



Agenda Report

File #: 24-204

Meeting Date: 5/21/2024

TITLE: FISCAL YEAR (FY) 2024-2025 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 Council:

1. Hold a Public Hearing regarding the FY 2024-2025 Annual Action Plan.
2. Approve the recommended allocation of \$1,189,331 for FY 2024-2025 Community Development Block Grant, which includes the annual allocation of \$971,431 prior year(s) uncommitted program funds in the amount of \$187,000, and \$30,900 in CDBG program income (CDBG lien/loan repayment).
3. Approve the recommended allocation of \$558,943 for the Fiscal Year 2024-2025 HOME Investment Partnerships Grant, which includes the annual allocation of \$395,571 prior year(s) unused administrative resources in the amount of \$54,702, and \$108,670 in program income (HOME lien/loan repayments).
4. Adopt Resolution No. 2024-XX in order to:
 - a. Approve the FY 2024-2025 Annual Action Plan.
 - b. Authorize the City Manager, or the City Manager's designee, to submit the FY 2024-2025 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 2024-2025 Annual Action Plan.
5. Provide direction regarding an update of our Public Service Grant guidelines and rating rubric 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: (1) the Community Development Block Grant (CDBG) Program and (2) the HOME Investment Partnerships Program (HOME). These two HUD programs annually provide approximately \$1.5 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 requirements.

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: [Consolidated Plan](#)

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. However, HUD issued Community Development and Planning (CPD) Notice 24-01 advising Grantees not to submit their Action Plan until after the 2024 allocations have been announced. Allocation amounts were announced on May 7, 2024

and Costa Mesa has 60 days from that date to submit the Annual Action Plan to meet the regulatory requirement.

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. In order to meet this requirement, the HUD CPD Notice indicates that the Plan may include estimated funding amounts to meet public participation procedures. The draft plan provided for public comment from April 20th to May 21, 2024, included estimated funding amounts with a contingency provision: *“Consistent with HUD guidelines, once HUD announces CDBG and HOME awards for FY 2024-2025, the City will adjust the funding for activities listed in the annual Action Plan proportionally in order to equal the final grant awards, or as otherwise directed by the City Council.”* This language was also included in the Public Notice. The actual allocation amounts replaced the estimated amounts in the draft plan once HUD made the announcement on May 7, 2024. This agenda report reflects the actual allocation amounts.

ANALYSIS:

PROPOSED 2024-25 ANNUAL ACTION PLAN

Fiscal Year 2024-25 is the last year of the five-year 2020-2024 Consolidated Plan cycle. The period covered by the FY 2024-25 Action Plan begins July 1, 2024, and ends June 30, 2025.

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 slums or blight, 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 2024 median family income for Orange County is \$129,000). Income limits are based on family size and are adjusted annually by HUD. HUD 2024 Orange County (OC) income limits effective 4/1/2024 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	\$55,250	\$88,400
2-Person	\$63,100	\$101,000
3-Person	\$71,050	\$113,650
4-Person	\$78,900	\$126,250
5-Person	\$85,250	\$136,350
6-Person	\$91,550	\$146,450
7-Person	\$97,850	\$156,550
8-Person	\$104,150	\$166,650

CDBG Funds

The City will receive \$971,431 in CDBG funds for FY 2024-25, a four percent decrease from the amount received in FY 2023. Additionally, \$187,000 in prior year uncommitted program funds and \$30,900 in

CDBG program income 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. 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.

The City's HCD staff solicited proposals for eligible projects from City departments in February 2024. The Public Works Department requested a minimum of \$350,000 in funds to replace the roof at the Costa Mesa Senior Center. No other CDBG-eligible projects were identified. The Costa Mesa Senior Center serves more than 3,400 individuals per year and 2,911 of those served are age 62 and over, a population that is "presumed" as low- income by HUD. The Senior Center is located in an area where 77% of the residents are low- and moderate- income according to current HUD data available.

Available CDBG funds (approximately \$414,331) are proposed to be used for the roof replacement of the Senior Center located at 695 W. 19th Street, Costa Mesa, CA. If funds are remaining after the completion of the Senior Center roof replacement, they will be uncommitted from the roof project and made available for another CDBG-eligible Infrastructure or public facility project, to be determined at a future date.

Public Services

The City is allowed to earmark up to 15% of its annual CDBG allocation to fund public services. Based on the FY 2024-25 CDBG allocation, staff is recommending the City allocate the maximum allowable amount of \$145,714 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 a portion of the salary for 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 \$115,714 available to fund public services grants (PSGs) for community-based non-profit organizations.

On January 16, 2024, the City released a request for PSG applications. Nine eligible PSG applications requesting a total of \$240,000 were received by the due date of February 9, 2024. On March 7, 2024, the City's Housing and Public Service Grant Committee (H&PSG Committee) convened to listen to presentations from non-profit organizations to finalize the rating process of the applications for grant funds, and to develop public service grant funding recommendations for the City Council's consideration.

In addition to developing grant funding recommendations, the City's H&PSG Committee also discussed a desire to update the guidelines and rating criteria for the public services application to reflect

changing community priorities at their next scheduled meeting in September 2024. Items to consider include possible changes to the maximum and minimum grant amounts, ratings that reflect a funding preference for small charities that are making a big difference, and weighted ratings that reflect the impact of a small CDBG grant on the organization's total operating budget. The updated criteria and requirements would be included with the first public service grants application for the new Consolidated Plan term covering FY 25-26 through 29-30.

The H&PSG Committee recommends funding six of the nine PSG applications received (refer to Table 1 below). The Fair Housing Foundation application will be funded with administration funds this year as it has been for the last two years. (Funding for Fair Housing is a HUD requirement and is eligible for funding from either the administration portion 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: [CDBG 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 2024-25, staff recommends an allocation of \$385,000 in CDBG funds to support the work effort of two full-time and one part-time City 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 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 2024-25 allocation, a maximum of \$194,286 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 2024-2025 CDBG Allocation	\$971,431	
FY 2024-2025 Uncommitted CDBG Allocation	\$187,000	
FY 2023-2024 CDBG Program Income	\$30,900	
	TOTAL:	\$1,189,331
PROPOSED PROGRAMS/PROJECTS		
Community Improvement/Code Enforcement		
➤ Salary & Benefits 2 FT & 1 PT Officers	\$385,000	
	SUBTOTAL:	\$385,000
Capital Improvement Projects		
➤ Public Facilities and Infrastructure Improvements	\$414,331	
	SUBTOTAL:	\$414,331
Public Service Grants (15% Maximum)		
➤ City of Costa Mesa – Senior Services Community Outreach Worker	\$30,000	
➤ Boys & Girls Clubs of Central Orange Coast (YES)	\$14,464	
➤ Families Forward	\$28,500	
➤ Human Options	\$28,500	
➤ Project Hope Alliance	\$23,750	
➤ Trellis International	\$20,500	
	SUBTOTAL:	\$145,714
Housing Rehabilitation		
➤ Housing Rehabilitation Administration	\$50,000	
	SUBTOTAL:	\$50,000
Administration (20%) Maximum		
➤ CDBG Program Administration	\$174,286	
➤ Fair Housing Foundation	\$20,000	
	SUBTOTAL:	\$194,286
	TOTAL:	\$1,189,331

HOME Funds

The City will receive a HOME grant allocation of \$395,571 for FY 2024-25. Additionally, \$108,670 in program income and \$54,702 in prior year administrative resources are available. Staff recommends allocating FY 2024-25 HOME funds for four activities: (1) Single-family housing rehabilitation loans and grants program, (2) Affordable Housing Development - Community Housing Development Organization (CHDO) qualified, (3) Tenant Based Rental Assistance (TBRA) program, and (4) Program Administration.

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 the current allocation of HOME funds for program administration.

The City anticipates additional administration expenses during FY 2024-25 for consulting costs to complete the required 2025-2029 Analysis of Impediments, the planning process for the required 2025-2029 Consolidated Plan, and consulting costs for the research and implementation of a grants administration system compatible with TESSA and the City's new Enterprise Resource Planning (ERP) system. The additional resources available from prior year(s) unused administration funds have been identified for use for these additional expenses.

Single-family Housing Rehabilitation Grant and Loan Program

Staff is recommending an allocation of \$255,349 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 will offer grants up to \$15,000 for mobile homes and \$20,000 for single family homes. The grant amounts are increased from \$12,500 and \$17,500 respectively over last year's program maximums to account for increased labor and material costs due to inflation and post-pandemic price increases.

Deferred zero interest loans of up to \$50,000 are available as part of the Housing Rehabilitation Grant and Loan Program for single family homes. The property value after rehabilitation cannot exceed 95 percent of the HUD median purchase price for the City, which HUD calculates at \$765,000 for Orange County based on an unadjusted median home value of \$805,000. HUD's calculation for Orange County would exclude nearly all of the single-family homes in Costa Mesa from eligibility for a HOME funded rehabilitation loan from the City. However, HUD regulations allow the City to request approval of an increase to the Median Area Purchase Price Limit based on a 3-month survey of single-family home sales in the most recent 12-month period. The City received a report of sales from April 2023 through March 2024 from Orange Coast Title showing that the median home value of a single-family home in Costa Mesa is \$1,500,000. The City is requesting that HUD approve the median area purchase price as calculated by reported sales in Costa Mesa to increase the number of eligible homes for rehabilitation loans to include those with after rehab values of \$1,439,250 for FY 2024. 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. If the increase to the median area purchase price limit is approved, the City hopes to see an increase in loan applications. The after-rehab value limit for single family homes in FY 2023-2024 was \$1,163,750 and one home was approved for a loan.

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 the CHDO (a community-based nonprofit development entity). Based on the City's FY 2024-25 HOME grant, \$59,335 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 rehabilitation project”.

Tenant Based Rental Assistance (TBRA)

Staff is recommending allocating \$150,000 in HOME funds for the City’s Tenant Based Rental Assistance Program. Families Forward has been operating the Costa Mesa TBRA program since 2020-2021. The program provides rental assistance for families with minor children for up to 24 months. The TBRA rental subsidy covers rental costs, security deposits and utilities and reduces 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., \$94,680 for a household of four persons) 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 in the Code of Federal Regulations - 24 CFR 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 five 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 10 percent of its annual grant for HOME program administration. Based on the City’s FY 2024-25 allocation, \$39,557 is available for HOME program administration. Additional administrative funds of \$54,702 are available for the additional administrative expenses described above, that are expected during FY 2024-25. 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		
FY 2024-2025 HOME Allocation	\$395,571	
Previous Year(s) Unused Administrative Funds	\$54,702	
FY 2023-2024 HOME Program Income	\$108,670	
	TOTAL:	\$558,943
PROPOSED PROGRAMS/PROJECTS		
Housing Rehabilitation		
➤ Single Family Housing Rehab Loans & Grants	\$255,349	
	SUBTOTAL:	\$255,349
Affordable Housing CHDO Reserve (15% minimum)		
➤ CHDO Reservation – Project to be determined	\$59,335	

	SUBTOTAL:	\$59,335
Tenant Based Rental Assistance		
➤ Families Forward Costa Mesa TBRA	\$150,000	
	SUBTOTAL:	\$150,000
Administration (10% Maximum of annual allocation)		
➤ FY 2023-2024 Program Administration	\$39,557	
➤ Prior Year(s) Program Administration	\$54,702	
	SUBTOTAL:	\$94,259
	TOTAL:	\$558,943

Noticing Requirements and Public Comment

As required by HUD, a notice was published in local newspapers in Spanish and English on April 20, 2024, inviting the public to review and comment on the draft 2024-2025 Annual Action Plan. The comment period began April 20, 2024, and concludes on May 21, 2024. The notice also announced the May 21, 2024, City Council public hearing. At the time this report was drafted, no comments were received.

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 an increase in the grant amount for the grants available to residents through the City’s Single-Family Housing Rehabilitation program is necessary as previously mentioned in this staff report. Grant amounts will be increased to \$15,000 from \$12,500 for mobile homes and to \$20,000 from \$17,500 for single family homes.

Additionally, staff is seeking Council direction regarding the potential changes to the public service application guidelines and rating criteria as described in this report. Updates that the Housing and Public Service Grants Committee would like to consider at their meeting in September include:

- Possible changes to the maximum and minimum grant amounts;
- Ratings that reflect a funding preference for small charities that are making a big difference; and
- Weighted ratings that reflect the impact of a small CDBG grant on the applicant organization’s total operating budget.

The intent is to align the application and rating criteria with the City’s changing community priorities, while keeping the regulatory requirements for CDBG funding in the application materials. If the City Council directs staff to work with the H&PSG committee to update the application process, staff will return with the updated application, guidelines, and rating criteria after the H&PSG September meeting for City Council consideration.

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 2024-25 the City will receive an annual allocation of \$971,431 in CDBG funds and \$395,571 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 2024-2025 Annual Action Plan has been prepared according to HUD regulations and outlines how the City will utilize FY 2024-2025 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 2024-2025 Annual Action Plan and authorize its submittal to HUD.

In addition, staff is seeking Council direction regarding the potential changes to the public service application rating criteria as described in this report. If the City Council directs staff to work with the H&PSG committee to update the application process, staff will return with the updated application, guidelines and rating criteria after the H&PSG September meeting for City Council to consider on the consent calendar.