Report to City Council

TO: Mayor and City Council

FROM: Marshall Eyerman, Chief Financial Officer

AGENDA DATE: March 17, 2020

TITLE: PUBLIC HEARING TO ADOPT SUBSTANTIAL AMENDMENT #3 TO THE FY 2019-2020 ANNUAL ACTION PLAN, AMENDMENT #3 TO THE NEIGHBORHOOD STABILIZATION PROGRAM 1 (NSP1)

RECOMMENDED ACTION

Recommendations: That the City Council:

1. Conduct a Public Hearing to allow public comment on the proposed Substantial Amendment #3 to the FY 2019-2020 Annual Action Plan and Amendment #3 to the NSP1 Program Guidelines.

2. Review and adopt the proposed Substantial Amendment #3 to the FY 2019-2020 Annual Action Plan and Amendment #3 to the NSP1 Program Guidelines.

3. Authorize the Chief Financial Officer to reallocate NSP1 funds between HUD-approved grant activities.

SUMMARY

On July 20, 2008, the federal government approved legislation that provides Community Development Block Grant (CDBG) funding to local governments to address the foreclosure crisis experienced across the nation. Under the Federal Housing and Economic Recovery Act (HERA) of 2008, $3.92 billion was being made available to states, counties, and cities in order to stabilize neighborhoods with a high percent of foreclosures, homes in default, and homes financed by sub-prime or adjustable rate loans. HERA provided the City of Moreno Valley with a CDBG allocation of $11,390,116 to establish a Neighborhood Stabilization Program (NSP). The program required adherence to specific rules and regulations provided in the HERA statute and stated in a Federal Notice issued by the U.S. Department of Housing and Urban Development.
(HUD) on September 29, 2008. To officially secure the allocation, in November 2008 the City completed the NSP application, along with conducting a Public Hearing, and adopting the Substantial Amendment to the FY 2008-2009 Action Plan creating the NSP1 Program. HUD required the City’s Neighborhood Stabilization Program to meet certain criteria:

(1) It must be an 18-month program aimed at assisting low- to moderate-income households (those earning up to 120% of the area’s median income).

(2) It must target the areas of the City most affected by foreclosures, vacant, and abandoned homes.

(3) 25% percentage of the grant must be used to address the needs of households earning no more than 50% of the area’s median income (AMI).

(4) Program administration costs may not exceed 10% of the NSP allocation.

(5) NSP funds may only be used for a specific set of activities outlined in the table below:

<table>
<thead>
<tr>
<th>The Housing, Economic, and Recovery Act of 2008 - Eligible Uses\Activities</th>
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<tbody>
<tr>
<td>(a) Establishment of financing mechanisms for the purchase and redevelopment of foreclosed homes and residential properties, including down payment assistance programs such as soft-seconds, loan loss reserves, and shared-equity loans for low-and-moderate income homebuyers.</td>
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<tr>
<td>(b) Purchase and rehabilitation of homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop, such homes and properties.</td>
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<td>(c) Establishment of land banks for homes that have been foreclosed upon.</td>
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<td>(d) Demolishment of blighted structures.</td>
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<td>(e) Redevelopment of demolished or vacant properties.</td>
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At the time of the previous Substantial Amendment #2 to the NSP1 Program Guidelines, there were redevelopment projects in place to facilitate to City’s desire to provide affordable housing opportunities to residents, while concurrently accomplishing 100% drawdown of all available NSP1 monies. Due to unforeseen circumstances, extenuating beyond the control of City staff, the anticipated projects never came to fruition.

Following these occurrences, City staff continued to put forth much effort to identify projects that would allow for the ability to see through and complete all NSP1 activity objectives, while drawing down remaining funds needed to close out the grant.

**DISCUSSION**

Since the inception of its implementation the NSP1 program has experienced various challenges, which included the real estate market experiencing significant changes in inventory, along with much fewer foreclosed or bank-owned homes. As a result, the
opportunities for completion of additional NSP1 eligible activities diminished greatly, thus making continued efforts to draw down NSP1 monies very challenging. Comparatively speaking, the opportunities were not comparable to those at the commencement of the NSP program. Nevertheless, the City retained the responsibility to continue the stabilization efforts as set forth by the NSP Program by expending generated Program Income (revenue generated from the resale of NSP properties); through the resale of NSP1 funded units.

Presently, the City has approximately $3.5M available in NSP1 program funds. This amount does not account for any available or incoming Program Income, as those funds will be converted to CDBG eligible monies, following the closeout of NSP1. Prior to using funds for an activity not previously covered in the City’s 5-year Consolidated Plan, or previously described in an Annual Action Plan, the City must perform the substantial amendment process. As such, the proposed substantial amendment is being performed in accordance with federal regulation 24CFR §91.505, Amendments to the Consolidated Plan. With Substantial Amendment #3 to NSP1, City staff proposes to commit the remaining available $3,500,000 in NSP1 Program Funds towards the implementation of a Redevelopment activity known as Activity 7 - Redevelopment (Courtyards at Cottonwood Family Apartments). The scope of the project is proposed as follows:

Redevelop vacant land to construct a gated, affordable residential development on an 8.10-acre site (6.78 net acres) located at the northeast corner of Cottonwood Avenue and Indian Street (APN: 482-161-021) in the City of Moreno Valley, CA. The proposed development consists of eighty (80) plus 1 manager’s affordable units within two (2) two-story, 30-unit family buildings with a total of eight (8) 1-bedroom, twenty-four (24) 2-bedroom and twenty-eight (28) 3-bedroom units. The proposed development also includes a one-story, 20-unit senior building with sixteen (16) 1-bedroom and four (4) 2-bedroom units. The proposed project will also include a 4,840 square-foot Community Building with management, leasing, services and maintenance offices, a maintenance garage, computer lab, laundry room and a full kitchen. Site amenities are also proposed to include a community pool, a tot lot, basketball court and a senior vita course. A manager’s unit will be located on the second floor of the community building. The proposed development will be an affordable housing project that will be rented to extremely low-income households (up to 30% of median income), and low-income households (up to 60% of median income). All income-restricted units will be at rents that do not exceed affordable rents as defined in the California Health and Safety Code. A portion of the units will be reserved for senior citizen households.

This project will also propose to utilize $1,000,000 of the City’s HOME monies to leverage funding for this project, in accordance with Substantial Amendment No. 2 to FY 2020-2021 Annual Action Plan. Full implementation of the proposed project will assist in facilitating the City’s ability to meet impending expenditure deadlines and performance measures as established by HUD for NSP1.

**ALTERNATIVES**
**Alternative 1.** Conduct the Public Hearing, adopt Substantial Amendment #3, affecting NSP1, FY 2019/20 Annual Action Plan and Amendment #3 to the NSP1 Program Guidelines; and authorize the Chief Financial Officer to allocate grant funds between HUD-approved grant activities. *Staff recommends this action because it complies with HUD’s substantial amendment requirements, would allow for the City to better meet the commitment goals established for the NSP1 Program.*

**Alternative 2:** Decline to adopt Substantial Amendment #3, affecting NSP1 to the FY 2019/20 Annual Action Plan and Amendment #3 to the NSP1 Program Guidelines; and not authorize the Chief Financial Officer to allocate grant funds between HUD-approved grant activities. *Staff DOES NOT recommend this action because it does not comply with HUD’s substantial amendment requirements, would not allow for the City to meet its upcoming reporting and close out goals established for the NSP1 Program requirements.*

**FISCAL IMPACT**

The NSP1 funds are a HUD grant and do not require any matching funds; NSP1 funds are restricted and exclusively for the use of providing homeownership and rental housing opportunities for households earning up to 120% of the Area Median Income.

**THERE IS NO IMPACT ON THE GENERAL FUND.**

To effectively modify the activity budgets established during a previous budget cycle, a Budget Appropriation Adjustment must be processed by Finance within the Disaster Recovery Grant Reporting System (DRGR) which provides HUD with current information regarding Community Planning and Development activities. Consequently, staff recommends City Council approves the following adjustments, as summarized in the chart below and authorize the Chief Financial Officer to process the adjustments. It is anticipated that the NSP activities could generate Program Income, should this occur the Frank-Dodd Act requires monies to be reapplied to the NSP1 Program and treated as additional funding, subject to the same expenditure criteria and will be allocated accordingly.

<table>
<thead>
<tr>
<th>NSP Activity</th>
<th>Original HUD Grant Activity Allocation</th>
<th>Current HUD Grant Activity Allocations *(PF&amp;PI)</th>
<th>Grant Activities Expenditures/Encumbrances Grant Activities utilizing Program Funds</th>
<th>Grant Activities Expenditures/Encumbrances Grant Activities utilizing Program Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity 1, Single Family Residential Acquisition/Rehabilitation/Resale (SFR-ARR)</td>
<td>$2,847,529</td>
<td>$5,867,838.32</td>
<td>$4,079,159.09</td>
<td>$1,788,679.23</td>
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<tr>
<td>Activity 2, Multi-Family Residential Acquisition/Rehabilitation/Resale (MFR-ARR)</td>
<td>$3,701,788</td>
<td>$4,467,462.53</td>
<td>$3,442,626.40</td>
<td>$1,024,836.13</td>
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<td>Activity 3, Neighborhood Stabilization Home Ownership</td>
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<tr>
<td>Program (NSHP)</td>
<td>$3,701,788</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<td>-----------------------------------------------------</td>
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<tr>
<td>Activity 4, Demolition</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<td>Activity 5, Land Banking</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Activity 6, Redevelopment - (Habitat for Humanity)</td>
<td>$0</td>
<td>$703,805.88</td>
<td>$236,715.47</td>
<td>$467,090.41</td>
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<tr>
<td>Activity 7, Redevelopment Courtyards at Cottonwood Family Apartments</td>
<td>$0</td>
<td>$3,500,000.00</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Administration (Includes salaries and is capped at 10% of overall grant)</td>
<td>$1,139,011</td>
<td>$1,539,840</td>
<td>$208,346.38</td>
<td>$1,328,907.43</td>
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<tr>
<td>Totals</td>
<td>$11,390,116</td>
<td>$16,078,946.73</td>
<td>$7,966,847.34</td>
<td>$4,609,513.20</td>
</tr>
</tbody>
</table>

*(PF and PI): Program Funds and Program Income

NOTIFICATION

Notice of this meeting was published in the Press-Enterprise newspaper on February 13, 2020. The official 30-day public review period occurred from February 13, 2020 to March 17, 2020. Respondents were given the opportunity to provide comments via email, telephone, and in person. Staff would like to note that at the time of submission of this report there were no comments received from the public either in support or opposing the project.

PREPARATION OF STAFF REPORT

Prepared By: Dena Heald
Financial Operations Division Manager

Department Head Approval: Marshall Eyerman
Chief Financial Officer

CITY COUNCIL GOALS

**Positive Environment.** Create a positive environment for the development of Moreno Valley’s future.

**Community Image, Neighborhood Pride and Cleanliness.** Promote a sense of community pride and foster an excellent image about our City by developing and executing programs which will result in quality development, enhanced neighborhood preservation efforts, including home rehabilitation and neighborhood restoration.

CITY COUNCIL STRATEGIC PRIORITIES

1. Economic Development
2. Public Safety
3. Library
4. Infrastructure
5. Beautification, Community Engagement, and Quality of Life
6. Youth Programs

ATTACHMENTS

1. Press Enterprise Notice - Substantial Amendment #3

APPROVALS