



REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR AND
CITY COUNCIL

DATE: March 4, 2008

SUBJECT: Community Development Block Grant Program

Report in Brief

The City of Woodland receives a significant amount of CDBG funds that are used to provide an array of community and social programs that serve Woodland residents. These programs include workforce training, assistance to community based organizations and low interest loans for housing rehabilitation. The responsibility for insuring compliance with federal requirements stipulated by the United States Department of Housing and Urban Development (HUD) is assigned to Community Development Department staff. These staff members are also responsible for management of the City's redevelopment programs. In order to provide the City Council with an update of the CDBG program, staff has developed the following report. This report will focus special attention on the need to thoroughly monitor compliance with HUD conditions and the resources required to insure that such compliance is effectively provided.

Staff recommends that the City Council review the status report on the Community Development Block Grant (CDBG) program and consider increasing the amount of funds available for program administration from 15% to 20% as part of the FY 2008-09 budget.

Background

The City receives approximately \$600,000 in CDBG funds each year. Activity on the projects and services funded in FY '07-'08 are well underway and staff is preparing to recommend new projects for next year. A major event last year was the extensive three-day audit of the program conducted by HUD. The representative came on-site and reviewed all the files for projects funded in FY '04-'05 and '05-'06. Several problems were identified. Throughout the report, the HUD representative repeatedly attributed the compliance issues to lack of staff and frequent staff turnover. However, the audit process was educational for staff and laid the groundwork for subsequent revisions in program procedures for future years. Some of the findings and guidance are summarized as follows:

Sub-recipient Monitoring and Oversight

Staff has taken a considerable amount of time to increase the monitoring and oversight of sub-recipients and their consultants. According to HUD, the records did not show evidence of on-site monitoring of grantees or written performance measures and objectives in the consultants' contracts. Those procedures and documents have been re-written and an on-site monitoring schedule has been established with a goal of completing one a month. Staff also re-wrote the Citizen Participation Plan, which was ultimately approved by the HUD San Francisco Regional Office and City Council.

Staff is still investigating the micro-enterprise training program and documentation of its clients' income. This program is provided by the Yuba College Small Business Development Center who manages the program very well run and offers a professional, high-quality program to aspiring entrepreneurs. However, income documentation is required on every client in that program and because that was not done in those earlier years, the City returned \$20,000 in non-federal funds which was repaid out of the General Fund money to HUD. These funds can be re-allocated back to the City for use on other CDBG eligible projects.

In response, staff has spent a great deal of time since last spring in revamping the program and augmenting the documentation necessary for compliance. The sub-recipients have commented that more work and more responsibilities are required now than under previous grants. Staff has attempted to provide more assistance by using the Housing Rehabilitation construction specialist to meet with each of the grantees and assist them with the construction projects. This staff member helps draft the scopes of work, prepare bid packages, submit public notices, complete the environmental reviews including the 8-step flood noticing process when necessary, explain Davis-Bacon regulations, find contractors when none respond to the bid notices, and monitor construction. Thus far, of the nine construction projects, two projects are completed, five are working on the environmental review or defining the scope of work, and two are soliciting bids.

The six non-profit organizations that received CDBG funds to provide social services (non-construction) are doing well and are consistently, with regular reminders from City staff, making the required quarterly reports and providing all the necessary documentation including verification of clients' income and demographic characteristics.

Environmental Review

Upon HUD's direction, staff went back through the files and prepared or corrected the environmental review of all the projects and programs for those two years.

Housing Rehabilitation

Efforts are also being made to increase housing rehabilitation activity. Based on the previous financial reporting system, program staff thought there were no funds available for housing rehab loans. After scrutinizing the revenue, including Program Income such as loan payments and unspent entitlement funds received over the years, staff identified more than \$340,000 available for housing rehabilitation above the amount reported. As a consequence, last year, just one loan was made; no loans were made in the previous year, but this year four applications have been submitted in just six months for housing rehabilitation assistance and three loans have been made to Spring Lake home buyers.

Now that it is realized that funds are available, staff is trying to improve outreach by marketing through small construction contractors and increasing general advertising. More revenue could be collected for this activity if staff is available to monitor the loans more regularly and identify overdue loan payments.

Financial Issues

The letter from HUD indicated that some of its findings resulted from inaccuracies in the reporting and tracking of income received from loan payments (Program Income), drawing down funds, and closing out projects. HUD's criteria for handling, recording, and tracking federal funds are a challenge to coordinate with normal local government accounting procedures. For example, there is a requirement to isolate project expenditures to the year the funds were awarded, and use the "oldest" money allocated first and using Program Income even before that. Finance and Redevelopment staff has spent many hours going back to track expenditures, modify coding, and reallocate funds to improve visibility of available funds.

An additional financial test is to ensure that the federal accounting records match the City's records. With the exception of Program Income, staff has completed reconciling entitlement expenditures in both the City's financial system and HUD's financial system. Finance and Redevelopment staff have worked together to establish processes to help prevent further discrepancies

As a result of the effort, staff has been able to identify and allocate over \$200,000 in old, unspent entitlement funds to more current projects. At the beginning of 2007, some projects had unspent funds that had been originally allocated in 1998; now the oldest allocation unspent is from 2003.

Further analysis of Program Income allowed program staff to see that approximately \$117,000 was available, and was subsequently assigned to appropriate projects. Additionally, another \$122,000 of Program Income has been collected during FY08, which can be allocated to projects. As a consequence, the City will have much more than the usual \$200,000 to \$300,000 available to assign to new capital projects next year. Our estimate, though still being finalized, is now about \$796,000 (including housing

rehabilitation). Program staff believes that, if staffing resources are available, continued monitoring of outstanding loans and inactive projects could result in future additional funding for capital projects.

Discussion

As staff continues to manage the CDBG program, the need for adequate resources to insure compliance with federal requirements is essential. In addition to avoiding the repayment of non-federal funds if inaccuracies are discovered, compliance can actually provide additional resources for the program as illustrated in the preceding section.

Future '08/'09 CDBG Program

In January, staff held an application workshop for the next round of funding for FY '08-'09. Staff plans on following the procedures and rating system established last year that was well received by community organizations. To increase the impact of CDBG funds and to maximize limited staff resources, it may be a good idea to increase the minimum grant for construction projects to \$50,000 or higher—and as always---evaluate the past track record and project readiness for project selection.

Because administering the CDBG program in a correct manner requires such a high level of regulatory compliance, it has been staff's experience that more than one full-time person is needed to run the program. Deficiencies in program administration have been repeatedly brought to the City Manager's attention in the last two audits, covering a six-year period. In order not to be an undue burden on the General Fund, it is recommended that the full amount allowed by HUD for administrative costs be approved in the budget. This is 20% of the annual entitlement---about \$112,000. Additional funds are available to cover "project delivery" costs as well if it is desired to allocate funds in that manner. Any less than a 20% allocation would require additional General Fund contributions. As discussed with Council during the December 4 Mid Year Adjustments and on December 11 when staff proposed guiding principles for the 2008-09 budget, additional demands on the General Fund presents a significant financial burden to the City.

Though it may seem that this might take away funds that might otherwise be available for non-profit organizations in the community, our experience in the past year has shown that when staff truly focuses on CDBG, additional funds can be identified and more efficiently used. In addition, the risks associated with under-funding administration costs include inaccurate reporting and returning non-federal payments to HUD. Having adequate staff also results in more projects being completed. Last year, the amount spent increased by over \$200,000.

HIGHLIGHTS of ACCOMPLISHMENTS

The following list briefly highlights CDBG accomplishments:

- Prepared and corrected environmental documentation for old files, re-organized checklists and files
- Rewrote Community Participation Plan
- Prepared sub-recipient monitoring manual and checklist
- Started on-site monitoring of sub-recipients
- Re-vamped tracking and recording of CDBG funds received and allocated with the Finance Department staff.
- Closed out 23 projects from financial records
- Reallocated “inactive” funds in the amount of \$200,000 to six additional projects
- Revived housing rehabilitation program with the identification of about \$300,000 in unused funds and increased the number of housing loans from one last year to six in the first six months of this year.
- Used construction technician to assist grantees with correctly managing construction projects and assist them in accomplishing those more quickly
- Increased amount of funds available for public services by correctly identifying flow of Program Income

Many improvements have been made in the administrative systems the City uses to run the CDBG program. It is hoped that these new systems will be ongoing, easily understandable, and transferable as staff change over time.

Public Contact

The public was informed through the posting of the City Council agenda. Also, informal discussions regarding the changes in CDBG have occurred with some non-profit organizations that have received CDBG funds in the past.

Alternative Courses of Action

1. Review the status report on the Community Development Block Grant (CDBG) program and consider increasing the amount of funds available for program administration from 15% to 20% as part of the FY 2008-09 budget.
2. Review the status report on the Community Development Block Grant (CDBG) program and direct staff to continue the present level of funds available for program administration.

Recommendation for Action

Staff recommends that the City Council approve Alternative No. 1.

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