

STAFF REPORT

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: BRUCE BUCKINGHAM, COMMUNITY DEVELOPMENT DIRECTOR *BB*
JANET REESE, PLANNER II *JR*
SUBJECT: COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM PARTICIPATION

BACKGROUND

The U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) program authorizes use of funds to eliminate blight and to assist low- and moderate-income residents. There are two programs: "entitlement" and "non-entitlement".

The City is currently part of the CDBG entitlement program that is administered by San Luis Obispo County. As a participant in the entitlement program, the City consistently receives approximately \$120,000 per year. The current three-year cooperation agreement with the County expires June 30, 2012, however, the process to prepare the next cooperation agreement starts approximately a year in advance.

Last year the Council authorized staff to review the advantages and disadvantages of remaining within the County's entitlement program or proceed with participation in the non-entitlement state-wide program. Based on staff's analysis of the issues, staff is recommending the City notify the County of its decision to withdraw from the County Entitlement Program.

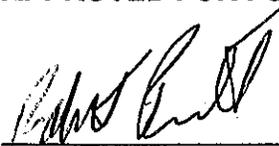
DISCUSSION

Comparison of Programs:

County Affiliated Entitlement Program

Funding for the current CDBG entitlement program is formula based. Participating jurisdictions are allocated an amount based on total population, poverty and overcrowding. The City receives approximately \$120,000 annually as part of the entitlement program, which can be used for a variety of different activities, including program administration (maximum 20%), public service activities (maximum 15%), economic development programs, housing rehabilitation, and infrastructure projects. In addition, the City can apply for the Home Investment Partnership Act (HOME) program which is the largest federal grant program to state and local government for the creation of affordable housing projects. Through the entitlement program, the HOME grants are awarded on a competitive basis by the County.

APPROVED FOR FORWARDING



**ROBERT PERRAULT
CITY MANAGER**

**Please Review for the Possibility of a
Potential Conflict of Interest:**

- | | |
|--|-----------------------------------|
| <input checked="" type="checkbox"/> None Identified by Staff | <input type="checkbox"/> Bright |
| <input type="checkbox"/> Shoals | <input type="checkbox"/> Molnar |
| <input type="checkbox"/> Nicolls | <input type="checkbox"/> Peterson |

Meeting Date: May 16, 2011

Agenda Item No. 10

One of the entitlement CDBG programs that benefits local non-profit organizations is the public services activities. The Council has typically elected to allocate the maximum amount of 15%, or about \$18,000 per year to these organizations. In addition, the Council has also funded economic development endeavors such as the Small Business Development Center.

The majority of the entitlement dollars, typically about \$75,000 per year, are spent on infrastructure projects that directly benefit low-income residents. Recent examples include storm drain work on South 5th Street to alleviate flooding and new sidewalks on South 13th Street.

The CDBG entitlement funds are distributed by HUD to the City in October, although the allocation process begins a year in advance. The Council has already forwarded funding recommendations to the County for the October 2011 allocation. Therefore, the money for this coming fiscal year to be spent from October 2011 through June 2012 is pending final approval by the County.

Statewide Non Entitlement Program

Funds for the non-entitlement program are distributed through a competitive grant application process. The City would be competing with other cities from across the State. Therefore, it is vital that the City be competitive state-wide, since there is no guaranteed CDBG funding as part of the non-entitlement program. The non-entitlement CDBG program has three funding categories for which cities can apply annually: General, Economic Development, and Planning & Technical Assistance (reference Attachment 4).

General funds can be used for activities or public infrastructure projects, such as correcting a documented health and safety issue (e.g., an area prone to flooding), barrier removal (ADA improvements), and activities in support of new housing (e.g., down payment assistance, site improvements, etc.). This is similar to the existing projects that the City funds through the entitlement program. However, the non-entitlement program would allow the City to compete for grants that are up to \$1,500,000, which far exceeds the City's entitlement amount of \$75,000 annually.

Economic Development funds can be used for infrastructure improvements necessary to accommodate the creation, expansion, or retention of identified businesses, direct loans to businesses, grants for publicly owned infrastructure and microenterprise assistance. These grants can range from \$500,000 up to \$2,500,000.

Planning and Technical Assistance grant funds can be used for applications, studies, preliminary engineering or architectural plans, as long as the activity is for a project that would be CDBG eligible. This would allow the City to receive funds up to \$70,000 per project for use in developing project plans/studies that would then be used for applying for grants to construct the projects.

The non-entitlement program also has competitive applications for HOME grants, the same as the entitlement program. However, the grant amounts can be significantly greater than through the entitlement program with the County. The maximum HOME grant amount for non-entitlement programs, such as the program for first time homebuyers, is \$800,000. In addition, HOME grants can be used for the construction of affordable housing projects up to \$5,000,000.

If the Council elects to move forward with the non-entitlement program, the City would not be eligible to apply for the HOME program until August 2012 and the other non-entitlement programs until January 2013.

As part of the non-entitlement program, the City would not receive funding for public service activities (i.e., funding for non-profits). Though the non-entitlement CDBG program does allow the City to apply for public service activities grants as part of the project application process, the funding is on a competitive basis and typically only allows funding for one activity. However, the funding for the one activity or non-profit organization could be up to \$50,000 per grant.

Income Survey Results

The City contracted with Adams Ashby Group (AAG) to conduct a Community Income Survey. The primary purpose of the survey was to determine if the number of income eligible households city-wide had grown from the 2000 census data. In addition, the survey responses were broken out by census tract blocks to show if certain areas of the City had higher concentrations of income eligible households. If certain census blocks have higher percentages of low income households, this makes the City even more competitive for infrastructure projects in those blocks as part of the non-entitlement program. After two rounds of mailed surveys to a random sample of households throughout the City, AAG has calculated the survey results based on the responses received to date (reference Attachment 3).

The overall City-wide results show the City is comprised of 59.79% income eligible households (households with an income level that do not exceed 80% of the median income, or about \$58,000 for a family of four). These households are referred to as the Targeted Income Group (TIG). The city-wide TIG percentage of almost 60% makes the City competitive for the non-entitlement program.

As shown in Attachment 3, of the eight census tract blocks in the City (reference Attachment 5), Block 3 of Tract 120 and Block 4 of Tract 121 both have higher TIG's (64% and 63%, respectively) than the overall City TIG of about 60%. Since the responses to the surveys were less than anticipated, it is staff's belief that the percentage of eligible income households could actually be enhanced. Staff is reviewing the possibility of doing additional survey work.

Conclusion

If the Council elects to remain with the entitlement program, the City would continue to receive approximately \$120,000 annually, unless federal funding levels were adjusted. Based on this allocation, the City is able to distribute approximately \$75,000 annually to infrastructure projects with additional funding for the public services activities and economic development activities. In addition, the entitlement program funds all administrative costs, avoiding the need for any General Fund monies to implement the CDBG programs.

The major limitation of the entitlement program is that the funding is capped. With the threat of redevelopment agencies being eliminated and the State's fiscal situation, the City will likely have fewer funding opportunities in the future.

As previously noted, withdrawal from the current entitlement program would mean that funding for the non-profit organizations would cease after the distribution of funds for the period between July 2011 and June 2012.

If the Council decides to withdraw from the entitlement program, the City would no longer be in the program after June 30, 2012. As part of the non-entitlement program, the City would work with a CDBG grant writing consultant to identify the types of projects that the City would be most competitive. The upside is that if the City is successful in receiving grants, the amounts would likely be substantially greater than the existing \$120,000 allocation.

Finally, if Council decides to become a non-entitlement program, the City would apply for HOME and CDBG funds in July 2012 and January 2013, respectively. The first potential opportunity to receive grant funds would be October 2012 for the HOME program and October 2013 for the CDBG programs.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Adopt the Resolution withdrawing from the entitlement program with the Urban County; or
2. Adopt the Resolution to continue with the entitlement program with the Urban County; or
3. Provide other direction to staff.

RECOMMENDED ACTION

It is recommended that the City Council adopt the resolution withdrawing from the entitlement program with the Urban County.

FISCAL IMPACTS

The City currently receives approximately \$120,000 annually through the CDBG entitlement program. Through the CDBG non-entitlement program, the City would not receive an annual allocation, but would be competing for grant funds at the State level. Additionally, the City would need to budget about \$7,500 from the General Fund to fund the cost of preparing the grant applications. If the City was unsuccessful in the first year in securing a grant, additional funding would be necessary. Grant applications for housing-related programs and projects would be funded by the Agency's Low- and Moderate-Income Housing Fund.

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act. Previous non-profit CDBG recipient groups were sent a copy of the meeting agenda and staff report.

ATTACHMENTS

1. Draft Resolution No. 11-XX Withdrawing from the Entitlement Program
2. Draft Resolution No. 11-XX Continuing in the Entitlement Program
3. Survey Summary
4. State CDBG Program Information
5. City Census Block Tract Map

RESOLUTION NO. 11-__

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GROVER BEACH, CALIFORNIA ELECTING TO NOT ENTER INTO A COOPERATION AGREEMENT BETWEEN THE COUNTY OF SAN LUIS OBISPO AND THE CITY OF GROVER BEACH FOR JOINT PARTICIPATION IN THE URBAN COUNTY COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM AND THE HOME INVESTMENT PARTNERSHIPS PROGRAM FOR JULY 2012 THROUGH JUNE 2015

WHEREAS, the County of San Luis Obispo ("County"), a political subdivision of the State of California, and the City of Grover Beach ("City") a municipal corporation, desire to participate in the Community Development Block Grant (CDBG) program administered by the U.S. Department of Housing and Urban Development (HUD); and

WHEREAS, said program will promote the public health, safety and welfare by providing grant funds to be used by the City and County to improve housing opportunities for low- and moderate-income households, to encourage economic reinvestment, to improve community facilities and public services, and to provide other housing-related facilities, or services; and

WHEREAS, the City Council has elected to not enter in to a cooperation agreement with the County of San Luis Obispo for participation in the Urban County Community Development Block Grant Program and the Home Investment Partnerships Program; and

WHEREAS, the City Council has elected to participate in the "non-entitlement" program administered by the State.

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of Grover Beach, California, that the City hereby elects to not enter into a cooperation agreement with the County of San Luis Obispo for joint participation in the Urban County Community Development Block Grant Program and the Home Investment Partnerships Program for July 2012 through June 2015.

On motion by Council Member _____, seconded by Council Member _____, and on the following roll-call vote, to wit:

AYES: Council Members -
 NOES: Council Members -
 ABSENT: Council Members -
 ABSTAIN: Council Members -

the foregoing Resolution was **PASSED, APPROVED, and ADOPTED** at a regular meeting of the City Council of the City of Grover Beach, California this 16th day of May, 2011.

DRAFT

 JOHN R. SHOALS, MAYOR

Attest:

 DONNA L. McMAHON, CITY CLERK

RESOLUTION NO. 11-__

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GROVER BEACH, CALIFORNIA APPROVING A COOPERATION AGREEMENT BETWEEN THE COUNTY OF SAN LUIS OBISPO AND THE CITY OF GROVER BEACH FOR JOINT PARTICIPATION IN THE URBAN COUNTY COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM AND THE HOME INVESTMENT PARTNERSHIPS PROGRAM FOR JULY 2012 THROUGH JUNE 2015

WHEREAS, the County of San Luis Obispo ("County"), a political subdivision of the State of California, and the City of Grover Beach ("City") a municipal corporation, desire to participate in the Community Development Block Grant (CDBG) program administered by the U.S. Department of Housing and Urban Development (HUD); and

WHEREAS, said program will promote the public health, safety and welfare by providing grant funds to be used by the City and County to improve housing opportunities for low and moderate-income households, to encourage economic reinvestment, to improve community facilities and public services, and to provide other housing-related facilities, or services; and

WHEREAS, to qualify for CDBG funds under HUD eligibility guidelines, the County must have a population of at least 200,000 persons; and

WHEREAS, the City desires to continue to participate jointly with the County in said program; and

WHEREAS, HUD requires that the parties enter into a cooperation agreement to define their rights and obligations as a prerequisite of participation in the CDBG program; and

WHEREAS, the proposed cooperation agreement will promote the public health, safety and welfare by enabling the City and County to participate in the U.S. Department of Housing and Urban Development's CDBG program under an "urban county" entitlement; thus making available funds for a variety of housing, economic development, and public services programs not otherwise available; and

WHEREAS, the City and County enter into yearly subrecipient agreements which establish administrative policies and procedures, performance standards, and guidelines for funding specific CDBG programs and projects; and

WHEREAS, the proposed cooperation agreement is not a "project" for purposes of compliance with the provisions of the California Environmental Quality Act and the City's Environmental Guidelines.

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of Grover Beach, California, as follows:

1. The City Council hereby approves and authorizes the Mayor to execute the cooperation agreement with the County to enable joint participation in HUD's CDBG program.

2. The City Manager is hereby authorized to act on behalf of the City in connection with the implementation of the agreement, ongoing operation of the CDBG program, and other activities necessary to carry out the intent of the agreement.

On motion by Council Member _____, seconded by Council Member _____, and on the following roll-call vote, to wit:

AYES: Council Members -
NOES: Council Members -
ABSENT: Council Members -
ABSTAIN: Council Members -

the foregoing Resolution was **PASSED, APPROVED, and ADOPTED** at a regular meeting of the City Council of the City of Grover Beach, California this 16th day of May, 2011.



JOHN P. SHOALS, MAYOR

Attest:

DONNA L. McMAHON, CITY CLERK

Response by Block Group

Tract 120	Revised Number of Households (Less vacancies)	Responses Needed (revised number accounting for vacancies)	1 st Round			2 nd Round	Total Combined
			Online Surveys	Mail-in, or, Drop Off	Total	Received	
BG 1	340	200	13	17	30	63	93
BG 2	775	300	9	20	29	83	112
BG 3	689	300	16	27	42	59	101
BG 4	995	300	17	29	46	73	119
Tract 121							
BG 1	603	250	10	17	27	73	100
BG 2	813	300	12	28	40	88	128
BG 3	551	250	10	22	32	53	85
BG 4	311	200	11	12	23	43	66
Total	5077	2,100	97	145	269	535	804

Results:

Tract 120	Received	Responses Still Needed	TIG
BG 1	93	107	57%
BG 2	112	188	58%
BG 3	101	199	64%
BG 4	119	181	54%
Tract 121			
BG 1	100	150	56%
BG 2	128	172	50%
BG 3	85	165	58%
BG 4	66	134	63%
Total	804	1296	

City-wide Overall Survey

Households in City	Surveys sent	Number of Responses Needed	Received	Responses Still Needed	TIG
5077	2,580	400	804	0	59.79%

Department of Housing and Community Development

The Community Development Block Grant Program

These links lead to further general information about the State CDBG Program.

WHAT IS CDBG? — PROGRAM DESCRIPTION

ELIGIBLE ACTIVITIES BY GRANT TYPE:

[General/Native American/Colonias](#)

[Economic Development](#)

[Planning and Technical Assistance](#)

THE FUNDING CYCLE:

[How funds are distributed](#)

[Funding Distribution Flow Chart \(Adobe PDF\)](#)

FUNDING CRITERIA:

[Introduction](#)

[Economic Development](#)

[General/Native American/Colonias & Enterprise Fund](#)

[Planning and Technical Assistance](#)

LAWS AND REGULATIONS

[State regulations \(Adobe PDF\)](#)

[Federal regulations](#)

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Department of Housing and Community Development

Community Development Block Grant Program—Description

The State Community Development Block Grant (CDBG) program was established by the federal Housing and Community Development Act of 1974, as amended (42 USC 5301, et seq.). Subsequent legislation and regulations (Omnibus Budget Reconciliation Act of 1981 - Public Law 97-34, and 24 CFR Part 570, Subpart I) allowed states to administer the program for smaller cities and counties. In 1982, California's Executive Branch and Legislature agreed that the State should administer the program and assigned this responsibility to the Department of Housing and Community Development. The State CDBG program is implemented by the California Health and Safety Code section 50825, et seq, and the California Code of Regulations (Title 25, Section 7050, et seq).

The primary federal objective of the CDBG program is the development of viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate income. "Persons of low and moderate income" or the "targeted income group" (TIG) are defined as families, households, and individuals whose incomes do not exceed 80 percent of the county median income, with adjustments for family or household size.

Each year the program makes funds available to eligible jurisdictions through several allocations: General and Native American, Economic Development, Planning and Technical Assistance, and Colonias. Notices of Funding Availability (NOFAs) are published for each allocation as the funds become available. Successful applicants enter into contracts with the State to complete the specified activities with the grant funds.

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Department of Housing and Community Development

Eligible Activities—General/Native American and Colonias Grants.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

For all of these activities at least 51 percent of the persons or households benefited must have annual incomes of less than 80 percent of the area median income, and you may not exclude low TIG (LTIG) persons and households with less than 50 percent of the area median income. The State refers to such persons and households as the "targeted income group" (TIG). (See Appendix D for income guidelines.)

Up to 7.5 percent of the total grant amount may be used for general administration costs of the grant such as clearing environmental review and other requirements, local staff time to conduct public hearings and prepare reports, office telephone and copier, and auditing costs related to the grant.

Activity delivery costs (the cost of implementing a specific activity) is not included in general administration but is a separate budget item in your grant, if applicable. It is a percentage of the grant amount after subtracting out general administration costs, and is limited to 18 percent for housing rehabilitation activities, and 8 percent for all other activities.

Housing rehabilitation: Eligible activities are health and safety and complementary improvements made to units occupied by TIG households. Such improvements may include repair or replacement of foundations, roofs, siding, flooring, plumbing, and electrical systems. Rehabilitation may also include repair or installation of water or sewer laterals on private property, and complementary rehabilitation activities such as repainting and recarpeting. Department policy also allows you to use up to 10 percent of your rehabilitation activity budget as approved in your application and contract to address complementary community needs such as drainage, streets, curbs and sidewalks in areas where housing rehabilitation is being done. Rehabilitation funds may be used to reconstruct a dwelling unit only where the jurisdiction has analyzed and concluded that the unit is in such disrepair that removing and rebuilding the unit is less costly than rehabilitating it. If this occurs, submit the request for reconstruction review (see form in Chapter 16) to the Department for review and approval.

Repair and replacement of garages and driveways is generally ineligible unless the unit is being reconstructed or where the unit is being rehabilitated and a serious health and safety need exists. Other ineligible activities include landscaping, or general property improvements or repairs inconsistent with your local, State-approved program guidelines.

Activities in support of housing new construction may include: land acquisition; water and/or sewer improvements (to provide increased capacity needed); site improvements; clearing of site; construction of directly-related streets, curbs/gutters and sidewalks; parks, and recreation facilities; pre-construction studies, plans and funding applications; acquisition, rehabilitation or cost write-down of existing housing; and downpayment assistance and closing costs. CDBG funds may be used for construction of permanent housing only when carried out by a Community Based Development Organization (CBDO) pursuant to federal regulations.

Ineligible activities include the construction of new permanent housing residential structures or subsidy of such construction except when they are carried out by a CBDO as noted above.

Community facilities: Eligible activities include acquisition, rehabilitation, or new construction of buildings and grounds for public purposes such as training, health, education, recreation, nutrition, emergency shelter, day care, or fire protection, or the removal of architectural barriers from public buildings.

Ineligible uses include construction or rehabilitation or operation of permanent housing and centers of general local government (e.g., city offices, city hall).

Public services: CDBG funds may be spent for labor, supplies and materials used to provide or improve services (such as employment, crime prevention, child care, health, drug/alcohol abuse prevention, and/or recreation) with the following three conditions: the service must be new, that is never provided, or not provided in the twelve months prior to the application filing date; the service must be a quantifiable increase in the level of service over the past twelve months or maintenance of the existing level if it otherwise will decrease due to reasons not caused by local government action; and the State CDBG allocation for public services cannot exceed 15 percent of the total State allocation in that year.

Eligible public works activities to correct health and safety hazards include: acquisition, construction, rehabilitation or installation of projects such as: water wells, treatment, filtration and distribution facilities; sewer collection, treatment and disposal facilities; electrical power generation, transmission, lighting and service; natural gas distribution and service; drainage and flooding mitigation including the covering of drainage facilities, watershed-reservoir and stream development; and payment of "special assessments" as defined in 24 CFR 570.200 (c)(1), for the above activities.

Ineligible public works activities include: activities that do not address a health and safety hazard; operating and maintenance expenses related to the operation of the facility, improvement or project including salaries for operation staff; purchase of equipment that is not integral to the operation of the public improvement such as a service utility truck; periodic fees based on the use of the public improvement; real estate, property or ad valorem taxes, even if such charges include the recovery of all or some portion of the capital costs of the improvements; special assessments to non-TIG households. (24 CFR 570.207(b) and 570.200(c))

Department of Housing and Community Development

Eligible Activities—Economic Development

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

California Community Economic Enterprise Fund: You may use enterprise funds to finance eligible projects such as:

Business loans which provide financing to businesses for projects that will result in the creation or retention of jobs. Such loans may be used for equipment purchase; inventory, supplies or materials; working capital; business start-up costs; or building construction, rehabilitation or leasehold improvements.

Public infrastructure improvements (e.g., sewer, water, streets, storm drains, business incubator facilities) needed to accommodate specific business expansion/retention projects or to support developer projects which meet a CDBG national objective and result in the creation or retention of jobs.

Microenterprise assistance which provides financing to existing microenterprises or provides training and technical assistance to existing and prospective owners of microenterprises. Such activities may include loans to microenterprises, training and technical assistance programs that target existing or prospective low-income entrepreneurs, or support services such as child care or transportation for clients.

Over-the-counter. Funds from this component may be used to assist a specific business development project which will result in near-term creation or retention of jobs. This funding may be used for:

Business loans which provide financing to businesses for projects that will result in the creation or retention of jobs. Such loans may be used for equipment purchase; inventory, supplies or materials; working capital; business start-up costs; or building construction, rehabilitation or leasehold improvements.

Public infrastructure improvements (e.g., sewer, water, streets, storm drains, business incubator facilities) needed to accommodate specific business expansion/retention projects or to support developer projects which meet a CDBG national objective and result in the creation or retention of jobs.

Examples of ineligible economic development activities include: subsidies to an individual project exceeding \$50,000 per full-time permanent job created or retained; subsidies exceeding \$1,000 per TIG person to whom goods or services are provided by the activity; general promotion of the whole community; assistance to professional sports teams; assistance to privately-owned recreational facilities that serve a predominately higher-income clientele and where the recreational benefit to users or members clearly outweighs employment or other benefits to TIG persons; acquisition of land for an unidentified use; and assistance to a for-profit business while that business or any other business owned by the same person(s) or entity(ies) is the subject of unresolved compliance findings related to prior CDBG assistance.

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Department of Housing and Community Development

Eligible Activities—Planning and Technical Assistance

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

General allocation P/TA grants may be used for planning and work preliminary to project implementation including such activities as: affordable housing needs studies; housing condition surveys; affordable housing development feasibility studies; infrastructure needs analyses and cost estimates; community center development feasibility studies; preliminary engineering, architectural, or design costs; and preparation of funding applications.

General P/TA grant activities must be directed towards the planning of a project which, if brought to completion, would be a CDBG-eligible activity in which at least 51 percent of the beneficiaries would be TIG households.

Examples of ineligible general P/TA activities include housing element preparation except the costs incurred for that portion in which housing affordable to TIG households is addressed; and working engineering specifications or architectural drawings. General studies which provide a community-wide service or data base will not be considered to meet program objectives unless the community as a whole is 51 percent TIG, and the work, if completed, would principally benefit TIG households.

Economic development P/TA grants may be used for such projects as: feasibility studies of specific business development projects; commercial area infrastructure needs analyses and costs estimates; incubator development feasibility studies; and application preparation for economic development projects.

All economic development (ED) P/TA activities must meet one of the three national objectives and must be reasonably related to potential business expansion or retention projects that will result in the creation or retention of jobs. For example, a planning study that will result in preliminary design and engineering work for an interchange that will serve the needs of a community's residents and businesses is not in itself sufficiently related to potential job creation or retention activities and so would not be eligible. However, if that planning study was to result in preliminary design and engineering work for an interchange needed to serve identified commercially-zoned highway frontage acreage, it might be an eligible activity if it is reasonable to project that if the interchange is constructed, a specific number of jobs could be created in the near-term in the targeted area.

Some examples of ineligible ED P/TA activities include: staff costs related to implementing a marketing plan or business expansion and retention program; costs of printing a brochure to be used to market a local industrial park; or any planning activity that does not relate to an activity that will result in the creation or retention of jobs.

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Department of Housing and Community Development

Fund Distribution Method

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Each year, the State of California's Department of Housing and Community Development (HCD) receives an allocation of CDBG funds from the federal government. The federal Department of Housing and Urban Development (HUD), typically announces the award amount available in late February, and awards the funds to the State in May of each year.

Under State statute and regulation, HCD then allocates the federal CDBG award into various program components. The State allocation of federal CDBG dollars occurs according to the following methodology.

State Administrative Costs: Consistent with CFR 570.489, the State of California uses up to two percent (2%) of the annual CDBG award, plus \$100,000 for State administrative costs. The two percent figure is matched with non-CDBG State dollars on a one-for-one basis.

Technical Assistance: Under Title I, Section 106(d)(5), the State may allocate up to one percent (1%) of the annual CDBG award for technical assistance activities to local governments and nonprofit program recipients. The State of California elected to set aside this one percent out of its 1993, 1994 and 1995 awards. The State will set aside 1 percent in program year 1996/97 and 1997/98.

Colonias: Section 916 of the National Affordable Housing Act of 1990, as amended, established an annual set-aside for activities benefiting the residents of colonias. In 1995/96, the State of California will set aside and make two percent (2%) of its CDBG award available for colonias.

Native American Activities: Under State Health and Safety Code Section 50831, the State annually sets aside one and a quarter percent (1.25%) of its CDBG award for grants on behalf of nonrecognized tribes and rancherias.

Economic Development (ED): Title 25 of State regulations, Section 7062.1 requires the Department to set aside thirty percent (30%) of the annual federal CDBG award for ED activities. State statute also mandates how the ED set-aside dollars are to be allocated. The economic development distribution method is as follows:

Economic development Planning and Technical Assistance (P/TA): State Health and Safety Code Section 50833(a) states that ten percent (10%) of the ED set-aside will be made available for P/TA activities. The Department makes these dollars available on a continuous, over-the-counter basis, as announced in the Notice of Funding Availability.

The "California Community Economic Enterprise Fund" (Enterprise Fund) component: State regulations Section 7062.1(d) stipulates that, based upon prior years' demand, the Department will determine what percentage of the ED funds will be set aside for Enterprise Fund applications. In 1993, the Enterprise Fund's initial year, fifty percent (50%) of the ED funds were set aside for this component. In 1995, the Department set aside 50 percent of the ED allocation for Enterprise Fund applications. In 1996/97, the Department proposes setting aside seventy percent (70%) of the ED funds for Enterprise Fund applications. Any unawarded Enterprise Fund dollars will be made available through the "over the counter" ED component.

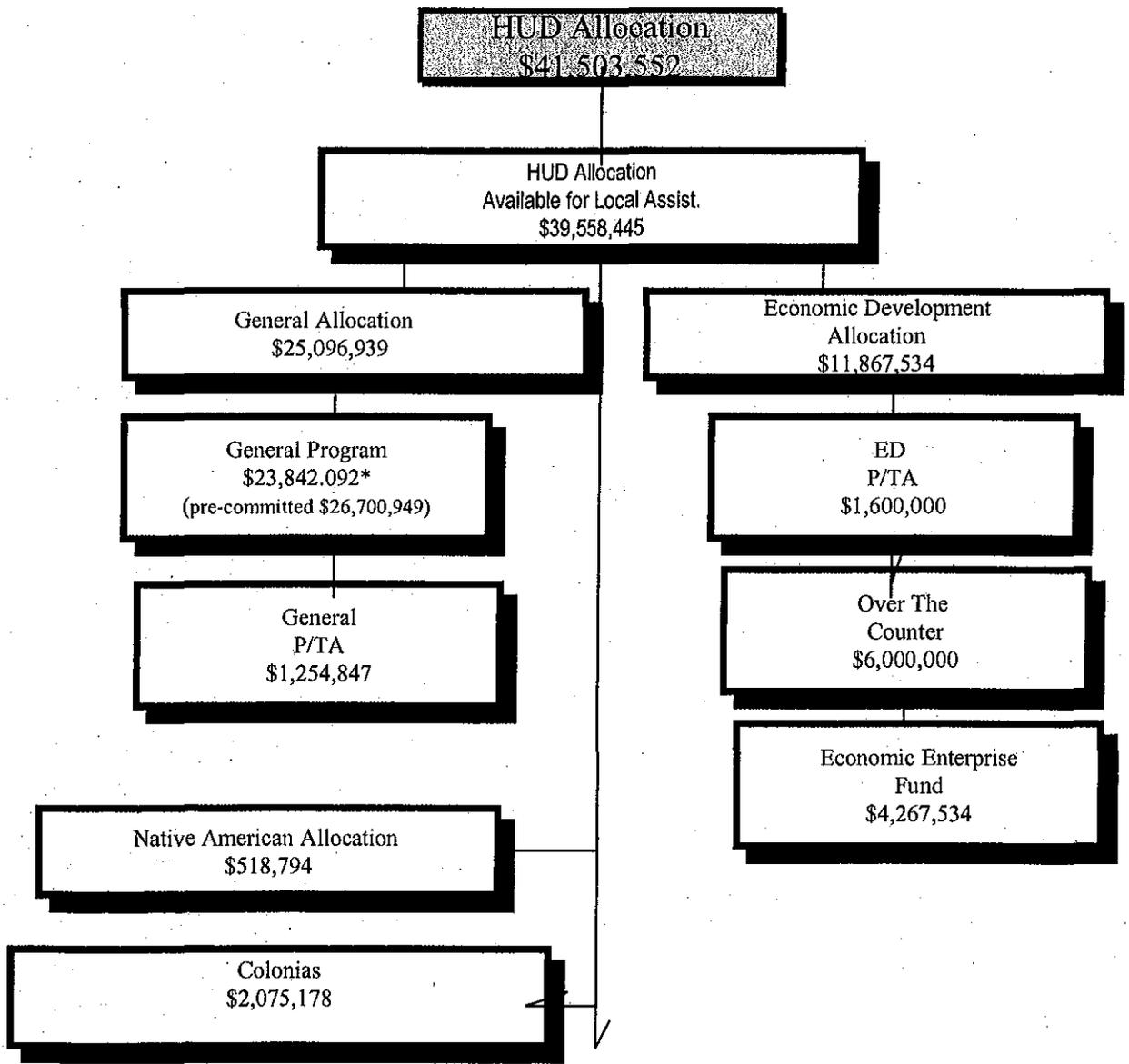
The "over the counter" (OTC) economic development component: Health and Safety Code Section 50834 requires that a separate training manual and Notice of Funding Availability be issued for this component. In the past, the quarterly deadlines and funding dates have been announced within the annual Notice of Funding Availability. In 1996/97 and 1997/98, the Department will entertain applications on an ongoing basis, and make funding recommendations as submitted applications are finalized and reviewed.

The "general" allocation: This component receives those funds remaining after the mandated set-asides described above are satisfied. The general allocation contains two funding mechanisms:

"General" P/TA: Health and Safety Code Section 50833(b) sets aside ten percent (10%) of the general CDBG allocation for planning and technical assistance grants. Like the ED P/TA component, this component implements the same over the counter funding cycle, and is announced in the same Notice of Funding Availability as the ED P/TA. Funding decisions are based on a first-come, first served basis, applying eligibility threshold criteria (see Attachment 3, p.25).

The annual "general" component: This component forms the mechanism through which a broad variety of CDBG-eligible activities are funded. Through this once-yearly process, applications are received for housing rehabilitation, public facilities, new construction, community facilities, public services, and economic development activities.

**State of California
Community Development Block Grant
(CDBG) Program
2007/2008 HUD Allocation
As of 8/13/07**



Department of Housing and Community Development

Funding Criteria Introduction

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

For 1996/97 and 1997/98, funds will be distributed pursuant to the methods specified in Sections 7062.1 and 7078 of the State regulations and according to provisions in Sections 50832, 50833, and 50834 of the Health and Safety Code. Pursuant to regulation, funds not awarded from the economic development allocation, the Native American and the planning/technical assistance allocations are awarded to unfunded general allocation applicants. The exception to this procedure is discussed below and involves the set-aside that has been established by federal legislation for the provision of assistance to communities designated as Colonias.

For 1996/97 and 1997/98 the Department will use the unspent Colonias set-aside funds, if any, for the rehabilitation of migrant centers located in non-entitlement cities and counties. The amount of funds to be set aside for 1996/97 will be determined by HUD based on the perceived need. For 1991 the amount of Colonias set-aside was approximately \$2.4 million; while for 1992 the amount was \$512,000. Requests in the amount of \$300,000 were received for the 1991 Colonias funds, and \$500,000 for the 1992 funds. The 1993 Colonias set aside was \$1.6 million while the 1994 set aside equaled \$1.68 million. The 1995 set aside equaled \$865,080.

A maximum of \$500,000 may be received from an application for funds from either the general or economic development allocation. Up to \$35,000 may be requested under both the general and economic development allocations for planning/technical assistance grants under a separate notice of funding availability (NOFA). Pursuant to 1994 State legislation, all P/TA funds will be made available on an over the counter basis in program years 1996/97 and 1997/98.

Up to 7.5 percent of the funding available for grants may be used by the grantee for grant administration expenses. The Department may authorize the use of additional funds for eligible program implementation costs. Up to 5 percent of the funds available for planning-only grants may be used for general administration expenses.

Economic Development applications submitted under Section 7062.1 will be evaluated individually against the threshold criteria contained in Section 7062. The exception to this is the California Community Economic Enterprise Fund activity. The General and Native American applications will also be evaluated according to the criteria contained in Section 7078 and then ranked according to the total number of points received. The activities that provide relatively high percentages of benefit to the Targeted Income Group and address serious community development needs receive the most points.

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Funding Criteria—Economic Development

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

For the Economic Development Allocation, the review factors consist of: the community need for economic development assistance; the demonstrated business need (or "gap") for CDBG funds to ensure the project can be completed; the market need for the product or service; the number and types of jobs that will result; the schedule of employment; evidence of firm financial commitments; the ratio of private funds leveraged; the ratio of CDBG funds to the number of jobs created or retained; evidence of site control; the provisions of any leases or encumbrances that could affect completion of the project; the security offered for the CDBG funds; the extent of the applicant's effort in support of the proposal; the urgency for assistance; extent of compliance with federal and State objectives for this component of the CDBG program; the effect of any intrastate relocation on the community; environmental impacts; the applicant's proposed cost of administering the program; and the applicant's performance with any prior CDBG grants from the State. Applicants may file applications at anytime, and the Department will make funding awards continuously.

Applications for the Economic Development Allocation will be review for completeness. Complete applications will be evaluated using the following criteria:

Percent of county-wide unemployment relative to the statewide and national averages. A maximum of twenty-five points.

Ratio of CDBG funds per job. A maximum of fifteen points.

Ratio of private funds to CDBG funds. A maximum of fifteen points.

Quality of applicant's past performance for CDBG contracts. A maximum of fifteen points.

Percent of funds allocated to applicant's general administrative costs (for this purpose, general administrative costs do not include funds budgeted for planning studies.) A maximum of ten points.

Applications which have received 50 or more points under the above criteria shall be reviewed for funding using the following factors:

The extent of the applicant's need for CDBG funds,
the market feasibility of the proposed activities,
the feasibility of the proposed activities,
the financial feasibility of the proposed activities,
the capacity of the applicant and its borrower, subcontractors or subrecipients to manage the proposed activities,
the appropriateness of the terms proposed by the applicant,
the ownership or control of any real estate needed for the proposed activities,
the extent to which the proposed activities involve intrastate relocation of jobs or business, and,
the extent of recruitment, training and promotional opportunities for targeted income groups.

Within the Economic Development Allocation, the Department has created a California Community Economic Enterprise Fund activity. This activity will allow eligible jurisdictions to apply for, and receive blanket funding commitments for economic development loans to businesses. Under the Enterprise Fund, underwriting for smaller economic development loans will be performed at the local level; the Department will review projects involving more than \$50,000 in CDBG funds prior to approving release of funds. Eligible uses of funds are loans to businesses as authorized in Section 7058(q) and detailed in subsection 7062.1(e)(2) of the State CDBG regulations.

During the 1992 funding year, under the California Community Economic Enterprise Fund activity, the Department released a Notice of Funding Availability (NOFA) for \$1,000,000 of 1992 Economic Development Allocation CDBG funds limited to jurisdictions which are adversely affected by announced military base closures or reductions. Pursuant to Section 7062.1 (d) of Title 25, California Code of regulations (as amended by Emergency Regulations adopted September 1992) eligible applicants must propose using CDBG funds to obtain federal funds to mitigate the economic effects of the base closure through local revolving loan programs to provide loans to businesses. No funds were set aside for base closure affected communities in 1993 or 1994. For 1996/97 and 1997/98, assistance for base closure activities will be based on availability of other federal sources available to mitigate effects of base closures.

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Funding Criteria—General, Native American, and California Community Economic Enterprise Fund Components

STATE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The rating factors used under the Native American, general allocations and the Enterprise Fund activity under the Economic Development Allocation consist of: benefit to Targeted Income Group households (except for Enterprise Fund), the extent of poverty in the applicant jurisdiction, the seriousness of the problem to be addressed using CDBG funds, the applicant's efforts to assist in resolving the problem, the environmental, social or economic impacts of the proposal, and the applicant's performance with any prior CDBG grants from the State.

The evaluation criteria are weighed by the maximum number of points assigned to each of the main categories of criteria as follows:

Poverty Index—100 points
Benefit to the Targeted Income Group—300 points
Need for CDBG Assistance—200 points
Prior CDBG Performance—150 points
Capacity to Administer the CDBG Program—150 points
Leverage of Local and Private Resources—50 points
State Objectives—50 points

Total: 1000 points

The weighing of the evaluation criteria and their use in a way that compares applications to one another is consistent with the State objectives of funding applications that provide the greatest portion of funds to benefit the Targeted Income Group, address the most serious community development needs, and demonstrate effective strategies and sound management as follows:

Poverty Index (Maximum 100 Points)—The Department will compare applicant jurisdictions on the basis of the percentage of the population with incomes below the poverty level as provided in the latest decennial census. The Department will assign 100 points to the application serving the area with the highest poverty percentage. The other applicants will be rank ordered based on the extent of their poverty to the highest poverty level. Applicants who elect to target their local program to fewer census tracts or census block groups than there are in their jurisdictions shall receive scores based on either those targeted census subdivisions or all the census subdivisions in the jurisdiction, whichever results in a higher score. The Department obtains this data from the State Census Data Center.

Benefit to Targeted Income Group (300 points)—A formula exists in regulation to measure the comparative extent of benefit to the Targeted Income Group of each applicant's program based on documented information provided by the applicant. The formula works as follows: Under the federal national objective, benefit to low and moderate income persons, at least 51 percent of a project's beneficiaries must be Targeted Income Group persons. Under State regulation, any single activity that meets no more than 51 percent benefit receives zero points. Under the State regulations, the 300 points for this benefit criteria are distributed among programs that provide 52 to 100 percent benefit. The 300 points are divided by the 49 percentage points between 51 percent and 100 percent. The product of this division is 6.12 points for each percentage point from 52 to 100. Since 51 percent benefit is equal to zero, the number 51 is subtracted from percentages greater than 51.

Need for CDBG Assistance (200 points)—The Department will evaluate need based upon which of four activity types is being proposed. The four activity types and criteria to be used are as follows:

Housing New Construction: The need for CDBG assistance will be based upon jurisdiction-wide data including incidence of overpayment, incidence of overcrowding, residential vacancy rates, and other relevant data.

Housing Rehabilitation: Need will be determined by jurisdiction-wide housing stock condition as described in the local general plan's housing element, census data describing housing overcrowding and age within the relevant area, and other relevant data.

Public Works: Need will be based upon documented health and safety problems, as well as the extent to which the proposed project solves the problem.

Community Facilities and Public Services: Need will be assessed based upon documented health and safety problems and the extent to which the project meets the need.

Prior CDBG Performance (100 points)—The Department will assign scores based upon the timeliness of expenditures of CDBG funds on general allocation grants funded in program years 1993 and 1994. The Department will also consider any unresolved monitoring findings, unresolved audit findings, timely close-out submittals, and timely reporting (annual GPR, cash requests, and quarterly reports). Jurisdictions without 1993 or 1994 grants will receive full performance points.

Capacity to Administer the CDBG Program (150 points)—Jurisdictions receiving 1993 or 1994 general allocation grants will receive full capacity points. Lacking that experience, applicants will be evaluated upon submitted tasks, duty statements, and resumes of local

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staff. Jurisdictions lacking local staff capacity may demonstrate capacity by including a letter of interest from a professional contract consultant.

Other Funding (50 points)—The Department will assign a score based upon a comparison, among applications, of private funding committed to the proposed project. Specifically, the Department will compare like activities against one another in deriving a score. For example, housing new construction projects will be compared against one another for private leveraging scoring. The Department will also compare applicants on the extent to which they bring local resources to bear on the proposed project. Cash and in-kind contributions will be compared based upon similarity in sales and use tax revenue bases. In this way, more affluent jurisdictions will not compete directly with more revenue impacted communities on this scoring criterion. Applicants will also be compared against one another based upon the provision of any regulatory relief in conjunction with the proposed project. Other State and federal funding brought into the project will not garner a competitive advantage.

State Objectives (50 points)—The State objective in this year's funding will be the extent to which the project will provide infrastructure for housing, or to correct health and safety deficiencies.

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Funding Criteria—Planning and Technical Assistance

STATE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Applications for the Planning/Technical Assistance Allocation will be evaluated using the following threshold criteria:

The funding request must be for eligible activities and comply with Health and Safety Code section 50827 which requires that all funds used through the State CDBG Program principally benefit Targeted Income Groups.

The proposed activity must be CDBG-eligible. Applicants are encouraged to contact their community development representatives prior to submitting the application to confirm the eligibility of proposed activities.

The applicant must document the cash-match contribution certified Resolution passed by the governing body of the eligible jurisdiction. All required forms must be completely filled out for evaluation of the application.

If funds are being requested to provide assistance to an identified business, the applicant must include in the application a letter from the business in which the business makes a conditional agreement to proceed with its plans to relocate, expand, pursue a loan, etc., if the technical assistance document shows that the action appears feasible. The letter also must include an explanation of why the identified business is unable to pay for the cost of the CDBG funded technical assistance proposed in the application. The Department will review the letter provided by the business to determine whether the proposed assistance is necessary and that it is appropriate.

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