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Council File: 11-0600-S26
Council District(s): All
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December 6, 2011

Honorable City Council
c/o City Clerk
Room 395 City Hall

REPORT BACK: COUNCIL FILE 11-0600-S26

The General Manager of the Community Development Department (CDD) reports back at your request on the status of Council File 11-0600-S26 Adopted Budget Recommendation: Instruct the Community Development to ensure that any reductions to funding will result in a balance between program costs and personnel costs.

RECOMMENDATIONS

NOTE AND FILE the Community Development Department (CDD) report in satisfaction of the request for report back.

FISCAL IMPACT STATEMENT

There is no City General Fund impact related to the recommendations contained in this report.

SUMMARY

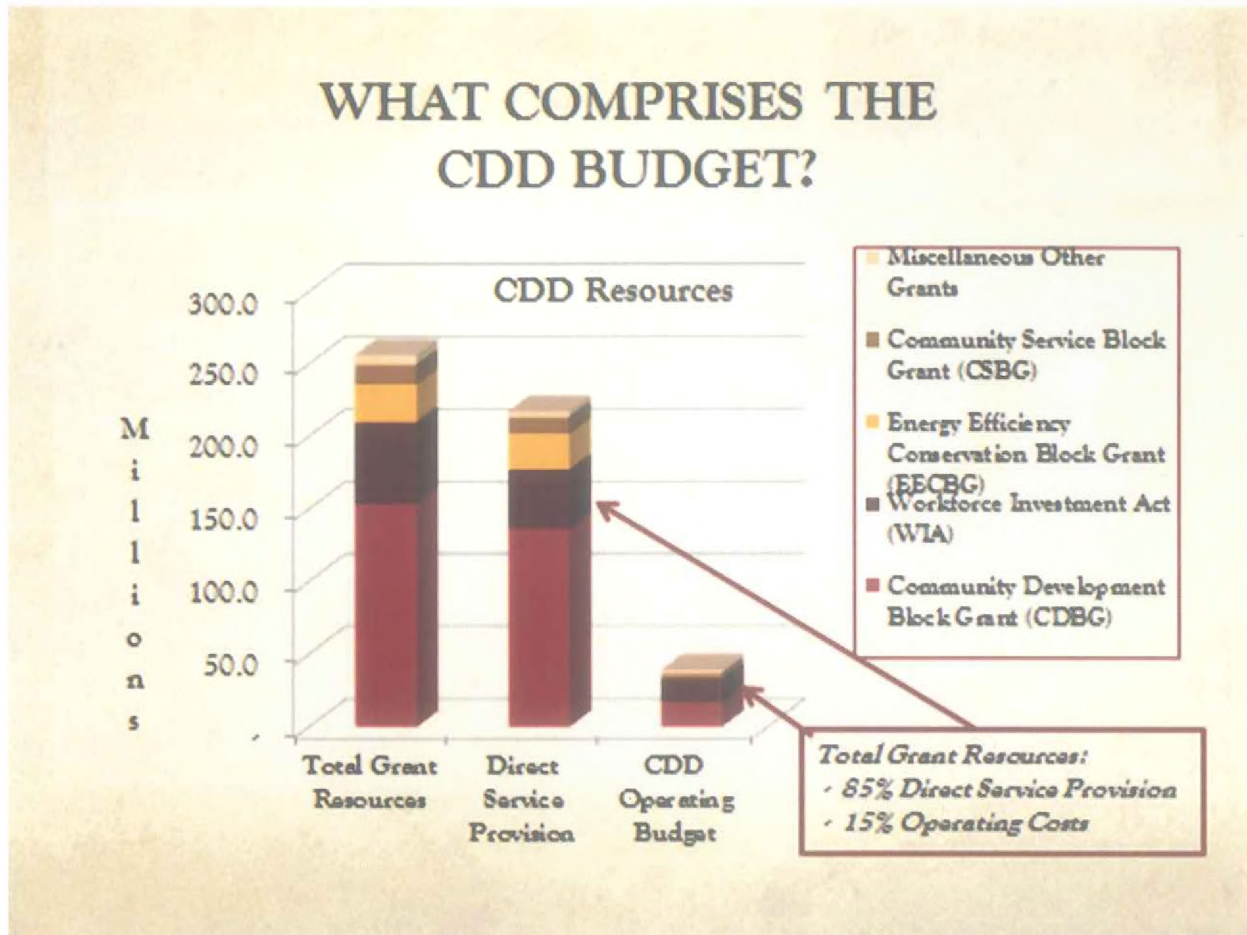
In approving the 2011-2012 Housing and Community Development Consolidated Plan, Program Year 37 Community Development Block Grant (CDBG) Action Plan (CF No. 10-2440 dated June 28, 2011), the City Council reiterated direction to the CDD to report back regarding how any reductions to funding will result in a balance between program costs and personnel pursuant to Council action on May 18, 2011 (Council File 11-0600) which pertained to the City's adopted budget.

BACKGROUND

In response, the CDD is providing a summary of the costs by grant program administered by the Department. Overall, the department manages over \$255 million of which \$216 million is utilized for direct program services and \$39 million is used for the department's operating budget (including City related costs) for grant administration activities.

Pursuant to its mission outlined in the City Charter, the CDD manages many grant funds on behalf of the City, particularly for housing and community development, as well as workforce development programs and services. These financial resources for the current fiscal year 2011-12 are reflected in the Table A below:

Table A



As can be seen above, the Department manages in excess of \$255 million in the current fiscal year. Of this amount, the Department passes \$216 million or 85 percent through to community based partner organizations for the provision of direct services to the communities of Los Angeles. The Department maintains \$39 million or 15 percent of total funds for operating costs (including City related costs) to manage the grant programs.

In general, the grants managed by the Department limit administrative costs, as a percentage of the grant. Therefore, there is a “built-in” grant requirement that typically maintains a balance between program and staff costs.

The administrative cost “cap” varies by grant, from 0 to 20 percent, with the average being in between. Below is a chart of the major grant programs administered by CDD, including current year entitlement/program income grant funding and associated administrative expenditure “cap” limitations.

Table B - Administrative Expenditure Limitations for CDD Major Grant Programs

Grant Program	FY 2011-12 Funding	Administrative Cost "Cap"
Community Development Block Grant (CDBG)	\$85 mil.	20%
Workforce Investment Act (WIA)	\$40 mil.	10%
Energy Efficiency and Conservation Block Grant (EECBG)	\$37 mil.	10%
Community Services Block Grant (CSBG)	\$7.5 mil.	12%

It should be noted that not all of the administrative funding allowed by the above grants is budgeted for CDD. For example, for CDBG, grant administrative funds are also budgeted by the Mayor and City Council through the Consolidated Plan/Action Plan to the Los Angeles Housing Department, Department of Aging, Department of Public Works, Los Angeles Housing Authority, AIDS Prevention Office, City Attorney's Office, City Controller's Office and others. Although the grant allows for 20 percent for grant administration to the CDD, the Department apportionment approved by the Mayor and Council is 11 percent. Similarly, the EECBG Program allows for 10 percent administrative expenditures whereas the CDD share is approximately 4 percent. The WIA Program administrative funding ratio (60:40) of City costs, including CDD costs, to service providers administrative costs is determined by perceptual Workforce Investment Board (WIB) policy.

As grant administrator, CDD is careful to maintain the administrative cost balances required by the grants in order to prevent potential questioned or disallowed costs. Therefore, maintaining an acceptable ratio of funding between programs and administrative costs (which are primarily for City personnel) is an important function of the department.

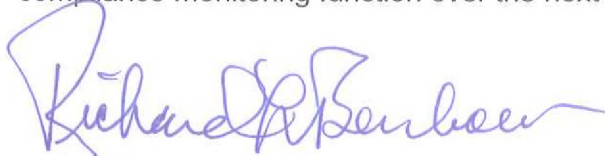
It should also be noted that the department ratio of staff and programs is dependent upon employment levels which change throughout the year. Therefore although CDD's approved Fiscal Year 2011-12 budget anticipates an 85:15 program:staff ratio, this may change to favor program funding as dollars for administrative purposes goes unexpended (e.g., due to employee retirements, transfers and promotions out, as well as delays in hiring due to unfreeze processes).

Further, it should be noted that during funding reprogramming processes that occur with the various grants, the Department often reduces its share of funding for administrative purposes. For example, in the Department's January 5, 2011 report to the Budget and Finance Committee (CF11-0600-S51), the CDD voluntarily advised the Mayor and Council of \$44.8 million in CDBG salary and other administrative savings that were redirected for City program priorities.

In conclusion, the current ratio (85:15) of grant financed programs and services to CDD's operating budget, including staffing costs is well within the regulatory and/or statutory requirements of grants managed by the Department. However, given these limitations, it is important that funds approved by the Mayor and City Council for Department operations and staffing be utilized in order to implement and administer the grant programs and related requirements. In cases where funding utilization is delayed or restrained by hiring freeze processes, both program and administrative grant functions can be affected. The CDD anticipates administrative findings from the federal Department of Housing and Urban Development (HUD) related to the administration of the CDBG Program that can be addressed by allowing critical funded positions to be filled. Therefore, CDD requests that following

approval of the grant and departmental budgets by the Mayor and City Council, there should be timely approval of department unfreeze requests if the positions have been funded in grant and department budgets.

CDD looks forward to working with the Mayor and City Council to ensure that there is an effective balance between grant program and administrative/staffing costs. For the next fiscal year, CDD has already begun a more critical look at administrative staffing to be certain that employment levels are appropriate given the change in the federal grant funding landscape. For example, we recently revisited our technology services division staffing complement to ensure cost savings yet sufficient staffing. We anticipate a likewise review of the department grant compliance monitoring function over the next months for the same purposes.



RICHARD L. BENBOW
General Manager

RLB:RG

c: Larry Frank, Deputy Mayor
Aurora Abracia, Office of the City Administrative Officer
Ivania Solvabarro, Office of the Chief Legislative Analyst