



## CITY OF KIRKLAND

Department of Parks & Community Services  
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### MEMORANDUM

**To:** Kurt Triplett, City Manager

**From:** Jennifer Schroder, Director  
Michael Cogle, Deputy Director

**Date:** April 30, 2014

**Subject:** COMMUNITY DEVELOPMENT BLOCK GRANT OPTIONS

### RECOMMENDATION

That City Council receives a report on the City's options for participating in the Community Development Block Grant (CDBG) program and provides direction to staff to bring back an appropriate resolution of intent for Council consideration at the May 20, 2014 City Council meeting.

Staff's preliminary recommendation is that the City enters into an agreement with King County to become a CDBG "Joint Agreement" city.

### BACKGROUND

The primary objective of the federal Community Development Block Grant program is to support the development of viable urban communities by providing decent housing, a suitable living environment via 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;
- **Human services programs** serving low and moderate income residents; and
- **Planning and administration** in support of these activities.

Federal regulations restrict the amount of CDBG funds that may be used for human services programs to no more than 15% of the total allocation. Consequently, the majority of CDBG funds are used for capital projects.

The City currently receives its CDBG funds through an Interlocal Cooperation Agreement (ICA) with King County as part of a CDBG Consortium of 34 cities and towns. The current ICA is a 3-year agreement that will expire at the end of this year. A Joint Recommendations Committee (JRC), comprised of officials representing the participating cities, the Sound Cities Association, and King County, advises the County on CDBG funding and program guidelines decisions.

### **Kirkland's New Options for CDBG Participation**

For cities designated as "metropolitan cities" (generally cities with a population of 50,000 or more) the United States Department of Housing and Urban Development (HUD) provides options for how they may choose to receive CDBG funding. Due to annexation in 2011, staff recommended that Kirkland should move to a Joint Agreement City for the 2012-2014 CDBG funding cycle. The Council concurred. However, following Council approval of the policy change, Kirkland was subsequently notified by HUD that Kirkland's annexation population was added after HUD's 2011 deadline and therefore Kirkland did not yet qualify as a metropolitan city. Therefore Kirkland was only able to be a Consortium member. In 2014, Kirkland has received official notice from HUD of our designation as a metropolitan city (**Attachment 1**), and so we have an opportunity to change our status for the 2015-2017 funding cycle.

Options that are available to the City are identified briefly below. A more detailed matrix of pros and cons related to each option is included in **Attachment 2**. **Attachment 3** 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 2015 – 2017. In continuing with this option the City would not receive any direct CDBG funds. Instead, it would continue to participate in the process of allocating funds with the other cities in King County that have fewer than 50,000 people. King County staff administers this program, with administrative costs paid from a portion of the overall CDBG allocation. The City would continue to participate in the Consortium staff group that makes funding recommendations to the Joint Regional Committee (JRC).
2. **Participate in the Consortium as a Joint Agreement city** by executing a new interlocal agreement for 2015 – 2017. With this option King County CDBG Consortium "passes through" a portion of the CDBG funds to larger member cities known as Joint Agreement cities. These cities allocate their portion of the funds to meet locally identified needs through their own allocation process. Efforts are made to coordinate multi-jurisdictional projects with the Joint Agreement cities. Redmond, Shoreline and Renton are currently Joint Agreement cities within the County Consortium.

With 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 available planning/administration funds 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 City staff to provide the necessary program support. The City would also receive a portion of the human services and capital CDBG funds to allocate towards eligible projects that are selected by the City.

3. **Become a Direct Entitlement city and receive funds directly from HUD.** This option 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, Federal Way, and Kent are currently Direct Entitlement cities.

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

<b>May 20, 2014</b>	<b>City Council Decision:</b> HUD requires that we notify it of our intent to proceed by May 30, 2014. Staff will prepare a resolution of intent for the May 20 <sup>th</sup> meeting based on Council direction at the May 6 <sup>th</sup> meeting.
<b>September 2014</b>	<b>2015 CDBG Allocation Plan:</b> Staff will follow up with the City Council in August/September to present options for allocating the capital and human services dollars for 2015. Decisions must be made by late September.

### **King County 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.

Capital projects funded through the Consortium in the past several years include: rehabilitation of community facilities including Elder and Adult Day Services in Bellevue; Northshore Senior Center in Bothell; Carnation side-sewer 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.

Human services 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, and Kenmore Family Shelter), Eastside Domestic Violence Prevention (Lifewire), Eastside Interfaith Social Concerns Council, and Friends of Youth.

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 a move-in and eviction prevention program providing assistance to renters and homeowners in danger of losing their housing. In the last three years an average of approximately 42 households in the North/East sub-region were helped through this program, including 7 per year in Kirkland.
- Twenty 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 an average of approximately 50 housing units annually were repaired through this program in the North/East sub-region. This included nine units in Kirkland from 2011-2013.

**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 contributions to the Housing Stability and Housing Repair programs, making Kirkland residents eligible to access these programs.

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.

This chart shows the anticipated CDBG funds attributable to or allocated to the City in 2015 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
<b>Capital Projects - Kirkland</b>	<sup>(2)</sup> \$80,000	<sup>(1)</sup> \$80,000	<sup>(1)</sup> \$130,000
<b>Capital Projects – Housing Repair</b> (Kirkland portion of Consortium total)	\$50,000	\$50,000	<sup>(3)</sup> N/A
<b>Human Services - Kirkland</b>	<sup>(4)</sup> \$20,000	<sup>(1)</sup> \$20,000	<sup>(1)</sup> \$30,000
<b>Human Services – Housing Stability</b> (Kirkland portion of Consortium total)	\$10,000	\$10,000	<sup>(3)</sup> N/A
<b>Planning and Administration –</b> Apportioned to Kirkland	N/A	<sup>(1)</sup> \$20,000	<sup>(1)</sup> \$40,000
<b>Planning and Administration –</b> Apportioned to County	\$40,000	\$20,000	N/A

- <sup>(1)</sup> These CDBG funds would be under City control. The total amount anticipated is \$120,000 as a Joint Agreement City and \$200,000 as a Direct Entitlement City.
- <sup>(2)</sup> Includes Kirkland’s credited portion for the Consortium allocation to ARCH Housing Trust Fund.
- <sup>(3)</sup> Kirkland would not be required to fund this type of program, but could choose to do so by using some Capital funds (for Home Repair) and Human Services funds (for Housing Stability).
- <sup>(4)</sup> Kirkland’s credited portion for the Consortium allocation towards human services grants.

**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. Allocate to ARCH**

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. 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.

**2. Allocate to City Projects**

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 meet this definition. 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.

**3. Allocate to Community Projects**

Fund community facilities that serve a regional clientele, including Kirkland residents. As examples, recent applications submitted to the CDBG Consortium for funding 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

**Use of Human Services Funds as a Joint Agreement City**

Human 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 CDBG Human 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 Human Services funds over recent years towards services related to emergency assistance and emergency shelters.

For many years prior to 2006 Kirkland directly distributed Human 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 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 our Human Services Coordinator. Based upon the experiences of our colleagues at the cities of Renton, Redmond, 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 by 400 to 800 hours per year, or from 0.20 to 0.40 FTE. This high 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 \$20,000 for the purposes of administering CDBG activities associated with our funding allocation. This would provide for approximately 415 hours 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).

### **The Future of CDBG**

It should also be noted that the fate of CDBG funding is perennially threatened in the federal budget process. The amounts represented in this memo assume that CDBG funding for 2015 will remain at the level approved for 2014. 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. Letter from HUD
2. CDBG Participation Comparison Chart
3. CDBG Participation Factors Graphic



U.S. Department of Housing and Urban Development  
Office of the Regional Administrator

*Kurt*  
*Jax!*  
*Pam*  
*Jenny Schroeder*

Region X

March 5, 2014

**RECEIVED**

MAR 03 2014

CITY OF KIRKLAND  
CITY MANAGER'S OFFICE

The Honorable Amy Walen  
Mayor, City of Kirkland  
123 Fifth Avenue  
Kirkland, WA 98033

Dear Mayor Walen:

This provides formal notification of HUD's determination that Kirkland qualifies as a metropolitan city under the Community Development Block Grant (CDBG) program as defined in regulations at 24 CFR Part 570.3 and is eligible to become a CDBG entitlement grantee. Kirkland currently participates in the CDBG program as a member of the King County Urban County. Kirkland's participation in the King County Urban County continues through December 31, 2014. As a metropolitan city, Kirkland has the following options for future participation in the CDBG program:

1. Accept status as an entitlement grantee and receive a direct annual formula allocation of CDBG funds, starting in Federal fiscal year 2015.
2. Accept status as an entitlement grantee and enter into a joint agreement with King County. Under this option, HUD would calculate a separate entitlement grant amount for Kirkland and these funds would be awarded to King County for distribution to the city in accordance with the joint agreement.
3. Defer status as an entitlement grantee and continue as part of the King County urban county for another three-year qualification period, 2015-2017.
4. Defer status as an entitlement grantee and participate through the State CDBG program.

The city has previously indicated to our office that Kirkland would accept entitlement status and enter into a joint agreement with King County. From our recent conversations with King County staff, we understand that this remains the city's plan for future participation under the CDBG program. However, please review the other options for participation in the CDBG program and confirm the city's decision to accept entitlement status and enter into a joint agreement with King County, starting in Federal fiscal year 2015. Please notify us of any change to city's decision on participation in the CDBG program no later than May 30, 2014.

Please note that by accepting entitlement status under the CDBG program, the city must execute a separate agreement with King County to be a part of the King County HOME Consortium for 2015-2017.

HUD Headquarters has calculated an estimated 2015 CDBG entitlement grant amount for Kirkland to be used as a planning estimate. Kirkland's estimated 2015 entitlement grant amount is \$200,164. The city's actual 2015 entitlement grant amount is not known at this time, and will

be based on the fiscal year 2015 appropriations for the CDBG program and calculated using the data from the U.S. Census. The city's actual 2015 entitlement grant amount may be higher or lower than the planning estimate provided in this letter.

We look forward to working with Kirkland under the CDBG program. If you have any questions, please contact John W. Peters in our Seattle Office of Community Planning and Development at (206) 220-5268.

Sincerely,

A handwritten signature in black ink that reads "William H. Block". The signature is written in a cursive style with a large initial "W".

William H. Block  
Northwest Regional Administrator

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

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

		<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"> <li>▪ City is responsible for State audit findings</li> </ul>
<p>Direct Entitlement</p>	<ul style="list-style-type: none"> <li>▪ City has local control over all CDBG funds</li> </ul>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ City is required to complete a Consolidated Plan by November 2014 and then every 5 years, with an estimated cost of \$50,000</li> <li>▪ 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)</li> <li>▪ City administers all aspects of program and must report quarterly and annually to HUD</li> <li>▪ City is responsible all Federal and State audit findings</li> </ul>

# CDBG Participation Factors

