



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: January 5, 2004

ITEM 101

REPORT NO: HCR 04-002
For the Agenda of January 9, 2004

SUBJECT: Application for FY2005 Community Development Block Grant (CDBG)
Funds (Citywide)

SUMMARY

Issue: How should the San Diego Housing Commission request that City Council allocate its FY2005 CDBG funds for housing purposes?

Recommendation: That the Chief Executive Officer:

1. Apply to the City for 20 percent of the City's FY2005 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 could be available for housing programs as well. The City's preliminary estimate of its FY2005 federal entitlement grant is \$18,647,000 (based on FY04 funding); 20 percent would be \$3,729,400, however, 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 median area income (currently \$51,050 for a family of four), with emphasis on persons and



households below 50 percent of median area income (currently \$31,900 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 31, 2003 (HCR 03-005).

Future Related Actions: A projected allocation of CDBG funds will be included in the Housing Commission's FY2005 Budget. Differences between the projected and actual allocation will be reconciled through a FY2005 Budget Amendment. City Council action allocating CDBG funds is expected in April or May 2004.

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 and provides communities with a source of financing for economic development, housing rehabilitation, public facilities and large-scale physical 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.

The amount allocated for all affordable housing purposes for FY04 was \$2,577,978 or approximately 14 percent of the total CDBG funds that the City received (\$18,647,000). Of the \$2,577,978 total allocated for housing in FY04, the Housing Commission received \$1,277,478 (approximately \$142,000 less than in recent years). The Housing Commission is administering the remaining \$1,300,500 allocated to other agencies.

DISCUSSION

The City's FY2005 CDBG entitlement estimate of \$18,647,000 (based on FY04 funding) 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 FY2005 CDBG funds for affordable housing, or a total of \$3,729,400. This would be comprised of \$1,491,760 from the Citywide portion (20 percent of the 40 percent Citywide funds), for Housing Commission program support and \$2,237,640 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 February 9, 2004.

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 some interest in achieving the 20 percent policy target. The Committee asked City staff to bring back a more detailed report regarding CDBG funding, presently scheduled on January 21, 2004.

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. Housing Commission programs continue to feel the impact of the lack of resources from the Housing Trust Fund linkage fees.

The Council District portion typically funds specific program and project requests. This year it is proposed 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 state-financed site owned by the Housing Commission located at 605-695 Picador Boulevard; and the remaining \$1,067,640 for development and preservation of affordable housing. In recent years, most Council District CDBG funds allocated to housing have been targeted to community based organizations rather than to the Housing Commission.

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,

**Signature on File
With Original Document**

Approved by,

Jack D. Farris
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Chief Executive Officer

cdbg/fy05

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