

REPORT TO CITY COUNCIL

DATE: MAY 23, 2007

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: GREG RAMIREZ, CITY MANAGER

BY: MIKE KAMINO, DIRECTOR OF PLANNING & COMMUNITY DEVELOPMENT

SUBJECT: CONSIDERATION OF EXCHANGING COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUNDS FOR GENERAL FUNDS

The purpose of this item is for the City Council to direct staff on whether to proceed in the exchange of Community Development Block Grant (CDBG) funds for general funds.

On January 10, 2007, the City Council considered the City's options for use of CDBG funds during Fiscal Year 2007-2008, which totaled \$94,193. At that time, staff and the Affordable Housing Committee had requested the City Council consider exchanging the CDBG funds for general funds, as is allowed by the Los Angeles County Community Development Commission (CDC). The City has exchanged CDBG funds on two other occasions. It was noted that the exchange of the CDBG funds to general funds would release the City from any regulatory oversight from the CDC, including staff's time and costs in administering and monitoring the programs. The general funds can be used for any purpose the City chooses. Staff foresees a benefit in the City considering such an exchange of funds since 25% of the total funds are used annually for administrative and consultant costs, and only 15% of the funds can be used for the Senior Citizen Recreation Program. Also, the Single Family Residential Rehabilitation Program has a loan budget of less than \$58,000, which potentially allows for a maximum of three recipients per year with maximum loan amounts of \$25,000. The City's Single-Family Residential Rehabilitation program can continue next fiscal year with Redevelopment Housing Set-Aside funds, \$250,000 of which was allocated for this current fiscal year's program.

The City Council authorized staff to pursue an exchange of CDBG funds for general funds, with a rate of no less than 60% of the CDBG funds. Staff has since obtained offers from two cities for purchase of our CDBG funds. One offer is for purchase of our entire fiscal year 2007-2008 allocation of \$94,193 at an exchange rate of 59%, which would equate to \$55,573 of general funds. The second offer is for purchase of \$60,000 of \$97,314 of unallocated funds, which were rolled over from previous years, at an exchange rate of 50%. This exchange would equate to \$30,000 of general funds. Both offers can be accepted through separate agreements approved by the City Council.

The difference between using the 60% exchange rate, as opposed to using the 59% and 50% exchange rates, is roughly \$6,900. Although CDC had found the 60% exchange rate to be

typical of the last few years, the interest from other cities in purchasing funds has been much lower for the upcoming fiscal year. Since the proposed exchange rates are lower than previously requested by the City Council, staff is seeking direction on whether to prepare exchange agreements with the two cities for the City Council's approval.

Staff is uncertain whether any other offers will be made for purchase of our CDBG funds and it is recommended the City Council direct staff to prepare the agreements based on the proposed exchange rates. If the agreements are approved by the City Council, the Single-Family Housing Rehabilitation Program can continue during the next fiscal year with RDA funds, and the Senior Citizen Recreation Program can continue with general funds.

RECOMMENDATION

Staff recommends the City Council direct staff to prepare agreements for the exchange of the City's Fiscal Year 2007-2008 Community Development Block Grant (CDBG) funds for general funds. The exchange rates would be no less than 59% for allocated CDBG funds and 50% for unallocated CDBG funds.