



AGENDA
COMMUNITY DEVELOPMENT BLOCK GRANT WORKSHOP
CRESCENT CITY FIRE DEPARTMENT
520 I STREET
CRESCENT CITY, CA 95531
<http://www.crescentcity.org>

City of Crescent City

- *Anyone requiring reasonable accommodation to participate in the meeting should contact the City Clerk at (707) 464-7483 at least five (5) days prior to the meeting. For TDD use for speech and hearing impaired, please call (707) 464-2226.*

Monday

August 30, 2010

5:00 p.m.

Call to Order
Roll Call
Pledge of Allegiance

COMMUNICATIONS

- } **PUBLIC COMMENT PERIOD** - Any member of the audience is invited to address the City Council on any matter that is within the jurisdiction of the City of Crescent City. Comments of public interest or on matters appearing on the agenda are accepted. Note, however, that the Council is not able to undertake extended discussion or act on non-agendized items. Such items can be referred to staff for appropriate action, which may include placement on a future agenda. **After receiving recognition from the Mayor, please state your name and city or county residency for the record. Public comment is limited to three (3) minutes.**

NEW BUSINESS

1. Presentation by Charlene Mazzei regarding the Community Development Block Grant (CDBG) program, take action as necessary and appropriate.

ADJOURNMENT

Adjourn the meeting to the regular City Council meeting on Tuesday, September 7, 2010 at 6:00 p.m.

Posted: August 26, 2010
By: Robin Patch, Deputy City Clerk for
Rod B. Butler, City Clerk

CITY COUNCIL AGENDA REPORT



TO: MAYOR SCHELLONG AND MEMBERS OF THE CITY COUNCIL

FROM: ROD BUTLER, CITY MANAGER

BY: CHARLAINE MAZZEI, CONTRACT GRANT COORDINATOR

DATE: AUGUST 30, 2010 CDBG WORKSHOP

**SUBJECT: POTENTIAL REVISION TO CDBG PROGRAM INCOME REUSE PLAN
IN RESPONSE TO NEW OPTIONS ALLOWED BY THE STATE.**

RECOMMENDATION

Discuss and provide guidance to staff as to the implementation of new options allowed by the state for the use of Community Development Block Grant Program Income.

BACKGROUND

CDBG program income is revenue greater than \$25,000 per year that results from CDBG-funded activities. In the case of the City of Crescent City, program income is received from the repayment of housing rehabilitation loans originally made as part of the 2000 and 2001 CDBG grants. CDBG Program Income must be kept in a separate, interest-bearing account and its accumulation and use are reported to the Department of Housing and Community Development (HCD) on a quarterly and annual basis. As of June 30, 2010, the City's Program Income account balance was \$156,712.

In order to expend CDBG Program Income, the City must have a current, approved Program Income Reuse Plan and must hold a public hearing and adopt a resolution authorizing the use of CDBG Program Income for a specific program or project. In the past, the use of CDBG program income was strictly limited by HCD regulations to either funding additional housing rehabilitation loans through a revolving loan program, or to funding activities in other open CDBG grants.

On April 28, 2010, HCD issued CDBG Management Memorandum 10-03, which expands the allowable use of CDBG Program Income to any program or project that would otherwise be eligible for CDBG funding, subject to prior approval by HCD. The City's current Program Income Reuse Plan, which was approved in 2006, does not provide guidelines for how potential projects or programs could be considered and selected for funding under the new HCD policy.

As CDBG Program Income is a finite resource, while the potential need for funds is nearly unlimited, it appears prudent to establish some priorities and processes for considering potential expenditures. Both the current Program Income Reuse Plan and HCD Management Memorandum 10-03 are attached to this report.

ANALYSIS

HCD's new policy for Program Income reuse provides for the potential to fund a wide range of programs and projects and a number of factors should be considered when determining its use.

To provide some perspective, the City's current Program Income account balance could represent approximately 3 to 5 new housing rehabilitation projects; a single year's funding request for most of the public service programs traditionally included in CDBG General Allocation applications; or a half-year's funding request from the Community Assistance Network.

Program Income is currently only generated if an established housing rehabilitation loan pays off through sale or refinance. Because it is not certain that the fund will be replenished on a regular basis, the Council may wish to consider ways to preserve or extend the life of its Program Income account. For example, the Council may wish to consider prioritizing the expenditure of Program Income to those projects and programs that would qualify for CDBG funding, but would not normally be considered "competitive" and would therefore be less likely to be included in an annual CDBG funding application.

The Council may also wish to consider putting a limit on the amount of funds that could be awarded to any single program or project. Finally, the Council may wish to consider how to preserve a Program Income balance for those years in which the annual CDBG funding is not available and the local organizations that depend on those funds need assistance in remaining viable.

FISCAL IMPACT

There is no fiscal impact to the City's General Fund. There is potential positive impact as Program Income is used to the benefit of public projects and programs that would otherwise not receive funding.

PROGRAM INCOME REUSE PLAN

City of Crescent City

Date of this Plan: July 2006

A Reuse Plan Governing Program Income from CDBG-Assisted Activities

The purpose of plan is to establish guidelines on the policies and procedures for the administration and utilization of program income received as a result of activities funded under the State Community Development Block Grant Program.

Need for Plan Governing Reuse of Program Income. This Reuse Plan is intended to satisfy the requirements specified in Federal statute and regulation at Section 104 (j) of the Housing and Community Development Act ("the Act"), as amended in 1992 and 24 CFR 570.489 (e) (3). These statutory and regulatory sections permit a unit of local government to retain program income for CDBG-eligible community development activities. Under federal guidelines adopted by the State of California's CDBG program, local governments are permitted to retain program income so long as the local government has received advance approval from the state of a local plan that will govern the expenditure of the program income. This plan has been developed to meet that requirement.

Program Income Defined. Program Income is defined in federal regulation at 24 CFR 570.489 (e) which specify that program income is the gross income received by the jurisdiction that has been directly generated from the use of CDBG funds. (For those program income-generating activities that are only partially funded with CDBG funds, such income is prorated to reflect the actual percentage of CDBG participation). Examples of program income include: payments of principal and interest on housing rehabilitation or business loans made using CDBG funds; interest earned on program income pending its disposition, and interest earned on funds that have been placed in a revolving loan account; net proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds; income (net of costs that are incidental to the generation of the income) from the use or rental of real property that has been acquired, constructed or improved with CDBG funds and that is owned (in whole or in part) by the participating jurisdiction or subrecipient.

If the total amount of income generated from the use of CDBG funds (and retained by the City of Crescent City) during a single program year (July 1 through June 30) is less than \$25,000, then these funds shall not be deemed to be program income and shall not be subject to these policies and procedures. However, Quarterly and Annual Program Income Reports must be submitted regardless of whether the \$25,000 threshold is reached or not.

Portfolio Management Costs. Costs of managing the portfolio of CDBG and HOME-funded loans may be charged to PI under general administration or activity delivery within the allowable limits set by HCD.

General Administration (GA) Cost Limitation. Up to eighteen percent (18%) of the total program income expended on all activities during a single program year may be used for CDBG general administration expenses.

Reuses of Program Income. Program income must be: a) disbursed for an activity funded under an open grant prior to drawing down additional Federal funds; b) forwarded to the State of California, Department of Housing and Community Development (Department); or c) distributed to one or more Revolving Loan Accounts according to this Program Income Reuse Plan after adoption of the plan by the City of Crescent City jurisdiction and approval by the Department. *The Reuse Plan shall be adopted by the local governing body only after compliance with the City's citizen participation process as specified in Federal Regulations at 24 CFR 570.486, Local Government Requirements.*

The City of Crescent City reserves the option of utilizing program income to fund/augment a CDBG funded activity included in a grant agreement. In order to exercise this option the City of Crescent City must first follow the citizen participation process, hold a public hearing, obtain a governing body resolution, and obtain approval from the State CDBG Program.

Planning Activities. The City of Crescent City reserves the option of utilizing program income, within the 18 percent general administration annual cap, to fund planning for CDBG-eligible activities. Such planning activities may include: cash match for a State CDBG Planning and Technical Assistance Grant; environmental reviews or other studies necessary for CDBG-eligible projects or programs; or application preparation for CDBG or other grants/loans to supplement funding for CDBG-eligible activities. The costs of such planning activities may be charged to an RLA if the planning is for the same activity as the RLA. Otherwise, PI may only be expended on planning activities in conjunction with an open CDBG Planning and Technical Assistance grant.

Distribution for Reuse of Program Income. The City's program income that has not been committed to open grant activities will be distributed as follows for the established revolving loan accounts (RLAs). The City has established a housing rehabilitation RLA and an economic development (business expansion and retention) RLA to utilize the program income under this plan.

The allocation of CDBG program revenue to the RLAs is as follows:

- a) One hundred percent (100%) of program income received from previous housing rehabilitation activities will be deposited into the Housing Rehabilitation Revolving Loan Account.
- b) One hundred percent (100%) of program income received from previous economic development activities will be deposited into the Business Expansion and Retention Revolving Loan Account.

Funds shall not be transferred between RLAs or to an open grant activity without conducting a properly noticed CDBG Citizen Participation public hearing. However, the transfer of program income between RLAs and to grant-funded activities during the program year in the aggregate amount of \$5,000 or less will not be subject to the citizen participation requirement to hold a properly noticed public hearing. If it becomes necessary to transfer funds between RLAs we will consider revising the above distribution formula.

Reporting and Federal Overlay Compliance.

The City of Crescent City shall comply with all State CDBG reporting requirements, including submittal of a single annual Grantee Performance Report that reports on all of the City's RLAs, and the required Quarterly and Annual Program Income Reports, which shows combined PI

receipts and actual PI expenditures for all RLAs and grants on one report (see chapter 10 of the CDBG Grant Management Manual for due dates). The City of Crescent City shall ensure that the use of program income under this Reuse Plan complies with all CDBG program requirements, including citizen participation, environmental review, equal opportunity, Section 3 employment, lead-based paint, labor standards, acquisition and relocation, procurement, property management, and maintenance of adequate accounting and recordkeeping systems. To ensure ongoing compliance with CDBG requirements, the City of Crescent City shall utilize the latest available State CDBG Program Grant Management Manual for guidance on compliance procedures and policies. The City of Crescent City shall obtain the Department's written approval before proceeding with any PI-funded activity.

Maximum Funds in Revolving Loan Accounts.

Program Income received by the RLAs during the program year (July 1 through June 30) shall be substantially expended by the end of the program year (June 30). At any given time, the funding balance for either of the RLAs should not exceed the typical cost of a single RLA project, plus reasonable administration costs (up to 18 percent of total expended costs). The typical cost for RLA projects has historically averaged \$60,000. Therefore, the funding balance in either RLA should not exceed \$60,000.

Revising this plan. The City Council has the authority to amend this document with a properly noticed Council meeting and approval by the State Department of Housing and Community Development (HCD).

Revolving Loan Accounts. The purposes and allowed uses of funds under the City's RLAs are, as follows:

Housing Rehabilitation Revolving Loan Account.

This fund will be principally used for the purpose of making loans to rehabilitate residential units occupied by households which have an annual income which is eighty percent (80%) or less of the county's median income. At least fifty-one percent (51%) of the funds expended for the activity funded under this RLA during the program year shall be used on revolving activities (i.e., loans).

No more than ten percent (10%) of the program income funds actually expended during the program year under this RLA shall be expended for housing rehabilitation *grants*. No more than nineteen percent (19%) of the funds expended from this RLA shall be used for activity delivery costs. No more than eighteen percent (18%) of the total amount of PI expended annually may be expended for general administrative costs related to this RLA activity. In any event, the total expended for non-revolving activities (*grants*, activity delivery costs, and general administration) shall not exceed forty-nine percent (49%) of the total funds actually expended during the program year (July 1 thru June 30).

The review and funding of requests for CDBG loan or grant assistance under this RLA shall be conducted under the Housing Rehabilitation Program Guidelines that shall be adopted by the City of Crescent City and approved by HCD prior to any request for release of funds from this RLA. All assistance provided for activities under this RLA

shall be made for activities that are located within the City's jurisdiction.

If the activities funded under the RLA are for the same activities as those funded under an open State CDBG grant agreement, then the funds available in this RLA shall be expended prior to drawing down funds from the State CDBG program.

Business Expansion and Retention RLA.

This fund will be used to provide "gap" financing for businesses that can document the need for CDBG assistance and that will create or retain qualifying permanent jobs that will be principally filled by members of households which have an annual income that is eighty percent (80%) or less than the county's median household income, adjusted for size. At least fifty-one percent (51%) of the funds actually expended for the activity funded under this RLA during the program year shall be used on revolving activities (i.e., loans). No more than fifteen percent (15%) of the program income funds expended during the program year under this RLA shall be for grants for public infrastructure improvements that are needed to accommodate a specific business expansion or retention project. No more than ten percent (10%) of the total funds expended for business assistance activities shall be used for activity delivery costs. No more than eighteen percent (18%) of the total amount of PI actually expended annually may be expended for general administrative costs related to this RLA activity. In any event, the total expended for non-revolving activities (grants, activity delivery costs, and general administration) shall not exceed 49 percent of the total funds expended during the program year (July 1 thru June 30).

If the activities funded under the RLA are for the same activities as those funded under an open State CDBG grant agreement, then the funds available in this RLA shall be actually expended prior to drawing down funds from the State CDBG program.

The review and funding of requests for CDBG loan or grant assistance under this RLA shall be conducted under the federal underwriting guidelines specified at 24 CFR 570.482 (e) that shall be incorporated into the City's Business Revolving Loan Fund Program Guidelines and shall include the project review procedures. These Guidelines shall be adopted by the City of Crescent City and approved by HCD prior to any request for release of funds from this RLA. These guidelines will ensure that the amount and terms of the CDBG assistance are appropriate given the documented needs of the business and given the amount of public benefit (job creation/retention) that will result from the CDBG-assisted project. In addition, any activity requesting funding under this RLA shall be deemed to be eligible under Section 570.482 and Section 105 (a) of the Act and shall be determined to provide sufficient public benefit as specified under Section 570.482 (f). Any CDBG assistance for infrastructure shall meet the requirements of Section 570.483 (b) (4) (F) which requires ongoing job tracking for all businesses that initially benefit from an infrastructure project as well as any subsequent business(s) benefiting from these improvements. All assistance provided to activities under this RLA shall be made for activities that are located within the City's jurisdiction.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF FINANCIAL ASSISTANCE
FEDERAL PROGRAMS BRANCH
Community Development Block Grant Program (CDBG)**

1800 Third Street, Suite 330
P. O. Box 952054, MS 330
Sacramento, CA 94252-2054
(916) 552-9398
FAX (916) 319-8488



**CDBG MANAGEMENT MEMORANDUM
Community Development Block Grant Program - Memorandum Number 10-03**

DATE: April 28, 2010

TO: Eligible Community Development Block Grant (CDBG) Jurisdictions

FROM: Thomas Brandeberry, CDBG Section Chief

SUBJECT: NOTICE OF CHANGE IN CDBG PROGRAM INCOME USE POLICY

The Department of Housing and Community Development (Department) is pleased to announce that its plan to revise the CDBG Program's current Program Income policies and rules within the upcoming year. ***In the interim, the Department has determined that an alternate policy on Program Income use on non-revolving activities is necessary.***

As a result, the Department is implementing a procedure to allow jurisdictions to request a waiver to the present policy established in Management Memorandum 03-11 available at <http://www.hcd.ca.gov/fa/cdbg/mmemo/03-11.pdf>. This Memorandum also revises relevant portions of the Program Income Chapter of the Grant Management Manual.

Interim Policy

Effective the date of this Memorandum, the Department will accept requests from jurisdictions to utilize Program Income on non-revolving activities, outside of an open grant or a Revolving Fund Account (RLA). Non-revolving CDBG activities include micro-enterprise technical assistance, public improvements, public facilities, public services, and public improvements in support of housing new construction. Requests for waivers will be reviewed and approved on a case-by-case basis, based on the merit of the proposed activities.

The Department will not consider requests for waivers for revolving activities, such as housing rehabilitation, homebuyer assistance, and economic development activities.

CDBG MM 10-03 NOTICE OF PROGRAM INCOME POLICY CHANGE
April 28, 2010

To request a waiver, submit the following to your CDBG Representative:

- Formal letter of request for waiver on jurisdiction letterhead, signed by the Authorized Representative and which includes a description of the project.
- Complete the Program Income-Funded Project Waiver Request form (attached) providing information to demonstrate that the project is eligible and meets a National Objective.

Upon receipt, and within 14 days, CDBG Program staff will review the jurisdiction's waiver request and, depending on the nature of the activity, will approve, conditionally approve or deny the request.

If the Department conditionally approves the project, the form will be sent back to the jurisdiction indicating what conditions must be met for approval. Similarly to contract special conditions, examples of conditions may include, but are not limited to a completed Environmental Review, site control documentation, proof of citizen participation, and others. The jurisdiction will not be allowed to incur costs until all conditions given to the jurisdiction have been met (i.e., NEPA clearance, procurement, Davis Bacon, etc.).

If you have any questions about this Management Memorandum, please contact your CDBG Representative.

Attachment: CDBG Program Income-Funded Project Waiver Request Form

**CDBG PROGRAM INCOME-FUNDED PROJECT
WAIVER REQUEST**

Jurisdiction:	
3. PLEASE DESCRIBE THE STATUS OF THE FOLLOWING:	
Davis Bacon:	
NEPA:	
Relocation:	
Site Control:	
Procurement:	
Other:	
<i>(FOR USE BY CDBG PROGRAM ONLY)</i>	
4. PROJECT APPROVAL: <input type="checkbox"/> APPROVED <input type="checkbox"/> CONDITIONALLY APPROVED <input type="checkbox"/> NOT APPROVED	
Conditions for Approval:	

CDBG Representative: _____

Date: _____

CDBG Program Manager: _____

Date: _____

Section Chief: _____

Date: _____

CITY COUNCIL AGENDA REPORT



TO: MAYOR SCHELLONG AND MEMBERS OF THE CITY COUNCIL

FROM: ROD BUTLER, CITY MANAGER

BY: CHARLAINE MAZZEI, CONTRACT GRANT COORDINATOR

DATE: AUGUST 30, 2010 CDBG WORKSHOP

SUBJECT: PROCESS FOR DETERMINING PROJECTS AND PROGRAMS TO BE INCLUDED IN CDBG APPLICATIONS

RECOMMENDATION

The Council appoint a two-person committee to participate in the project/program selection process for CDBG grants.

BACKGROUND

Each year, the City of Crescent City is normally eligible to apply for funding from up to five different CDBG grant opportunities. These opportunities are the General Allocation, the Economic Development Enterprise Fund, the Economic Development Over-The-Counter Allocation and two Planning and Technical Assistance allocations for community development and economic development projects. In the past, these applications have most often been proposals in which the City requested funding on behalf of third-party program operators or private non-profit organizations operating eligible programs benefitting the CDBG target population. City public works or public facilities projects have less often been funded, primarily because these projects are less competitive (not 90%-100% TIG). Because applications containing projects with lower TIG benefit do not score as well in the competitive process, it is only during years when there is a substantial amount of funding available that these projects make the funding cutoff.

The County of Del Norte is also eligible to apply for the same opportunities, and even more rarely applies for public works projects because the County population does not meet the minimum TIG threshold to qualify for CDBG funding.

At the local level, the CDBG funding opportunity that generates the most requests for funding is the General Allocation. Each year, the requests for funding from local public service providers

are far greater than the available funds for which the City and County are eligible to apply. It then becomes necessary to make determinations as to which programs to fund, and at what level.

For the 2004 and 2005 allocation years, the decision-making process for the City and County General Allocation applications was conducted jointly, with a single funding request required of potential applicants and a joint determination of the programs and amounts to be included in each application. This procedure was adopted after it became apparent that separate application processes were both duplicative for the organizations seeking funding, and tended to result in some organizations being “double-funded,” while others were under-funded. This process was also used to develop the recommendations for the 2010 General Allocation application.

During the public hearing held to approve the 2010 CDBG General Allocation application, Council members expressed a desire to be more involved in the process by which programs and projects are selected for inclusion in the City’s CDBG applications. It is recommended that appointment of a committee of Council members is the most reasonable way to accomplish greater Council involvement while preserving the ability to coordinate processes with the County and allow for the time and attention to detail necessary to properly consider funding requests.

ANALYSIS

A number of alternatives are available for making decisions as to which projects and programs to include in the City’s CDBG applications. Several years’ experience has taught that the process is most efficient, effective and fair when it is coordinated with the County, and when it allows for a thoughtful and deliberative consideration of all of the factors affecting the applicant agencies, their budgets and the elements necessary to develop a highly competitive application. To accomplish these goals, while allowing for greater Council involvement, appointment of a committee is recommended. Although this alternative precludes the participation of the entire Council in the complete decision-making process, it is recommended for the following reasons:

1. It allows Council participation in the decision-making process.
2. It insures that Council priorities are included in the decision-making process.
3. It allows for a coordinated, cooperative application process with the County.
4. It allows for a deliberative and thoughtful analysis of each proposal.
5. It allows for non-public discussion and resolution of potential concerns and issues.
6. It allows meetings to take place as needed to respond to funding opportunities without the need to notice a meeting of the entire Council.
7. The full Council retains the final approval of the completed application.

There appear to be two alternatives to the recommended committee approach to developing CDBG applications. Neither is recommended as the negative aspects of each outweigh the potential benefits.

A. Staff conducts the application process and makes final recommendations to the Council.

Potential Advantages:

1. Allows for a coordinated, cooperative application process with the County.
2. Allows for a deliberative and thoughtful analysis of each proposal.
3. Allows for non-public discussion and resolution of potential concerns and issues.
4. Can be completed in a tight timeframe.

Negatives:

1. Precludes the active participation of Council members in the full decision-making process.
2. Council project priorities may get left out of the decision-making process.
3. Can make the decision-making process arbitrary and non-transparent.

B. Decision is made by City Council in a public meeting based on presentations made by applicant agencies.

Potential Advantages:

Allows City Council members exclusive and absolute control over the projects and programs included in the CDBG application, and over the distribution of funds to each.

Negatives:

1. Precludes participation in a cooperative, coordinated application process with the County.
2. The time constraints inherent in Council meeting agenda items prevent the thorough and thoughtful consideration and analysis of the merits and potential challenges of each proposal individually, and as each relates to the others, that is necessary to make informed decisions in the community's best interests. As an example:
 - a. For 2010, seven organizations submitted proposals. If each were allowed a 10-minute presentation, it would take over an hour to hear them all.
 - b. Discussion and consideration of the various proposals submitted for 2010 required a 3-hour meeting between City and County staff and multiple phone calls and e-mails between staff and applicants to arrive at the recommendations presented to each governing body.

3. The highly public nature of Council meetings inhibits a frank and open discussion with individual applicants regarding program performance and budgetary issues.
4. Public determination of “winners and losers” has the potential to create a negative dynamic between the Council and community non-profits and among the non-profits themselves when they are required to participate in a process of being publicly judged against each other.

FISCAL IMPACT

There is no fiscal impact to the General Fund of this recommendation. There is the potential to impact the ability to develop sufficiently competitive applications to continue to receive CDBG funding.