Community Development Block Grant (CDBG) Redesign Working Group

Summary of Meeting
Day 1. March 21, 2018; 9:30 – 4:30
Day 2. March 22, 2018; 9:30 am – 2:30 pm

At the February 9th Redesign Working Group meeting, it was determined that a two-day working session be scheduled for March 21 and 22 to discuss the refined solutions to the programmatic issues and concerns recorded throughout the CDBG program redesign process.


Handouts: Draft Strategies for Reducing Community Development Block Grant Program Income (Memo); Strategies for Increasing Community Development Block Grant (CDBG) Expenditures: Rating and Ranking-Threshold, Readiness and Capacity (Expenditure Strategy).

HCD staff reserved conference call for remote access to the meeting.

Day 1:
Participants: Lorie Adams, Amy Bergstrand, Esperanza Colio, Susan Long, Heather MacDonald, Rob Choate, Lynn Von Koch-Liebert, James Hacker, Rachelle Kellogg, Robert Mansfield, Mary Pitto, Scott Rogalski, Meagan Tokunaga, Kathleen Weissenberger, Tina Daly, Chris Westlake

By Phone: Terry Cox, David Loya, Ashley Werner, Danielle Brandon


Other: Ian Toner, Ron Bauer

Agenda Items

Welcome and Introductions

Ginny welcomed all and each introduced him/herself. Agenda was reviewed and the group agreed no changes were needed.
COSCDA Update

Karen Patterson provided an update from the COSCDA conference. She reported the President proposed zero funding for the upcoming budget; however, funding is expected to remain the same. Continuing resolution expected to pass 3/23/2018 and at that time, HUD will funding allocations. Karen advised that HUD is looking to require more "metric data" for outcome reporting. Grantees will be required to forecast how much PI they expect to spend in the next 12 months and the expected number of beneficiaries.

HUD Technical Assistance Update

Enterprise (Technical Assistance) developing a final report which should be available next week.

HUD Monitoring Update

Karen Patterson acknowledged HCD’s receipt of HUD’s monitoring letter on March 12, 2018. She explained that HCD would enter into a Memorandum of Understanding (MOU) with HUD to remedy compliance issues. HCD is preparing its response required within 30 days of the letter and it’s expected to go out well ahead of the 30-day requirement. She also stated there were no real surprises to the monitoring outcomes and HCD does not plan to dispute any of the findings. HCD does intend to push back on any remedies requiring repayment. It was recognized that most of the monitoring issues are being addressed as part of the redesign and the letter of findings/concerns will be an integral part of the redesign process. Kathleen suggested doing a crosswalk between the monitoring letter and redesign efforts.

Agency expressed concerns of balancing HCD resources with redesign efforts; DFA shared similar concerns.

Further HUD monitoring discussion was tabled until Day 2 to allow the group time to read the monitoring letter in its entirety.

CDBG Program Redesign Issues / Recommendations

Program Income (PI)

The group was given time to read the four-page document prior to discussion.

Concerns were noted with how HCD will define / measure / document “capacity.”

Initial feedback included that the document comes close to landing on solutions that will work to resolve the current PI issues which make spending PI problematic for grantees; thought was given to how to transition from current PI Supplementals to new PI Reuse Plan Agreement (Plan); what should be an acceptable length of time for the Plan—one, three, five years. New PI policies will require new reporting forms and reuse plan template for grantees. Each grantee will be able to develop a Plan that fits their needs to include continuing activities and milestones based on budget / capacity.
PI strategies are not flexible enough and pathways are needed for grantees to develop capacity.

From initial thoughts and feedback, the group engaged in detail discussion of each of the ten suggestions outlined in the Memo. The following summarizes the suggestions:

1. Each jurisdiction shall be required to establish a PI Plan that includes eligible activities, milestones, and general conditions.

2. Add criteria for HCD staff to evaluate and approve capacity based on proposed project or program. Concern was expressed that capacity should not create barriers for small grantees, should not hold up small projects, and capacity needs to be defined in such a way that HCD and grantee line staff understand it. It was acknowledged that adding capacity review and evaluation will increase HCD Rep workload and administrative burden.

The dissolution of California Redevelopment Agencies eliminated most of local capacity to plan, finance, and complete CDBG projects as well as a funding source for housing-related projects that serve low-income households.

3. The document recommended that in order for an activity to be “continuous” or “ongoing,” an activity must have been funded within the last 12 months. It was recommended that the time be extended to 24 months. “Continuing”, “ongoing” needs further clarification. Interim policies/steps are needed in order to transition from current supplemental rule to the continuous rule. Suggested that grantees sitting on PI should be allowed a six-month transition period. Transition requires establishing a PI Plan to move supplements from open contracts into the PI Reuse Plan.

4. PI General Admin costs (GA): Further research is needed to determine: a) why HUD does not allow a GA negative balance; 2) ways to separate GA; 3) can GA from an open grant be used to fund loan servicing when no PI GA is available; and, 4) consider separating GA PI from an open grant.

5. Allowable PI balances: It was suggested that criteria be based on average activity costs, program balances be justified with data (city? county? loan portfolio?), use of Revolving Loan Funds (RLF) be used to create a safe harbor for programs, grantees be reviewed annually, and other criteria from housing and ED practitioners be considered.

There was discussion about programs that start and stop while building up PI to fund larger projects; available program PI is complicated when program is funded by an open grant since PI must be spent before drawing grant funds.

6 & 7. PI Reuse Plan and Recapturing PI: The group discussed the ideas that all jurisdictions with PI or anticipated PI would be required to adopt a Plan, plans would be required as part of the CDBG application, and jurisdictions with PI that do not adopt a Plan within six months would return their PI to the state to be used to fund additional applications.

It was suggested that HCD develop outreach protocol for local jurisdictions with PI balances. This would include the Reuse Plan requirements and how best to promote and clarify the policy. It was recommended that the point of contact be mayors, city managers/administrators, and auditor/controllers for immediate attention. It was
acknowledged that outreach efforts are staff intensive, recapturing unspent PI requires HCD policy commitment and inclusion in the annual plan update, consolidated plan amendment, as well as an update to the Grant Management Manual PI chapter.

8. PI Reuse Plan Amendments: It was suggested that further consideration be given to amendment criteria, i.e., updated annually (optional), limiting number of amendments, and allowing for exceptions.

9. PI spent on open contracts: The group discussed that PI should be spent on open grants unless the grantee has a Plan with approved activities in place and the Plan activities are different from those awarded in the grant agreement.

10. Current PI Supplemental Activity policy: The discussion focused on recommending that supplemental activities would be rescinded and that for those grantees with open grants and supplemental activities, they would be required to adopt a Plan. This would move supplementals into the Plan and out of the open contract. It would requires amending all standard agreements.

Revolving Loan Funds (RLFs)

Discussion included how RLFs differ from activities in a reuse plan. There is no GA, the funds are protected, but grantees are still required to spend funds in RLF first if the open grant includes the same activity. Economic Development (ED) funds should have a 24-month period to revolve. Project funding thresholds need further consideration.

It was recommended that allowance of Community-Based Development Organization (CBDO) be considered to relieve the State’s high PI balance and to de-federalize funds. This might be considered a long-term solution.

Day 1 Follow-up

Participants agreed to review the HUD monitoring letter for the Day 2 discussion.
Day 2:

Participants: Lorie Adams, Amy Bergstrand, Esperanza Colio Warren, Susan Long, Heather MacDonald, Rob Choate, Mary Pitto, Meagan Tokunaga, Kathleen Weissenberger, Rachelle Kellogg, Chris Westlake, Craig Schlatter

By Phone: Terry Cox, C.J. Freeland

HCD Staff: Ginny Puddefoot, John De Rosa, Maziar Movassaghi, Charles Gray, Jeri Amendola, Nicolé McCay, Diane Moroni, Karen Patterson, Leticia Ramos, Gwyn Reese, Jim Miwa, Patrick Talbott, Chris Webb-Curtis

Other: Ian Toner, Ron Bauer

Agenda Items

Welcome

Ginny welcomed all and confirmed Day 2 agenda starting with the HUD Monitoring Letter.

HUD Monitoring Update-continued from Day 1

Following up from the initial discussion yesterday, Karen reiterated that HCD will not contest the findings, but will dispute any repayments. Within 30 days HCD will forward a response to HUD and ask HUD to expedite the MOU and technical assistance. For current CDBG Redesign TA needs, Karen suggested that HCD use current Neighborhood Stabilization Program (NSP) TA to greatest extent possible on the redesign efforts.

Karen indicated that HCD expects to avoid imposed sanctions of future funding by: 1) complying with mandatory 30-day response letter, 2) providing a 60-day written management plan that outlines the State's actions to resolve the findings within 15 months of the report date, and 3) executing a MOU with HUD for additional technical assistance.

Karen reported that HUD's letter included HUD's dissatisfaction with HCD's reporting in IDIS, there has been no reconciliation of "old" HUD grants, and beneficiary reporting in IDIS for ED activities is inaccurate. An RWG member asked if HUD's findings would create additional administrative burden for local jurisdictions. That member explained that, for example, beneficiary reporting in a particular jurisdiction could be an issue because the census block data changes may have affected how many beneficiaries are correctly reported in IDIS.

HCD staffing levels remain a concern and it was asked how HCD expects to address timely release of NOFAs, implementation of redesign, and corrective action required by HUD. Staff said that current staff are six dedicated individual staff with 11 total full-time-equivalent staff, no subject matter experts, and the challenge is how to balance internal controls to meet HUD expectations while “taking off locks” for reps to better serve grantees. Grantees feel staff lack program knowledge and they feel they train the reps, rather than the reps being knowledgeable enough to assist grantees. There was a discussion of HCD’s prior annual trainings and how that should be restored.
It was suggested that efficiency could be achieved if reps were able to review documents to expedite the approval process. Currently, approvals take too much time, going back and forth between HCD and grantee, and up and down the management chain. In the past, the reps acted as “account reps”, were very involved, and handled the contracts from award to grantee close-out.

Creating connections at the local level could be achieved by streamlining processes and limiting policy exemptions and exceptions. The program redesign should eliminate reps from making decisions because policies and grant management manual should guide decisions. It was suggested that the Director should approve any exceptions and that there should be few exceptions. If proper internal processes and infrastructure are in place, staff could manage all activities.

Final comments: Concern was raised about “over correcting” and requiring too much documentation for back-up of funds requests. Additional discussion is needed.

**Increasing the Expenditure Rate**

Handout: Strategies for Increasing CDBG Expenditures: Rating and Ranking – Threshold, Readiness, and Capacity (Expenditure Strategy)

The group was given time to read the Expenditure Strategy prior to discussion.

**Readiness**

There was general agreement that readiness should be an important piece of threshold and, in fact, that the best thing to do is fund those grantees that are ready to go. Readiness should be part of threshold as should past performance. Placing readiness in threshold puts activity review in the mix early on in the review process; however, this creates a workload issue for HCD staff. Readiness should not be so difficult to achieve that it limits low-income communities from being able to apply.

Current NOFA process includes review of readiness for points only; but it was said that in the redesign contract reps should complete compliance review during the application review process as long as that review does not slow the award process.

Program readiness review: The group discussed whether program guidelines should be reviewed at application considering that it is a time factor and there is concern that it will lengthen the award announcements. There is no guideline review in the application process at this time; however, if an applicant submits documentation, reps are required to review it. Developing standard program guidelines are recommended. To clarify recently established current practice, if HCD receives a document, the document will be reviewed.

Project readiness review: It has been generally acknowledged that projects should have a different standard to include preliminary engineering design at least 30 percent complete. There was a discussion about how much preliminary design is enough—perhaps if using procured engineer, 30 percent is enough; if in-house, 50 percent. Rather than requiring engineered stamped designs, it was recommended that the engineer/architect execute a certification that attests to the validity of the plans. If awarded and final plans are prepared
and the project comes in too high, the Department should disencumber the funds and fund down the line. One opposing view is that the funds should not be disencumbered, but future applications should lose points.

The detail of design must be enough to create a project scope of work and cost estimates that are part of threshold requirement. Readiness should include site control (fee simple or leasehold), funding commitments (sliding scale of points), list of sources and uses of funds, pre-procurement write-ups ready for professional services; and confirmation of pre-design meeting with city/county for plan review.

NOFA application should include a budget tool, similar to that in the universal application, list of building permits and entitlements certified by the City engineer, Chief Executive Officer… Further refinement required.

Members would like to see more planning grants made available. They are a useful tool and assist in project readiness for applicants. Currently, they are not funded as a “stand alone” activity, only awarded as part of an application awarded for other activity(ies). Redesign efforts should allow planning only applications, applied for separately from the Super NOFA.

For some, the 50 percent Rule is helpful for grantee staff to manage workload while eliminating the possibility that the local jurisdiction would over commit resources. For others, the thought is that the 50 percent rule does not achieve its intended purpose to encourage expenditures since project delays occur with even the best planning and in those instances, jurisdictions should not be held out of the awarding process.

It was noted that USDA has ‘self scoring’ system which would be a good tool for applicants to better prepare their applications. HCD has used it in the past.

There was a discussion about how HCD can work with grantees in pre-application engagement to facilitate readiness.

**Capacity**

Capacity: Capacity should be part of readiness as both a threshold issue and a point earner and might include plans, timelines, policies and procedures; consultants who know CDBG; financial capacity, past experience, monitoring compliance, program eligibility lists, wait lists. Of these, wait lists and eligibility lists are considered inadequate in demonstrating capacity and not useful as past performance measures. To score past performance, expenditure milestones would be helpful.

Local jurisdictions are in need of building capacity—especially jurisdictions that have a high poverty rate and therefore are funded year after year without performing well. One suggestion is that local jurisdictions could coordinate with neighboring jurisdictions to build capacity. HCD should use TA to build capacity.

CDBG Grant Funds: The CDBG program is reimbursement based; however, that does not mean a jurisdiction must have paid costs out of pocket in order for reimbursement. Reimbursement can be for costs incurred, i.e., grantee receives invoice for costs incurred in a prior period. Another option for disadvantaged communities may be “advance” funding
since they lack cash flow to wait for reimbursement. “Advance” funding may create accounting problems for HCD’s tracking of funds.

Other

General conditions should be used for readiness. Contract reps should be involved to help clear general conditions.

There was acknowledgement that NOFA training is critical to the success of the program and that the NOFA training should include clarification of details that are important to applicants in planning their application and awards.

Next Steps

It was explained that HCD is drafting guidelines; however, current priorities focus on the HUD response and the legislative redesign response due by June 30. Draft guidelines will be reviewed by the Redesign Working Group and will be available for review by the public and as part of amendment to the Consolidated Plan.

HCD will continue to refine policy areas identified in the Issues Log and the discussions and share back with the RWG.

The next meeting will be held at our regular location on April 13, 2018.