



## STAFF REPORT

TO: Countywide Priority Setting Committee

FROM: Roy Bateman

SUBJECT: July 9, 2012 Priority Setting Committee Meeting  
➤ Reallocation of \$163,250 in HOME Program Funds Relinquished by The Redwoods  
➤ General Priorities for the Next CDBG and HOME Funding Cycle

DATE: July 3, 2012

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The recommendations from Community Development Agency staff for reallocation of \$163,250 in HOME Program funds relinquished by The Redwoods are described below. This report also outlines some general issues related to program priorities for the next Community Development Block Grant (CDBG) and HOME funding cycle. These recommendations and issues will be considered at the Countywide Priority Setting Committee public hearing on Monday, July 9, 2012, at 7:00 p.m., at the Marin Health and Wellness Campus, 3240 Kerner Boulevard, Room 110, San Rafael. *(Please note that this is a change from our usual location.)*

### **Reallocation of \$163,250 in HOME Program Funds Relinquished by The Redwoods**

Staff recommendations for the 2012-13 CDBG and HOME budgets were presented to the Countywide Priority Setting Committee on March 29, 2012.

On April 25, 2012, The Redwoods, a senior housing complex in Mill Valley, relinquished \$163,250 in 2010 HOME funds which were being held for its renovation project. Because The Redwoods did not make the decision to relinquish its HOME allocation until after the Countywide Priority Setting Committee met, staff brought a recommendation for the reallocation of the HOME funds to the CDBG and HOME hearing that had previously been scheduled for the May 8, 2012 meeting of the Board of Supervisors. The federal regulations that govern the HOME Program require that HOME funds be committed by contract to a project within two years of when the funds are first made available, so there appeared to be some urgency in reallocating the HOME funds that had been held for The Redwoods for almost two years. (After the Board of Supervisors hearing, the local HUD office

informed us that it currently uses a cumulative counting method to determine whether localities are in compliance with HOME commitment deadlines, so that funds committed ahead of the two-year deadline can offset other funds committed after the two-year deadline.)

Staff recommended to the Board of Supervisors that the funds released by The Redwoods be used to increase the HOME allocation for Housing for Working Families (Homeward Bound of Marin) by \$79,026 and to provide an \$84,224 HOME allocation to Marinwood Plaza (BRIDGE Housing Corporation).

Before the funds from The Redwoods became available, the Priority Setting Committee approved making \$561,391 (consisting of \$109,879 in CDBG funds and \$451,512 in HOME funds) available to the Homeward Bound proposal, and making \$299,300 in CDBG funds available to the BRIDGE Marinwood Plaza proposal. The Homeward Bound project should be ready to begin construction in about a year. Because of the services that Homeward Bound provides to its homeless and formerly homeless clients, it will always have a substantial burden of fundraising for staff expenses. Therefore, it is important for the financial future of Homeward Bound that its housing projects be funded mostly by grants (rather than debt that requires monthly payments) so that the agency's ongoing annual fundraising burden can be limited. The Marinwood Plaza proposal will need at least a year to obtain planning approvals, so there is time for the project to obtain additional funds from next year's CDBG/HOME funding cycle. Partly because of its size, Marinwood Plaza will need a substantial amount of CDBG/HOME funds, but its financing will also include debt that will be covered by rent revenue.

Federal regulations generally prohibit the use of CDBG funds for housing construction, but CDBG funds can support housing development by paying for site acquisition and off-site improvements. Because of timing issues, Homeward Bound was unable to delay its site acquisition until completion of the environmental review for the use of CDBG funds, so it may have difficulty finding eligible uses for its CDBG allocation. BRIDGE has a long option period to purchase its Marinwood site, so it should not have difficulty finding eligible uses for its CDBG funds.

In order to meet the HUD timing requirements as stated in the HOME regulations, staff recommended that the Board of Supervisors approve the reallocation of the HOME funds from The Redwoods at its May 8, 2012 meeting, but that the decision be reported at the next meeting of the Countywide Priority Setting Committee so that the Committee would have an opportunity to review the decision and possibly recommend a different use of the funds. In the event that the Priority Setting Committee recommends a change, and the Board agrees, the Board could amend the Homeward Bound HOME contract accordingly. In any event, Homeward Bound could not actually spend any HOME funds until staff completes an environmental review of the project, a process that will take several months.

In presenting its recommendations to the Board of Supervisors, staff asked that some 2012 HOME funds be switched for 2010 HOME funds, in order to better position the County to meet HUD's timing and commitment requirements for the 2010 HOME funds. Staff recommended that the 2010 funds be allocated to the project which is most ready to proceed, which is the Homeward Bound proposal. This was accomplished by making a dollar-for-dollar trade of new and reprogrammed funds between Homeward Bound and BRIDGE Housing, so that all the reprogrammed HOME funds went to

Homeward Bound. This resulted in a recommended revised allocation of HOME funds for these two projects as follows:

Project	2012-13 HOME Funds	HOME Program Income and Reprogrammed Funds	Total
Housing for Working Families (Homeward Bound of Marin)	\$362,288 (an \$84,224 decrease from the amount approved by the Priority Setting Committee)	\$168,250 (a \$163,250 increase from the amount approved by the Priority Setting Committee)	\$530,538 (a \$79,026 increase from the amount approved by the Priority Setting Committee)
Marinwood Plaza (BRIDGE Housing Corporation)	\$84,224 (an \$84,224 increase from the amount approved by the Priority Setting Committee)	0	\$84,224 (an \$84,224 increase from the amount approved by the Priority Setting Committee)

The Board of Supervisors approved the above recommendations, with the understanding that the Countywide Priority Setting Committee would subsequently review the reallocation of the \$163,250 in HOME funds from The Redwoods. Staff recommends that the Priority Setting Committee approve the above recommendations. The alternative would be to allocate the funds to other HOME projects. Lists of all the 2012-13 HOME applications and funding allocations are attached for reference. Copies of all the 2012-13 HOME applications and the staff report for the March 29, 2012 Priority Setting Committee meeting are posted at [www.marincdbg.com](http://www.marincdbg.com). The March staff report includes summaries of all the projects recommended for CDBG Countywide Housing and HOME funding.

**General Priorities for the Next CDBG and HOME Funding Cycle**

*Diversity and Affirmative Marketing*

In view of concerns that have been raised by HUD and by the community, and the commitments the County has made in the Implementation Plan for its Analysis of Impediments to Fair Housing Choice, there has been an increased emphasis this year on the extent to which racial and ethnic minorities would be served by potential projects, and the quality of each applicant’s affirmative marketing plans. Affirmative marketing is a process by which an organization determines which racial and ethnic groups are least likely to apply for its services, followed by targeted marketing efforts to reach those “least likely to apply” groups.

Many applicants are still on a learning curve. In some cases, the quality of an applicant's response to the affirmative marketing question in the application form is very different from its actual affirmative marketing performance. It is also possible for a project to be very effective in serving a particular minority group but to be less effective in affirmatively marketing its services to others.

For the next funding cycle and beyond, how can CDBG and HOME funds most effectively be used to increase neighborhood integration and enhance diversity in Marin? Are there specific types of projects, or aspects of project administration, that can most effectively contribute to progress? What are Marin's weaknesses, and how can they most effectively be addressed? What are the opportunities to build on Marin's strengths?

*Maximizing Impact While Doing Less with Less?*

Last year, Marin County's CDBG allocation was \$1,440,542, and our HOME Program allocation was \$1,084,869. For the 2012-13 program year, Marin's CDBG allocation is being cut by 19%, with an expected grant amount of \$1,166,041. (To put this in perspective, if we account for inflation, the buying power of the expected 2012-13 CDBG grant is only 17.6% of the \$2,427,000 CDBG allocation that Marin received in 1980.) For the 2012-13 program year, Marin's HOME allocation is being cut 46%, with an expected grant amount of \$595,350. Because of the volatile political situation in Washington, it is difficult to predict whether CDBG and HOME funding might be restored to past levels, and, if so, when that might occur. While these reduced funding levels are in effect, we should be realistic about how much impact we can have with CDBG and HOME funds.

Depending on your point of view, the reduced funding levels make it all the more futile, or all the more necessary, to pre-determine priorities for the use of CDBG and HOME funds. Pre-planning can help achieve designated priorities, but it can also lead to a lack of flexibility to take advantage of unexpected opportunities.

Our practice has been to fund public service activities at close to the maximum level HUD permits. Public service projects generate disproportionate County administrative costs for contracting, accounting, and reporting, but it would be difficult to shift funds away from these urgent needs while the recession persists.

If we are serious about building affordable housing in the current funding environment, it will likely be necessary to focus HOME funds on a very limited number of projects and to provide each project with substantial assistance. With the decline in HOME funding, a project that needed an entire year's HOME grant last year would now need two years of HOME funds. Both the Marinwood and Inverness Valley Inn housing projects will need substantial additional HOME funds from next year's allocation in order to proceed. Given HUD's increased emphasis on timeliness, it would be risky to let housing projects linger too long while they raise additional development funds.

*HOME Priorities: Housing Production vs. Rental Assistance?*

In recent years, there has been some controversy about whether some portion of our HOME allocation should be used for rental assistance. At the May 8, 2012 hearing when it approved the 2012-13 CDBG

and HOME budgets, the Board of Supervisors was recorded as “expressing support for eligibility of emergency housing programs for HOME funding.” The Committee might consider relative priorities of rental assistance and housing development, both of which are eligible for HOME.

*Reducing the Number of Projects*

There is a perennial issue of whether we should reduce the number of projects to keep administrative costs within what the grants allow. As it is, we are struggling to keep up with all of HUD’s requirements. HUD has increased the liability of communities if anything goes wrong due to staff inattention--in the past, they would allow some project failures, but they are now telling communities to repay HUD if a project does not succeed.

Over the last 12 years, the number of CDBG projects funded each year has fluctuated between 36 and 52 projects per year. In the 2011-12 program year, Marin funded 38 CDBG projects. At its February 16, 2012 meeting, the Priority Setting Committee set a goal of reducing the number of CDBG projects from 38 to 27, instructed staff to make all reasonable efforts in its budget recommendations to achieve that goal, and asked all Planning Areas to join in this difficult process. We ended the 2012-13 CDBG budget cycle with 31 CDBG projects. Although we didn’t reach the goal of 27 projects, the drop from 38 to 31 projects still represents an 18% reduction in the number of CDBG projects, about equal to the percentage reduction in Marin’s CDBG allocation.

*CDBG Planning Areas and Local Hearings*

A related issue is whether the system of six planning areas still makes sense as CDBG funding shrinks. For more than 30 years, the County’s practice has been to split CDBG funding into seven separate pools. Each of six planning areas (Novato, San Rafael, Lower Ross Valley, Upper Ross Valley, Richardson Bay, and West Marin) is assigned its own funding allocation, and there is a separate “Countywide Housing” allocation to be made available for housing projects on a countywide basis. When San Rafael, and later Novato, reached the 50,000 population threshold which would have entitled them to receive a funding allocation directly from HUD, the planning area system was modified to give the San Rafael and Novato city councils more direct input into how funds for their planning areas would be allocated. Until this year, the Priority Setting Committee has consisted solely of elected officials. It is probably too early to evaluate the impact of the recent expansion of the Priority Setting Committee to include community representatives of racial and ethnic minorities.

County staff is under the impression that the Priority Setting Committee members are comfortable with the local hearings. In San Rafael and Novato, the system of local hearings enables the city councils to have direct input into funding decisions. West Marin has a small funding allocation, a large geographic area, and many local project sponsors. The Richardson Bay committee has taken a special interest in addressing the needs of Marin City and the houseboat communities. But with the decline in funding, the local hearings, like the CDBG Program itself, have become less significant financially. While staff does not have any specific changes in mind, Committee members might want an opportunity to discuss how they feel about the current system.