

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: April 20, 2007

IBA Report Number: 07-45

City Council Docket Date: April 24, 2007

Item Number: 330

Subject: Fiscal Year 2008 Community Development Block Grant (CDBG) and Social Services Programs

OVERVIEW

On April 24, 2007, the City Council will be discussing the informational item regarding the City's Fiscal Year 2008 Community Development Block Grant (CDBG) and Social Services programs in response to the Mayor's Fiscal Year 2008 CDBG and Social Services programs memo distributed to the City Council on March 26, 2007. The Public Hearing for applicant testimony is scheduled for the May 8, 2007 City Council meeting. The Mayor's Fiscal Year 2008 CDBG and Social Services memo consist of changes to the allocation of City Council's discretionary funds to include social services programs and the Housing Commission.

FISCAL/POLICY DISCUSSION

During Fiscal Year 2007, the Mayor's office reviewed the process and the allocations for Fiscal Year 2008. A Task Force was gathered for input to the proposed process. The goals of the Task Force were to recommend a CDBG process that identified core uses of CDBG under the federal guidelines, identify the City's core needs for CDBG, set parameters/criteria as to uses of CDBG, and to leverage CDBG funds to maximize funding resources.

The IBA office participated in the Task Force and learned about many of the Mayor's ideas. All Task Force participants offered suggestions and recommendations on a new CDBG process. However, the Task Force ended prematurely and to compound it, this policy discussion never came before Council Committee or City Council in a timely manner. No final proposals or recommendations were made. It was represented to our office in January 2007 by the Mayor's office that no changes would be made for Fiscal Year 2008.

Thus, the IBA recommends that the City Council not adopt the Mayor's proposed changes to the CDBG on a permanent basis until it has had a full examination by the City Council. The IBA recommends however, that they be implemented in practice only for Fiscal Year 2008 and that any reserve funds be used to offset the proposed reduction to the Council Districts.

The Mayor's submitted proposal has valuable suggestions for allocating the City's CDBG funds and the policy should be considered for Fiscal Year 2009. In accordance with Council Policy 700-02, 60 percent of the City's annual funding will be allocated to individual Council Districts and 40 percent will be allocated on a city-wide basis via the Mayor's office. The City's CDBG grant amount for Fiscal Year 2008 is \$15.4 million, a slight reduction from last year.

The Mayor's memo contains changes to the allocation of City Council's discretionary funds to include social services programs and the Housing Commission. In prior years, the allocation to social services programs and the Housing Commission came from the 40 percent city-wide allocation. By adjusting these allocations from city-wide to City Council, a city-wide net balance of \$2.3 million is available to allocate additional CDBG funds to ADA eligible projects for a total city-wide CDBG allocation of \$3.5 million. This allocation adjustment will reduce the amount each Council district receives to allocate to other funding needs by approximately \$270,000. The following chart displays the Council District's net balance with the proposed allocation changes and the net balance excluding the proposed allocation changes.

FY 2008 PROPOSED BUDGET									
Community Development Block Grant Program									
	CD - 1	CD - 2	CD - 3	CD - 4	CD - 5	CD - 6	CD - 7	CD - 8	city-wide
Proposed Net Balance	197,299	231,704	905,060	240,276	181,925	666,684	421,670	269,343	2,293,675
FY 08 change (Social Services & Housing Comm.)	269,338	269,338	269,338	269,338	269,338	269,338	269,338	269,338	(2,154,704)
Net Balance without reduction	466,637	501,042	1,174,398	509,614	451,263	936,022	691,008	538,681	138,971
Reserves	284,529	24,919	5,769	54,026	969,051	36,471	54,674	203,140	0
Total Balance without reduction plus reserves	751,166	525,961	1,180,167	563,640	1,420,314	972,493	745,682	741,821	138,971
Total Balance with reduction plus reserves	481,828	256,623	910,829	294,302	1,150,976	703,155	476,344	472,483	2,293,675

Other Changes to the FY 2008 CDBG funding allocation process

The Mayor is proposing that a project minimum of \$25,000 be established so that no project is funded receiving less than this cumulative amount. The Mayor is proposing that projects be completed within one year of funding date. If projects are not completed within three fiscal years of funding date, the funds will be subject to reprogramming. Applicants are asked not to apply for general operating and maintenance expenses. The IBA recommends implementing these changes for Fiscal Year 2008. These changes are to ensure that CDBG funding is utilized for its intended purpose and to maximize the use of CDBG funding.

ADA

The Americans with Disabilities Act of 1990 (ADA) addresses the right of people with disabilities to obtain equal access to services, programs, buildings, facilities and employment. The law has far reaching impacts on local jurisdictions both architecturally and programmatically. The City of San Diego has utilized Community Development Block Grant Funds (CDBG) as the primary funding source for retrofitting non-compliant public infrastructure. The Fiscal Year 2008 Proposed Budget includes an additional \$10 million for ADA projects as planned in the Mayor's Five-Year Financial Outlook, presented last year. The Mayor's Five-Year Financial Outlook also includes \$10 million per year for ADA related improvements. \$10 million a year represents a significant increase over the City's previous annual ADA expenditures. While the federal government is likely to view this as a positive development, it is important to note that the City has yet to comply with ADA and must spend considerably more than \$50 million over five years to achieve full compliance. As stated above, by adjusting City Council discretionary allocations from city-wide to City Council, a city-wide net balance of \$3.5 million is available to allocate additional CDBG funds to ADA eligible projects to address ADA requirements for Fiscal Year 2008.

Housing Commission

The housing programs' goals is to preserve and expand a continuum of affordable housing opportunities and revitalize low and moderate income neighborhoods to create healthy and sustainable communities. The Mayor's Fiscal Year 2008 CDBG memo proposes allocating approximately \$1.3 million for the Housing Commission for affordable housing. On the Council Docket for Tuesday, April 24th is continuing resolution R2006-702 Declaring a Continued State of Emergency Due to Severe Shortage of Affordable Housing in the City of San Diego. Given the policy priority of this issue for the City, the IBA supports the continued CDBG allocation to the Housing Commission. Council Policy 700-02 targets 20 percent of the annual CDBG entitlement is to be used for affordable housing purposes. The Mayor's Fiscal Year 2008 CDBG memo proposes the same percentage of funding as Fiscal Year 2007 for the Housing Commission of approximately 8 percent. The IBA recommends the continued allocation from the city-wide CDBG allocation. This is a major city-wide issue and should be

funded thru the city-wide CDBG allocation. The Council could still allocate additional discretionary CDBG funding to address the City's affordable housing needs.

Social Services

Council Policy 700-02 requires a 15 percent allocation of each year's CDBG entitlement funds to be expended for social services. The Mayor's Fiscal Year 2008 CDBG memo is consistent with this policy. The memo proposes allocating social service program funding based on the formula 60/40 in accordance with council policy. Council has not received the additional memo regarding the organizations recommended for funding.

The types of projects/programs funded through the Social Service Program include youth, homeless, people with disabilities, HIV/AIDS, victims of domestic violence, seniors, and other social service programs.

Funding for the Winter Shelter is not included in the Fiscal Year 2008 proposed budget. The San Diego Housing Commission funded the winter shelter in 2006 with reserve funds, which are extremely low. If the Housing Commission is unable to fund the Fiscal Year 2008 Winter Shelter Program, then the Mayor will need to identify other revenue to fund this program. CDBG allocated \$145,000 to the Winter Shelter in Fiscal Year 2007. The Winter Shelter program budget is approximately \$590,000.

Reserves

The IBA recommends existing reserve funds be allocated in the Fiscal Year 2008 budget since the City currently has 11 percent of CDBG funds in undesignated reserve accounts, and the U.S. Department of Housing and Urban Development (HUD) allows up to 10 percent of CDBG funds to be left undesignated. This will allow additional CDBG funding to be used for other project needs and will partially offset the proposed reduction of \$270,000 per Council District.

CONCLUSION

The Mayor needs to discuss with the City Council his proposed changes to the CDBG policy. This policy discussion is needed given the potential impact to citizens and should have occurred sooner at Council Committee or/and City Council. This should have been done at a much earlier date.

Thus, the IBA recommends that the City Council not adopt the Mayor's proposed changes to the CDBG on a permanent basis until it has had a full examination by the City Council. However, the Mayor's submitted proposal has valuable suggestions for allocating the City's CDBG funds and the following changes are supported for Fiscal Year 2008:

- Project minimum of \$25,000 be established so that no project is funded receiving less than this cumulative amount.
- Projects completed within one year of funding date. If projects are not completed within three fiscal years of funding date, the funds will be subject to reprogramming.
- Applicants asked not to apply for general operating and maintenance expenses.
- Existing reserve funds be allocated in the Fiscal Year 2008 budget

As noted in the Mayor's memo, it is important that the City Council, in collaboration with the Mayor's office, over the next fiscal year revisit Council Policy 700-02 for potential future changes.

[SIGNED]

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