



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: October 19, 2009

Approved

Date

Council District: Citywide

**SUBJECT: COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) OUTREACH
AND FUNDING PROCESS FOR FISCAL YEAR 2010-11**

INFORMATION

Each year, the City of San Jose receives Community Development Block Grant Program (CDBG) funding from the U.S. Department of Housing and Urban Development (HUD) to carry out a wide range of community development activities that revitalize neighborhoods, provide economic development opportunities, improve community facilities, and offer public/community services. The City receives an annual entitlement award from HUD, which has been approaching \$10 million annually over the past three years. We are anticipating and planning for a similar amount of funding for FY 2010-11.

In addition, the program receives income from repayment of loans generated by CDBG-funded programs. This CDBG Program Income has continued to decline over the past three years from a high of \$1.2 million in Fiscal Year 2006-07 to just under \$800,000 in Fiscal Year 2008-09. For budgeting purposes, staff is estimating \$700,000 in Program Income for Fiscal Year 2010-11.

In the past three years, a fund balance was available as a result of projects that had been funded in prior years but that did not go forward. These prior commitments were cancelled and the funds were added to the available budget. No remaining fund balance is expected to be available for FY 2010-11.

According to HUD requirements, no more than 20% of CDBG funds can be used for administrative costs, and no more than 15% can be used for public service activities. The remainder is devoted to community development activities. By policy, the City has reserved the entire public services funding allocation for activities proposed by community-based organizations (CBOs). Additionally, the City has historically funded fair housing activities administered by CBOs out of the administrative cost category.

In FY 2010-11 CDBG will fund fair housing activities under the public service allocation. This change is the result of additional administrative needs by CDBG, largely the result of added HUD oversight and reporting, and the need to provide additional technical assistance to struggling CBOs. In light of the need to provide more stringent fiscal oversight and ensure the proper expenditure of limited dollars, the additional needs include more intensive fiscal monitoring, ongoing technical review of agency financial conditions, and stronger oversight of the Section 108 program.

Both City and CBO projects are funded out of the remaining community development funding. The following chart shows the estimated Fiscal Year 2010-11 income and allocations for each activity.

Table 1
Estimated FY2010-11 Funding Availability

Estimated FY 10-11 Entitlement	\$9,900,000
Estimated Program Income	\$ 700,000
Total	\$10,600,000
15% Public Service, Fair Housing	\$1,590,000
20% Administration, Planning	\$2,120,000
Community Development (City and nonprofit projects)	\$6,890,000

Community Outreach

Every five years, HUD requires the submission of a 5-Year Consolidated Plan, with annual action plans, detailing the community needs and the proposed uses of HUD funding to address these needs. Fiscal Year 2010-11 is the beginning of the next 5-year Consolidated Plan period. In collaboration with the County of Santa Clara and other cities within the county, the Housing Department contracted with a consultant to implement an extensive community outreach program to assess the communities' current needs. The outreach process began in September, and it is planned that a draft housing needs assessment and market analysis will be completed this month. To complement these county-wide efforts, CDBG staff has implemented the following outreach efforts, which will also be completed in October.

Table 2
Community Outreach Efforts

Meeting	Date
SNI Team Managers Topics: Review of CDBG Eligible Activities and Community Needs	August 12, 2009
SNI NAC Presidents in Targeted Low Income areas: Topic: Needs of Lower Income Residents	September 3, 2009
Housing and Community Development Advisory Commission CDBG Ad-Hoc Committee: Topics: Community Needs and Process Improvements	September 3, 2009

Meeting	Date
CDBG CBO Roundtable Topics: Application & Funding Process Improvements and Client Needs	October 2, 2009
SNI Community Needs Assessment Survey	Sept-Oct 2009

Identification of the most vital community needs will provide us an opportunity to implement an application and funding process new to CDBG for the next five years.

Application and Funding Process

CDBG will continue to engage in a competitive funding process. Based upon input received from the community outreach process and City-identified priorities as found in approved Citywide plans, CDBG staff will develop a list of priority needs. Applicants will need to propose projects and activities that directly address those needs. To be eligible for CDBG funding, activities must also meet one of the following three national objectives established by HUD:

- Benefit low- and moderate-income persons
- Aid in the prevention or elimination of slums or blight
- Meet a need having a particular urgency

The City’s two major objectives for the CDBG Program are to:

- Enhance traditional City functions by providing improved services and facilities for low- and moderate-income residents, and
- Eliminate and prevent slums and blight.

Under current economic conditions, funding for the CBO sector and the community services they provide continues to decrease. To meet the most critical community needs as identified through the community outreach efforts, and to ensure the most effective and efficient use of CDBG funds, the following program enhancements are being recommended:

- Maintain the \$25,000 minimum
- Maximum requests:
 - Existing subrecipients: request not to exceed 150% of prior year award
 - New applicants: request not to exceed \$50,000
- Establish targeted public service priorities and funding allocation by priority as shown below:

Priority	Allocation
Self-Sufficiency- Case Management and Counseling	\$400,000
Basic Needs	\$400,000
Access to Health Care for Seniors and Disabled	\$300,000
Legal Services/Fair Housing	\$400,000

- Establish \$150,000 maximum funding limits for agencies,
- Continue the two-year award for all public service grantees
- Application review by a non-conflicted panel for each targeted priority.

The application process and enhancements recommendations have been presented for review and input to the CDBG Ad-Hoc Committee and the CBOs currently funded by CDBG at the CBO Roundtable held on October 2, 2009. A Notice of Funding Availability will be published in November, with applications due in December.

Application Review

CDBG staff have continued to streamline and simplify the application and evaluation processes. The application has been modified to remove duplicative questions and to request only information pertinent to the proposal as it relates to eligible CDBG activities.

Further, CDBG is modifying the review process and utilizing non-conflicted review panels with related experience to review funding proposals. Previously the applications were reviewed and scored by a team of two CDBG staff analysts who independently scored proposals according to established criteria. The new process will bring together representatives from specific interests to provide a holistic approach to selecting sub-recipients. Each panel will review, score, and rank an assigned group of applications. Applicants will have an opportunity to present their proposal to the panel at which time the panel may ask clarifying questions and adjust individual scores accordingly.

Once the review panels determine their final scores and rankings, CDBG staff will present funding recommendations for the highest ranked applicants within each category to the CDBG Ad-Hoc Committee, the Housing Director, the City Manager's Office and the Housing and Community Development Advisory Commission, prior to submission to the City Council for final approval.

In addition to the use of review panels, the application review process will consist of the following steps:

- The City Auditor's Office will review and analyze financial statements on all applicants who have existing grant contracts with the City totaling \$200,000 or more.
- CDBG managers will review and analyze financial statements for applicants with existing grant contracts totaling less than \$200,000 and the financial statements of all new applicants.
- CDBG and Housing construction staff will review construction/rehabilitation proposals to determine feasibility, reasonableness of costs, scope of work and timeline, and past performance of applicants.
- Lists of proposals will be shared with other CDBG funding jurisdictions (County of Santa Clara; Cities of Sunnyvale, Milpitas, Santa Clara, Campbell, and Mountain View) to discuss duplication of service and past performance of applicant agencies, among other issues
- Lists of proposals will be shared with other City funding programs, including the Healthy Neighborhood Venture Fund, Housing Trust Fund, and the Office of Economic

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Development to ensure against duplication of service and share information about past performance of applicant agencies, among other issues.

Fiscal Year 2010-11 Award Process for City Projects

Continuing the process utilized the past two years, the Department will convene a City Project Selection Team (Team). This Team will comprise of the Directors of the following City Departments: Housing; Transportation; Public Works; Planning, Building and Code Enforcement; Parks, Recreation and Neighborhood Services; the Office of Economic Development; the Library; the SNI Program; the City Manager's Budget Office; the City Attorney's Office; and the Redevelopment Agency. The Team will set funding priorities for Fiscal Year 2010-11 that are consistent with the consolidated plan and other citywide priorities.

Based upon the established priorities, each Team member will bring forward proposals for discussion and evaluation by the entire team. A list of recommended projects will be developed and ranked in priority order. Program managers for each project will submit project descriptions and budgets and, after screening for CDBG eligibility, the Team will approve funding projects based on their ranking on the priority list and the availability of CDBG dollars.

NEXT STEPS

The 2010-2011 Notice of Funding Availability will be issued on November 16, 2009, with applications due on December 18, 2009. The evaluation process will occur during the months of January –February 2010, with release of recommendations to the City Council and the applicants in March 2010. Following the two-week appeal process and 30-day public hearing period, final recommendations will be presented to the Council as part of the Consolidated Plan-Annual Action Plan approval in May 2010

CONCLUSION

Due to continued reductions in funding and program income, allocations for new projects will again be reduced in Fiscal Year 2010-11. Therefore it will become increasingly important to use these limited funds strategically and in a targeted approach to maximize the positive impact for our community.



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Director of Housing

For questions please contact Leslye Krutko, Director of Housing, 535-3851.