Translation/interpretation of this summary to Spanish and Hmong will be made available upon request – please call (209)385-6863.
La traducción/interpretación de este resumen al español y hmong estará disponible previa solicitud; llame al (209) 385-6863.
Kev txhais / txhais cov ntsiab lus no ua lus Mev thiab lus Hmoob yuav muaj nyob rau ntawm qhov kev thov - thov hu rau (209) 385-6863.

Updated 1/29/2025 – changes noted in red

Description and Summary of Proposed Changes

1st Substantial Amendment – 2024 Annual Action Plan

and

3rd Substantial Amendment – 2019 Annual Action Plan

<u>Introduction and Reason for Amendments:</u>

The City of Merced is considering making changes to available funding and previously approved projects that utilize the following U.S Department of Housing and Urban Development (HUD) funding sources and associated Annual Action Plans:

- Community Development Block Grant (CDBG) funds in the 2024 Annual Action Plan; and,
- Coronavirus Community Development Block Grant (CDBG-CV) funds in the 2019 Annual Action Plan

This description and summary has been prepared to illustrate and explain what items in the two Annual Action Plans are being considered for amendment, addition, or deletion and necessary changes to available funds figures. During a 32-day Public Review and Comment Period that will be held from 1/3/25 to 2/3/25, written questions/comments regarding these changes can be directed to: *(mail/in-person)* City of Merced Housing Division, 2nd Floor Merced Civic Center, 678 W 18th Street, Merced CA 95340; *(email)* housing@cityofmerced.org. Housing Division staff can be reached by telephone at (209)385-6863.

The changes and other considerations are further explained below by Annual Plan year and funding source. The last page of this document contains a table that summarizes the proposed changes.

A. 2024 Annual Action Plan 1st Substantial Amendment - Explanation of proposed changes (CDBG funds):

There are 5 changes proposed with this amendment. Please see each item below for more information.

#1. Potential change to preliminarily approved project:

The 2024 Annual Action Plan was approved at the August 5, 2024, City Council Meeting. At this meeting, the City Council approved the Annual Plan, which included the list of projects in Section AP-35 of the plan, but only preliminarily approved Project #2, which involves acquisition and rehabilitation of an existing 1-4 unit residential property in partnership with Sierra Saving Grace Homeless Project (SSG), a 501(c)(3) non-profit organization. At that time, the City Council requested that City staff begin an amendment process to be able to consider alternative use(s) for the $703,656 CDBG funds tentatively approved for the acquisition/rehab activities. With the necessary proposed change discussed in #A.3b below, the considered amount will be reduced to $604,500 in this amendment.

There are two different outcomes that may occur for this part of Substantial Amendment:

a) STAFF RECOMMENDED: With quick expenditure of CDBG funds a priority each year under current HUD regulations, City staff does not recommend that the originally proposed use be altered.

The City has previously partnered with SSG on this type of project multiple times, each time successfully being able to expend funds quickly and with successful outcome of providing affordable, permanent supportive housing for LMI residents. As the City is not yet contracted with SSG due to the project's preliminary status, a specific project site has not yet been selected; however, SSG staff have been scouting potential properties during the interim in order to implement the project quickly, if final approval is obtained. Once fully rehabbed, all involved units in a purchased property will be subsequently rented to low- to moderate-income (LMI) households, in order to ensure that the intended CDBG National Objective is met;

OR;

b) Council alternative options: See Change #A.5b discussed below for this 2024 Annual Plan amendment proposal.

#2. Repaid prior year CDBG funds expected to be returned as available CDBG funds ($307,913.40):

City staff has been working on a separate matter involving HUD's requirement to repay $307,913.40 of prior-year CDBG funds that were expended on ineligible activities in 2018. The matter was noted by HUD during a 2020 Environmental monitoring in January 2020, and the resulting October 2021 monitoring report required the repayment. Staff intends to make this repayment during the 2024 program year.

After the repayment using a non-HUD local funding source is completed, HUD has advised the City that the original CDBG funds will be returned to City as 2024 CDBG program income to be allocated for a different eligible use.

This part of the substantial amendment to the 2024 Annual Action Plan, if approved, will set in advance the plan for the use of these funds when they are returned by HUD to the City's CDBG line of credit, IF that occurs during the program year, as expected. The actual use of the funds is contingent on them actually being received from HUD.

Please see the summary table on the last page of this document for the intended use of these funds (see also #A.5a below).

#3. Additional Prior and Current Year CDBG Carryover funds and Previously Budgeted Funds available ($221,867.37):

There are two types of adjustments needing to be made to CDBG Prior Year Resources:

a) Disencumbered prior year CDBG funds: Some prior-year projects did not use all of the CDBG funding allocated to them and/or were not implemented. Therefore, the amount of prior-year CDBG funds that is available to be used by 2024 projects has increased since the original Annual Plan approval. These funds need to be allocated to project(s);

AND;

b) Reductions in budgeted Activity Delivery Costs (ADC): As a result of recent HUD guidance, the City is in the process of correcting how it has historically budgeted and allocated CDBG funds for City staff hours spent to carry out projects with subrecipients ("activity delivery costs," or ADC). Some 2024 and prior year programs are now not expected to use all of the ADC funds originally budgeted, including a total of $45,000 of 2022 and 2023 CDBG funds previously budgeted for ADC on the ongoing 3-year homeowner occupied rehab project with Habitat for Humanity Merced/Stanislaus Counties.

The total of these funds from a) and b) need to be re-allocated to other uses, which will increase the Prior Year Resources in the Annual Plan AP-15 table.

The total of the two types of adjusted carryover amounts is $221,867.37, which is proposed to be re-allocated to a new 2024 project as described in #A.5a below.

#4. Additional 2024 program year program income ($111,463.69):

Since, July 1, 2024, the City has received ~~$111,463.69~~ **(corrected to $60,327.87)** above the original estimate of $108,000 that it would receive in regular housing loan payments through the entire program year. The reason for this large overage is due to several CDBG housing loans in the City's loan portfolio that have unexpectedly been paid off this year. HUD requires that any current year program income be spent first before making draws against the regular annual allocation.

The proposed use of the additional program income is included in #A.5a and the summary table below.

#5. Creation of a new 2024 Annual Plan project:

There may be a total of ~~$641,244.46~~ **(corrected to $590,108.64)** CDBG funding made available through the above changes #'s 2 through 4 [#2: returned $307,913.40 CDBG funds after repayment; #3a & #3b: additional $221,867.37 prior year carryover from disencumbered funds/previously budgeted ADC; and #4: ~~$111,463.69~~ **corrected: $60,327.87** additional 2024 program income]. This total will likely be rounded down or up in order to input the final change into HUD's data and disbursement system (cents amounts are sometimes not accepted in the system).

An additional $604,500 will also be affected by the outcome of #A.1b above. Therefore, if the City Council decides to move funding from the Acquisition/Rehab project, the total CDBG funds to be allocated to the new project would be ~~$1,245,744.40~~ corrected $1,194,608.60 (figures may be rounded in the Annual Plan).

One of the two following possible scenarios are expected to be made with the additional funds:

a) STAFF RECOMMENDED: Creation of a new 2024 project that would add the ~~$641,244.46~~ **corrected $590,108.64** (or approximately ~~$1,245,744~~ **corrected $1,194,608.60** depending on the outcome of #A.1b above) of supplemental CDBG funding to an existing 2023 program year public infrastructure project that is in need of additional funding, has already obtained environmental clearances, there is an existing scope of work and preliminary set of civil drawings, an existing Engineer's Cost Estimate is in place but needs updated cost adjustments, and a draft internal contract is already in the process of being drawn up for the scope of work expected. Because of the work that is already in progress, #5a will ensure quicker expenditure of CDBG funds.

This project will increase AP-20 Annual Goal and Objective 1A by the amount/s stated.

The project must be complete by spring of 2026, when the California Department of Transportation (CalTrans) will begin a separate improvement project on Hwy 59 at the same section of roadway – so, it will already be on a fast-tracked priority schedule.

- K/13th/Hwy 59 Water/Sewer Main Replacement and ADA Improvements (23/24). Project # to be assigned in the AP-35 Projects table will likely be 2024 Project #14.

Additional CDBG-CV funds are proposed to the water main replacement portion of this project in A.1. below as part of the 2019 Annual Plan Substantial Amendment #3.

OR;

b) Council alternative options: Per Change #A.1b above, Council could alternatively decide against staff recommendation and approve any of the other alternative public infrastructure projects that were previously presented to them at the time of the original 2024 Annual Plan approval. The list of originally presented projects will be re-posted for this Public Review and Comment Period, to accompany this summary document.

Any of the Council-chosen alternative projects will be added as new projects under Annual Goal and Objective 1A in the amounts approved (including any budgeted ADC).

Environmental clearances have not been started or completed for any of these alternative projects and a final scope of work and budget has not been determined. All projects are in areas of the city that HUD has pre-determined are in areas that are mostly residential where at least 51% of households are low- to moderate-income; thus any of the projects originally presented to Council in August 2024 would likely meet a required CDBG National Objective. No engineering drawings have been begun. After an internal contract is in place with Engineering Department, it may take approximately ten months for construction to begin on any of the alternative projects.

2024 Substantial Amendment #1 - CONSIDERATIONS:

In considering a change in the use of the $703,656 (to be changed to $604,500 with this amendment*)* of 2024 CDBG funds previously allocated (#1 above), $307,913.40 of prior-year CDBG funds anticipated to be returned for reallocation (#2 above), the additional $221,867.37 of 2023/prior year carryover funds made available after 2023 project closeout (#3 above), and the additional ~~$111,463.69~~ **corrected $60,327.87** of 2024 program income that has been received thus far during the current 2024 program year (#4 above), special attention should be paid to how these changes will affect the City's ability to meet its annual "Timeliness" test deadline of May 2nd. A total of ~~$641,244.46~~ **corrected $590,108.64** (#'s 2 through #4) is new/returned funding that must be re-allocated to project(s).

By the May 2 timeliness test date each year, the City cannot have more than 1.5 times its most recent CDBG allocation on hand. In September 2024, HUD amended its policy regarding the Timeliness monitoring of CDBG Grantees like the City of Merced. Since Merced met its Fiscal Year (FY) 2023 Timeliness deadline in May 2024, a non-timely test in May 2025 will mean that the City will be sent a warning letter and be *requested* to submit a workout plan that describes when and how much the City expects to expend over the next program year to meet its next Timeliness deadline in May of 2026. The preparation of a workout plan takes valuable staff time away from more effectively running its regular programs, being able to plan ahead, responding to public inquiries, and other important daily tasks and is especially hard on an already minimally staffed division. Therefore, as much effort to meet the May 2, 2025, timeliness deadline should be made as possible, which means the prioritizing consideration of activities that have been proven to be able to expend funds quickly.

If untimely in May 2026 with a credit ratio of less than 4.00, HUD will require a workout plan and an invitation for staff to attend workshops and join a technical assistance cohort with other grantees. However, if untimely with a credit ratio of 4.00 or greater, formal consultation with HUD and stricter technical assistance requirements will result.

B. 2019 Annual Action Plan 3rd Substantial Amendment – Explanation of proposed changes (CDBG-CV funds):

There is 1 main change proposed with this amendment. Please see the below discussion for more information.

Background of proposed changes to 2019 Annual Action Plan projects and AP-20 Annual Goals and Objectives:

Between April and September 2020, HUD allocated a total of $1,193,573 of Coronavirus Community Development Block Grant (CDBG-CV) funds in two separate rounds of funding (1st round: $661,246; 2nd round: $532,327) to the City of Merced that were authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Public Law 116-136, which was signed by the President to prevent, prepare for, and respond to the effects of the COVID-19 Coronavirus pandemic.

The City substantially amended its 2019 Annual Action Plan twice to allocate the two rounds of funds to projects which, after a community needs assessment, addressed the highest community needs at that time: short-term rental assistance, food bank assistance, and microenterprise/small business assistance with a documented Covid-19 related reason. As of 12/19/2024, the City and its program partners have expended a total of $693,463.31 of the allocated CDBG-CV funding. However, the programs are no longer able to spend the funds, indicating that community needs have shifted back to pre-Pandemic levels. A balance of approximately $470,109.69 remains. There is one reimbursement request pending from one of the programs, and this balance reflects the amount of CDBG-CV funds that will remain if this reimbursement is granted. If not, the amount remaining to be expended will increase by $30,000 (to $500,109.69).

When they were issued by HUD, the CDBG-CV funds could be used to prevent, prepare for, and respond to not just the 2020 COVID-19 pandemic, but for future pandemics, as well. Therefore, with the COVID-19 pandemic behind us, the City wishes to re-allocate the remaining balance of CDBG-CV funding to activities that consider ways to prevent and prepare for the next pandemic.

Prevent & Prepare eligible activities that the City potentially has the capacity to carry out include: mobile vaccination/health service clinics; rehabilitation/reconstruction of privately owned homeowner-occupied homes; rehabilitation of privately-owned multifamily rental buildings; conversion of vacant or abandoned commercial or public buildings to affordable housing; acquisition of land for affordable housing funded from another source; construction of public facilities such as parks to provide outdoor fitness and social space where such facilities were insufficient; rehabilitation/improvement of ventilated spaces inside community and public facilities (including schools); broadband infrastructure improvements in underserved areas; and reconstructing degraded water lines to ensure potable water delivery.

#1. Proposed Changes:

City staff proposes to move the remaining balance of CDBG-CV funds to partially fund specifically the water main replacement portion of the project mentioned in A.5.a. above for the proposed 2024 Annual Action Plan Substantial Amendment #1. An element of this project involves moving the replaced/aging water main further away from the existing sewer main that also will be replaced due to its age. Moving the two mains further away from each other ensures that water quality will not be affected should the sewer line leak at any time in the future.

HUD requires all amendments associated with CDBG-CV funds to be made to the 2019 Annual Plan. Therefore, unless HUD advises differently, this project will be added to the AP-35 project list in the 2019 Annual Action Plan as a 2024/25 two-year project:

- K/13th/Hwy 59 Water/Sewer Main Replacement and ADA Improvements (23/24).

Associated amounts would be moved from their existing 2019 Annual Goal and Objectives (#2 Support Services) to Goal #5 (Public and Infrastructure Improvements) in the 2019 Annual Plan AP-20 table.

2019 Substantial Amendment #3 - CONSIDERATIONS:

In considering a change of use for these funds for any of the potential activities listed in the previous paragraph, City staff's current capacity to carry out compliant projects within established protocols, procedures, and timeframes should be considered. All remaining CDBG-CV funds must be fully spent by September 4, 2026, or HUD will rescind them. Therefore, project(s) selected should be those that can be carried out and completed as efficiently as possible. The best way to do this is to simply add the funds to an eligible project that is currently in progress, which the City does have. This project is listed below and is the project that the City is recommending for the CDBG-CV amendment to the 2019 Annual Action Plan, especially as the project needs additional funding to meet the total estimated project costs.

Summary of Proposed/Recommended Changes: 1st Substantial Amendment – 2024 Annual Action Plan & 3rd Substantial Amendment – 2019 Annual Action Plan

APPLIED Proposed Change #'s	Brief Summary of Changes Proposed	Funding Source Affected	Expected Resources (AP-15) – Effect	Annual Plan Goal & Objectives (AP-20) - Effect	Annual Plan Projects (AP-35) - Effect	Notes
STAFF RECOMMENDED CHANGES:						
#1a **#2** **#3 (a and b)** **#4** **#5a** (combined effect of proposed changes on each Annual Plan document are shown here)	**2024 AAP:** Retain preliminarily approved 2024 Annual Plan AP-35 Project #2 (Acquisition/Rehab – Sierra Saving Grace Homeless Project) as approved by City Council on August 5, 2024 **2024 and 2019 AAP:** Allocate all other available CDBG and CDBG-CV funds for the 2019 and 2024 amendments to the same infrastructure project: K/13th/Hwy 59 Water-Sewer Main Replacement & ADA Improvements (23/24)	**2024 AAP:** CDBG **2019 AAP:** CDBG-CV	**2024 AAP:** *Total net increase of ~~$641,243~~* ***corrected $590,107****, to include:* a) Increases available Program Income by ~~$111,463~~ **corrected $60,327**, and, b) Increases Prior Year Resources by $221,867 c) Increase either Program Income or Prior Year Resources by $307,913 of received during FY2024-25 (HUD to provide guidance of where to show returned funds) **2019 AAP:** No change to AP-15	**2024 AAP (CDBG only):** a) increase Goal 1A by ~~$832,737~~ **$784,631** b) decrease Goal 2B by ~~$34,035~~ **$34,510** c) decrease Goal 2C by ~~$145,644~~ **$147,466** d) decrease Goal 3A by ~~$9,970~~ **$10,589** e) decrease Goal 4A by ~~$1,835~~ **$1,959** **2019 AAP (CDBG-CV only):** a) increase CDBG-CV funding towards Goal 4-Public and Infrastructure Improvements by $470,109.69 or up to $500,109.69 b) decrease CDBG-CV funding towards Goal 2-Support Services by $470,109.69, or up to $500,109.69	**2024 AAP:** a) add new 2024 project as Project #14: K/13th/Hwy 59 Water-Sewer Main Replacement & ADA Improvements (23/24) with ~~$740,606~~ **$699,698** of CDBG Funds (includes ~~$719,035~~ **$679,319** project costs & ~~$21,571~~ **$20,379** ADC) b) Increase Project #1 by ~~$22,293~~ **$12,065** c) Decrease Project #2 by $99,156 d) Decrease Project #3 by $22,500 **2019 AAP:** a) add new project to be carried out in Program Year 2024 and 2025 with $470,109.69 (or up to $500,109.69) of CDBG-CV funds: K/13th/Hwy 59 Water-Sewer Main Replacement & ADA Improvements (23/24)	Acquisition/Rehab projects have proven to expend CDBG funds quickly. This is extremely important. By regulation, CDBG funds must be spent quickly. HUD will impose several additional requirements and penalties, including reduced future CDBG funding, if expenditure timeliness ratios are not met. Retaining the existing project in the 2024 Annual Plan will help ensure that we will successful in meeting expenditure deadlines. If this project is removed from the 2024 plan, that deadline will undoubtedly not be met. Both the Acq/Rehab and the Infrastructure project proposed meet clear National Objectives and help to improve the value and quality of life in residential neighborhoods and for its residents. The Acq/Rehab project will house LMI individuals and families and will provide case management to formerly homeless individuals who are tenants. The Infrastructure project will improve and protect the City's water supply, especially in the affected neighborhood.