Report to City Council

TO: Mayor and City Council

FROM: Marshall Eyerman, Chief Financial Officer

AGENDA DATE: June 18, 2019

TITLE: PUBLIC HEARING TO ADOPT SUBSTANTIAL AMENDMENT #1 TO THE 2018-2023 CONSOLIDATED PLAN AND FISCAL YEAR 2018-2019 ACTION PLAN AND AMENDMENT #4 TO THE NSP3 PROGRAM GUIDELINES

RECOMMENDED ACTION

Recommendations: That the City Council:

1. Conduct a Public Hearing to allow public comment on the proposed Substantial Amendment #1 to the 2018-2023 Consolidated Plan and FY 2018-2019 Annual Action Plan and Amendment #4 to the NSP3 Program Guidelines.

2. Review and adopt the proposed Substantial Amendment #1 to the 2018-2023 Consolidated Plan and FY 2018-2019 Annual Action Plan and Amendment #4 to the NSP3 Program Guidelines.

3. Authorize the Chief Financial Officer to reallocate NSP3 funds between HUD-approved grant activities.

SUMMARY

On July 21, 2010, the Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) allocated NSP assistance in the amount of $3,687,789 representing the third round of NSP funding and is referred to as NSP3. The City’s NSP3 program was required to conform to specific rules and regulations provided in the Federal Notice issued by the U.S. Department of Housing and Urban Development (HUD) on October 19, 2010. To officially secure the NSP 3 grant allocation, the City adopted a Substantial Amendment #1 to the FY 2010-11 Annual Action Plan and submitted the amendment detailing the City’s proposed program to HUD; the amendment was approved by HUD in March 2011.
Since the inception of NSP3 in 2012, all activities associated with this program have been successfully completed. In accordance with federal guidelines, grantees are obligated to accurately report all pertinent grant information to the Department of Housing and Urban Development (HUD), through an official closeout process, subsequent to the full completion of NSP3 related activities. This process entails proper due diligence and reconciliation of all NSP3 related programmatic and financial data. The purpose of this process is to ensure adherence to HUD related guidelines for expenditures involving the utilization of federal funding, as well as effective fulfillment of established national objectives for each NSP activity. As part of the reconciliation process performed by City staff, a limited number of housekeeping items have been identified which require modifications prior to effectively implementing the closeout process.

**DISCUSSION**

In 2008, the federal government approved legislation that provided Community Development Block Grant (CDBG) funding to local governments to address the foreclosure crisis experienced across the nation. The program was known as the Neighborhood Stabilization Program (NSP). Moreno Valley received an allocation of $11,390,116 to stabilize neighborhoods with a high percentage of foreclosures, homes in default, and homes financed by sub-prime or high-risk mortgages.

On July 21, 2010, the Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) allocated additional NSP assistance. The additional allocation of $3,687,789 represented the third round of NSP funding and is referred to as NSP3. Almost identical to the NSP1 grant, the City’s NSP3 program was required to conform to specific rules and regulations provided in the Federal Notice issued by the U.S. Department of Housing and Urban Development (HUD) on October 19, 2010. To officially secure the NSP 3 grant allocation, the City adopted a Substantial Amendment #1 to the FY 2010-11 Annual Action Plan and submitted the amendment detailing the City’s proposed program to HUD; the amendment was approved by HUD in March 2011.

In June of 2012, the City commenced implementation of its NSP3 program. While program activities were well underway, unexpected significant shifts in the local real estate market caused impediments which limited City’s ability to effectively meet primary objectives of the NSP Program. Under NSP3, grant award recipients were afforded 2 years from the date their grant agreements were executed by HUD to expend 50% of the available grant funds. Additionally, they were given a 3-year period to expend an amount equal to the entire grant allocation. Facing inflexible expenditure deadlines, changes in strategy and program implementation processes were deemed necessary to address real estate inventory challenges. Those changes were essential to creating increased opportunities needed to effectively expend NSP funds within the established timelines. As a result, substantial amendments were carried out for the NSP3 Program Guidelines and Annual Action Plan in subsequent fiscal years.
Since the initial implementation of NSP3 activities, nineteen families have received assistance in the form of affordable rental housing over a fixed period, or were granted access to the purchase of redeveloped, discounted real properties that were offered in tandem with a fixed affordability period which was applied to their mortgage. Successful completion of the City’s NSP3 program afforded invaluable resources to households in need of support, while significantly improving their standard of living.

Since the inception of NSP3 in 2012, all activities associated with this program have been successfully completed. In accordance with federal guidelines, grantees are obligated to accurately report all pertinent grant information to the Department of Housing and Urban Development (HUD), through an official closeout process, subsequent to the full completion of NSP3 related activities. This process entails proper due diligence and reconciliation of all NSP3 related programmatic and financial data. The purpose of this process is to ensure adherence to HUD related guidelines for expenditures involving the utilization of federal funding, as well as effective fulfillment of established national objectives for each NSP activity. As part of the reconciliation process performed by City staff, a limited number of housekeeping items have been identified which require modifications prior to effectively implementing the closeout process:

Amendment to Beneficiaries of an Activity

In accordance NSP grant requirements set forth by HUD, the City must adhere to what is referred to as the LH25 requirement. This requirement obligates grantees to set aside 25% of their overall grant entitlement, in addition to 25% of any subsequent Program Income generated, to serve beneficiaries with an annual household income at or below 50% of the Area Median Income (AMI). Through Activity 6, Redevelopment, the City engaged Habitat for Humanity to construct single family residences (SFR’s) on demolished/vacant land to serve LH25 (50% of AMI) and Low, Moderate and Middle Income (LMMI) (120% of AMI) beneficiaries through the sale of discounted real properties in tandem with the assignment of a fixed affordability period. Although LMMI and LH25 were identified as the intended beneficiary groups, the City’s primary goal was to provide affordable housing opportunities to low-income households (50% of AMI). Following a successful partnership with Habitat for Humanity, the City was able to meet its primary goal, while also producing a sufficient amount of accomplishments to facilitate the City’s ability to exceed the expenditure threshold needed to satisfy the entire LH25 requirement for NSP3.

Prior to revising the national objective for this activity, it is required that the City substantially amend its NSP3 Program Guidelines and Annual Action Plan for FY 2018-2019 to properly reflect the actual beneficiaries served by Activity 6. This substantial amendment would overturn the LMMI designation for this activity to newly designate its national objective as LH25. This amendment is being performed in accordance with federal regulation 24CFR §91.505, Amendments to the Consolidated Plan. Once beneficiary information has been modified to reflect the activity as an entirely LH25, the City will have the ability to notify HUD representatives of its compliance with this requirement, which will be crucial to the NSP3 closeout process.
Amendments to Activity Budgets

As a result of the actual costs associated with carrying out accomplishments for Activity 1, staff is proposing to make the following adjustments to activity budget:

- Increase Activity 1 - Single-Family Residential Acquisition/Rehabilitation/Resale (SFR-ARR) to $1,677,841 from $1,544,010.

ALTERNATIVES

**Alternative 1**: Conduct the Public Hearing, adopt Substantial Amendment #1, affecting NSP3, to the 2018-2023 Consolidated Plan and FY 2018/19 Annual Action Plan and Amendment #4 to the NSP3 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 NSP3 Program.**

**Alternative 2**: Decline to adopt Substantial Amendment #1, affecting NSP3 to the 2018-2023 Consolidated Plan and FY 2018/19 Annual Action Plan and Amendment #4 to the NSP3 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 NSP Program requirements.**

FISCAL IMPACT

The NSP3 funds are a HUD grant and do not require any matching funds; NSP3 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 Integrated Disbursement & Information System (IDIS) 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 NSP3 Program and treated as additional funding, subject to the same expenditure criteria and will be allocated accordingly.

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<thead>
<tr>
<th>Original HUD Grant Activity</th>
<th>Current HUD</th>
<th>Grant Activities Expenditures/Encumbrances</th>
<th>Grant Activities Expenditures/Encumbrances</th>
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<td>NSP Activity</td>
<td>Allocation</td>
<td>Grant Activity Allocations</td>
<td>Grant Activities utilizing Program Funds</td>
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<td>Activity 1, Single Family Residential Acquisition/Rehabilitation/Resale (SFR-ARR)</td>
<td>$897,063</td>
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<td>Activity 2, Multi-Family Residential Acquisition/Rehabilitation/Resale (MFR-ARR)</td>
<td>$871,947</td>
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<td>Activity 3, Neighborhood Stabilization Home Ownership Program (NSHP)</td>
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<td>Activity 4, Demolition</td>
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<td>Activity 5, Land Banking</td>
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<td>Activity 6, Redevelopment - (Habitat for Humanity)</td>
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<td>Administration (Includes salaries and is capped at 10% of overall grant)</td>
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<td>Totals</td>
<td>$3,687,789</td>
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**NOTIFICATION**

Notice of this meeting was published in the Press-Enterprise newspaper on May 16, 2019. The official 30-day public review period occurred from May 16, 2019 to June 18, 2019. 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  
Department Head Approval: Marshall Eyerman  
Financial Operations Division Manager Chief Financial Officer

**CITY COUNCIL GOALS**

**Public Facilities and Capital Projects.** Ensure that needed public facilities, roadway improvements, and other infrastructure improvements are constructed and maintained.

**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 #1

APPROVALS