



CITY COUNCIL AGENDA REPORT

MEETING DATE: 9/1/2020

DEPARTMENT: Community Development

SUBJECT:

COMMUNITY DEVELOPMENT BLOCK GRANT ("CDBG") PROGRAM –
FISCAL YEAR 2019-2020 ANNUAL ACTION PLAN AMENDMENT FOR
UPDATES TO THE SMALL-BUSINESS COVID-19 RELIEF GRANT PROGRAM.

RECOMMENDED ACTION(S):

Approve a draft amendment to the Community Development Block Grant ("CDBG") Program Fiscal Year 2019-2020 Annual Action Plan for updates to the Small-Business Assistance COVID-19 Relieve Grant Program, including reallocation of funds to Urgent Need expenditures, amended Small-Business COVID-19 Relief Grant Program Guidelines, and a new Urgent Need Grant Program and corresponding Program Guidelines.

EXECUTIVE SUMMARY:

On May 19, 2020 and June 16, 2020, the City Council approved an amendment to the Fiscal Year ("FY") 2019-2020 Community Development Block Grant ("CDBG") Annual Action Plan ("AAP"), and the FY 2020-2021 CDBG AAP, respectively. The former provided for expenditure of the City's Coronavirus Aid, Relief, and Economic Security Act of 2020 ("CARES Act") CDBG- Coronavirus ("CDBG-CV") funding. Both AAPs provided funding for a new Small-Business COVID-19 Relief Grant Program ("Small-Business Grant Program"). As part of the public hearings on the AAPs, staff presented draft guidelines for the Small-Business Grant Program. The expenditures for both the amended FY 2019-2020 and the FY 2020-2021 AAP were guided by the recommendations of a City Council Ad Hoc Committee. The Committee's primary purpose was to determine how CDBG and CDBG-CV funds could be utilized to best serve the community during these unprecedented times.

After approval of the Guidelines, the City's partner for administering the Small-Business Grant Program, the Orange County/Inland Empire Small Business Development Center ("SBDC"), advised City staff that the City's Grant Program is unlikely to be successful as currently drafted (\$1,000 grants to qualified businesses). SBDC based this assessment on its experience assisting the Orange County 5th Supervisorial District's office with administration of its CARES Act small-business grant funding program, and other Orange County

communities that are using CDBG-CV funds for small business assistance. SBDC advised that it had difficulty awarding 5th District grant funding to local businesses, despite the less-burdensome qualification requirements of the non-CDBG funding source and the higher maximum grant amount (\$10,000). Following SBDC's recommendation, the City Council Ad Hoc Committee reconvened to consider possible amendments to the AAPs and Small-Business Grant Program.

After consideration of SBDC's recommendation and reevaluation of the Small-Business Grant Program, the City Council Ad Hoc Committee and staff are recommending amendments to the FY 2019-2020 AAP and the Small-Business Grant Program Guidelines, and establishment of a new Urgent Need Small-Business Grant Program. The amendments and new program are intended to improve the likelihood of success aiding Lake Forest businesses impacted by the pandemic. Specifically, the draft amended AAP now provides for grants to small businesses under the Urgent Need national objective of the CDBG-CV program, which has fewer restrictions. Additionally, draft amended Small-Business Grant Guidelines for the non-Urgent Need grants increase the maximum grant amount from \$1,000 to \$5,000 per business.

Staff recommends that the City Council approve the draft amendment to the CDBG FY 2019-2020 Annual Action Plan for updates to the Small-Business Assistance COVID-19 Relieve Grant Program and to establish a new Urgent Need Grant Program.

BACKGROUND:

Each year, the City of Lake Forest receives CDBG funding from the U.S. Department of Housing and Urban Development ("HUD"). The funds are earmarked for housing and community development activities that assist low to moderate-income members of the community. The City specifies how it intends to use the funds by approving an AAP and submitting it HUD.

On May 19, 2020 and June 16, 2020, the City Council approved an amendment to the FY 2019-2020 CDBG AAP, and the FY 2020-2021 CDBG AAP, respectively. The FY 2019-2020 AAP included \$302,281 of federal CARES Act CDBG-CV funds, and the reallocation \$39,000 of FY 2019-2020 CDBG funds, to aid in local COVID-19 pandemic response. Each AAP included funding allocations for a new Small-Business COVID-19 Relief Grant Program. Table 1 below summarizes the funding allocated to the Small-Business Grant Program in each AAP.

TABLE 1 – Approved Small-Business Grant Program Funding By AAP

Annual Action Plan	Funding
2019-2020:	\$102,384
2020-2021:	\$100,000
TOTAL:	\$202,384

At the time the guidelines were developed, staff anticipated that HUD may issue new guidance providing relief from some of the regulations that generally make CDBG-funded economic development programs impractical, given the limited amount of funding the City receives, the limited resources available for administration, and the qualification burdens for businesses. On August 11, 2020, HUD released the long-awaited "*Notice of Program Rules, Waivers, and Alternative Requirements . . . for CDBG Program Coronavirus Response Grants . . .*", which provides new guidance pertinent to administration of the grant program and includes additional CDBG-CV program waivers.

CDBG Ad Hoc Committee

All the funding allocations in the amended FY 2019-2020 AAP and the FY 2020-2021 AAP were guided by recommendations of a City Council ad hoc committee established for this purpose. The ad hoc committee is composed of Councilmembers Tettermer and Voigts, City staff, and the City's CDBG consultant.

The ad hoc committee recently reconvened to consider additional amendments to the AAP deemed warranted based on the recommendation of SBDC. SBDC's recommendation is based on its experience assisting the County of Orange 5th Supervisorial District with its CARES Act-funded small-business grant program (\$10,000 grants) and assisting other Orange County communities utilizing CDBG-CV funds for business assistance. SBDC suggested that the City's Small-Business Grant Program application requirements would be too onerous for the \$1,000 grant funding offered.

HUD Waivers

One of the HUD requirements that renders the grant program difficult to administer is the requirement that a minimum of 51% of the employees of businesses receiving a grant qualify as low- to moderate-income. The HUD Notice issued on August 11, 2020 provided a waiver from the requirement that the low-moderate income qualifier apply to all members of the employees' households. Pursuant to the waiver, the City is required to verify only the employees' own low-moderate income status. Additionally, this qualifying income may be based solely on the income earned from the employer receiving the

grant. Prior to the waiver, the income qualifier was based on all income sources. This waiver significantly lessens the burden placed on grant applicants.

Urgent Need

In addition to the Small-Business Grant funding, the FY 2019-2020 AAP also included \$34,128 allocated to Urgent Need expenditures. Urgent Need spending is intended only for activities that alleviate emergency conditions and meet the following:

- Pose a serious and immediate threat to the health or welfare of the community;
- The existing condition is of recent origin or recently became urgent (generally, within the past 18 months);
- The City is unable to finance the activity on its own; and
- Other sources of funding are not available.

CDBG regulations allow the City to expend up to 30% of CDBG-CV fund expenditures during the program year (not including the funding used for administration expenses) for Urgent Need activities. The FY 2019-2020 AAP allocated only 10% of the CDBG-CV funds (\$30,228) for Urgent Need expenditures and earmarked this funding for reimbursement of expenses incurred directly by the City preparing, preventing, and responding to the pandemic. However, the City's anticipated expenditures may not qualify as eligible activities meeting one or more of the required National objectives (see Discussion section for the proposed remedy).

DISCUSSION:

In order to improve the likelihood of success of the City's Small-Business Grant Program, and with consideration of the factors outlined previously, the City Council ad hoc committee recommended amendments to the FY 2019-2020 AAP and the Small-Business Grant Program Guidelines. The recommended amendments include:

- Eliminate CDBG-CV funding allocated for Urgent Need – *City Expenditures* (\$34,128), and reprogram funds to the *Small Business COVID-19 Urgent Need Grant Program*.
- Establish the *Small Business COVID-19 Urgent Need Grant Program* with corresponding Guidelines (Attachment 1). The Guidelines would provide for grants up to \$1,000 per business for businesses with up to 50 employees for utility and personal protective equipment (“PPE”) expense reimbursements. The total funding for this program would be up to

\$85,000 (approximately 28% of total CDBG-CV funding). Approximately 85 businesses would be assisted by this program.

This change would allocate approximately 28% of the CDBG-CV grant funding to the Urgent Need category for small-business grants. By shifting funding to the Urgent Need category for small-business grants, businesses receiving the grant would not be required to certify that at least 51% of its employees are in the low to moderate-income category, as this requirement is not applicable to Urgent Need spending. This would result in a streamlined application process and would likely allow the City to dispense the \$1,000 grants in an expeditious manner.

- Allocate the balance of CDBG-CV and CDBG funds to the *Small Business COVID-19 Relief Program* (\$117,384). Approximately 23 businesses would be assisted by this program.
- Increase the maximum grant amount for the current Small-Business Grant Program from \$1,000 to \$5,000 to ensure that the grant amount provides meaningful assistance and the application process is worthwhile for businesses struggling with the pandemic (see Attachment 2 - revised *Small Business COVID-19 Relief Grant Program Guidelines*).
- Increase the limit on the number of employees that an eligible business may have from 25 to 50 in the current *Small-Business Grant Program Guidelines*. This amendment would increase the number of Lake Forest businesses eligible for the grant.
- Allow non-Urgent Need grants to small businesses to be used for place-of-business rent payment reimbursement, in addition to the previously approved allowance for utility payment and PPE purchase reimbursements.

Based on the recommendations above, expenditures for *Small Business Assistance Grant Programs* would be revised as follows (compare to Table 1 above):

TABLE 2 – Proposed Small-Business Grant Program Funding By AAP

Annual Action Plan	Funding
2019-2020:	\$102,384 (\$85,000 Urgent Need + \$17,384 Low/Mod-Job Retention/Creation)
2020-2021:	\$100,000 (no change)
TOTAL:	\$202,384

The proposed amendments to the FY 2019-2020 AAP are considered minor under CDBG Program Guidelines and do not require a public hearing or transmittal to HUD. Staff recommends that the City Council approve the draft amendment to the CDBG FY 2019-2020 Annual Action Plan for updates to the Small-Business Assistance COVID-19 Relieve Grant Program and to establish a new Urgent Need Grant Program.

FISCAL IMPACT:

The fiscal impact of the recommended action is the lost potential to reimburse \$34,128 in City costs incurred due to the pandemic. The proposed Small-Business COVID-19 Urgent Need Grant Program and Small-Business COVID-19 Relief Grant Program is funded by federal grants as is the City's costs to administer each program.

ATTACHMENTS:

1. Draft Small-Business COVID-19 Urgent Need Grant Program Guidelines (new)
2. Draft Revised Small-Business COVID-19 Relief Grant Program Guidelines

Initiated By: Ron Santos, Senior Planner

Submitted By: Gayle Ackerman, Director of Community Development

Approved By: Debra Rose, City Manager