




## CITY COUNCIL REPORT FROM STAFF

**To:** Mayor and City Council

**Approved:** Brian Dalke, City Manager 

**cc:** Department Directors

**FROM:** Christopher Baker, Development Services Director  
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**THROUGH:** Wynette Reed, Deputy City Manager

**DATE:** December 22, 2016

**RE:** CDBG Entitlement Status

**Purpose:**

The purpose of this yellow paper is to provide Council with information on the city's current status as an Urban County Program participant and our upcoming invitation to become an entitlement city.

The city of Goodyear currently has a three-year agreement with Maricopa County to participate in the Urban County Program in order to receive Community Development Block Grant (CDBG) funds. The three-year agreement will expire on June 30, 2018. When the City was last invited by the U.S. Department of Housing and Urban Development (HUD) to become an entitlement community grantee in 2014, the City declined and continued participation in the Urban County Program that is administered by Maricopa County.

Since the expiration of the agreement with the County is approaching, the City will need to determine if it wishes to remain with the Urban County Program or accept entitlement. In order to allocate funding and prepare the federal budget, HUD needs to know from Maricopa County who will participate in the Urban County Program. To meet HUDs deadline, the City needs to inform Maricopa of the decision in spring 2017.

Staff will be coming to Council with a work session in February to discuss options and provide a staff recommendation.

**Background and Benefit:**

The U.S. Department of Housing and Urban Development (HUD) administers the Community Development Block Grant (CDBG) program whose goal is to provide decent housing, a suitable living environment, and expanded economic opportunities primarily to low and moderate income persons.

A city participates in the CDBG program in one of two ways. Smaller cities participate in the State Administered CDBG program. This program is in place to assist smaller cities who do not have the internal capacity to administer their own programs. Maricopa County has been designated as an Urban County Program which means that the State Administered CDBG program is administered by the County's Human Resources Department. Through this program, the State allocates funds directly to Maricopa County who distributes these funds to program participants through a competitive grant process. An Urban County Program participant is not guaranteed to receive funding. Each year, the Urban County Program participants apply to the County for funding for specific projects. The Community Development Advisory Committee (CDAC), made up of representatives from the participating communities and the County at large, reviews the applications and makes recommendations for funding to the County Board of Supervisors who then makes the final determination on grant awards and funding levels.

The other way a city may participate in CDBG is through the CDBG Entitlement Community Program. To become an entitlement community grantee a city must have a population of 50,000 or more and be formally invited by HUD to participate in the program. An entitlement community grantee is entitled to receive an annual allocation of CDBG funds directly from HUD, rather than going through a competitive process. These allocated funds can be used for a wide variety of projects and a portion of the funds also can be used to cover administrative costs.

The city of Goodyear was first invited by HUD to become an entitlement community grantee in 2008. The invitation does not expire so each time the City's 3-year cooperative agreement with Maricopa County expires, the City must revisit the decision. In the past, the City felt that it did not have the internal capacity to administer its own program and decided to continue its participation in the Urban County Program.

Each program has certain advantages and disadvantages, and there are several factors that should be considered when deciding which program option to select:

1. The amount of funding the City is likely to receive under each program;
2. The types of projects that are eligible under each program;
3. The City's capacity to administer the program with or without assistance from the County; and,
4. The relationship of each CDBG program option to other federal grant programs, such as the HOME Investment Partnership Program (HOME).

The following information compares and contrasts both programs based on these factors.

**Funding:**

Urban County Program: The city of Goodyear has participated in the Urban County Program since 1991. The Urban County's competitive grant process begins in October when a project from the City's Five-Year Consolidated Plan is identified for grant funding. The City must hold a public hearing to receive input on the project and City Council approves the grant application and requested funding levels. The grant applications are due to the County in December at which time CDAC reviews the applications, holds two public hearings to consider the applications, and then recommends grant awards and funding levels to the County Board of Supervisors usually in April. The County Board of Supervisors vote on the grant allocations and funding levels in May which is then reported to HUD. The City then enters into an Intergovernmental Agreement (IGA) with the County to administer the grant and the City receives the release of funds in July.

Through participation in the Urban County Program, over \$3.8 million in CDBG funds have been used for infrastructure improvements and over \$1.9 million in CDBG funds have been used for housing rehabilitation in the City. This represents a combined investment of over \$5.7 million of CDBG funds in the city of Goodyear over the last 25 years. The City's most recent CDBG awards are as follows:

- FY06-07      Waterline Replacement                      \$350,000
- FY07-08      No funding (application ineligible)      \$0
- FY08-09      Western Avenue Improvements      \$475,334
- FY09-10      Waterline Replacement Phase 2      \$400,000
- FY10-11      Parks Improvements                      \$257,029
- FY11-12      No funding (1.5 rule)                      \$0 (unspent funds exceeded FY10-11 allocation more than 1.5x)
- FY12-13      No funding (application ineligible)      \$0
- FY13-14      Waterline & Storm Sewer                      \$598,000
- FY14-15      Commercial Façade Improvement      \$233,597 (funds were returned to County. Voted on by City Council on 11/16/2015)
- FY15-16      Canada Village Lights                      \$162,700
- FY16-17      Waterline Replacement Phase 4      \$138,229

Entitlement: In 2015, HUD informed the City that our annual allocation would be approximately \$300,000. The exact figure the City will receive will not be determined until acceptance in the Entitlement Community Program and staff is working on getting an updated estimate from HUD.

The City would be able to use up to 20% of the allocation, or approximately \$60,000, for administrative costs. There are also other restrictions on the funding amounts such as funds to support public service projects are limited to 15% of the total annual allocation but funding of these project types is not required. There is also a cap of 30% on funding for slum and blight projects. If the City were to accept and receive an allocation of \$300,000, the funding limits would be as follows:

Estimated Allocation:	\$300,000	
Administration:	\$60,000	(20% limit)
Projects:	\$240,000	
o Public Services Cap:	\$45,000	(15% limit)
o Slum & Blight Cap:	\$90,000	(30% limit)

### **Types of Projects & Programs:**

Determining eligible projects for the CDBG program is different from other grant programs. There are two tests for determining eligibility; the project first must be listed as an eligible activity and it also must meet one of the three national objectives of the CDBG program which are: benefit to low and moderate income families; aid in the prevention or elimination of slum and blight; or urgent need. As previously noted, Census data is used to determine which areas are considered low and moderate income neighborhoods and the City-adopted Redevelopment Area is used to establish where funds can be used for the prevention or elimination of slum and blight.

The CDBG program offers grantees a high level of flexibility in choosing program activities so a wide range of projects are eligible for CDBG funds including, but not limited to: senior services, neighborhood facilities, job creation, energy efficiency, youth services, crime awareness, housing programs, and infrastructure improvements so long as the project meets one of the national objectives. Buildings for the general conduct of government, general government expenses and political activities are not eligible for funding.

Urban County Program: While all projects that are CDBG eligible are also eligible under the Urban County Program, CDAC has primary control in recommending the types of projects that are of highest priority. It is also difficult for a community to apply for more than one program or fund public service projects.

Entitlement: The City determines the need for projects and programs through the creation of the Five-Year Consolidated Plan. The City could fund multiple projects and public service projects, however, these types of projects do incur a higher administrative burden. The primary advantage to the entitlement community is the ability to plan for projects.

### **Program Administration:**

In order to implement a CDBG program, a community must understand community needs and interests in order to make effective choices about how to fund programs and projects. Each grantee is required to create a Five-Year Consolidated Plan which describes community needs, resources, priorities, and proposed activities. The plan also includes an analysis of the housing market and impediments to Fair Housing. Each year, the grantee must submit an Annual Action Plan to HUD which outlines the specific planned uses of funds that program year. The grantee then administers programs and monitors any sub-recipients. Grantees are required to use the Integrated Disbursement and Information System (IDIS) to comply with current reporting requirements. At the end of each program year the grantee must submit a performance report called the Consolidated Annual Performance and Evaluation Report (CAPER). Because this is a federal program all projects

also must comply with federal requirements such as fair labor standards, Davis-Bacon Wages, Uniform Relocation Act, Fair Housing, and environmental review and compliance.

Urban County Program: The County is the main responsible party for creating the required Five-Year Consolidated Plan, Annual Action Plan, CAPER, and environmental reviews. The County is also responsible for all IDIS reporting. The County provides Fair Housing training and responds to all Fair Housing complaints within Goodyear. The City is responsible for ensuring compliance with federal requirements such as Davis-Bacon Wages, etc., but the County does provide guidance in meeting these requirements.

Entitlement: The City would be responsible for creating and administering all required plans including the Five-Year Consolidated Plan and Annual Action Plan; documents; environmental reviews; forms, reporting such as the CAPER and IDIS; and handling Fair Housing complaints. When speaking with other communities, they almost all have one dedicated staff member to the CDBG program.

#### **HOME Program:**

The HOME Investment Partnership program is a HUD block grant that provides funding for housing for low-income households. HOME funds can be used for a variety of housing activities including housing rehabilitation, new housing construction, homeownership assistance and rental assistance. HOME funds require a 25% cash match from the grantee regardless if the entity is under the Urban County Program or CDBG Entitlement Program.

Urban County Program: Currently, Maricopa County administers HOME funds on behalf of the Urban County participants. The County is currently administering a homebuyer program and emergency repair program. Two homes in Goodyear were purchased using the homebuyer program and four homes in Goodyear have been assisted with the emergency repair program.

Entitlement: The City would have the option of joining the Maricopa County HOME Consortium and receive an allocation based on the CDBG allocation. If we received \$300,000 it would be about \$70,000 in HOME funds. This would require a \$21,000 match from the city of Goodyear and would allow a total project budget of \$91,000. The City would also have the option of not joining the consortium and remaining with the Urban County Program for the HOME program.

#### ***Option 1: Continue Participation in the Urban County Program and Execute a New 3-Year Agreement with Maricopa County (FY2019-2021)***

#### **Advantages:**

- The County creates the Five-Year Consolidated Plan, Annual Action Plan, CAPER and environmental reviews.
- The County provides assistance and is responsible for IDIS reporting.
- The County conducts the program audits in a cooperative and supportive manner.
- The City might receive more funds through the Urban County program.
- The County responds to Fair Housing complaints within the city of Goodyear.

- The City develops individual discrete projects and can apply once a year.

**Disadvantages:**

- The City is not guaranteed funding each year and each year the application process is more competitive.
- The County limits the types of projects that get funded. Projects are selected and prioritized based on the County's Annual Action Plan.
- The City cannot use funds for administrative costs.

***Option 2: Accept HUD's Invitation to Become an Entitlement Community Grantee***

**Advantages:**

- The City will be guaranteed an annual allocation of approximately \$300,000.
- The City will be able to use 20% of funds for administrative costs (approximately \$60,000 based on the estimated allocation).
- The City will have more flexibility in the types of projects and programs the City administers.
- Larger projects could be funded by committing future year allocations.
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**Disadvantages:**

- The City will have to administer the entire program.
  - Dedicate a staff member to the program or hire a new staff person that would only be partially funded with the City's entitlement funds.
  - Train 1-2 other staff members in the program to assist or serve as back-up support, including finance department assistance.
- The City will need to up-front costs for completing the Five-Year Consolidated Plan estimated to be \$80,000-120,000.
- The increased number of eligible projects and programs may create high demands on the small amount of funds expected to be available.
- The annual audits are conducted by HUD who tends to be more punitive and less forgiving of errors. Penalties can include a reduction in future entitlement amounts, full repayment of past grant awards, or even impacts to other federally funded resources.

**Previous Actions & Discussion:**

In 2008, 2011, and 2014 the city of Goodyear was notified that it was eligible to receive grant funding as an entitlement city. Each time the City has declined.

**Fiscal Analysis:**

There is no additional fiscal impact if we continue as an Urban County participant. If Council decides to accept the entitlement status, staff will submit a budget supplement of \$120,000 for FY18 in order to complete the initial Five-Year Consolidated Plan. There would also be additional ongoing costs as outlined above.