



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: A 14-227, **Version:** 1

- a. Conduct a Public Hearing on Monterey County's Community Development Block Grant (CDBG) Program Income Reuse Agreement; Authorize establishment of a Business Assistance Revolving Loan Fund (new title);
- b. Authorize the Economic Development Director to sign the Program Income Reuse Agreement;
- c. Authorize the Economic Development Director to implement the Agreement and use specified CDBG Program Income to establish a Business Assistance Revolving Loan Fund; and,
- d. Authorize the Economic Development Director to notify the State Department of Housing and Community Development that the County will transfer other CDBG Program Income to the Urban County CDBG Program.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Conduct a Public Hearing on Monterey County's Community Development Block Grant (CDBG) Program Income Reuse Agreement; Authorize establishment of a Business Assistance Revolving Loan Fund (new title);
- b. Authorize the Economic Development Director to sign the Program Income Reuse Agreement;
- c. Authorize the Economic Development Director to implement the Agreement and use specified CDBG Program Income to establish a Business Assistance Revolving Loan Fund; and
- d. Authorize the Economic Development Director to notify the State Department of Housing and Community Development that the County will transfer other State CDBG Program Income to the CDBG Urban County Program.

SUMMARY:

The County of Monterey has revised its CDBG Program Income Reuse Agreement (Agreement) with the California State Department of Housing and Community Development (HCD) to comply with new requirements issued by HCD. The Board of Supervisors is asked to review and authorize the Agreement in order to come into compliance with new State requirements. If authorized, and upon its execution, the County will use part of the funds formerly held in a State CDBG Program Income Revolving Loan Account (RLA) to establish, with HCD, a State CDBG Business Assistance Revolving Loan Fund (the Business Assistance RLF). State CDBG Program Income (PI) not associated with the Business Assistance RLF will be transferred to the County's Urban County CDBG Program for continued support of housing activities and projects.

DISCUSSION:

The Agreement establishes policies and procedures governing PI received by the County that has been directly generated from County use of State CDBG funds. PI consists of the repayment of principal, interest, and fees on loans originally funded with a CDBG grant or PI. Reuse of PI must comply with specific requirements and can only be used for CDBG eligible activities. CDBG regulations require the County to conduct a Public Hearing as part of the Board's consideration of the PI Reuse Agreement. Notice of this public hearing was published on September 11, 2014, in the Monterey County Weekly, consistent with these regulations.

The Agreement replaces the Program Income Reuse Plan that HCD previously required grantees to adopt if their activities generated PI. The most significant change is that as of July 1, 2014, HCD eliminated all previously approved revolving loan accounts (RLAs). HCD now considers all State CDBG funds held by the County to be PI regardless of past identification with a RLA. Moreover, these funds-now universally

designated as PI-must be expended before the County may apply for new State CDBG grants or request reimbursement for expenditures related to the 12-CDBG grant for Camphora Highlands and the cut flower consolidated distribution center study.

In compliance with new requirements, the Agreement specifies that the County may only use PI to capitalize revolving loan funds (RLFs) if the County can certify that the PI is received from the same activity as the proposed RLF. The County can also use PI to fund PI waiver activities (projects approved by HCD when the County has no active grant contracts pending); further, the County can commit PI to new grant applications, augment awarded activities/projects, or undertake general administration. Finally, the County may return PI to HCD. Because the County has been designated as an Urban County by the U.S. Department of Housing and Urban Development (HUD), it has the additional option of certifying to HCD that PI will be incorporated into the Urban County Program and reported to HUD.

In April 2013, the Board of Supervisors approved a Program Income Reuse Plan that allocated 67% of PI to housing rehabilitation and 33% of PI to business assistance. Because the County is now required to deposit PI into a RLF account funded from and used for the same activity that generated the PI, authorization and implementation of the Agreement contemplates the following instead:

The County currently has approximately \$381,000 of CDBG PI that was derived from small business assistance loans. These funds, and future PI derived from business assistance lending, will be set aside in a Business Assistance RLF, under HCD's supervision, for continued small business lending. These funds need to remain in a revolving loan fund because they were committed to match a federal grant that can only be used for small business lending.

The County has approximately \$190,000 of CDBG PI that was derived from loans made to finance various housing projects. If the County does not transfer these funds to the Urban County Program, or if the County does not establish a housing RLF, they must be spent in-lieu of grant funds awarded in 2012. A housing RLF is not recommended because PI generated by past lending in support of housing projects does not generate sufficient annual income to establish a housing RLF under HCD requirements. However, by transferring this PI to the Urban County program, the County may continue to use this PI to support housing activities and projects.

OTHER AGENCY INVOLVEMENT:

HCD drafted the Program Income Reuse Agreement and is requiring the County to adopt it. County Counsel has reviewed the Agreement as to form.

FINANCING:

There is no impact on the General Fund. The cost of managing the CDBG Business Assistance RLF is already budgeted in 8221 (Economic Development). All CDBG funds, regardless of source, are already budgeted in Fund 013, Community Development.

Prepared by:

Darby Marshall,
Housing Analyst, Ext 5391

Approved by:

David L. Spaur, CEcD, EDFP
Economic Development Director Ext. 5387

Attachment: CDBG Program Income Reuse Agreement

Attachment on file with Clerk of the Board Office