

THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: April 30, 2008 REPORT NO: 08-070

ATTENTION: Council President and City Council
Agenda of May 6, 2008

SUBJECT: FY 2009 Community Development Block Grant Program

REFERENCE: Memorandum to Council President and City Council from
Mayor Jerry Sanders, Dated March 27, 2008 –
Subject: FY 2009 Community Development Block Grant (CDBG)
and Social Service Programs

REQUESTED ACTIONS:

- Authorizing the City Auditor and Comptroller to accept CDBG funds in the amount of \$14,852,521 from the U.S. Department of Housing and Urban Development for the City's FY 2009 CDBG Program.
- Approving the funding recommendations for the City's FY 2009 CDBG Program, set forth in Report to the City Council No. _____, a copy of which is on file with the Office of the City Clerk as Document No. RR-_____, contingent upon certification of funds availability by the City Auditor and Comptroller, and that the Core City Priorities and CDBG-Funded Projects approved for funding be incorporated into the City's FY 2009 Action Plan.
- Directing that the Core City Priorities and those projects and programs approved for CDBG funding be incorporated into the City's FY 2009 CDBG Action Plan.
- Authorizing the Mayor or his designee to negotiate and execute agreements, with those agencies for which projects and programs have been approved for CDBG funding, contingent upon certification of funds availability by the City Auditor and Comptroller.
- Authorizing the Executive Director of the San Diego Housing Commission to negotiate and execute agreements, and any amendments thereto, with those agencies for which projects and programs have been approved for CDBG funding whose allocations the Mayor or his designee asks the San Diego Housing Commission to administer, contingent upon certification of funds availability by the City Auditor and Comptroller.
- Authorizing the City Auditor and Comptroller to appropriate and expend the CDBG funds for the Core City Priorities and those projects and programs approved for CDBG funding, contingent upon certification of funds availability by the City Auditor and Comptroller.
- Authorizing the City Auditor and Comptroller to reprogram funding from prior year CDBG-funded projects to existing and to FY 2009 projects and programs approved for CDBG funding, contingent upon certification of funds availability by the City Auditor and Comptroller.

- Authorizing the Mayor or his designee to suspend the initiation of new HUD Section 108 Loans during FY 2009 that rely on CDBG and/or General Funds as a repayment source.

STAFF RECOMMENDATIONS:

- Adopt the Requested Actions

SUMMARY:

Background

The Federal Housing and Community Development Act of 1974 established the Community Development Block Grant Program (Program), which is administered by the Department of Housing and Urban Development (HUD). The City of San Diego (City) has participated in the Program since its inception. The overarching goal of the Program is to develop viable urban communities through the provision of decent housing, suitable living environments, and economic activities for persons of low and moderate income.

The Program allows local jurisdictions broad latitude in deciding upon a community development strategy and determining the types of projects to fund. However, there are restrictions on the types of activities that are eligible for funding. These restrictions are defined in the Code of Federal Regulations (24 CFR 570).

Community Development Block Grant staff is responsible for grant compliance and the overall administration of the City's CDBG Program. Each year, the City is obligated to follow a HUD-defined "consolidated planning" process to insure community involvement, project eligibility, and a strategic approach to utilizing CDBG funds. Grantees are required to submit both a five year strategic plan and annual action plans (which are subject to HUD approval) in order to qualify for funding.

Per City Council Policy 700-02 "Community Development Block Grant Program" a formula for allocating the entitlements was created that apportions 60% of the annual CDBG funding discretion to Council Districts, and 40% to the City-wide category under the discretion of the Mayor. The amounts to Districts are based upon the number of low and moderate income residents in each District as a percentage of the whole City.

HUD Monitoring Reviews/Audits:

In Fiscal Year 2008, HUD's Office of Community Planning and Development completed two "Monitoring Reviews" of the City's CDBG Program. A Fiscal Year 2007 On-Site Monitoring Review was completed in August, 2007 and an Environmental Monitoring was completed in February, 2008. Several findings were identified and corrective measures recommended in each case. In addition, a letter was sent by HUD in February, 2008 regarding the City's lack of a comprehensive Fair Housing Program.

As of April 2008, HUD's Office of Inspector General (OIG) has begun an audit of the City's CDBG loans with the Redevelopment Agency. The OIG also plans on conducting a future audit of the City's CDBG Program. The Redevelopment Agency audit is anticipated to be completed in September, 2008.

Understanding the need for reforms for some time, the Mayor directed City Staff to begin working towards improving the CDBG Program during Fiscal Year 2007.

As of August 2007, upon completion of the first HUD review, resources have been identified for to address programmatic issues and those reform measures are currently underway. Some of these immediate reforms, implemented in Fiscal Year 2008, include the following:

- Council and Mayoral Staff formed a "CDBG Working Group" to discuss various audit findings and possible reforms to the program.
- As a result of the working group, various items of importance were brought to the City's Budget Committee, Audit Committee and City Council (November 2007 thru January 2008) for further discussion and direction.
- Council Policy 700-02 was revised in January, 2008 to include the following language to implement initial reforms to the CDBG Program:
 1. No allocation of CDBG funds will be made to a project for which a CDBG application has not been received by the City.
 2. No allocation of CDBG funds will be made to a project of less than \$25,000, unless funding at a lesser amount is necessary to complete a project.
 3. A Community Based Development Organization (CBDO) certification process will be conducted in an effort to fund eligible project activities, as defined in the applicable U.S. Department of Housing and Urban Development regulations.
 4. No allocation of CDBG funds will be made to a subrecipient project in the category of "Planning," except for those subrecipients certified by the City as a Community Based Development Organization.
 5. All CDBG applicants shall attend mandatory workshops hosted by City staff during the annual CDBG application period.
 6. All CDBG funds allocated to projects shall be used within three years of the date of the allocation, or such funds are subject to being reprogrammed by the City Council.
- Two existing vacant positions in the Economic Development Division were reclassified to hire appropriate staff for the CDBG Program per HUD's recommendation and to implement audit recommendations
- A process for appropriate documentation of eligibility review was implemented
- A process for appropriate documentation of environmental reviews was implemented
- A process for a more detailed review of CDBG Applications was implemented
- Two Fair Housing Agencies were identified as having the capacity to provide appropriate services to the City of San Diego and meet HUD requirements
- Additional funds were proposed to be included in the FY 2009 CDBG Budget for further corrective measures due to HUD audits and for Fair Housing activities

- Memorandum of Understanding (MOU) are being developed between various City Departments and the CDBG Office regarding eligible activities and expenditures and will be in effect for Fiscal Year 2009

Future course of action:

CDBG funds have been proposed in Fiscal Year 2009 and will be used to implement corrective measures per HUD's directions in their reviews and audits. Examples of possible expenditures include:

- Hire a consultant with expertise in CDBG Regulations to review the City's CDBG Program and offer suggestions on how to implement corrective measures as well as assist with completing the following plans and procedures recommended by HUD:
 - Management Plan
 - Monitoring Plan
 - Fair Housing Plan
 - Environmental Review Policies and Procedures
 - Operating Manual for the CDBG Program
- Hire additional staff or consultant services, to implement future reforms for Fiscal Year 2010 such as:
 - Create and Implement a new "Citizen Participation" process to identify City's priorities for the Fiscal Year 2010 Action Plan
 - Finalize MOUs with City Departments
 - Implement Management/Monitoring Plans developed
 - Bring these items before Council and Committees as required
 - Revise Council Policy on the CDBG Program, as necessary

Discussion

The City's CDBG entitlement grant amount for FY 2009 is \$14,852,521 which is a \$572,073 (4%) reduction from the current fiscal year.

The City opened a CDBG application process on February 1, 2008, which remained open until February 28, 2008. A total of 111 applications were received by the City, for an amount requested totaling approximately \$26.2 million. On March 24, 2007, all applications were forwarded to the City Council for funding consideration.

On March 27, 2008, the above-referenced Memorandum was provided to the City Council. Attachment 1 of that memorandum includes proposed CDBG allocations for the following Core City Priorities:

Core City Priorities

- CDBG Administration*	\$ 770,000 (Administrative)
- Fair Housing*	\$ 125,000 (Per HUD Direction)
- Response to HUD Audits*	\$ 200,000 (Administrative)
- Social Svcs/Econ Dev Project Mgmt.*	\$ 480,000 (Project Management)
- E&CP (CIP) Project Management*	\$ 450,000 (Project Management)
- Section 108 Loan Payments	\$ 3,193,477 (prior City Council action)

- Social Services (15%)*	\$ 2,227,878 (Council Policy 700-02)
- Housing Commission – Affordable Hsng	\$ 1,277,478 (Council Policy 700-02)
- ADA Barrier Removal Program	\$ 1,080,979 (past practice)
Total	\$ 9,804,812

* Details provided below

CDBG Administration/Social Services/Economic Development Project Management

CDBG Administration Costs were divided into two categories this year (CDBG Administration and Social Services/Economic Development Project Management). In the past these two costs had been combined into one amount (CDBG Administration).

Engineering & Capital Projects Department Project Management Charges

Most CDBG funded public improvement projects involving non-profit agencies are managed by the Architectural Engineering and Contracts Division of the Engineering & Capital Projects Department. In accordance with City Council direction during the FY02 CDBG hearings, \$450,000 is recommended to cover project management charges. However, this figure may be revised in future years based on analysis of how these funds are spent. A Memorandum of Understanding is being developed with this Department as to how the funds will be used as well as the monitoring and reporting responsibilities to the CDBG Program. In addition, costs need to be defined as either “direct delivery” or “overhead/administrative” to ensure that funds are used appropriately.

Fair Housing

A recent letter from the U.S. Department of Housing and Urban Development (HUD) stated that the City of San Diego lacked a comprehensive Fair Housing Program. Per HUD, one way to establish such a program is to contract with a Fair Housing Agency. Therefore, \$125,000 is being set aside for this purpose.

Social Services

In accordance with the Council Policy, Social Service programs will receive 15% or \$2,227,878. The selection process developed in FY06 will remain and funds will be allocated accordingly. This money will be allocated from the Citywide allocation.

Response to HUD Audits

\$200,000 has been set aside to be used for further corrective measures due to HUD audits and monitoring reviews i.e. hire additional staff or consultant services to implement reforms for Fiscal Year 2010 such as creating and implementing a new “Citizen Participation” process to identify City’s priorities for the Fiscal Year 2010 Action Plan.

In accordance with Council Policy 700-02 “Community Development Block Grant Program” and City practice since FY1994, each Councilmember identifies his/her respective funding priorities in a written memorandum. Those recommendations are submitted to the Mayor’s Office by all Council Districts. The Mayor’s Office puts forth funding recommendations for discretionary funding in the “Citywide” category.

All project funding recommendations have been incorporated into a complete list and are included as **Attachment 1** of this report. This list will be made available to all CDBG

applicants, and put on the City's website for public review prior to the Annual CDBG Appropriation Hearing on May 6, 2008. In addition, a complete list of "requests for funding" was made available to the public as part of the public noticing requirements for the Fiscal Year 2009 Action Plan prepared for the Department of Housing and Urban Development (HUD).

FISCAL CONSIDERATIONS:

There is no impact to the City's General Fund from this action. Funding for each project described in this report is available from the Community Development Block Grant Program.

PREVIOUS COUNCIL AND/OR COMMITTEE ACTION:

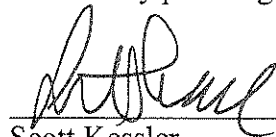
Budget Committee Meetings (12/6/07, 1/9/08, 1/16/08); Audit Committee Meeting (11/19/07); City Council Meeting (1/29/08)

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

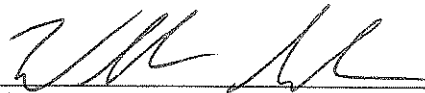
The application for federal entitlement grants (which includes the City's CDBG entitlement grant) is referred to as the Consolidated Plan. The Consolidated Planning process includes a community input process, during which staff presented the Plan and requested feedback from each community planning group representing low and moderate income communities. Further, the process was brought before the Land Use and Housing Committee and the San Diego Housing Commission for discussion. The CDBG application process was noticed on the City of San Diego's website, and notices were mailed to the City's CDBG mailing database which includes names and addresses of approximately 300 potential applicants. The availability of funds was also noticed in the San Diego Union Tribune newspaper.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Residents of low and moderate income communities; community-based organizations; community planning groups; and other community development organizations.



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