



# City Council Report

**Date:** September 8, 2016

**To:** City Council

**Through:** Natalie Lewis, Deputy City Manager  
Ruth Giese, Community Services Director

**From:** Elizabeth Morales, Housing and Community Development Director

**Subject:** Housing and Community Development Projects and Policies

## Strategic Initiatives



## Purpose and Recommendation

The purpose of this report is to present updates on Housing and Community and Development (H&CD) projects and receive direction on the items presented. H&CD requests direction from Council on the following:

1. FY 17/18 Funding Process Timelines – timelines for the awarding of FY 17/18 HUD program funding (Community Development Block Grant, HOME Program, and Emergency Solutions Grant) and Human Services funds, as well as the addition of a proposed timeline and process for projects applying for FY 17/18 Low Income Housing Tax Credits.
2. Mesa's Housing Master Plan Update: Proposed process/timeline to update the plan; the last update was in 2003/04.
3. Unspent Prior Year CDBG Funding Allocation: Direction on allocation of prior year Community Development Block Grant (CDBG) funding by either: (a)

conducting a special funding round for distribution of the funds; or (b) rolling over the funds to the FY17/18 funding competition

## **Background and Discussion**

### **FY 17/18 Federal Funding Process Timeline**

The City is a designated entitlement agency by the U.S. Department of Housing and Urban Development (HUD) that receives federal funds under the CDBG, HOME Investment (HOME), and Emergency Solutions Grants (ESG) programs. H&CD holds an annual process in which nonprofits and developers may apply for the federal funds to support activities eligible under these federal programs; the process culminates in the City Council determining the funding awards.

The Arizona Department of Housing (ADOH) also conducts an annual process to receive and review proposals for Low Income Housing Tax Credit (LIHTC) projects in Arizona. The LIHTC process is separate and distinct from the City's HUD program funding award process even though some nonprofits and developers may ultimately be awarded funds/credits by both the City and ADOH. The City does not participate in the LIHTC process other than to choose to provide letters of support for projects in Mesa applying for LIHTC credits.

A few years ago, H&CD separated the annual review process for HUD federal funds into two competitive processes: (1) proposals for projects applying for LIHTC credits and the City's federal HUD funding; and 2) all other proposals for CDBG, ESG, HOME and Human Service funding. This allowed the City to be more responsive to requests for the LIHTC projects that were following deadlines set by ADOH.

Today, staff is proposing to add an additional review process with more specific timelines/deadlines for the LIHTC proposals that are not seeking federal HUD funding from the City, but rather only a letter of support for the project.

As Council may recall, the City received requests from ADOH to provide letters of support from the City for all five projects in Mesa applying for FY 16/17 LIHTC funds. Two of the projects were well known to Council and the City was able to submit support letters, based on Council's previous direction. The other three proposals were not well known. In these cases, where little or no advanced City contact/review was needed, City staff was placed in the difficult position of having to conduct a rushed process in order to meet the ADOH deadline while also providing information to Council for formal review and action.

To avoid this situation from reoccurring, staff is recommending the City adopt and publish a new review process and timeline specific to the LIHTC projects seeking only a letter of support. This timeline will clearly set out deadlines for any developer proposing

a LIHTC project in Mesa, regardless of their advanced contact/needs from the City. The purpose of the timeline is to:

- provide clarity and efficiency to the development team,
- create transparency for the public at large,
- allow for cross-departmental staff coordination for these requests, and most importantly,

Most importantly, it ensures the City Council has ample time to review and take action on requests for letters of support for all LIHTC projects proposed in Mesa.

The proposed timeline, detailed for the upcoming year is as follows.

<b>FY 2017-2018 Funding Timeline</b>	<b>LIHTC-- No City HUD Funding Contribution</b>	<b>LIHTC-- With City HUD Funding Contribution</b>	<b>CDBG/ESG/Human Services/HOME</b>
Notice of Funding Availability	N/A	9/29/16	1/2/17
Notice of Intent to submit LIHTC project	9/29/16	N/A	N/A
Proposal Submission Deadline to City	11/17/16	11/17/16	2/6/17
Evaluation by Staff	12/22/16	12/22/16	2/10/17
Evaluation by H & CD Board	1/5/17	1/5/17	3/7/17
Recommendations by Comm. & Cultural Dev. Committee	1/19/17	1/19/17	3/30/17
Public Notices and Comment Period	N/A	3/24/17 to 5/15/17	3/24/17-5/15/17
Council Study Session	2/2/17	2/2/17	4/13/17
LIHTC Support Letters	2/9/17	2/9/17	N/A
Final Council Hearing for Approval	N/A	5/1/17	5/1/17

It is important to note that the City review process and timeline in no way affects the decision or award of tax credits by ADOH, nor does it set any additional criteria in order to receive City support for a LIHTC project. The City's process will serve to provide notice to the City of the proposed LIHTC projects in Mesa and allow the City Council adequate time to make a determination as to whether to submit a letter of support for the project.

### **Housing Master Plan Update**

Council requested that H&CD staff design a process to update the City's Housing Master Plan ("Plan"), an update that would replace the existing, outdated version of the Plan so that the Plan could become a key, cross-reference document in the Housing Chapter of the City's General Plan 2040. The purpose of a Housing Master Plan is to provide a broad and comprehensive set of data related to all housing inventory types and varieties in Mesa as well as policies to help City Council make informed and consistent decisions for housing proposals throughout the City, on fact-based, demonstrated need. The Housing Master Plan will supplement the Consolidated Plan which identifies housing and community development priorities for the purpose of focusing funding for CDBG, ESG and HOME on the priorities.

To ensure a comprehensive and transparent Plan update process, staff recommends that this project be completed in two phases:

PHASE 1: DATA GATHERING AND RESEARCH (approximately September 2016 - December 2016). The City would retain a consultant (through a Request for Proposals process) to research the current housing inventory and collect supporting information on the impact of housing development that has occurred in the last 10 years in Mesa. The consultant would also be tasked with providing projections on housing trends for the next 10 years, based on local, state and national development trends, census data, surveys and housing market data software to identify appropriate variables and data points to include in the Plan, such as the analysis of existing housing stock, rental and ownership costs, and income levels. Once this information is gathered, the results will be presented to City Council and the community at large.

PHASE 2: COMMUNITY ENGAGEMENT AND RECOMMENDATIONS (approximately January 2017 - April 2017). The second phase will be to develop recommendations for housing policy to be carried out for the next 10 years. This process will be inclusive of Mesa residents, professionals in the field of planning and development and other applicable disciplines. Once the recommendations have been drafted, they will be presented to City Council for direction. Following the direction of City Council, City staff will then use the information collected to work on updating the language of the Plan that would be presented to City Council at a later date.

### **Unspent Prior Year CDBG Funding Allocation**

Every year, H&CD has unspent funding from the prior year HUD federal funding

contracts or funds collected from program-related income. This year, the amount of unspent CDBG funding from GFY 15/16 is significant enough (\$751,519) to cause management to recommend we City staff bring this to Council to receive feedback on how the funds will be reinvested. The amount of unspent prior year funding can vary from year to year, this year it included \$532,350 in program income.

Staff's recommendation is to offer a special round of project funding limited to the CDBG eligible activity category of Public Facilities and Improvements which allows for funding to be spent on projects such as parks, public buildings and infrastructure improvements. The most popular CDBG category is for Public Service, but that category has a 15% cap which has already been reached. . Staff recommends we limit the funds committed to no more than sixty percent of the amount available (\$450,911) in order to have funding that may be used for emergency or unexpected needs, yet still in alignment with the City's Annual Plan.

Priority for the special round of funding is recommended in the following order:

1. Applications submitted for the FY16/17 application process that were not funded.
2. Activities proposed by nonprofit organizations or other City Departments that are engaged in activities that meet CDBG eligibility requirements.

A second option would be to roll all or a portion of the funding into the FY17/18 funding competition. If Council is interested in this option, staff would need to carefully monitor the funding ratio to ensure we continue to meet HUD funding commitments as HUD requires that entitlement communities, like the City, keep their ratio of unexpended funds below 1.5 by April 30<sup>th</sup> each year.

### **Requested Council Direction:**

1. FY17/18 Funding Process Timeline
  - a. Does Council concur with the schedule/timeline proposed for the awarding of FY 17/18 HUD program funding (Community Development Block Grant, HOME Program, and Emergency Solutions Grant) and Human Services funds, as well as the addition of a proposed timeline and process for projects applying for FY 17/18 Low Income Housing Tax Credits?
  - b. If approved by Council, staff will immediately begin publishing and sharing this information to ensure developers are aware of the new requirements.
2. Mesa's Housing Master Plan Update
  - a. Does Council concur with the two-phased approach and timeline for updating the City's Housing Master Plan?
  - b. If approved by Council, staff will begin work on a Request for Proposals process to retain a professional consultant for Phase 1. of the Plan update.
3. Unspent Prior Year CDBG Funding Allocation
  - a. Does Council concur with staff's recommendation for how to allocate the FY 15/16 CDBG unspent or program income funds?

- b. Once approved by Council, staff will begin implementing Council's recommendation for the allocation of the funding.

## **Fiscal Impact**

Congress has not yet finalized federal funding allocations for FY 17/18, however current allocation by the Department of Housing and Urban Development for CDBG, HOME and ESG funding is used as a guideline.

<b>HUD Program</b>	<b>FY2016/17</b>
<b>CDBG</b>	\$3,224,529
<b>HOME</b>	\$ 996,826
<b>ESG</b>	\$ 287,998
<b>Totals</b>	<b>\$4,509,353</b>