



REPORT

DATE ISSUED: January 24, 2003

ITEM 107

REPORT NO: HCR 03-005
For the Agenda of January 31, 2003

SUBJECT: Application for FY2004 Community Development Block Grant (CDBG) Funds (Citywide)

SUMMARY

Issue: How should the San Diego Housing Commission request that City Council allocate its FY2004 CDBG funds for housing purposes?

Recommendation: That the Chief Executive Officer:

1. Apply to the City for 20 percent of the City's FY2004 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 FY2003 federal entitlement grant is \$18,668,000; 20 percent would be \$3,733,600, 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 (\$48,100 for a family of four), with emphasis on persons and households below 50 percent of median area income (\$30,050 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 February 1, 2002 (HCR 02-002).

Future Related Actions: A projected allocation of CDBG funds will be included in the Housing Commission's FY2004 Budget. Differences between the projected and actual allocation will be reconciled through a FY2004 Budget Amendment. City Council action allocating CDBG funds is expected in April or May 2003.

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.

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, and allocations to nonprofits to carry out their housing activities.

The amount allocated for all affordable housing purposes for FY03 was \$2,102,820 or approximately 12 percent of the total CDBG funds that the City received (\$18,404,000). Of the \$2,102,820 total allocated for housing in FY02, the Housing Commission received \$1,419,420. The Housing Commission is administering the remaining \$683,400 allocated to other agencies.

DISCUSSION

The City's FY2004 CDBG entitlement estimate of \$18,668,000 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 FY2003 CDBG funds for affordable housing, or a total of \$3,733,600 comprised of \$1,942,000 from the Citywide portion, for Housing Commission program support and \$1,791,600 from the Council Districts, in proportion to their respective low income populations. The application deadline is February 7, 2003.

The Housing Commission's appropriation from the Citywide portion typically funds a portion of the operating costs of Housing Finance & Development, Portfolio Servicing and 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. This year it is of special significance because of the lack of resources from the Housing Trust Funding (HTF) linkage fees. The linkage fees are collected on all non-residential construction permits during the permitting process. As of this date, \$700,000 has been collected for FY03. In the past two years, HTF collected \$3.4 million in FY01 and \$2.4 million in FY02. If this trend continues FY03 will be the lowest year of collections since the inception of the HTF in 1991.

The Council District portion typically funds specific program and project requests. This year Housing Commission staff will be working with the Council Districts to propose a Lead Hazard Control Program to expand the Lead Hazard Control and Healthy Homes grant program recently awarded to the City of San Diego by HUD to include all areas of the City. The Housing Commission will also be requesting funding from Council District 3 for the San Diego Model School Development Agency for start-up costs, such as technical expertise, to implement the development of this innovative project. In recent years, most Council District CDBG funds allocated to housing have been targeted to nonprofits 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.

Housing affordability continues to be an issue in San Diego. According to the City's current Housing Element, approximately 40 percent of households in the City of San Diego are low-income, thus earning 80 percent or less than the median area income. The U.S. Department of Housing and Urban Development has established \$60,100 as the 2002 median annual area income for a family of four in the San Diego region; therefore a family of four at 80 percent or

below median area income is earning less than \$48,100. Only 22 percent of the City's population can afford to buy a home in San Diego with a median price of a home now at \$349,000 (November 2002 data). Additionally, according to the 2000 Census, 44 percent of households in the City of San Diego pay 30 percent or more of their income for their housing expense.

ALTERNATIVES

Direct staff to apply for a different total amount or a different distribution of CDBG funds.

Respectfully submitted,

Approved by,

Signature on File with Original Document

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