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NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors
FROM: Britt Ferguson for Nancy Watt - County Executive Officer
County Executive Office
REPORT BY: Britt Ferguson, Assistant County Executive Officer, 253-4406
SUBJECT: Possible County Participation in Community Development Block Grant Program

RECOMMENDATION

County Executive Officer recommends that the Board provide the following direction related to the County's participation in the Community Development Block Grant (CDBG) Program:

1. Authorize County participation in the current round of funding for Planning and Technical Assistance grants; and
2. Require that agencies or organizations requesting Planning & Technical Assistance Grant funding through the County be responsible for preparing all needed application documents and materials for County review and for providing any required County match; and
3. Designate the County Executive Officer, or her designee, to hold the first public hearing required to consider public input on the potential uses of CDBG funds; and
4. Direct that staff prepare an analysis of issues related to County participation in other elements of the CDBG program and provide that analysis and a recommendation to the Board by December of 2005.

EXECUTIVE SUMMARY

The Community Development Block Grant (CDBG) program is a federal program that provides funding to states, cities and counties, primarily to construct public works and facilities, to rehabilitate housing and to support certain community development and economic development activities. Generally, the program serves people of low or very low income, which is defined as no more than 80% or 50%, respectively, of the area median income, based on family size. Families who fall into this category are referred to as members of the Targeted Income Group, or TIG.

In California, one of the criterion for participation in the CDBG program is that the City or County have an approved General Plan Housing Element. Since Napa County has not had an approved Housing Element for approximately 12 years, the County has not been eligible for CDBG funding. With the recent approval of the County's Housing element by the State, the County may now be eligible to participate in CDBG funding.

Because of the population of the County's unincorporated area, Napa County is considered a non-entitlement jurisdiction and must apply for CDBG funding to the State's Housing & Community Development (HCD) Department. HCD manages annual funding cycles for CDBG funding in three categories: the General Allocation, the Economic Development Allocation and Planning and Technical Assistance (PTA) grants. The next round of General Allocation and Economic Development Allocation funding will not begin until next year, but HCD is currently conducting a PTA funding cycle for FY2005/06.

TPA could provide the County with up to \$35,000 a year to conduct studies and planning-type activities related to the general purposes of the CDBG program. The County is required to go through a hearing process and submit an application to receive funding. Applications that meet the criteria for funding will be funded on a first come first serve basis.

Because it is not clear what the need for CDBG funds will be in the unincorporated County, given the area's population demographics and the County's land use policies, and because staff is not certain what exactly is involved in administering CDBG grants, staff is recommending that the Board not make a decision to participate in the broader CDBG program at this time. Instead, staff would propose to complete an analysis of the issues involved and return to the Board with a recommendation by December of this year. However, because there is at least one water district in the County that is interested in seeking CDBG PTA funding, staff is recommending that the Board authorize County participation in this round of PTA funding.

If a CDBG application is funded, the County is entitled to reimbursement for our administrative costs, up to a cap of 7.5% of the grant amount. If the application is not funded, the County would not receive any CDBG funding to cover our costs and even if a grant is provided, it is not clear whether, in every case, the 7.5% would cover our costs. In part to help mitigate any County costs, staff is recommending that any applicants be required to prepare all application documents and materials for County review. Staff is also recommending that the Board require applicants to provide the required County match.

As part of the CDBG application process, counties are required to hold two public hearings. The first public hearing, which is designed to solicit information on the need for, and possible uses of, CDBG funds, does not need to be held before the Board of Supervisors. Because of the short turn-around time to complete the application process, staff is recommending that the Board delegate responsibility for holding this public hearing to the County Executive Officer, or her designee.

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	The County has already incurred some costs in evaluating the CDBG program and will incur additional costs if the Board agrees to participate in the current round of PTA funding. Depending amount of PTA funding awarded to the County, there may be sufficient administrative funds provided to cover the County's costs. The maximum amount of administrative funds the County can receive from a \$35,000 PTA grant is \$2,625. If the County is not awarded a PTA grant there will be no funding and any costs will need to be covered by the General Fund.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	The CDBG program could provide a means to assist in meeting the housing

and other needs of low income citizens and communities. At his point it is not clear whether participation in the program is likely to be cost-effective, since it is not clear what the costs will be nor what the need is in the unincorporated County, given CDBG eligibility requirements. Participation in this round of funding for PTA grants will provide a means to start assessing what the need might be and potentially address projects for certain agencies operating in the unincorporated area.

Is the general fund affected?	Yes
Future fiscal impact:	The fiscal impact on future years will depend in part on the Board's ultimate decision to participate in the CDBG program and on how many projects are undertaken. It is possible that all CDBG administrative costs could be covered by CDBG revenues.
Consequences if not approved:	The County would not participate in this first round of funding for CDBG PTA grants. The County would still have the option of participating in the next round of PTA funding, for which applications are due in June. Waiting until June could mean that agencies with potential projects would have to delay those projects.
Additional Information:	None

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

Background

The Community Development Block Grant (CDBG) program is a federal program that provides funding to states, cities and counties, primarily to construct public works and facilities, to rehabilitate housing and to support certain community development and economic development activities. The goal of the program is to develop viable communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low or very low income. "Low or very low income" is defined as no more than 80% or 50%, respectively, of the area median income, based on family size.

At the federal level, the program is administered by the Department of Housing and Urban Development (HUD). CDBG funding is provided to cities and counties in one of two ways:

- | "Entitlement" cities or counties receive a direct allocation annually from HUD. To be considered an "entitlement" jurisdiction, cities must have a population of at least 50,000 and counties must have a population at least 200,000 on the unincorporated area. In Napa County, the City of Napa is the only entitlement jurisdiction.
- | Non-entitlement cities and counties must apply to the state Housing and Community Development (HCD) Department for funding through a competitive process. Under this process, the state establishes funding

criteria (consistent with federal CDBG rules) and allocates funds that it has received from HUD. Napa County is a non-entitlement jurisdiction.

In California, one of the criteria for funding is that the city or county have an approved General Plan Housing Element. Since Napa County has not had an approved Housing Element for approximately 12 years, the County has not been eligible for CDBG funding. With the recent approval of the County's Housing Element by the State, the County may now be eligible to participate in the CDBG program. County staff have been informally advised by HCD staff that we will be able to participate, but have not yet been formally notified of our eligibility.

CDBG funding for cities and counties is allocated in two broad categories: the General Allocation and Economic Development. In addition, HCD makes a certain amount of funding available for Planning and Technical Assistance (PTA) grants, both for General Allocation and Economic Development purposes. The General Allocation includes the following major activities:

- | Housing New Construction
- | Housing Acquisition
- | Housing Rehabilitation
- | Community Facilities
- | Public Works
- | Public Services

There are detailed rules that govern how CDBG money can be used in support of these activities. For example, CDBG funds can be used to fund certain "soft" costs related to the construction of new housing, but can only be used to fund actual construction costs in very limited circumstances. All CDBG General Allocation projects, however, must principally benefit those who earn no more than 80% of the County's median income, adjusted for family size (the "Targeted Income Group" or TIG). This means that at least 51% of those benefited by a project must be in the TIG. Further, as noted above, HCD conducts a competitive process to allocate these funds. In evaluating applications from non-entitlement counties and cities, HCD uses certain evaluation criteria. These criteria assign points based on a number of factors, including the percentage of TIG benefited, the capacity of the applicant and community need. In addition, bonus points are awarded for certain State objectives, which, in California's case, focus primarily on affordable housing.

The CDBG Economic Development Allocation can be used primarily to make loans to businesses and to pay for the cost of infrastructure that results in job creation. In either case, a CDBG Economic Development Project must result in at least 51% of the jobs created by the project benefiting the TIG or aid in the prevention or elimination of slum and blight. There are also detailed rules that govern how Economic Development funds can be used and HCD uses certain rating criteria to allocate the funds.

HCD makes PTA grants available to cities and counties to undertake a number of different studies and planning-type activities related to the general purposes of the CDBG program. PTA grants are made either under the General or Economic Development Allocation. PTA grant-funded activities must also meet the requirement that at least 51% of those benefited are in the TIG, except that PTA funds can be used to fund an income survey to determine if an area meets the 51% of TIG requirement. PTA applications are screened by HCD to determine eligibility and then are funded on a first-come, first-served basis. The maximum PTA grant a jurisdiction can receive in each year is \$35,000 for General Allocation related activities and \$35,000 for Economic Development related activities.

In the case of all of these allocations, only non-entitlement cities and counties can apply for funding. Cities and counties can, in turn, enter into sub-grant agreements with other public agencies (for example, a water district) or local non-profit organizations. In this situation, the County, for example, would be responsible to the State for

managing the funds and ensuring the project was completed appropriately by the sub-grantee. The County is entitled to retain a certain amount of each CDBG grant to cover administrative and overhead costs. This amount is generally 7.5% of the grant.

HCD makes General Allocation, Economic Development and PTA funds available in separate annual funding processes.

- | For the General Allocation, Notice of Funding Availability (NOFA) is typically issued in January with applications due in April and awards announced in June.
- | For the Economic Development Allocation, the NOFA is typically issued in July , with applications received and evaluated continuously, through March.
- | For PTA grants, there are usually two funding cycles. Applications are due initially in June and, assuming any money remains available, a second round of applications is due by September 30.

The amount of funding available statewide varies from year to year. For FY2005/06, the State made \$44.5 million available for the General Allocation. Jurisdictions could apply for up to \$500,000 per project per year for up to three years, for a total \$1.5 million over three years. For FY2005/06 the statewide Economic Development Allocation was \$7.5 million. The FY2005/06 PTA Allocation was \$2.8 million for the General Allocation and \$1.4 million for Economic Development. The county or city applying for CDBG funds is generally required to provide a cash match and that match varies by jurisdiction.

In order to submit an application for funding to HCD, the County is required to follow certain procedures, including holding a public hearing to provide notice that CDBG funding may be available and solicit input from the community on the potential use of those funds and holding a second public hearing to give the public an opportunity to comment on specific proposed applications.

For FY2005/06, the process for the General Allocation is complete and the next opportunity to apply will come as part of the FY2006/07 allocation process, which will likely begin in January, 2006. According to HCD staff, the FY2005/06 Economic Development Allocation has been fully utilized, so no funding will be available until the FY2006/06 cycle. Funding is currently available for the FY2005/06 PTA General Allocation, with second round applications due by September 30th of this year. Staff has been advised that at least one water district in the County is interested in obtaining CDBG funds for a PTA project.

The Issue

Should the County participate in the CDBG program administered by the State HCD Department?

Analysis and Discussion

The CDBG program involves a fairly complex and potentially time-intensive process and brings with it a certain amount of liability to the County. It would only make sense to participate in the CDBG program if there are substantial unmet needs that can be addressed with these funds and the cost of administering the program is fully funded by CDBG monies.

Because the County has not been eligible for CDBG funding for many years, no analysis has been conducted to determine what areas in the unincorporated County meet the TIG criteria nor has there been any assessment of the different needs for CDBG funding that might exist. It may be that there will only be a limited demand for these funds, given the County's land use policies that limit residential development in the unincorporated County and the

general socio-economic status of the unincorporated area population. On the other hand, there may be pockets of lower-income populations that could benefit from an area-specific water or sewer project, for example. Or there may be enough low income families living in sub-standard housing that a CDBG-funded housing rehabilitation loan program would be viable (such a program could operate throughout the unincorporated county as long as each beneficiary is in the TIG). Whether there is a reasonable level of demand for CDBG funds is important because: (1) if the County announces that funding is available, it can raise expectations that may not be met; and (2) it is not clear what level of grant activity is necessary to support the needed level of County administrative and oversight costs.

At this point, there is only a very limited level of County staff expertise in CDBG issues, so staff does not have a clear idea of the time and effort that would be involved in administering the application process and in administering any grants that might be received. This makes it difficult to evaluate what the different organizational options are, to determine what the costs might be and to assess what criteria the County might want to use in deciding whether to apply for specific projects. It also makes it difficult to evaluate the merits of particular projects from the State's perspective. This is important because if the State does not approve a grant application, the County will not be reimbursed any costs associated with preparing/reviewing the application. Staff is exploring the possibility of retaining a consultant to assist in addressing these issues, but it was not possible to retain a consultant in time to provide input into this report to the Board. Staff is also checking with other non-entitlement counties, but has not yet received feedback from them.

Under these circumstances, staff would normally not recommend moving forward until a complete analysis could be prepared, and in fact an immediate decision is not required with regard to participation in the General or Economic Development Allocation processes, since they will not start for another 5 months. However, as noted, there is at least one water district in the County interested in applying for the current round of PTA grants. To accommodate this potential applicant, the Board may want to consider participating in the current round of PTA funding only. The main arguments in favor of this would be that this, and potentially other, applicants could lose a funding opportunity and that going through the process now might give us some sense of what interest/need there is in the community. The arguments against would include, that the total amount available for all projects in the unincorporated County is only \$35,000, and to go through the process of advertising, seeking public input on use of funds, holding two public hearings and possibly evaluating proposals and preparing applications for such a small amount of money may seem not cost-effective. It may also create false expectations on the part of potential applicants for funding, since there is only \$35,000 available. Also, if the County does end up submitting a PTA grant application, it would likely be for planning related to a future General Allocation project, such as a public works or affordable housing project. Thus, by funding a PTA project the issue of further participation in the CDBG program may be effectively predetermined.

Given the above, staff believes that the best course of action at this point is for the County to participate in this round of PTA funding, but without a commitment to ongoing participation in the CDBG process. This will allow those agencies or organizations who are ready to apply for a PTA grant to do so and perhaps give us some sense of community interest in the program, while allowing staff to complete a more thorough analysis of issues related to involvement in the program on a larger scale. There is some potential cost here, because the County will need to advertise and hold hearings and possibly devote staff time to reviewing applications - which may or may not be funded by HCD depending on whether we actually apply for and receive a grant. However, staff has already devoted a considerable amount of time to examining the CDBG issue and application costs can be minimized if the County requires that applicants for funding for specific projects prepare all application documents and materials and submit them to the County for review, rather than having County staff prepare any application documents. Staff would also recommend that any applicants be responsible for providing the required County match.

If the Board agrees to participate in this round of PTA funding, the County will need to hold two public hearings. The second public hearing, concerning specific grant applications, must be before the Board of Supervisors.

The first public hearing can be before the Board, or the Board can designate another County official to conduct the hearing. Although there would likely be some benefit to the Board in receiving any testimony on potential uses of CDBG funds directly, since there is a very short turn around time for submittal of PTA applications, staff is recommending that the Board designate the County Executive Officer, or her designee, to conduct the first required public hearing.

Finally, it should be noted that if staff continues to work on evaluating issues related to further participation in the CDBG process there will be additional costs incurred, including possible consultant costs.

SUPPORTING DOCUMENTS

None

CEO Recommendation: Approve

Reviewed By: Britt Ferguson