



CITY OF COSTA MESA

77 Fair Drive
Costa Mesa, CA 92626

Agenda Report

File #: 23-1180

Meeting Date: 5/2/2023

TITLE:

FISCAL YEAR (FY) 2023-2024 ANNUAL ACTION PLAN IDENTIFYING FUNDING PRIORITIES FOR THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) AND HOME INVESTMENT PARTNERSHIPS GRANT (HOME) PROGRAMS

DEPARTMENT: ECONOMIC AND DEVELOPMENT SERVICES DEPARTMENT/HOUSING AND COMMUNITY DEVELOPMENT DIVISION

PRESENTED BY: MIKELLE DAILY, GRANT ADMINISTRATOR

CONTACT INFORMATION: MIKELLE DAILY, GRANT ADMINISTRATOR, (714) 754-5678

RECOMMENDATION:

Staff recommends the City Council:

1. Hold a Public Hearing regarding the FY 2023-2024 Annual Action Plan.
2. Approve the recommended allocation of \$1,689,303 for FY 2023-2024 Community Development Block Grant, which includes the annual allocation of \$1,010,506, \$78,797 in prior year(s) uncommitted program funds, and \$600,000 in re-programmed CDBG funds.
3. Approve the recommended allocation of \$549,260 for the Fiscal Year 2023-2024 HOME Investment Partnerships Grant, which includes the annual allocation of \$509,260 and \$40,000 in program income (lien/HOME loan repayments).
4. Adopt Resolution No. 2023-XX in order to:
 - a. Approve the FY 2023-2024 Annual Action Plan.
 - b. Authorize the City Manager, or the City Manager's designee, to submit the FY 2023-2024 Annual Action Plan to the U.S. Department of Housing and Urban Development.
 - c. Designate the City Manager, or the City Manager's designee, as the official representative of the City to administer the programs and to execute and submit all required agreements, certifications, and documents required by HUD, and execute all subrecipient agreements for the use of funds approved in the FY 2023-2024 Annual Action Plan.
5. Provide direction regarding potential changes to the City's Tenant-Based Rental Assistance (TBRA) and Single-family Rehabilitation Grant and Loan Programs, as described in the staff report.

BACKGROUND:

Costa Mesa is a recipient of two U.S. Department of Housing and Urban Development (HUD) grant program funds: the Community Development Block Grant (CDBG) Program and the HOME Investment Partnerships Program (HOME). These two HUD programs annually provide approximately \$1.6 million to the City and can be used for various activities that assist low- and moderate- income Costa Mesa residents.

The Housing and Community Development Division (HCD) of the Development Services Department is responsible for administering the City's CDBG and HOME grants. CDBG and HOME-funded activities must address the needs outlined in the City's Consolidated Plan.

FIVE-YEAR CONSOLIDATED PLAN

The Consolidated Plan is a five-year planning document required by HUD for all communities receiving federal community development grant funds. The current Consolidated Plan was approved by the City Council on May 19, 2020 and covers FY 2020-21 through FY 2024-25. The following five-year goals are identified in the 2020-2024 Consolidated Plan:

- Goal 1: Housing Preservation - To provide decent and affordable housing through a variety of activities, including owner-occupied housing rehabilitation, code enforcement, and rental housing acquisition/rehabilitation
- Goal 2: Infrastructure and Facility Improvements - To enhance the suitability of the living environment through improvements to public infrastructure and facilities
- Goal 3: Homeless Continuum of Care - To provide supportive services and housing assistance for homeless persons and homelessness prevention
- Goal 4: Public Social Service - To provide services for low- and moderate-income persons, and those with special needs, including fair housing services
- Goal 5: Program Administration - To provide administration of the CDBG and HOME programs, ensuring effective and efficient delivery of programs and services and complying with all HUD program requirement

The Consolidated Plan also includes a five-year strategic plan that identifies community needs, and strategies, programs and resources to address those needs. Its five-year cycle will end on June 30, 2025. The Consolidated Plan can be found on the City's website at:

<https://www.costamesaca.gov/home/showpublisheddocument/45289/637503703596400000>

ANNUAL ACTION PLAN

The Annual Action Plan is the component of the Consolidated Plan that is revised annually. It links the goals identified in the City's 2020-2024 Consolidated Plan to the planned annual expenditure of CDBG and HOME funds. The City must submit the Annual Action Plan to HUD in May of each year to comply with HUD requirements and continue to receive these federal funds. The deadline for

submittal to HUD for this year is May 16, 2023.

The City is required to provide a 30-day public comment period and to hold a public hearing before approving and submitting the Annual Action Plan to HUD.

ANALYSIS:

PROPOSED 2023-24 ANNUAL ACTION PLAN

Fiscal Year 2023-24 is the fourth year of the five-year 2020-2024 Consolidated Plan cycle. The period covered by the FY 2023-24 Action Plan begins July 1, 2023 and ends June 30, 2024.

Both CDBG and HOME funds have specific program requirements. For example, CDBG funds must be utilized to achieve one of three national objectives: 1) elimination of run- down areas, 2) to meet an urgent need (e.g. declared disaster), or 3) to benefit low- and moderate- income persons. HOME funds must be used to preserve or increase housing opportunities for low- income residents in Costa Mesa.

Lower income persons are defined by HUD as an individual with a household income equal to or less than 80 percent of the County median income. (The 2022 median family income for Orange County is \$119,000). Income limits are based on family size and are adjusted annually by HUD. Income limits for 2023 are expected to be released on or around May 15, 2023. HUD 2022 Orange County (OC) income limits are shown below:

Household Size	Household Income at 50% of OC Median Income (Very Low Income)	Household Income at 80% of OC Median Income (Low Income)
1-Person	\$47,450	\$75,900
2-Person	\$54,200	\$86,750
3-Person	\$61,000	\$97,600
4-Person	\$67,750	\$108,400
5-Person	\$73,200	\$117,100
6-Person	\$78,600	\$125,750
7-Person	\$84,050	\$134,450
8-Person	\$89,450	\$143,100

CDBG Funds

The City will receive \$1,010,506 in CDBG funds for FY 2023-24. Additionally, \$78,797 in prior year uncommitted funds and \$600,000 in re-programmed CDBG funds will be available to CDBG-eligible activities. Staff is recommending funding in five primary program areas: 1) Capital Improvements 2) Public Services Grants 3) Housing Rehabilitation Administration 4) Community Improvement/Code Enforcement, and 5) Program Administration.

Capital Improvements

CDBG funds may be used to improve infrastructure and public facilities, provided the primary

beneficiaries are low- and moderate- income Costa Mesa residents. Eligible improvements listed in the Consolidated Plan include:

- Public Facilities
 - o accessibility and facility improvements
- Park Facility Improvements
 - o Park improvements - various parks in CDBG eligible areas; equipment replacement, fencing, signage, trail restoration
 - o Park expansion/development - various parks in CDBG eligible areas; master plan updates; management and restoration plans
- Homeless Shelter Improvements
- Community Center Improvements
- Fire station improvements (including fire equipment)
- Library Improvements
- Other public facilities that serve special needs populations

Capital projects funded with CDBG funds must be appropriate for the amount of funding available, consistent with the Consolidated Plan, and capable of being completed and funds expended within required CDBG timelines.

HCD staff solicited proposals for eligible projects from City departments. The Public Works Department requested funds for a continuation of the Westside Residential Street Improvements Project which was allocated \$600,000 in CDBG funds in the previous FY 2022-23 Annual Action Plan. However, since then, alternative grant funding sources have been identified for the Westside Residential Street Improvements Project. Therefore, \$678,797 in prior year funds plus \$246,830 in FY 2023-24 CDBG funds are available for programming toward infrastructure and facility improvements this fiscal year.

As such, available CDBG funds (approximately \$925,627) are proposed to be used for the purchase of a Triple Combination Pumper/Fire Engine with required outfitting. The new fire engine will be based at Fire Station 3, 1865 Park Ave., Costa Mesa, CA, located in the southwest portion of the City and serving the area of the City with the greatest socio-economic diversity.

Public Services

The City is allowed to earmark up to 15% of its annual CDBG allocation to fund public services. Based on the FY 2023-24 CDBG allocation, staff is recommending the City allocate the maximum allowable amount of \$151,575 for public services.

Public services are defined as social service programs that primarily benefit low- and moderate-income residents. These programs may be administered by City staff or by local nonprofit agencies

through a subrecipient agreement. Staff recommends allocating \$30,000 to fund the City's Senior Center Community Outreach Worker position. The City's Community Outreach Worker assists senior clients by connecting them to appropriate community agencies, services and resources and provides support for their physical, mental, emotional and social health. This leaves \$121,575 available to fund public services grants (PSGs) for community-based non-profit organizations.

On January 13, 2023, the City released a request for PSG applications. On February 13, 2023, the City received twelve PSG applications requesting a total of \$264,000. On March 15, 2023, the City's Housing and Public Service Grant Committee (H&PSG Committee) convened to review grant applications, listen to presentations from non-profit organizations applying for grant funds, and develop public service grant funding recommendations for the City Council's consideration. Grant amounts may be between a minimum of \$15,000 and a maximum of \$30,000 to ensure that grants are impactful, while serving diverse eligible populations.

The H&PSG Committee recommends funding seven of the twelve PSG applications received, refer to Table 1 below. The Fair Housing Foundation application will be funded with administration funds this year. (Funding of Fair Housing is a HUD requirement and is eligible for funding out of the administration or the PSG portion of the CDBG allocation).

The H&PSG Committee's ratings, rankings, and grant recommendations are provided as an attachment to this report for the City Council's consideration. The attachment also includes a summary of grant applications and a three-year funding history of CDBG public service grants. The H&PSG Committee's grant recommendations are listed in the proposed CDBG budget below. A complete copy of all PSG applications submitted are posted on the City's website at: [Applications | City of Costa Mesa \(costamesaca.gov\) <https://www.costamesaca.gov/government/departments-and-divisions/economic-and-development-services/housing-and-community-development/cdbg-public-service-grant-applications>](https://www.costamesaca.gov/government/departments-and-divisions/economic-and-development-services/housing-and-community-development/cdbg-public-service-grant-applications).

Housing Rehabilitation Program Administration

Staff recommends allocating \$50,000 in CDBG funding for staff and other direct costs associated with administering the City's HOME-funded housing rehabilitation program. Examples of eligible costs include costs associated with staff preparation of work specifications, property inspections, and loan/grant application processing. Refer to the discussion under the HOME funds section of this report for further details regarding the Housing Rehabilitation program.

Community Improvement/Code Enforcement

CDBG funds may be used for code enforcement activities, provided the program primarily benefits low- and moderate- income persons, and that such activities "together with public or private improvements, rehabilitation, or services to be provided, may be expected to arrest the decline of the area." The core of this regulation is that any CDBG-funded code enforcement activity must have a direct connection to rehabilitation or improvement of housing in a CDBG-eligible area. For FY 2023-24, staff recommends an allocation of \$360,000 in CDBG funds to support the work effort of two full-time and one part-time City Community Improvement Officer. Activity will be limited to eligible low and moderate income Census Tract Block Groups identified by HUD. The goal of community improvement activities in these areas is to connect property owners, residents and other members of

the community with resources and programs to resolve substandard housing conditions in an overall effort to improve the quality of life within these neighborhoods.

Administration

HUD allows the City to allocate up to 20 percent of its annual grant for planning and program administration. Based on the City's FY 2023-24 allocation, a maximum of \$202,101 can be allocated for program administration. Eligible program administration expenditures include program staff salaries and benefits, contract services, legal services, direct program operating costs and fair housing costs (if not funded through the public services allocation).

The City is required by HUD to fund a Fair Housing Program, which provides education, counseling and enforcement services for Costa Mesa households. Staff recommends allocating \$20,000 from administration to fund the Fair Housing Foundation to provide fair housing services to the community and comply with federal regulations.

TABLE 1 – CDBG FUNDS		
AVAILABLE FUNDS		
FY 2023-2024 CDBG Allocation	\$1,010,506	
FY 2022-2023 Unspent CDBG Allocation	\$78,797	
FY 2022-2023 Re-programmed CDBG funds from Westside Residential Streets Improvement Project	\$600,000	
	TOTAL:	\$1,689,303
PROPOSED PROGRAMS/PROJECTS		
Community Improvement/Code Enforcement		
- Salary & Benefits 2 FT & 1 PT Officers	\$360,000	
	SUBTOTAL:	\$360,000
Capital Improvement Projects		
- Public Facilities and Infrastructure Improvements	\$925,627	
	SUBTOTAL:	\$925,627
Public Service Grants (15% Maximum)		
- City of Costa Mesa – Senior Services Community Outreach Worker	\$30,000	
- Community SeniorServ – Lunch Cafe	\$20,000	
- Community SeniorServ – Meals on Wheels	\$15,000	
- Families Forward	\$15,000	
- Project Hope Alliance	\$25,000	
- Stand Up for Kids OC	\$15,000	
- Trellis International	\$15,000	
- Youth Employment Services (YES)	\$16,575	
	SUBTOTAL:	\$151,575
Housing Rehabilitation		
- Housing Rehabilitation Administration	\$50,000	
	SUBTOTAL:	\$50,000
Administration (20% Maximum)		
- CDBG Program Administration	\$182,101	
- Fair Housing Foundation	\$20,000	
	SUBTOTAL:	\$202,101
	TOTAL:	\$1,689,303

HOME Funds

The City will receive a HOME grant allocation of \$509,260 for FY 2023-24. Additionally, \$40,000 in HOME program income (i.e. HOME lien/loan repayments) is available for HOME-funded activities.

The City must reserve a minimum of 15 percent of annual HOME funds for an affordable housing project to be undertaken by a qualified nonprofit housing developer known as a Community Housing Development Organization (CHDO). The City is also allowed to use a maximum of 10 percent of HOME funds for program administration. Staff is recommending to allocate FY 2023-24 HOME funds for four activities: 1) Single-family housing rehabilitation loans and grants program, 2) Affordable Housing Development (CHDO reservation - required), 3) Tenant Based Rental Assistance (TBRA) program, and 4) Program Administration.

Single-family Housing Rehabilitation Grant and Loan Program

Staff is recommending allocating \$271,945 in HOME funds for the City's Housing Rehabilitation Loan and Grant Program. Program funds must be used to correct nonconforming uses, remedy code violations, and repair and improve deteriorating properties, with the goal of providing decent and safe housing conditions. The program offers grants up to \$12,500 for mobile homes and \$17,500 for single family homes, as well as deferred zero interest loans up to \$50,000. Rehabilitated property value after rehabilitation cannot exceed 95 percent of the HUD median purchase price for the City, which was calculated as \$1,026,000 for FY 2022-23 and will be recalculated in May 2023 for FY 2023-24. In addition, the subject property must be owner-occupied and serve as the principal residence of the eligible low- to very-low income household applying.

The proposed allocation is estimated to fund approximately 10 grants and one loan annually. Historically, this program has primarily funded improvements to mobile homes and focused on grants instead of loans. Existing program loans were primarily funded between 1997 and 2013. Since 2013, the number of loan applications has sharply declined. In fact, in the last 5 years, 98% of program participants received funds via grants and 94% of program participants were mobile home residents.

Community Housing Development Organization (CHDO) Affordable Housing Funds

HOME program regulations require that a minimum of 15 percent of the City's annual grant allocation be reserved for a CHDO (a community-based nonprofit development entity). Based on the City's FY 2023-24 HOME grant, \$76,389 is the minimum CHDO set-aside requirement. HUD has suspended the 24-month commitment deadline requirement indefinitely for CHDO set-aside funds. As a result, these funds are set aside and accrue each year pending an eligible development application from a CHDO. Most recently, CHDO funds were used to assist the Motel 6 residential project.

Tenant Based Rental Assistance (TBRA)

Staff is recommending allocating \$150,000 in HOME funds for the City's Tenant Based Rental Assistance Program. A "pilot" TBRA program funded by HOME dollars was originally offered in Fiscal Year 2020-21. The pilot program was based on a similar TBRA program implemented in the City of Huntington Beach and was administered in Costa Mesa by Families Forward. Since the contract for Families Forward to implement the pilot program expires in June 2023, staff released an RFP to

solicit proposals to administer a permanent TBRA program for Costa Mesa. Should the Council support staff's recommendation, the TBRA Program will no longer be considered a "pilot" program.

The permanent TBRA program would aim to provide rental assistance for both families and individuals for up to 24 months. The TBRA rental subsidy would cover rental costs, security deposits and utilities and would reduce the housing cost for participating households to 30% of the household's monthly adjusted income. To receive TBRA assistance, both the household and the housing unit must be eligible.

Eligible households include:

- Households with incomes at or below 60% Area Median Income (AMI) (e.g. \$56,940 for a household of one person; \$81,300 for a household of four) with a severe housing cost burden (i.e. housing costs equal to 50% or more of the household monthly income); or
- Households meeting the HUD At Risk of Homelessness definition at 24 Code of Federal Regulations Part 91 (e.g. household income at 30% AMI or below and insufficient resources to prevent them from moving to an emergency shelter and meets one of 5 additional conditions as listed in the regulations); or
- Households experiencing homelessness and having strong ties to the City (live/work/school).

Eligible units are required to comply with a HUD Housing Quality Inspection and occupancy standards, have a lease between the tenant and landlord, and have a rental assistance payment contract between the landlord and the TBRA program administrator.

Program Administration

The City may use up to ten percent of its annual grant for HOME program administration. Based on the City's FY 2023-24 allocation, \$50,926 is available for HOME program administration. Eligible administration expenditures include program staff salaries and benefits, contract services, and legal services which may be required to implement the funded activities.

TABLE 2 – HOME FUNDS		
AVAILABLE FUNDS		
2023-2024 HOME Allocation	\$509,260	
Program Income	\$40,000	
	TOTAL:	\$549,260
PROPOSED PROGRAMS/PROJECTS		
Housing Rehabilitation		
- Single Family Housing Rehab Loans and Grants	\$271,945	
	SUBTOTAL:	\$271,945
Affordable Housing CHDO Reserve (15% minimum)*		
- CHDO Reservation – Project to be determined	\$76,389	
	SUBTOTAL:	\$76,389
Tenant Based Rental Assistance (TBRA)	\$150,000	
	SUBTOTAL:	\$150,000
Administration (10% Maximum)		
- FY 2023-2024 HOME Program Administration	\$50,926	
	SUBTOTAL:	\$50,926
	TOTAL:	\$549,260
*Required by HUD		

Noticing Requirements and Public Comment

As required by HUD, a notice was published in local newspapers in Spanish and English on April 1, 2023, inviting the public to review and comment on the draft 2023-2024 Annual Action Plan. The comment period began April 2, 2023 and concludes on May 2, 2023. The notice also announced the May 2, 2023 City Council public hearing. At the time of this report, no comments had been received.

POTENTIAL PROGRAM CHANGES

Each year, staff continually evaluates the effectiveness of our housing assistance programs, including those funded by CDBG and HOME dollars. Staff believes that making a few enhancements to the City's TBRA program and the Single-Family Housing Rehabilitation program (described below) could increase the number of residents these programs are able to serve. Staff is seeking direction regarding the City Council's interest further evaluating the below described program changes.

TBRA Program- Mobile Homes

Recently, it was brought to staff's attention that Mobile Home residents are not eligible for City rental assistance programs because they are not considered "renters". Most mobile home park residents own their housing units as an asset, but rent the land upon which the mobile home sits. Originally, the TBRA program was focused on the City's most vulnerable populations (i.e. renters who likely don't have assets or other housing options and are therefore more susceptible to eviction if they are unable to pay rent). However, if desired, staff could evaluate and potentially modify the TBRA program guidelines to allow for mobile home park space rent to be eligible for rental assistance under the City's TBRA program and/or other rental assistance programs. If this change were made, the pool of applicants for TBRA and/or other rental assistance funds would likely increase, exhaust available

funds more quickly, and could warrant allocation of additional funds in the future.

Single Family Rehabilitation Grant and Loan Program

In practice, many Costa Mesa residents are connected to the City's HOME-funded Single-Family Residential grant and loan program through our Community Improvement staff who are investigating complaints regarding deferred maintenance and potential housing safety issues. Recently, staff have noted that many of these cases are not eligible for HOME grants or loans primarily because of the HOME requirement that rehabilitated property value after rehabilitation cannot exceed 95 percent of the HUD median purchase price (\$1,026,000). Because single-family home prices are high in the current market, many single-family homes needing repairs or maintenance are not eligible because of the home's value despite the fact that the occupants of those homes are eligible low- to very-low income households and may not have available funds to complete home repairs. Staff believe this is the main reason that the City's current rehabilitation program serves primarily mobile homes.

In contrast, CDBG funds do not have a "rehabilitated property value" requirement. Therefore, as an option to expand the pool of Costa Mesa residents eligible for this program, staff could evaluate funding this program with a combination of CDBG and HOME funds, or other applicable grant funds. Allocating different funding sources to this program may require an amendment to the City's Five-Year Consolidated Plan (the plan only identifies HOME funds for this program).

It should be noted that since both HOME and CDBG funds are limited, allocating additional funding amounts to the Single-family Rehabilitation grant and loan program may ultimately result in reduced funding amounts allocated to other HOME- and CDBG-funded activities.

ALTERNATIVES:

The City Council can choose not to fund the proposed activities recommended by staff and allocate CDBG or HOME funds to other eligible activities. The City Council can also direct staff to not submit the Action Plan; however, if the City does not submit the Action Plan, HOME funds will most likely be returned to the U.S. Treasury, and the City's CDBG funds will be distributed proportionally among other Orange County jurisdictions that receive CDBG funds.

FISCAL REVIEW:

This action does not have a fiscal impact to the General Fund. For FY 2023-24 the City receives an annual allocation of \$1,010,506 in CDBG funds and \$509,260 in HOME funds to fund the programs outlined above.

LEGAL REVIEW:

The City Attorney's Office has reviewed and approved this agenda report and the attached resolution as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following City Council Goal:

- Diversify, Stabilize and Increase Housing to Reflect Community Needs

CONCLUSION:

The draft 2023-2024 Annual Action Plan has been prepared according to HUD regulations and outlines how the City will utilize FY 2023-2024 CDBG and HOME funds to meet federal objectives and the goals of the City's adopted five-year Consolidated Plan. Staff recommends that the City Council adopt the FY 2023-24 Annual Action Plan and authorize its submittal to HUD.

In addition, staff is seeking Council direction regarding the potential future amendments to the City's TBRA and Single-Family Rehabilitation Programs as described in this report. If the City Council directs staff to evaluate these programs, staff will return with more specific funding recommendations and an amendment to the approved FY 2023-24 Annual Action Plan and the City's Five-Year Consolidated Plan (if required).