



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: February 7, 2007

Approved

Ray Warner

Date

2/9/07

COUNCIL DISTRICT: Citywide
SNI AREA: N/A

**SUBJECT: APPROVAL OF AMENDMENTS TO THE CONSOLIDATED PLAN –
ANNUAL ACTION PLAN RELATED TO THE COMMUNITY
DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM**

RECOMMENDATION

It is recommended that the Mayor and City Council approve amending the Consolidated Plan to allow for adjustments to previously approved projects and the creation of new projects under the Community Development Block Grant (CDBG) program as follows:

1. Scott and Clifton: two-year extension to June 30, 2008, to allow for completion of a project to develop a 0.4-acre park at the corner of Scott Street and Clifton Avenue with no cost increase
2. Alma Community Center: 18-month extension from December 31, 2006 to June 30, 2008 to complete parking improvements at the Alma Community Center located at 136 West Alma Avenue with no cost increase
3. Japantown Streetscape: change in scope to allow for installation of 15 History Markers adjacent to seating elements with no cost increase
4. 11th and William Street Park Acquisition: de-obligation of \$650,000 project that could not go forward
5. Therapeutic Wellness Study: de-obligation of \$100,030 because final cost of project was under-budget
6. Resources for Families and Communities: de-obligation of \$93,158 as a result of closure of facility
7. Kidango: de-obligation of \$193,287 due to cancellation of project
8. Boys and Girls Club: acquisition and transfer of title of full service sports field, developed with a \$750,000 CDBG loan, to the City of San Jose
9. Sarasota House: conversion of single-family home from use as community center back to residential use as a result of the cessation of operations by Resources for Families and Children.

OUTCOME

Approval will enable the completion of approved and new projects receiving CDBG funds, which have been delayed due to various circumstances. Approval will also de-obligate funds from non-performing projects. De-obligated funds will be returned to the fund balance, which will then become available for additional community development projects.

BACKGROUND

On July 1, 2006, the administration of the CDBG program was transferred to the Housing Department. Over the past five months, staff has reviewed the current status of open contracts and found that some approved projects were idle and non-performing. Recommendations for amendments were presented to and unanimously approved by the City's Housing and Community Development Commission at its December 14, 2006 and January 11, 2007 meetings.

In accordance with federal regulations and the City's adopted Citizen Participation Plan, any substantial amendment to funding, scope, purpose, location, or activity of a previously approved project under CDBG must receive an amendment and approval of the City Council prior to submittal to the U.S. Department of Housing and Urban Development (HUD).

The activities listed below fall under one or more of five categories: 1) approval of project term extensions, 2) changes in scope of work/services, 3) de-obligation of funds, 4) property sale, or 5) the creation of a new activity/project.

ANALYSIS

Consolidated Plan Amendments under the Community Development Block Grant Program

Continuations and Extensions

1. **Scott and Clifton:** Department of Parks, Recreation, and Neighborhood Services, \$250,000: On December 13, 2005, the City Council approved a change in the project scope from the construction of a public restroom in O'Connor Park, to the development of 0.4-acre park at the corner of Scott Street and Clifton Avenue located in the northwest corner of District 6. The term of the funding expired on June 30, 2006. Staff is proposing a two-year extension to June 30, 2008, to allow adequate time to complete the purchase of the land, obtain environmental clearance, and construct the park.
2. **Alma Community Center:** Department of Parks, Recreation, and Neighborhood Services, \$285,943: The project scope is to provide parking improvements through the development of two recently-purchased lots adjacent to the existing parking lot of the Alma Community Center located at 136 West Alma Avenue. Due to delays in the negotiation and purchase process, staff is recommending an 18-month extension from December 31, 2006 to June 30, 2008. The land acquisition was finalized in October 2006, and the project is currently undergoing the environmental review process.

Change in Scope of Services/Work

1. **Japantown Streetscape:** Redevelopment Agency, \$50,000: The original streetscape plan in Japantown included the construction of 5 *Ikoi no ba* (comfortable spots to rest) inspired by the Japanese contemplative rock gardens. After a thorough review of the complete project, it is being proposed that the CDBG funds instead be used for the installation of 15 History Markers adjacent to the *Ikoi no ba* seating elements, which can be funded through other sources. The project is currently undergoing an environmental review process.

De-obligations/Withdrawals

1. **11th and William Street Park Acquisition:** Department of Parks, Recreation and Neighborhood Services, \$650,000: In FY 03-04, the City awarded funding for the acquisition of a 0.2 acre site for the development of a community park. The project was delayed due to the owner's unwillingness to sell the property to the City. Additionally, it was later determined that the site was too small to contain the needed amenities to serve the neighborhood. Once de-obligated, these funds can be made available for distribution in the FY 07-08 funding cycle.
2. **Therapeutic Wellness Predevelopment Study:** Department of Parks, Recreation, and Neighborhood Services, \$200,000: In FY 03-04, PRNS commissioned Group 4 Architectural Design Company to complete a feasibility study of the use of the Camden Community Center as a therapeutic recreation and wellness center for persons with disabilities. The project was completed at a final cost of \$99,970. Once de-obligated, the remaining balance of \$100,030 can be made available for distribution in the FY 07-07 funding cycle.
3. **Resources for Families and Communities:** \$93,158: In FY 05-06, the agency was awarded \$126,630 for the provision of community services. The agency ceased operations as of June 30, 2006. The contract has been terminated; therefore staff is recommending the de-obligation of the outstanding award balance. Once de-obligated, the remaining balance of \$93,158 can be made available for distribution in the FY 07-08 funding cycle.
4. **Kidango:** \$193,287: In FY 04-05, the agency was awarded CDBG funding for the provision of services to low-income preschool age children residing within the Alum Rock School District. The agency was unable to fulfill the requirement of securing a lease with the school district. On November 20, 2006, the agency submitted a written request to cancel the project. Once de-obligated, the entire grant of \$193,287 will be made available for distribution in the FY 07-08 funding cycle.

Real Property Acquisitions and Transfer of Title

1. **Boys and Girls Club:** The City is acquiring a full service professional sports field from Boys and Girls Club for \$1 million, enabling it to expand services to additional low-moderate income areas. The construction of the ball field was financed with \$750,000 in CDBG funds. The substantial change is the increase of benefited area, which includes two additional SNI Areas. Purchase is anticipated for late December 2006 or early January 2007.
2. **Sarasota House:** In 2000, Resources for Families and Communities was awarded \$280,000 in CDBG funding to purchase a single-family residence located at 1807 Sarasota Avenue for use as a community center. Since the agency ceased operations in June 2006, the property has remained vacant. The property will revert back to residential use and will be placed on

the open market for sale. Under CDBG regulations, it is required that the property be sold at fair market value with the proceeds treated as program income and returned to the fund balance.

Redirection of Program Income to Create Revolving Loan Funds

It is recommended that two Revolving Loan Funds be created in the CDBG program-- one for the Housing Rehabilitation Program and a second for the Revolving Loan Fund Capital Expansion (small business loans) Program.

Housing Rehabilitation Program: The Housing Rehabilitation Program provides amortized and deferred-payment loans to low-income homeowners to pay for repairs needed to ensure the health and safety of household members. Loans are primarily provided to fund repairs to electrical, heating, plumbing, roofing or other systems that have the potential to significantly impact the habitability and safety of the home. The maximum loan to an individual homeowner is \$100,000. Over the past four years, the income from loan repayments has ranged from \$1,390,000 to \$1,860,000, with an average annual income of \$1,680,000. In recent years, CDBG funding for the program was limited to the annual program income from repayments.

Revolving Loan Fund Capital Expansion Program: The Revolving Loan Fund Capital Expansion Program provides low interest loans of \$20,000 to \$40,000 to small business owners and entrepreneurs to create job opportunities for low- to moderate-income individuals. Program participants are often unable to secure traditional loans due to past credit concerns or because the loan requests are for such small amounts. Over the past four years, the income from loan repayments has ranged from \$115,000 to \$175,000, with an average annual income of \$153,000. While named the Revolving Loan Fund, the funds were actually not set up to revolve back into the fund, instead returning to the general CDBG account for redistribution.

The City's HUD representative has recommended the creation of separate Revolving Loan Funds (RLF) for these two programs. Establishment of these RLFs will mean that each program will retain all income received from repayments of program loans. This action will accomplish several objectives:

1. Ensure a minimum level of service to our low-income residents regardless of the actual amount of CDBG Entitlement Funds received by the City.
2. Provide the programs with guaranteed income to move toward ongoing self-sufficiency.
3. Separate program income from CDBG Entitlement funds, streamlining accounting and expenditure processes.
4. Focus revolving funds on two priorities in the CDBG National Objectives-- housing rehabilitation and small business loans.

POLICY ALTERNATIVES

In reaching the recommendation spelled out above, the following alternative was also considered:

Alternative #1: The Mayor and City Council may choose to not accept staff's recommendations for amendments or ask for further amendment.

Pros: This would allow the Mayor and City Council to request more detail regarding the amendments or request revisions to the amendments.

Cons: Denial of the amendments will result in delays to projects requesting changes, uncertain funding for projects requesting extensions, continued unavailability of funds that are obligated to projects not going forward, delays or uncertain funding for property acquisitions and transfers, and continued practice of allowing program income to be added to the general pool of CDBG funds. If the deobligations are not approved for those projects that are not projected to move forward, the City risks not meeting HUD's expenditure requirements, which would result in unknown consequences.

Reason for not recommending: The amendments requested have all been researched and approved by staff and stakeholders as beneficial for the City, CDBG grant recipients and the community.

PUBLIC OUTREACH/INTEREST

- Criteria 1: Requires Council action on the use of public funds equal to \$1 million or greater.** (Required: Website Posting)
- Criteria 2: Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.** (Required: E-mail and Website Posting)
- Criteria 3: Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.** (Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)

On December 14, 2006 and January 11, 2007, the Housing and Community Development Advisory Commission reviewed staff's recommendations and unanimously voted to support amendments to the Consolidated Plan.

COORDINATION

This memo has been coordinated with the City Attorney's Office, the San Jose Redevelopment Agency, and the Departments of Parks, Recreation and Neighborhood Services; Planning, Building and Code Enforcement; Economic Development, and Public Works.

HONORABLE MAYOR AND CITY COUNCIL

February 7, 2007

Subject: Approval of Amendments to the Consolidated Plan and CDBG Corrective Action Plan

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COST IMPLICATIONS

The recommended actions will have no cost implications to the City.

BUDGET REFERENCE

Not applicable.

CEQA

Not a project.


LESLYE KRUTKO
Director of Housing

For questions please contact Karen Wing, Division Manager, at (408) 535-3853.