DATE: October 18, 2016

TO: Mayor and Council

FROM: Director of Library and Community Services

SUBJECT

Review of Proposed Changes to the Community Agency Funding Process: Recommendations from the Community Services Commission

RECOMMENDATION

That Council reviews and comments on this report.

SUMMARY

In June, 2016, the Community Services Commission formed a Funding Parameters Committee ("the Committee") to discuss options for potential revisions to the Community Agency Funding Process. The Committee convened on four occasions in July and August 2016. The following Community Services Commissioners served on the Committee: Antonio Isais (Committee chairperson), Todd Davis, Crystal Araujo, Julie Roche, Lisa Glover-Gardin, and Diane Fagalde (alternate).

The Committee reviewed and discussed Areas of Need in the Hayward community for programs and projects that serve Hayward residents, especially low-income residents, and identified several potential Target Categories for further review and development.

The Committee also developed options for apportioning the available Community Agency Funding during the annual application review and deliberation process. The Committee engaged in robust discussion and analyzed data on this topic during the previous three funding cycles, including feedback and suggestions offered by Community Services Commission (CSC) members, City Council members, and members of the general public. Based on this detailed review, the Committee identified four options for further exploration. The four options are described in greater detail later in this report.

The Committee then conducted a thorough analysis and discussion of each of the four options. After completing the review over three successive meetings, the Committee unanimously

reached the determination to recommend one option, Option D, to the full CSC for adoption and implementation in the FY 2017-18 Community Agency Funding Process.

At its regular meeting on September 21, 2016, the full Community Services Commission reviewed all four options including the Committee's recommended option, and unanimously voted in favor of the recommended Option D. This report contains a full review of the Committee and CSC's analysis and recommendation.

BACKGROUND

The purpose of the Funding Parameters Committee ("the Committee") was to formulate recommendations for revisions to the City's Community Agency Funding Process, specifically for the potential targeting of available funds to maximize impact in specified Areas of Need, and to bring those recommendations to the CSC and eventually to the City Council.

The first Committee meeting on July 18, 2016 was an introductory discussion about the various issues, concerns and suggestions the CSC members and staff have received and compiled about the Community Agency Funding Process over the past three years of funding cycles.

Subsequent meetings of the Committee honed in on and developed specific recommendations. For example, analysis was undertaken to determine if the Funding Application should take the form of a targeted Request for Proposals (RFP) seeking proposals in limited and specifically defined areas of impact (e.g., homelessness, youth services, seniors, etc). Additional questions explored included: Should the Application stay essentially the same as it is currently but with a few minor tweaks? Should there be some moderate changes somewhere in between these two? Ultimately, the Committee developed four options in the course of their analysis, and brought one option forward, Option D, with analysis and a clear recommendation.

The Committee focused on the City's current funding process and examined possible options to make the process more effective and efficient, to target the limited available resources for greater impact in key Areas of Need, and to maintain compliance with U.S. Department of Housing and Urban Development (HUD) guidelines for the use of Community Development Block Grant (CDBG) funds.

DISCUSSION

Areas of Need / Target Categories. What follows are seven Areas of Need that the Committee identified and the CSC unanimously adopted as Target Categories for City funding recommendations. These categories were identified through a review of the types of programs and projects that have been/are: a) most commonly awarded City funding over the past ten years; b) identified as priorities in recent years of CSC and Council discussions of community needs; and c) eligible for funding per CDBG and Social Services program guidelines and regulations.

Figure 1. Recommended Target Categories / Areas of Need

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│  RECOMMENDED TARGET CATEGORIES / AREAS OF NEED*                           │
│                                                                           │
│    o  Community Infrastructure, Jobs, and Economic Development**          │
│    o  Homelessness, Housing Affordability, and Food Access**             │
│    o  Seniors, and People with Disabilities                              │
│    o  Youth, Family, and Education                                       │
│    o  Health and Wellness                                               │
│    o  Arts, Music and Culture                                           │
│    o  Counseling, Referral, Case Management, and Legal Services         │
│                                                                           │
│  * All categories assume eligible low-income Hayward resident clients    │
│  ** Category required by HUD                                             │
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Options for Apportionment of Available Funds. The Committee reviewed the effectiveness of the current funding process and apportionments, and considered alternatives. What follows is an overview of the four alternatives the Committee reviewed, with summary explanations of each. They are labeled Options A, B, C and D for reference.

OPTION A: STATUS QUO

Option A is the current funding process now in place. Applications for funding are solicited annually through a Notice of Funding Availability (NOFA). The Community Services Commission reviews the applications and makes recommendations to Council for approval. Funding is sourced in the CDBG Special Revenue Fund and the City of Hayward General Fund. These two sources combined for approximately $800,000 in grants in FY 2016. Per HUD restrictions on the use of CDBG funds, approximately 33% of this total must be used only for programs and projects in the Infrastructure, Jobs and Economic Development category.

In FY 2016, approximately 10% of the total was allocated to Arts and Music programs, and approximately 57% was allocated to Social Services programs. Aside from the HUD requirements for Infrastructure and Economic Development allocations, the funding process does not proactively target specific categories or areas of need. Rather, the process is reactive in that any and all eligible applications received are given equal consideration, and there is no defined process for prioritizing specific areas of need.

Figure 2. Breakdown of Option A – Status Quo

OPTION A
• **Current process now in place; no change.**
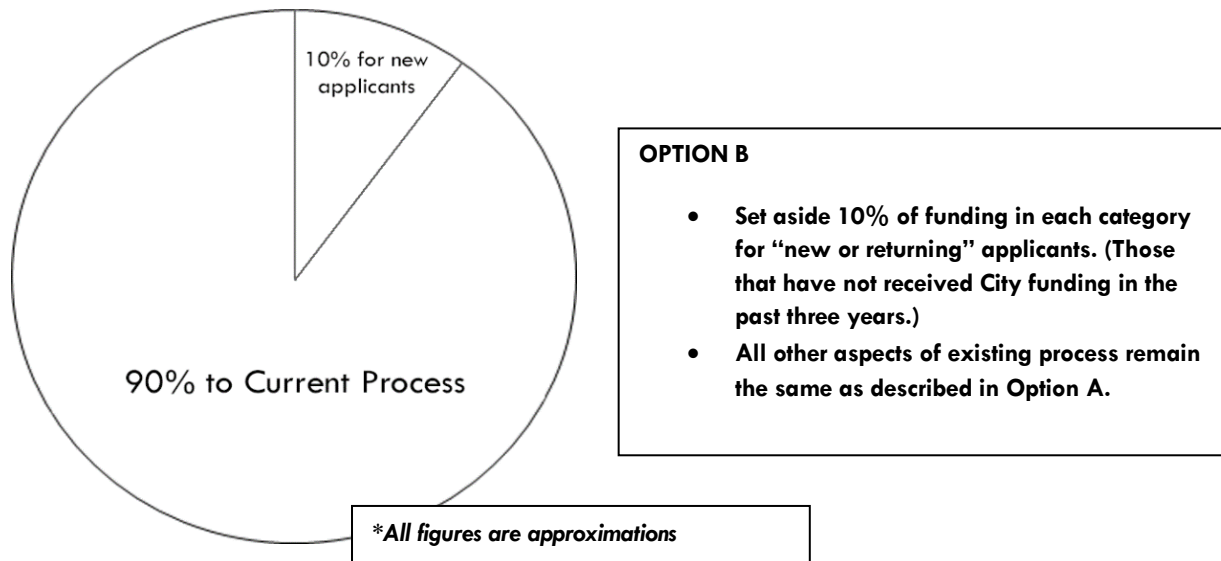
*All figures are approximations
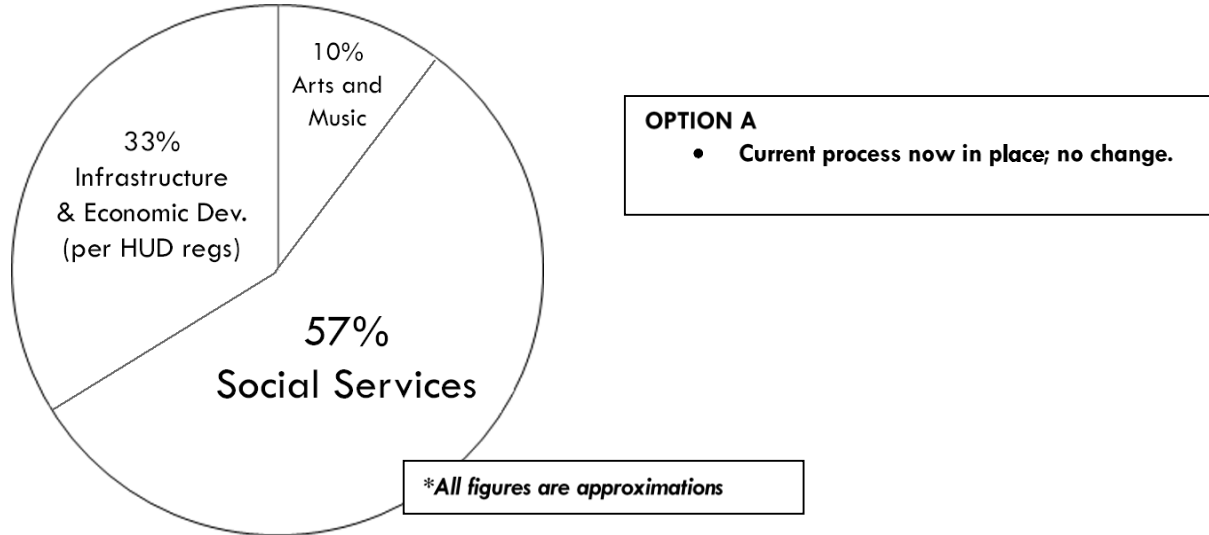
Advantages of Option A include: It is a well-known and familiar process; it has evolved to its current form over the course of many years in practice; and it is an effective, objective, and transparent means by which to evaluate projects and programs proposed for City funding.

Disadvantages of Option A include: It is relatively difficult to target limited resources to identified areas of need to achieve greater impact in those areas; it lacks specificity for applicants regarding which projects or programs are likely to be prioritized for City funding; it lends itself to the same applicants and programs receiving funding year after year, which has been identified by HUD as an undesirable and disallowed use of CDBG funds, and makes it more difficult for qualified new or returning applicants to compete for funding.

OPTION B: INCENTIVIZE NEW APPLICATIONS

Option B would leave most of the current process in place, with the exception that a portion of available funds would be set aside for "new and returning applicants." Returning applicants would be those that have not received City funding in the past three years. For example, 10% of total available funding (10% = approximately $80,000 in FY 2016) could be set aside for applications from agencies that have not received City funding in the past three years. If no eligible "new or returning" agencies apply for funding in a given year, then the funding could be "released" for use toward other applications.

Figure 3. Breakdown of Option B – Incentivize New Applications

10% for new applicants

90% to Current Process

OPTION B

- **Set aside 10% of funding in each category for "new or returning" applicants. (Those that have not received City funding in the past three years.)**
- **All other aspects of existing process remain the same as described in Option A.**

All figures are approximations

Note: Option B could be implemented as a standalone option or it could be implemented as part of other options. For example, a percentage of funding for "new and returning" applicants could be set aside in Options C or D.

Advantages of Option B include: It is only a minor change to the current, well-established process; it is relatively easy to implement; it incentivizes eligible new agencies to apply for City funding.

Disadvantages of Option B include: It does not in itself specifically target identified areas of need; it too reduces to some extent the amount of funding available for currently funded agencies; and it gives "new and returning" applicants a minor advantage over currently funded applicant agencies, regardless of the service quality, need, performance, and/or evidence-based outcomes.

OPTION C: FOCUS ON TARGETED AREAS OF NEED

Option C represents the most dramatic departure from the current process. Aside from the approximately 33% of available funding that must be used for the Infrastructure and Economic Development category, all of the remaining available funding would be focused on targeted areas of need to achieve greater impact. These "priority categories" would be identified at the time the NOFA is released, in advance of any applications being submitted. Each funding cycle would focus on two to four priority categories in order to achieve greater impact in those areas of need. The priority categories would be rotated on a two- or three-year cycle so that all categories receive priority targeting at least once in the course of two or three years.

Figure 4. Breakdown of Option C – Focus on Targeted Areas of Need
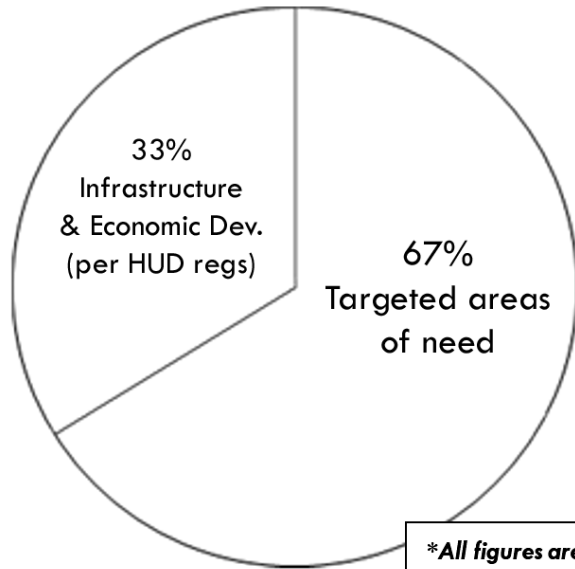
OPTION C
- **Focus maximum available funding on "Targeted areas of need"**
- **Targeted areas of need would rotate each year; 2 to 4 categories per year; two- or three-year cycle**
- **Optional: Set aside 10% of funding in each category for "new or returning" applicants.**
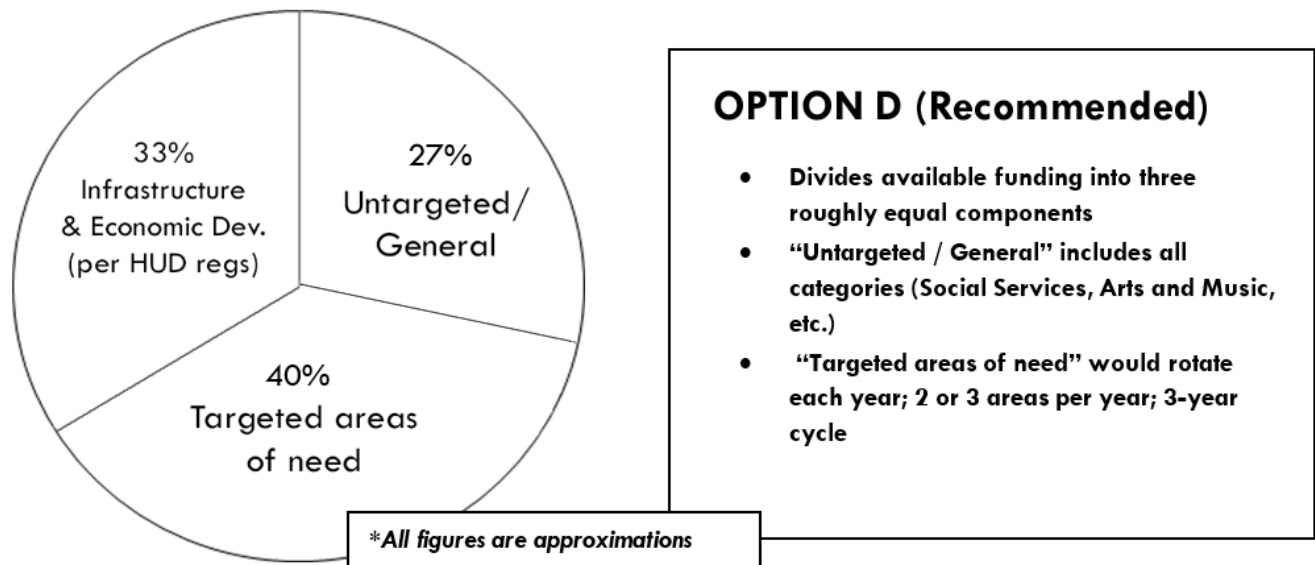
All figures are approximations

Advantages of Option C include: It focuses limited resources toward identified areas of need to achieve greater impact in those areas; it provides specificity for applicants regarding which projects or programs are likely to be prioritized for City funding in a given year as well as two or three years in advance; all categories would receive "priority" consideration at least once every three years; it limits the potential for the same applicants and programs to receive funding year after year; it allows for more in-depth evaluation of proposals during the review and deliberation process; and it potentially encourages new and innovative proposals that have greater impact.

Disadvantages of Option C include: It is a dramatic departure from the current process and could be met with strong resistance from community members including potentially from some long time recipients of City funding; it limits the flexibility to fund proposals that may be of interest but do not fall within the targeted categories in a given year; if implemented in the next funding cycle, some currently funded agencies will have limited time to adjust to the new process or the possibility that their project or program may not fall within the rotation of priority categories until two or three years from now.

OPTION D (Recommended):   HYBRID MODEL – SOME TARGETED, SOME GENERAL

Option D is a "hybrid" that combines many of the advantages of Options A and C, and provides a transitional period for applicants to adapt to a new process. Perhaps most importantly, Option D continues to provide annual funding opportunities to all applicants in all categories in all years. It provides for some of the available funding, approximately 27% of the total, to be made available for general applications in all categories as is the case in the current process described in Option A. It focuses some funding, approximately 40% of the total, on targeted Areas of Need to achieve greater impact, on a rotating basis over three years as described in Option C. The remaining approximately 33% is used toward programs and projects in the Infrastructure and Economic Development category as required by HUD.

Figure 5. Breakdown of Option D – Hybrid Model – Some Targeted, Some General

OPTION D (Recommended)

- Divides available funding into three roughly equal components
- "Untargeted / General" includes all categories (Social Services, Arts and Music, etc.)
- "Targeted areas of need" would rotate each year; 2 or 3 areas per year; 3-year cycle

*All figures are approximations

Advantages of Option D include: It continues to provide annual funding opportunities to all applicants and all projects and programs in all categories in all years; it focuses a significant portion of funding on priority categories to achieve greater impact; it provides specificity for applicants regarding which projects or programs are likely to be prioritized for City funding in a given year, as well as two or three years in advance; all categories receive "priority" consideration in at least one of every three years; it allows for more in-depth evaluation of proposals during the review and deliberation process; it maintains the flexibility to provide funding to projects of interest regardless of whether they fall within a "priority category" in a given year; and it provides currently funded agencies time to adjust and transition to a new process.

Disadvantages of Option D include: The amount of funding available to be focused on priority areas of need for greater impact, while still significant at approximately 40%, is less than Option C at approximately 67%; it reduces the total amount of funding available in some categories in years when those categories are not identified "priority categories"; while not as much of a change as Option C, it is still a substantive change from the current process and could be met with resistance from community members including potentially from some long time recipients of City funding; and, it does not in itself fully address concerns about the same applicants and programs receiving funding year after year.

Proposed Three Year Targeting Cycle

The Community Services Commission on September 21, 2016 unanimously voted in favor of adopting the process outlined in Option D for implementation including a proposed schedule for rotating the "target areas of need" categories in a three-year cycle. The proposed cycle is shown in Figure 6.

Figure 6. Areas of Need and Proposed Three-Year Targeting Cycle

AREAS OF NEED *		FY 2017-18	FY 2018-19	FY 2019-20
1. Community Infrastructure, Jobs, and Economic Development** 2. Homelessness, Housing Affordability, and Food Access** 3. Seniors, and People with Disabilities 4. Youth, Family, and Education 5. Health and Wellness 6. Arts, Music and Culture 7. Counseling, Referral, Case Management, and Legal Services	General Category Applications (~27%)	3, 5, 7	4, 5, 6	3, 6, 7
	Target Areas of Need Category applications (~40%)	2, 4, 6	2, 3, 7	2, 4, 5
* All Areas of Need assume eligible low-income Hayward resident clients ** Required by HUD every year	HUD-required Infrastructure/Jobs/ Econ. Dev. Category** (~33%)	1	1	1

Note that in any given year, all applicants that provide services or projects remain eligible to apply and be considered for funding regardless of the Area of Need they propose to address. For example, in the column marked FY 2017-18 (see Figure 6, above), all seven of the Areas of Need numbered 1 through 7 can be found in one of the three Category rows. The same is true in the columns for FY 2018-19 and FY 2019-20.

While applications are accepted in all categories each year, a slight emphasis occurs in respect to Target Areas of Need. For example, in FY 2017-18, applications in the Areas of Need numbered 2, 4, and 6 in the above chart would be considered in the Target Category comprising approximately 40% of the available funding; while in that same year, applications in Areas of Need numbered 3, 5, and 7 would be considered in the General category comprising approximately 27% of the available funding. As described earlier in this report, HUD requirements for the use of CDBG funding require Area of Need number 1 (Infrastructure, Jobs, and Economic Development) to be funded every year at approximately 33% of the total available funding. Also, HUD requires that the City expend some funding every year in Area of Need number 2 (Homelessness, Housing Affordability, and Food Access) as a way to show local progress in those areas, but does not require a specific minimum level of expenditure.

FISCAL IMPACT

The funding process adjustments outlined in this report and recommended by the Community Services Commission in Option D, have no fiscal impact in relation to the current process.

Because the final Council-adopted amounts of available funding in Fiscal Years 2018 - 2020 are not yet known, the recommendations outlined in this report were established using percentages and estimates of available funding. When the exact amount of available funding for the Fiscal Year are determined (typically in mid-June with the adoption of the General Fund budget, several weeks after Council finalizes the Community Agency Funding allocations), the exact grant dollar amounts for that Fiscal Year are determined and adjusted according to the Council-approved percentages. As a frame of reference, in FY 2016, the total amount available for Community Agency Funding grants was approximately $800,000.

The Community Development Block Grant (CDBG) Program has a neutral impact on the City's General Fund, as a portion of CDBG funds (up to 20%) may be used to pay for eligible Planning and Administration of the program, including NEPA environmental review, contracting, Labor Standards monitoring, lead-based paint compliance, procurement of contractors, site inspections, financial management, and federal reporting. However, as the City's CDBG grant size is reduced by the federal government, and as program income diminishes, the administrative cap is lowered accordingly, providing for fewer staff resources to administer the CDBG program, which remains an administratively complex and process-laden program despite the grant's reduced size.

The General Fund grants, which typically are allocated toward Social Services and Arts & Music applications, are affected by Council's budget deliberations as they relate to overall General Fund obligations. Council has complete discretion and authority to change, increase, or decrease the total amount of General Fund monies used for grants at will, within the context of the General Fund budget deliberations. If the final amount of General Fund monies for the grant pool is reduced during budget deliberations, then individual grants would be adjusted on a percentage basis accordingly.

Because General Fund grants are directly expended from the City's General Fund, reducing or eliminating the grants would have a beneficial impact on the City's budget. However, it is acknowledged that the majority of Social Services grants fund in particular "safety net" support services, (i.e., food, housing, support services for low-income people, and information and referral). Reducing or eliminating grants would likely have an adverse economic impact on those affected with services also subsequently reduced or eliminated. There would also be an impact to the nonprofit agencies that continue to experience stress from the last economic downturn – both through an increase in client demand and permanent decreases in public and private funding.

NEXT STEPS

The Community Services Commission, with Council's advice and consent, will solicit applications for Community Agency Funding in the next funding cycle, FY 2017-18. The CSC will integrate Council's feedback and direction into its deliberations, process, and funding recommendations.

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Approved by:

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