



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: February 13, 2009

REPORT NO: 09-009

ATTENTION: Council President and City Council  
Agenda of February 23 & 24, 2009

SUBJECT: FY 2010 Community Development Block Grant (CDBG) Program and  
Emergency Shelter Grant (ESG) Program Entitlements Hearing

REQUESTED ACTIONS:

1. Authorize the City Comptroller to accept Community Development Block Grant (CDBG) funds from the U.S. Department of Housing and Urban Development for the City's FY 2010 CDBG Program.
2. Authorize the City Comptroller to accept Emergency Shelter Grant (ESG) funds from the U.S. Department of Housing and Urban Development for the City's FY 2010 ESG Program.
3. Approve the funding recommendations for the City's FY 2010 CDBG Program and ESG 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 fund availability by the City Comptroller.
4. Direct that the City's Funding Obligations and those projects and programs approved for CDBG and ESG funding be incorporated into the City's FY 2010 Five-Year Consolidated Plan and Annual Action Plan.
5. Authorize the Mayor or his designee to negotiate and execute agreements, with those agencies for which projects and programs have been approved for CDBG and ESG funding, contingent upon certification of fund availability by the City Comptroller.
6. Authorize the City Comptroller to appropriate and expend the CDBG funds for the City's Funding Obligations and those projects and programs approved for CDBG and ESG funding, contingent upon adoption of the FY 2010 Appropriation Ordinance and contingent upon certification of funds availability by the City Comptroller.
7. Authorize the Mayor or his designee to suspend the initiation of new HUD Section 108 Loans during FY 2010 that rely on CDBG and/or General Funds as a repayment source.
8. Authorize the City Comptroller to accept the funding appropriations from SDHC for the Homeless Emergency Winter Shelter Program and the Regional Taskforce on the Homeless projects, contingent upon approval by the Housing Commission Board and the Housing Authority and contingent upon certification of fund availability by the City Comptroller.

STAFF RECOMMENDATIONS:

Adopt the Requested Actions.

## SUMMARY:

### Background

The Federal Housing and Community Development Act of 1974 established the Community Development Block Grant (CDBG) Program, which is administered by the Department of Housing and Urban Development (HUD). The City of San Diego (City) has received CDBG Entitlement funds annually since its inception. The overarching goal of the CDBG 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 CDBG Program allows local jurisdictions 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).

The CDBG Program and the ESG Program are administered by the Economic Development Division staff of the City Planning & Community Investment Department. CDBG staff is responsible for grant compliance and the overall administration of the City's CDBG Program and ESG 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 and ESG 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.

In addition, the City is a grantee of the Emergency Shelter Grant (ESG) Entitlement. The objectives of the ESG Program are to increase the number and quality of emergency shelters and transitional facilities for homeless individuals and families, to operate these facilities and provide essential social services, and to help prevent homelessness. Since its inception, the ESG Program has helped to provide facilities and services to meet the needs of the homeless people. The City has utilized the ESG funds to support the City's Cortez Hill Family Center and the Homeless Emergency Winter Shelter Program.

### City CDBG Program Reforms:

During Fiscal Year 2007, the Mayor directed City Staff to begin working towards improving the CDBG Program. The program was reassigned to the Economic Development Division of City Planning & Community Investment. Since then, several Economic Development staff were reassigned, which resulted in the administrative reorganization of the CDBG Program into a centralized group.

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 Review 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.

Program reforms were implemented during Fiscal Year 2008 that included the following:

1. Council Policy 700-02 was revised in January 2008 to include the following language to implement initial reforms to the CDBG Program:
  - a. No allocation of CDBG funds will be made to a project for which a CDBG application has not been received by the City;
  - b. 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;
  - c. 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;
  - d. 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;
  - e. All CDBG applicants shall attend mandatory workshops hosted by City staff during the annual CDBG application period; and
  - f. 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.
2. Two existing vacant positions in the Economic Development Division were reassigned to the CDBG Program per HUD's recommendation for more staffing to implement audit recommendations.
3. A process for appropriate documentation of eligibility review was implemented.
4. A process for appropriate documentation of environmental reviews was implemented.
5. A process for a more detailed review of CDBG Applications was implemented.
6. Two Fair Housing agencies were identified as having the capacity to provide appropriate services to the City of San Diego and meet HUD requirements.
7. Additional funds approved in the FY 2009 CDBG Budget for further corrective measures due to HUD audits and for Fair Housing activities.
8. Memorandums of Understanding (MOU) were developed between various City Departments and the CDBG Office regarding eligible activities and expenditures for the Fiscal Year 2009 period.

During Fiscal Year 2009, the following CDBG Program reforms were implemented:

1. An Accountant III was assigned to the CDBG Program to assist with addressing HUD's findings and/or recommendations.
2. An additional Community Development Specialist II was reassigned to the CDBG Program.
3. One additional Fair Housing agency was identified as having capacity to provide appropriate services to the City of San Diego and meet HUD requirements. The Scope of Services for the Fair Housing activities was standardized to address the concerns identified by HUD.
4. The timeline for the FY 2010 CDBG Application was scheduled earlier than in prior years to ensure the approved allocations can be included in the City's Five-Year Consolidated and Annual Action Plan due to be submitted to HUD in May 2009.
5. Four (4) sessions of the mandatory FY 2010 CDBG Application Workshops were conducted by CDBG staff.

6. All applications submitted by the designated deadline were reviewed by CDBG staff to ensure compliance with application submittal requirements.
7. A review of each applicant's financial status was conducted to determine whether accounting records were maintained using generally accepted accounting principles and to determine their capacity to effectively utilize CDBG funds on a cash reimbursement basis.
8. A presentation on HUD's Office of Inspector General (OIG) audit report was made to the Audit Committee on January 26, 2009.
9. A Consultant Agreement with a February 2009 start date was executed 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
  - Citizen Participation Plan

## DISCUSSION

The City's FY 2010 CDBG application process began earlier than in prior years to facilitate the compliance of the City's reporting and budgeting requirements of HUD. A public notice of available funding was published from October 22, 2008 through November 4, 2008. Shortly thereafter, the FY 2010 CDBG Application packet was made available to the public on November 3, 2008. All potential applicants were required to attend one application workshop session. Four workshops were conducted by CDBG staff. Workshop participants were required to fill out and submit a Certification of Compliance form.

The deadline for submission of the CDBG applications was December 17, 2008. An initial review of all applications submitted by the designated deadline was conducted by CDBG staff. Applicants were required to remain present during this initial review. Those able to satisfy the application submittal requirements were issued a Certification of Submittal form by the CDBG staff. Applications from agencies unable to fulfill application submittal requirements were not accepted and returned to the applicant, along with a Missing Items from Application Submittal form.

A thorough secondary review of the CDBG applications accepted was conducted during the period of December 18, 2008 through January 7, 2009. An improvement to the CDBG Application process undertaken for FY 2010 was to conduct a review of the applicant's financial status to determine whether accounting records were maintained using generally accepted accounting principles and to ensure/determine their capacity to effectively utilize CDBG funds on a cash reimbursement basis. Each applicant was required to submit Audited Financial Statements and/or current tax documents for review. During this review process, additional applications were determined to be ineligible and/or incomplete. Included in this determination were agencies unable to provide requested documents and/or information during the secondary review process.

On January 9, 2009, a total of 107 eligible FY2010 CDBG Applications were provided to the Mayor's Office and each Council District Office for review and consideration of funding. Attachment 1 of that memorandum includes proposed CDBG allocations for the following funding obligations:

Funding Obligations

1. CDBG General Administration*	\$ 1,057,660 (Administrative)
2. Fair Housing*	\$ 314,321 (HUD Requirements)
3. Response to HUD Audits*	\$ 400,000 (Administrative)
4. Grants Compliance Unit Project Mgt.*	\$ 451,308 (Project Management)
5. E&CP (CIP) Project Management*	\$ 450,000 (Project Management)
6. Section 108 Loan Payments	\$ 3,390,790 (prior City Council action)
7. Public Services (15% of Entitlement)*	\$ 2,004,967 (Council Policy 700-02)
8. Housing Commission-Affordable Hsng	\$ 1,277,478 (Council Policy 700-02)
9. <u>ADA Barrier Removal Program</u>	<u>\$ 1,069,316 (20% of Citywide)</u>
Total	\$ 10,415,840

\* Details provided below

1. CDBG Administration

CDBG Administration Costs were divided into two categories this year - CDBG Administration and Grants Compliance Project Management. The CDBG Administration represents staff costs for the general administrative oversight of the CDBG Program, ESG Program, HOME Program and HOPWA Program, which includes developing and implementing policies that ensures the City is in compliance with all requirements set forth by HUD. HUD has expressed serious concerns both verbally and in writing that the City has not applied enough resources to administer the program. In the August 30, 2007 On-Site Monitoring Visit Letter Mr. William Vasquez, Director of HUD's Office of Community Planning and Development states: "We are concerned with the City's capacity to manage its CDBG Program, specifically, the lack of sufficient recordkeeping, administrative systems, and particularly staffing levels. The City's current staffing level is minimal for the amount of funds allocated to the City." To address this concern, more money has been allocated to these functions in FY 2010. Administrative activities include preparing program budgets, schedules, amendments and other reports to HUD, evaluating program results against stated objectives, coordinating the resolution of audit and monitoring findings, developing systems for assuring compliance with program requirements per CFR 570, monitoring program and financial activities for progress and compliance with program requirements per CFR 570, developing interagency agreements and ensuring required National Environmental Policy Act (NEPA) review are completed.

2. Fair Housing

In support of continued commitment to improve the City's Fair Housing Program and address HUD's concerns, the proposed budget represents an increase of \$189,321 in comparison to the funds set aside in FY 2009. The approved budget will be split evenly between the three applicants (Bayside Community Center, Center for Social Advocacy, and Fair Housing Council of San Diego) that submitted FY 2010 CDBG Applications for Fair Housing activities.

3. Response to HUD Audits

An amount of \$400,000 has been set aside to be used for further corrective measures due to HUD and OIG audits and monitoring reviews. The types of expenses include coordination with the consultant hired to develop the Management Plan, Monitoring Plan, Fair Housing Plan, Environmental Review Policies and Procedures, Operating Manual for the CDBG Program, and the Citizen Participation Plan. The budget also includes increased staff levels to implement the plans developed, improve internal controls accounting and tracking procedures, and complete any needed Substantial Amendments to the FY 2010 Annual Action Plan.

4. Grants Compliance Project Management

The Grants Compliance Project Management obligation represents staff costs for the contract administration of CDBG and ESG-funded projects, which include Homeless Services and other Public Services projects, Microenterprise Assistance projects, Minor Residential Rehabilitation projects, and Fair Housing projects. Responsibilities include negotiation of scopes and budgets, conducting desk audits of monthly program and fiscal reports, conducting general site visits and conducting monitoring reviews. As mentioned above, to address HUD's concern about the City's staffing levels for the CDBG Program, additional funds have been allocated to the Grant Compliance Unit.

5. 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 (E&CP) 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 will be developed with E&CP as to how the funds will be used as well as the monitoring and reporting responsibilities to the CDBG Program. In addition, costs have been defined as either "direct delivery" or "overhead/administrative" to ensure that funds are used appropriately.

6. Section 108 Loan Payments

Amounts budgeted represent allocations approved through prior City Council actions for the payment of Section 108 Loans.

7. Public Services (formerly Social Services Program)

In accordance with the HUD requirements and Council Policy 700-02, the total award for projects eligible to receive funding under the CDBG Public Services category is limited to 15% of the City's annual CDBG entitlement funds. Historically, recommendations for the allocation of the 15% Public Services activities are presented by the Office of the Mayor as part of the 40% total to be allocated on a Citywide basis per Council Policy 700-02. The selection process developed in FY06 will remain in effect (until otherwise amended by Council Policy) and funds will be allocated accordingly. The CDBG budget for Public Services projects representing a 10% reduction for FY 2010 is \$2,004,967. Additional reductions have been applied

to recommended projects, as a result of a \$200,000 shortfall in San Diego Housing Commission funds for the Cortez Hill Family Center project provided in FY 2009 as a one-time allocation.

8. San Diego Housing Commission

Amounts budgeted represent funding to be allocated toward San Diego Housing Commission' Acquisition of Affordable Housing project. The project will benefit low and moderate income persons/households by acquiring affordable rental housing, improving the quality and extending the durability of existing affordable housing, and expanding housing opportunities for lower income households.

9. American Disabilities Act (ADA)

The Mayor is proposing to set aside 20% of the Citywide budget toward ADA projects to implement the City's ADA Transition Plan and ensure ADA compliance citywide. This includes the architectural barrier removal for access to city-owned facilities.

Proposed Allocations

The City has not yet received confirmation from HUD of the federal entitlement amounts to be awarded to the City for FY 2010. However, HUD has indicated that the City should proceed with an allocation process to meet the existing deadlines. All indications are that Congress will be adopting a continuing resolution for the entire federal fiscal year (October 1, 2009 through September 30, 2010). As such, the FY 2010 CDBG entitlement budget being presented for approval represents an estimated breakdown that includes a 10% reduction from FY 2009. Based on the 10% reduction formula, the City's CDBG entitlement grant amount for FY 2010 totals \$13,366,448 which is a \$1,486,073 reduction from Fiscal Year 2009. Once actual FY 2010 CDBG and ESG Entitlement Funds are confirmed by HUD, a second allocation hearing will be scheduled to incorporate additional increases and/or decreases to the funding levels being presented in this action. As with this action, additional FY 2010 CDBG Entitlement funding considerations will be limited to the 107 eligible FY 2010 CDBG Applications.

In accordance with Council Policy 700-02 "Community Development Block Grant Program", each Councilmember identifies their respective funding priorities in a written memorandum, which is then submitted to the CDBG Office. The Mayor's Office puts forth funding recommendations for discretionary funding in the "Citywide" category and forwards them to the CDBG Office.

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.

All FY 2010 CDBG and ESG 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 February 24, 2009. In addition, a complete list of "requests for

funding” is made available to the public as part of the public noticing requirements for the Fiscal Year 2010 Five-Year Consolidated and Action Plan to be submitted to HUD.

Emergency Shelter Grant (ESG) Funds and San Diego Housing Commission (SDHC) Funds

The City is also required to make recommendations for the ESG Program. For FY 2010, the ESG entitlement funds are recommended by the Mayor’s Office as in prior years. The approval of these funds is incorporated into the same action as the CDBG Program for the first time. In prior years, a companion action item was presented to Council for the Social Services Program. The recommendation for FY 2010 is to continue to allocate the City’s ESG entitlement funds to the City’s Cortez Hill Family Center and the City’s Homeless Emergency Winter Shelter Program. The ESG budget for two of the City’s homeless services projects represents a 10% reduction for FY 2010, which is \$598,129.

In addition, SDHC has committed funds toward the Homeless Emergency Winter Shelter Program (\$380,000) and the Regional Task Force on the Homeless project (\$45,000). Acceptance of these funds for these projects is also being presented to Council for approval.

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:

None.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:


The application to be submitted to HUD for federal entitlement grants (which includes the City’s CDBG and ESG entitlement grants) is referred to as the Five-Year Consolidated Plan. The Five-Year Consolidated Planning process includes a community input process, during which staff presents the draft Plan and requests feedback from community groups representing low and moderate income communities and City residents. The San Diego Housing Commission is coordinating the City’s FY 2010-FY2015 Consolidated Planning process. Four focus group meetings will be conducted on March 10 and March 11, 2009. The FY 2010 CDBG and ESG funding allocations will be presented at the meetings. In addition, the planning process will include presentations to the San Diego Housing Commission Board and the City’s Land Use and Housing Committee for discussion. The approval of the City’s Five-Year Consolidated Plan and FY 2010 Annual Plan is scheduled to be presented to City Council on April 15, 2009. (See Attachment 2 for a Summary Timeline).

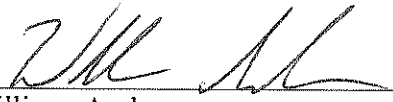
The FY 2010 CDBG and ESG application process was noticed on the City of San Diego’s website, and notices were mailed to the City’s CDBG mailing database which includes names and addresses of over 500 potential applicants. The Availability of Funds was also noticed in the San Diego Union Tribune newspaper and the Daily Transcript.



KEY STAKEHOLDERS AND PROJECTED IMPACTS:

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

  
Beth Murray  
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Economic Development Division

  
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City Planning and Community Investment

**FY 2010 CDBG-ESG PROGRAMS AND  
FY 2010 FIVE-YEAR CONSOLIDATED PLAN AND ANNUAL ACTION PLAN**

**Calendar Summary Timeline**

10/22/08- 11/04/08	Public Notice: Funding availability for FY 2010 of City Federal Entitlements: Community Development Block Grant (CDBG), Emergency Shelter Grant (ESG), Housing Opportunities for People with Aides (HOPWA), HOME Investment Partnership Program (HOME), and American Dream Downpayment Investment Initiative (ADDI); FY 2010 CDBG application availability, and the FY 2009 Reprogramming Hearing
11/03/08	FY 2010 CDBG-ESG applications are available
11/10/08	*Mandatory CDBG application workshops (2 sessions: 10 a.m and 2 p.m)
12/10/08	*Mandatory CDBG application workshops (2 sessions: 10 a.m and 2 p.m)
12/17/08	FY 2010 CDBG applications are due to CDBG Office by 5 p.m.
01/09/09	Mayor and Council to receive binders containing FY 2010 CDBG and ESG eligible applications for review
02/10/09	Public Notice: FY 2010 CDBG Public Hearing scheduled for February 24, 2009
02/24/09	Public Hearing – Mayor and Council CDBG allocations for FY2010
03/03/09	Letter to CDBG applicants regarding FY 2010 Mayor and Council Allocations
03/10/09 & 03/11/09	Four focus group meetings (2 with stakeholders; 2 with City residents) to be conducted as part of the City's FY 2010 Five-Year Consolidated Plan and Annual Action Plan process; approved FY 2010 CDBG & ESG funding allocations to be included in the presentation
04/03/09	Draft FY 2010 Five-Year Consolidated Plan and Annual Action Plan tentatively scheduled to be presented to the San Diego Housing Commission Board
04/15/09	Draft FY 2010 Five-Year Consolidated Plan and Annual Action Plan tentatively scheduled to be presented to the Land Use and Housing Committee
04/21/09 or 04/28/09	Draft FY 2010 Five-Year Consolidated Plan and Annual Action Plan tentatively scheduled to be presented to City Council for approval
05/15/09	Deadline for the City to submit the FY 2010 Five-Year Consolidated Plan and Annual Action Plan to HUD for approval.