

# Capitola City Council

## Agenda Report



**Meeting:** February 27, 2025  
**From:** Community Development Department  
**Subject:** CDBG Program Income Funds

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**Recommended Action:** 1) Conduct a public hearing and receive public comment regarding Program Income and its eligible uses; 2) adopt a resolution rescinding Resolution No. 4414 and allocating \$170,000 of Program Income for the Community Center Rehabilitation Project; and 3) adopt a resolution amending the FY 2024-25 budget.

**Background:** The City of Capitola has successfully completed several Community Development Block Grant (CDBG) funded programs and projects over the past several years, some of which generate Program Income. Program Income is defined as the gross income that is directly generated from CDBG funded activity, such as homebuyer loans, housing rehabilitation loans, etc. When these monies are loaned out and then repaid to the City, they take the form of Program Income. Program Income is regulated by the State Department of Housing and Community Development (HCD) and the City's Program Income must be obligated to a project before any grant funds are drawn from a grant or must be paid back to the State. These monies keep the same federal ties so long as they are Program Income.

On January 30, 2025, the City Council adopted a resolution allocating \$160,240.62 of Program Income from a CDBG rehabilitation loan payoff to the Community Center Rehabilitation Project. At the time of submittal to HCD, staff identified additional interest (LAIF) in the CDBG-PI account. This funding must be allocated prior to drawing down funds from the 2023 CDBG grant award for the Community Center Rehabilitation Project.

**Discussion:** At the end of December 2024, staff received a loan payoff from a prior housing rehabilitation loan in the amount of \$160,240.62. The loan originated from a 2014 CDBG grant, thus the funds that have now been deposited are considered CDBG Program Income. The CDBG PI fund also includes LAIF interest earned of \$4,825 as well as accrued interest of approximately \$5,000 which was not included in the January 30, 2025 resolution. The purpose of the updated resolution is to increase the amount stated in the resolution to include the current balance in the CDBG PI fund and any additional interest that may be deposited in the fund in 2025.

This funding will be added to the project contingency for the Community Center, bringing the total project contingency to approximately 9.7% of the \$4,725,00 construction contract.

**Fiscal Impact:** The \$170,000 in Program Income is available grant funds that can be reutilized. The City's grant administrator, Adams Ashby Group, will coordinate the grant amendment efforts through their existing 2023 CDBG grant administration contract to allocate the funds toward the Community Center Rehabilitation Project. No general funds or fiscal impact should be incurred by the City.

**Attachments:**

1. CDBG Resolution
2. Public Hearing Notice
3. Budget Amendment Resolution
4. Budget Amendment

**Report Prepared By:** Katie Herlihy, Community Development Director

Reviewed By: Julia Gautho, City Clerk; Jim Malberg, Finance Director; Sam Zutler, City Attorney  
Approved By: Jamie Goldstein, City Manager