



AGENDA NO: 7.a

MEETING DATE: November 12, 2025

Staff Report

TO: Honorable Mayor and City Council **DATE:** November 5, 2025

FROM: Erik Valentine, Associate Planner

VIA: Airlin M. Singewald, Community Development Director

SUBJECT: Review and Adopt Draft Funding Recommendations for the 2026
Community Development Block Grant (CDBG) Program

RECOMMENDED ACTION

Conduct a public hearing to review and adopt Resolution No. 59-25 approving draft funding recommendations for the 2026 Community Development Block Grant (CDBG) funds and forward recommendations to the San Luis Obispo (SLO) County Board of Supervisors for inclusion with the other draft funding requests from the Urban County Consortium. The funding recommendation is for two of the three applications received, both from Community Action Partnership of San Luis Obispo County, Inc. (CAPSLO) for a total estimated funding allocation of \$64,262. Additionally, staff recommends the City Council authorize the City Manager to make pro rata adjustments to the allocation based on the final funding amount from SLO County based on the approval of the Federal budget and HUD’s final grant amount to the County.

ALTERNATIVES

The Public Works Department submitted an application for CDBG funds (\$46,269) for ADA sidewalk repairs, as a back-up option in case the Council does not want to fund CAPSLO’s minor home repair program. This amount represents the City’s total remaining CDBG allocation after the County’s administration allocation and the Public Services allocation (capped at 15% of the total allocation) are subtracted. The Council could choose to fund this application in whole by not allocating any funding to CAPSLO’s Minor Home Repair program, or it could fund both applications by allocating less than the requested amounts to each project.

Staff does not recommend this alternative because, during the 2024 CDBG hearing, staff heard a preference to use CDBG funds for housing and homelessness-related projects. While no affordable housing developers have applied for the City’s share of CDBG funds for land acquisition (construction of housing is not eligible under CDBG), the City received an application from CAPSLO for minor home repair activities for Morro Bay residents, which is aligned with the preference to fund housing-related activities.

Prepared By: EV

Dept Review: AS

City Manager Review: AL City Attorney Review: BS

FISCAL IMPACT

While the County performs many of the administrative responsibilities for the CDBG program, the City also experiences a fiscal impact for CDBG grant administration. This includes (and is not limited to) applying to the County for funding, budgeting revenue and expenditures, coordinating with County staff, executing subrecipient agreements, and submitting required reports to the County. The City may use up to \$4,498 of its estimated 2026 CDBG allocation for grant administration. To receive administration funds, the City is required to submit a separate application, execute a separate agreement, and perform separate reporting. To avoid this additional administrative burden, staff recommends allocating this \$4,498 to the recommended Minor Home Repair project instead of administration. The Community Development Department will absorb the administrative expense of the CDBG program within its existing budget.

SUMMARY

Since 2011, the City of Morro Bay has been a member of the Urban County Consortium, which is a consortium of participating local jurisdictions that includes San Luis Obispo County and the cities of Paso Robles, Atascadero, San Luis Obispo, Pismo Beach, and Arroyo Grande for the purpose of receiving and allocating Federal CDBG funds. The 2026 CDBG award process began earlier this fall with the release of the Notice of Funding Availability on September 11, 2025 (Online Link #1 below). A Community Development Needs Assessment Online Survey was posted on August 27, 2025 to identify community needs and help establish funding priorities. Applications were due by October 10, 2025. The City received three applications for this funding cycle (see below for more details).

Total Morro Bay funding is anticipated to be approximately \$64,262 for the 2026 program year with an estimated total allocation countywide of \$1,706,334. Final funding amounts are subject to change and will be released by the Department of Housing and Urban Development (HUD) in early 2026.

BACKGROUND

The CDBG program is a funding source providing communities with resources to address a wide range of unique community development needs. (Online Link #2 below). The program provides funding for infrastructure, services, economic development, homelessness prevention, and affordable housing development (***land acquisition only***) benefiting low- and moderate-income individuals.

CDBG funds are available for community development activities, which meet at least one of the three national objectives:

1. A benefit to low- and moderate-income persons;
2. Aid in the prevention or elimination of blight;
3. Address urgent needs that pose a serious and immediate threat to the health or welfare of the community.

In order for a program to qualify under the low- and moderate-income objective, at least 51% of the persons benefiting from the project or program must earn no more than 80% of the area median income. Additionally, at least 70% of the CDBG funds must be spent toward that objective.

The following criteria should also be used to guide the selection of CDBG programs:

1. The proposal is consistent with the national objectives and eligibility criteria of the HUD CDBG program;

2. The proposal is consistent with the Urban County Consolidated Plan;
3. The proposal is consistent with the General Plan and other City codes/ordinances;
4. The proposal will achieve multiple community development objectives;
5. The proposal can be implemented in a timely manner, without significant environmental, policy, procedural, legal, or fiscal obstacles to overcome; and
6. The project is not financially feasible without CDBG funding.

Urban County Consortium

As mentioned above, the City of Morro Bay has participated in an entitlement program called the Urban County Consortium since 2011. On its own, the City does not have a sufficient population to qualify as an entitlement jurisdiction, which receives an automatic allocation of funding from HUD each year. By signing a cooperation agreement with the County and other participating jurisdictions, the City is guaranteed to receive a CDBG funding allocation each year. Cooperation agreements last for three years. The current agreement was signed in 2024 and will last through 2026. A jurisdiction cannot enter or leave the Urban County while an executed agreement is in progress.

The only incorporated City in San Luis Obispo County to not participate in the Urban County is the City of Grover Beach. Grover Beach competes (with other non-entitlement jurisdictions) for CDBG funding directly from the State. Grover Beach is not an entitlement jurisdiction, which means that there is no guarantee of funding each year, as the State application process is highly competitive. Prior to leaving the Urban County, the City of Grover Beach hired a consultant to research their chances of success in receiving CDBG funds directly from the State. When reviewing CDBG applications, the State uses the following formula:

$$\text{Population} + (\text{Number of Persons in Poverty} \times 2) + \text{Number of Overcrowded Housing Units in Jurisdiction} = \text{Priority Ranking}$$

Overcrowding is defined as units where each room (excluding bathrooms and kitchens) are occupied by 1.01 or more persons. Units with more than 1.5 persons per room are considered extremely overcrowded.

Based on a quick comparison of Grover Beach's and Morro Bay's current Housing Elements, Grover Beach has a higher incidence of overcrowding (9% compared to 4% for rental occupancy; both are at 1% for owner-occupancy) and families in poverty (15% compared to 7%) than Morro Bay. With 12,700 residents, Grover Beach also has a 20% higher population than Morro Bay.

By participating in the Urban County, the City also receives the benefit of County staff performing a majority of the program administrative work. CDBG awards require compliance with Federal and HCD standards, which require exceptional staff time and bandwidth. The City does not have the option to leave the Urban County until after the 2026 Program Year, but staff recommends that the City remains as a participant of the Urban County for the foreseeable future. If the Council is interested in leaving the Urban County, it is recommended that a consultant be hired to explore the likely outcomes of such a decision.

The decision on whether to leave the Urban County also depends on the Council's goals and foreseeable projects. If the City leaves the Urban County, we'll have to apply to the State for CDBG funds for defined projects. If we know of an affordable housing project on the horizon, then it would make sense to work with the non-profit builder to evaluate the feasibility of competing for CDBG funds (acquisition only) at the State level, before committing to a new cooperation

agreement with the Urban County.

On the other hand, if the City stays in the Urban County, and there's an affordable housing project on the horizon, the affordable housing developer could apply for all of the City's CDBG funds, a portion of the County's CDBG funds, and a portion of the County's HOME funds.

It's important to note that the City will not automatically be enrolled in the next cooperation agreement. The County will send letters to the seven cities in mid-2026 inviting them to renew the cooperation agreements for another three years. The cooperation agreement would be presented to the City Council for action some time from late 2026 to early 2027.

DISCUSSION

The three applications received by the City for the 2026 funding cycle are included by category in the following table along with a description of the application request and staff recommendation.

Federal Funding Category / Applications Received	Amount Requested	Amount Recommended
Public Services – Limited to 15% of 2026 Allocation (or a maximum of \$9,639)		
<p>1. <u>Project Name:</u> 40 Prado Homeless Services Center</p> <p><u>Applicant:</u> Community Action Partnership of San Luis Obispo County, Inc. (CAPSLO)</p>	<p>\$9,639 CDBG funding request to Morro Bay (Total request is \$117,981 combined to all jurisdictions and unincorporated areas countywide)</p>	\$9,639
Housing / Rehabilitation		
<p>2. <u>Project Name:</u> Minor Home Repair</p> <p><u>Applicant:</u> Community Action Partnership of San Luis Obispo County, Inc. (CAPSLO)</p>	\$41,771	\$46,269*
Public Facilities		
<p>3. <u>Project Name:</u> ADA Sidewalk Repair</p> <p><u>Applicant:</u> Public Works Department, City of Morro Bay</p>	\$46,269	\$0
Total Funds Requested	\$97,679	
Total Funds Recommended		\$55,908* (Includes Administration funding totals that

		<i>can be allocated towards the Minor Home Repair project)</i>
Estimated Total 2025 Funding Available		\$64,262

**The sum of the two recommendations does not equal the total anticipated allocated funding. This is because the County receives a portion of the City's allocation for administration. Per HUD standards, administration costs are limited to 20% of the 2026 allocation. Of this 20%, the County receives 65%, or \$8,354. City staff recommends that Morro Bay administration funds be put towards the Minor Home Repair project.*

CAPSLO 40 Prado Project Description:

The 40 Prado Homeless Services Center (Prado HSC) in SLO offers an Access Center and emergency shelter services, meals, showers, health screenings at the CHC on-site clinic, behavioral health services from the county's mobile van, services to dual-diagnosed individuals, recuperative care for those recently released from the hospital, a Warming/Cooling Center during inclement weather, a Safe Parking program, animal kennels, a community garden, laundry, internet access, and a mail and message center to facilitate job and housing searches. Case managers and staff assist clients in creating individualized housing plans with set goals and objectives to obtain housing and self-sufficiency. CAPSLO operates the largest shelter program in SLO County, frequently providing shelter for 130-150 households per night through hoteling, shelter beds at Prado HSC, the Overflow, Safe Parking and Warming/Cooling Center Programs. With its new Housing Focused Shelter Program (90-day program), CAPSLO was able to house 221 participants in the 24-25 fiscal year. We project that 250 will be housed, and 1,200 sheltered in 2026-2027.

CAPSLO Minor Home Repair Project Description:

The project involves the completion of minor home repairs and accessibility improvements in homes occupied by low- and very low-income members of the community. The agency will perform outreach and work with its partners to identify households that qualify for this assistance and have needs that can be met through the program. Once projects are identified, the program will develop a project description and cost estimate for each project and submit that information to County staff for review and approval. Approved projects will then be scheduled for work to be completed by agency staff. The outcome is to help vulnerable members of our community remain safely in their own homes, improving their self-sufficiency and independence and thereby reducing homelessness and dependency.

Of note, City staff have spoken to the project manager at CAPSLO to confirm that the City's funding allocation will be used solely on Morro Bay residents.

Public Works Project Description (Back-up Project):

The City has hundreds of City-owned street trees along roadway frontage throughout the City. Many of the street trees that are mature were planted many years ago and are causing destruction to sidewalks, curb and gutter, asphalt roadway, and other public infrastructure. The damage to City infrastructure is an unfunded liability to the City from a maintenance and safety perspective. In addition, these areas where uplift of sidewalk has occurred cause areas to be out of compliance with the Americans with Disabilities Act (ADA). This project would be to correct some areas where street trees have caused damage and remove the tree and replace with a more appropriate street tree with an underground growing zone so that the roots do minimal damage to the infrastructure. The project would also include the replacement of sidewalks, curb and gutter, curb ramps, and

portions of roadway that have been affected by street trees. In some cases, the project would involve filling sidewalk gaps that affect accessibility. The proposed improvements will include sidewalk deficiencies in the Morro Bay downtown area, including sections of Morro Bay Boulevard, Harbor Street, Main Street, Monterey Avenue, and Napa Avenue.

Federal Regulations and Funding Criteria:

Federal HUD regulations apply limits to each category of funding, as described below. As part of the CDBG process, Council must adopt a draft recommendation for the 2026 grant year that meets the funding criteria while adhering to the category limits. Upon approval, the draft funding recommendations will be forwarded to the County for publishing along with recommendations from all jurisdictions. The public notice starts a 30-day review and comment period during which a second public workshop will be held to allow questions from applicants after which the draft allocations, plus any workshop comments, will be forward to City Council for final approval at a duly noticed public hearing anticipated to be approximately February 2026. After that meeting, the final funding recommendations would then be forwarded to the County Board of Supervisors in order to adopt the 2026 Action Plan consistent with the 2025-2029 Consolidated Plan, which is the five-year strategic planning document that established funding goals for HUD funding.

The following is a brief explanation of the funding categories and applications received within each:

Public Services – Public services activity applications are defined as those activities that include, but are not limited to, employment services, crime prevention, childcare, health services, substance abuse services, fair housing counseling, and recreational services. Federal regulations limit no more than 15% of an allocation to be awarded to Public Services activities. For Morro Bay, the maximum award would be \$9,639.

Only one application was received under this category, which was from the Community Action Partnership of San Luis Obispo County, Inc. (CAPSLO) (Attachment 2). The 40 Prado Homeless Services Center (Prado HSC) provides an Access Center and emergency shelter services, which includes health screenings and behavior health services, to those in need (see above for a more detailed description). Additionally, case managers and staff assist clients in creating individualized housing plans with set goals and objectives to obtain housing and self-sufficiency. CAPSLO is applying for the full amount of the City's public services allocation (\$9,639). Staff are recommending this project for funding in the spirit of regional collaboration to address homelessness.

Housing / Rehabilitation – CDBG funds may be used to finance the costs of rehabilitation in eligible types of property and under certain eligible types of assistance. Eligible types of property include residential, commercial/industrial, and other nonprofit-owned nonresidential buildings. Properties are subject to a site visit during application review.

CAPSLO submitted a Housing / Rehabilitation application in the amount of \$41,771 for its Minor Home Repair program. The program involves the completion of minor home repairs and accessibility improvements in homes occupied by low- and very-low income members of the community. The desired outcome is to help vulnerable members of the Morro Bay community remain safely in their own homes, improving self-sufficiency and independence, thereby reducing homelessness and dependency. Staff are recommending this project for funding based on feedback and direction gathered during the 2025 CDBG funding cycle, in which Council directed staff to look for projects outside of the public infrastructure subcategory that had been funded in

years past.

Public Facilities – Public Facilities are defined as activities relating to real property, including the acquisition, construction, rehabilitation, or installation of public improvements. These activities can be carried out by a grantee, sub-recipient, or other nonprofit.

The City's Public Works Department submitted a Public Facilities application in the amount of \$46,269 that would provide for the repair or replacement of sidewalk infrastructure in the Downtown area that have been damaged or upheaved by growing tree roots. Such repairs and/or replacements would bring sidewalks into compliance with ADA standards and serve all residents and visitors to Morro Bay, especially the elderly or persons with disabilities. The application request stemmed from internal conversations between the Community Development and Public Works Departments based on needs identified at the staff level. Public Works' application identifies leveraged funds from the Department's expenditures outlined in the FY25-26 Municipal Budget, under the Street Maintenance line item, if necessary. This is a back-up project for Council consideration. The Public Works Department's ability to repair or replace impacted sidewalks will not be heavily reduced by not funding this project, as the City's FY25-26 Municipal Budget already provides funding for such activities. Additionally, this project was given CDBG funding during the 2025 cycle, and leftover funds may still remain.

Administration – The 20% cap on percentage from this category is estimated at \$12,852, with \$4,498 (or 35% of that 20%) available to Morro Bay for this cycle. Sixty-five percent of this allocation (\$8,354) is reserved for the County's grant administration costs, which is required under the Urban County Consortium Cooperation Agreement. The City did not submit an application for Administration funds this program cycle, so that the \$4,498 could be allocated to CAPSLO's Minor Home Repair program or Public Works' ADA Sidewalk Repair project. This avoids the need for a separate agreement and reporting for administrative funds.

CONCLUSION

The total estimated 2026 allocation for Morro Bay, as released by the County, is \$64,262. CAPSLO's application for Public Services funding is for \$9,639, which is the maximum amount (15%) of CDBG funding that can be dedicated to this funding category. Staff recommend funding this project with the available Public Services funding. CAPSLO also applied for \$41,771 in Housing / Rehabilitation funding. Staff are recommending this application for funding in the amount of \$46,269. This amount is greater than what was requested because it includes the portion of the CDBG allocation that could have gone towards the City's administration costs. The Public Works Department's application for \$46,269 in Public Facilities funding is not recommended for funding based on feedback provided to staff during last year's CDBG funding cycle. These totals are likely to change in a minor way when the County announces the final funding amount received from HUD, sometime in early 2026.

Staff is recommending that Council approve the 2026 Draft Funding Recommendations for the two applications received from CAPSLO (Attachments 2 and 3).

ATTACHMENTS

1. Resolution No. 59-25
2. Community Action Partnership of San Luis Obispo County, Inc. (CAPSLO) Application for Public Services Funding
3. Community Action Partnership of San Luis Obispo County, Inc. (CAPSLO) Application for Housing / Rehabilitation Funding
4. City of Morro Bay Public Works Department Application for Public Facilities Funding

ONLINE LINKS

1. County of San Luis Obispo CDBG Notice of Funding Availability for 2026
<https://www.slocounty.ca.gov/departments/social-services/homeless-services-division/funding-availability/documents/2026/2026-action-plan-nofa>
2. Community Development Block Grant (CDBG) Fact Sheet
[About the Community Development Block Grant \(CDBG\) Program \(hudexchange.info\)](#)