



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: December 21, 2005

ITEM 101

REPORT NO: HCR 06-02
For the Agenda of January 13, 2006

SUBJECT: Application for FY2007 Community Development Block Grant (CDBG)
Funds (Citywide)

SUMMARY

Issue: Should the San Diego Housing Commission request that the City Council allocate FY2007 CDBG funds according to City Council Policy 700.02?

Recommendation: That the President and Chief Executive Officer be authorized to:

1. Apply to the City for 20 percent of the City's FY 2007 CDBG funds for affordable housing, in conformance with City Council Policy 700.02;
2. Execute a contract with the City for the amount allocated to the Housing Commission and any additional amount, allocated to other agencies, that the Housing Commission may be asked to administer on the City's behalf; and
3. Execute contracts with other agencies receiving CDBG allocations which the City Council may ask the Housing Commission to administer.

Fiscal Impact: CDBG funds are an essential source of operating revenue for a number of the Housing Commission's programs, including unfunded and under-funded mandates (such as preparing the City's Consolidated Plan), and are available for housing programs as well. At this time, the City has not been notified of the amount of CDBG funding it will receive in FY2007. This is due to ongoing discussions of possible changes to the availability of CDBG funding. The amount of the City's FY2006 federal entitlement grant was \$17,282,982; 20 percent of which is \$3,456,596, and this report is based on these numbers. As in past years, the amount the Housing Commission receives may be substantially different from the amount requested. Therefore, it is not possible to quantify fiscal impact at this point in the allocation process.



Affordable Housing Impact: CDBG regulations state that at least 70 percent of expenditures be used for activities benefiting persons with income at or below 80 percent of area median income (currently \$55,200 for a family of four), with emphasis on persons and households below 50 percent of area median income (currently \$34,500 for a family of four). All CDBG funds allocated to the Housing Commission will be used for purposes related to affordable housing.

Previous Related Actions: On June 25, 1996, City Council revised Council Policy 700-02 (Community Development Block Grant Program) to target 20 percent of the annual CDBG entitlement for affordable housing purposes. In each subsequent year, the Housing Commission has authorized the Chief Executive Officer to apply for 20 percent of the City's grant, most recently on January 14, 2005 (HCR 05-01).

Future Related Actions: A projected allocation of CDBG funds will be included in the Housing Commission's FY2007 Budget. Differences between the projected and actual allocation will be reconciled through a FY2007 Budget Amendment. City Council action allocating CDBG funds is expected in April or May 2006.

BACKGROUND

The CDBG Program is funded annually by the Department of Housing and Urban Development (HUD). The funding amount is determined by a formula which uses several objective measures of community needs, including the extent of poverty, population, housing overcrowding, age of housing and population growth lag in relationship to other metropolitan areas. There is a wide variety of eligible uses of funds including public facilities and improvements, economic development and business assistance, residential rehabilitation programs, affordable housing, public services, community development and revitalization, and Section 108 loan payments. (Section 108 is the loan guarantee provision of the CDBG program; it provides communities with a source of financing for large-scale economic development, housing, public facilities and other development projects).

Since June 1996, when the City Council amended Council Policy 700-02 (CDBG Program) establishing a goal that 20 percent of the City's annual CDBG entitlement "be used for affordable housing purposes," the Housing Commission has applied for 20 percent of the City's CDBG funds. This amount was intended to include operating funds for eligible Housing Commission activities, programmatic allocations to the Housing Commission (for example, rehabilitation of owner-occupied homes, first-time homebuyer and multifamily rental loans), and allocations to community-based organizations to carry out their housing activities.

After reviewing the Affordable Housing Task Force's report, which was released in May of 2003, the Land Use and Housing Committee of the City Council expressed interest in achieving the 20 percent policy target. Nationwide, more than 24 percent of FY05 CDBG funds were devoted to affordable housing. The amount allocated for all affordable housing purposes in FY06 was \$2,179,978, or approximately twelve percent of the total CDBG funds that the City received. Of the \$2,179,978 allocated for housing, the Housing Commission received \$1,277,478 (approximately \$142,000 less than in recent years). The Housing Commission is administering the remaining \$902,500 allocated for housing purposes to other agencies.

DISCUSSION

The FY07 CDBG entitlement is expected to be between nine and eleven percent lower than FY06, and will be distributed according to the formula set forth in Council Policy 700.02: 40 percent to Citywide purposes and 60 percent to Council Districts, with the distribution to the Council Districts proportionate to their respective low income populations. While it is possible that allocation procedures will be changed in FY07, specific information on changes is not available.

It is recommended that the Housing Commission apply for 20 percent of the City's FY07 CDBG funds for affordable housing, or an estimate of \$3,456,596. This would be comprised of \$1,382,638 from the Citywide portion (20 percent of the 40 percent Citywide funds), for Housing Commission program support and \$2,073,957 from the Council Districts (20 percent of the 60 percent Council District funds), in proportion to their respective low income populations. The application deadline is January 30th, 2006.

The Housing Commission's appropriation from the Citywide portion typically funds a portion of the operating costs of Housing Finance & Development, Loan Portfolio Servicing, Occupancy Monitoring and Rehabilitation, all of which carry out CDBG-eligible activities. The CDBG allocation each year is a significant funding source for the operating costs of these departments. Since FY04, the Housing Commission allocation has been reduced while the cost of housing and related programs increased.

The City's standard CDBG agreement with the Housing Commission changes little from year to year, though the scope of services and contract budget vary in response to the specifics of the allocation.

For the Agenda of January 13, 2006
Application for FY2007
CDBG Funds
Page 4

ALTERNATIVES

Direct staff to apply for a different total amount (the current allocation or the full 40% recommended by the Affordable Housing Task Force) or a different distribution of CDBG funds.

Respectfully submitted,

**Signature on File
With Original Document**

Approved by,

Cissy Fisher
Director, Housing Finance & Development

Elizabeth C. Morris
President & Chief Executive Officer

cdbg/fy07

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