
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: February 20, 2009

IBA Report Number: 09-09

City Council Docket Date: February 24, 2009

Item Number: 333

FY 2010 Community Development Block Grant & Emergency Shelter Grant Programs Funding Appropriations

OVERVIEW

On Tuesday, February 24, 2009 the City Council will consider the Fiscal Year 2010 Community Development Block Grant (CDBG) and Emergency Shelter Grant (ESG) 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 anticipated CDBG allocation for Fiscal Year 2010 is \$13,366,448. This represents a reduction of (\$1,486,071) from Fiscal Year 2009.

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 I). The formula apportions 60% of the annual CDBG entitlement to City Council Districts, and 40% to the Citywide Category. For the Citywide category the Mayor makes recommendations for how these funds should be distributed. The amount of funds allocated to each City Council District is based on the percentage of low and moderate income residents in each district.

Over the last two fiscal years the City of San Diego has been audited by the U.S. Department of Housing and Urban Development (HUD) Regional Office as well as HUD's Inspector General. A significant concern for both HUD's Regional Office and the Inspector General is the City's capacity to manage its CDBG Program including record keeping, administrative systems, and staffing levels. To start to address HUD's concerns, in January 2008 the City Council approved changes to City Council Policy 700-02. Examples of the changes approved included the establishment of a minimum allocation amount of \$25,000 to grantees, implementation of a Community Based Development Organization (CBDO) certification process, and establishing a three year period for grantees to expend funds. In addition to the City Council Policy changes, City staff has hired a HUD certified consulting firm (ICF Consulting) to develop a

Management Plan, Monitoring Plan, Fair Housing Plan, Environmental Review Policies and Procedures, Operating Manual for the CDBG Program, and the Citizen Participation Plan. The consultant will also make recommendations on the sufficient level of staffing required to provide oversight of the City's CDBG program.

For the Fiscal Year 2010 CDBG allocation, a significant challenge facing the Mayor and City Council is how to balance the need to address HUD's concerns while not substantially impacting the funds available for social services and economic development. This is particularly important considering the current economic climate where the services funded by CDBG are desperately needed.

The purpose of this report is to provide a review of staff's proposal for allocating the Fiscal Year 2010 CDBG funds as well as an alternative proposed by Council President Hueso. We also provide additional information to augment the information provided in staff's February 13, 2009 report (Report # 09-009) to the City Council.

FISCAL/POLICY DISCUSSION

Mayor's Proposed Fiscal Year 2010 CDBG Allocation

Attachment II to this report outlines the differences in CDBG allocations from what was approved in Fiscal Year 2009 to the Mayor's Fiscal Year 2010 proposal. Significant changes include:

- An overall reduction of (\$1,486,071) from Fiscal Year 2009. Based on the 60/40% split, the City Council's overall allocation has been reduced by (\$891,642) to \$8,019,869 and Citywide (Mayor) by (\$594,429) to \$5,346,579.
- Costs associated with Administration of the program have increased by \$648,289. More information on the justification for the increase and the method used for the distribution of the administration expenses is discussed below.
- \$245,643 of the total \$1,277,477 for the San Diego Housing Commission has been charged to the City Council's 60% allocation. Previously, the total San Diego Housing Commission's allocation was funded from the Citywide (Mayor) 40% allocation.
- With the reduction to CDBG funding; increased costs for administration; City Council assuming expenses related to the San Diego Housing Commission; and increased expenses related to Section 108 Loans; the City Council's available funding for grantees has decreased by (\$2,081,638) from \$5,032,246 in Fiscal Year 2009 to \$2,950,608 in Fiscal Year 2010.

Mayor's Allocation Proposal for CDBG Administration

In light of the concerns raised by HUD regarding the City's oversight of the CDBG program, the Mayor's allocation proposal includes a significant increase for Administration. In staff's February 13, 2009 Report to the City Council, they identify CDBG Administration as consisting of the categories of General Administration and

Project Management (Grants Compliance Unit). However, in the chart below the IBA has also included the categories of Fair Housing, Response to HUD Audits, and Project Management (Engineering) as part of Administration. Each of these categories fund some form of oversight of the City's CDBG program. As detailed below, the Mayor's proposed CDBG allocations for Fiscal Year 2010 include \$2,673,289 for Administration, a \$648,289 increase from Fiscal Year 2009.

CDBG Administration Funding Fiscal Year Comparison

	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Total CDBG Amount	\$15,506,862	\$15,424,594	\$14,852,521	\$13,366,448
General Administration	\$1,360,000	\$1,150,000	\$770,000	\$1,057,660
Project Management (Grants Compliance Unit)	\$0	\$0	\$480,000	\$451,308
Fair Housing	\$0	\$0	\$125,000	\$314,321
Response to HUD Audits	\$0	\$0	\$200,000	\$400,000
Project Management (Engineering)	\$350,000	\$450,000	\$450,000	\$450,000
Total Administration:	\$1,710,000	\$1,600,000	\$2,025,000	\$2,673,289
Increase/Decrease from Previous Fiscal Year:		(\$110,000)	\$425,000	\$648,289

General Administration & Project Management (Grants Compliance Unit)

These two funding categories represent the staff costs for the general oversight of the CDBG program, ESG Program, HOME Program, and HOPWA Program. In addition, staff is also responsible for the oversight of the sub-recipient contract agreements with non-profit agencies. Some of these duties include contract negotiation, monitoring (including site visits), and technical assistance. The following chart details the positions that are funded by these two categories:

Current Staffing of the CDBG Administration

FTE	Positions	Salary and Fringe	
	Accountant III	1.00	\$104,330
	Administrative Aide II	1.00	\$78,078
	Associate Management Analyst	1.00	\$79,926
	Clerical Assistant II	0.40	\$23,796
	Community Development Coordinator	1.00	\$133,661
	Community Development Specialist II	4.00	\$378,664
	Community Development Specialist IV	1.50	\$177,299
	Deputy Director	0.50	\$84,117
	Housing & Homeless Services Coordinator	0.20	\$23,278
	Senior Management Analyst	2.00	\$209,610
	Word Processing Operator	1.00	\$61,853
Total:	13.60	\$1,354,612	

The current staffing level of 13.60 positions is a significant increase from the Fiscal Year 2008 staffing level of 8.50 positions and is consistent with the Mayor’s focus on improving oversight of the CDBG program. In addition to the 13.60 positions currently funded, the CDBG administration anticipates adding two additional positions in Fiscal Year 2010. However, a decision to propose adding positions is dependent on results of the consultant’s staffing recommendations. The following table details the staffing levels for CDBG Administration over the last three fiscal years and proposed for 2010:

Historical Staffing of CDBG Administration

	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010*
Staffing Total	9.50	8.50	13.60	15.60

*Staffing for FY 2010 is dependent upon recommendations from the consultant hired by CDBG Administration

The total proposed funding for General Administration and Project Management (Grants Compliance Unit) totals \$1,508,968. Of this amount, the City Council’s funding obligation for these two categories is \$905,381 (60%). The \$905,381 funding obligation has been distributed among the eight City Council Districts and is based on the number of low/moderate (low/mod) income individuals in each district when compared to the low/mod income population of the entire City. Administration costs have been allocated to the Council Districts using the same formula. For example, Council District Three will receive 19.1% of the total City Council CDBG allocation for Fiscal Year 2010. Therefore, Council District Three is obligated to fund 19.1% of the costs associated with General Administration and Project Management (Grants Compliance Unit). In theory, Districts with higher CDBG allocations are able to grant more funds to community organizations requiring additional CDBG Administration oversight when compared to districts with less CDBG funds. This is consistent with the allocation method used in past fiscal years for General Administration and more recently for the Project Management (Grants Compliance Unit).

Fair Housing

In addition to HUD’s concerns with the City’s oversight of the CDBG program, they also expressed a concern with the lack of emphasis on Fair Housing. To address these concerns, in Fiscal Year 2009, CDBG funding was identified and included in the new category of Fair Housing. The Mayor’s proposed funding allocation for the Fair Housing category for Fiscal Year 2010 is \$314,321 and, if approved, will be split between three applicants (Bayside Community Center, Center for Social Advocacy, and Fair Housing Council of San Diego). Of the \$314,321 in total proposed funding for Fair Housing, the Mayor is proposing that the City Council’s funding obligation is \$279,396 (89%) and that it be distributed evenly among the eight districts and Citywide (Mayor) allocation. Staff has indicated that they used this allocation method, as opposed to one based on low/mod population, as they believe this program impacts all Council Districts equally. This allocation method is consistent with what was used in Fiscal Year 2009.

Response to HUD Audits

To address HUD's multiple concerns with the City's CDBG program, the Mayor's proposed Fiscal Year 2010 funding allocation for the Response to HUD Audits is \$400,000. Staff has indicated that these funds are for expenses above and beyond those related to the general administration of the program. Examples of these expenses include the hiring of temporary staff and updating of the City's CDBG website. ***The IBA recommends that the City Council be provided additional information on how the funds from Fiscal Year 2009 have been used and the proposal for Fiscal Year 2010.***

Of the \$400,000 in total proposed funding for Response to HUD Audits, the Mayor is proposing that the City Council's funding obligation be \$355,556 (89%) and that it be distributed evenly among the eight Council Districts and Citywide (Mayor) allocation. Staff has indicated that they used this allocation method, as opposed to one based on low/mod population, because this is a program that impacts all Council Districts equally. This allocation method is consistent with what was used in Fiscal Year 2009.

Project Management (Engineering)

The CDBG Section of the Engineering and Capital Projects (E&CP) Department is currently managing 63 active CDBG private agency contracts and 19 inactive projects. The Fiscal Year 2009 Annual Budget includes a total of \$7,254,047 in prior and current year CDBG funds available for project construction. For Fiscal Year 2010, the Mayor is proposing \$450,000 for Project Management (Engineering). If approved, E&CP anticipates using \$156,568 for Administration and \$293,432 for Project/Construction Management and Deliverables. This includes personnel costs related to 1.00 Associate Management Analyst, and 3.00 Engineers. It should be noted that E&CP is budgeted in the City's General Fund, but is 95% reimbursable from funds other than the General Fund. If the E&CP were to lose CDBG funding, another source of funding would need to be identified to provide the services necessary for the management of the private agency projects.

Of the \$450,000 in anticipated funding for Project Management (Engineering), the Mayor is proposing that the City Council fund the total amount (100%) using the low/mod funding allocation used for Grant Administration. Staff has indicated that the reason that the 60/40% overall allocation method is not used is due to the fact that the Mayor does not currently have CDBG funded "brick and mortar" projects. This Allocation method is consistent with what has been used in the past. The IBA would like to point out that in many cases the benefit of a project is not just the residents of a specific district but all the citizens of San Diego.

Council President Hueso's Alternative Proposal for the allocation of Fiscal Year 2010 CDBG Funds

In his February 17, 2009 Memorandum to Beth Murray, Deputy Director of Economic Development, Council President Hueso suggests an alternative allocation proposal for Fiscal Year 2010. His alternative allocation proposal contains the following significant changes from the one proposed by the Mayor:

- 60/40% split for Fair Housing, Response to HUD Audit, and Project Management (Engineering), as opposed to an equal split between the Council Districts and Citywide.
- Merge the Project Management (Grants Compliance Unit) and Project Management (Engineering) into one category for a total funding amount of \$450,000.
- Make the City Council portion of the San Diego Housing Commission's (SDHC) allocation discretionary. If all Council Districts elected to not fund their proposed share, SDHC would receive a (\$245,643) reduction to their overall proposed allocation of \$1,277,478.

Attachment III to this report compares the Mayor's allocation proposal to Council President Hueso's. If Council President Hueso's proposal was approved, an additional \$657,144 would be available to the City Council offices for distribution. It is assumed that these funds would be distributed to the various Council Districts using the low/mod allocation method. However, if approved, overall funds for CDBG Administration would be reduced by (\$451,308). In addition, \$386,359 would need to be reallocated or reduced from other areas to meet the deficit created in the Citywide (40%) portion of the allocation. This could have serious impacts to the proposed programs to be funded by the Citywide portion. Additionally, a reduction to the SDHC's allocation could result in impacts to the agency's ability to provide services to the San Diego community.

San Diego Housing Commission (SDHC) Allocation

The Mayor's proposed Fiscal Year 2010 CDBG Allocation includes \$1,277,478 for the San Diego Housing Commission, the same funding level as Fiscal Year 2009. In a departure from previous years, the City Council is being asked to fund \$245,643 of the \$1,277,478. The \$245,643 has been distributed across the City Council Districts using the low/mod allocation formula. Staff has indicated that they elected to have the Council Districts assume some of the funding for SDHC to keep the agency at the same level as Fiscal Year 2009. Due to the 10% reduction to the Citywide portion (40%), funding was required from the City Council District's (60%) allocation to keep the agency at a Fiscal Year 2009 funding level.

The San Diego Housing Commission staff has indicated that if approved, the allocation of CDBG funds will be used for the Acquisition of Affordable Housing program and "brick and mortar" projects. This would be a departure from previous years. In the past, CDBG funding has been used for administrative costs. However, HUD has indicated to

the City that they would like to see more funding earmarked for projects as opposed to administration costs. Housing Commission staff has stated that the Commission will cover administrative costs from its own agency budget; however the subsequent impact of this shift in funding has not been determined at this present time. In addition, the specific projects to be funded using CDBG are not known at this time.

Winter Shelter Program

For Fiscal Year 2010, the Mayor is proposing to fund the Winter Shelter program at the same level as in Fiscal Year 2009. The \$680,000 in proposed funding would come from the following funding sources:

- \$195,000 in Emergency Shelter Grant funds
- \$105,000 in CDBG funds
- \$380,000 from SDHC's Fiscal Year 2010 budget. This is contingent upon final adoption of the SDHC FY 2010 Annual Budget, which must be approved by the Housing Authority.

One note of caution concerning the SDHC's Fiscal Year 2010 budget, with the loss of CDBG funds for administration and the \$380,000 required for the Winter Shelter, staff has indicated that they might need to use reserves to fund program requirements.

Americans with Disabilities Act (ADA) Allocation

The Mayor's proposed Fiscal Year 2010 CDBG Allocation for ADA includes \$1,069,316. Based on the information provided, it is unclear what specific projects would be addressed with the proposed funding. ***The IBA recommends that the City Council be provided with specific project detail for the proposed funding allocation. Additionally, we recommend that the City Council be provided with a breakdown between estimated project implementation costs and related City staff administration costs.***

Impacts to the City's General Fund

In many cases CDBG funded activities are budgeted in the City's General Fund. Based on the Mayor's proposed Fiscal Year 2010 funding allocations, many General Fund programs could lose funding. The following table details the major activities proposed to be funded by CDBG and a comparison between the amounts included in the Fiscal Year 2009 Annual Budget:

General Fund Programs Funded by CDBG*

Department	Program	Fiscal Year		Difference
		2009	2010	
City Planning & Community Investment	Cortez Hill Family Center	\$0	\$243,568	\$243,568
City Planning & Community Investment	Homeless Emergency Winter Shelter	\$82,109	\$105,000	\$22,891
City Planning & Community Investment	Neil Good Day Center	\$438,841	\$438,841	\$0
Park & Recreation	Power Beach Wheelchair Program	\$25,000	\$25,000	\$0
Park & Recreation	Senior Citizens Services	\$180,416	\$136,197	(\$44,219)
Park & Recreation	Therapeutic Recreation Services	\$469,188	\$354,175	(\$115,013)
Administration - EOC	Mentor Protégé Program	\$27,500	\$7,500	(\$20,000)
Environmental Services	Lead Safe Neighborhoods Program	\$102,500	\$39,000	(\$63,500)
DSD - Neighborhood Code Compliance	Proactive Enforcement - Council Districts 3, 4, 6, 7, 8	\$555,604	\$175,000	(\$380,604)
Total:		\$1,881,158	\$1,524,281	(\$356,877)

* Excludes CDBG Administration

If the Mayor's CDBG allocation proposal is approved, other funding sources would need to be identified during the Fiscal Year 2010 Budget process to close the deficit created in these departments. One option for the Council to consider is if additional CDBG funds are received by the City in the future then these programs would take priority for the additional CDBG funds.

CONCLUSION

A significant challenge facing the Mayor and City Council is how to balance the need to address HUD's concerns while not substantially impacting the funds available for social services and economic development. This is particularly significant considering the current economic climate where the services funded by CDBG are desperately needed.

The purpose of this report was to provide a review of staff's proposal for allocating the Fiscal Year 2010 CDBG funds as well as an alternative proposed by Council President Hueso. We also provided additional information that we feel augments that provided by staff in their February 13, 2009 report to the City Council.

[SIGNED]

 Jeffrey Sturak
 Fiscal & Policy Analyst

[SIGNED]

 APPROVED: Andrea Tevlin
 Independent Budget Analyst

Attachments