REPORT IN BRIEF

This report transmits the recommendations of City staff and the Citizens Advisory Committee (CAC) for the expenditure of $800,525 in FY 2007/08 and an estimated $757,000 in FY 2008/09 in Community Development Block Grant (CDBG) funds. This is the first year of a two-year funding cycle coordinated with the Human Services Resource Allocation Process (HSRAP) for fiscal years 2007/08 and 2008/09. The draft 2007/08 Action Plan includes the funding recommendations of staff and CAC. Also included is an amendment to the adopted 2005-2010 Consolidated Plan to conform to new HUD regulations.

RECOMMENDATION
Staff and the CDBG Citizens Advisory Committee recommend that the Finance Committee recommend to the City Council approval of the following:

1. Allocate CDBG funding as recommended by staff and the Citizens Advisory Committee (CAC) in the draft 2007/08 Action Plan.

2. Adopt the minor amendments to the 2005-2010 Consolidated Plan to conform to the new HUD regulations.
3. Authorize staff to submit the 2007/08 Action Plan to HUD by the May 15, 2007 deadline.

4. Authorize the City Manager, on behalf of the City, to execute the 2007/08 application and Action Plan for CDBG funds and any other necessary documents concerning the application, and to otherwise bind the City with respect to the application and commitment of funds.

5. Tentatively allocate Fiscal Year 2008/09 funding as recommended.

BACKGROUND

Consolidated Plan
The 2005-2010 Consolidated Plan, adopted by Council on May 9, 2005, is a 5-year strategic plan of action that addresses priority housing and community development needs, and sets specific goals for attaining identified objectives. Each year, an Annual Action Plan is prepared to identify specific projects to be funded to implement the Consolidated Plan. The Consolidated Plan and the Annual Action Plan updates are required by HUD in order for the City to receive federal funding from programs such as the Community Development Block Grant (CDBG) or HOME Investment Partnership Act. In 2006, HUD modified its Consolidated Plan and Action Plan requirements to include a new performance measurement system. The purpose of the performance measurement system is to better capture data for activities that are undertaken with CDBG funding. As a result of the new policy, the City is required to identify both an “Objective” and an “Outcome” for each proposed activity. This year’s Action Plan includes the new performance measure requirements, and a separate Consolidated Plan amendment incorporates those requirements into the adopted 2005-2010 Consolidated Plan.

CDBG Regulations
The City of Palo Alto receives funds annually from HUD as an entitlement city under the CDBG Program, authorized by Title I of the Housing and Community Development Act of 1974 (the Act) as amended. The primary objective of the Act is “the development of viable urban communities by providing decent housing and a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income.”

HUD regulations require that all activities must meet one of the three national objectives of the CDBG Program:

- Benefit low- and very-low-income persons;
- Aid in the prevention or elimination of slums or blight; or
- Meet other community development needs having a particular urgency, or posing a serious and immediate threat to the health or welfare of the community.

Palo Alto has historically expended all of its CDBG funds on projects benefiting low- and very-low-income persons.
There are three primary CDBG program activity areas:

Public Services: Social service activities that benefit low-income persons. The maximum amount that can be expended under this category is 15 percent of the grant allocation and 15 percent of the program income for the previous year. For fiscal year 2007/08, the maximum available for public services is $121,054.

Planning and Administration: This category is used to reimburse for fair housing activities, CDBG program management, oversight and coordination, environmental reviews, and general planning activities. Federal regulations limit the amount that can be spent in this category to 20 percent of the grant and 20 percent of the estimated program income for the following year. For fiscal year 2007/08 funding is limited to a maximum of $151,406. The City’s reimbursement for the cost of administering the CDBG program is limited by the Cap. Although the actual cost of administering the program is higher the recommended funding allocation is the maximum reimbursement allowed given this year’s grant allocation. The balance of CDBG administrative costs, approximately $20,000, is subsidized by the City’s General Fund.

Capital Projects: Capital improvement activities such as housing acquisition, rehabilitation, accessibility, and public improvements are the primary focus of the CDBG program. There are no funding limitations in this category.

CDBG Applications
Applications for the 2007/09 two-year funding period were mailed to area housing and human service providers on October 5, 2006 and posted to the City’s website. A notice announcing the availability of applications for 2007/08 and 2008/09 CDBG funding was published in the Palo Alto Weekly on October 6, 2006. A proposal-writing workshop was conducted on October 30, 2006 to assist applicants with program regulations and project eligibility questions. The completed applications were due December 8, 2006. The City received 18 applications for funding from outside organizations totaling $1,658,589 for FY 2007/08 and 16 applications for funding totaling $1,294,029 for FY 2008/09.

Citizen Participation
The City follows a Citizen Participation Plan to encourage public participation in the CDBG allocation and assessment process. The Citizen Participation Plan calls for a seven-member Citizens Advisory Committee (CAC), six of whom are selected by the Mayor. One slot on the CAC is reserved for a member of the City’s Human Relations Commission (HRC). Members of this year’s CAC were: Donald Mendoza (HRC Liaison), Carol Anderson, Susie Brain, Jeff Chen, Lynn Fielder, Michael Jakoby, and Richard Schoelerman. The Committee met weekly during January, February and the first two Thursdays in March 2007 to discuss and evaluate the applications, interview the applicant agencies and come to a consensus on funding recommendations.

DISCUSSION
Consolidated Plan
The draft 2005-2010 Consolidated Plan amendment and draft 2007/08 Annual Action Plan update are available for public review and comment during the period March 28 to April 30, 2007 (Attachment B). The goal for the 2005-2010 five-year period is to provide 125 units of permanent, affordable housing. Palo Alto’s CDBG program continues to be directed toward: expanding and maintaining the affordable housing supply; promoting housing opportunities and choices; maintaining and improving community facilities; and providing supportive services for targeted low-income groups, including persons who are homeless, persons with disabilities, the elderly, and other special needs groups. All of the proposed projects for CDBG funding for fiscal year 2007/08 and fiscal year 2008/09 address the priority housing and supportive service needs identified in the adopted Consolidated Plan.

2007/08 Funds Available for Allocation

The total amount available for allocation in fiscal year 2007/08 is $800,524. The City’s 2007/08 CDBG grant is $712,032, a nominal increase over the prior year’s grant of $711,680. There are $10,875 in funds remaining from previous projects that are being reallocated to new projects. Also included is $45,000 in program income (income generated directly from the use of CDBG funds) expected to be received in 2007/08, plus $32,617 in program income received in previous years in excess of the estimated amount.

In summary:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$712,032</td>
<td>FY 2007/08 CDBG entitlement grant from HUD</td>
</tr>
<tr>
<td>$10,875</td>
<td>Reallocation of other previous funds</td>
</tr>
<tr>
<td>$5,000</td>
<td>Estimated program income for 2007/08 from the City’s Housing Improvement Program (HIP), a single-family residential rehabilitation program that is no longer operational</td>
</tr>
<tr>
<td>$40,000</td>
<td>Estimated program income for 2007/08 from the Palo Alto Housing Corporation that is generated when rental income exceeds expenses on specific properties acquired or rehabilitated with CDBG funds</td>
</tr>
<tr>
<td>$32,617</td>
<td>Actual program income received in previous years in excess of the estimated amounts that were allocated</td>
</tr>
<tr>
<td>$800,524</td>
<td>TOTAL AVAILABLE FOR ALLOCATION</td>
</tr>
</tbody>
</table>

FY 07/08 - Funding Recommendations

The chart on the following page shows the applications that were received accompanied by the CAC and staff funding recommendations. For public service requests, the staff and CAC recommended allocation of at least a portion of the requested funding for all the applicants except for Mid-Peninsula Alano Club, Catholic Charities – Housing Search Services and the Day Worker Center of Mountain View. Funding was not recommended for the Alano Club because staff and the CAC had concerns regarding the organization’s financial and administrative expertise. Staff and the CAC did not recommend funds for the Day Worker Center because these services do not benefit a significant number of low income workers in Palo Alto. Staff and the CAC determined that funding for the Housing Search Services are currently provided by other agencies in Palo Alto. Attachment A is a narrative explaining the funding requests and funding recommendations in more detail. It should be noted that changes in the allocations might
be necessary in the event that the City’s entitlement grant is increased or decreased when
the President signs the actual budget.

The following capital projects requested funding for the 2007/08 fiscal year:

- ESO’s Housing and Energy Services Program
- Eden Housing/Community Housing Alliance’s 875 Alma Street Senior Housing
  Program,
- Bridge Housing’s Fabian Way Senior Housing Project,
- Lytton Gardens’ new shower enclosure project, and
- Stevenson House’s interior common area renovation projects are requesting
  funding for the 2007-2008 fiscal year.

Staff and CAC recommended funding Bridge Housing’s Fabian Way Senior Housing
project and Stevenson House’s interior common area renovation projects for 2007-
2008 fiscal year because the projects have all development approvals in place and
will likely be able to draw CDBG funds for the next year. The Eden
Housing/Community Housing Alliance Project is very preliminary and has not
received any development approvals to date. Since staff is working with Lytton
Gardens on another HUD funded project, the recommendation is to delay the Lytton
Gardens shower project to a subsequent year. Staff and the CAC do not recommend
funding for ESO because of concerns relating to the organization’s financial
instability.
# FUNDING RECOMMENDATIONS FOR FISCAL YEAR 2007-2008

## PUBLIC SERVICES

<table>
<thead>
<tr>
<th>Name of Agency</th>
<th>Project Title</th>
<th>2006/2007 Funded</th>
<th>2007/2008 Funding Request</th>
<th>CAC and Staff Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Catholic Charities</td>
<td>Long-Term Care Ombudsman</td>
<td>$5,800</td>
<td>$7,800</td>
<td>$7,500</td>
</tr>
<tr>
<td>3 InnVision (UMPA)</td>
<td>Opportunity Center/Urban Ministry Program</td>
<td>$21,250</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>4 InnVision (Clara-Mateo Alliance)</td>
<td>Adult Singles/Couples Housing Program</td>
<td>$18,322</td>
<td>$35,000</td>
<td>$17,500</td>
</tr>
<tr>
<td>5 InnVision (Clara-Mateo Alliance)</td>
<td>Family Housing Program</td>
<td>$18,725</td>
<td>$25,000</td>
<td>$17,500</td>
</tr>
<tr>
<td>7 Mid-Peninsula Alano Club</td>
<td>MPAC Operations</td>
<td>$5,000</td>
<td>$10,000</td>
<td>0</td>
</tr>
<tr>
<td>8 Emergency Housing Consortium</td>
<td>Palo Alto HOMES</td>
<td>$7,760</td>
<td>$10,000</td>
<td>$7,500</td>
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<tr>
<td>9 Emergency Housing Consortium</td>
<td>Off the Streets Project</td>
<td>-0-</td>
<td>$15,000</td>
<td>$7,500</td>
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<tr>
<td>11 Palo Alto Housing Corp.</td>
<td>SRO Resident Support Services</td>
<td>$20,270</td>
<td>$39,254</td>
<td>$25,000</td>
</tr>
<tr>
<td>14 Peninsula Association for Retarded Children &amp; Adults</td>
<td>Page Mill Court</td>
<td>-0-</td>
<td>$10,000</td>
<td>Application Withdrawn</td>
</tr>
<tr>
<td>15 Catholic Charities</td>
<td>Housing Search Services</td>
<td>-0-</td>
<td>$20,000</td>
<td>0</td>
</tr>
<tr>
<td>17 Shelter Network</td>
<td>Services for Homeless Palo Alto Families &amp; Single Adults</td>
<td>$16,375</td>
<td>$30,000</td>
<td>$8,500</td>
</tr>
<tr>
<td>18 Day Worker Center of Mountain View</td>
<td>Day Worker Center</td>
<td>-0-</td>
<td>$15,000</td>
<td>0</td>
</tr>
</tbody>
</table>

**TOTAL PUBLIC SERVICES (CAP $121,054)** | $113,502 | $247,054 | $121,000
## PLANNING AND ADMINISTRATION

<table>
<thead>
<tr>
<th>Name of Agency</th>
<th>Project Title</th>
<th>2006/2007 Funded</th>
<th>2007/2008 Funding Request</th>
<th>CAC and Staff Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 City of Palo Alto</td>
<td>Planning/CDBG Administration</td>
<td>$124,536</td>
<td>$178,000</td>
<td>$124,536</td>
</tr>
<tr>
<td></td>
<td>Project Sentinel Fair Housing Services</td>
<td>$26,800</td>
<td>$26,800</td>
<td>$26,800</td>
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<tr>
<td><strong>TOTAL ADMINISTRATION (CAP $151,406)</strong></td>
<td></td>
<td><strong>$151,336</strong></td>
<td><strong>$204,800</strong></td>
<td><strong>$151,336</strong></td>
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</table>

## CAPITAL PROJECTS

<table>
<thead>
<tr>
<th>Name of Agency</th>
<th>Project Title</th>
<th>2006/2007 Funded</th>
<th>2007/2008 Funding Request</th>
<th>CAC and Staff Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Economic and Social Opportunities</td>
<td>Housing and Energy Services Program</td>
<td>$60,000</td>
<td>$60,000</td>
<td>0</td>
</tr>
<tr>
<td>6 Eden Housing/Community Housing Alliance</td>
<td>875 Alma Senior Housing</td>
<td>-0-</td>
<td>$500,000</td>
<td>0</td>
</tr>
<tr>
<td>12 Bridge Housing</td>
<td>Fabian Way Senior Housing</td>
<td>-0-</td>
<td>$383,929</td>
<td>$383,929</td>
</tr>
<tr>
<td>13 Lytton Gardens</td>
<td>New Shower Enclosures</td>
<td>-0-</td>
<td>$103,300</td>
<td>0</td>
</tr>
<tr>
<td>16 Stevenson House</td>
<td>Interior Common Area Renovation</td>
<td>$417,646 (Fire Alarm &amp; Windows/Doors)</td>
<td>$159,506</td>
<td>$144,259</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL PROJECTS (CAP $528,188)</strong></td>
<td></td>
<td><strong>$1,206,735</strong></td>
<td><strong>$528,188</strong></td>
<td></td>
</tr>
</tbody>
</table>

**GRAND TOTAL ALL APPLICANTS**

$1,658,589 $800,524
FY 08/09 - Funding Recommendations
The two-year process provides the opportunity for City and non-profit staff to undertake longer-term strategic planning and maximize available funding resources.

FY 08/09 applications from organizations seeking funding in the second year of the two-year cycle also were submitted on December 8, 2006 and were evaluated by the CAC and staff. At this time, the Council is asked to only review and approve tentative allocations for 2008/09 since the City Council will be required to adopt a 2008/09 Action Plan next year. At that time, the Council may adjust the tentative allocations depending on the actual funds available.

The amount of the City’s CDBG allocation in FY08/09 is uncertain because of federal budget fluctuations and the chance of re-evaluation of the CDBG allocation formula. If the new formula change is adopted, CDBG grant funding will be targeted to communities with higher poverty levels. Based on this information, the tentative funding recommendations by the CAC and staff assume that the City’s allocation will not increase.

Funding requests for public services were similar to those submitted in FY 2007/08 with one exception. The Palo Alto Housing Corporation (PAHC) SRO resident Support Services is requesting a slight increase in funding for 2008/09. Funding of CDBG administration and fair housing is also recommended at the FY 2007/08 level, with a proportional decrease or increase should the funding allocation change.

Tentatively, staff and CAC recommended funding the Eden Housing /Community Housing Alliance’s project on 875 Alma Street for $400,000 and Lytton Gardens new shower enclosure installation project for $84,696 in 2008-2009. More specifics about the viability of the 875 Alma Street project should be available prior to next year. The 2008-2009 funding allocation will be reviewed and adjusted when the actual amount of the allocation and program income is known.

Commitment of Funds
HUD regulations require that CDBG funds be expended in a timely manner. The regulatory requirement is that no more than 1.5 times a jurisdiction’s annual entitlement grant amount may remain in the letter of credit 60 days prior to the end of the program year. In an effort to reduce the backlog of unspent CDBG funds, HUD employs monetary sanctions against jurisdictions that exceed the regulatory standard. For this reason, all funding applications were scrutinized to insure the readiness of the program or project to move forward and expend funds in a timely manner.

POLICY IMPLICATIONS
All of the applications recommended for funding in fiscal years 2007/2008 and 2008/09 are consistent with the priorities established in the City’s adopted Consolidated Plan for the period 2005 to 2010. They are also consistent with the housing programs and policies in the adopted Comprehensive Plan.

TIMELINE
Funding recommendations made by the Finance Committee will be forwarded to the City Council for review and approval at a public hearing scheduled for May 7, 2007. Subsequently,
the Annual Action Plan and Consolidated Plan update will be submitted to HUD to meet the May 15, 2007 deadline.

ENVIRONMENTAL REVIEW
For purposes of the National Environmental Policy Act (NEPA) and the California Environmental Quality Act (CEQA), budgeting in itself is not a project. HUD environmental regulations for the CDBG program are contained in 24 CFR 58 “Environmental Review Procedures for Title I Community Development Block Grant Programs.” The regulations require that entitlement jurisdictions assume the responsibility for environmental review and decision-making under NEPA. Prior to the commitment or release of funds for each of the proposed projects, staff will carry out the required environmental reviews or assessments and certify that the review procedures under CEQA, HUD and NEPA regulations have been satisfied for each particular project.

ATTACHMENTS

PREPARED BY: Chitra Moitra, Planner - CDBG

DEPARTMENT HEAD: STEVE EMMELIE, Director Planning and Community Environment

CITY MANAGER APPROVAL: FRANK BENEST City Manager

cc: CDBG Citizens Advisory Committee Members 2007/09 CDBG Applicant Agencies