



Memorandum

TO: NEIGHBORHOOD SERVICES
AND EDUCATION
COMMITTEE

FROM: Jacky Morales-Ferrand

SUBJECT: FEDERAL FUNDING UPDATE

DATE: October 23, 2017

Approved

Date

11/2/17

RECOMMENDATION

Accept the staff report on the development of the FY 2018-2019 Annual Action Plan and provide input on the identified federal funding priorities and strategies.

OUTCOME

The goal of this report and presentation to the Neighborhood Services and Education Committee is to review and to obtain feedback on potential federal investments for FY 2018-19 for Community Development Investments, and to provide staff with input from the Committee on funding priorities.

BACKGROUND

As an entitlement City, San José receives federal formula grants each year from the U.S. Department of Housing and Urban Development (“HUD”) for a variety of housing and community development activities. The amount that the City receives each year is based on several factors including population, poverty, and housing statistics.

Consolidated Plan

Every five years, HUD requires jurisdictions that receive federal funding to develop a Five-Year Consolidated Plan (“ConPlan”). The ConPlan identifies priority needs, goals, actions, and funding strategies for the four federal housing and community programs: the Community Development Block Grant (“CDBG”); HOME Investment Partnership (“HOME”); Emergency Solutions Grant (“ESG”); and, Housing Opportunities for Persons with AIDS (“HOPWA”).

October 23, 2017

Subject: Federal Funding Update

Page 2

The 2015-2020 ConPlan was approved by the City Council on May 5, 2015. The ConPlan identifies four categories as areas of greatest need within the community. Additionally, the ConPlan identifies broad project goals to address the areas of need which include:

- 1) Increasing and preserving affordable housing opportunities;
- 2) Responding to homelessness and its impacts on the community;
- 3) Promoting fair housing; and,
- 4) Strengthening neighborhoods.

All activities funded under the four federal funding programs must support one or more of these four categories identified in the Consolidated Plan

Annual Action Plan

In accordance with the federal funding requirements, the City must prepare an Annual Action Plan ("AAP") to document how it plans to utilize its federal resources each year. The AAP outlines one-year strategies that will enable the City to meet its five-year ConPlan goals. Included in the AAP are funding recommendations for specific actions and activities for each of the four federal funding sources. The AAP must also describe how the City plans to support the goals and meet the needs identified in the ConPlan. Prior to the AAP's final approval by the City Council, the Housing Department must provide for a 30-day public review of the AAP. In accordance with the City's Citizen Participation Plan, the Housing Department must provide three public hearings on the AAP to create an opportunity for public comment.

Federal Funding Sources and their Use

San José receives four major sources of federal funding annually from HUD. Each of these sources is distinct, and supports specific housing and community development needs. The primary use for each fund is stated in Table 1 along with the amount that is projected to be allocated for FY 2018-2019.

Table 1: Estimated 2018-2019 San José Federal Funding Levels

Funding Source	Primary Use	Estimated 2018-2019 Allocations
CDBG	Housing and Community Development Programs, Services, and Capital Improvements	\$7,786,250
HOME	Housing	\$2,387,150
ESG	Homeless Services and Shelter Operations	\$717,550
HOPWA	Housing Support for Persons with AIDS	\$949,300
	Total	\$11,840,250

Note that these figures already incorporate a possible reduction of 5% from FY 2017-2018. Staff implemented this practice per HUD's guidance, which will minimize the City's need to reduce existing contract amounts in the case of budget cuts. This enables grant recipients to plan for their resources more reliably. If cuts do not occur and there are excess sources available, staff

would propose small increases in Public Services contracts and would amend the AAP accordingly.

Note also that the CDBG figure assumes no additional payments are made to Section 108 loans in FY 2018-2019. Approximately \$2 million of CDBG would be spent to pay Section 108 loan debt service, absent any changes to current practices. However, the City is planning to refinance \$1.8 billion in existing debt of the Successor Agency to the former Redevelopment Agency ("SARA") at the end of 2017. Presuming this refinancing reduces debt service payments as expected, SARA would be able to cover the Section 108 loan payments with its annual funding allocations until the loans are fully repaid. CDBG funds would no longer be necessary to fund annual debt service.

Regulatory requirements for the use of HOME, ESG, and HOPWA are fairly specific. HOME funds must be used to create affordable housing opportunities; ESG funds must be used to support efforts addressing homelessness; and HOPWA funds must be used for housing and services for individuals with AIDS or HIV.

CDBG is the most flexible federal funding source, and may be used to fund a wide range of housing and community development needs. For this reason, funding priority decisions usually focus on the use of CDBG.

CDBG Funding Categories

CDBG funds are divided into three categories: Public Services, Administration, and Community Development Investment ("CDI") activities.

Public Services: These funds can pay for a variety of services for low-income individuals. Program regulations require that funding for public services be capped at 15% of the annual allocation combined with the *prior* year's Program Income. (Program Income is primarily comprised of repayments from federally-funded loans.)

Administration: Recognizing the significant work involved with managing CDBG funds, HUD allows CDBG to fund limited costs of administrative planning and oversight. Up to 20% of the annual CDBG allocation, combined with the *current* year's Program Income, can be used for Administration costs. Fair Housing can also be funded out of this category.

Community Development Investment: CDI funds can be used to fund infrastructure and other needs. Enhanced Code Enforcement is one of the few "service" activities that can be funded with CDI funds. There is no limit on the amount of funding that may be dedicated to the CDI category.

ANALYSIS

In early November 2017, Housing Department staff launched its planning and outreach process for the FY 2018-2019 Annual Action Plan. Staff will hold a series of stakeholder and community meetings to help identify opportunities for investment, and will solicit input on the four goals and potential funding priorities for the upcoming year. Participants in the meetings will be provided with an overview of the programs, services, and projects currently funded through the City’s federal sources, and a fiscal outlook for next year.

CDBG Current Funding Limits

Table 2 below indicates the City’s projected CDBG allocation and amount of loan repayments expected, and the amounts to be spent on Public Services, Administrative Costs, and CDIs:

Table 2: CDBG Resources and Caps

FY 2018-2019 projected CDBG Allocation	\$7,786,250
FY 2018-2019 projected Program Income (PI)	\$1,600,000
Public Service Cap for 2018-2019 (18/19 Allocation + 17/18 PI * 15%)	\$1,527,950
Administrative Cap for 2018-2019 (18/19 Allocation + 18/19 PI * 20%)	\$1,877,250
CDI from 2018-2019 Allocation (no cap)	\$5,981,050

Staff is projecting a larger than usual amount of program income in FY 2017-2018 in anticipation of a large CDBG loan repayment. Because the Public Service Cap is based on 15% of the annual allocation combined with the prior year's Program Income, the FY 2018-2019 cap is expected to be larger than prior years, despite a projected allocation reduction.

CDBG-funded Public Services

For FY 2017-2018, the Housing Department funded four sets of services under the CDBG Public Services category. Table 3 outlines the 2017-2018 commitments by type of service, and the proposed 2018-2019 services funding levels:

Table 3: CDBG-funded Public Services

Services	Activities	FY 2017-2018 Funding*	Proposed FY 2018-2019 Funding*
Homeless Services	<ul style="list-style-type: none"> • Outreach & Shelter • Rapid Rehousing and Supportive Services 	\$350,000	\$350,000 (new)
Legal Services for Low-income Tenants	<ul style="list-style-type: none"> • Outreach • Investigations • Legal Representation 	\$527,950	Continued
Neighborhood	<ul style="list-style-type: none"> • Safety Net Services 	\$200,000	Continued

NEIGHBORHOOD SERVICES AND EDUCATION COMMITTEE

October 23, 2017

Subject: Federal Funding Update

Page 5

Services	Activities	FY 2017-2018 Funding*	Proposed FY 2018-2019 Funding*
Engagement	<ul style="list-style-type: none"> Leadership Development 		
Senior Services	<ul style="list-style-type: none"> Hot Meal Delivery Senior Access & Health Support 	\$200,000	Continued
Fair Housing Services	<ul style="list-style-type: none"> Tenant/Landlord Services 	N/A**	\$250,000**
Total		\$1,277,950	\$1,527,950

*Note: indicates full contract value over multiple years

**Note: Program Administration is also being used to fund Fair Housing.

In addition to these CDBG-supported Public Services, the City is funding \$380,000 for Fair Housing services out of its Administrative budget in 2017-2018. For Fair Housing in 2018-2019, staff proposes to fund \$250,000 from Public Services and \$130,000 from Administration funds.

Public Services are generally funded on a three- to five-year funding cycle. All services listed in Table 3, except for Homeless Services, will still be within their contract terms in FY 2018-2019. Therefore, these activities will continue under their current contracts.

There are two forthcoming Requests for Proposals (“RFPs”) that the City plans to issue soon for services that will operate in FY 2018-2019.

First, an RFP for Legal Services will provide up to \$500,000 to help low-income tenants increase housing stability by providing landlord/tenant counseling, education, referrals, and legal assistance to tenants facing unlawful evictions or other landlord/tenant issues. Services will include outreach and education, investigative services, and a legal services clinic. The approved 2017-2018 AAP authorized the award of contracts pursuant to this RFP. Staff plans to issue the RFP in early November and award in early 2018.

Second, a RFP for Homeless Services will provide up to approximately \$500,000 in federal funding and will likely include funding for outreach and shelter programs. In addition to being one of the four primary needs identified in the 2015-2020 Con Plan, addressing homelessness remains one of the top priorities in San José. Because the City anticipates receiving an unusually high amount of loan repayments in FY 2017-2018, the additional funds enables the City to increase the amount for Homeless Services in the forthcoming RFP over last year’s grant level. The final Homeless Services contract amount will be adjusted per the City’s final funding CDBG allocation by mid-2018. Staff plans to include the Homeless Services identified through the RFP in the 2018-2019 AAP. Staff plans to issue the RFP in early 2018 and award in Spring 2018.

Through public and stakeholder meetings that will help inform development of the next AAP, staff will seek feedback on community needs and priorities related to Homeless Services. The City is also coordinating with the County-wide Continuum of Care organizations and the County of Santa Clara’s Office of Supportive Housing to determine how best to use the City’s limited funds to ensure their efficient use in a way that compliments the County’s array of services.

Community Development Investments (“CDI”)

In addition to the recommendations for CDBG Public Services, the Housing Department is also recommending that the City continue to provide CDI funding for the following eligible activities:

Table 4: Proposed CDI Activities FY 2018-2019

Activity	Description	Status Recommendation	Agencies
Minor & Urgent Home Repairs	Owner-occupied single family homes and mobilehome repairs	Awarded in FY2016-17 (continue funding)	Rebuilding Together, Silicon Valley Habitat for Humanity
Job Training and Placement	Job training and placement for homeless individuals Housing coordination	Awarded in FY2016-17 (continue funding)	San José Streets Team
Enhanced Code Enforcement	Code Enforcement services focusing on multifamily housing issues	Continue funding	City of San José
Nonprofit Facilities Improvements	Work is being completed on facility improvements such as commercial ADA improvements and kitchen upgrades	NOFA for new projects is slated for release in early 2018	Nonprofit service providers
City Infrastructure Improvements	Improvements to City infrastructure such as enhanced crosswalks, traffic calming improvements, and alleyway improvements. Improvements will be focused in the City’s three Place-based Neighborhoods and in geographic areas near supportive housing developments for formerly-homeless residents.	Continue funding	City of San José

Federal Budget Status

The federal government currently is operating under a Continuing Resolution (“CR”) for budget authority, as it has not yet passed a budget for federal FY 2018. The current CR was passed in early September and expires on December 8, 2017. The federal Budget Control Act requires a bipartisan agreement for the budget to deviate from its spending caps; therefore, the current CR gave the government approximately three months to come to agreement. Based on funding proposals from the House and Senate, the assumed funding levels for the HUD entitlement programs per the CR are approximately level to last year’s budget.

While the Administration's proposed budget zeroed out both HOME and CDBG, homeless programs fared better in the budget proposals. The Table below illustrates the current federal budget proposals for the City's four entitlement programs in federal FY 2018:

Table 5: Proposed Budget Levels for the City's Four HUD Entitlement Programs

Program	FY 2017 Final Budget	Administration	House	Senate
CDBG	\$3.0B	\$0	\$2.91B	\$3.0B
HOME	\$950M	\$0	\$850M	\$950M
HOPWA	\$356M	\$330M	\$375M	\$330M
ESG	\$310M	\$255M	\$270M	\$270M

Sequestration, which involves setting a hard cap on the amount of government spending, remains possible as budget negotiations continue. Sequestration could result in a 5% cut across the board to federal department budgets; however, the effect of sequestration on individual programs may vary. As the City's ability to fund external contracts under the CDBG program is the most impactful on San Jose's community-based organizations, strategies to address potential reductions in CDBG are the focus of this memorandum.

Anticipated Funding Levels for CDBG

As noted above, the City's estimated \$7,786,250 of CDBG funds available for programming during the FY 2018-2019 already incorporates a possible reduction of 5% from FY 2017-2018, and assumes no additional payments are made to Section 108 Loans in FY 2018-2019. In addition, the City expects to receive \$2.4 million in Program Income in 2017-2018 due to a loan payoff, which is higher than usual.

Given these conditions, it is probable that any modest federal cuts to CDBG could be absorbed. Cuts in the program would have to substantially exceed the levels of cuts associated with sequestration or the likely approved federal budget amounts for existing commitment levels to be disrupted. This level of deep cutting seems unlikely. Therefore, staff does not expect an impact on existing funding commitments or projected commitments for FY 2018-2019.

EVALUATION AND FOLLOW-UP

Housing Department staff will complete the public and nonprofit outreach process to identify Homeless Services needs and priorities in November 2017. RFPs for Legal Services and Homeless Service projects will be released in the next few months, as will a NOFA for Nonprofit Facilities. Should an insufficiency of projects be identified through the NOFA process or there are no "shovel-ready" projects proposed, CDI projects sponsored by the City will be initiated.

As part of public outreach, Housing Department staff will work collaboratively with other City departments to determine which CDI projects to propose for funding and will bring these recommendations to City Council for approval. Staff will complete the draft 2018-2019 AAP by March 2018. Public hearings on the draft AAP will include a Housing and Community

October 23, 2017

Subject: Federal Funding Update

Page 8

Development Commission (“HCDC”) meeting and a City Council meeting in Spring 2018. Staff will submit the final AAP to HUD by May 15, 2018.

PUBLIC OUTREACH

Staff is conducting a series of public meetings to seek input on priorities for the 2018-2019 AAP. A meeting with community-based nonprofit organizations was held on October 25, 2017, with approximately 24 participants in attendance representing 16 organizations. A public meeting will be held the afternoon of November 1, 2017, at Tully Branch Library. Another public meeting will be held the evening of November 2, 2017, at Roosevelt Community Center. Public meetings also will be held at HCDC the evenings of November 9, 2017, and January 11, 2018. Once the AAP is drafted, staff will hold additional public meetings at HCDC and at City Council, and will make a copy of the draft available to the public for review.

COMMISSION RECOMMENDATION/INPUT

Staff will present this Federal Funding Update item to the Housing and Community Development Commission (HCDC) on the evening of November 9, 2017. Due to the timing of the annual funding cycle and this year’s federal budget status via Continuing Resolution, and due to other pressing action items on HCDC’s agenda, it was premature to bring this action to HCDC in October. However, HCDC will consider the draft AAP in Spring 2018.

COORDINATION

This memorandum has been coordinated with the City Manager’s Budget Office and the City Attorney’s Office.

CEQA

Not a project, File No. PP10-069(a), Staff Report.

/s/
JACKY MORALES-FERRAND
Director of Housing

For questions regarding this document, please contact Ray Bramson, Acting Deputy Director, at (408) 535-8234.