



CITY OF KIRKLAND

Department of Planning and Community Development
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Dawn Nelson, Planning Supervisor, Planning and Community Development
Sharon Anderson, Human Services Coordinator, Parks and Community Services
Michael Cogle, Interim Deputy Director, Parks and Community Services
Jennifer Schroder, Director, Parks and Community Services

Date: April 26, 2011

Subject: COMMUNITY DEVELOPMENT BLOCK GRANT OPTIONS

RECOMMENDATION

Receive a report on the City's options for participating in the Community Development Block Grant (CDBG) program and provide direction to staff to bring back an appropriate resolution of intent for Council consideration at the May 17, 2011 meeting.

Staff's preliminary recommendation is that the City enter into an agreement with King County to become a CDBG Joint Agreement City based on the amount of local control gained over CDBG funds compared to the costs and risks.

BACKGROUND

The City currently receives its CDBG funds through the King County CDBG Consortium based on an Interlocal Cooperation Agreement with King County. With the annexation that will become effective June 1st, the City will surpass the population threshold of 50,000, presenting options for how we may choose to receive CDBG funding. The three options available are identified briefly below. A more detailed matrix of pros and cons related to each option is included in Attachment 1. Attachment 2 is a graphic that identifies the relative levels of local control and risk for the three options.

- 1. Remain part of the King County CDBG Consortium by renewing the existing interlocal agreement for 2012 – 2014.** In this option, the City does not receive any direct CDBG funds. Instead, it participates in the process of allocating several million dollars with the other cities in King County that have fewer than 50,000 people. King County staff administers this program, which is paid for through the planning and administration portion of the CDBG allocation. City staff participates in the Consortium staff group that makes funding recommendations to the Joint Regional Committee (JRC), the group that makes funding decisions.

2. **Participate in the Consortium as a Joint Agreement city by executing a new interlocal agreement for 2012 – 2014.** In this option the City and the County each receive some of the CDBG funds attributable to the City, with each having different responsibilities for program administration. The County would retain half of the planning and administration allocation to provide contract oversight and satisfy federal administrative requirements. The City would retain the other half of the planning and administration allocation, which can be used to pay for staff to provide the necessary program support. The City would also receive a portion of the public service and capital CDBG funds to allocate to eligible projects that are selected by the City. Shoreline and Renton are currently Joint Agreement cities. Redmond is in the process of considering the Joint Agreement option.

3. **Become a Direct Entitlement city and receive funds directly from the Department of Housing and Urban Development (HUD).** Although this would bring the entirety of the City's CDBG funds directly to the City, it also comes with the full burden of administering the entire program, as well as full responsibility for all federal compliance and reporting requirements. Seattle, Bellevue and Kent are currently Direct Entitlement cities. Federal Way recently announced that it would be changing its status from Joint Agreement to Direct Entitlement.

The decision process must follow the timeline outlined below to comply with HUD requirements:

May 17, 2011	City Council Decision: The County requires that we notify it of our intent to proceed by May 27, 2011. Staff will prepare a resolution of intent for the May 17 th meeting based on Council direction at the May 3 rd meeting.
July 2011	HUD Eligibility Criteria: HUD will officially notify the City of its eligibility to participate as a Joint Agreement or Direct Entitlement city by July 2011. HUD requires final action by King County by July 15, 2011.
September 2011	2012 CDBG Allocation Plan: Staff will follow up with the City Council in late summer to present options for allocating the capital and human services dollars for 2012. Decisions must be made by late September.

Use of CDBG Funds - General

The primary objective of the federal CDBG program is to support the development of viable urban communities by providing decent housing, a suitable living environment (community facilities and public infrastructure) and expanded economic opportunities, principally for persons of low and moderate income. The three areas where CDBG funds can be used are:

- Capital projects serving low and moderate income residents;
- Public service programs serving low and moderate income residents (capped at 15% of the CDBG allocation); and
- Planning and administration in support of these activities (capped at 20% of the CDBG allocation).

Consortium Allocation of CDBG Funds

One of the primary benefits of being part of the CDBG Consortium is that a wide variety of projects and programs can be funded because the CDBG funds are pooled and process efficiencies are gained. This is similar to the philosophy behind ARCH – more can be done collectively than individually.

The North/East subregion of the King County CDBG Consortium has funded the following capital projects in the last six years: rehabilitation of community facilities including Elder and Adult Day Services in Bellevue; Northshore Senior Center in Bothell; Carnation sidesewer rehabilitation project and senior center improvements; Duvall water main projects; a community well in Baring, a Skykomish Wastewater project; a Snoqualmie street light project; and various affordable housing projects in East King County through ARCH. ARCH cities represent 48.5% of the low to moderate income population in this subregion and about 42.5% of the CDBG capital funding over the last six years was spent in ARCH jurisdictions.

Public service programs funded through the Consortium have been split equally between Emergency Assistance and Emergency Shelter uses. Eastside providers that have received funding include Hopelink (Kirkland, Sno Valley, Redmond, Northshore, Avondale Park Family Shelter, Kenmore Family Shelter), Eastside Domestic Violence Prevention, Eastside Interfaith Social Concerns, Friends of Youth, and Volunteers of America.

Two additional areas where the Consortium has chosen to allocate funds are in Housing Stability and Housing Repair. Residents with low and moderate incomes have equal access to these programs, as they are operated on a first-come, first-served policy. The Housing Stability program is part of the public services funding and is a move-in and eviction prevention program that provides assistance to renters and homeowners in danger of losing their housing. Fifty-five households in the North/East subregion were helped through this program in 2010, including nine in Kirkland.

Twenty five percent of the CDBG allocation in King County is directed toward the Housing Repair program, which allows deferred home loans up to \$25,000 for health, safety and building preservation repairs. In the last three years, 125 housing units were repaired through this program in the North/East subregion. This included nine units in Kirkland.

City Control of CDBG Funding

As a Joint Agreement city, Kirkland would continue to participate in the CDBG Consortium, but would also gain some flexibility in determining how a portion of its CDBG funds are spent. Under the Joint Agreement interlocal, the City would be required to continue making contributions to the Housing Stability and Housing Repair programs, making Kirkland residents eligible to access these funds.

Under the Direct Entitlement option, the City would not participate in the Consortium and would determine independently how all of its CDBG funds could be spent. The Council Finance Committee considered this option at its March and April meetings and recommended that the City not pursue it because of the significant staff costs and other risks outlined in Attachment 1.

This chart shows the anticipated CDBG funds attributable to or allocated to the City in 2012 under the three options. The amounts highlighted in green indicate funds for which the City would make spending decisions. Those decisions would need to be consistent with HUD requirements.

	Existing Status	Proposed Status	Status Not Recommended
	CDBG Consortium Member	Joint Agreement City	Direct Entitlement City
Housing Repair (Kirkland portion of Consortium total)	\$107,000	\$107,000	N/A ⁽³⁾
Housing Stability (Kirkland portion of Consortium total)	\$21,000	\$21,000	N/A ⁽³⁾
Public Services (Kirkland portion of Consortium total)	\$43,000	N/A	N/A
Public Services - Kirkland	N/A	\$43,000 ⁽¹⁾	\$64,000 ⁽¹⁾
Capital Projects - Kirkland	\$34,000 ⁽²⁾	\$158,000 ⁽¹⁾	\$279,000 ⁽¹⁾
Planning and Admin. - Kirkland	N/A	\$43,000 ⁽¹⁾	\$86,000 ⁽¹⁾
Planning and Admin. - County	\$86,000	\$43,000	N/A

⁽¹⁾ These CDBG funds would be under City control. The total amount is \$244,000 under the Joint Agreement option and \$429,000 under the Direct Entitlement option.

⁽²⁾ Kirkland's anticipated credit for the Consortium allocation to ARCH Housing Trust Fund

⁽³⁾ Kirkland would **not** be required to fund this type of program, but could choose to do so by using some Capital (for Home Repair) and Public Service (for Housing Stability) funds.

Use of Capital Funds as a Joint Agreement City

Capital projects must meet narrow HUD guidelines (i.e. benefit low/moderate income individuals) and be an eligible CDBG activity such as public infrastructure within a city (e.g. sidewalk repair, sewer and water systems), community facilities, parks, affordable housing projects, and minor home repair programs. Three specific ways the City could decide to use capital funds are identified below. They are not mutually exclusive. However, as a Joint Agreement city, Kirkland would be limited to two capital projects per year that are not being funded with CDBG funds from other sources.

1. Invest in City sponsored capital projects that benefit a geographic area, like infrastructure or parks. Funds used for this type of project must be located in areas where at least 51% of the residents qualify as low or moderate income. The most recent data available from HUD indicates only three Census Block Groups (the smallest geography for which income data is available) in Kirkland and the annexation area together that meet this definition. They are shown on the map in Attachment 3. It is possible to use a survey method to determine areas of eligibility related to a specific project, but those surveys must be done to HUD specifications and paid for by the City.

2. Fund community facilities that serve a regional clientele, including Kirkland residents. As examples, four such applications are expected to be submitted to the CDBG Consortium for this year's funding cycle. They include:
 - Sophia's Place – a Homeless Women's Center in Bellevue
 - EADS – an Elder and Adult Day Services Center in Bellevue
 - Emergency Feeding Program – serving Seattle and King County
 - PROVAIL – a service center in Shoreline for those with traumatic brain injuries

Both Sophia's Place and EADS provide services that the City currently supports through its Human Services grant funding.

3. Allocate capital funds to ARCH to be used for affordable housing projects. In this scenario, Kirkland's CDBG funds could be used to take care of part of its annual parity contribution to the ARCH Housing Trust Fund. With annexation, the City's parity range will be \$280,000 to \$350,000. The City's annual contribution to the Housing Trust Fund has averaged \$240,000 for the last ten years, including CDBG funds that the City has directly allocated (prior to 2006) and been given credit for as part of the Consortium (since 2006). During that time, our parity range has been \$159,000 to \$269,000.

ARCH would determine which projects that have submitted Housing Trust Fund applications are eligible to receive CDBG funds. However, there are a number of limitations attached to the use of these funds that make them less flexible than general fund contributions. For example, the funds can be used to acquire property for affordable housing, but not to reimburse an agency that has already purchased land. They also cannot be used for the construction of new permanent housing. They can, on the other hand, be used for acquisition and rehabilitation of existing housing units.

Use of Public Services Funds as a Joint Agreement City

Public Services programs must serve Kirkland residents who are seniors, disabled, have special needs, or qualify as low- and moderate-income. Programs must also address the goals and strategies of the King County Consortium's Consolidated Plan and be eligible under CDBG regulations. Qualifying nonprofit organizations and public agencies serving residents can apply for funding.

As examples, Shoreline directs all of its Public Services funds to its Senior Center, while Federal Way distributes its funding among five different programs, ranging from dental care to food banks. The County Consortium has directed Public Services funds over recent years towards services related to emergency assistance and emergency shelters.

For many years prior to 2006 Kirkland directly distributed Public Services CDBG grants to community agencies (beginning in 2006 the Consortium consolidated the process for fund distribution so that Consortium member cities no longer directly allocated "pass-through" funds.) These Public Services grants were distributed and administered as part of the City's Human Services grant program.

Staffing Implications for Joint Agreement Option

As a member of the King County's CDBG Consortium, staff spends a nominal amount of time supporting CDBG activities, ranging from 40 to 60 hours per year. These responsibilities are primarily assumed by Sharon Anderson in her position as our Human Services Coordinator. Based upon the experiences of our colleagues at the cities of Renton, Shoreline, and Federal Way (each are currently Joint Agreement cities) we estimate that the staffing needs for Kirkland to become a Joint Agreement city would increase to about 700 to 1,000 hours per year, or from 0.33 to 0.50 FTE. This variability is due to both the potential number and potential types of CDBG projects and services which might be funded, and the resulting tasks necessary to implement and monitor them.

Current estimates (see chart on page 4) are that the City would receive \$43,000 for the purposes of administering CDBG activities associated with our funding allocation. This would provide for approximately 750 hours (0.36 FTE) of staff time, within the range (albeit the low end) of our staffing estimate. The amount of staff time required can potentially be managed by targeting CDBG funds to only a few select projects and services, and by integrating CDBG grant application processes with our City's existing human services granting program (with oversight by our Human Services Advisory Committee).

Should the Council decide to become a Joint Agreement city in 2012, Kirkland would need to make funding allocations this fall – before any CDBG funding would be made available to support planning and administrative tasks. This would create a one-time, short term need to provide staffing support in order to ramp up and implement an application process, the peak of which would occur from mid-July through September of this year. We have estimated the need for up to 150 hours of administrative staff support during this interim period, with an estimated cost of about \$3,000. Staff will be prepared to prepare a funding request and associated fiscal note should the Council decide on the Joint Agreement option.

Note that the change to a Joint Agreement structure will result in some level of increased Finance oversight to ensure City compliance with County (and Federal) requirements. While the impact of the CDBG change is difficult to judge and may be relatively small if the scope of the projects selected is limited, it highlights an emerging issue of the need for increased grant monitoring as the City pursues and secures more Federal funding. As this needs grows, it may necessitate the need for additional Finance resources to ensure compliance and support the audit process, which would be brought forward separately as needs become better defined.

The Future of CDBG

It should also be noted that the fate of CDBG funding is perennially threatened in the federal budget process. The recently approved federal spending bill for 2011 included a 15% reduction in funding from 2010 levels. The amounts represented in this memo assume that CDBG funding for 2012 will remain at the level approved for 2011. If CDBG allocations are smaller in the future, the City's and County's responsibilities to administer the program and comply with Federal requirements will not be diminished unless the CDBG program is revamped. Staffing requirements will likely remain the same under the joint agreement and direct entitlement options, while the Federal funds to support them would be reduced.

ATTACHMENTS

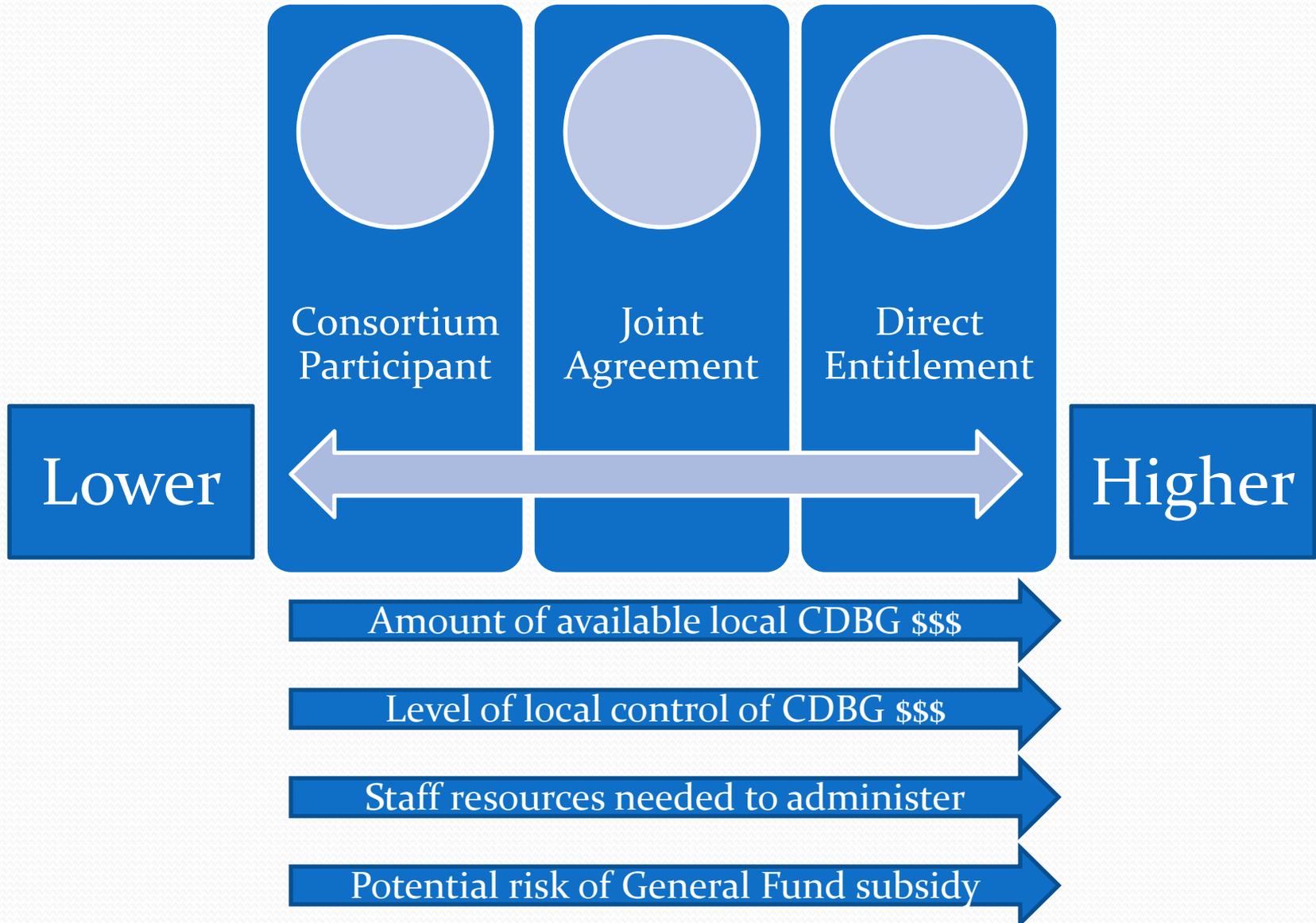
1. CDBG Participation Comparison Chart
2. CDBG Participation Factors Graphic
3. Kirkland and Annexation Area Block Groups Eligible for Area Benefit Capital Projects

**Kirkland's Options for Participating in the
Community Development Block Grant (CDBG) Program**

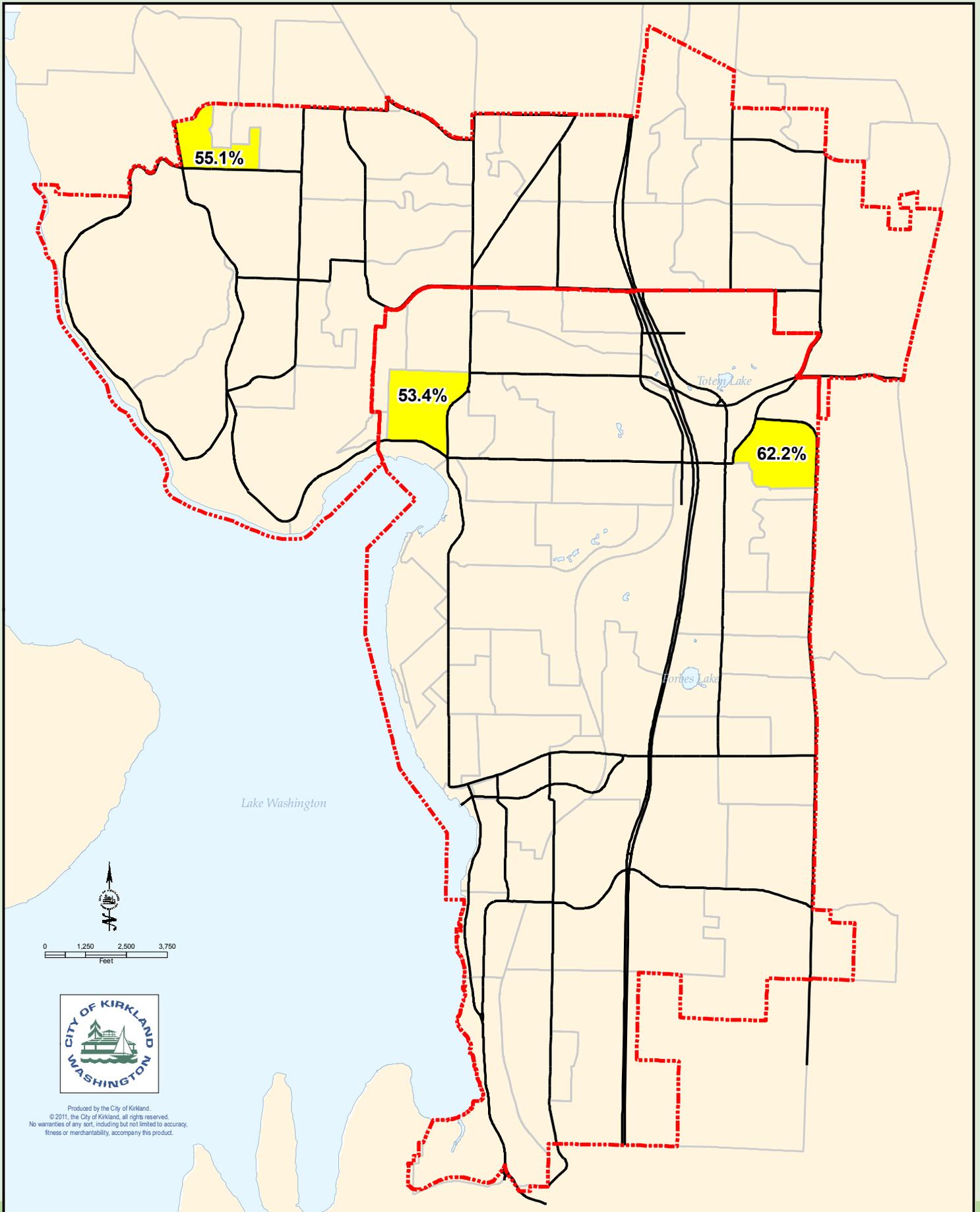
Option	Pros	Cons
CDBG Consortium	<ul style="list-style-type: none"> ▪ Pooling of funds can allow larger projects to be completed ▪ King County administers all aspects of the program ▪ King County bears all legal and financial responsibility ▪ Kirkland gets some credit toward its ARCH Housing Trust Fund contribution ▪ Kirkland residents who have low or moderate incomes have access to the Housing Repair and Housing Stability programs administered by King County ▪ Does not require any additional staff 	<ul style="list-style-type: none"> ▪ No local control of funding decisions
Joint Agreement	<ul style="list-style-type: none"> ▪ City has local control over some CDBG funds ▪ City selects eligible projects and programs to fund, within parameters of agreement with County (up to four public service agencies and two capital projects) ▪ King County administers capital projects ▪ King County is responsible for all federal reporting and audit findings ▪ Kirkland residents who have low or moderate incomes have access to the Housing Repair and Housing Stability programs administered by King County 	<ul style="list-style-type: none"> ▪ Would require an estimated additional 0.33 to 0.50 FTE (from \$39,000 to \$58,500) to administer overall program and public service contracts, with limited funding available from the program to support those FTE ▪ City is required to make funding allocations in the fall of the year prior to funds being received, which means that the City must run a selection process this year prior to any administrative funds being available to support the process ▪ City processes quarterly payments to agencies, submits vouchers to King

		<p>County, submit quarterly and annual reports to County, tracks program expenditures and income, and complies with OMB audit requirements</p> <ul style="list-style-type: none"> ▪ City is responsible for State audit findings
<p>Direct Entitlement</p>	<ul style="list-style-type: none"> ▪ City has local control over all CDBG funds 	<ul style="list-style-type: none"> ▪ Would require an additional estimated 1.00 to 1.50 FTE (from \$117,000 to \$176,000) to administer, with limited funding available from the program to support those FTE ▪ City is required to complete a Consolidated Plan by November 2011 and then every 5 years, with an estimated cost of \$50,000 ▪ The City is responsible for ensuring compliance with all Federal requirements, including prevailing wage monitoring, affirmative action, construction monitoring, relocation assistance and environmental review (NEPA, Endangered Species, Historic Preservation, Clean Air Act) ▪ City administers all aspects of program and must report quarterly and annually to HUD ▪ City is responsible all Federal and State audit findings

CDBG Participation Factors



Kirkland and Annexation Area: Census Block Groups with 51% or More Low/Moderate Income People



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