



COMMUNITY DEVELOPMENT DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: April 16, 2024

Subject

Fiscal Year (FY) 2024-25 recommended funding allocations for the Community Development Block Grant (CDBG) Program and Below Market Rate Affordable Housing Fund (BMR AHF).

Recommended Action

Authorize the City Manager to execute the FY 2024-25 Housing & Human Services Grant Programs funding agreements.

Reasons for Recommendation

Background

On November 06, 2023, the City of Cupertino issued an annual Notice of Funding Availability (NOFA) and a Request for Proposals (RFP) (Attachment A), inviting applicants to apply for eligible capital housing projects (one-year funding cycle). The funding would be part of the City's Fiscal Year 2024-25 adopted budget. The NOFA/RFP submittal deadline was February 06, 2024. The City received a total of two eligible applications during the submittal period.

At its March 14, 2024, meeting, the Housing Commission reviewed the CDBG and BMR AHF applications and made funding recommendations to the City Council (Attachment C). While the CDBG program is administered through the U.S. Department of Housing and Urban Development (HUD), the City Council has the final approval for the BMR AHF funding requests. HUD has not released the City's final CDBG allocation at this time, but CDBG funding amounts will be reduced or increased proportionately for FY 2024-25 based on the final HUD allocations. Given that the final HUD allocation may vary, the Housing Commission adopted Resolution 17-02 (CDBG Contingency Plan, Attachment B), on May 11, 2017, to address whether the City receives more or less CDBG funding from HUD.

Public service funding cycles have been determined by the timeframe in the City's 2020-2025 Consolidated Plan. The first cycle covered Fiscal Years 2020-21, 2021-22, and 2022-23, and the current cycle covers Fiscal Years 2023-24 and 2024-25. The public service funding allocations for the current two-year cycle were approved at the City Council meeting on May 2, 2023 (Attachment D). Public service funding allocations will remain the same for FY 2024-25 unless there are changes in overall funding levels due to the City's CDBG allocation from HUD, or City

Council decision for BMR AHF and General Fund Human Services Grant (HSG). Any changes in funding levels will adhere to the CDBG Contingency Plan (Attachment B).

Housing Commission Recommendation

The Housing Commission held a public hearing on March 14, 2024, to finalize the initial ratings and rankings of the FY 2024-25 CDBG and BMR AHF capital housing funding applications. The Commission recommended approval of the proposed FY 2024-25 funding allocations.

CDBG Funding

HUD annually allocates CDBG funding to local jurisdictions for a range of community development activities. Cupertino is one of nine entitlement jurisdictions within Santa Clara County. In order to be classified as an entitlement jurisdiction and receive funds directly from HUD, cities must have a population of 50,000 or more. Entitlement grants are allocated on a formula basis and based on several objective measures of community needs, including the extent of poverty, population, housing overcrowding, age of housing, and the extent of population growth lag in relation to other metropolitan areas. The CDBG Contingency Plan as described in Resolution 17-02 (attachment B) identifies allocation options in the event that the funding either increases or decreases.

In March 2021, HUD's Office of Environment and Energy (OEE) conducted monitoring of the City's CDBG program in order to assess performance and compliance with applicable Federal requirements. During the monitoring, OEE found that in 2018 the City had obligated and expended CDBG funds on a project prior to the completion of the Environmental Review (ER), which is a violation of regulatory requirements. As a result of this finding, OEE prescribed that the City would be penalized by \$176,201 towards a future CDBG entitlement allocation. On March 8, 2024, HUD notified the City that this penalty would be applied to its FY 2024-25 CDBG allocation. Due to this penalty, the City estimates receiving approximately \$182,709 in FY 2024-25 CDBG entitlement funding. Program income in the amount of \$7,944 will be received and allocated from existing CDBG loan payoffs. There is also \$27,781.35 in prior year unexpended CDBG funds.

HUD regulations establish the maximum percentages that may be allocated to CDBG administration and public services. Of the total estimated funding, a maximum of 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 minimum of 65% must be used for capital housing projects. As noted earlier, CDBG funding amounts will be reduced or increased proportionately for FY 2024-25 based on the final HUD allocations and City Council's approval. The final determination will be available by May 15, 2024.

FY 2024-25 CDBG Budget (est.)	
Entitlement Amount (EN)	\$182,709.00
Program Income (FY 2024-25)	\$7,944.00
Unexpended Funds (FY 2022-23)	\$27,781.35
Sub-Total	\$218,434.35
Program Administration (20% EN)	\$38,130.60
Public Service (15% EN)	\$28,597.95
Capital/Housing Projects (65% EN + Unexpended Funds)	\$151,705.80
Total	\$218,434.35

HUD regulations require that eligible activities selected for funding must benefit very low and low-income households at or below eighty percent of area median income (AMI), eliminate a blighted area, or address an urgent (emergency) community need, and must also meet a HUD national objective. In addition, only certain types of eligible activities qualify under the CDBG regulations. Examples of eligible activities are:

- Public improvements
- Public service activities
- Property acquisition for affordable housing
- Rehabilitation of affordable units
- Economic Development

2024-25 CDBG Program Administration Funds

An estimated total of \$38,130.60 will be used for CDBG program administration, and this falls under Budget Unit 260-72-707, CDBG General Admin. The City will use these funds for administrative costs to cover partial salary and benefits of the City’s Housing Division staff who operate the CDBG program.

2024-25 CDBG Capital Housing Project Funds (One-Year Funding Cycle)

An estimated total of \$151,705.80 is available to be used for eligible CDBG capital housing projects, and this falls under Budget Unit 260-72-709, CDBG Capital/Housing Projects. This consists of FY 2024-25 funding and unexpended funding from prior years. City staff conducted extensive outreach and the NOFA/RFP was sent to over 200 contacts in the affordable housing community. In addition, staff provided technical assistance to a number of affordable housing developers and non-profits during this time, resulting in the receipt of two applications in this category, totaling \$362,237. The funding recommendations made by the Housing Commission are listed in the table below.

1 CDBG Capital Housing Projects					
	FY 2024-25 Application Summary	Funds Available (est.)	Funding Requests	Housing Commission Funding Recommendations	FY 2023-24 Funding Allocations
a	Rebuilding Together Silicon Valley- Homeowner Repair and Rehabilitation Program		\$96,237.00	\$96,237.00	\$92,536.00
b	City of Cupertino – Senior Center Cooling System Improvements		\$266,000.00	\$55,468.80	\$367,951.38
Sub-Total		\$151,705.80	\$362,237.00	\$151,705.80	\$460,487.38

2023-24 BMR AHF Capital Housing Project Funds (One-Year Funding Cycle)

The City estimates up to \$4,250,000 will be available to fund eligible BMR AHF capital housing projects for FY 2024-25 after accounting for administrative and other expenses, and this falls under Budget Unit 265-72-711, BMR Affordable Housing Fund. Over the course of the year, staff met with multiple developers and non-profits to provide technical assistance in order to generate affordable housing. The City did not receive any eligible applications for FY 2024-25 BMR AHF Capital Housing Projects due to barriers such as the high cost of land and lack of adequate funding available to leverage the development of affordable housing. However, staff will continue to provide outreach and technical assistance to interested affordable housing developers and non-profits throughout the year.

Sustainability Impact

Authorization of the housing funding agreements will not result in a sustainability impact.

Fiscal Impact

CDBG programs and projects are funded through HUD grant funds. BMR AHF programs and projects are funded by housing mitigation fees collected from residential and non-residential development projects. General Fund HSG activities are funded through the City’s General Fund. Budget allocations for approved funding allocations will be included for City Council’s approval as part of the proposed and final budget.

California Environmental Quality Act

Not applicable.

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Approved for Submission by: Pamela Wu, City Manager

Attachments:

- A - FY 2024-25 NOFA/RFP
- B - Housing Commission Resolution 17-02 (CDBG Contingency Plan)
- C - FY 2024-25 CDBG & BMR AHF Funding Application Summary
- D - FY 2023-24 CDBG, BMR AHF, and HSG Public Service Funding Allocations