OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 2

Community Development Block Grant Program

OVERVIEW

On Wednesday, January 9, 2008 the Budget and Finance Committee will review proposed changes to the Fiscal Year 2009 Community Development Block Grant Program (CDBG) allocation process. These proposed changes are the first steps to addressing deficiencies outlined in recent Housing and Urban Development (HUD) Audits.

Since October 2007, a representative of the Office of the Independent Budget Analyst (IBA) has participated in a ad-hoc group that has been charged with reviewing the City's CDBG policies and practices. Attendees of this ad-hoc group have included representatives from Council Districts 1, 3, and 8, Auditor's Office, Comptrollers Office, San Diego Housing Commission, and the Mayor's Policy staff.

Historically, Community Development Block Grant funds have been used to fund multiple programs or services in the City's operating, planning, Capital Improvements, Socials Services, and housing budgets. Unfortunately, as disclosed in recent Housing and Urban Development (HUD) Audits, many of these programs and services funded by CDBG do not meet one of the primary objectives which include:

1. Benefit to Low/Moderate Income Person
2. Elimination of Slum and Blight

3. Resolution of an urgent need (Alleviation of an existing condition which poses a serious and immediate threat to the health and welfare of the community, which are of recent origin, or which recently became urgent)

In addition, the HUD audits included concerns on the City's overall management of the program. In the Mayor's January 9, 2008 report to the Budget and Finance Committee, staff outlines seven recommendations for changes to the Fiscal Year 2009 CDBG process. Overall, the IBA supports these recommended changes. The purpose of this report is to augment information provided in the Mayor's report and summarize some of the possible impacts to City operations and future budgets.

FISCAL/POLICY DISCUSSION

Funds must be used within 3 years or automatically reprogrammed

Currently, the City of San Diego has an estimated $10.8 million in CDBG funds that were awarded to recipients prior to Fiscal Year 2005 and have not yet been distributed. It should be noted that some of these award allocations date back to Fiscal Year 1991. The impact to City operations includes an increased workload on already strained staff in the City Comptroller's Office and the City Planning and Community Investment Department. This is due to the fact that until these funds are distributed to the organization, or the funding is reprogrammed, these funds are required to carry forward from year to year and be tracked in the City's financial systems and reported on financial statements. One of the concerns of HUD in their audit is "the City's capacity to manage its CDBG Program, specifically, the lack of sufficient recordkeeping……" ***The IBA agrees that three years should be sufficient for an organization to claim their CDBG funding. We also agree that CDBG allocations awarded prior to Fiscal Year 2005 and have not been distributed should be reprogrammed. However, we recommend that the process for reprogramming of the funds should be outlined and approved by the City Council prior to commencing the reallocation.***

Supplanting Issues

Over the past decade, the City has looked for ways to balance budgets while trying to maintain service levels. In some cases, where the City's General Fund services have been reduced, CDBG funds have been used to help maintain service levels. This practice, referred to as "Supplanting" is a concern to HUD. It should be noted that CDBG funds can be used to augment City Services to address specific conditions, but not replace what the City would normally provide in its operating budget. Some examples include:

- Funding of Neighborhood Code Compliance Officers (If not tied to the elimination of blighted conditions experienced by Low and Moderate Income residents.)
- Funding of administrative costs for Disability Services Program.

- Funding for Maintenance Assessment Districts (MAD) and Business Improvements Districts (BIDs) formations.
- Street Lighting
- Sidewalk Improvements

The IBA would like to point out that the Mayor is working on solutions to continue some of these services without the use of CDBG as a funding source. These solutions include the development and implementation of plans that comply with HUD guidelines or find alternative funding sources. The staff report also indicates that the Mayor will replace $220,000 in CDBG funds related to the administrative costs for the Disability Services Program with General Funds. The Fiscal Impact statement provided in the Mayor's January 9, 2009 report states that for the Fiscal Year 2009 Budget expenses will be reallocated in such a manner that there won't be a net impact to the budget. However, the IBA has concerns that the reallocation of funds from other sources could impact current service levels in other areas. ***The IBA recommends that a comprehensive list of all services or programs deemed ineligible for CDBG funding because of supplanting be provided to the City Council prior to the Fiscal Year 2009 Budget Hearings. In addition, the list should include the proposed solutions used by the Mayor's staff to offset the loss of CDBG Funds for these services or programs.***

Fiscal Year 2009 Timeline

The IBA would like to point out that a revised Fiscal Year 2009 CDBG Allocation Process timeline has been included as an attachment to the Mayor's January 9, 2008 report. The original timeline was presented by the Mayor's staff at the December 6, 2007 Budget and Finance Committee meeting. A significant change to the timeline is pushing back the date that the CDBG applications are available to applicants to allow for the full City Council to discuss the changes to the process at a Council meeting in late January. The table below lists the significant changes from the earlier timeline.

Item	Old Timeline	New Timeline
CDBG Applications Available	January 15, 2008	February 1, 2008
Applications due to the City	February 15, 2008	February 28, 2008
Applications forward to the City Council	March 7, 2008	March 15, 2008
Recommendations of allocations provided to CDBG Staff	Not included on original calendar	April 1, 2008
Summary of recommended allocations provided back to City Council Offices	Not Included on original calendar	April 7, 2008
CDBG Budget Adopted	April 29. 2008	April 29, 2008

CONCLUSION

Overall, the IBA supports the changes to the CDBG program as outlined in the Mayor's January 9, 2008 report. It is imperative that changes are made to the City's CDBG process to ensure compliance with HUD Guidelines. It is also important that the Budget and Finance Committee and ultimately the City Council are fully informed on the operation and budget impacts of the proposed changes.

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