



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Community Services
Department No.: 057
For Agenda Of: June 16, 2015
Placement: Administrative
Estimated Time:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Renée E. Bahl, Interim Community Services Director
Director (805) 568-2467
Contact Info: Dinah Lockhart, Deputy Director, (805) 568-3523
SUBJECT: **Renewal of the Santa Barbara County CDBG Urban County Cooperation Agreement and the Santa Barbara County HOME Consortium Agreement**

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence: *Risk Management

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- a. Adopt a resolution (Attachment A) authorizing the County Chief Executive Officer to execute a:
 - i. Cooperation Agreement (Attachment B) with the Cities of Buellton, Carpinteria, and Solvang and any additional documentation required by the U.S. Department of Housing and Urban Development (“HUD”) in order to continue the Santa Barbara County CDBG Urban County Partnership for Federal Fiscal Years 2016, 2017, and 2018, to receive federal entitlement funds under the Community Development block Grant (CDBG), HOME Investment Partnerships Program, and the Emergency Solutions Grant (ESG) Program;
 - ii. Cooperation Agreement (Attachment C) for the Santa Barbara County HOME Consortium between the City of Goleta and the Santa Barbara County Urban County, which includes the Cities of Buellton, Carpinteria, and Solvang, and any additional documentation required by HUD in order to continue the Santa Barbara County HOME Consortium for Federal Fiscal Years 2016, 2017, and 2018, in order to continue to receive HOME Investment Partnerships Program funds; and

- b. Determine that the approval and execution of the Santa Barbara County CDBG Urban County Cooperation Agreement and the Santa Barbara County HOME Consortium Agreement are not the approvals of projects that are subject to environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378(b)(4), finding that the projects are a creation of government funding mechanism or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment, and direct staff to file a Notice of Exemption (Attachment D).

Summary Text: The three year FY 2016-2018 Urban County Cooperation Agreement for participation in the federal Community Development Block Grant (CDBG) program and the three year FY 2016-2018 HOME Consortium Agreement for participation in the federal HOME Investment Partnerships Program are both due for renewal at this time. The deadline for the submission of the FY 2016-2018 Urban County Cooperation Agreement and the FY 2016-2018 HOME Consortium Agreement is June 30, 2015. The revised CDBG Urban County Cooperation Agreement includes revisions to the agreement to clarify the operation of the Urban County, and to remove the City of Lompoc as a participating city. The revised HOME Consortium Agreement includes a reference to the 2013 HOME Final Rule, clarification of funding distribution methodology, and removes reference to the Cities of Lompoc and Santa Maria as participating cities.

The County's participation in the CDBG Urban County and HOME Consortium Programs has resulted in millions of dollars of major capital and affordable housing developments throughout the County, including Pescadero Lofts Apartments in Isla Vista, Casa de las Flores Apartments in Carpinteria, Solvang Senior Apartments in Solvang, Bridgehouse Homeless Shelter Re-Roof, the Guadalupe American Legion Hall Seismic Retrofit, Isla Vista Streetlighting Retrofit, and the Calle Real ADA Sidewalk Project, in addition to public services and homeless programs countywide.

Background:

CDBG Urban County Agreement

Since 2006, the County has participated as an Urban County in the Community Development Block Grant (CDBG) Program through an agreement with the cities of Lompoc, Buellton, Solvang, and Carpinteria. As an Urban County, the County is able to receive from HUD an entitlement grant of federal CDBG funds, which it suballocates to its member jurisdictions. Prior to the City of Lompoc joining the Urban County, the County could only receive federal CDBG funds by applying for competitive State CDBG funds. HUD has confirmed that the Santa Barbara Urban County will remain eligible to continue to receive CDBG funds after the withdrawal of the City of Lompoc for FY 2016-18. The Urban County also makes the County eligible for a federal entitlement of Emergency Solutions Grant (ESG) funding for homeless services, and helps to establish the population threshold necessary to receive federal HOME funds.

Regulations from HUD indicate that an Urban County cooperation agreement remain in effect for three consecutive program years, but can be renewed for subsequent three year cycles through an "auto-renewal" provision. This provision requires the County to notify participating jurisdictions of their opportunity to withdraw from the Urban County. The current 3 year agreement ends in June 2016. Renewal application materials must be submitted to HUD in June 2015. Although the prior cooperation agreements contained an "auto-renewal" provision, the cities and the County will execute a revised cooperation agreement for the next 3-year cycle. The revised cooperation agreement includes the "auto-

renewal” provision. The auto-renewal provision requires the County to notice and provide at least a 30 day period prior to the end of an expiring 3-year cycle during which the participating cities may notify the County of their decision to withdraw from the Urban County. If at the conclusion of the 30 day period, the County has not received notification of a City’s decision to withdraw, the participating City will remain in the Urban County for another 3 year period. Only the City of Lompoc notified the County of its intent not to participate in the Urban County partnership for FY 2016-18.

HOME Consortium Cooperation Agreement

The County has participated in the HUD HOME Consortium Program since 1994 through a ‘consortium agreement’ with the cities of Lompoc, Buellton, Solvang, Carpinteria, Goleta, and Santa Maria. The most recent Cooperative Agreement to Renew A HOME Consortium was signed in 2003. Separate subrecipient agreements with the cities of Lompoc and Santa Maria were signed in 2006. The Consortium is administered for consecutive three year cycles to receive HOME funds. The revised HOME Consortium Agreement revised the ‘automatic renewal’ clause for the successive three-year qualification periods. Prior to the end of an expiring 3-year cycle, the County will notice and provide a 30-day period during which the participating jurisdictions must notify the County in writing of their decision to remain in the HOME Consortium for another 3-year cycle. If a participating jurisdiction fails to provide the County with their written decision to remain in the HOME Consortium, they will be removed from the Consortium for the ensuing 3-year cycle.

HUD regulations state that when an Urban County participates in a HOME Consortium, the cities which participate in the Urban County also agree to participate in the HOME program if the urban county is a participating jurisdiction and is a member of a HOME consortium. Although the Cities of Buellton, Solvang, and Carpinteria become members of the HOME Consortium by their participation in the Urban County, their City Councils took separate action on becoming members of the HOME Consortium.

On June 2, 2015 the Santa Maria City Council voted to withdraw from the HOME Consortium. HUD has confirmed that the Santa Barbara Urban County and the Santa Barbara County HOME Consortium will remain eligible to continue to receive CDBG, HOME and ESG entitlement funds after the withdrawal of the Cities of Lompoc and Santa Maria. The City of Lompoc will remain in the CDBG Urban County and the Cities of Lompoc and Santa Maria will remain in the HOME consortium through the end of this current year cycle on June 30, 2016. HUD has not indicated how the Urban County or HOME Consortium’s grant allocations will be impacted by the Cities’ withdrawal.

Discussion:

The most significant changes to the CDBG Urban County agreement (Attachment B) are the following:

Description of Revision	Location in Agreement
The City of Lompoc is not shown as a participating city	Shown in 6 th recital (“WHEREAS”)
Clarifies term of fiscal year and program year and inclusion of HUD requirement that a member city’s participation in the CDBG Urban County includes their participation in the Santa Barbara County HOME consortium. Includes the automatic renewal provision.	Discussed in the 5 th and 6 th recitals (“WHERAS”) and Section 11 (“Other Requirements”) paragraph a Also in Section 2 (“Term and Automatic Renewal”)

Provides disclosure of existing federal cross-cutting regulations. Describes existing funding distribution process	Section 5 (“Compliance with Act and Regulations”) and Section 8 (“Distribution of Funds”)
Update to current liability and insurance indemnification language	Section 18 (“Indemnification”)
Describes method for member city to receive funding to complete a project in one year, rather than waiting to accumulate multiple years of funding to fully implement a project. The Urban County’s application review process is addressed. Use of CDBG funding requires a subrecipient agreement, whether by a participating city, a non-profit or other type of project sponsor.	Section 9 (“Method of Distribution”); Section 10 (“Method of Redistribution”); Section 19 (“Other Agreements”)
Clarifies importance of expending CDBG Urban County funds in a timely manner. Urban County member cities may only receive federal HOME and ESG formula allocations through the Santa Barbara County HOME Consortium and the Urban County. The agreement does not preclude member cities from applying for State HOME or ESG funds.	Section 10 (“Method of Redistributing”) paragraph g. Section 11 (“Other Requirements”) paragraphs a and c.
Agreement removes the County’s responsibility for California Environmental Quality Action (CEQA) compliance requirements for projects submitted by member cities. Inclusion of ‘change in use’ requirements to insure CDBG improved properties are used and made available for use for CDBG eligible purposes for a minimum of 5 years. Records generated by project funded under this Agreement shall be retained for 4 years from the date the project is last reported in the County’s Consolidated Annual Performance Report (CAPER) or the resolution of any audit or legal action, whichever period is longer.	Section 13 (“Administration of Program”) paragraph a. Section 15 (“Disposition of Real Property”) Section 22 (“Records”)

Revisions to the HOME Consortium agreement (Attachment C) include the following:

Description of Revision	Location in Agreement
The Cities of Lompoc and Santa Maria are not shown as participating cities. The agreement also recognizes the City of Goleta as a CDBG entitlement jurisdiction which is participating with the Santa Barbara Urban County to form the Santa Barbara County HOME Consortium	First paragraph of Agreement. 8 th Recital (“WHEREAS”)
Included reference to 2013 HOME Rule, clearly identifying the federal fiscal years for the current agreement, and removal of the automatic renewal language. During the Consortium renewal period, prior to the next 3 year HOME consortium cycle, the HOME consortium member city must affirm its decision in writing to the County to participate in the next 3 year HOME consortium cycle	5 th Recital (“WHEREAS”) Section 5 (“Renewal and Termination”)
Update to current liability and indemnification language	Section 10 Indemnification and Insurance
Clearer discussion of allocation formula used in the distribution of HOME funds to member jurisdictions and the application process. The agreement also discusses how projects become known to the	Section 12 (“Distribution of Funds”) Section 12.1 HOME

participating cities via a “HOME Project Pipeline” list which lists current, proposed, and possible future HOME projects.	Consortium Section 12.2 Method of Distribution
The agreement spells out the allowable use of 10% of HOME funds for program administration, and the HUD required set aside of 15% of HOME funds for Lead Entity-certified Community Housing Development Organizations (CHDO’s).	Section 12.4 (“Administrative Fees”) Section 12.5 (“Community Housing Development Organization (CHDO)”)
The agreement spells out if HOME funds are not received by the HOME Consortium, the County as Lead Entity cannot provide HOME funds to member jurisdictions.	12.8 (“Consortium’s Obligation to Distribute Funds”)

Performance Measure:

CSD Housing and Community Development (HCD) division staff will provide staff support to the CDBG Urban County and HOME Consortium. This includes periodic meetings with member jurisdictions, and convening the Capital Loan Committee (CLC) to review projects. HCD staff also monitors the performance of subrecipients, including member jurisdictions that directly administer programs. Subrecipients must provide documentation that supports eligible expenditures consistent with the contract budget and federal regulations. Federal funds are provided on a reimbursement basis.

The Urban County and HOME Consortium Agreement confirm facilities improved with CDBG or affordable housing developed with HOME funds will be monitored, and all funds must be used for an eligible use, for the period determined in the subrecipient contract.

Under the CDBG Urban County and HOME Consortium Programs, HUD holds the Lead Entity, which is the County, accountable for managing the day to day operations of the CDBG Urban County and HOME Consortium for compliance and monitoring. HCD has developed monitoring schedules of projects and performs site inspections, and reviews subrecipient records and invoices. HCD also conducts financial reviews of affordable housing developers and capital development project sponsors, and monitors affordable housing loan performance and repayments.

Fiscal and Facilities Impacts: *

Federal HOME and CDBG funds are awarded to the County as grants. Ten-percent (10%) of the HOME grant and twenty-percent (20%) of the CDBG grant may be used to cover the costs to administer the federal programs. The remaining funds are awarded by the County and its partner cities to eligible programs and projects as loans or grants, which may also include funds for Activity Delivery Costs, which offset costs for administration and monitoring. The County monitors loans and grants for compliance with repayment requirements and monitors subrecipients for compliance with federal regulations. The County could be subject to repaying federal funds, from non-federal source(s), if HUD finds that the County expended funds inconsistent with regulations or otherwise did not comply with federal requirements. The County passes these obligations on to its subrecipients by including relevant language in the agreements executed between the County and subrecipients.

Impact of Cities Withdrawal from Urban County and HOME Consortium

With the withdrawal of the Cities of Lompoc and Santa Maria, the County anticipates that the annual allocation of CDBG and HOME funds awarded to the County will decrease, which will also reduce the amount of funds available under the CDBG and HOME programs for administration. HUD has not indicated how the cities' withdrawal will affect the County's federal entitlement grant programs. However, the practical impact of Lompoc's withdrawal on the remaining members of the CDBG Urban County is likely to be minimal as a significant portion of funds were set aside for Lompoc in prior years. Specifically, in the prior CDBG Urban County agreement between the City and the County, the City of Lompoc received 25% of the Urban County's CDBG public service and capital development funds and 25% of the County's 20% administrative allowance. Lompoc was the only Urban County member city that received a percentage of the County's CDBG administrative allowance. The County permitted this arrangement in exchange for Lompoc's decision in 2006 to join with the County to form the Urban County.

Lompoc and Santa Maria's withdrawal from the HOME Consortium will reduce the amount of HOME funds that will be available for the development of affordable housing, and other HOME programs, countywide. Due to the longer time frame in residential development, HOME Consortium member cities often deferred using their suballocations until their own projects achieved a level of readiness. This allowed 'unreserved' HOME funds to be used for other projects which were more 'shovel ready'. In FY 2015-16, the City of Santa Maria will receive 31.52% (\$199,107) and the City of Lompoc will receive 13.35% (\$84,330) of the County HOME Consortium's allocation, which is the final year of the 2013-2015 HOME Consortium cycle. Lompoc will use their pro rata HOME allocation for a Tenant Based Rental Assistance (TBRA) Program. Santa Maria is proposing to use its pro rata HOME allocation of \$199,107 for an affordable housing project. This project may begin construction in 2016. In June 2014 the Board approved a reservation of \$448,852 in FY 2015-16 HOME funds for a second affordable housing project in Santa Maria. This reservation will expire in September 2015, but staff is expecting a request from the developer to renew the reservation if it is unable to obtain additional financing from the state. These two affordable housing projects in Santa Maria may return to the Board to seek HOME funding approval before or after the June 2016 expiration of the current HOME Consortium Agreement between the County and the City of Santa Maria. These projects will require HOME funds from both the Santa Maria pro rata allocation and the County HOME allocation.

HUD permits the use of HOME funds to be used in jurisdictions which are not members of the HOME Consortium under certain circumstances, such as jointly funded projects within the boundaries of contiguous local jurisdictions which serve residents from both jurisdictions. The Board would consider whether unincorporated County residents would benefit from the proposed use of HOME consortium funds in the City of Santa Maria. New HOME construction in a non-participating jurisdiction would also require the County to monitor for affordability for an additional 20 years, without the additional 10% annual administrative allowance provided under the HOME Program from the non-participating jurisdiction. However, the County does charge each rental project \$2,500 per year for housing and loan monitoring.

Other Monitoring Requirements

The CDBG program requires that capital projects improved with CDBG funds meet a CDBG national objective for five (5) years after closeout of the grant from which the assistance to the property was provided. The County will remain liable to HUD for the 5 year use period, or at least until FY 2020-21, for all Lompoc projects undertaken during FY 2015- 16, which is the 3rd and final year of the FY 2013-

15 Urban County and HOME Consortium cycle. Monitoring requirements of affordable housing improved with HOME funds will also continue past the expiration of the current 3-year HOME Consortium cycle.

Impact on the Emergency Solutions Grant (ESG) Program

In January 2014, HUD alerted the County of Santa Barbara that it will not receive an Emergency Solutions Grant (ESG) allocation in FY 15-16. Federal ESG funds are used to provide services to Homeless households and those at risk of homelessness. This decision from HUD was unrelated to the withdrawal of the City of Lompoc from the CDBG Urban County or HOME Consortium. HUD explained the omission of an ESG allocation to the County in FY 2015-16 is due to HUD's use of revised data in their formula allocation of CDBG and ESG funds. However, these formula inputs also consider the overall population of the entitlement jurisdiction, and the reduction in the Urban County's population with Lompoc's withdrawal could impact the annual allocation of federal ESG funds in FY 2016-18.

Key Contract Risks:

Execution of the CDBG Urban County Cooperation Agreement and the HOME Consortium Cooperation Agreement is required to receive entitlement funds from HUD. Separate subrecipient agreements will be executed between the County and the participating jurisdictions or individual project sponsors prior to the reimbursement of any invoices for expenditures.

HUD holds the County accountable for assuring that federal funds expended are for eligible costs and could require repayment by the County, with non-federal funds, for ineligible expenses. Real property improved, in whole or in part with CDBG funds, must continue to meet a CDBG National Objective for a period of at least five years. Failure to meet the five-year period may result in County repayment of the full amount of CDBG funds invested, plus a percentage of the market value attributable to the investment of CDBG funds. HOME program rules also impose a long-term affordability period for multi-family and other types of housing projects and failure to meet the long-term affordability requirements may result in HUD requiring repayment by the County of the full amount of HOME funds invested. CSD monitors the financial condition and the use of real property for the duration of the required periods.

Staffing Impacts: Implementation of the CDBG Urban County Program and the HOME Consortium Program requires a base staffing level in order to implement program requirements and provide the required level of monitoring and administrative capacity. The BOS has provided on-going general fund support, in addition to the administrative allowances permitted under the CDBG , HOME, and ESG programs, to provide this staff capacity. The Board's approval of a HOME compliance position in 2013 and an accountant position in 2014 has strengthened accountability, and ensure the County's investment in public services, capital development and affordable housing is maintained.

Special Instructions:

County Executive Officer to execute 9 original CDBG Urban County Cooperation Agreements and 6 HOME Consortium Agreements. Board Chairperson to execute three original Resolutions at the earliest opportunity. Keep one certified copy of each Agreement in Clerk's office and return remaining originals to HCD for distribution.

Attachments:

- A. **Resolution**
- B. **Urban County Cooperation Agreements**
- C. **Cooperation Agreement for the Santa Barbara County HOME Consortium**
- D. **CEQA Notice of Exemption**