



HOUSING DIVISION

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CITY COUNCIL STAFF REPORT

Meeting: May 3, 2022

Subject

Consider the Fiscal Year (FY) 2022-23 Community Development Block Grant (CDBG) Program and Below Market Rate (BMR) Affordable Housing Fund (AHF) funding allocations.

Recommended Action

Authorize the City Manager to execute FY 2022-23 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, 2021, inviting applicants to apply for eligible capital housing projects for the upcoming FY 22-23 (one-year funding cycle). The NOFA/RFP deadline ended on February 9, 2022. The City is not accepting applications for public services due to a three-year grant funding cycle ending in FY 22-23. If the City Council changes BMR AHF funding amounts for FY 22-23 then each agency's funding will be changed proportionately. CDBG funding amounts will be reduced or increased proportionately for FY 22-23 based on final HUD allocation formula and City Council approval.

Housing Commission Recommendation

The Housing Commission held a public hearing on April 14, 2022, to finalize the initial rating and ranking of the FY 2022-23 CDBG and BMR AHF funding allocations. The Commission recommended approval of the proposed FY 2022-23 funding allocations.

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 19th year as an entitlement jurisdiction receiving a CDBG grant directly from HUD.

The City has not yet received notice from HUD for its FY 22-23 CDBG funding allocation. Based on previous allocation patterns, the City estimates receiving a 5% increase in its CDBG allocation. Program income of \$7,944 will be reallocated from existing CDBG loan payoffs. Of the total estimated 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. As noted earlier, CDBG funding amounts will be reduced or increased proportionately for FY 22-23 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.

| FY 22-23 Estimated CDBG Budget | |
|--------------------------------|---------------------|
| Entitlement Amount | \$427,146.30 |
| Program Income FY 21-22 | \$7,944.00 |
| Sub-Total | \$435,090.30 |
| Program Administration (20%) | \$87,018.06 |
| Public Service (15%) | \$65,263.55 |
| Capital/Housing Projects (65%) | \$282,808.70 |
| Total | \$435,090.30 |

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

2022-23 CDBG Capital Housing Project Funds (One-Year Funding Cycle)

As noted earlier, a total of \$282,808.70 is proposed to be used for eligible CDBG capital housing projects. The City received two applications in this category totaling \$334,966.00, an excess of \$52,157.30. Staff does not recommend that funding be allocated to West Valley Community Services (WVCS) Vista Village project until an ongoing HUD audit of the City's environmental review findings for the project is resolved. Funding recommendations are listed in the table below.

| 1 | CDBG Capital Housing Projects | | | | |
|----------|--|------------------------|-------------------------|--------------------------------|-------------------------------------|
| | FY 22-23 Application Summary | Funds Available | Funding Requests | Funding Recommendations | FY 21-22 Funding Allocations |
| a | Rebuilding Together Silicon Valley- Homeowner Repair and Rehabilitation Program | | \$88,966.00 | \$88,966.00 | \$98,511.88 |
| c | West Valley Community Services (WVCS) - Vista Village Complex Rehabilitation Project | | \$246,000.00 | \$0.00 | \$222,971.72 |
| | Sub-Total | \$282,808.70 | \$334,966.00 | \$88,966.00 | \$321,483.60 |

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.

2022-23 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 22-23 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 did not receive any applications for FY 22-23 BMR AHF Capital Housing Projects.

Fiscal Impact

Sufficient funding will be available and budgeted for all FY 22-23 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. Attachment D provides the sample

CDBG Capital Housing Contract for reference. The final contract will be executed by the City Manager under the City's purchasing policy.

Analysis

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

Process

All required HUD notices are published in the Cupertino Courier newspaper in advance announcing upcoming CDBG public hearings.

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| <u>Prepared by:</u> | Kerri Heusler, Housing Manager |
| <u>Reviewed by:</u> | Benjamin Fu, Director of Community Development |
| <u>Approved for Submission by:</u> | Dianne Thompson, Assistant City Manager |

Attachments:

- A - Housing Commission Resolution No 22-01 (FY 22-23 Funding Allocations)
- B - FY 22-23 NOFA/RFP
- C - FY 22-23 CDBG and BMR AHF Funding Application Descriptions
- D - Sample CDBG Capital Housing Contract