



# City of Costa Mesa

## Agenda Report

77 Fair Drive  
Costa Mesa, CA 92626

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**File #:** 22-667

**Meeting Date:** 5/3/2022

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**TITLE:**

**FISCAL YEAR 2022-2023 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**

**PRESENTED BY: MIKELLE DAILY, GRANT ADMINISTRATOR**

**CONTACT INFORMATION: MIKELLE DAILY, GRANT ADMINISTRATOR, 714- 754-5678; Mikelle.Daily@costamesaca.gov**

**RECOMMENDATION:**

Staff recommends the City Council:

1. Hold a Public Hearing regarding the 2022-2023 Annual Action Plan.
2. Approve the recommended allocation of \$1,137,737 for the Fiscal Year 2022-2023 Community Development Block Grant.
3. Approve the recommended allocation of \$501,749 for the Fiscal Year 2022-2023 HOME Investment Partnerships Grant.
4. Adopt Resolution No. 2022-XX in order to:
  - a. Approve the 2022-2023 Annual Action Plan.
  - b. Authorize the City Manager, or the City Manager's designee, to submit the 2022-2023 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 2022-2023 Annual Action Plan.
5. Authorize the City Manager or designee to approve staff procedures and guideline for the implementation of CDGB- and HOME-funded programs.

**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. 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 Fiscal Year (FY) 2020-2021 through FY 2024-2025. The Consolidated Plan can be found on the City's website.

Based on an analysis of housing/community needs, market analysis, and input from the community, the following five-year goals and priorities have been identified for implementation 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 requirements

The Consolidated Plan is a five-year strategic plan that identifies priority housing and community needs, strategies to address needs, and programs/resources to address needs. Its five-year cycle will end on June 30, 2025. The Annual Action Plan is the one-year expenditure plan for the use of HUD's annual allocation of 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.

HUD funding for FY 2022-2023 has yet to be announced. However, for planning purposes, the City anticipates it will receive \$1,137,737 in CDBG funds and \$501,749 in HOME funds for FY 2022-2023. This grant amount is based on the allocation awarded for the previous fiscal year, FY 2021-2022. Consistent with HUD guidelines, once HUD announces CDBG and HOME awards for FY 2022-2023, the City will adjust the funding for the activities listed above proportionally in order to equal the final grant awards, or as otherwise directed by the City Council.

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:**

### **2022-2023 Annual Action Plan**

Fiscal Year 2022-2023 is the third year of the 2020-2024 Consolidated Plan cycle. The Action Plan

serves as the link between the objectives and goals listed in the Consolidated Plan with activities to be carried out during a 12-month period that address priority needs. The period covered by the 2022-2023 Action Plan begins July 1, 2022, and ends June 30, 2023.

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) meet an urgent need (e.g., declared disaster), or 3) 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. Income limits are based on family size and are adjusted annually by HUD. HUD 2022 Orange County income limits have not yet been released. HUD 2021 Orange County income limits are shown below:

**Table 1 - HUD 2021 Income Limits for Orange County**

| <b>Household Size</b> | <b>Household Income at 50% of OC Median Income</b> | <b>Household Income at 80% of OC Median Income</b> |
|-----------------------|----------------------------------------------------|----------------------------------------------------|
| 1-Person              | \$47,100                                           | \$75,300                                           |
| 2-Person              | \$53,800                                           | \$86,050                                           |
| 3-Person              | \$60,550                                           | \$96,800                                           |
| 4-Person              | \$67,250                                           | \$107,550                                          |
| 5-Person              | \$72,650                                           | \$116,200                                          |
| 6-Person              | \$78,050                                           | \$124,800                                          |
| 7-Person              | \$83,400                                           | \$133,400                                          |
| 8-Person              | \$88,800                                           | \$142,000                                          |

### **CDBG Funds**

HUD funding for FY 2022-2023 has yet to be announced. However, for planning purposes, the City anticipates it will receive \$1,137,737 in CDBG funds for FY 2022-2023 based on its allocation awarded for FY 2021-2022. Additionally, \$867,011 in prior year uncommitted allocation will be available for CDBG-funded activities. Staff is recommending funding in five primary program areas: 1) capital improvements 2) public services grants, 3) housing rehabilitation program, 4) community improvement/code enforcement, and 5) program administration.

### **Capital Improvements**

CDBG funds may be used to improve public facilities and infrastructure, provided the primary beneficiaries are low- and moderate-income Costa Mesa residents. City HCD staff solicited proposals for capital improvement projects from City departments. The Public Services Department requested \$1,200,000 for the Citywide Street Improvement project, increasing the Wilson Street Pavement Rehabilitation Program funding by \$600,000 to extend reconstruction to the end of Pacific Avenue (\$565,777 in CDBG funds were awarded in FY 2021-2022 for Wilson Street from Newport Boulevard to Placentia Avenue) for a total CDBG funding amount of \$1.17 million and allocating \$619,733 to the Westside Street Improvements Project which will include improvements to American Avenue,

American Place, Congress Street and Governor Street.

Staff recommends allocating the \$1,200,000 in FY 2022-2023 CDBG funds for the proposed Street Improvement Projects. The projects entail reconstructing failed pavement, including grinding down and overlaying the existing pavement with rubberized asphalt and upgrading striping to include bike lanes. The project will also include repairing existing sidewalks, wheelchair ramps, driveways, and curb gutters to meet City and ADA standards. Public Services staff have identified Capital Improvement funds to supplement CDBG funding for these projects.

### **Public Service Grants**

The City is allowed to earmark up to 15% of its annual CDBG allocation for public service grants. Based on the City's estimated FY 2022-2023 CDBG grant allocation, a maximum of \$170,000 is available for public service grant funding. Consistent with HUD guidelines, once HUD announces CDBG and HOME awards for FY 2022-2023, the City will adjust the funding for the activities listed above proportionally in order to equal the final grant awards, or as otherwise directed by the City Council.

Public services are defined as social service programs that primarily benefit low- and moderate-income residents. Staff recommends allocating \$30,000 toward staffing for the City's Social Services program at the Costa Mesa Senior Center, a program that improves the quality of life of seniors in Costa Mesa by providing support for physical, mental, emotional and social health. This leaves \$140,000 available for community based public services grants (PSGs).

On February 3, 2022, the City released a request for PSG applications. On February 25, 2022 the City received eight PSG applications requesting a total of \$185,000 and two fair housing applications requesting a total of \$38,000 in public service grants. On March 23, 2022, the City's Housing and Public Service Grant Committee (H&PSG Committee) convened to review grant applications and developed public service grant funding recommendations for the City Council's consideration. When developing funding recommendations, the H&PSG Committee utilized updated application rating criteria and funding limitations. Grant applications for award were set between a minimum of \$15,000 and a maximum \$30,000 grant award amount to ensure the grants are able to achieve favorable impacts, while serving diverse eligible populations. The H&PSG Committee recommends funding for seven of the eight PSG applications and one of the two fair housing applications as shown in Table 2, below.

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: <https://www.costamesaca.gov/city-hall/city-departments/development-services/housing-and-community-development/cdbg-public-service-grant-applications>.

### **Housing Rehabilitation Administration**

Staff is proposing to allocate \$41,688 in CDBG funding for staff and other direct costs associated with

administering the City's housing rehabilitation program. Examples of eligible costs include staff costs associated with the preparation of work specifications, property inspections, and loan/grant application processing. See the discussion under the HOME funds section 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 crux of this regulation is that any CDBG-funded code enforcement activity must have a direct nexus to rehabilitation or improving housing in an eligible area. For FY 2022-2023, staff recommends an allocation of \$335,810 in CDBG funds to support the work effort of two full-time and one part-time community improvement officers. 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 this 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 estimated FY 2022-2023 grant amount and staff's proposed allocations, a maximum of \$227,547 can be 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 public services. 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 services and comply with federal regulations. In prior years, the City has funded fair housing services through PSG funds, but these services are an eligible administration expense, so staff is recommending that the required Fair Housing Program be funded out of Administration instead as a means of maximizing PSG dollars available to community organizations. This year, two fair housing organizations, Fair Housing Foundation and Orange County Fair Housing Council, applied for CDBG funds. The City has a 14-year history of providing fair housing services successfully through the Fair Housing Foundation, an organization that provides services for 24 cities throughout Orange County in addition to several cities in Los Angeles County. They have been responsive to our residents and City staff in matters relating to fair housing, and providing training and information.

Table 2: Proposed FY 2022-2023 CDBG Budget

| AVAILABLE FUNDS                                  |                  |                    |
|--------------------------------------------------|------------------|--------------------|
| 2022-2023 CDBG Allocation                        | \$1,137,737      |                    |
| 2021-2022 Unspent CDBG Allocation                | \$867,011        |                    |
|                                                  | <b>TOTAL:</b>    | <b>\$2,004,748</b> |
| PROPOSED PROGRAMS/PROJECTS                       |                  |                    |
| Code Enforcement                                 |                  |                    |
| - Salary & Benefits – 2 FT & 1 PT Officers       | \$335,810        |                    |
|                                                  | <b>Subtotal:</b> | \$335,810          |
| Capital Improvement Projects                     |                  |                    |
| - Wilson Street Pavement Rehabilitation          | \$600,000        |                    |
| - Westside Street Improvements                   | \$600,000        |                    |
| - CIP Unallocated                                | \$29,703         |                    |
|                                                  | <b>Subtotal:</b> | \$1,229,703        |
| Public Service Grants (15% Maximum)              |                  |                    |
| - City of Costa Mesa – Senior Services Counselor | \$30,000         |                    |
| - Community SeniorServ-Lunch Cafe                | \$15,000         |                    |
| - Community SeniorServ-Meals on Wheels           | \$15,000         |                    |
| - Families Forward                               | \$25,000         |                    |
| - Mercy House/Bridge Shelter                     | \$15,000         |                    |
| - Project Hope Alliance                          | \$30,000         |                    |
| - Trellis International                          | \$15,000         |                    |
| - Youth Employment Services                      | \$25,000         |                    |
|                                                  | <b>Subtotal:</b> | \$170,000          |
| Housing Rehabilitation                           |                  |                    |
| - Housing Rehabilitation Administration          | \$41,688         |                    |
|                                                  | <b>Subtotal:</b> | \$41,688           |
| Administration (20% Maximum)                     |                  |                    |
| - CDBG Program Administration                    | \$207,547        |                    |
| - Fair Housing Foundation*                       | \$20,000         |                    |
|                                                  | <b>Subtotal:</b> | \$227,547          |
|                                                  | <b>TOTAL:</b>    | <b>\$2,004,748</b> |
| *Required by HUD                                 |                  |                    |

### HOME Funds

HUD funding for FY 2022-2023 has yet to be announced. For planning purposes, the City anticipates it will receive a HOME grant allocation for \$501,749, based on the current grant year. Additionally, \$1,454,657 in program income and \$763,401 in uncommitted prior year allocation will be available for HOME-funded activities. Consistent with HUD guidelines, once HUD announces CDBG and HOME awards for FY 2022-2023, the City will adjust the funding for the activities listed above proportionally in order to equal the final grant awards, or as otherwise directed by the City Council.

The City must reserve a minimum of 15 percent of annual HOME funds for a 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 proposing to allocate FY 2022-2023 HOME funds for four activities: 1) Single-family housing rehabilitation loans and grants program, 2) Affordable Rental Housing Development 3) CHDO reservation (required), and 4) program administration.

### **Housing Rehabilitation Program**

Staff is recommending allocating \$275,000 in HOME funds for the City's Housing Rehabilitation Loan and Grant Program. The loan program was originally adopted in the mid 1980's and provides financial assistance to qualified single-family home properties including condominiums and townhomes. The grant program began in 1991 and was originally funded using CDBG funds. In 1997, the City Council approved the use of HOME funds as an additional funding source to expand the program.

Program funds must be used to correct nonconforming uses, remedy code violations, and repair and improve deteriorating properties, in order to provide decent and safe housing conditions. Rehabilitated property value after rehabilitation cannot exceed 95 percent of the HUD median purchase price for the City. 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.

### **Affordable Rental Housing**

In an effort to preserve and create new affordable rental housing opportunities for lower income households in Costa Mesa, staff intends to issue a Request for Proposals (RFP) to solicit applications for funding to support permanent affordable rental housing in the City using HOME Program funds. Funding for this effort will include HOME program income and prior year uncommitted HOME program funds. Staff recommends allocating \$2,319,368 to this effort.

### **Community Housing Development Organization (CHDO) 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 2022-2023 HOME grant, \$75,262 is the minimum CHDO set-aside requirement. A CHDO-eligible project has not been identified at this time.

### **Administration**

The City is allowed to use up to ten percent of its annual grant for HOME program administration. Based on the City's estimated allocation for the FY 2022-2023 grant, \$50,174 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 3: Proposed FY 2022-2023 HOME Budget**

| <b>AVAILABLE FUNDS</b>                                |                  |                    |
|-------------------------------------------------------|------------------|--------------------|
| 2022-2023 HOME Allocation                             | \$501,749        |                    |
| Program Income                                        | \$1,454,657      |                    |
| Prior Year Uncommitted HOME Allocation                | \$763,401        |                    |
|                                                       | <b>TOTAL:</b>    | <b>\$2,719,807</b> |
| <b>PROPOSED PROGRAMS/PROJECTS</b>                     |                  |                    |
| Housing Rehabilitation                                |                  |                    |
| - Housing Rehab Loans and Grants (1 loan & 10 grants) | \$275,000        |                    |
|                                                       | <b>Subtotal:</b> | \$275,000          |
| Affordable Housing                                    | \$2,319,368      |                    |
| - Affordable Rental Housing RFP                       |                  |                    |
|                                                       | <b>Subtotal:</b> | \$2,319,368        |
| CHDO Reserve (15% Minimum)                            |                  |                    |
| - CHDO Reservation – Project to be determined         |                  |                    |
|                                                       | <b>Subtotal:</b> | \$75,262           |
| Administration (10% Maximum)                          |                  |                    |
| - FY 2022-2023 HOME Program Administration            | \$50,174         |                    |
|                                                       | <b>Subtotal:</b> | \$50,174           |
|                                                       | <b>TOTAL:</b>    | <b>\$2,719,807</b> |
| *Required by HUD                                      |                  |                    |

**Noticing Requirements and Public Comment**

As required by HUD, a notice was published in local newspapers on April 1, 2022, inviting the public to review and comment on the draft 2022-2023 Annual Action Plan. The comment period began April 2, 2022, and will conclude on May 2, 2022. The notice also announced the May 3, 2022 City Council public hearing. At the time of this report, no comments had been received.

**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 2022-2023, the City receives an annual allocation of \$1,137,737 in CDBG funds and \$501,749 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 2022-2023 Annual Action Plan has been prepared according to HUD regulations and outlines how the City will utilize FY 2022-2023 CDBG and HOME funds to meet the objectives and goals of the federal CDBG and HOME programs and consistent with the City's adopted five-year consolidated plan.