

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 6, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER

SUBJECT: ELIGIBLE USES OF FEDERAL COMMUNITY DEVELOPMENT
BLOCK GRANT (CDBG) FUNDS AND PROCESS FOR AMENDING
PLAN

ISSUE: Information regarding potential eligible uses of CDBG funds and the process to amend proposed uses.

BACKGROUND: In response to City Council comments and questions regarding potential eligible uses for Federal Community Development Block Grant (CDBG) funds, this memorandum provides additional information regarding eligible and ineligible uses of these federal funds. In FY2016, the City expects to receive approximately \$742,789 in CDBG. The City's allocation of CDBG funds has been significantly reduced over the past years (see Attachment 1 below) due to ongoing federal budget cuts to housing and human services programs.

DISCUSSION: In order to receive CDBG funding, a proposed activity to be undertaken by a grantee must meet both eligibility and national objective requirements established by HUD¹. HUD's expectation is that the grantee-jurisdiction or entity is also supporting HUD national objectives through commitment of its local funds and by leveraging other resources it might be able to access from state, federal and private sources.

¹ Title 24: HUD, Part 570

CDBG-eligible activities are listed below, by category. Currently funded eligible activities are underlined; activities that have been previously funded, that are no longer funded, are double-underlined.

CDBG-eligible activities:

Activities Related to Housing

- Housing services in connection with Home Investment Partnerships (HOME) Program activities;
- Homeownership assistance (such as downpayment assistance and interest subsidies);
- Rehabilitation to buildings which are residential, low-income rental or homeowner housing.
 - Acquisition for rehabilitation and rehabilitation for residential purposes;
 - Labor, materials, etc. for rehabilitation of properties;
 - Loans for refinancing existing secured indebtedness;
 - Energy improvements;
 - Water efficiency improvements;
 - Connection to water and sewer lines;
 - Some homeowner warranty, hazard and flood insurance premiums;
 - Testing for and abatement of lead-based paint;
 - Costs of acquiring tools to be lent for rehabilitation;
 - Rehabilitation services;
 - Assistance for the rehabilitation of housing under Section 17 of the United States Housing Act of 1937; and
 - Removal of material and architectural barriers that restrict accessibility.
- Lead-based paint testing and abatement as a stand alone program or included as rehabilitation as noted above;
- Activities that support new housing construction such as acquisition, clearance, site improvements, and street improvements.

Other Real Property Activities:

- Rehabilitation of publicly- or privately-owned commercial or industrial buildings;
- Code enforcement;
- Historic preservation;
- Renovation of closed buildings;
- Privately-owned utilities.

Public Facilities and Public Improvements:

- Acquisition, construction, reconstruction, rehabilitation, or installation of public improvements or public facilities.
- “Public improvements” includes, but is not limited to, streets, sidewalks, water and sewer lines, and parks.
- “Public facilities” includes, but is not limited to, neighborhood/community facilities and facilities for persons with special needs (e.g. homeless shelters, group homes, and halfway houses).

Activities Related to Economic Development:

- Microenterprise assistance;
- Commercial Rehabilitation; and
- Special economic development activities.

Other Types of Activities:

- Relocation assistance;
- Technical assistance to public or nonprofit entities to increase the capacity of such entities to carry out eligible neighborhood revitalization or economic development activities; and
- Assistance to institutions of higher education with the capacity to carry out other eligible activities.

Activities Related to Public Services (capped at 15% of grant, plus prior year program income):

- Job training and employment services;
- Health care and substance abuse services;
- Child care;
- Crime prevention; and
- Fair Housing counseling.

Planning and Administration (Capped at 20% of grant, plus current year program income):

- Comprehensive plans;
- Community development plans (including the Consolidated Plan);
- Functional plans (for housing; land use and urban environmental design; economic development; open space and recreation; energy use and conservation; floodplain and wetlands management; transportation; utilities; historic preservation; etc.);
- Other plans and studies (e.g., small area and neighborhood plans; capital improvements program plans; individual project plans; general environmental; urban environmental design; historic preservation studies; etc.); and
- Policy planning, management, and capacity building activities.
- Program administration activities may include:
 - General management, oversight and coordination;
 - Public information;
 - Fair Housing activities;
 - Indirect costs;
 - Submission of applications for Federal programs; and
 - Costs to pursue Section 17 of the United States Housing Act of 1937.

It is noted that for the last two categories of activities listed (public services and planning and administration), grant percentage limitations can be supplemented by the application of prior year or current year program income. Because many of the City's CDBG-funded

loans are mature, program income from existing program loan repayments in recent years have ranged from \$200,000 to \$500,000. Most loans are repaid at the beneficiary's death and/or the transfer of real property so forecasting program income is complicated. Because of limited new federal resources these loan repayments are becoming each year a larger portion of the funds used to continue the Home Rehabilitation Loan Program and the limited Flexible Homeownership Assistance Program.

The Office of Housing typically reassesses the anticipated program income in the third quarter of the City fiscal year and proposes eligible uses for any balances to be spent down. During some years, projects that are not time-sensitive but which are appropriate for CDBG funds, if available, are prepared to go forward to ensure that all federal funds, including repayments not anticipated, can be fully drawn to support eligible uses.

CDBG-ineligible activities:

The general rule is that any activity not specifically authorized under the CDBG regulations and statute is ineligible to be assisted with CDBG funds.

In addition, the regulations stipulate that the following activities may *not* be assisted with CDBG funds:

- Buildings for the general conduct of government are ineligible.
- General government expenses are ineligible.
- Financing for political activities or to engage in other partisan political activities are ineligible.
- Operating and maintenance expenses (of public facilities, improvements, and services) are ineligible. Specific exceptions to this general rule are operating and maintenance expenses associated with public service activities, interim assistance, and office space for program staff employed in carrying out the CDBG program.
- New housing construction except under certain conditions or when carried out by a Community Based Development Organization.
- Income payments made to an individual or family for items such as food, clothing, housing, or utilities are ineligible. One time grants, emergency type grants, or loans for such purposes may be eligible under the category of Public Services.

CDBG funds cannot be used as a source of local matching funds to facilitate other federal grant funds. In most cases, CDBG funds cannot be used to replace local funding for eligible programs, unless the activity proposed to be funded by CDBG is an enhancement or a different, new activity from that previously supported by local funds.

National Objective Requirements Established by HUD

All CDBG-assisted activity must meet one of three national objectives: (1) benefiting low- and moderate-income persons, (2) aiding in the prevention or elimination of slums or blight, or (3) meeting a community development need having a particular urgency that a community is unable to finance on its own. Activities may meet the national objective

of benefiting low- and moderate-income persons in one of four ways: area benefit activities; limited clientele activities; housing activities; or job creation or retention activities. Housing-related activities will most often meet the low- and moderate-income housing national objective as described in Title 24 CFR 570.

Given the magnitude of housing needs, the use of CDBG funds for housing is appropriate as identified in various City plans, including the Housing Master Plan; The Alexandria of Our Future: A Livable Community for All Ages (The Strategic Plan on Aging); The Alexandria Council of Human Services Organizations-A Needs Assessment of the Alexandria Human Services System; The Strategic Plan to Prevent and End Homelessness in the City of Alexandria; and the Alexandria Redevelopment and Housing Authority Strategic Plan. While CDBG has been used to address significant housing needs, there has been a substantial decrease of these funds over the past years as demonstrated in Attachment 1. The City experienced a 41% reduction in FFY 2012 funds due to the combination of federal budget reductions and grant formula adjustments based on the 2010 Census and the American Community Survey data.

Amendments to the Consolidated Plan

The City is required to adopt a citizen participation plan that provides for and encourages citizens to participate in the development of any consolidated plan, a substantial amendment to the consolidated plan, and to performance reports. These requirements are designed especially to encourage participation by low- and moderate-income persons, particularly those living in slum and blighted areas and in areas where CDBG funds are proposed to be used, and by residents of predominantly low- and moderate-income neighborhoods, as defined by the City. In Alexandria, to develop the Consolidated Plan, Housing also collaborates closely and consults with other departments and local agencies that provide a variety of direct services to low and moderate income persons in order to ensure their needs are met as efficiently and comprehensively as possible within the resources available.

The City's Citizen Participation Plan was prepared in accordance with HUD's regulations at Title 24, Code of Federal Regulations, Part 91 and approved by City Council and HUD in 2009. The Consolidated Plan and Action Plan must be amended for any proposed new uses of CDBG. The process necessary to amend the plans identified in the City's Citizen Participation Plan is as follows:

The Consolidated Plan regulations require that the City amend its approved Consolidated Plan whenever it makes one of the following decisions:

- A. To make a substantial change in its allocation priorities or a substantial change in the method of distribution of funds;
- B. To carry out an activity, using funds from any program covered by the Consolidated Plan regulations (including program income), not previously described in the annual action plan portion of the Consolidated Plan; and
- C. To substantially change the purpose, scope, location or beneficiaries of an activity included in the annual action plan.

HUD regulations do not define the term "substantial," leaving this definition to the discretion of the City. The City has interpreted a substantial change to include a change in the targeted beneficiary group of a program or activity, or a change resulting in the reduction of the budget for any activity by more than 50%.

Amendments to the Consolidated Plan will be made public and submitted to HUD for approval prior to the implementation of any changes embodied in the amendment. Citizens will be provided with reasonable notice of the changes and an opportunity of not less than 30 days (unless otherwise provided by HUD) to comment on the proposed changes. Copies of amendments to the Plan will be made available to the public at the time they are submitted to HUD. Public hearings will be held during 30-day public comment periods, but the City may elect not to hold such hearings during HUD-authorized shorter comment periods, unless otherwise required by HUD.

CONCLUSION: Staff looks forward to working with Council to have a broader discussion of potential eligible uses of CDBG in the future.

ATTACHMENT:

Attachment 1: Department of Housing and Urban Development CDBG Allocations for the City of Alexandria

STAFF:

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Helen McIlvaine, Acting Director, Office of Housing
Eric Keeler, Program Administration Division Chief, Office of Housing
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Department of Housing and Urban Development
CDBG Allocations for the City of Alexandria

City's CDBG Grant Funds		
City Fiscal Year	Federal Fiscal Year	Amount
2011	2010	1,357,948
2012	2011	1,142,519
2013	2012	678,236
2014	2013	724,748
2015	2014	722,919
2016	2015	742,789