STAFF REPORT
Business Agenda Item

DATE: October 5, 2026

TO: Honorable Mayor and City Council

FROM: Katey Schmidt, Senior Planner

SUBJECT: **Community Development Block Grant Program Income Application**

STAFF RECOMMENDATION:

Adopt Resolution 2026-34 authorizing submission of a Community Development Block Grant Program Income (CDBG PI) Only application to the California Department of Housing and Community Development for a Business Assistance Loan Program and Downtown Façade Improvement Grant Program.

INTRODUCTION:

The Community Development Block Grant (CDBG) program provides funding to eligible non-entitlement jurisdictions for local community development needs. CDBG activities must meet one of three National Objectives: benefit low- and moderate-income (LMI) persons, aid in the prevention or elimination of slums or blight or address an urgent community development need. Under the Low- and Moderate-Income Area Benefit (LMA) National Objective, at least 51 percent of the residents in an activity's service area must be low- and moderate-income. Fortuna's citywide LMI percentage is 51.5 percent based on HUD-approved census data. Each proposed activity must also meet the applicable National Objective and HCD documentation requirements. The program is authorized under Title I of the Housing and Community Development Act of 1974, Public Law 93-383, as amended, 42 U.S.C. 5301 et seq.

Under 24 CFR Part 570.489(e), Program Income (PI) is gross revenue received by a grantee or its subrecipients that is directly generated from the use of CDBG funds, including revenue generated through the use of PI. HUD considers PI resulting from activities funded through the State CDBG program to be additional State CDBG funds. Accordingly, these funds remain subject to all applicable CDBG program requirements and must be administered and expended in compliance with those requirements.

EXECUTIVE SUMMARY:

HCD requires the City to report, budget, and timely expend locally held Program Income on eligible activities that meet a CDBG National Objective. The City has approximately $1,005,000 in Program Income from repayments of prior CDBG-funded housing rehabilitation loans. The proposed application would allocate $900,000 to a Business Assistance Loan Program and $100,000 to a Downtown Façade Improvement Grant Program. The final HCD-approved budget will address the remaining funds and any eligible administration or activity-delivery costs. Council action would authorize submission of the application only. It would not approve individual loans or grants, select a consultant, or authorize implementation of the façade program.

The proposed programs respond to requests from the business community for small business support and flexible financing for expansion, equipment purchases, and other eligible investments. The community has also identified downtown improvements as a priority for creating a more vibrant, economically active area. The programs would support small business growth and retention, encourage private investment, and improve downtown properties.

Planning staff held a public workshop on September 24, 2026, to receive input on potential CDBG-funded activities. Staff reviewed the CDBG program, application requirements, National Objectives, eligible activities, and options for submitting comments or proposing other activities. Attendees supported the proposed Business Assistance Loan Program and Downtown Façade Improvement Grant Program. No additional activities were proposed.

PROPOSED APPLICATION:

Staff recommend that the City Council authorize submission of a Community Development Block Grant Program Income Only application for the following activities:

Business Assistance Loan Program $900,000:

The City will administer the Business Assistance Loan Program to support eligible business expansion, equipment purchases, job creation or retention, and other qualifying economic development activities. Draft guidelines based on an HCD template are attached for Council review. The guidelines address applicant eligibility, underwriting, loan terms, eligible uses, National Objective documentation, servicing, and compliance. Each loan will be reviewed for project feasibility, reasonable costs, committed financing, and applicable CDBG public-benefit and beneficiary requirements. Following HCD approval, the City will competitively procure a qualified consultant to assist with underwriting, servicing, portfolio management, and compliance. Loan repayments will remain CDBG Program Income and will be recirculated through the Loan Program or used for future approved program income activities.

Downtown Façade Improvement Grant Program $100,000:

The Downtown Façade Improvement Grant Program will assist eligible downtown commercial property owners and business tenants that have property-owner authorization. Eligible improvements may include storefront renovations, signage, exterior painting, lighting, accessibility improvements, and other work allowed under the final guidelines. Each project must qualify as an eligible CDBG activity and meet an applicable National Objective. The program is intended to encourage private investment, improve commercial properties, and support a more vibrant downtown.

The façade program responds to community requests made through the strategic planning process for downtown improvements that support a vibrant, economically active area. Staff will develop the program with input from downtown businesses, property owners, and other stakeholders. Draft guidelines will establish the service area, grant limits, any matching requirements, eligible improvements, application and selection process, design standards, and compliance procedures. The guidelines will return to the City Council for approval before the program begins or any grants are awarded.

If authorized, staff will submit the CDBG PI application to HCD. Following HCD approval, staff will complete any required environmental review, procure loan-program support services, and finalize program procedures. The Business Assistance Loan Program will use the attached draft guidelines, subject to HCD approval and any required revisions. The Downtown Façade

Improvement Grant Program guidelines will return to the City Council for approval before the program begins.

STRATEGIC PLAN 2026-2036:

The proposed programs support the City Council's Strategic Plan 2026–2036 by expanding access to business capital, encouraging private investment in downtown properties, and improving downtown appearance and activity. These efforts support economic resilience, community character, and the City's economic development priorities.

CORE VALUES:

Economic Resilience

Community Character

PRIORITIES:

Priority 4: Economic Development to Build Fortuna's Future

FISCAL IMPACT:

The proposed activities would use approximately $1,000,000 in existing CDBG Program Income. The application proposes $900,000 for the Business Assistance Loan Program and $100,000 for the Downtown Façade Improvement Grant Program. The final budget, including the remaining Program Income and eligible administration or activity-delivery costs, will be subject to HCD review and applicable cost limits. No General Fund contribution is proposed.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

The City Council may decline to authorize the application, continue the item, or direct staff to revise the proposed activities or funding amounts. If the application is not submitted or approved, the programs will not proceed as proposed. The City would remain responsible for reporting and timely expenditure of the Program Income on other eligible CDBG activities. If an eligible use is not approved within HCD requirements and timelines, the City may be required to remit the unexpended funds to the State.

RECOMMENDED COUNCIL ACTION:

1. Receive the staff presentation and respond to Council questions.
2. Open the public hearing, receive public comment, and close the public hearing.
3. Adopt Resolution 2026-34 authorizing submission of a Community Development Block Grant Program Income Only application to the California Department of Housing and Community Development for the Business Assistance Loan Program and Downtown Façade Improvement Grant Program; read by title only. Roll Call vote.

ATTACHMENTS:

- *Resolution 2026-34, A Resolution Approving an Application for Funding and the Execution of a Grant Agreement and Any Amendments Thereto from the 2025 Funding Year of the State CDBG Program*
- Draft Business Assistance Loan Program Guidelines based on the HCD template