



**DATE:** July 11, 2017

**TO:** Mayor and City Council

**FROM:** Library & Community Services Director

**SUBJECT** Biennial Review of the Community Development Block Grant Program and Recommended Reallocations of One-Time Available Fund Balance in FY 2018 and FY 2019

## **RECOMMENDATION**

That Council reviews and comments on this report.

## **SUMMARY**

This report summarizes the results of the biennial review of Community Development Block Grant (CDBG) entitlement funds for program years PY 2014 through PY 2016, and identifies options for use of one-time available funds. The recommended projects in this report have been pre-screened for eligibility and approved for implementation by the U.S. Department of Housing and Urban Development (HUD), and, if approved by Council, would apply the available one-time CDBG funds to eligible projects and activities to be completed in FY 2018 and FY 2019.

## **BACKGROUND**

### *CDBG Program Overview*

Since 1975, the City of Hayward has administered Community Development Block Grant (CDBG) funds received from the U.S. Department of Housing and Urban Development (HUD). The CDBG program annually provides formula “entitlement” grants to states and local governments with populations greater than 50,000, including Hayward. The federal government (HUD) requires that CDBG-funded activities must meet all the following eligibility standards:

CDBG National Objectives: Each activity funded by CDBG must substantially meet one or more of three broad national objectives for the program. Activities that fail to substantially meet one or more of these three national objectives are considered ineligible for CDBG funding:

1. Benefit low- and moderate-income persons;
2. Prevent or eliminate slums or blight; or,
3. Address urgent community development needs to address conditions that pose a serious and immediate threat to the health or welfare of the community for which other funding is not available.

CDBG Eligible Activities: As a program of the federal government's Housing and Urban Development department, the Community Development Block Grant program's primary focus is on development- and housing-related activities that benefit low-income residents and communities. Activities cited by HUD as eligible uses for CDBG funds include, but are not limited to:

- Acquisition of real property for public purpose;
- Disposition through sale or lease of real property;
- Rehabilitation and improvements to public facilities;
- Rehabilitation of eligible owner-occupied housing;
- Clearance and remediation activities;
- Micro-enterprise and economic development assistance; and
- Public services, within certain limits (no greater than 15% of the total entitlement award).

Generally, the following types of activities are **NOT** eligible:

- Acquisition, construction, or reconstruction of buildings for the general conduct of government
- Political activities
- Certain income payments
- Construction of new housing (with some exceptions).

CDBG Eligible Beneficiaries: In addition to meeting the above-noted requirements for national objectives and eligible activities, at least 70% of CDBG funds must be used for activities that benefit low- and moderate-income persons.

Public Services Expenditures: As noted above, HUD imposes a cap on the use of CDBG funds toward public services in any given program year, limiting the total amount that a jurisdiction can spend toward public services to no greater than 15% of the total CDBG entitlement award. A jurisdiction can spend less than 15% or even none of its CDBG entitlement award on public services, if desired; but it may not spend more than 15%. This limit is statutory and cannot be waived. Non-compliance would result in substantial penalties including the permanent reduction of the City's entitlement grant or claw-back of funding by the federal government. Council's direction consistently has been for Hayward to spend the maximum allowable amount toward public services, and the City has consistently spent at or very near the maximum allowable amount. A review of the City's public services expenditures in recent years is shown in Figure 1.

Figure 1. City of Hayward CDBG Public Services Expenditures by CDBG Program Year

| CDBG Program Year | Max. allowable Public Services expenditure (15%) | Actual Public Services expenditure | Difference |
|-------------------|--|------------------------------------|------------|
| PY 2012-13        | \$220,000  | \$217,951                          | \$2,049    |
| PY 2013-14        | \$263,770  | \$263,063                          | \$707      |
| PY 2014-15        | \$261,800  | \$261,796                          | \$4        |
| PY 2015-16        | \$247,864  | \$247,845                          | \$20       |

## DISCUSSION

### *Biennial Review of the CDBG Program*

In FY 2015, HUD and City staff conducted a comprehensive reconciliation of the City of Hayward CDBG program going back to its inception in 1975. As a result of the FY 2015 review, HUD and staff made several recommendations to Council that were subsequently approved by Council at the [October 21, 2014](#) meeting, which included utilizing unspent funds on new projects, closing out inactive projects, revising the City's CDBG program policies, and returning funds to the City's CDBG/HUD line of credit.

After the completion of the FY 2015 reconciliation process, staff implemented a biennial (every two years) comprehensive review of unspent and underspent CDBG projects. Staff and HUD completed the FY 2017 biennial review in June 2017. The review reconciled CDBG financial files for program years PY 2014 through PY 2016. The analysis identified one-time available CDBG fund balance in each program year resulting from:

- Past construction-related projects funded by CDBG that were completed under budget;
- Underspent or discontinued projects; and
- Substantial influx of unanticipated program income received from loan payoffs.

This review resulted in approximately \$1,289,000 of one-time CDBG funds that can be reallocated toward CDBG-eligible projects in the "Community Infrastructure, Jobs and Economic Development" category, as required by HUD. This category allows for projects related to affordable housing development, housing rehabilitation and preservation, community facility rehabilitation, blight removal and abatement, economic development and job creation, and pavement reconstruction, among other eligible activities. This is because the underspent and/or unspent funds were originally allocated in this **"Community Infrastructure, Jobs and Economic Development"** category and cannot be reallocated to **"Public Services"** category activities, due to the strict limitations HUD places on expenditures in this category, and because the one-time funds were not originally allocated in this category.

HUD also requires that projects and activities using the reallocated funds must be completed within twenty-four months (FY 2018 and FY 2019) due to federal timeliness spending requirements. As with all CDBG-funded projects, any activities must directly benefit low-income residents and neighborhoods and must meet HUD's National Objectives for the CDBG program.

During the FY 2017 biennial review, HUD and staff worked closely together to analyze every single CDBG-funded activity during PY 2014 to PY 2016. The review calculated the exact amount of fund encumbrances from previously allocated projects and activities that were completed or closed-out but ultimately spent less than allocated (for example, construction-related projects that were completed under budget). The review also included calculations of higher-than-anticipated program income received from past loans made by the City, some decades old, that were repaid by the borrowers (for example, from small business assistance program loans and housing rehabilitation program loans). All the one-time available CDBG fund balance is sourced from community infrastructure and economic development activities, in large part because these activities are project-based and often are completed significantly under budget. And although Public Services activities were also reviewed, as noted above in Figure 1, activities in this category invariably spend at or very near the full amount of budget allocation each year, and rarely end the year with unspent funds.

The City's CDBG program budget is annually established based on estimates of funding that will become available. The estimates are subject to several variables that are not known until after the City's annual budget appropriation is completed, including how much actual program income will be received in the coming year, what the actual amount of the City's formula grant from HUD will be, and how the federal budget appropriation by Congress may affect the CDBG program budget at the national level.

In addition, projects and activities may not always expend the full amount of CDBG fund allocation, resulting in unspent or underspent fund balances after a project is completed or closed out. For example, community infrastructure project budgets invariably include construction contingency costs that are only to be used in the event of unforeseen adverse circumstances. If a project experiences no adverse circumstances or fewer than expected, the contingency remains unspent or underspent, resulting in fund balance. Also, construction projects sometimes can be completed significantly under budget due to lower-than-expected construction bids, material cost savings, and other factors. Some projects may be completed with substantial savings because of personnel or program cost adjustments that occur during the program year. Other projects may downsize (for example, the Spectrum kitchen and SAVE Leidig Court projects) or be discontinued (i.e. the Day Labor Center program) due to unforeseen organizational changes or eligibility issues, resulting in underspent or unspent fund balances. Finally, all CDBG project expenses are closely monitored monthly by staff and annually by HUD to ensure adherence to budget, to confirm expenses are eligible prior to reimbursement, and to avoid cost overruns – all of which can result in additional unspent or underspent fund balance.

Below is a summary of how the estimated \$1,289,000 one-time fund balance was calculated:

- Council approved the Promise Neighborhood Street Improvement Project (PNSIP) in FY 2015 after the comprehensive reconciliation, and allocated all the accumulated funds in the City's CDBG line of credit up through PY 2013 (approximately \$1.4 million) to complete the project during FY 2015 and reduce the City's timeliness spending liability with HUD. While the project reduced the timeliness spending liability at that time, it did not include funds that were accumulated from the PY 2014 entitlement award and continuously accruing program income. Additionally, through the excellent project management of Public Works, the project came in on time and under budget, and expanded to complete additional eligible streets with HUD's and Council's approval. After the project closed and the PY 2014 expenditures were paid, there were combined savings of approximately \$451,000 in the CDBG line of credit.
- The Housing Rehabilitation and Small Business Assistance revolving loan programs were created decades ago, and over the years have developed substantial loan portfolios. Each year, some portion of the loan portfolios are repaid – with interest. The revolving loan structure allows these programs to weather economic fluctuations. During the Great Recession, this structure was beneficial in that it provided a source of revenue to continue program activities and provide critically needed housing rehabilitation and small business assistance during the downturn. Because of the economic recovery in recent years, the revenue has become increasingly robust. In PY 2015 and PY 2016, the programs received over \$200,000 in unexpected program income.
- In PY 2015, the Community Services Division successfully project managed several CDBG community infrastructure and economic development projects to complete the year under budget. Additionally, the Division ended the year with salary savings which resulted in lower-than-usual expenditures in CDBG Administration. These factors resulted in combined savings to the CDBG line of credit in PY 2015 of approximately \$341,000.
- Similarly, in PY 2016, the Community Services Division successfully project managed several CDBG community infrastructure and economic development projects to complete the year under budget, resulting in combined savings to the CDBG line of credit in PY 2016 of approximately \$297,000.

***Program Options For Reallocations of One-Time Available Fund Balance in FY 2018 and FY 2019***

As mentioned previously, HUD requires that the City utilize the one-time CDBG fund balance toward community infrastructure and economic development projects that can be initiated and completed within twenty-four months.

In preparing project options for Council consideration, staff coordinated with the Region IX HUD office to identify projects that align with both Council's priorities and HUD's eligibility criteria. Some of the options address the Hayward housing crisis, contribute to job creation and retention, implement improvements to community infrastructure, and increase

community resiliency and disaster preparedness. In addition, the sub-recipients identified for potential implementation have proven track records of excellent performance and financial management records with the administration of CDBG. These options are identified below as “Tier 1” projects, as these have been vetted with HUD.

An additional set of viable and eligible options are identified for Council’s consideration. These options are listed as “Tier 2” below. These options, however, may not meet the 2-year HUD deadline and may require additional resources.

Lastly, several other options were explored in preparing this report, but are not recommended due to concerns regarding costs, eligibility and duplication of resources.

*“Tier 1” Program Options for Reallocations of one-time available fund balance in FY 2018 and FY 2019:*

The following “Tier 1” options are presented for Council consideration. These program options are recommended by staff, as they have been coordinated with HUD to ensure eligibility requirements were met and can be implemented quickly, if Council chooses any of these options.

- Downtown Streets Team – Tennyson Corridor Expansion: Expansion of the Downtown Streets Team Homeless Work Experience Program into the Tennyson Corridor. Team Members – all of whom are homeless or formerly homeless -- participate in a work experience program that provides job skills training and soft skills training. In exchange, Team Members earn food/basic needs assistance, housing search assistance, housing/shelter placement, case management, transportation assistance, Job Search Skills classes, employment placement, and more; all while rebuilding their dignity and rejoining society. Council previously allocated \$90,000 toward program activities in downtown Hayward. Should Council authorize additional one-time funds for start-up and operating costs, the program would expand into the Tennyson Corridor. Recommended reallocations: FY 2018 - \$150,000; FY 2019 - \$50,000
- Abode Services – Permanent Supportive Housing “Tiny Homes” Development: Acquisition of the former Horizon Services site for the development of permanent supportive housing for chronically homeless individuals. The project includes the development of shared housing and “tiny homes.” Council previously allocated \$80,000 toward pre-development costs for this project. Should Council authorize additional one-time funds for property acquisition and additional pre-development costs, it would help speed the completion of this critically needed housing development. Recommended reallocations: FY 2018 - \$100,000; FY 2019 - \$100,000

- Housing Rehabilitation – Accessory Dwelling Units: In accordance with new state regulations and HUD approved eligibility standards, the Housing Rehabilitation program would be expanded to include loans to eligible senior or disabled residents to convert their existing non-conforming garage conversions into code compliant housing units. Should Council authorize one-time funds to expand the program to convert non-conforming conversions, it would help the City's efforts to alleviate the shortage of affordable housing in Hayward and comply with state law. Recommended reallocations: FY 2018 - \$75,000; FY 2019 - \$75,000
- Targeted blight abatement / commercial façade improvement in Tennyson Corridor: Establish a Façade Improvement Program targeted to commercial properties fronting Tennyson Road between Mission Blvd and Patrick Avenue. Properties will be identified and invited to participate in coordination with Economic Development and Development Services. Specific objectives are to encourage private investment in the visual improvement of storefronts, signs and awnings; enhance the streetscape and provide a catalyst for area development. FY 2018 - \$100,000; FY 2019 - \$100,000
- Micro-Enterprise Business Incubators: In coordination with Economic Development and the Small Business Administration, the rehabilitation of commercial sites in the Downtown and the Tennyson Corridor for the development of micro-enterprise small business incubators. Should Council authorize one-time funds for start-up and operating costs of new business incubators, low-income small business entrepreneurs will receive training in starting, managing and financing locally based businesses. Recommended reallocations: FY 2018 - \$100,000; FY 2019 - \$75,000
- Affordable Housing Rehabilitation and Administration: HUD regulations (IDIS matrix code 14H – Housing Rehabilitation Administration) allow local jurisdictions to use CDBG funds to offset certain critically important and necessary housing-related administrative costs. Eligible administrative activities include but are not limited to: affordable housing development, fair housing monitoring, housing rehabilitation, inclusionary housing administration and housing financing source management. These essential administrative activities will be performed by the Housing Manager position. Should Council authorize to offset a portion of this position's cost in FY 2018 and FY 2019 using one-time available CDBG fund balance under IDIS matrix code 14H, it would reduce the cost to other housing-related special revenue funds. Recommended reallocations: FY 2018 - \$100,000; FY 2019 - \$100,000.
- Emergency Care and Shelter Facility Rehabilitation: In coordination with the American Red Cross, identify locations for emergency care and shelter that require rehabilitation to meet accessibility and building safety code requirements. Should Council authorize one-time funds for identifying and rehabilitating emergency care and shelter facilities, the Hayward community's resiliency and preparedness to

respond to immediate health and welfare threats to the community, including disaster events, would be substantively increased. Recommended reallocations: FY 2018 - \$100,000; FY 2019 - \$89,000.

*“Tier 2” Program Options for Reallocations of one-time funding:*

The following “Tier 2” options provide Council with additional alternatives for consideration. These options may not meet the 2-year HUD deadline and may also require additional resources:

- Partner with a qualifying Community-Based Development Organization (CBDO) to carry out special economic development /neighborhood revitalization activities in the Tennyson Corridor: Current partners Downtown Streets Team and Abode Services would receive technical assistance to receive HUD-designated CBDO status to secure housing placement for homeless individuals who secure employment through approved projects. Timeframe could be problematic, formation of a CBDO could take several months, may encounter delays. FY 2018 - \$100,000; FY 2019 - \$75,000
- Pioneers for Hope: In partnership with CSUEB, implement housing navigation services for students identified as at-risk of or currently homeless. Services would include case management and implementation of OneStop housing software to identify and monitor available housing options for at-risk students. Could potentially qualify for CDBG under a special category for institutions of higher learning, but eligibility is uncertain, monitoring and reporting may be problematic, CSUEB has its own funding. FY 2018 - \$75,000; FY 2019 - \$75,000
- Expansion of job placement projects in Tennyson Corridor: Partner with local job placement nonprofit providers such as Soulciety, Swords to Plowshares and Rubicon to implement employment services to youth, veterans and other low-income residents in the Tennyson Corridor. Timeframe could be problematic, would need to identify Hayward locations for operations, monitoring and reporting could be problematic. FY 2018 - \$100,000; FY 2019 - \$75,000

*Other Program Options - Explored but not Recommended:*

The summary of other options below were explored but are not recommended due to concerns regarding costs, eligibility and duplication of resources:

- Acquisition of multi-unit properties with potential for rehabilitation (timeframe, already funded by Measure A1). Identification and acquisition of property for affordable housing is a difficult and time probative process and not conducive to the parameters of these funds.



- Fire station #6 upgrades (timeframe, already funded by Measure C): Upgrades to fire station #6 is potentially prohibitive given the necessity to review and apply restrictions related to existing resources.

*Other Options: Explored but not Recommended (Continued):*

- Homeowner down payment assistance (timeframe, already funded by Measure A1): Homeowner down payment assistance is also prohibitive because of the timeline to re-initiate the program within parameters for these funds, and there are other funds coming up through Measure A1 for this type of activity.
- South Hayward Family Center project (timeframe): The South Hayward Family Center project is still in preliminary/conceptual phase and is unlikely to reach completion within twenty-four months.
- ADA updates to Matt Jimenez Community Center facility (timeframe): The MJCC could potentially benefit from additional ADA updates in relation to the South Hayward Family Center project (for example, additional ADA parking in the rear of the facility), but the facility is already ADA compliant and the exact location of additional ADA parking, if any, in relation to the new SHFC center will not be known until that project's design is completed.
- ADA updates to HARD parks, community centers (already funded by Measure F1): HARD facilities and parks could potentially benefit from additional ADA updates, but those facilities are already compliant and HARD now has Measure F1 funds at its disposal for those capital projects.
- Demolition of old Main Library (already funded by Measure C): The demolition of the old Main Library is eligible and would meet the timeline but is already fully funded by Measure C.

## **FISCAL IMPACT**

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, when the City's CDBG entitlement award size is reduced, as has occurred in recent years and has been proposed for further reduction or elimination by the current presidential administration, the administrative cap is lowered accordingly, providing fewer staff resources to administer the CDBG program, which remains an administratively complex and process-laden program despite the grant's reduced size.

The adoption of the Recommended Reallocations of One-Time Available Fund Balance in FY 2018 and FY 2019 will have no impact to the General Fund. Should Council authorize the Recommended Reallocations, the projects and activities would draw an estimated \$1,289,000 from one-time available CDBG fund balance in the City's CDBG line of credit with HUD. The recommended reallocations will enable the City to timely meet HUD's annual requirement to limit and reduce the total amount of unexpended funds in the City's CDBG line of credit to less than 1.5 times the amount of the City's annual CDBG entitlement award.

*Figure 2. Summary of Estimated \$1,289,000 One-Time CDBG Fund Balance Calculations:*

| <b>Program Year</b>                                     | <b>Project / Activity</b>  | <b>Estimated One-Time Fund Balance</b> |
|---|--|--|
| PY 2014   | Promise Neighborhood Street Improvement Project, PY 2014 entitlement expenditure savings, accumulated program income       | \$451,000                              |
| PY 2015 - PY 2016                                       | Higher-than-expected Revolving Loan Program income   | \$200,000                              |
| PY 2015   | Lower-than-usual salary expenditures and community infrastructure and economic development projects completed under budget | \$341,000                              |
| PY 2016   | Community infrastructure and economic development projects completed under budget  | \$297,000                              |
| <b>Total estimated available one-time fund balance:</b> |  | <b>\$1,289,000</b>                     |

*Figure 3. Summary of "Tier 1" Recommended Program Options:*

| <b>Program Year</b> | <b>Project / Activity</b>   | <b>Estimated One-Time Fund Balance</b> |                |
|---------------------|---|--|----------------|
| <b>TIER 1</b>       | <b>Recommended Reallocations</b>  | <b>FY 2018</b>                         | <b>FY 2019</b> |
|                     | Homeless Employment Program: Tennyson Corridor Expansion                                | \$150,000                              | \$50,000       |
|                     | Permanent Supportive Housing: "Tiny Homes" Development                                  | \$100,000                              | \$100,000      |
|                     | Housing Rehabilitation: Targeted code corrections for income-eligible senior homeowners | \$75,000                               | \$75,000       |

|  |                  |                    |
|--|------------------|--------------------|
| Targeted blight abatement / commercial façade improvement in Tennyson Corridor | \$100,000        | \$75,000           |
| Micro-Enterprise: Small Business Incubators                                    | \$100,000        | \$75,000           |
| Affordable housing rehabilitation administration                               | \$100,000        | \$100,000          |
| Emergency Care and Shelter Facility Rehabilitation                             | \$50,000         | \$50,000           |
| <b>Subtotals</b>   | <b>\$814,000</b> | <b>\$475,000</b>   |
| <b>Estimated total use of one-time fund balance</b>                            |                  | <b>\$1,289,000</b> |

Figure 4. Summary of “Tier 2” Program Options:

| Program Year  | Project / Activity   | Estimated One-Time Fund Balance |                  |
|---------------|--|---------------------------------|------------------|
| <b>TIER 2</b> | <b>Program Options</b>   | <b>FY 2018</b>                  | <b>FY 2019</b>   |
|               | CBDO for economic development, neighborhood revitalization activities                | \$100,000                       | \$ 75,000        |
|               | Pioneers for HOPE housing navigation for CSUEB students                              | \$ 75,000                       | \$ 75,000        |
|               | Employment assistance and job placement (Soulciety, Swords to Ploughshares, Rubicon) | \$100,000                       | \$ 75,000        |
|               | <b>Subtotals</b>   | <b>\$275,000</b>                | <b>\$225,000</b> |
|               | <b>Estimated total use of one-time fund balance</b>                                  |                                 | <b>\$500,000</b> |

## PUBLIC CONTACT

The Community Services Commission reviewed the results of the FY 2017 Biennial Review and the “Tier 1” Recommended Reallocations of One-Time Available Fund Balance during its regular public meeting on June 21, 2017.

## NEXT STEPS

Council’s input and direction is sought regarding the program options outlined in this report. Should Council authorize the implementation of the “Tier 1” Recommended Reallocations of One-Time Available Fund Balance, the following benefits and impacts will be achieved:

- a) Address homelessness in Hayward by creating new permanent supportive housing units;

- b) Create new affordable housing for low-income Hayward residents, including low-cost alternative forms of housing such as “tiny homes” and accessory dwelling units;
- c) Conduct targeted abatement of blighted buildings and support façade improvements to commercial properties in the Tennyson Corridor;
- d) Stimulate small business development and create new jobs;
- e) Improve community resiliency and accessibility in to respond to immediate health and welfare threats to the community, including disaster events

Staff will integrate Council’s input and direction into a final Reallocation Plan and for Council review and authorization in a Public Hearing on July 18, 2017.

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Rachael McNamara, Management Analyst I/II

*Recommended by:* Sean Reinhart, Director of Library and Community Services

*Approved by:*



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Kelly McAdoo, City Manager