



# STAFF REPORT

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May 8, 2024  
File Number 0870-11

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## SUBJECT

**REVIEW AND REAFFIRM COMMUNITY DEVELOPMENT BLOCK GRANT ("CDBG"), HOME INVESTMENT PARTNERSHIP PROGRAM ("HOME"), EMERGENCY SOLUTIONS GRANT ("ESG") PRIORITIES IN THE 2020-2024 CONSOLIDATED PLAN AND APPROVE AN ALLOCATION PROCESS FOR FISCAL YEAR 2024-2025 FUNDING.**

## DEPARTMENT

Development Services Department; Housing and Neighborhood Services Division

## RECOMMENDATION

Request the City Council conduct a public hearing, review and re-affirm the CDBG, HOME, and ESG priorities adopted in the 2020-2024 Consolidated Plan, approve an allocation process for FY 2024-2025 utilizing the maximum allowable allocations for public services and the maximum allowable allocations for administration of the CDBG and HOME programs, and authorize the release of a Request for Proposal ("RFP") for public services and community development activities.

Staff Recommendation: Provide Direction and Approval (Development Services: Chris McKinney)

Presenter: Danielle Lopez, Housing and Neighborhood Services Manager

**ESSENTIAL SERVICE** – Yes, Keep City Clean for Public Health and Safety; Land Use/Development; Public Works/Infrastructure; Maintenance of Parks facilities/Open Spaces

**COUNCIL PRIORITY** – Improve Public Safety; Increase Retention and Attraction of People and Businesses to Escondido; Encourage Housing Development

## FISCAL ANALYSIS

While Congress has allocated funds to the U.S. Department of Housing and Urban Development ("HUD"), HUD has not yet announced allocations for local jurisdictions. It is anticipated that the City of Escondido ("City") will receive approximately \$1.4 million in CDBG entitlement funds, \$700,000 in HOME entitlement funds, and \$0 in ESG funding, from HUD for FY 2024-2025. The CDBG and HOME activities and administrative costs will be funded solely by grant funds and will not impact the General Fund.



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### PREVIOUS ACTION

On May 24, 2023, the City Council reaffirmed the 2020-2024 Consolidated Plan priorities and amended the Plan to include an additional public safety priority.

On May 20, 2020, the City Council approved the 2020-2024 Five Year Consolidated Plan (“Con Plan”) which is a five-year plan that outlines the City’s priorities, goals and funding priorities for CDBG, HOME, and ESG through June 30, 2025, and included the first year Annual Action Plan. The 2020 Con Plan included five community development (CDBG), five homelessness (ESG), and two housing (HOME) priorities.

### BACKGROUND

The City of Escondido is considered an entitlement jurisdiction and receives an annual allocation from HUD for the operations of its CDBG, HOME, and ESG programs. The funding is determined by a formula calculated by HUD based on population, age of the city, poverty levels, etc. The City’s allocation can fluctuate year-to-year causing funding to increase or decrease in various programs.

As a recipient of the federal funds, the City is required to submit a five-year Consolidated Plan, an Annual Action Plan, and monitor its progress, outcomes, and expenditures through the Consolidated Annual Performance and Evaluation Report (“CAPER”).

Based on a community needs assessments and public participation, CDBG, HOME, and ESG priorities were identified and adopted as part of the FY 2020-2024 Five-Year Consolidated Plan. Each year, prior to adoption of the One-Year Action Plan, Council is asked to review and reaffirm the priorities and may choose to adopt changes at that time. Each year, an Annual Action Plan is developed to determine exactly how funds will be spent in order to meet the goals of the Con Plan.

After the City Council has confirmed the City’s priorities for the upcoming fiscal year and pending City Council approval, Housing and Neighborhood Services staff will release a Request for Proposal (“RFP”) to notify potential internal and external subrecipients of the funding availability. Staff has prepared the draft RFP (included as Attachment “1”) for the use of FY 2024-2025 CDBG funds. Upon authorization by the City Council, staff will distribute the RFP to prospective applicants immediately.

In accordance with the City’s Citizen Participation Plan, the City conducts two public hearings. A second public hearing will be held late summer to review staff’s recommendations and adopt the 2024 Annual Action Plan, allocating the FY 2024-25 funds. The final plan must be submitted to HUD by August 16, 2024.

City staff released a public notice on April 4, 2024, for a 30-day public comment period requesting feedback on the City’s CDBG, HOME, and ESG priorities for FY 2024-25. The Con Plan and the current Action Plan were available on the City’s website and at the Housing and Neighborhood Services front counter. City staff received no public comments, questions, or concerns on the priorities or plans.



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City staff met with the City's Ad-Hoc Subcommittee on Homelessness on April 29, 2024, to provide an overview of the CDBG, HOME, and ESG programs, the City's identified priorities, challenges and obstacles including the City's timeliness test, and the recommended allocation process. The Subcommittee supported staff's recommendation to reaffirm the existing CDBG, HOME, and ESG Priorities for the final year of the Con Plan and to utilize an allocation process that provides for the maximum allowable amounts for administrative costs and public service allocations.

### **CDBG Anticipated Allocation Process, National Objectives, and Priorities:**

#### **Allocation Process**

CDBG regulations place limitations on the amount of funding grantees may use for administration and public services. No more than 15% of a grantee's annual CDBG allocation may be used for public service activities and no more than 20% of a grantee's annual CDBG allocation may be used for program administration. There is no cap on the percentage of a grantee's annual CDBG allocation that may be used for capital projects in low and moderate-income neighborhoods.

It is important to note that federal funds must not be used to supplant general fund spending and all funded projects must meet one of HUD's national objectives, serve and benefit low- and moderate-income persons or areas in the community and work toward accomplishing a goal in the Con Plan.

#### **National Objectives**

CDBG-funded activities must meet at least one of three national objectives set forth by HUD:

- 1) Benefit low and moderate-income persons;
- 2) Aid in the elimination of slum and blight; or
- 3) Meet a particular urgent community need because existing conditions pose a serious threat and no other source of funds is available. This national objective is rare and is designated only for activities that alleviate emergency conditions, e.g., fire, flood, earthquake.

Historically, CDBG funded activities in the City have focused on the first national objective of benefitting low and moderate-income persons.

#### **CDBG Priorities**

The community development priorities approved for the 2020 Con Plan, as amended on May 24, 2023 are:

- Homeless services: Support homeless shelter and other services.



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- Basic Needs: Provide access to food, water, shelter, and sanitation.
- Health and Human Development: Provide access to recreation, education, and healthcare.
- Neighborhood Revitalization: Improve the livability of neighborhoods.
- Economic Development: Provide economic development opportunities to low-mod income residents and businesses.
- Public Safety: (added May 2023) Provide services to enhance the safety of residents in low to moderate income areas.

### **HOME Anticipated Allocation Process and Priorities:**

#### **Allocation Process**

For HOME, no more than 10 percent of a grantee's annual allocation can be used to fund program administrative costs. The remainder of the grant must be spent on housing activities with 15 percent of the annual allocation being used to fund Community Housing Development Organizations ("CHDO"), nonprofit organizations that develop affordable housing.

#### **HOME Priorities**

The HOME priorities approved for the 2020 Con Plan are:

- Creation/Preservation of Affordable Housing
- Conservation/Expansion of Affordable Housing

#### **ESG:**

The ESG program provides a first response to people with a housing crisis and engages people living on the streets with a focus to assist people to quickly regain stability in permanent housing after experiencing a housing crisis and/or homelessness. The City has not received ESG funding for the last two fiscal years and does not anticipate receiving funds for FY 2024-25. Based on the formula HUD uses to determine allocations, the City of Escondido has not met the threshold for funding for the last two fiscal years.

#### **ESG Priorities**

- Homelessness Prevention
- Emergency Shelter
- Essential Services in the Shelter
- Homeless Outreach
- Rapid Re-housing



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In the event that we receive funding for FY 2024-25, we will provide an update at the second public hearing to approve the Annual Action Plan.

### HUD Timeliness Test

Each year, City staff are required by HUD to execute projects and expend funds in a timely manner. A CDBG-funded jurisdiction can have no more than 1.5x its annual allocation by May of each year. According to HUD, this is known as a “timeliness test”. The City has had difficulty meeting this test since 2020. In 2020 and 2021, HUD offered jurisdictions waivers on the timeliness test rule due to the pandemic; however, those exceptions are no longer in effect and formal notifications and warnings are now being issued. The consequences of a jurisdiction not meeting HUD’s timeliness goal can range from receiving a formal letter to developing a workout plan, to losing future funds. The City of Escondido did not meet the timeliness test in FY 2023. This is the third year in a row that the City has not met this requirement.

Staff are committed to addressing this issue and expending funds in a timely manner. Staff have met with HUD and they do not expect our funding to be cut this year. However, they will be requesting a formal meeting and if we do not rectify the situation this fiscal year, we would likely face cuts to our 2025-2026 funding.

Among several challenges that have led to the untimeliness of city spending, the main reasons include staff turnover and vacancies in the Neighborhood Services Division, specifically in the CDBG role, influx of one-time COVID dollars valued close to \$10M, influx of ARPA funding, and partially funding projects over many years.

With that said, staff have made significant progress over the last six months. The City has two capital projects that account for almost the entire amount being spent. Staff have been able to get these projects prioritized, and are moving them forward as quickly as possible. Additionally, there are Admin., public services, and a few smaller capital projects that are moving forward, that will put the City where it needs to be with its spending, in the next several months.

**The Old Escondido Lighting Project Phase II:** This project consists of installing, replacing and upgrading street and walkway lights within the "Old Escondido Neighborhood". This project was delayed in order to accumulate sufficient funding. This project, budgeted at \$1,020,370, is now fully funded, is currently out to bid, and will be opened on May 16.

**The Playground Equipment Project:** This project involves replacement and installation of playground equipment in three existing parks. This project was delayed due to the effects of COVID 19, including cost increases and supply chain issues. In addition to that, the City received an influx of American Rescue Plan Act funding for similar projects and has not had sufficient staffing to provide the proper construction project management and oversight of projects. This



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project is budgeted at \$775,000. The contract for the play equipment will go to City Council for approval on May 8, 2024. The lead time on the play equipment is approximately nine weeks.

The City has been experiencing staffing shortages for several years. The Housing and Neighborhood Services Division specifically, has not had a consistent CDBG Management Analyst since 2017. In the last six months, the Management Analyst position over CDBG and the Management Analyst position over the HOME program have been filled and the final two vacancies in the division have been offered to candidates and are in progress. Neighborhood Services expects to be fully staffed by mid-May. Additionally, our Engineering Department, who provides project management for capital projects, including CDBG, has hired additional project managers to assist with the backlogged workload. With the appropriate staffing levels in place, productivity and efficiency will be improved and projects and tasks will move forward in a more timely manner.

### **Timeline/Next Steps**

- May 8, 2024, Review and Affirm Priorities in a Public Hearing
- May 13, 2024, Release an RFP to the community for three weeks
- June 3, 2024, Staff reviews applications and prepares recommendations on funding
- Mid-June 2024, Staff issues 30-day public notice to review 2024 Action Plan
- July 2024, Staff returns to City Council for a second Public Hearing to present the Annual Action Plan for adoption
- August 2024, Submit the 2024 Action Plan to HUD

### **Accomplishments/Conclusion**

Significant progress has been made towards addressing the community development priorities of the 2020 Con Plan. Each year, the City must report to HUD how funding was spent and what goals were achieved. This comprehensive review of FY 2022-2023 CDBG, ESG and HOME funded activities, or Consolidated Annual Performance and Evaluation Report ("CAPER"), was submitted to HUD in December 2023 and is available on the Neighborhood Services Division web page.

Staff recommends that the City Council re-affirm priorities for the fifth and final year of the 2020 Con Plan, approve the recommended allocation process for CDBG and HOME funds, and authorize the release of an RFP for public services and community development activities. At the second public hearing to adopt the One-Year Action Plan, the City Council may direct staff to focus on one or more of the approved priorities for FY 2024-2025 funding.

### **ATTACHMENTS**

- a. Attachment "1" - Draft CDBG RFP