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Memorandum ^{MAR 10 2009}
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TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

**SUBJECT: FY 2009-10 CDBG FUNDING
RECOMMENDATIONS**

DATE: March 9, 2009

Approved

Date

3/9/09

COUNCIL DISTRICT: Citywide

INFORMATION

The purpose of this memo is to provide information about the process of awarding grants and loans from the Community Development Block Grant (CDBG) Program. 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. HUD requires that the City submit an Annual Consolidated Action Plan (ConPlan) in May that delineates the proposed use of HUD funds for the upcoming fiscal year. The ConPlan process includes a thirty day public notice period.

This report contains information about the projected CDBG budget for Fiscal Year 2009-10 and the selection process for projects recommended for funding. **CDBG staff will inform applicants about funding recommendations on March 9, 2009.** CDBG staff will present details of the funding recommendations to the Housing and Community Development Advisory Commission on March 12, 2009. The City Council will then review the funding recommendations on March 24, 2009 through the opening the 30-day Consolidated Plan public hearing process. The City Council will issue its final approval at its May 5, 2009 meeting.

The City administers the Program according to strict HUD requirements that dictate the eligible uses, process, and timing of awards. Due to the requirement that awards be included in the May 15, 2009 Consolidated Plan submittal to HUD and the need for public hearings prior to that time, these funding recommendations are time sensitive.

BACKGROUND

The FY 2009-10 CDBG budget includes funds from three sources: annual entitlement from HUD, program income, and fund balance. For FY 2009-10, the City of San Jose expects to

receive an annual entitlement award from HUD similar to FY 2008-09, and has budgeted \$9,900,000 in the FY 2009-10 budget.

CDBG program income is generated through the repayment of housing rehabilitation and economic development loans. Recent years have shown a steady decline in this income from a high in FY 2003-04 of \$1,704,155 to a low in FY 2007-08 of \$987,081. The reduction is believed to be the result of a shrinking loan portfolio and economic factors causing fewer loan repayments. Based upon current year performance, the FY 09-10 program income is estimated at \$800,000.

Because spending limits for public service grants and program administration rely in part on program income, fluctuations in loan repayments may impact spending in those funding categories. Due to the volatility of program income, staff will closely monitor ongoing repayment data and will modify the program income estimate prior to submitting its final recommendation if needed.

Over the past three funding cycles, the cancellation of grants for projects that did not go forward returned funds to the Program fund balance and provided additional funding to eligible community development activities. For FY 2009-10, the additional amount available is \$1,477,000.

By HUD regulation, no more than 20% of the annual award and program income may be used for administrative costs and no more than 15% may be used for public services activities. The remainder is devoted to community development activities. The chart below details the proposed budget for FY 2009-10.

2009-10 CDBG Budget	
Available Revenue	
HUD Award	\$9,900,000
Program Income	\$800,000
Fund Balance Available	\$1,477,000
Total Available Funds	\$12,177,000
Projected Awards	
Public Service (CCS)*	\$1,605,000
Administration, Fair Housing, Planning**	\$2,140,000
Nonprofit Community Development Projects (CDI)	\$2,474,240
Available for City Community Development Projects (CDI)	\$5,957,760
Total Projected Awards	\$12,177,000

By policy, the City reserves the entire public services funding for activities proposed by nonprofit community-based organizations (CBOs). From the administrative cost category, the City funds fair housing activities administered by CBOs as well as the administration of the CDBG program. Both City and CBO community development projects are funded out of the remaining funding.

FY 2009-10 Application Process for Nonprofits

FY 2009-10 represents the second year of a two-year funding cycle for public service awards. Agencies that received under \$100,000 in FY 2008-09 are eligible to receive up to the same amount in FY 2009-10. In total, 26 projects totaling \$1,222,573 are eligible to receive second year funding in FY 2009-10. As noted in the contract with the agencies, eligibility for the second year's funding is dependent on performance and timeliness of reporting in FY 2008-09. In addition, CDBG staff will review the audited financial statements of each agency following the same process utilized for FY 2009-10 applicants. The results of this review will determine if an agency will receive funds in FY 2009-10. Should CDBG determine that an agency is not eligible for second-year funding, the additional funds will be distributed to FY 2009-10 applicants.

Based upon the projected budget for FY 2009-10 and the reservation of funds for agencies eligible for a second year award, \$410,000 was allocated for new public service grants. A Notice of Funding Availability (NOFA) was published on October 19, 2008, with applications due December 8, 2008. The NOFA stated the funding priorities and evaluation criteria developed by staff and approved by the Housing and Community Development Commission (HCDC). Twenty-five applications were received from eighteen CBOs for public service and community development improvement awards.

Applications were evaluated for their relevance to priority activities for human services, which include: 1) stabilization and counseling, 2) services to special needs populations, and 3) self-sufficiency. A detailed description of these priorities is attached as Attachment A. These priorities are in alignment with the City-wide grants policies on eligible activities as approved by City Council on October 30, 2007. Among other requirements, applicants were asked to demonstrate that at least 20% of their funding for the proposed project comes from other sources. In addition, applicants were required to submit audited financial statements.

Application Review Process

Program staff continued the thorough review process first established in FY 2007-08, including the following steps:

- Teams of two CDBG staff analysts reviewed and independently scored proposals according to published criteria.
- CDBG managers reviewed and scored program audits based on a newly developed 10-point scoring system.
- 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 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 San Jose BEST program to share information about 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.
- An ad hoc subcommittee of the HCDC met to review and provide feedback on the staff recommendations.

In some cases, the evaluation of the applications revealed issues that resulted in a recommendation not to fund a proposal. Issues that resulted in this recommendation include:

- Project does not meet CDBG eligibility requirements.
- Activities did not meet a specific funding priority.
- Audited Financial statements did not meet minimum requirements and raised concerns about the CBO's ability to provide the necessary matching funds and/or meet performance requirements in FY 2009-10.

The City is working to develop a comprehensive response to help nonprofits strengthen their financial positions and therefore their ability to access future City funding. This "nonprofit engagement" model will be used to provide technical assistance to nonprofits such as those not recommended for CDBG funding this year.

Attachment B contains details of the applications and recommended funding amounts.

FY 2009-10 Award Process for City Projects

Continuing the process established in FY 2007-08, 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 Budget Office; the City Attorney's Office; and the Redevelopment Agency.

During discussions with the team, it was noted that the availability of CDBG fund balance was reduced from previous years. As a result, the funds available for City projects dropped by 36% from FY 2008-09. Based on this information, the Team recommended funding of high priority projects including: Code Enforcement, Housing Rehabilitation, and the Smart Start San Jose Family Child Care Training program.

Funding Recommendations

Applications for public service grants totaled \$1,469,856, nearly four times the amount budgeted. Applications for community development projects totaled \$3,119,142. The following discussion breaks down the recommendations for the CBO applications.

- Public Service Applications:
 - Thirteen applications were received.
 - Proposals were ranked based on the numeric scores resulting from the application review and analysis of the audited financial statements.
 - Financial audit review scores of under seven (out of a possible ten) were deemed eligible only if approved by the Director of Housing.
 - Five applications are being recommended for funding to the extent of funds available.
 - One project received Housing Trust Fund (HTF) funding in FY 2008-09 and is eligible to receive second year HTF funding in FY 2009-10.
 - Two applications are not recommended for funding due to serious concerns resulting from the financial audit reviews and prior performance
 - Five applications are not recommended for funding due to low overall scores, ineligible activities or activities that do not address FY 2009-10 City priorities.
- Fair Housing Applications:
 - Two applications were received.
 - One application is recommended for funding in FY 2009-10.
 - One application is not recommended for funding due to serious concerns about the financial condition of the CBO.
- Community Development Applications (non-construction):
 - Five applications were received.
 - Three applications are recommended for funding.
 - Two applications are not recommended for funding, one due to low score and a second because the proposed activity is one that the CDBG program has determined is not a funding priority for FY 2009-10.
- Community Development Applications (construction):
 - Five applications were received.
 - Three construction applications are recommended for funding.
 - One application is related to an incomplete FY 2008-09 project and will be funded through the transfer of those funds to FY 2009-10.
 - One application was received for an amount less than the published minimum amount and is being referred for funding by the Housing Rehabilitation program.

Attached are lists of the applications and award recommendations in all funding categories.

Next Steps

Announcements to applicants will be mailed on Monday, March 9, 2009. Applicants may appeal the decisions to the Director of Housing. The list of recommended projects will be presented to

the HCDC at its meeting of March 12th, and will be presented to the City Council as part of the draft Consolidated Plan on March 24th and May 5th.

Future Funding

On February 17, 2009, the American Recovery and Reinvestment Act (ARRA) of 2009 was signed into law. ARRA includes an additional \$2.7 million in CDBG funds for the City of San Jose. Details about the uses of these funds have not yet been finalized by HUD. Staff will bring proposals for the award of these funds as soon as the requirements have been made public.


LESLYE KRUTKO
Director of Housing

For questions, please call Sandra Murillo at 975-4415.

Attachments:

- A: Funding Priorities and Policy Recommendations
- B: Public Service Funding Recommendations
- C: CDI Funding Recommendations
- D: Fair Housing Funding Recommendations
- E: City Projects Funding Recommendations
- F: Second Year Public Service Funding Recommendations

2009-2010 CDBG Funding Priorities and Policy Recommendations

FUNDING PRIORITIES

Stabilization

- 1) Emergency Needs
 - a) Shelter- emergency, transitional
 - b) Food to meet basic nutritional needs
 - c) Homeless prevention services

- 2) Transitional Counseling and Support
 - a) Violence (domestic abuse and gangs)
 - b) Substance Abuse (alcohol and drugs)
 - c) Housing Services (Fair Housing and Housing Search)
 - d) Immigration Services (status, language, education and access)
 - e) Legal Assistance
 - f) Dependent Care for Children, Elderly, Infirm or Disabled

- 3) Access to Healthcare
 - a) Mental Health (adult, youth and family)
 - b) Respite
 - c) Transportation

Special Needs

- 1) Assisting Seniors and Disabled
 - a) Senior/Disabled Support Services
 - b) Daycare (Recreation, Fitness, and Nutrition)
 - c) Caretaker Supportive Services
 - d) Transportation

- 2) Developing Children and Youth
 - a) Readiness for Post-Secondary Success (middle and high school students)
 - b) Early Childhood and Preschool (school readiness, language and social skills)

Self-Sufficiency

- 1) Enhancing Adult Living Skills
 - a) Employment Skills (obtaining, holding, advancement)
 - b) Education/Skills/ESL

POLICY RECOMMENDATIONS

Additional elements of proposal evaluation include:

- 1) Award Limits – No Change for FY 2008-09

- a) \$25,000 Minimum
- b) No Maximum
- 2) Funding Cycles
 - a) Two-year award for applications under \$100,000
 - b) One-year award for applications \$100,000 or above
 - c) One-year award for:
 - i) New agencies
 - ii) First time funded by CDBG
 - iii) Five year lapse since last CDBG funding
- 3) Leverage Ratio
 - a) 20% Minimum
 - i) 10% Must be Committed
 - ii) 10% Maximum In-Kind
- 4) Alignment with Other City Efforts
 - a) Must address a City priority and be in alignment with other City efforts
 - b) Must meet a community need and CDBG national objective
 - c) If not a priority, a supplemental with justification is required
Example: Soldiers returning with brain injuries
- 5) Audited Financial Statement Point System – An Audit Review Committee consisting of subject experts and CDBG staff/management will review and score audited financial statements using the a 10-point maximum point system. A minimum of 7- points possible is required to proceed to the next funding review. The review will score several areas including:
 - a) Preparation of the Audit Report by a certified Accounting Firm
 - b) Completeness of Audit Report
 - c) Liquidity – Current Ratio at Least 1:1
 - d) Ability to Service Long Term Debt
 - e) Auditor Opinion (Qualified, Unqualified, Going Concern)
 - f) Does the Report contain “Reportable Conditions” or “Material Weaknesses”
 - g) Satisfactory Response to Management Letter
 - h) The Director of Housing may approve exceptions to this policy under special circumstances including: a determination that the service provided meets a critical community need and that is not being provided by other agencies; and an expectation that, with City guidance, the nonprofit has the ability to regain financial stability and continue as a viable service provider.

CCS (Public Service) Funding Recommendations, FY 2009-10

Agency Name	Project Name	Total Score	2008-09 Funding Amount	2009-10 Requested Amount	Recommended 2009-10 Funding Amount	Funding Conditions/Comments
Yu-Ai Kai	Senior / Youth Wellness Project	76.5	\$0	\$50,000	\$50,000	
Community Technology Alliance	Tech SCC Tools for Ending Chronic Homelessness	71	\$105,518	\$105,518	\$105,518	
Mexican American Community Services Agency	MACSA Youth Center Services	69	\$112,911	\$147,000	\$99,734	
Mexican American Community Services Agency, Inc.	MACSA Youth Opportunities Unlimited	68	\$114,549	\$144,000	\$102,747	
Portuguese Organization for Social Services and Opportunities	Portuguese Community Center Senior Project	67	\$0	\$43,000	\$24,428	
				Amount Recommended	\$382,427	
				Amount set-aside for 2-year eligible grantees	\$1,222,573	
				Total Amount Recommended	\$1,605,000	
Recommended for Denial						
Legal Aid Society of Santa Clara County	Legal Aid Society Housing Counseling Project	71	\$113,263	\$150,000	\$0	Audited financial statements did not meet minimum requirements.
Indian Health Center of Santa Clara Valley	Diabetes Prevention & Lifestyle Balance Program	67.5	\$0	\$44,395	\$0	Does not address a FY 09-10 Funding Priority.
Unity Care Group	Supportive Housing for Youth	66	\$0	\$145,641	\$0	Audited financial statements did not meet minimum requirements.
Korean American Community Services	Senior Wellness Program	63	\$0	\$35,000	\$0	Insufficient funds to fund project.
Support Network for Battered Women	Domestic Violence Services for CSJ	61	\$0	\$60,000	\$0	Insufficient funds to fund project.
West Valley Community Services	Stability Support Program	54	\$0	\$54,000	\$0	Project funded by Housing Trust Fund in FY 08-09. Will receive 2nd year funding in FY 09-10
Center for Training and Careers	The Sobering Station	51	\$0	\$291,302	\$0	Does not meet CDBG eligibility requirements.
San Jose Conservation Corps	Improving Community Through Individual Job Training	44.5	\$0	\$200,000	\$0	Insufficient funds to fund project.

CDI Funding Recommendations, FY 2009-10

CDI Recommendations						
Agency Name	Project Name	Total Score	2008-09 Funding Amount	2009-10 Requested Amount	Recommended 2009-10 Funding	Funding Conditions/Comments
Rebuilding Together Silicon Valley	Rebuilding Housing Repair	92.5	\$228,675	\$303,268	\$303,268	
Opportunity Fund Northern California	Micro Credit San Jose	76	\$211,752	\$258,677	\$258,677	
Santa Clara County Black Chamber of Commerce	Small Business Incubator Program	61	\$100,171	\$179,533	\$179,533	Funding contingent on agency implementing strict program improvement measures prior to execution of contract.
CDI Nonconstruction Total					\$741,478	
Indian Health Center of Santa Clara Valley	Meridian Facility Rehabilitation	92.5	\$0	\$1,200,000	\$1,200,000	Recommended amount represents an "up to" amount. Final amount pending rehab inspector review.
St. Elizabeth's Day Home	Preschool Renovation	67	\$0	\$113,012	\$113,012	Recommended amount represents an "up to" amount. Final amount pending rehab inspector review.
Korean American Community Services	KACS Community Center Renovation	61	\$0	\$100,000	\$100,000	Recommended amount represents an "up to" amount. Final amount pending rehab inspector review.
CDI Construction Total					\$1,413,012	
Total Amount Recommended					\$2,154,490	
CDI Not Recommended for Funding						
San Jose Conservation Corps	Seismic Retrofit of 1534 Berger Dr.	77.5	\$0	\$200,000	\$0	Project will be funded through transfer of funds awarded to agency in FY 08-09 for rehabilitation of the same facility.
Self-Help for the Elderly	Boiler System Replacement	59.5	\$0	\$55,000	\$55,000	Does not meet minimum application request of \$100K. Referred to Housing Rehabilitation Program
Santa Clara County Black Chamber of Commerce	Small Business Education & Development Assistance	36	\$0	\$400,363	\$0	Do not fund due to concern with project readiness and lack of adequate resources to implement program.
Opportunity Fund Northern California	Revolving Loan Fund	0	\$0	\$309,289	\$0	RLF program terminated by CDBG in FY 08-09.

Fair Housing Funding Recommendations, FY 2009-10

Attachment D

Agency Name	Project Name	Total Score	2008-09 Funding Amount	2009-10 Requested Amount	Recommended 2009-10 Funding Amount	Funding Conditions/Comments
Law Foundation of Silicon Valley, et. al.	Fair Housing Investigation & Enforcement	85.5	\$228,675	\$260,000	\$260,000	
Legal Aid Society of Santa Clara County	Legal Aid Fair Housing Counseling	72	\$101,448	\$150,000	\$0	Audited financial statements did not meet minimum requirements.

City Projects Funding Recommendations, FY 2009-10

Agency Name	Project Name	2008-09 Funding Amount	2009-10 Requested Amount	Recommended 2009-10 Funding Amount	Funding Conditions/Comments
Planning, Building and Code Enforcement	Code Enforcement Housing Inspections	\$2,445,479	\$2,165,975	\$2,165,975	
Planning, Building and Code Enforcement	Code Enforcement Vehicles/Vacant Lots	\$381,793	\$348,073	\$348,073	
Planning, Building and Code Enforcement	Code Enforcement Business Inspections	\$635,535	\$579,211	\$579,211	
	Code Enforcement Subtotal	\$3,462,807	\$3,093,259	\$3,093,259	
Library	Smart Start San Jose Family Childcare Training	\$403,157	\$433,920	\$433,920	
Housing	Housing Rehabilitation	\$2,500,000	\$1,850,000	\$1,700,000	
			Amount Recommended	\$5,227,179	

Second Year Public Service Recommendations, FY 2009-10

Attachment F

Agency Name	Project Name	2008-09 Funding Amount	Eligible 2009-10 Funding Amount
Senior Adults Legal Assistance	Legal Assistance to Elders	\$72,605	\$72,605
Respite & Research Alzheimer's Disease	Alzheimer Activity Center	\$29,478	\$29,478
Santa Clara Valley Blind Center	Blind Rehab & Therapeutic Services	\$62,628	\$62,628
Asian Law Alliance	Asian Law Alliance	\$44,395	\$44,395
Mexican American Community Services Agency, Inc.	MACSA Adult Day Health Care Center	\$26,919	\$26,919
Law Foundation of Silicon Valley Mental Health Advocacy Project	Residential Care Ombudsman Program	\$25,089	\$25,089
Next Door Solutions to Domestic Violence	Shelter Next Door	\$75,776	\$75,776
Catholic Charities of Santa Clara County	Long Term Care Ombudsman Program	\$27,409	\$27,409
Catholic Charities of Santa Clara County	Housing Search and Stabilization Program	\$67,940	\$67,940
Emergency Housing Consortium	San Jose HOMES at Boccardo Reception Center	\$50,327	\$50,327
Live Oak Adult Day Services	Senior Adult Day Care / Respite	\$29,073	\$29,073
Silicon Valley Independent Living Center	Housing Program for Persons with Disabilities	\$25,089	\$25,089
Housing Authority County of the County of Santa Clara	Family Self Sufficiency	\$65,764	\$65,764
Ethiopian Community Services, Inc.	Ethiopian Community Center	\$30,398	\$30,398
YWCA Silicon Valley	YWCA ChildCare Consortium	\$99,620	\$99,620
Catholic Charities of Santa Clara County	Young Women's Empowerment Project	\$45,942	\$45,942
Santa Clara University	Katharine & George Alexander Community Law Center	\$26,625	\$26,625
Vietnamese Voluntary Foundation	Vietnamese Senior Services	\$49,503	\$49,503
Deaf Counseling, Advocacy & Referral Agency	Deaf for Self-Sufficiency Program	\$27,686	\$27,686
Fresh Lifelines for Youth, Inc.	Juvenile Drug Treatment Court Mentor Program	\$33,684	\$33,684
Catholic Charities of Santa Clara County	Day Break Caregiver Support Services Program	\$55,537	\$55,537
Fresh Lifelines for Youth, Inc.	Legal Eagle	\$38,838	\$38,838
Next Door Solutions to Domestic Violence	HomeSafe Solutions	\$32,307	\$32,307
Outreach & Escort, Inc.	Senior Transportation Program	\$40,190	\$40,190
Community Partners for Youth, Inc.	Step-up to Brighter Futures	\$98,370	\$98,370
Vietnamese Voluntary Foundation	Vietnamese Employment Services	\$41,381	\$41,381
Amount set-aside for 2-year eligible grantees			\$1,222,573