



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: January 7, 2005

ITEM 100

REPORT NO: HCR 05-01
For the Agenda of January 14, 2005

SUBJECT: Application for FY2006 Community Development Block Grant (CDBG)
Funds (Citywide)

SUMMARY

Issue: Should the San Diego Housing Commission request that City Council allocate FY2006 CDBG funds according to City Council Policy 700.02?

Recommendation: That the Chief Executive Officer:

1. Apply to the City for 20 percent of the City's FY 2006 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 Manager 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. The City's preliminary estimate of its FY2006 federal entitlement grant is \$17,282,982; 20 percent would be \$3,456,596. However, 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 \$54,800 for a family of four), with emphasis on persons and



households below 50 percent of area median income (currently \$34,250 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 9, 2004 (HCR 04-002).

Future Related Actions: A projected allocation of CDBG funds will be included in the Housing Commission's FY2006 Budget. Differences between the projected and actual allocation will be reconciled through a FY2006 Budget Amendment. City Council action allocating CDBG funds is expected in April or May 2005.

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.

On August 6, 2002, the City Council declared a "State of Emergency Due to Severe Shortage of Affordable Housing in the City of San Diego." An Affordable Housing Task Force was formed and charged with providing recommendations to the City Council to improve affordable housing options and strategies in the City of San Diego. Included in the Affordable Housing Task Force's Report in May 2003 was a recommendation to increase the allocation of CDBG funds to 40 percent per year (approximately \$7,458,800 based on FY04 funding). The Land Use and Housing Committee of the City Council expressed interest in achieving the

20 percent policy target. Nationwide, more than 30 percent of CDBG funds are devoted to affordable housing.

The amount allocated for all affordable housing purposes for FY05 was \$2,109,241 or approximately 11.5 percent of the total CDBG funds that the City received (\$18,260,000). Of the \$2,109,241 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 \$831,763 allocated for housing purposes to other agencies.

DISCUSSION

The City's FY2006 CDBG entitlement estimate of \$17,282,982 will again 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.

It is recommended that the Housing Commission apply for 20 percent of the City's FY2006 CDBG funds for affordable housing, or a total 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 31, 2005.

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. The FY04 funding was reduced \$141,942 from \$1,419,420 received in FY01, FY02 and FY03. While the cost of housing and related programs increased, FY05 funding remained the same as FY04.

The Council District portion typically funds specific program and project requests, and is mostly allocated to community-based organizations rather than to the Housing Commission. This year it is proposed that the Housing Commission request funding for several different projects such as \$1,170,000 for much needed rehabilitation of kitchens and baths in a 78 unit development owned by the Housing Commission in District Eight. The remaining \$903,957 would be dedicated to the development and preservation of affordable housing or expansion of such projects as the Housing Counselor program, currently implemented in Districts Six and Eight, which provides mediation and educational services to nurture healthy landlord/tenant relationships.

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.

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,

Cissy Fisher
Director, Housing Finance & Development

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
President & Chief Executive Officer

cdbg/fy06

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