



THE CITY OF SAN DIEGO

---

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

---

Date Issued: April, 25, 2014

IBA Report Number: 14-13

City Council Docket Date: April 28, 2014

Item Number: 151

---

# Review of the FY 2015 – FY 2019 Consolidated Plan and Annual Action Plan

## OVERVIEW

On April 28, 2014, the City Council will be asked to approve the City's FY 2015 – FY 2019 Consolidated Plan (Con Plan) and the City's FY 2015 Annual Action Plan (Action Plan). The City of San Diego's Con Plan is updated every five years and is required by the United States Department of Housing and Urban Development (HUD) in order to receive federal housing and community development funding for all HUD entitlement grants. The grants addressed in the Con Plan and Action Plan include the Community Development Block Grant (CDBG); HOME Investment Partnerships Program (HOME); Emergency Solutions Grant (ESG); and Housing Opportunities for Persons with AIDS (HOPWA). Additionally, every year the City develops an Action Plan to identify funding determinations that are aimed at furthering the goals in the Con Plan. The City's total FY 2015 HUD funding allocations for these entitlement grants amount to \$19,123,147 and include:

- CDBG \$10,978,461
- ESG \$920,222
- HOME \$4,386,711
- HOPWA \$2,837,753

The purpose of the Con Plan is to provide a strategic framework for allocating these funds in the most efficient and effective manner while complying with applicable requirements. The City contracted with LeSar Development Consultants to develop the FY 2015 – FY 2019 Con Plan. Working with City staff during October and November of 2013, a variety of community outreach efforts were conducted to solicit input from stakeholders. The Con Plan goes into detail regarding the extensive outreach that was performed and also summarizes the results. The information gathered from this outreach was the basis for the formulation of the six Con Plan goals that were approved by the City Council on December 17, 2013. These goals guide the Con Plan's strategic actions to address needs which represent high priorities for low and moderate income communities within the City of San Diego and include:

1. Enhance the City's economic stability and prosperity by increasing opportunities for job readiness and investing in economic development programs.
2. Strengthen neighborhoods by investing in the City's critical public infrastructure needs.
3. Improve housing opportunities by creating and preserving affordable rental and homeowner housing in close proximity to transit, employment and community services.
4. Assist individuals and families to stabilize in permanent housing after experiencing a housing crisis or homelessness by providing client-appropriate housing and supportive service solutions.
5. Invest in community services and non-profit facilities that maximize impact by providing new or increased access to programs that serve highly vulnerable populations such as youth, seniors and food insecure households.
6. Meet the needs of persons with HIV/AIDS and their families through the provision of housing, health, and support services.

The proposed Con Plan has been discussed at various Consolidated Plan Advisory Board (CPAB) meetings and was presented to the Community Planners Committee (CPC) on March 25, 2014. They both voted to forward the Con Plan to the City Council for consideration. Additionally, the Con Plan was considered by the Public Safety and Livable Neighborhoods (PS&LN) Committee on March 19, 2014, and they voted 4-0 to approve and forward to the City Council.

This report provides: comments on progress the City has made in regard to CDBG and HUD entitlement program allocations since the HUD Audits; highlights of the FY 2015 - FY 2019 Con Plan; a discussion regarding the proposed CDBG refined allocation for FY 2016 – FY 2019; and a brief outlook for CDBG funding based on current trends and recent actions by the Department of Finance (DOF).

## FISCAL/POLICY DISCUSSION

### *Status of Administrative & Process Improvements*

Since the HUD monitoring reviews in 2007 and the HUD Office of the Inspector General (OIG) Audit in 2008, the City has made significant progress in addressing compliance issues with HUD program regulations and CDBG program monitoring and administration. Improvements have been made over the last several years and include: an updated Council Policy (CP 700-02) to reflect a variety of programmatic CDBG guidelines; creating the Consolidated Plan Advisory Board (CPAB) which advises the City Council on policy issues relating to the federal entitlement grant programs covered in the Con Plan; increased staffing and resources to support HUD Programs administration and monitoring; and continued process improvements surrounding the CDBG application and allocation process, among other things. The FY 2015 – FY 2019 Con Plan represents another step in furthering the City's goals for providing appropriate oversight and administration of HUD entitlement programs.

### ***Highlights of the FY 2015 – FY 2019 Con Plan***

As the City continues to progress with improvements to the HUD entitlement programs administration, monitoring and allocation process, it is important to highlight some of the key items of the Con Plan that illustrate and build on this progress. Some highlights include:

- Extensive outreach was conducted by City staff and LeSar Development Consultants to solicit input regarding priorities for the Con Plan- Outreach efforts included a community needs survey distributed to a wide variety of recipients, three Con Plan community forums in low to moderate-income communities, one stakeholder meeting, a Community Planning Group meeting in San Ysidro, and an additional outreach meeting held at the Bayside Community Center in Linda Vista.
- Con Plan goals for FY 2015 – FY 2019 are reduced from 13 goals in the previous plan to 6, and updated to focus on key priorities and issues – Community priorities may change over time, and it is important to update goals periodically to reflect key issues. The previous goals were developed in 2009. Additionally, reducing the number of goals helps to streamline the project or program scoring process by focusing on key priorities rather than a variety of goals, many of which were previously much more specific.
- Strategic actions are included to support furthering the defined Con Plan goals - The identified strategic actions include 1) program development, directing investment, and influencing outcomes; 2) leverage and geographic targeting; and 3) increasing administrative efficiencies.
- The Con Plan shifts from an application-driven process to a goals-driven and outcomes oriented process – The intention to influence outcomes and become goals-driven are embodied in the previously discussed guiding strategies. An example of this includes the refined CDBG allocation that allocates a specific percentage for each type of program funded, which includes public services, community/economic development, and capital projects, as discussed further in the following sections.
- Public infrastructure is reflected as a priority – Con Plan goal #2 incorporates public infrastructure to reflect the priorities identified through community outreach efforts and to represent the priorities of the City Council and the current administration. The Con Plan also identifies various ways in which this can be achieved through its guiding strategies and also through actions such as exploring leveraging options for projects, reprogramming unallocated CDBG funds for City CIP projects, and setting aside a portion of the CDBG CIP allocation directly for City CIP projects.
- Recommendation to continue to evaluate the RFQ / RFP process – As discussed during the FY 2015 CDBG allocation at the March 24, 2014 City Council meeting, the FY 2015 allocation process included notable improvements that improved efficiency, effectiveness and transparency in this process. The Con Plan recommends to continued refinement of this process in future years. A suggestion that has been incorporated is developing enhanced scoring methods, such as a scorecard for evaluating grant recipients' past performance.

These highlights represent a few of the key issues and shifts in the new Con Plan. Our office will continue to monitor progress as City staff work during year one of the Con Plan to implement activities that will further the plan's goals and guiding strategies.

***Refining the CDBG Allocation in FY 2016 – FY 2019***

The City’s CDBG allocation process uses a competitive RFQ/RFP application process to determine a large portion of CDBG entitlement funded programs and projects. The Con Plan has revised the CDBG allocation in an effort to better direct investment and influence outcomes. This entails beginning to shift away from an application driven CDBG allocation by refining the allocation proportions to direct investment in key areas and create measureable outcomes. The current process, which was used for the FY 2015 allocation, is defined in the chart below. As illustrated in the chart, the City allocates 20% to administration and 15% to public services. The public services portion includes approximately \$1.3 million for a set aside for homeless services and programs in accordance with Resolution R-307701. The remainder of the funding is available for community/economic development (CED) programs and Capital Improvements Program (CIP) projects.

<b>CDBG Funding Allocation (Current)</b>	
Administration	20%
Public Services	15%
CED/CIP	Remaining or 65%

Under the current process, CED and CIP projects are evaluated against each other and compete for the same portion of funding, even though these programs can be very different. Consequently, the types and amounts of projects that are ultimately funded in this category vary from year to year. Additionally, scoring these projects against each other during the RFQ/RFP process is difficult for evaluators. As recommended in the Con Plan, the new CDBG allocation is proposed with the following proportions:

<b>CDBG Funding Allocation (Proposed FY16-19)</b>	
Administration	20%
Public Services	15%
CED	10%
CIP	55%
City	60% of CIP or 33% of Total
Non-Profit	40% of CIP or 22% of Total

The Con Plan states that this is “an effort to proactively direct critical HUD resources and make demonstrable progress towards achieving the six Con Plan goals”. This statement illustrates the planned allocation application driven CDBG allocation to one which is able to influence outcomes. By allotting specific amounts to the CED and CIP categories, you ensure that 10% and 55%, respectively, will be devoted to these types of projects, which allows for more predictable and measureable outcomes. Additionally, putting these types of projects in separate categories assists in evaluation processes, because reviewers will be able to better compare and score like projects against each other.

### Setting Aside Specific Funding Portions for City and Non-Profit CIP Projects

As shown in the chart above, 55% of the total CDBG allocation funds CIP projects. The Con Plan recommends setting aside 60% of that amount for City CIP projects and 40% for non-profit facility improvements, as shown in the previous chart. Much discussion has taken place regarding this proposal, which is only applicable to CDBG funds and not the other remaining HUD entitlement grant funds. Our office has reviewed the proposed CDBG allocations for FY 2016 – FY 2019, and generally agree with the proposed allocation, including setting aside a portion of CDBG funding for City CIP projects.

Citywide infrastructure is significantly underfunded and the City continues to determine ways in which it can dedicate funding sources to further the construction and maintenance of necessary capital projects including streets, sidewalks and streetlights<sup>1</sup>. Funding for infrastructure has been communicated as a priority by the City Council, the current administration, and by the community, as evidenced through the outreach performed during the Con Plan's development. Public infrastructure improvements are reflected in goal #2 of the Con Plan.

Establishing a fixed percentage of CDBG allocations for City CIP projects eliminates the need to participate and compete for project funding via the RFQ/RFP process. This will provide a reliable and accurate source of funds which will enable City staff to better plan for projects that can be funded with CDBG. Staff are currently developing a Multi-Year Capital Plan that will include the City's projected CDBG allocation. Predictability and planning for the use of CDBG funds is particularly important given the associated rules, such as the requirement for using funds in 18 months and not allowing its use for project design. Staff plans to work with CIPRAC and utilize current prioritization processes in place during the first year of the Con Plan to strategize how to best incorporate CDBG funds.

It should be noted HUD Programs Administration (HPA) staff have looked into how other jurisdictions allocate their CDBG funding. They have communicated that, in general, a large portion of CDBG funds are usually retained by the jurisdiction for applicable CDBG projects and programs. They have also found that it is uncommon to set aside a portion of funding for private non-profit facility improvements, such as is proposed by the Con Plan via the 40% of CDBG CIP allocation.

### ***FY 2015 CDBG Allocation***

The FY 2015 CDBG allocation was approved by the City Council on March 24, 2014. Our office provided brief comments at the City Council meeting related to the scoring and application process for FY 2015 that improved efficiency, effectiveness and transparency in that process. It should be noted that the approved FY 2015 allocation is part of the FY 2015 – FY 2019 Con Plan, and its allocation process coincided with the development of the Con Plan. Anticipating this overlap, staff worked to approve the Con Plan goals in December of 2013 before the RFP process was started for this allocation. Although allocations were determined in a manner similar to previous years' process, future year allocations (if approved as proposed) would reflect the modified CDBG allocation that breaks out CED and CIP into separate categories.

---

<sup>1</sup> The current estimated backlog is \$898 million just for street, facilities, and storm drains. However, this estimate is based on outdated information, and staff have projected that the backlog of deferred capital projects could be more than \$2 billion

### ***Looking Forward to FY 2016 - 2019***

The Strategic Plan outlined beginning on page 179 of the Con Plan provides numerous recommendations for how the City can work towards furthering the six goals of the Con Plan during year one. A few of these recommendations include:

- Redefining the CDBG allocations as previously described;
- Work with other City economic development programs to develop new initiatives for CDBG funding;
- Work with CIPRAC to determine the most efficient and effective methods for collaboration, regulatory compliance, support for the Con Plan goals, and for providing technical assistance and outreach to City departments and community groups;
- Invest reprogrammed funds in City CIP projects working with CIPRAC with a focus on supporting neighborhood safety and improved livability;
- Create non-profit facilities and Housing Rehabilitation Program needs assessments and establish standards for eligible expenses; develop material associated with these programs to ensure regulatory compliance, provide technical assistance and support the Con Plan goals;
- Identify and explore leveraging opportunities, such as New Market Tax Credits, other federal resources, and local private investments;
- Implement a geographic targeting methodology working with experts in areas such as data analysis, community indicators, and geographic analysis;
- Continue to refine the RFQ/RFP process and timeline for efficiencies and process improvements; and
- Develop a scorecard to gauge performance of grant recipients.

### ***Outlook for CDBG Funding***

Over the past several years, the City has experienced declining CDBG entitlement allocations. Historically, the highest allocation received was about \$19.6 million in 1995, and a declining trend began in the early 2000s bringing the most recent allocation to about \$11.0 million. Additionally, anticipated funding from the repayment agreement between the former Redevelopment Agency (RDA) and the City has been disallowed by the Department of Finance (DOF) and the status of these payments are unclear at this time. These payments were to be paid over a 10-year payment schedule and escalate significantly in the latter half of the 10-year term. The City utilized these payments as additional CDBG program income.<sup>2</sup>

Decreased CDBG funding in recent years has resulted in a decline in the amount of projects and programs that are able to be funded. As discussed earlier, the Public Services allocation (both current and proposed) is 15% and, per Resolution R-307701 about \$1.3 million is set aside from that amount for homeless services and programs. If the declining CDBG trend continues, it

---

<sup>2</sup> More discussion is found in IBA Report #13-51 regarding this issue.

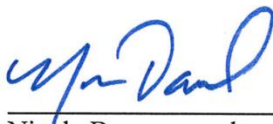
could jeopardize this funding set aside, as well as the non-profit programs that compete for the remainder of the funding. The Public Services portion of the recently approved FY 2015 CDBG allocation amounted to approximately \$1.6 million.

It may be helpful for HPA staff to provide an update on the status of the potential reinstatement of the RDA payment as more information becomes available. Our office, in coordination with HPA staff, will continue to monitor the trend of CDBG funding as it is allocated by HUD.

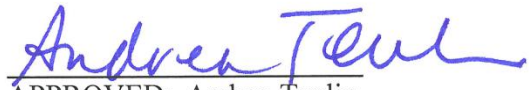
## CONCLUSION

The City of San Diego's Con Plan is updated every five years and is required by the United States Department of Housing and Urban Development (HUD) in order to receive federal housing and community development funding for all HUD entitlement grants. The grants addressed in the Con Plan and Action Plan include the Community Development Block Grant (CDBG); HOME Investment Partnerships Program (HOME); Emergency Solutions Grant (ESG); and Housing Opportunities for Persons with AIDS (HOPWA). Additionally, every year the City develops an Action Plan to identify funding determinations that are aimed at furthering the goals in the Con Plan.

The process of making improvements to CDBG program monitoring and administration continues to evolve as the City remedies the deficiencies pointed out by HUD monitoring reviews and Audits dating back to 2007 and 2008. The City has made significant progress in its oversight and administration of these funds, as well as in the process for allocation and its spending. The FY 2015 – FY 2019 Consolidated Plan represents another step the City has taken to further CDBG related reforms, and to move toward the best utilization and more efficient use of funds. City staff will continue to work to refine the current CDBG allocation process and also to implement the strategies in years FY 2016 - 2019 of the Con Plan, while focusing on moving toward an outcome oriented, goals focused program. The IBA will continue to monitor this progress and supports the goals and the strategic actions by which the Con Plan proposes to achieve them.



Nicole Dangermond  
Research Analyst



APPROVED: Andrea Tevlin  
Independent Budget Analyst