



## HOUSING DIVISION

CITY HALL  
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### CITY COUNCIL STAFF REPORT

Meeting: April 6, 2021

#### Subject

Fiscal Year (FY) 2021-22 Community Development Block Grant (CDBG) Program and Below Market Rate (BMR) Affordable Housing Fund (AHF) funding allocations.

#### Recommended Action

1. Adopt Resolution No. 21-XXX recommending the FY 2021-22 CDBG and BMR AHF funding allocations.
2. Authorize the City Manager to negotiate and execute FY 2021-22 CDBG and BMR AHF funding agreements.

#### Background

An annual Notice of Funding Availability (NOFA) and Request for Proposals (RFP) (Attachment A) was issued on November 10, 2020 inviting applicants to apply for eligible capital housing projects for the upcoming FY 2021-22 (one-year funding cycle). The NOFA/RFP deadline ended on February 9, 2021. The City is not accepting applications for public services due to a three-year grant funding cycle ending in FY 2022-23. Housing Commission reviews BMR AHF applications at the same time as CDBG applications and makes funding recommendations to the City Council. If the City Council changes BMR AHF funding amounts for FY 2021-22 then each agency's funding will be changed proportionately. CDBG funding amounts will be reduced or increased proportionately for FY 2021-22 based on final HUD allocation formula and City Council approval.

#### Housing Commission Recommendation

The Housing Commission held a public hearing on March 11 to finalize their initial rating and ranking of the FY 2021-22 CDBG and BMR AHF funding allocations. The Commission recommended approval of the proposed FY 2021-22 funding allocations with an amendment to include \$1,000,000 in BMR AHF funding for the Pacific West Communities, Inc.- Westport Project, with City BMR AHF funding contingent upon the successful award of tax credit financing. The details of each fund and their recommendation is discussed below.

Discussion

***CDBG Funding***

The United States Department of Housing and Urban Development (HUD) annually allocates grants such as CDBG, Home Investment Partnerships Program (HOME), Housing Opportunities for People with AIDS (HOPWA), and Emergency Shelter Grants (ESG) to local jurisdictions for community development activities. Cupertino is one of nine entitlement jurisdictions within Santa Clara County. Jurisdictions typically must have a population of 50,000 or more to qualify as an “entitlement jurisdiction” that receives grant funding directly from HUD. Entitlement grants are largely allocated on a formula basis, based on several objective measures of community needs, including the extent of poverty, populations, housing overcrowding, age of housing, and extent of population growth lag in relationship to other metropolitan areas. This is Cupertino’s nineteenth year as an entitlement jurisdiction receiving a CDBG grant directly from HUD.

On March 2, the City received notice from HUD that it will receive \$406,806.00 in CDBG funds for FY 21-22. Program income of \$7,944 will be reallocated from existing CDBG loan payoffs. Of the total funding, 20% may be used for administrative costs to cover salary and benefits of staff who operate the CDBG program, a maximum of 15% may be used for public services, and a maximum of 65% may be used for capital housing projects. Approximately \$48,000 in unused CDBG funds from FY 20-21 will be added to the CDBG capital housing project category. As noted earlier, CDBG funding amounts will be reduced or increased proportionately for FY 21-22 based on the final HUD allocation formula and City Council approval. In addition, the City put into place a CDBG Contingency Plan (Exhibit 1) in the event that the City receives more or less funding from HUD.

<b>FY 21-22 CDBG Budget</b>	
Entitlement Amount	\$406,806.00
Program Income FY 20-21	\$7,944.00
<b>Sub-Total</b>	<b>\$414,750.00</b>
Program Administration (20%)	\$82,950.00
Public Service (15%)	\$62,212.50
Capital/Housing Projects (65%) + \$48,000 Unused FY 20-21 CDBG funds	\$317,587.50
<b>Total</b>	<b>\$462,750.00</b>

HUD regulations require that eligible housing activities selected for funding must benefit very-low and low-income households or eliminate a blighted area or address an urgent

(emergency) community need and must also meet a national objective. In addition, only certain types of eligible activities qualify under the CDBG regulations. Examples of eligible activities are:

- Purchase of Land
- Public improvements
- Public service activities
- Affordable housing developments
- Property acquisition for affordable housing
- Rehabilitation of affordable units

***2021-22 CDBG Capital Housing Project Funds (One-Year Funding Cycle)***

As noted earlier, a total of \$317,587.50 is proposed to be used for eligible CDBG capital housing projects. The City received two applications in this category totaling \$318,340.45, an excess of \$752.95. Staff is recommending funding the applications as noted in the table below.

<b>CDBG Capital Housing Projects</b>					
<b>1</b>	<b>FY 21-22 Application Summary</b>	<b>Funds Available</b>	<b>Funding Requests</b>	<b>Funding Recommendations</b>	<b>FY 20-21 Funding Allocations</b>
a	Rebuilding Together Silicon Valley- Housing Repair and Rehabilitation Program		\$97,318.00	\$97,318.00	\$83,363.40
b	West Valley Community Services (WVCS) - Vista Village Complex Rehabilitation Project		\$221,022.45	\$220,269.50	\$174,850.40
	<b>Sub-Total</b>	<b>\$317,587.50</b>	<b>\$318,340.45</b>	<b>\$317,587.50</b>	<b>\$258,213.80</b>

***Below Market Rate (BMR) Affordable Housing Fund (AHF)***

The BMR AHF receives its revenue from the payment of housing mitigation fees from non-residential (commercial, retail, hotel, research and development (R&D) and industrial) and residential development. Formal agreements and monitoring are required for this program, but the requirements are less stringent than federal funding.

***2021-22 BMR AHF Capital Housing Project Funds (One-Year Funding Cycle)***

The City estimates up to \$6,000,000.00 will be available to fund eligible BMR AHF capital housing projects for FY 21-22 after accounting for administrative and other expenses. Over the course of the year, staff met with multiple developers and non-profits to provide technical assistance for the BMR AHF funds in order to generate affordable housing. The City received one application in this category totaling \$2,000,000.00.

The Pacific West Communities, Inc.- Westport Project application is a request for gap financing to construct the senior affordable project in the Westport development at 21267 Stevens Creek Blvd, Cupertino. The development team is seeking State tax credit financing and has requested \$2,000,000.00 in City BMR AHF funds to deepen the affordability levels of the existing inclusionary units. As a condition of project approval, the Westport development is required to provide 48 inclusionary units. Staff does not recommend use of the City’s BMR AHF funds on inclusionary units. City funding of the Westport Project will not result in any new affordable units or provide new units towards the City’s Regional Housing Needs Allocation (RHNA). Staff provided the developer with information about available funding sources to deepen the affordability (Santa Clara County Measure A Affordable Housing Bond, Destination:Home Community Housing Fund, and the HUD Home Investments Partnership Fund) and will provide a letter of support for the Westport tax credit application.

1 BMR AHF Capital Housing Projects					
	FY 21-22 Application Summary	Funds Available	Funding Requests	Funding Recommendations	FY 20-21 Funding Allocations
a	Pacific West Communities, Inc.- Westport Project		\$2,000,000.00	<i>Not recommended for funding</i>	\$0
	<b>Sub-Total</b>	<b>\$6,000,000.00</b>	<b>\$2,000,000.00</b>	<b>\$0</b>	<b>\$0</b>

Fiscal Impact

Sufficient funding will be available and budgeted for all FY 21-22 CDBG and BMR AHF funding allocations. CDBG programs and projects are funded by HUD grant funds. BMR AHF programs and projects are funded by housing mitigation fees collected from residential and non-residential development projects.

Analysis

Attachment C provides the CDBG and BMR AHF funding application descriptions.

Process

This is the first of two public hearings required by HUD for CDBG. The second public hearing will be held at a future City Council meeting with a date and time to follow. All required HUD notices are published in the Cupertino Courier newspaper in advance announcing upcoming CDBG public hearings.

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Reviewed and Approved for Submission by: Dianne Thompson, Assistant City Manager

Attachments:

- A- Resolution
- B- FY 21-22 NOFA/RFP
- C- FY 21-22 CDBG and BMR AHF Funding Application Descriptions
- D- Housing Commission Resolution 21-01