



Memorandum

TO: NEIGHBORHOOD SERVICES
AND ENVIRONMENT
COMMITTEE

FROM: Leslye Krutko

**SUBJECT: COMMUNITY DEVELOPMENT
BLOCK GRANT UPDATE**

DATE: April 3, 2007

Approved

Date

On June 20, 2006 the City Council approved the transfer of the administration of the Community Development Block Grant (CDBG) Program from the Department of Parks, Recreation and Neighborhood Services (PRNS) to the Housing Department. This report has been prepared to update you on the steps taken since that date to integrate the Program into the Department. A memo describing this year's application process was sent to the Mayor and City Council under separate cover (see attached memo dated March 9, 2007).

ADMINISTRATIVE ACTIONS

Staffing-- By July 1, 2006, all CDBG staff were moved onto the 12th floor of City Hall. To supplement the CDBG staff, the Housing Department is using other staff resources to provide expertise needed, including inspection and loan review. We now send out inspectors to look at construction projects to ensure that they are completed according to the CDBG contract. Also, when the CDBG award involves a loan, we now have experienced loan staff review the proposal to ensure that the project is feasible and that there is adequate security. And, during the application process, we work with Public Works Department staff to review construction project applications for project feasibility.

Housing and Community Development Committee-- the City Council approved the consolidation of the Housing Advisory Commission and the Community Development Block Grant Steering Committee into a new Housing and Community Development Advisory Commission. The first meeting of the new HCD Commission took place on November 30th and it has met monthly since that time, including a February retreat. Bylaws for the new Commission were recently approved.

Training-- CDBG Program staff attended several training sessions, including two in-house training sessions on the review of financial statements and the CEQA/NEPA review process, a session on HUD Performance measures, a training on Davis Bacon prevailing wage requirements, as well as a customized half-day training session with representatives from the San Francisco Office of the US Department of Housing and Urban Development.

APPLICATION PROCESS

Grant Application— The 20-page application form was reduced to 10 pages, eliminating duplication and simplifying both the application completion and application review process. A new scoring system was developed to provide for a rating and ranking of applications.

Minimum grant amounts—The minimum grant amount was set at \$25,000. In past years, there was no minimum, and there were grants of under \$10,000. . In FY06-07, ten of 40 grants had dollar amounts less than \$25,000. Because it takes the same amount of time to administer a \$10,000 grant as it does a \$30,000 grant it is more efficient for both the City and the nonprofit to set the minimum grant amount at \$25,000.

One-year awards with annual evaluation— The grant term for FY07-08 was set at one-year to enable the City to evaluate the process and make recommendations for the length of grants in future years.

Grant Evaluation—See attached memo for a detailed description of the grant evaluation process for both community based organizations and City grant proposals.

Contract Processing—Negotiations on contracts will begin much earlier than in the past so that contracts are prepared and signed by July 1st of each contract year.

GRANT MANAGEMENT ACTIONS

Documentation of reimbursable expenses/simplification of budget-- To streamline the reimbursement process for both grantees and the City, we are encouraging grantees to simplify their budgets, which will speed up check processing and delivery.

Disencumbrance/Contract Revision— The Department has disencumbered more than \$1,000,000 in idle funds, and requested contract amendments and extensions for several projects where there have been significant changes in the scope of work or services proposed. Policies and procedures are being developed to clarify when contracts can be revised and when contracts should instead be terminated. Because funds are awarded according to a competitive process, major scope changes should not be considered, and instead a grantee should reapply under a new funding round.

Reporting—CDBG Program staff now provide weekly reports to Department management that cover delays in funded projects, early signs of financial instability or concerns, and timeliness of payments to grantees.

Database Development—A simple database has been developed while we await resolution of the settlement of the lawsuit with Housing Development Software, which we hope will take place by the end of the fiscal year. Housing Department staff is also working with the Citywide Grants Management Working Group on a Citywide database.

Revised processes—Program staff are reviewing current processes to identify improvements that can be made to increase effectiveness and efficiency and to ensure compliance with federal rules and regulations for the use of CDBG funds. Processes needing improvement include the contract execution process, the progress payment process, and the process for responding to problem grantees/grants. Several changes are in the process of being implemented. This includes changes in the grant monitoring process to complete spot checks during regular monitoring visits, ensure Board of Director engagement, and increase review of program audits. Additional actions will include: automating the contract process, revising the requirements for documentation received as part of the application process, ensuring that reimbursement request documentation is in conformance with federal requirements, and eliminating duplicative or unnecessary steps.

New performance measures to respond to HUD concerns—The Department has reviewed the performance measures for CDBG and developed new measures for the FY07-08 budget year, as follows:

Goal	Target
% Contracts Completed by July 1 st	90%
% Invoices Processed and Paid Within 30 Days of Receipt	90%
% of CDBG-Funded Projects Meeting Stated Outcomes	90%

Revolving loan funds for economic development and rehabilitation—We are proposing that two revolving loan funds be set up, one for the housing rehabilitation program and one for economic development loans. This action will help ensure that the two programs continue to be funded, and will also help make sure the City meets CDBG spending requirements.

Program staff will be available at your meeting to discuss these issues, and to answer any questions you may have.

LESLYE KRUTKO
Director of Housing

Attachment



Distributed on:

SENT TO COUNCIL: ~~_____~~ MAR 09 2007

Memorandum by City Manager's Office

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: CDBG FUNDING
RECOMMENDATIONS

DATE: March 9, 2007

Approved

Ray Winter

Date

3/9/07

INFORMATION

Each year, the City of San Jose receives entitlement funding from the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant Program (CDBG) to carry out a wide range of community development activities that revitalize neighborhoods, provide economic development opportunities, improve community facilities, and offer public/ community services. For the 2007-08 Fiscal Year, the City anticipates the receipt of an estimated \$10.3 million in CDBG entitlement funding.

According to HUD requirements, no more than 20% of CDBG funds can be used for administrative costs, and no more than 15% can be used for "public services" activities. The remainder is devoted to community development activities. By policy, the City has reserved the entire public services funding pot for activities proposed by community-based organizations (CBOs). Additionally, the City has funded fair housing activities administered by CBOs out of the administrative cost category. Both City and CBO projects are funded out of the remaining community development funding.

Applications for FY 07-08 funding were submitted by CBOs in January. Award recommendations are being announced this week. The good news is that CDBG staff is recommending that 50 of the 58 applications submitted receive funding (or 86%). This memorandum provides background information on the process for making CDBG awards, as well as information about the staff recommendations.

Program Administration

Administration of the CDBG Program was transferred to the Housing Department in July of 2006. Since that time, a number of programmatic changes have been made to strengthen program administration and simplify the application process. These efforts will continue over the course of the next several months, and are being coordinated with efforts being made

throughout the City to strengthen grant management activities. An evaluation of the effectiveness of the changes made to date will take place this summer.

FY 07-08 Application Process

Following is a discussion of this year's funding process. As mentioned above, program staff will be evaluating the process this summer to make appropriate revisions in time for the FY 08-09 application process.

- One Year Time Frame—This year's application is for a one-year period. For construction projects, applicants needed to demonstrate that their projects can be completed within the one-year timeframe, ending June 30, 2008.

In prior years, projects were awarded CDBG funds for two- or three-year periods. While this method of funding has some advantages, it limits the flexibility of the program to respond to changes in community needs and provides limited opportunity for new applicants to participate in the program. Additionally, it has resulted in approval of some projects that are at very preliminary stages, and that have encountered problems resulting in long delays or project cancellation. This puts the City in a vulnerable position, as HUD requires that funds be spent within a certain timeframe.

- Funding—A number of projects funded over the past three years were cancelled in recent months. The funds that had been allocated for these projects have been rolled into the FY 07-08 application process. So, in addition to the \$10.3 million in anticipated CDBG entitlement funding, as well as \$1.6 million in program income (repayments of housing rehabilitation and economic development loans), there is approximately \$4 million in carry over funding available for award. The total available is estimated at \$15,913,709.

The amount available by activity is as follows:

- Administration (including Fair Housing and Planning Activities)-- \$2,382,742
 - Public Services--\$1,787,056
 - Revolving Loan Funds (rehabilitation and economic development)-- \$1,600,000
 - Community Development Activities-- \$10,143,911
- Application Process for City Projects— In prior years, City projects applied at the same time as CBOs, filling out the same application and following the same timeframe and application process. To streamline the process for both City Department applicants and CDBG staff reviewers, this year's process was changed so that City applications were not in direct competition with CBO applications.

To ensure that selection of City projects was objective and in line with City priorities, the following process was developed:

- Funding for City projects was projected at a level equal to the average of the past five years of CDBG expenditures for Community Development activities. That

five-year analysis revealed a CDBG expenditure breakdown of 40.25% for non-City projects and 59.75% for City projects. A goal was set to allocate FY 07-08 funds in the same ratio.

(Note: As it turns out, however, fewer eligible CBO project proposals were received than anticipated, and the percentage breakdown was not a factor. See discussion on CBOs below.)

- A City Project Selection Team (Team) was convened, comprised of the Directors of the following City Departments: Housing; Transportation; Public Works; Planning, Building and Code Enforcement; Parks, Recreation and Neighborhood Services; the Office of Economic Development; the Library; the SNI Program; the City Manager's Office; and the Redevelopment Agency.
 - The Team set the following priorities for funding based upon established City and CDBG priorities: projects that furthered the City's economic development efforts, and those that improved neighborhoods through the Strong Neighborhood Initiative or new Initiative areas
 - Each team member brought forward proposals for discussion and evaluation, and a list of recommended projects was developed.
 - Program managers for each project submitted project descriptions and budgets to the CDBG staff for determination of eligibility.
- Application Process for CBO Projects— The application process and the application itself were streamlined. A previously required public presentation on the project was eliminated.

A Notice of Funding Availability (NOFA) was published on December 7, 2006 for all CBO applications under either the public service or community development categories. Fifty-Eight (58) proposals were received. Proposals were reviewed in the following manner:

- Teams of two CDBG staff analysts reviewed and independently scored proposals according to a range of detailed criteria, which had been provided in advance to potential grantees.
- A separate team of CDBG staff reviewed program audits to determine whether there were organizational concerns that might impact the CBO's ability to carry out the project.
- Members of the Housing and Community Development Advisory Commission (HCDC) formed a Task Force that reviewed CBO applications, rating them High, Medium, Low or Not Recommended.
- Subject-matter-experts reviewed the proposals for feasibility, reasonableness of costs, and past performance of applicants. This is especially important for construction projects, which must be evaluated to determine the feasibility of the project cost, scope and timeline.
- Lists of proposals were shared with other CDBG funding jurisdictions (County of Santa Clara; Cities of Sunnyvale, Milpitas, Santa Clara, Campbell, and Mountain View) to discuss duplication of service and past performance of applicant agencies, among other issues

- Lists of proposals were shared with other City funding programs, including the Healthy Neighborhood Venture Fund, Housing Trust Fund, and the Office of Economic Development to determine duplication of service and past performance of applicant agencies, among other issues.
- Housing Department senior management then reviewed the results of the various group analyses. When information from all sources aligned, the numeric rating of the CDBG teams was confirmed and used to rank the proposals. When information from some sources conflicted, the proposals were reviewed once more, more information was solicited, and a final ranking of the proposals was determined.

The goal of the Housing Department in reviewing these proposals was to fund as many eligible proposals as possible, given the amount of funding available and the constraints on the use of the funds imposed by HUD. However, there are some eligible proposals that will not be funded unless other funds become available.

Recommendations

The following discussion breaks down the recommendations for the 58 applications.

- Eligible Public Service Applications—All but one of the applications submitted by CBOs were deemed eligible for funding. Based on available funding, we are recommending:
 - 37 applications receive CDBG funding. For those activities that have been funded in past years, the recommendation is to fund at last year's level. All applications are being recommended at a minimum grant amount of \$25,000.
 - Three applications be funded by the Housing Trust Fund instead of CDBG. These were all new applicants for CDBG and proposed activities that align with City objectives and were otherwise eligible for funding under the Housing Trust Fund.
 - Four applications be in line for funding, should new CDBG funding become available over the course of the year.
- Fair Housing Applications—Both applications received for fair housing activities are being recommended for funding at last year's CDBG grant level.
- Community Development Applications—Ten of the 13 applications received under this category are recommended for funding. Two are not recommended, and one was deemed ineligible due to performance problems.

To summarize these recommendations, program staff is recommending approval of 50 (47 from CDBG and three from the Housing Trust Fund) of the 58 applications submitted by CBO agencies.

Next Steps

Announcements to applicants will be mailed on Friday, March 9, 2007. Applicants may appeal the decisions to the Director of Housing. The list of recommended projects will be presented to

HONORABLE MAYOR AND CITY COUNCIL
Subject: CDBG Funding Recommendations
March 9, 2007
Page 5 of 5

the HCDC at its meeting of March 15th, and will be presented to the City Council as part of the draft Consolidated Plan on April 3rd and May 8th.

A handwritten signature in black ink, appearing to read "Leslye Krutko". The signature is written in a cursive style with a large initial "L" and "K".

Leslye Krutko
Director of Housing

Attachments

Public Service Applications - Total Available

Agency*	Funding Request	Funding Recommendation
Fresh Lifelines for Youth	\$45,000	\$38,701
Fresh Lifelines for Youth	\$50,000	\$33,565
Community Technology Alliance	\$25,000	\$25,000
Senior Adults Legal Assistance	\$72,348	\$72,348
Outreach and Escort	\$60,000	\$40,048
Next Door Solutions to Domestic Violence	\$85,500	\$75,508
Loaves & Fishes Family Kitchen	\$28,696	\$25,000
Law Foundation of Silicon Valley	\$31,992	\$25,000
Emergency Housing Consortium	\$65,000	\$50,149
Catholic Charities of SCC	\$73,842	\$55,341
Ethiopian Community Services Inc.	\$40,000	\$30,290
Portuguese Org. for Social Svcs. & Oppr.	\$131,772	\$101,142
Bill Wilson Center	\$36,448	\$34,712
Santa Clara University	\$30,000	\$26,531
Second Harvest Food Bank	\$25,000	\$25,000
Live Oak Adult Day Svcs.	\$31,484	\$28,971
Innvision the Way Home	\$40,000	\$29,506
MACSA	\$112,514	\$112,513
MACSA	\$114,144	\$114,144
Catholic Charities	\$35,000	\$27,313
Innvision the Way Home	\$25,000	\$25,000
Next Door Solutions to Domestic Violence	\$45,000	\$32,193
MACSA	\$34,153	\$26,824
Innvision the Way Home	\$50,000	\$40,786
Sacred Heart Community Services	\$75,000	\$25,000
YWCA of Silicon Valley	\$150,000	\$131,420
Family Supportive Housing	\$30,000	\$28,889
Respite and Research	\$30,335	\$29,478
Health Trust	\$25,000	\$25,000
Vietnamese Voluntary Foundation (VIVO)	\$55,000	\$49,328
Silicon Valley Independent Living Center	\$25,079	\$25,000
Santa Clara County Asian Law Alliance	\$44,698	\$44,395
Catholic Charities	\$100,000	\$74,473
Legal Aid Society	\$150,000	\$112,863
Deaf Counseling Advocacy and Referral Agency (DCARA)	\$45,000	\$27,588
Vietnamese Voluntary Foundation (VIVO)	\$35,000	\$25,000
Community Partners for Youth	\$275,000	\$93,000
Totals	\$2,328,005	\$1,787,019

*In order of proposal ranking

CDI and Administration**Administration, Planning and Fair Housing (Total Available)**

Administration- Housing Department	\$1,330,300
Administration- Finance Department	\$216,431
Administration- Planning	\$48,803
Planning - SNI	\$404,339
Public Works - ADA Survey	\$50,000
Project Sentinel- Fair Housing	\$228,550
Legal Aid - Fair Housing	\$101,394
Total	\$2,379,817

Funds Remaining For CDI **\$11,746,873**

CBO Applications for CDI Awards

Rebuilding Together Silicon Valley	\$95,000
San Jose Conservation Corps	\$225,241
Lenders for Community Development	\$204,000
Santa Clara Co. Black Chamber	\$76,726
Santa Clara Co. Black Chamber	\$96,503
San Jose Conservation Corps	\$275,000
InnVision	\$100,000
San Jose Conservation Corps	\$175,000
Total	\$1,247,470

City CDI

OED - Small Business Incubator	\$300,000
OED - Enterprise Zone Marketing Fund	\$100,000
OED - Shopping Center Improvement Pilot	\$300,000
OED - Small Business Revolving Loan Fund	\$1,000,000
DOT - Curb Cuts, SNI	\$550,000
DOT - Sidewalk rehabilitation, SNI	\$160,000
PW - Streetlight Upgrades	\$150,000
DOT - Traffic Signal, Burbank SNI	\$406,100
LIBRARY - Smart Start Program	\$271,210
HOUSING - Rehabilitation Program	\$2,500,000
PCBE - Code Enforcement	\$3,009,697
PRNS - Anti-Graffiti	\$653,785
PRNS - Lanti-Litter	\$166,023
HOUSING - Homeowner Energy Conservation	\$500,000
HOUSING - ADA Rehabilitation Projects	\$400,000
Total	\$10,466,815

Proposals Not Currently Scheduled For CDBG Funding in FY 2007-08

Public Service Applications

Agencies Recommended for Funding through Housing Trust Fund

Unity Care Group
 Neighborhood Housing Services of Silicon Valley
 S.C.C. Housing Authority, Family Self Sufficiency

Agencies whose ranking fell below funding cap. Will fund if future CDBG funds become available

Eastfield Ming Quong
 Catholic Charities, Young Women's Empowerment
 Alliance for Community Care
 Support Network for Battered Women

Agencies not recommended for funding

Cupertino Community Services

Reason for Not Funding

Ineligible for CDBG. Funds requested were to replace former City funds for the same project.

Women's Initiative for Self Employment

Proposal rated low by all reviewers. Will recommend they review their program and apply again in future funding cycle.

CDI Applications

Agencies not recommended for funding

Yu-Ai Kai

Reason for Not Funding

Construction project could not be completed within recommended timeframe. Agency advised to reapply in next funding cycle

Economic and Social Opportunities (ESO)

Financial audits indicate growing deficits and significant problems related to accounting records and procedures. Significant difficulty with prior CDBG contracts in obtaining documentation supporting reimbursement requests. Other funding jurisdictions report similar difficulties and concerns.