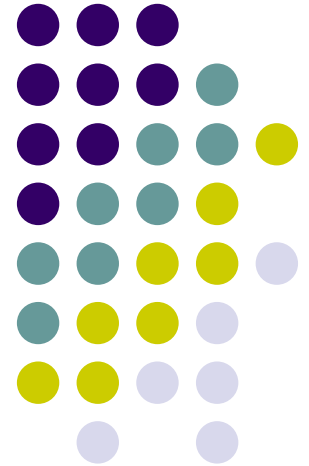


FY2006-07 Community Development Block Grant Extensions & Reprogramming

City Council Briefing
February 21, 2007





Purpose of Briefing

- Review timely expenditure requirements and compliance
- Review recommended benchmarks to be included in the timely expenditure policy
- Review changes to the 2/7/2007 extension request
- Review directed reprogramming recommendation
- Review revised FY2007-08 Budget Outlook



HUD Requirement and Compliance

- U.S. Department of Housing and Urban Development requires that CDBG funds be expended in a timely manner
 - Federal regulations only allow for the cumulative unspent balance of all CDBG grants to be no more 1.5 times the annual grant allocation
 - Tested on July 31 annually
- Non-compliance with the regulation causes a reduction in the next annual grant
 - The next annual grant is reduced by the amount that the accumulated balance exceeds the 1.5 requirement
- City is in compliance with this requirement as of July 31, 2006

\$20.48m	FY 2005-06 annual grant allocation
<u>x 1.5</u>	
\$30.72m	HUD goal for July 31, 2006
<u>\$22.19m</u>	Actual July 31, 2006 balance
\$ 8.53m	Performance better than goal

Prior fiscal years CDBG budgets included large Section 108 debt service payments which helped to ensure compliance. Debt was repaid July 2006.



HUD Requirement and Compliance (cont'd)

To remain in compliance, \$7.76m will need to be expended between January 2007 and July 31, 2007

Goal for July 31, 2007:

\$18.41m	FY2006-07 annual grant allocation
x 1.5	
\$27.61m	HUD goal for July 31, 2007

Current Balance:

\$22.19m	Balance on July 31, 2006
18.41m	Plus: annual grant allocation received Oct 1, 2006
<u>(5.23m)</u>	Less: Actual draws Aug 1 2006-Dec 31, 2006
\$35.37m	Balance as of Dec 31, 2006

**\$7.76m Required expenses to meet July 31, 2007 goal
(Current Balance less Goal)**

Note: \$7.76m is in line with the expenditure level we achieved during this seven-month interval last year; however, it is important to maintain the current expenditure rate to avoid reduction in grant dollars next year.

City Requirement and Compliance



On August 18, 1993, the City Council established a spending policy for all CDBG projects:

- Project funds should be obligated within 12 months of the beginning of the fiscal year and
 - All unobligated funds appropriated in FY2005-06 must be extended
- Project funds should be expended within 24 months of beginning of the fiscal year
 - All unexpended funds appropriated prior to FY2005-06 must be extended
- Council has the authority to approve extensions



City Requirement and Compliance (cont'd)

- CDC's Financial Monitoring Committee reviewed all required CDBG projects on December 19th and January 4th with City staff
- On January 4th, the CDC recommended extending or reprogramming project funds that are not in compliance with the City's timely expenditure policy
 - 71 Projects recommended for extension total - \$12m
 - 34 Projects recommended for reprogramming total - \$660k
- On January 16th, the EDHC was briefed and made recommendations on extension and reprogramming project funds
 - EDHC recommended a directed reprogramming of \$153k of the \$660k reprogramming funds
- On February 7th, Council directed staff to relook at the extension list and provide further clarification and detail on the extension requests

Timely Expenditure Policy – Additional Considerations



Recommend enhancing the current policy by adding benchmarks in the following areas:

1. On-going programs
2. Unspecified Programs
3. Public Improvement Projects
4. Existing non-profit public improvements
5. Davis Bacon restitution funds

Timely Expenditure Policy – Additional Considerations



1. On-Going Programs

Description: On-going programs are continuing operating programs that are funded annually.

- Individual program budgets are an annual allocation and include these types of costs
 - Staffing, supplies and materials
 - Contracted services
 - Direct assistance to benefit low/mod clientele
- The programs are designated in specific categories - Public Services, Housing, Economic Development, Planning & Program Oversight
- The following categories have spending caps which limit the annual obligation and expenditure of funds
 - Public Services cap - 15% of allocation
 - Planning & Program Oversight cap - 20% of allocation
 - Extension of funds in 2 these categories may cause the City to exceed the caps and should be considered carefully

Timely Expenditure Policy – Additional Considerations (cont'd)



1. On-Going Programs (cont'd)

Recommendation:

- Reprogram unobligated funds for all categories of on-going programs at the end of the fiscal year.
 - Exception: allow a 2 year period to obligate funds in programs that provide direct assistance to low/mod clientele in the non-capped Economic Development and Housing categories.
 - This exception applies to funds budgeted in FY2006-07. All unobligated funds budgeted prior to FY2006-07 are subject to reprogramming in FY2007-08.
 - These programs include: Home Repair Programs, SHARE, Replacement Housing, Relocation Assistance, Mortgage Assistance.
- Encumbered funds will be extended for 1 year, if the contract has not expired, and considered annually each year thereafter, in accordance with the current policy
- Effective FY2006-07, reprogram the unobligated staff and contract costs
- Effective FY2007-08, fully implement recommendation

Timely Expenditure Policy – Additional Considerations (cont'd)



2. Non Specific Projects

Description: Projects that are budgeted without specific details for implementation.

- Examples include the Business Development Program, Fair Park Commercial Corridor Demonstration Program, and Residential Development Acquisition Loan Program

Recommendation:

- 1 year to identify the project
- 1 year to secure additional financing and complete design
- 1 year to initiate implementation or construction
- Annually, the extension of funds will be evaluated for project viability and the potential for reimbursement of CDBG expenses to HUD from the General Fund
 - The extension recommendation will be submitted to the Council for approval, in accordance with the current policy
- Effective FY2006-07.

Timely Expenditure Policy – Additional Considerations (cont'd)



3. Public Improvement Projects

Description: Capital improvements. These projects generally require more time to implement. Examples include NIP Public Improvements, Park Facilities Improvements, City Facilities Major Maintenance, Sidewalk Improvements, Barrier Free Ramps.

Recommendation:

- Specific Public Improvement Projects (project location identified in the budget)
 - 1 year for design
 - 1 year to initiate construction
- Non-specific Public Improvement projects (project location not identified in the budget)
 - 2 years to identify project(s) and complete design
 - 1 year to initiate construction
- Annually, the extension of funds will be evaluated for project viability and the potential for reimbursement of CDBG expenses to HUD from the General Fund
 - The extension recommendation will be submitted to the Council for approval, in accordance with the current policy
- Effective FY2006-07

Timely Expenditure Policy – Additional Considerations



3. Public Improvement Projects (cont'd)

- All but 1 public improvement project complies with the recommended revisions to the policy- Arcadia Park (FY2000-01)
 - Timeline indicates that construction to be completed in the next several months. (Timeline included in Attachment B)
 - Potential repayment to HUD \$105k
 - Extension recommended.

Timely Expenditure Policy – Additional Considerations (cont'd)



4. Non-profit Public Improvement Projects

Description: Capital improvement projects located at non-profit facilities Council established a new policy to no longer fund public improvements at non-profits, effective with the FY2003-04 budget

The following projects were begun prior to the policy and exceed the recommended implementation period for Specific Public Improvement Projects. Extensions are recommended for 3 projects. (Timelines are included in Attachment B)

Project	Year Funded	Amount Spent/ Repayment to HUD	Amount Remaining to Draw	Recommendation
Alameda Heights	FY1999-00	\$67,495	\$107,505	1 Year Extension
Centurion Project/ Human Services Network	FY2001-02	\$40,695	\$8,841	1 Year Extension
E's Haven	FY1996-97 FY1997-98	\$11,000 \$0	\$39,000 \$100,000	Reprogramming
N2WIN!/Bama Pie	FY2000-01	\$197,478	\$92,522	1 Year Extension

Timely Expenditure Policy – Additional Considerations (cont'd)



5. Davis Bacon Restitution

Description:

- Davis Bacon Act requires minimum wage rates for certain construction work classifications
- City staff evaluates contractor's compliance with the Act
- To resolve violations, a restitution amount is determined and the City must attempt to contact the affected employees
- Payments to the contractor are suspended and the funds are retained to pay restitution to the affected employees
- Restitution funds must be held for 3 years, beginning from 1st notification of the employee

Recommendation:

Unclaimed restitution funds be reprogrammed at the end of the project's 3 year escrow period. Effective FY2006-07.



Results of Timely Expenditure Policy Review

- The timely expenditure policy has been reviewed and benchmarks are recommended to help ensure compliance
- A review of the projects, based on these recommended benchmarks, increases the reprogramming amount; adding \$582k to the \$660k brings the reprogramming total to \$1.2m
 - 45 Projects recommended for extension - total \$11.4m
 - 59 Projects recommended for reprogramming- total \$1.2m
- Reminder: Currently anticipate that the CDBG budget will have a \$2.3m shortfall. Use of the reprogramming funds in the FY2007-08 budget will reduce the \$2.3m shortfall by \$1.2m to \$1.1m. Even using the reprogramming funds, over \$1m in programs will have to be cut to balance the budget if the entitlement is not increased.
- An updated list reflecting the changes is included in Attachments A and C. Attachment B includes the explanations.

EDHC Directed Reprogramming Recommendation



- EDHC recommended a directed reprogramming of \$153k
 - \$153k of reprogramming funds are to be directed for 2 public improvement projects at City facilities
 - Allocate \$53k for building improvements at the MLK Center Community Court.
 - Allocate \$100k to construct a new Community Court at the West Dallas Multi-Purpose Center
- Note: This directed reprogramming does not provide funds to operate the Community Court

CDBG Budget Outlook and Recommendations



Current Condition:

- Congress has not appropriated funds for FY2007-08
 - Notification of FY2007-08 entitlement amount is anticipated no later than April 15th
- CDBG funding level is uncertain and may not be increased to cover all currently funded programs resulting in program cuts.
- If the current level of funding is received, \$2.3m will need to be cut from CDBG expenses.
- Applying the revised reprogramming of \$1.2m to the FY2007-08 budget, results in a shortfall of \$1.1m in programs currently funded with CDBG if the entitlement level is not increased. Cuts to CDBG programs will still be required.
- Recommend approval of the extensions on the February 28th agenda. Staff recommends no decision be made on any use of the reprogramming funds (\$1.2m) until the appropriation is received from HUD (April 15th). Council will have the opportunity to amend the FY2007-08 budget on May 16th.
- Preliminary adoption of the FY2007-08 budget is scheduled for May 23rd.



Preliminary FY07-08 CDBG Budget Outlook

	FY2006-07 Adopted (\$000)	FY2007-08 Estimated w/ Directed Rprgmg (\$000)	FY2007-08 Estimated w/o Directed Rprgmg (\$000)
Sources of Funds			
Entitlement	\$18,832	\$18,832	\$18,832
Program Income	364	250	250
CDC Recommended Reprogramming	2,129	660	660
Less: EDHC Directed Reprogramming	0	(153)	0
Plus: Additional CMO Recommended Reprogramming	0	582	582
Total Sources of Funds	\$21,325	\$20,171	\$20,324
Total Uses of Funds	\$21,325	\$21,372	\$21,372
Surplus/(Deficit)	\$0	(\$1,201)	(\$1,048)

Assumptions:

1. No change in the grant from the FY2006-07 entitlement amount
2. No additional directed reprogramming of funds – remaining reprogramming funds are budgeted to continue existing CDBG programs in FY2007-08

Preliminary FY07-08 CDBG Budget Outlook



Other Considerations:

Spending Caps -

1. Public Services – (includes After School Programs, Child Care Services, Senior & Youth Services, Community Court, Dental Services, Ex Offender Program, etc)
 - Currently funded at the maximum 15% of grant allocation.
 - Any new Public Services programs would require a reduction in existing programs.
2. Planning & Program Oversight – (includes administrative staff, Fair Housing, Historic Preservation, etc)
 - Currently funded at the maximum 20% of grant allocation.
 - Any new Planning & Program Oversight programs will also require a reduction in existing programs.



Recommendations

- Adoption of recommended timely expenditure policy benchmarks
- Extension of \$11.4 m in project funds
- Reprogram \$1.2m in project funds
- No directed reprogramming until Budget Amendment Workshop on May 16th



Next Steps

- Consideration of extension requests on February 28th agenda
- Notification of entitlement amount by April 15th
- Preliminary budget adoption on May 23