and HOME Activities

The projects and programs proposed to be funded in 2018 are shown in Table 2 below and in **Attachment 2**. These activities are eligible for the indicated funding type and amount recommended, based on federal regulations associated with these grants, and meet one or more priority needs as identified in the City's 2015-2020 Consolidated Plan. The amounts shown will be adjusted as needed once the continuing resolution has been published, which staff expects to occur before the Council hearing on May 22.

Affordable Rental Housing:

This category includes the Tenant-Based Rental Assistance (TBRA) program which provides a portable rental assistance voucher, similar to a Section 8 voucher, to clients who are homeless or at

imminent risk of homelessness. The program is administered by Abode Services on the City's behalf, and takes referrals from several local partner agencies, some of which are also human services grantees. The TBRA program is funded with HOME funds and provides transitional assistance for clients who can be reasonably expected to pay their full rent and/or transition to other affordable housing options after the two-year assistance term.

Administration and Planning:

Administration includes the City's expenses for staffing and implementing the CDBG and HOME programs, including 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 and in-kind assistance to lower-income home owners, including mobile home owners, for minor home improvements (e.g., energy efficiency upgrades, exterior painting, emergency repairs and disabled access improvements). The Home Access Grant is also available to lower-income renters, with the landlord's consent. The revolving loan fund (RLF) provides funding for larger loans to lower-income home owners and/or non-profit housing developers for major housing rehabilitation projects. Expenditures from the RLF are not required to be included in the Action Plan, which focuses on new CDBG revenues. The recommended allocation for home improvement grants for next year is \$40,000, based on the level of demand for this program in recent years and actual expenditures in the current fiscal year.

Table 2: Recommended Allocations in 2018 Action Plan

Category	Activity	CDBG	HOME
Administration	Planning and Administration	\$225,000	\$80,000
	Fair Housing	\$25,000	-
Housing Rehabilitation	Home Improvement Program	\$40,000	-
Rental Assistance	Tenant-Based Rental Assistance	N/A	\$833,500
Public Facilities	Persian Drive Sidewalk Extension (Additional Funds)	\$500,000	-
	<i>Contingency Project: ADA Curb Ramps*</i>	\$500,000	-
Economic Development	WorkFirst Sunnyvale (CBDO Activity)	\$420,000	-
Public Services	Human Services Grants	\$225,000	-
	Total	\$1,935,000	\$913,500
	<i>Estimated Funds Available</i>	\$1,768,000	\$913,500
	<i>Difference</i>	(\$167,000)	-

*will only be funded if sufficient funds become available

Public Services (Human Services):

CDBG funds may be used for various public services, if a majority of the clients are lower-income persons, and the services address the priority needs described in the Consolidated Plan. The City has established a Human Services policy and competitive RFP process for awarding human services grants on a two-year cycle, using CDBG and any supplemental General Funds. FY 2018/19 is the second year of the two-year funding cycle, so the competitive award process occurred last year. The 2018 grants will be made in the same amount, pro-rated up or down to adjust for the difference in available funding this year compared to last year. Human services provides assistance to seniors, disabled adults, homeless people, lower-income households, and at-risk youth. The General Fund human services grants will be included in the recommended City budget in the same amount as last year, but are not included in the Action Plan.

Public Infrastructure:

Public infrastructure projects may be funded by CDBG only in census tracts or block groups with a minimum percentage of lower-income households, which is determined by HUD. One infrastructure project, the Persian Drive Sidewalk Extension, was provided an allocation of \$883,000 in CDBG funds and \$90,000 in local funds, for a total of \$973,000, in December 2017. The project is currently in the design phase. Preliminary cost estimates indicate that the project may cost as high as \$1.5 million, due to continued escalation of construction costs in this area. Staff is proposing to allocate an additional \$500,000 in CDBG funds to this project so that it may be completed in 2018.

In addition to the sidewalk project, typically every third year the City allocates funds for a curb ramp project, which improves the accessibility of the City's sidewalks, crosswalks and related pedestrian infrastructure for disabled users. Public Works staff have indicated that a minimum of approximately \$500,000 is needed to launch such a project given current cost estimates. That amount would be enough for approximately 40 curb ramps. While the current funding projections indicate that only approximately \$300,000 is available for that project, the City typically receives additional program income sporadically throughout the year even beyond the projections. Therefore, staff proposes to include this project as a "contingency project" in the 2018 Action Plan. By doing so, if sufficient program income is received, or the new grant is higher than projected, this project can be implemented next year without requiring an Action Plan amendment, which would cause some delay.

Economic Development:

The "WorkFirst Sunnyvale" Program, described in Attachment 2, has been implemented for five years by Sunnyvale Community Services, in partnership with Downtown Streets Team and Our Daily Bread. The program provides homeless and at-risk clients with job readiness training, job placement services, career counseling and supportive services. It helps clients obtain long-term employment and/or increase their earnings in order to obtain housing, stability, and increased self-sufficiency. The program has helped clients graduate and maintain employment and housing, while exceeding national benchmarks for employment programs for homeless people. The program qualifies for CDBG funding as a Community-based Development Organization (CBDO) economic development activity.

FISCAL IMPACT

Approval of the Action Plan is necessary for the City to receive two federal grants (CDBG and

HOME) 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 Housing and Human Services Commission's agenda on the City's official notice bulletin board and on the City's website. Notice of public hearings, including the 30-day public comment and review period, was posted at City Hall and published in the Sunnyvale *Sun* newspaper on April 13, 2018. A draft of the 2018 Action Plan was made available for public review at the One Stop Counter at City Hall, at the Sunnyvale Library, and on the City's website for the required minimum 30-day review period prior to City Council action.

ALTERNATIVES

1. Approve the 2018 Action Plan as shown in Attachment 2.
2. Approve the 2018 Action Plan with modifications.

RECOMMENDATION

Recommend to Council Alternative 1: Approve the 2018 Action Plan as shown in Attachment 2 to the staff report.

Approval of the Action Plan will allow the City to receive the 2018 CDBG and HOME grants and use them to address local needs for affordable housing and related programs, consistent with the 2015-2020 Consolidated Plan. Most of these projects leverage additional funding from other sources. The Commission made its recommendations on the capital project proposal at its March meeting, as shown in Attachment 3.

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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. Draft 2018 Action Plan
3. Draft Minutes of Housing and Human Services Commission meeting of March 28, 2018