



**DATE:** May 15, 2018

**TO:** Mayor and City Council

**FROM:** Assistant City Manager

**SUBJECT:** Status Update of the Fiscal Year (FY) 2018 Approved Community Development Block Grant (CDBG) Biennial Fund Projects and Review of the FY 2019 Proposed Projects and Authorization to Reallocate \$1.9 Million of Unspent CDBG funds to Eligible Projects in FY 2019

## **RECOMMENDATION**

That Council reviews and comments on the FY 2018 – 2019 CDBG Biennial Fund Projects underway and approves a resolution authorizing the reallocation of \$1.9M of unspent CDBG program funds to the following eligible projects in FY 2019:

1. Provide CDBG funds as Measure A1 match for pre-development and site acquisition costs to qualified developers in the amount of \$800,000;
2. Execute a contract with non-profit housing agency to manage the Housing Rehabilitation Loan Program in the amount of \$100,000; and
3. Execute a contract with St. Rose Hospital for equipment and related purchases for Clinical Laboratory renovations in the amount of \$1,000,000.

## **SUMMARY**

This report provides a status update on the implementation of the 7 projects authorized by Council on July 18, 2017. In 2017, the Department of Housing and Urban Development (HUD) sent notice that the City of Hayward failed to meet its “timeliness-ratio test” to reduce fund balance below 1.5 times entitlement, measured 60 days prior to the end of the program year (May 2, 2017). The City of Hayward submitted a plan of corrective actions to resolve the underlying planning and administrative problems contributing to the timeliness issue. The plan consisted of the implementation of the 7 projects authorized by Council on July 18, 2017. The July 18, 2017 staff report is attached for reference (Attachment II).

Despite progress made towards utilization of the funds this past year, including executed contracts, the City anticipates it will not meet the HUD timeliness requirement for a second year. Staff expects a HUD notification informing the City it did not meet the standard set forth in 24 CFR 570.902(a)(1). Specifically, the non-compliance states that the City’s rate is 4.03 times the entitlement grant amount as of May 2, 2018, and that the City would have had to

disburse an additional \$3,110,123 to meet the 1.5 program year ratio and avoid being placed on the list of untimely grantees. Upon receipt of the HUD notice, the City will submit its corrective action plan within the 15-day response period. The corrective action plan will address any information about the cause(s) for the delay in implementation, including any extenuating circumstance or information regarding recent drawdown of funds that may not be reflected in HUD's electronic information system (IDIS), along with a timeframe. The proposed FY 2019 re-allocation of the \$1.9 million dollars will be included in the corrective action plan. Staff seeks Council's review of and comment on the proposed re-allocation of anticipated unexpended Biennial Funds, underspent entitlement, and unallocated program income to new eligible projects.

## **BACKGROUND**

In June 2017, HUD and City staff conducted a comprehensive reconciliation of unspent and under-utilized CDBG funds. The review reconciled financial files for program years 2014 through 2016 and resulted in approximately \$1,289,000 of one-time CDBG funds eligible for allocation to eligible projects in the "Community Infrastructure, Jobs and Economic Development" category. To meet eligibility, projects in this category must substantially meet one or more of three National Objectives to meet eligibility standards:

1. Benefit low- and moderate-income persons;
2. Prevent or eliminate slums or blight; or,
3. Address urgent community development needs to address emergency conditions that pose a serious or immediate threat to the health and welfare of the community for which no other funds are available (i.e. natural disaster).

CDBG Eligible Activities: The primary focus of HUD is housing and economic development-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 use;
- 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;
- Disaster mitigation; and
- Public services restricted to 15% of total entitlement award.

The 15% cap on the use of entitlement funds for the provision of public services in any given program year is statutory and cannot be waived; non-compliance could result in substantial penalties including the loss or return of entitlement funds.

## FY 2018 BIENNIAL REVIEW OF UNSPENT/UNDERSPENT CDBG FUNDS:

On July 18, 2017, Council approved a biennial review of all unspent and underspent CDBG projects to ensure that future reconciliations would not over-accumulate in the City's line of credit. The assessment of the \$1,289,000 one-time fund balance outlined that the unspent and underspent CDBG funds related to:

- Project savings from the FY 2015 Promise Neighborhood Street Improvement Project (PNSIP);
- Revolving Loan program income from the Housing Rehabilitation Program and Small Business Assistance programs;
- Accumulated salary savings and lower expenditures in CDBG Administration; and
- Neighborhood Facilities and Economic Development projects completed under budget or withdrawn.

On July 18, 2017, Council approved seven projects as the remedy, which was included in last year's corrective action plan. Below is a status update of the FY 2018 Biennial Projects.

Of the seven projects approved by Council, three projects are on track and moving forward, three projects are pending contract execution, and one project has been placed on hold after staff determined low viability.

### FY2018 PROJECTS ON TRACK:

#### *HOMELESS EMPLOYMENT PROGRAM – TENNYSON CORRIDOR*

*(\$100,000)*

Status Update: This project was approved for \$200,000 (\$150,000/yr. 1; \$50,000/yr. 2). \$100,000 has been allocated so far and the remaining \$100,000 will be allocated in FY2018-19. The Downtown Streets Team Homeless Work Experience Program is currently operating along the Tennyson Corridor with a crew of five individuals. The program is providing these individuals with job and soft skills training in exchange for basic needs assistance, housing search assistance, housing/shelter placement, case management, transportation assistance, classes, and employment placement. No modifications to this project are recommended and the project is on track.

#### *PERMANENT SUPPORTIVE HOUSING: "TINY HOMES" DEVELOPMENT*

*(\$100,000)*

Status Update: This project was approved for \$200,000 (\$100,000/yr. 1; \$100,000/yr. 2). \$100,000 has been allocated so far and the remaining \$100,000 will be allocated in FY2018-19. Abode Services has executed an agreement with Cronin House for the property purchase, has secured an architect and has conducted empathy work in the surrounding neighborhood to solicit feedback on project. Abode is now developing plans for review. No modifications to this project are recommended and the project is on track.

*TARGETED BLIGHT ABATEMENT/COMMERCIAL FAÇADE IMPROVEMENT  
IN TENNYSON CORRIDOR*

*(\$100,000)*

*Status Update:* This project was approved for \$175,000 (\$100,000/yr. 1; \$75,000/yr. 2). \$100,000 has been allocated so far and the remaining \$75,000 will be allocated in FY2018-19. Economic Development has received eight applications for façade improvements at the Superway Grocery site and is currently negotiating a potential improvement loan with the Superway tenant. No modifications to this project are recommended and the project is on track.

*FY18 PROJECTS PENDING OR ON HOLD:*

Of the seven projects, three are pending and one is on hold. Below are recommendations regarding partial re-allocation of funds to other eligible projects and status updates on pending projects.

*HOUSING REHABILITATION: TARGETED CODE CORRECTIONS FOR INCOME-ELIGIBLE  
SENIOR HOMEOWNERS*

*(ON HOLD)*

*Status Update:* This Housing Rehabilitation program proposed loans to eligible senior or disabled residents to convert their existing non-conforming garage conversions into code complaint accessory housing units. Staff administered a survey to eligible homeowners to measure interest in this loan program and survey results indicated minimal interest in converting units. Staff recommends re-allocating the \$150,000 currently approved for this project to St. Rose Hospital for lab equipment purchases (*as described in the proposed FY 2019 projects below*).

*SMALL BUSINESS INCUBATORS AND JOB CREATORS IN THE TENNYSON  
CORRIDOR AND DOWNTOWN*

*(PENDING)*

*Status Update:* Staff has identified a nonprofit partner, La Cocina, to implement this program. La Cocina specializes in developing micro-enterprises for low-income restaurant entrepreneurs. Staff is working with the federal Small Business Administration to bring the San Francisco-based program to Hayward. This project is pending upon contract execution with La Cocina. Staff recommends maintaining \$100,000 of the \$175,000 currently approved for this project and re-allocating the balance of \$75,000 to St. Rose Hospital for lab equipment purchases (*as described in the proposed FY2019 projects below*).

*AFFORDABLE HOUSING REHABILITATION – MEASURE A1 PROJECT MATCHING FUNDS*

*(\$200,000)*

*Status Update:* The City of Hayward's Measure A1 Funds Notice of Funding Availability (NOFA) was released on April 30, 2018, announcing the availability of County and City affordable housing development funds. The \$200,000 in funds currently approved for this purpose will be allocated upon receiving applications for CDBG match funds from qualified affordable housing developers. Staff recommends maintaining the \$200,000 approved funding allocation as is for this project.

Status Update: In coordination with the American Red Cross and the Hayward Fire Department, staff is working to identify emergency care and shelter sites that require rehabilitation to meet accessibility and building safety code requirements. New Life Church and Church of the Cross have been identified as potential disaster sites and are scheduled for inspection. This project is pending upon inspection of sites. Staff recommends maintaining \$100,000 of the \$189,000 approved allocation for this project and recommends re-allocating \$89,000 to St. Rose Hospital for lab equipment purchases (*as described in the proposed FY2019 projects below*).

## DISCUSSION

### *HUD TIMELINESS STANDARD:*

Council's adoption of the Biennial Funds process in 2017 authorized projects and activities to reduce the estimated \$1,289,000 of excess CDBG fund balance in the City's CDBG line of credit with HUD. The intent was to enable the City to meet HUD's annual deadline of timely expenditure. To have met HUD's timeliness standard, the City would have had to disburse an additional \$3,110,123 to meet the 1.5 program year ratio and avoid being placed on the list of untimely grantees.

Currently, the City's line of credit is currently at \$3.04 million, or four times the allowable limit of unexpended funds. The increase includes the \$1.289 million of Biennial Funds in addition to a combination of salary savings, underspent project funds, and program income from payments of past economic development and housing rehabilitation loans over FY2017 and FY2018. This excess means the City will not meet the timeliness requirement to reduce fund balance below 1.5 times entitlement for the second year in a row. Though funds are encumbered to identified projects as describe above, the HUD standard requires the funds be drawn and distributed by the May 2nd "snap shot" of available balance to be considered.

HUD will notify the City via letter it did not meet the standard set forth in 24 CFR 570.902(a)(1) and that its rate is 4.03 times the entitlement grant amount as of May 2, 2018. Upon receipt of the notice, the City will have 15 days to advise the HUD office of its plan to bring the City into compliance with program requirements (including identifying activities) and the specific timeframe by which it expects to meet the 1.5 timeliness standard. The letter will address any information about the cause(s) of the slow progress, including any extenuating circumstance or any information regarding recent drawdown of funds that may not be reflected in HUD's electronic information system (IDIS).

PROPOSED FY 2019 PROJECTS FOR RE-ALLOCATION OF FUNDS:

Staff committed to return to Council for guidance in the event unexpended funds were available for re-allocation to eligible programs. Staff has determined the following projects are CDBG eligible and have capacity to expend \$1.9 million in Biennial funds by the FY 2019 timeliness deadline (May 2019):

*MATCH FUNDS FOR MEASURE A1 AFFORDABLE RENTAL HOUSING PROJECTS* *(\$800,000)*

HUD encourages the use of CDBG dollars to fund pre-development or site acquisition costs incurred by qualified affordable housing developers. Staff has been approached by affordable rental housing developers with Measure A1 fund eligible projects who would also seek CDBG funds for pre-development and site acquisition related costs if available. Developers unable to secure sites prior to the NOFA application deadline of June 29, 2018 are ineligible for Measure A1 funds. The use of CDBG for construction of new affordable housing is ineligible. This project will result in improving the quality and strength of Measure A1 applicants and increasing the affordable housing supply in the City.

*EXECUTE A HOUSING REHABILITATION LOAN PROGRAM CONTRACT WITH NONPROFIT HOUSING AGENCY HELLO HOUSING* *(\$100,000)*

The City has unexpended revolving loan fund balance in the Housing Rehabilitation Program. The program currently outsources mobile home loans and minor home repair grant projects to Habitat for Humanity and Rebuilding Together respectively. Outsourcing this function has proven effective to expend funds quickly and efficiently. Executing a contract with Hello Housing to perform housing rehabilitation loans expands capacity and diversifies the program's reach. This project will result in preventing displacement of low-income home-owners.

*EXECUTE A CONTRACT WITH ST. ROSE HOSPITAL FOR ELIGIBLE LAB EQUIPMENT PURCHASES IN THE RENOVATED CLINICAL LABORATORY DEPARTMENT* *(\$1,000,000)*

St. Rose Hospital will be purchasing and installing equipment in labs within the CDBG project area including a centrifuge, chemistry equipment, hematology analyzers, and microbiology automation of the blood bank. St. Rose Hospital is a non-profit public facility and the purchase of this equipment is an eligible and allowable expense. This project will result in an expansion of provision of services to indigent Hayward residents.

**ECONOMIC IMPACT**

Funding these projects will result in increasing the City's supply of affordable housing, improving the quality and strength of Measure A1 applicants, preventing displacement of low-income home-owners, and continuing the provision of services to indigent Hayward residents.

Although staff is currently communicating with HUD to develop a correction action plan to avoid any reduction of CDBG allocation to the City, a potential consequence of failure to meet the ratio may include the reduction of the City's CDBG grant by an amount equal to 100 percent of the amount exceeding 1.5 times the annual grant equal to \$3,110,123.

## **FISCAL IMPACT**

The Community Development Block Grant (CDBG) Program has no impact on the City's General Fund.

## **STRATEGIC INITIATIVES**

This agenda item supports the Complete Communities Strategic Initiative. The purpose of the Complete Communities Strategic Initiative is to create and support structures, services, and amenities to provide inclusive and equitable access with the goal of becoming a thriving and promising place to live, work and play for all. This item supports the following goals:

- Goal 1: Improve the quality of life for residents, business owners, and community members in all Hayward neighborhoods.
- Goal 2: Provide a mix of housing stock for all Hayward residents and community members, including the expansion of affordable housing opportunities and resources.

## **PUBLIC CONTACT**

Council reviewed the Biennial Review results and recommended reallocations at a public hearing dated July 18, 2017. The FY2018 review of recommended reallocations is included with the FY 19 Annual Action Plan and pending publication by Alameda County.

## **NEXT STEPS**

Staff recommends that Council reviews and comments on the report and that Council authorizes the re-allocation of (\$1,900,000) CDBG funds to:

1. Provide Measure A1 match funds for pre-development or site acquisition to qualified affordable housing developers responding to the NOFA announcement (\$800,000);
2. Execute a Housing Rehabilitation Program contract with nonprofit housing agency Hello Housing to manage the housing rehabilitation loan program (\$100,000); and
3. Execute a contract with St. Rose Hospital for equipment purchases in their Clinical Laboratory (\$1,000,000),

*Prepared by:* Dana Bailey, Community Services Manager

*Recommended by:* Maria A. Hurtado, Assistant City Manager

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAadoo', written in a cursive style.

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Kelly McAadoo, City Manager