

Date of Hearing: April 29, 2015

**ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT**

Ed Chau, Chair

AB 325 Wood – As Amended April 16, 2015

**SUBJECT:** Community Development Block Grant Program: funds

**SUMMARY:** Makes specified changes to the Community Development Block Grant (CDBG) Program application process. Specifically, **this bill:**

- 1) Provides that, no later than 60 days after the Department of Housing and Community Development (HCD) notifies an applicant that their CDBG application has been approved, HCD must enter into a grant agreement with the applicant.
- 2) Requires HCD, when it enters into a grant agreement with an applicant, to provide the applicant with a complete and final list of all of the activities the applicant must complete in order to receive a disbursement of funds pursuant to the agreement.
- 3) Requires HCD to do either of the following no later than 30 days after it receives a request for the disbursement of funds from a grantee:
  - a) Notify the grantee that HCD has approved disbursement of the funds.
  - b) Provide the applicant with a complete and final list of all of the remaining activities the applicant must complete in order for HCD to approve disbursement of the funds.

**EXISTING LAW:**

- 1) Provides that the Legislature intends that funds allocated to the state pursuant to the federal CDBG program, and administered by HCD, be of maximum benefit in meeting the housing and economic development needs of persons and families of low or moderate-income (Health & Safety Code Section 50825).
- 2) Requires HCD to administer the State CDBG Program to eligible cities and counties (Health and Safety Code Section 50825, et seq., and the California Code of Regulations, Title 25, Section 7050, et seq.).
- 3) Defines the term “non-entitlement area” as an area which is not a metropolitan city or part of an urban county and does not include Indian tribes (42 United States Code Section 5302).
- 4) Defines an urban county generally, as having a population greater than 200,000 given certain specified criteria (42 United States Code Section 5302).
- 5) Defines a metropolitan city as having a population greater than 50,000 given certain specified criteria (42 United States Code Section 5302).

- 6) Requires generally, HCD to allocate not less than 51% of CDBG funds for purposes of providing or improving housing opportunities for low or moderate-income households (Health & Safety Code Section 50828).
- 7) Requires generally, HCD to allocate 30% of CDBG funds for purposes of economic development (Health & Safety Code Section 50827).

**FISCAL EFFECT:** Unknown.

**COMMENTS:**

Background: The CDBG program was established by the United States Housing & Community Development Act of 1974 (HCD Act) and is administered at the federal level by the U.S. Department of Housing and Urban Development (HUD). The primary federal objective of the CDBG program is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate-income. "Persons of low and moderate-income" are defined as families, households and individuals whose incomes do not exceed 80% of the county median income, with adjustments for family or household size. Among the many uses of CDBG funds are infrastructure improvements and activities in support of the construction of housing.

Congress amended the HCD Act in 1981 to give each state the opportunity to administer CDBG funds for small cities and counties. Since 1983, HCD has administered the state CDBG program in California. Under the state CDBG Program, states award grants to smaller cities and counties to develop and preserve decent affordable housing, to provide services to the most vulnerable in our communities, and to create and retain jobs. Annually, each state develops funding priorities and criteria for selecting projects. Eligible applicants include counties with fewer than 200,000 residents in unincorporated areas and cities with fewer than 50,000 residents that do not participate in the HUD CDBG entitlement program. These are known as "non-entitlement" areas.

Each year, generally in January, HCD releases one combined Notice of Funding Availability (NOFA) encompassing all CDBG-eligible activities, including Community Development, Economic Development, and the Native American and Colonia Set-Asides. The most recent NOFA was issued in January 2015, and announced the availability of \$24,983,999 in state-administered federal CDBG funds.

Federal and state laws and regulations apply to the state CDBG program, and HCD issues a grant management manual and numerous memoranda, checklists, and other documents that further expand on the CDBG application and grant management process and requirements. Applicants that receive award letters later receive a grant agreement, which is entered into between a local representative and HCD. The grant agreement reserves monies from the CDBG allocation approved for funding by HCD. Grant payments are made to grantees by an advance or a reimbursement, and the grant payment process must minimize the time between the transfer of funds to the applicant and the applicant then disbursing the funds. Grantees must submit funds request forms to HCD to request contract funds. According to HCD's grant management manual, HCD reviews each funds request and will return it if corrections are needed.

Need for this bill: The author contends that certain CDBG grantees are facing obstacles when applying for fund disbursements with HCD, leading to confusion about what steps need to be taken in order for the application to be acceptable. According to the author, "the small cities and counties that stand to gain the most from this program do not have the expertise or the resources to navigate this unnecessarily complicated and drawn out process. In order to make the program more accessible to some of our most underserved constituencies we need to approve these efficiencies."

The Rural County Representatives of California, a supporter of the bill, states that "current practice in the grant program has no limitation as to how long HCD has to respond to a completed application, nor is there any requirement to give any reason or justification as to denial or rejection of that application." Additionally, "CDBG grants generate economic development opportunities within our rural and remote communities, but small local governments with minimal resources have difficulty engaging in the initial process, let alone working through and recovering from a rejection from a state agency."

The author points out that there have been attempts to address this issue non-legislatively with HCD. The author points to previous instances where local governments throughout the state "have met several times over the past two years along with past legislators and staff from HCD in attempts to make the program more effective. Each time HCD has promised action and the problems have only become worse."

Staff comment: AB 325 would provide statutory authority for when and how HCD is required to respond to grantees in two situations. First, upon approving an applicant for an award, HCD would be required to enter into a grant agreement with the applicant no later than 60 days after it notifies the applicant that their CDBG application has been approved. When it enters into a grant agreement with an applicant, HCD must provide a complete and final list of all of the activities the applicant must complete in order to receive a disbursement of funds. Second, within 30 days of receiving a grantee's request for the disbursement of funds, HCD must either notify the grantee that it has approved the disbursement or provide the grantee with a complete and final list of all of the remaining activities the applicant must complete in order for HCD to approve disbursement of the funds.

Generally these types of program deadlines are not provided for in statute in order to give agencies the flexibility to adopt their own procedures. In the author's view, AB 325 is needed to better streamline the grant process, so as to make the CDBG program more accessible to small cities and counties.

Related legislation:

AB 232 (V. Manuel Pérez), Chapter 386, Statutes of 2012: This bill, for the economic development portion of the CDBG Program, eliminates the dollar-per-job test and the requirement that benefit to low- and moderate-income persons be a scoring factor in ranking applications.

AB 2188 (Arambula), Chapter 95, Statutes of 2008: This bill deletes the sunset on provisions allowing HCD to annually establish the maximum grant amounts under the General Program and Economic Development Allocations of the CDBG program and to determine the amount of funding that will be set aside for technical assistance and planning grants.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

Community Development Commission of Mendocino County  
Leading Age California  
Rural County Representatives of California (RCRC)  
West Company

**Opposition**

None on file

**Analysis Prepared by:** Rebecca Rabovsky / H. & C.D. / (916) 319-2085