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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Date Issued: May 1, 2008

IBA Report Number: 08-42

City Council Docket Date: May 6, 2008

Item Numbers: 331 & 332

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# FY 2009 Community Development Block Grant & Social Services Programs

On Tuesday, May 6, 2008 the City Council will consider approving the Fiscal Year 2009 Community Development Block Grant (CDBG) and Social Services Programs funding appropriations. The actions requested of the City Council are part of the annual process to appropriate CDBG funds which are received from the U.S. Department of Housing and Urban Development (HUD). The City of San Diego's CDBG allocation for Fiscal Year 2009 is \$14,852,521.

### Introduction

The allocation of the City of San Diego's CDBG funds is governed by a formula outlined in City Council Policy 700-02 (See Attachment A). The formula apportions 60% of the annual CDBG entitlement to City Council Districts, and 40% to the City-wide Category. The amount of funds allocated to each City Council District is based on the percentage of low and moderate income residents in each district.

In August 2007, the City of San Diego received notice from the U.S. Department of Housing and Urban Development (HUD) detailing concerns with the City's compliance with HUD regulations. Additionally, in November 2007, HUD's Inspector General notified the City that they planned on conducting an additional audit with the overall objective of "determining whether management complied with applicable laws, regulations, and requirements of HUD's CDBG program."

Included in HUD's August audit of the City's CDBG program were findings dealing with the management and oversight of the program. To address HUD's concerns, the Mayor convened an ad-hoc group that was charged with reviewing the City's CDBG policies. Attendees of the ad-hoc group included representatives of Council Districts 1,3, and 8, Auditor's Office, Comptroller's Office, San Diego Housing Commission, Mayor's Policy staff, and the IBA.

*A **finding** is a deficiency in meeting applicable program requirements.*

One of the recommendations from the Ad-hoc group was revising City Council Policy 700-02 to implement reforms to the CDBG Program for FY 2009 allocations. These changes, approved by the City Council in January, include:

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 already in progress.
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 sub-recipient project in the category of "Planning," except for those sub-recipients certified by the City as a Community Based Development Organization.
5. All CDBG applicants shall attend mandatory workshops hosted by the 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 will be reprogrammed by the City Council.

For the most part, the proposed Fiscal Year 2009 CDBG allocations meet the criteria established above. There are a few exceptions, but CDBG administrative staff has stated that they are working with the various City Council offices to clarify the discrepancies.

**Impacts to the General Fund**

In many cases CDBG funded activities are budgeted in the City’s General Fund. It is important to note that if these activities are not funded to the levels included in the General Fund a deficit is created. The following table details the major activities funded by CDBG and a comparison between the amount included in the Fiscal Year 2009 Proposed General Fund budget and the proposed CDBG funding amount:

<b>Activity</b>	<b>Amount Included in FY 2009 Proposed General Fund Budget</b>	<b>Proposed FY 2009 CDBG Funding Amount</b>	<b>Difference</b>
CDBG Administration	\$1,342,427 <sup>(1)</sup>	\$1,450,000 <sup>(2)</sup>	\$107,513
Engineering & Capital Projects	\$480,000	\$450,000	(\$30,000)
Neighborhood Code Compliance <sup>(3)</sup>	\$573,279	\$133,667	(\$439,612)

<sup>(1)</sup>\$1,342,427 included in the City Planning Community Investment Department’s FY 2009 Proposed Budget. This amount could include activities not funded by CDBG.

<sup>(2)</sup>Includes \$770,000 from CDBG Admin, \$200,000 for Response to HUD Audits, and \$480,000 for Social Services Project Management.

<sup>(3)</sup>Previously funded through City Council Office allocations.

If the Fiscal Year 2009 Proposed CDBG allocations are approved, CDBG Administration and Engineering & Capital Project's General Fund budgets will need to be updated to match the approved amount.

***The (\$439,612) deficit in the Neighborhood Code Compliance Department is a major concern for the IBA. As noted in our report on the Mayor's Fiscal Year 2009 Proposed Budget (IBA Report# 08-41), we were unclear what the service level impacts would be to the department if the City Council offices contributed less CDBG funding than previous years. If another funding source is not identified, then the department will be required to make reductions.***

### **Changes to Fiscal Year 2008**

A change from the Fiscal Year 2008 allocation is the proposed funding of \$200,000 for the implementation of corrective measures per HUD's directions. Funding would be used to hire a consultant to review the City's CDBG program and offer suggestions for implementing corrective measures. The Mayor is also proposing to hire either additional City staff or consultant services to implement future reforms for Fiscal Year 2010. The reforms include creating and implementing a new "Citizen Participation" process to identify the City's priorities for the Fiscal Year 2010 action plan. The IBA is supportive of the allocation of \$200,000 for these activities.

One of the changes made to City Council Policy 700-02 is that all CDBG funds allocated to projects shall be used within three years of the date of the allocation, or such funds will be reprogrammed by the City Council. The City's CDBG Administration office, with help from the Comptroller's Office, has identified \$2,335,295 in funds that are available for reprogramming. Attachment 1 to the Mayor's April 21, 2008 Report to the City Council on the FY 2009 CDBG program (Report # 08-070) includes the amount, by City Council District, available for reprogramming. ***It should be noted that \$1,336,637 of the \$2,335,295 available for reprogramming is from the Citywide category. It is unclear how these funds will be used since a request to reprogram these funds by the Mayor's staff has not been adopted by the City Council as required by Council Policy 700-02. One suggestion is to use some of the \$1,336,637 to offset the gap in the Neighborhood Code Compliance Department.***

### **Social Services Allocations**

The Fiscal Year 2009 funding allocation for Social Services is \$3,517,466. This includes \$2,227,878 in CDBG funds, \$664,588 in Emergency Shelter Grant (ESG) Funds, and \$625,000 from the San Diego Housing Commission (SDHC). The highest funding priority is given to "City-Initiated" Programs. Attachment 2 to the Mayor's April 30 Report to the City Council on the FY 2009 Social Services Program provides the detail on the proposed Social Services Allocation (Report # 08-071).

An allocation of note is the funding for Social Services from the SDHC. The \$625,000 in funding from the SDHC includes \$200,000 for Cortez Hill Family Center, \$380,000 for the Emergency Winter Shelter Program, and \$45,000 for the Regional Task Force on

the Homeless project. The allocation of these funds is contingent upon approval by the Housing Commission Board and the Housing Authority.

**Conclusion**

The IBA supports the majority of the FY 2009 allocations for CDBG and Social Services. However, the IBA suggests that the City Council request additional information on the following items:

- *The proposed funding allocation for Neighborhood Code Compliance does not match what is budgeted in the Fiscal Year 2009 Proposed Budget leaving a (\$439,612) deficit. If another funding source is not identified, then the department will be required to make reductions.*
- *It is unclear how the Mayor plans to reprogram \$1,336,637 in CDBG funds from previous years. One suggestion is to use some of these funds to offset the deficit in the Neighborhood Code Compliance Department.*

[SIGNED]

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Attachment A