



City Council Staff Report

From: City Manager

Report Type: ACTION ITEM

Lead Department: Planning and Development Services

Meeting Date: May 1, 2023

Report #:2302-0980

TITLE

Adoption of the Community Development Block Grant (CDBG) FY 2023-24 Annual Action Plan and the Adoption of a Resolution Approving Use of CDBG Funds for FY 2023-24

RECOMMENDATION

The Human Relations Commission (HRC) and staff recommend City Council take the following actions:

1. Adopt the draft Fiscal Year 2023-2024 Annual Action Plan (Attachment A) and the associated resolution (Attachment B) allocating Community Development Block Grant (CDBG) funding for Fiscal Year 2023-24;
2. Authorize the City Manager to execute the Fiscal Year 2023-24 CDBG application to fund the Fiscal Year 2023-24 Annual Action Plan and any other necessary documents concerning the application, and to otherwise bind the City with respect to the applications and commitment of funds; and
3. Authorize staff to submit the Fiscal Year 2023-24 Annual Action Plan (Attachment A) to U.S. Department of Housing and Urban Development (HUD) by the May 15, 2023, deadline.

EXECUTIVE SUMMARY

The City is preparing for its first year of a two-year CDBG funding cycle for FY 2024. On February 9, 2023, the HRC reviewed the eligible programs and recommended the funding allocations for each project as reflected in the draft FY 2024 Annual Action Plan (AAP; Attachment A). Staff requests that Council review the draft FY 2024 AAP and approve the recommended funding allocations identified in the document. Council's approval of the AAP will be recorded by Resolution (Attachment B).

The CDBG federal appropriations for FY 2024 were released by the U.S. Department of Housing and Urban Development (HUD) on February 27, 2023. The total amount available for allocation in FY 2024 is \$614,242, which includes the City's entitlement grant (\$514,242) and estimated program income (\$100,000). These funds have been allocated to fund nine programs and projects as well as the program administration. Please see Table 3 for a summary of the projects and respective allocations.

BACKGROUND

The CDBG program, administered by HUD, provides annual grants on a formula basis to states, cities, and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons. The program is authorized under Title 1 of the Housing and Community Development Act of 1974. The HUD regulations require all CDBG-funded activities to meet one of the three national objectives:

1. Benefit low-and very-low-income persons;
2. Aid in the prevention or elimination of slums or blight; or
3. Meet other community development needs having urgency or posing a serious and immediate threat to the health or welfare of the community.

For general information on the CDBG program, please visit: <https://www.hudexchange.info/programs/cdbg-entitlement/>. Palo Alto's CDBG program has primarily been focused on meeting the first objective of benefiting low-and very-low-income persons.

Consolidated Plan & Annual Action Plan

HUD requirements include the preparation of a five-year strategic plan of action, referred to as a Consolidated Plan. This plan addresses priority housing and community development needs and sets goals for attaining identified objectives. Currently, Palo Alto's CDBG program is guided by the 2020-2025 Consolidated Plan¹ adopted by Council in 2020. Every year, an AAP is prepared to identify the specific projects to be funded by the CDBG program; these projects must further the implementation of the Consolidated Plan strategies. As Council reviews the proposed projects and recommends funding allocations, consistency with the Consolidated Plan goals is a primary consideration.

FY 2024 Application Review Process

Funding applications for "Public Services, Housing, Economic Development and Public Facilities Rehabilitation" projects were made available on October 21, 2022. A notice of CDBG funding availability was published in the Palo Alto Weekly on October 21, 2022, with completed

¹ 2020-2025 Consolidated Plan:

<https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=49340.42&BlobID=79655>

applications due November 29, 2022. A pre-proposal conference was conducted on November 10, 2022 to assist applicants with program regulations and project eligibility questions. For FY 2024, the City received applications from two agencies (Peninsula Healthcare Connection & WeeCare) that have not been previously funded by the City's CDBG program.

For any new applications, the initial step in the review process is the determination that the applications are compliant with HUD's eligible activities² and National Objectives.³ This process involves staff reviewing the application materials and communicating with the applicant as needed to clarify details in the application.

For FY 2024 (year one of funding cycle), the City received nine funding applications in addition to funding a public facilities project. These applications were reviewed on December 23, 2022 by the HRC Selection Committee. The committee made the initial project funding recommendations for eight of the nine applications to the full HRC. At the public hearing on February 9, 2023, HRC made the funding recommendations reflected in the draft AAP for Council consideration. Once adopted, the AAP will be submitted to HUD by the deadline (May 15, 2023) as the last step in the process.

Annual Action Plan (AAP) Citizen Participation

As per HUD's regulations and the City's adopted Citizen Participation Plan⁴, the City must ensure adequate citizen participation in the CDBG funding process. Prior to the submission of the AAP to HUD, the City must hold two public hearings; one hearing, followed by a 30-day circulation and public comment period, followed by one more public hearing. Refer to the Stakeholder Engagement report section below for specific details on required meetings and comment periods.

HRC Review - Recommended Allocation for FY 2024

When the HRC reviewed the allocations on February 9, 2023, the CDBG federal appropriations for FY 2024 was not known. For budgeting purposes, staff estimated the City's HUD Entitlement Grant for FY 2024 based on an 8% reduction from the previous year's entitlement grant. The estimated total amount available for allocation in FY 2023-24 is \$610,000, which includes the estimated entitlement grant (\$510,000) and program income (\$100,000).

² CDBG Matrix Codes:

<https://files.hudexchange.info/resources/documents/Matrix-Code-Definitions.pdf>

³ CDBG National Objectives:

<https://www.hudexchange.info/sites/onecpd/assets/File/CDBG-National-Objectives-Eligible-Activities-Chapter-3.pdf>

⁴Citizen Participation Plan 2022:

<https://www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/cdbg-general-information/plans-and-reports/amended-citizen-participation-plan-2022-approved-by-city-council-9-12-22-final.pdf>

On February 9, 2023, the HRC considered the funding recommendations of the HRC Selection Committee and voted unanimously to recommend Council approve the draft FY 2024 AAP. The HRC discussed the estimated funding allocations based on program budget, availability of additional resources, the federal spending caps, and total available CDBG funds. The HRC inquired about WeeCare, one of the new program applicants in the economic development funding category. A representative of WeeCare described how the company would be using CDBG funds and activity eligibility.

Additionally, since the City's CDBG grant amount was not known at the time, the HRC recommended a funding contingency plan as follows:

- If more funds are received than estimated, allocate additional funds to the LifeMoves program; and
- If less funds are received than estimated, evenly reduce all programs.

Since the City received \$4,242 more than what was estimated for the entitlement grant, staff adjusted the allocation amounts based on funding caps and the HRC's contingency plan above.

DISCUSSION

This section includes information on the CDBG funds available for allocation and funding categories for FY 2023-24 funding cycle. The final funding recommendations are documented in the AAP that is required to be submitted to HUD.

Funds Available for Allocation for FY 2024

The CDBG federal appropriations for FY 2024 was received on February 27, 2023. The total amount available for allocation in FY 2024 is \$614,242, which includes the entitlement grant and estimated program income, as summarized below in Table 1. This amount is \$4,242 more than estimated. The recommended allocations continue to address the preservation of affordable housing, housing-insecure individuals and households, strengthen neighborhoods, fair housing, and economic development.

Table 1: FY 2024 CDBG Funding Summary

FY 2023-2024 Entitlement Grant	\$514,242
Estimated Program Income in FY 2023-24 from Alta Housing generated from loan repayments and rental income in excess of expenses on specific properties acquired or rehabilitate with CDBG funds	\$100,000
Total Available for Allocations	\$614,242

CDBG Funding Categories and Funding Applications

The CDBG program has five primary activity areas to allocate funds to: (1) Public Services, (2) Planning and Administration, (3) Economic Development (4) Housing Rehabilitation, and (5)

Public Facility Improvements. Federal regulations limit the amount that can be spent on two categories: planning and administration and public services. No more than 20% of the City’s entitlement grant and estimated program income for the following year can be spent on planning and administration. Similarly, there is a maximum spending cap of 15% of the grant allocation and 15% of any program income received during the previous fiscal year on the public services category. The amount available to allocate in each of the activity area is summarized below in Table 2.

Table 2: FY 2024 CDBG Funding Categories and Allocation Amounts

Funding Categories	Allowed Allocations
Public Services (15% cap)	\$92,136
Planning and Administration (20% cap)	\$122,848
Economic Development, Housing Rehabilitation, and Public Improvements and Facilities (un-capped)	\$399,258
Total Available for Allocation	\$614,242

“Planning and Administration” Funding Category

As of November 2021, the City has been primarily relying on consultant services to administer the CDBG program. The City is currently in the process of reviewing proposals to secure a new contract for consultant assistance for CDBG program management by July 2023. With the use of consultants, sufficient CDBG budget must be set aside to cover the program administration and, therefore, 100% of the administration funds is recommended to be set aside for this purpose.

Allocations

There are 10 activities recommended for FY 2024 allocations that are summarized below in Table 3. Detailed descriptions of the funding recommendations and agencies are provided in Attachment A.

Table 3: FY 2024 Summary of Applications and Funding Recommendations

Agency/Program Name	FY 2023 Funded Amount	Recommended FY 2024 Amount
Public Services (15% Cap = \$92,136)		
<i>Alta Housing – SRO Resident Supportive Care</i>	\$20,113	\$14,000
<i>Catholic Charities of Santa Clara County - Long Term Care Ombudsman Program</i>	\$10,000	\$10,000
<i>LifeMoves – Case Management at Opportunity Center</i>	\$23,616	\$23,636
<i>Peninsula Healthcare Connection (PHC) - Harm Reduction Materials</i>	n/a	\$10,000
<i>Silicon Valley Independent Living Center (SVILC) – Case Management Services</i>	\$14,021	\$16,500

Project Sentinel - <i>Fair Housing Services</i>	\$23,615	\$18,000
<i>Subtotal</i>		\$92,136
Economic Development (No Cap)		
WeeCare - <i>Training for Family Child Care Home (FCCH)</i>	n/a	\$114,000
<i>Subtotal</i>		\$114,000
Housing (No Cap)		
Rebuilding Together Peninsula – <i>Home Repair Program</i>	\$73,135	\$73,585
<i>Subtotal</i>		\$73,585
Public Facilities (No Cap)		
City of Palo Alto Sidewalk Repairs Capital Project (PO-89003)	n/a*	\$211,673
<i>Subtotal</i>		\$211,673
Planning & Administration (20% Cap = \$122,848)		
City of Palo Alto/CDBG Administration	\$121,816	\$122,848
<i>Subtotal</i>		\$122,848
GRAND TOTAL		\$614,242

*This project received \$300,000 in FY 2023 via a Substantial Amendment to the FY 2021-2022 action plan (CMR 2302-0991), which reallocated funding from the Ravenswood Family Health Network ADA ramp improvements project.

Downtown Streets Team: Workforce Development Program

The Downtown Streets Team (DST) was one of the nine applications submitted for FY 2024 funding with a request of \$278,174.⁵ The HRC did not recommend funding for this project.

Due to the more recent circumstances regarding DST's Community Business Development Organization (CBDO) status, DST is not eligible to be funded under the Economic Development uncapped funding category; historically, this was how CDBG funded the program. DST could be eligible for funding under the Public Services category where six other applications were considered. The City recognizes the valuable contribution DST provides to the community, but the HRC did not recommend funding the program this year. The DST funding request exceeded the total amount available to allocate under Public Services and diverted funds away from the other programs, potentially impacting the assistance to several hundred City residents in need.

As the City continues to evaluate the transition of Downtown Streets Team, staff will include funding for this program in the FY 2024 proposed budget for City Council consideration.

⁵ DST: The project activities included securing paid employment opportunities for unemployed and homeless individuals and building an extensive network of local employers willing to hire Downtown Streets Team workforce development program participants. Goal: assist 44 individuals and 15 businesses.

POLICY IMPLICATIONS

The projects recommended for funding for the FY 2024 AAP are consistent with the priorities established in the City's adopted FY 2020-2025 Consolidated Plan.

FISCAL/RESOURCE IMPACT

As per HUD's regulations, up to 20% of the total CDBG funding can be used for the CDBG program administration. The City relies on the annual grant funding to support the program administration. These funds are needed to pay for consultant services to manage the program. There are no anticipated impacts to the General Fund budget with the requested action.

TIMELINE

The funding recommendations made by the Council will be incorporated into the FY 2024 AAP. Subsequently, the adopted FY 2024 AAP will be submitted to HUD by the May 15, 2023 deadline. The consequence of submitting the AAP late to HUD is a delay in City receiving funds for reimbursement to the programs.

STAKEHOLDER ENGAGEMENT

Prior to the submission of the FY 2024 AAP to HUD, the City must hold two public hearings; one hearing, followed by a 30-day circulation and public comment period, followed by one more public hearing.

The HRC meeting on February 9, 2023, served as the first public hearing, the City published a notice of the HRC meeting on January 25, 2023 in the Daily Post; this constituted the required 14-day public review period prior to first public hearing.

After the presentation of the draft FY 2024 AAP to the HRC, the FY 2024 AAP was posted to the City's webpage for public review and comments for a required 30-day period that began on March 28, 2023 through April 27, 2023; information was also posted on the City's CDBG webpage and via email blasts to stakeholders. At the time of this report, staff did not receive any public comments on the draft AAP.

The public Council meeting on May 1, 2023 will serve as the second public hearing to review and approve the FY 2024 AAP. The City published a public notice of the Council public hearing on March 27, 2023 advertised in the Daily Post. This advertisement complies with the City's required 14-day public notice period prior to the second public hearing.

ENVIRONMENTAL REVIEW

For purposes of the National Environmental Policy Act (NEPA) and the California Environmental Quality Act (CEQA), budgeting by itself is not a project. Prior to commitment or release of funds for each of the proposed projects, staff will carry out the required environmental reviews or

assessments and certify that the review procedures under CEQA, HUD and NEPA regulations have been satisfied for each project.

ATTACHMENTS

Attachment A: FY 2023-24 Draft Palo Alto Annual Action Plan

Attachment B: FY 2023-24 Draft CDBG Resolution

APPROVED BY:

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