



Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: December 15, 2011

Approved

Date

12-17-11

COUNCIL DISTRICTS: 3, 5 & 7 and City-Wide

SUBJECT: PRIORITIES FOR EXPENDITURE OF COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUNDS AND EMERGENCY SOLUTIONS GRANT (ESG) FUNDS

RECOMMENDATION

It is recommended that the City Council:

1. Approve the Administration's recommendations for expending Community Development Block Grant (CDBG) program funding for FY 2012-13, as follows:
 - a. Allocating the maximum allowable funding to nonprofit partners under the public service category:
 - i. Issuing a Request for Proposals/Qualifications (RFP/Q) for a contract of up to \$100,000 for door-to-door transportation services to seniors.
 - ii. Issuing an RFP/Q for a contract of up to \$100,000 for services that respond to the isolation prevention needs of seniors.
 - iii. Issuing an RFP/Q for up to two contracts totaling up to \$300,000 for foreclosure response services.
 - iv. Issuing an RFP/Q for up to three contracts totaling up to \$467,000 for full-service multi-disciplinary homeless outreach services and full-service programs for homeless families and youth
 - v. Allocating up to \$300,000 for targeted, priority projects or services in three place-based strategy neighborhoods (Mayfair, Santee/McKinley and Five Wounds/Brookwood Terrace).
 - b. Funding fair housing activities out of the Administration Allocation rather than the public service category:
 - i. Allocating up to \$1,304,000 for Program Administration services provided by several City departments.
 - ii. Awarding a sole-source contract for up to \$385,000 to a consortium of Fair Housing service providers.
 - c. Allocating the remainder of available funds for community development improvement projects:
 - i. Allocating up to \$1,504,000 for infrastructure and facility improvement projects in the three place-based strategy neighborhoods.

- ii. Issuing an RFP/Q for a contract of up to \$200,000 for neighborhood clean-up services in the three place-based strategy neighborhoods.
 - iii. Issuing an RFP/Q for a contract of up to \$400,000 for emergency home repair services.
 - iv. Allocating up to \$1,300,000 for blight eradication services to be provided by the Department of Planning, Building and Code Enforcement.
 - v. Allocating up to \$2,125,000 for housing rehabilitation and mobilehome rehabilitation loans and grants to be provided by the Housing Department.
2. Provide direction on the payment of U.S. Department of Housing and Urban Development Section 108 debt service in the amount of \$1,960,000.
 3. Approve the Administration's recommendation for expending Emergency Solutions Grant (ESG) funding for FY 2012-13, including the issuance of an RFP/Q for contracts totaling up to \$690,000 for full-service multi-disciplinary homeless outreach services and full-service programs for homeless families and youth.

OUTCOME

Approval of the recommended action will:

- Respond to direction from the Mayor's June Budget Message, which was approved by the City Council, to target limited CDBG funds to City priorities.
- Ensure that funds that are awarded meet the requirements of the federal government and are tied to clearly identified outcomes.
- Enable the Housing Department to proceed with a competitive process to select nonprofit partners in accordance with requirements and timelines established by the U.S. Department of Housing and Community Development (HUD).
- Enable the Housing Department to reduce the cost of administering federal entitlement grant programs by reducing the number of contracts to be overseen and monitored, maximizing the services provided to San Jose residents.

BACKGROUND

The Mayor's June 2012 Budget Message, as approved by the City Council, directed staff to review the CDBG Program and evaluate how limited CDBG funds can best be directed, in accordance with federal requirements, to City priorities as determined by the Mayor and City Council as part of the City's budget process. The June 2012 Budget Message also put community-based organizations on notice that they should be prepared to not receive grants and subsidies in Fiscal Year 2012-13 as they have in the past ("Prepare for Zero").

In response to this direction, City staff has worked with the Administration to identify City priorities and develop a new strategy for impactful expenditure of funds. In addition to internal review and discussion, we have conducted outreach to the public and the City Council as follows:

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- Held four community meetings in August to seek feedback from stakeholders. There were a total of 158 attendees at the four sessions.
- Made presentations to the Neighborhood Services and Education Committee and the Public Safety, Finance and Strategic Support Committee to discuss program requirements and obtain feedback on Council priorities.
- Presented a similar report to the Housing and Community Development Advisory Commission (HCDAC) at its October meeting for discussion and feedback.
- The HCDAC also held a hearing on December 1, 2011 to solicit public input on CDBG funding priorities.

Because the annual budgeting of CDBG funds is accomplished through the Consolidated Plan process, we must also take into account the community input received during preparation of the 2010-2015 Five-Year Consolidated Plan. The Plan identified the following community priorities:

- Assist in the creation and preservation of affordable housing for lower-income and special needs households;
- Support activities to end homelessness;
- Support activities that provide basic services, eliminate blight, and/or strengthen neighborhoods;
- Expand economic opportunities for low-income households;
- Promote fair housing choice; and
- Promote environmental sustainability.

Additionally, the City is required to create an implementation plan and address the barriers identified in the federally-required Analysis of Impediments to Fair Housing Choice (AI). Attachment A details other federal requirements for the use of CDBG funds.

ANALYSIS

Anticipated Funding

On November 18th, President Obama signed the minibus (H.R. 2112) into law, which included the FY2012 appropriations for the CDBG Program and all other HUD programs. The approved appropriations result in a 12% overall cut in the national CDBG program. Because of the way the allocation formulas operate, the reduction for San Jose is now estimated to be 14%, resulting in a reduction in San Jose's appropriation from \$9,151,034 in FY 2011-12 to \$7,843,966 in FY 2012-13. This comes on top of the FY2011 reduction of 16.1%. Further cuts could be possible as the federal government seeks to meet the \$1.2 trillion deficit reduction target.

The anticipated receipt of the \$7,843,966 plus the 2011-12 estimated Program Income of \$600,000 may be allocated as shown in the chart on the next page. HUD regulations allow a maximum of 15% of CDBG funding to be used for "public service," or direct services to the public, and a maximum of 20% for Administration, which can include fair housing. Note that these percentages are calculated from the entitlement and program income sources only, and therefore are smaller than if one were to consider all sources available.

SOURCES

2012-13 Entitlement	\$7,843,966
Estimated Program Income	\$600,000
Section 108 Loan Repayment	\$340,000
Fund Balance	<u>\$2,000,000</u>
Total Resources	\$10,783,966

USES

Community Development Improvement (CDI)	\$5,528,578
15% for Public Services	\$1,266,595
Fair Housing (from 20% Admin. allocation)	\$385,000
Program Administration (from 20% Admin. allocation)	\$1,303,793
Section 108 Debt Service	\$340,000
Section 108 Debt Service or CDI Projects	<u>\$1,960,000</u>
Total Uses	\$10,783,966

Proposed Expenditure Plan

Based on the feedback received, the priorities outlined in the Consolidated Plan and the AI, the program requirements, and conversations with other City departments and the City Manager's Office, the Housing Department is proposing that FY2012 CDBG funds be awarded for the following City priorities:

- A place-based, neighborhood-focused strategy for the CDBG Community Development Improvement (CDI) funds; and
- A narrowly focused use of the Public Services funds on adopted City priorities, some of which will also reinforce the place-based investment strategy for CDI funds.

This strategy is explained below.

Place-Based, Neighborhood-Focused Strategy

San Jose has been challenged with addressing the needs of its neighborhoods given current budget realities. A more coordinated effort is needed to provide services to our neighborhoods, which in turn can reduce the demand on future City budgets.

The underlying framework of this new place-based neighborhood-focused strategy is based on adopted City Council policy that will guide the changes to CDBG and the implementation of this strategy:

- Direct funding to city priorities¹ with a specific focus on ensuring clean and safe neighborhoods with engaged² residents,

¹ Mayor's June Budget Message (Adopted) 2011 section 6, i Community Development Block Grant

² Strong Neighborhoods Business Plan Update (Adopted) 2011

- ❑ Stabilize neighborhoods in crisis by adopting a place based approach, concentrating resources in support of neighborhoods in need³,
- ❑ Reduce administrative costs and improve efficiency using technology⁵
- ❑ Have an exit strategy

This framework provides for more closely integrating CDBG funds with other public and private grant funds, and other City programs and funding, to achieve maximum impacts. For instance:

- Connecting with other funds, such as the federal Neighborhood Stabilization Program, to leverage CDBG resources and provide more impact.
- Coordinating with jobs training programs to provide training opportunities to residents of the targeted neighborhood(s).
- Working with lending institutions to focus funding to nonprofits on programs and projects in partnership with this City effort
- Engaging with foundations and corporations to join in making neighborhood change.
- Coordinating with the Mayor's Gang Prevention Taskforce including the allocation of BEST funds so they are focused on commonly identified priorities and places.
- Working with the County of Santa Clara to see what programs and efforts we can coordinate in these areas.
- Aligning CDBG funded service providers and partners with City Council approved Strong Neighborhoods Business Plan to help stabilize neighborhoods in crisis and mobilize local action to make neighborhoods cleaner and safer.

Given limited funds and staff capacity, it is important to awaken neighborhoods to their own resources, capacity and power. It is proposed that this new strategy be initiated in three neighborhoods where there is demonstrated need, the opportunity to make substantial change, and strong community partnerships to sustain that progress.

- ❑ ***Demonstrated Need*** - For an understanding of neighborhood need, the Strong Neighborhoods Business Plan provided a starting point. This plan looked at neighborhoods across the City in terms of gang hot spots, violent crime, levels of graffiti, code violations, foreclosures, and unemployment. This information provided guidance in selecting neighborhoods where additional investment is needed.
- ❑ ***Opportunity for Change*** – As important as need is the opportunity for substantial change over the next several years. This includes qualitative factors such as neighborhood organizational strength, existing social capital, and the presence of opportunity development sites or catalytic projects. Ideally the neighborhood should be near a tipping point where positive change becomes self reinforcing.
- ❑ ***Strong Partnership***- Given limited staff capacity and the short term nature of the additional investment it is crucial that the selected neighborhoods have strong external partners who can sustain the change beyond the City's investments. Potential partners include anchor institutions such as schools or universities, nonprofit organizations, or community based organizations. It is essential that the partner be well established and have a proven track record.

³ Strong Neighborhoods Business Plan Update (Adopted) 2011

⁵ City Manager's 2011-2012 Budget Message (Adopted) page 5, Budget Balancing Strategy Guidelines

The recommended initial neighborhoods, selected on the basis of demonstrated need, neighborhood strength and assets and opportunity for change, and existing strong partnerships are:

- Santee/McKinley in partnership with the Franklin McKinley Children's Initiative,
- Mayfair in partnership with Somos Mayfair, and
- Five Wounds/Brookwood Terrace in partnership with CommUniverCity (with the potential for expansion as CommUniverCity expands to other Downtown neighborhoods)

Santee/McKinley (Franklin McKinley Children's Initiative)

The Santee and McKinley neighborhoods have long served as a port of entry for new arrivals to the United States. Many Vietnamese, Cambodian, Mexican and other recent immigrants have all found a first home in these neighborhoods. A decade ago both were beset with catastrophic rates of crime and atrocious housing conditions. Over the years through both Project Crackdown, the court ordered injunction in Santee, and the work of Strong Neighborhoods, these neighborhoods have seen significant improvements in safety, but there is much that remains to be done to improve the community. The Franklin McKinley Children's Initiative (FMCI) was launched recently with the intention of providing a comprehensive approach modeled after the Harlem Children's Zone to transforming the neighborhood and the schools which serve it. FMCI has been able to raise substantial funding to develop a new EduCare facility on campus and launch the initiative. The City Attorney's Office has also recently initiated an effort to work with the neighborhood property owners to lift the court injunction and implement a sustainable, privately funded, approach to assuring the long-term management and quality of rental housing in the neighborhood.

Mayfair (Somos Mayfair)

Once known as Sal Si Puede! ("Get out if you can!"), the Mayfair neighborhood has a long tradition of grass roots organizing and change now supported by Somos Mayfair, a nationally recognized nonprofit that, among other strategies, works to build leadership skills in community residents. The 2,000 families of this East Side neighborhood, led by 50 Somos-trained neighborhood residents, recently launched the "En Nuestras Manos" ("In Our Hands") campaign. This is a popular education campaign that looks to the neighbors to lead the change they want to see. The campaign also includes a substantial formal education component working with local schools to provide a high quality education for all children of the neighborhood. With assets such as the new Mayfair community center and a highly organized and energized community, Mayfair is well-positioned to see substantial change in the coming years.

Five Wounds/Brookwood Terrace (CommUniverCity)

This year the CommUniverCity collaboration between the Five Wounds community, San Jose State University, and the City of San Jose achieved the milestone of 100,000 hours of community and student volunteer work in service to the community. This remarkable effort has resulted in a cleaner, safer, and more engaged neighborhood and opened up opportunities such as the community's plan for an urban village around a future BART station that is now a formal part of the City's General Plan. Unlike most town-gown interactions, CommUniverCity since its founding has been dedicated to following the

neighborhoods priorities and building on the existing strengths and assets of neighbors. In its sixth year the collaboration is poised to expand its presence to other near campus neighborhoods.

These three organizations are envisioned as partners of the City in determining the highest priority needs in their respective neighborhoods. In three to five years, as these neighborhoods progress, new neighborhoods could then be identified for participation. As neighborhoods begin to improve and become more self sustaining, CDBG funds could be re-directed to other neighborhoods that have, in the interim, developed the structure and means to improve and strengthen their own community and environment. City staff working in other high-needs neighborhoods will work to both strengthen those neighborhoods, bringing them closer to the positive tipping point and identifying additional partners to sustain this work. Potential future neighborhoods/partners include: the Edenvale/Roundtable/Davis neighborhood, where there are good connections with schools and Boys and Girls clubs; Meadowfair, where current grassroots organizing efforts are underway; and the Dorsa/Tully-Ocala-Capitol-King (TOCKNA) neighborhood where a substantial energy retrofit project (Building Better Neighborhoods) is in progress.

Community Development Improvement (CDI) Investment Strategy: \$5,528,578

The primary outcome of the Place-Based Strategy is to create clean and safe communities in the three neighborhoods identified above. Some of the CDI funds will be targeted to these neighborhoods, while others—such as housing rehabilitation and minor repair—will continue to be available to residents Citywide. To this end, the proposed uses of CDI funds include:

- Strategy 1: Blight Eradication- Identify deteriorated housing conditions and work with property owners to correct. Survey the condition of the neighborhood housing stock to aid in the development of a comprehensive neighborhood improvement plan. Develop a tool-kit to provide the necessary resources to property owners. This will be administered by the Code Enforcement staff (approximately \$1,300,000). The recommended amount is a reduction in funding from the \$2,226,914 awarded to Code Enforcement in the current fiscal year.
- Strategy 2: Housing Rehabilitation-- Make available housing grants and loans to improve and preserve the affordable housing stock and address health and safety concerns. This will be administered by Housing Department staff (approximately \$2,125,000). Loans and grants will continue to be available Citywide, including for the City's large stock of mobilehome units, but there will be a concentrated effort to use rehabilitation funding in conjunction with blight elimination efforts in the three place-based strategy neighborhoods. The recommended amount is a reduction in funding from the \$2,369,879 awarded in the current fiscal year. And, given the likely elimination of redevelopment, which provided \$3 million for this activity this fiscal year, and the reduction in federal HOME funds, which provided \$1 million for this activity this fiscal year, CDBG funding is critical.
- Strategy 3: Housing Minor Repair Program – Make grants available Citywide for emergency home repairs (including water heater replacement, furnace repair, roof leaks, and electrical repairs) (approximately \$400,000). This service was once provided by a nonprofit agency that went out of business and then by the Housing Department. It is recommended that it be once again be administered by a nonprofit service provider. The recommended amount is a reduction in funding from the \$500,000 available in the current year for the Minor Repair Program, and \$250,000 that was awarded to Rebuilding Together for similar activities.

- Strategy 4: Infrastructure and Facilities Improvements-- Identify and implement key improvements in the three neighborhoods that respond to their highest priorities. This could include: infrastructure improvements that help to deter crime and gang activity such as street lighting and safety improvements around schools, community gardens, or improvements to facilities owned by nonprofit agencies serving the neighborhood. Approximately \$1,504,000 is proposed for these purposes.
- Strategy 5: Neighborhood Clean-Up-- Implement a clean-up program to address hot spots in blighted areas of the place-based strategy neighborhoods, perhaps providing employment for youth and/or homeless individuals (approximately \$200,000).

Public Services Investment Strategy: \$1,266,595

Up to 15% of the annual CDBG entitlement grant can be used for Public Services. In the past, the City has set aside this entire amount for community-based nonprofit organizations which have performed a wide variety of activities, including support for the operation of homeless shelters and homeless day services, serving both the youth and senior-citizen populations, legal aid, fair housing, health-care service providers, access to health care services, nutrition services, economic development/small business development programs, and the like.

While all of these and similar private sector activities and initiatives are very worthwhile and beneficial to the community, we are proposing to limit the number of activities that will receive CDBG funds, both to have a more obvious positive outcome for the City's investment of available federal funds but also to reinforce and enhance the Place-Based Strategy for CDI funds outlined above.

The four strategic goals for Public Services funds being recommended by the City Administration are:

- Strategy 1: Foreclosure Response (1 to 3 grants to sub-recipients) -- Provide up to \$300,000 in FY 2012-13 CDBG funds to implement foreclosure response efforts including foreclosure prevention, intervention, and referral services to homeowners and renters impacted by foreclosure. The City continues to experience a high volume of foreclosures with approximately 54,500 reported since 2008. As of the preparation of this report, there are about 8,900 active foreclosure filings in San Jose. In the worst-hit neighborhoods, up to 16% of owner-occupied units have been affected, and the Citywide median sales price of single-family homes has dropped from a high of \$747,000 in late-2007 to \$481,500 today. These services would be available Citywide.
- Strategy 2: Homelessness (1 to 3 grants to sub-recipients) – Provide up to \$467,000 in FY 2012-13 CDBG funds for programs that support County-wide efforts to end and prevent homelessness in conjunction with federal Emergency Solutions Grant (ESG) program funding (see below). The City is an active partner in Destination:Home's Countywide effort to end and prevent homelessness, implementing the City's "Homeless Strategy" adopted by the City Council in 2003. Additionally, ending and preventing homelessness were identified as the top priority in the community meetings held in August.
 - Develop a full-service multi-disciplinary outreach program that may include outreach workers, shelter beds, and case management services, deposit/rental

assistance to outreach and engage homeless individuals living on the streets and in encampments

- Fund full-service programs for homeless families – including victims of domestic violence – and youth including shelter beds, case management, and deposit/rental assistance.

These services would be available Citywide, though outreach will likely be targeted to specific areas where the homeless congregate, particularly around area waterways.

- Strategy 3: Targeted Programs in Place-Based Neighborhoods -- Fund programs that address specific needs and priorities identified by each neighborhood. For example, this may include programs targeted to youth, such as support for the Safe School Campus Initiative at middle schools and other gang prevention and intervention efforts. Approximately \$300,000 of CDBG funding is recommended for FY 2012-13.
- Strategy 4: Senior Services (2 grants to sub-recipients) – In response to the substantial community input advocating retention of services for seniors, City staff consulted the joint City-County plan, entitled “Community for a Lifetime: A Ten-Year Strategic Plan to Advance the Well-Being of Older Adults in Santa Clara County” and is recommending funding for the highest priority need, which is transportation. Additionally, the joint City-County Senior Nutrition Task Force adopted as its vision statement, “Vulnerable and at-risk seniors have access to healthy nutrition and socialization.” Eligible activities that would implement this vision statement may include door-to-door transportation, home delivered meals, and other isolation prevention activities. These services would be available Citywide. Approximately \$300,000 is recommended for FY 2012-13.

Staff recommends that these funding strategies be made multi-year priorities for the three years remaining under the Five-Year Consolidated Plan.

Fair Housing Investment Strategy

Approximately \$385,000 from the federally allowed 20% set-aside for Administration is recommended for funding a consortium of agencies which are currently providing Fair Housing services Citywide (Legal Aid of Santa Clara County, the Law Foundation including the Mental Health Advocacy Project, Project Sentinel, the Asian Law Alliance, and Senior Adults Legal Assistance). This consortium has come together to provide services, with the Law Foundation taking the lead grantee role, focusing its efforts on implementing the federal Analysis of Impediments to Fair Housing plan. The services to be provided next fiscal year include: outreach and education on fair housing issues; conducting fair housing testing; enforcing fair housing laws through litigation; and providing technical assistance to the Housing Department on how to monitor City-financed developments for fair housing compliance.

Program Administration

The administration of the CDBG program involves not only the Housing Department but also the Finance Department, the City Attorney’s Office, the Department Planning, Building and Code Enforcement, and support for the City-wide Grants Management System and the Non-Profit Platform.

In the current fiscal year, the amount of funding devoted to program administration was reduced by 9% from the prior year. In order to fund Fair Housing activities at a reasonable level, the Department is proposing to reduce administrative costs in Fiscal Year 2012-13 by 29% from this year's level. This will be possible only if the recommended funding strategy set forth in the memorandum is approved, since there needs to a significant reduction in the number of contracts that the Department oversees and monitors for compliance with City standards and federal regulations.

An estimated ten City positions will be eliminated by this action, with the majority in the Planning, Building and Code Enforcement Department. PBCE has prepared for this reduction, and expects that it will be achieved through attrition.

Debt Service on Section 108 Loans

The Redevelopment Agency holds three loans from HUD through the Section 108 Program that were obtained to undertake several important projects. One of these loans was subloaned to several property owners for the rehabilitation of the Masson-Eu-Security Buildings. The loan repayments from these three property owners in an annual aggregate amount of \$340,000 covers the debt service on that particular loan. However, two of the projects – the Block 3 Mixed Use Project (Tower 88/Safeway) and the Story-King Revitalization Project -- were not structured in that manner. The Agency granted, instead of loaned, the proceeds to the developers of those projects and the source of repayment was intended to be 80% tax increment. The annual debt service on these loans, including principal and interest, is \$1,960,000 on the outstanding loan balance of \$29,745,000. The terms of these loans allow the City to use CDBG funds as a source of repayment. Accordingly, for the current fiscal year, due to the recent drop in tax increment revenues, the City Council and Agency Board approved the use of CDBG funds as the source for debt service obligation through the budget process.

After all of the programs and activities listed above are funded, \$1,960,000 remains. This funding could be used to make this debt service payment, or could be used to pay for activities now not included in the CDBG expenditure plan we have described. This may include economic development programs, and infrastructure projects (street reconstruction, lighting, curb cuts). Or funds could be used to enhance the services that are recommended for funding, including restoring funding for housing rehabilitation and minor repair activities, or focusing more on infrastructure and facilities in alignment with the place-based strategy. The \$1,960,000, if not used to pay debt service, would need to be spent on eligible Community Development Improvement (CDI) Projects, and would not be available for public service activities.

There is not an option to avoid paying the HUD debt service. Some source of revenue will need to be identified to make this payment.

Services and Programs Not Proposed for Funding

There are a number of services and programs that are receiving CDBG funding in the current fiscal year that will not be receiving funding in FY 2012-13 under the expenditure plan recommended in this report. These include:

- Selected services to the senior population, including adult day care, care-giver respite, meals provided at nonprofit agencies' facilities, therapy and meals for seniors with Alzheimer's Disease, ombudsman advocacy , interpretation/translation services related to health care, and chronic disease self-management
- Diabetes prevention for seniors and their families
- Food bank services
- Immigration services
- Self-sufficiency services, including juvenile delinquency mentoring, drug treatment for youth, independent living skills for the disabled, connecting the homeless/at-risk of homeless with main stream benefits and services, mentoring and coaching at-risk youth, parenting education, case management for victims of torture, housing and supportive services for victims of domestic violence, housing search and stabilization
- Economic development, including micro-lending and business development assistance and training

Additionally, many services and programs that are recommended for funding are being recommended at a lower funding level. And, City staffing, as mentioned above, will be reduced by an estimated 10 positions.

Input From December 1, 2011 Housing and Community Development Advisory Commission Meeting

On December 1st, the Housing and Community Development Advisory Commission (HCDAC) held a special meeting to consider the question of re-prioritizing the funding in the CDBG program. The Administration's proposal that was presented to the Commission did not include the use of Public Services funds for senior services.

Of the 39 people who gave testimony at this meeting, 29 expressed concerns with the lack of proposed funding for services provided to senior citizens (including transportation, nutrition, legal aid, and health care). Other testimony raised concerns about the continuing viability of ethnic community service organizations and the need for funding economic development activities. A supplemental report will be submitted that summarizes the testimony.

Although the HCDAC did not make a formal recommendation to the Council, individual Commissioners echoed the concerns expressed by members of the public that support for services to the seniors population were proposed for elimination. Commission members also recognized the need for change, and expressed an understanding that the number of grants that would be provided would be significantly lower than in past years.

Emergency Solutions Grant (ESG) Priorities

This federal program has been administered in a similar fashion to the CDBG program in that small funding amounts have been awarded to numerous sub-recipients. The Administration is proposing that the number of ESG contracts also be reduced in response to lower staffing levels, and that they be directed at the same homelessness priorities proposed above for the CDBG program: a full-service multi-disciplinary outreach program; and full-service programs for homeless families and youth. Up to \$690,000 of ESG funds are anticipated to be available in FY 2012-13.

Conclusion

The strategy recommended in this memorandum represents a significant change for the CDBG and ESG Programs, but one that is both responsive to the Mayor and City Council's direction to align programs with City priorities and also more strategic with the use of limited dollars. The recommendations in this memo seek to focus on providing service to our residents and achieving specific, quantifiable outcomes, some of which is accomplished by reducing City administrative costs and some of which is achieved by more strategic investment. By making this change, CDBG and ESG dollars can be leveraged by other sources and will have more impact. Community-based organizations will be important partners in making this effort work; the City will need the active partnership of many people and organizations to make this new strategy a success.

EVALUATION AND FOLLOW-UP

The draft 2012-2013 Consolidated Annual Action Plan – anticipated to be considered by the City Council at two hearings in late-March and early-May of 2012 – will reflect the policy direction on CDBG and ESG priorities.

POLICY ALTERNATIVES

Alternative #1 Continue current funding practices.

Pros: Minimal disruption to the CDBG-funded and ESG-funded nonprofit partners.

Cons: Non responsive to Mayor and Council direction to be more proactive in linking resources to City priorities. Allowable uses of funds are so broad that there isn't a measureable impact/outcome. More funds would need to go to program Administration with less available for Fair Housing and Public Services; the City simply does not have the administrative resources to administer a large number of small grants.

Reason for not recommending: A targeted approach will acknowledge our limitation of resources and ensure achievement of identified outcomes. If funds are tied to City priorities, it can help the City's financial position by reducing the need for City services in some areas. Greater ability to leverage outside resources.

PUBLIC OUTREACH/INTEREST

Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater.

Criterion 2: Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.

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- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.

The recommended City Council action meets Criterion 2. Consequently, this report will be distributed by e-mail to all CDBG stakeholders and will be posted to the website for the Council's January 10, 2012 meeting agenda. Additionally, CDBG priorities were considered by the Housing and Community Development Commission on two occasions, first on October 13, 2011 and then on December 1, 2011.

COORDINATION

Preparation of this report was coordinated with the City Manager's Office, the City Attorney's Office, the Department of Planning, Building and Code Enforcement, the Department of Parks, Recreation and Neighborhood Services, the Office of Economic Development, the Department of Transportation, and Strong Neighborhoods.

FISCAL/POLICY ALIGNMENT

The actions recommended in this report respond the City Council direction originally set forth in the Mayor's June 2011 Budget Message to more closely align the activities and services funded by the CDBG program with City priorities.

CEQA

CEQA: Not a project. PP10-0768, General Procedure and Policy Making



LESLYE CORSIGLIA
Director of Housing

Attachment

For questions, please contact, LESLYE CORSIGLIA, DIRECTOR OF HOUSING,
at 408-535-3851

ATTACHMENT A

Allowed Uses of CDBG Funds Under Federal Regulations

Eligible Uses:

The federal CDBG regulations lay out the activities eligible for funding. These activities must meet one of the following statutory objectives,

- Benefit Low and Moderate Income Persons
- Prevention or Elimination of Slums and Blighting Influences
- Meet an Urgent (Emergency) Need

In addition to meeting one of the above national statutory objectives, all projects must be eligible under the CDBG federal administrative guidelines. Eligible activities include a broad range of projects, including:

- Housing Activities-- homeownership assistance, housing counseling, housing rehabilitation and repair
- Code enforcement is eligible ONLY in specific deteriorating neighborhoods where a coordinated strategy is used to demonstrate improvement in the area
- Other real property activities—acquisition and rehabilitation of commercial or industrial buildings
- Public facilities improvements-- public improvements (streets, sidewalks, parks), public facilities (neighborhood/community facilities, homeless shelters, group homes)
- Public services-- job training, health care and substance abuse services, crime prevention, fair housing counseling. Up to 15% of the annual grant can be used for this purpose
- Economic development-- microenterprise assistance, commercial rehabilitation
- Planning activities—community development plans (Consolidated Plan), neighborhood plans, environmental reviews, and policy planning
- Grant Administration—Up to 20% of the annual grant can be used to administer the program, including current year and past year projects

Ineligible Uses:

CDBG also has guidelines that outline ineligible activities. These include:

- Providing funds for buildings for the general conduct of government;
- General government expenses
- Financing for political activities
- On-going income payments to an individual or family
- Construction of new housing