

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: March 23, 2015

TO: Honorable Members of the Housing Committee

FROM: Sharon M. Tso *SMT*
Chief Legislative Analyst

Council File: 14-1382
Assignment No: 15-03-0214

SUMMARY

On January 22, 2015, the Mayor’s Office released the Proposed 41st Program Year (PY 41) Housing and Community Development Consolidated Plan (Con Plan) for 2015-16 (Mayor’s Proposed Con Plan or Mayor’s Proposed Budget). The Mayor’s Proposed Con Plan was presented to the Housing Committee on January 28, 2015, and the Chief Legislative Analyst (CLA), with the assistance of the City Administrative Officer (CAO) and the Housing Community and Investment Department (HCID), was instructed to report on the Mayor’s Proposed Budget as well as various issues raised by each Committee member.

The Mayor’s Proposed Con Plan allocates U.S. Department of Housing and Urban Development (HUD) funds from the following four federal grants over a 12-month program year from April 1, 2015 through March 31, 2016:

- Community Development Block Grant (CDBG);
- HOME Investment Partnership (HOME);
- Emergency Solutions Grant (ESG); and
- Housing Opportunities for Persons with AIDS (HOPWA).

The Mayor’s Proposed Con Plan relied on projected amounts for the entitlement and program income. The City has since been notified by HUD of its actual PY 41 entitlement grant amounts. The following chart shows the comparison between the City’s entitlements between the 40th and 41st program years:

Con Plan Entitlements	CDBG	HOME	HOPWA	ESG
PY 41	\$49,954,532	\$18,839,495	\$14,324,879	\$4,554,073
PY 40	\$51,090,928	\$20,966,742	\$15,919,579	\$4,330,357
Difference	(\$1,136,396)	(\$2,127,247)	(\$1,594,700)	\$223,716
% Change	-2%	-10%	-10%	5%

Since the release of the Mayor’s Proposed Con Plan, reductions in entitlement and program income have resulted in a significant reduction in the amount available for CDBG funds (\$641,968 less from entitlement; \$8.8 million less from program income). The CLA’s PY 41 Con Plan Budget recommendations (Attachment A) are based on actual entitlement amounts and reflect reductions necessitated by the reduced Con Plan budget. A large portion of the City’s CDBG budget is program income chiefly resulting from repayments of CDBG funded loans used for economic development and homeownership programs. The Mayor’s Proposed Budget estimated CDBG program income to be \$18.8 million. However, due to the overestimation of current PY 40 (2014-15) program income by HCID of approximately \$4.7 million, which was reported by HCID after the release of the Mayor’s

Proposed Budget, the City's current year PY 40 CDBG budget is actually lower than estimated by \$3 million. This \$3 million shortfall is carried into PY 41 program income. In addition, HCID had revised the HCIDLA Monitored Loans from \$16.3 million (as projected in the Mayor's budget) to a more recent estimate of \$12.3 million. This combination of the PY 40 overestimation and PY 41 recent adjustments results in the Mayor's Proposed Budget being over-allocated by approximately \$8.8 million.

With a lower than expected entitlement combined with the \$8.8 million reduction to program income, our Office recommends significant reductions to the Mayor's Proposed Budget and identifies additional program and administrative savings from prior years in order to balance the budget and mitigate the degree of needed reductions. In addition, these reductions affect the required caps on both public services and administration/planning categories. To better understand program income estimates and reductions, our office recommends that HCID, with the assistance of the CAO, be instructed to report on the program income loan portfolio, the program income projection process, and the \$8.8 million discrepancy which was reported after the Mayor's Proposed Con Plan was released. The report should also address whether the program income may be realized at a later date, which could result in future programming opportunities.

With regard to prior year program and administrative savings, the Mayor's Office identified over \$5.9 million in funds that could be reprogrammed from prior CDBG projects and fund projects in the PY 41 budget. Our Office has conducted a line by line review of the Mayor's CDBG Prior Year Savings Available for Reprogramming line items and, in consultation with Council Offices and City Departments, has revised the information by deleting several projects from the list (thereby preserving the funding for these projects), and adding others resulting in over \$12.8 million in total savings that can be budgeted in PY 41 (an increase from the Mayor's budget of over \$6.8 million). This amount is a significantly higher figure than the previous years' savings amount and can be attributed to the effort of City staff to reprogram funding from projects that are either ineligible or not spent in a timely manner. Our Office has provided these revised figures in the PY 41 Con Plan Budget. Other necessary revisions made to the proposed budget include adjustments to prior year savings (Attachment C) and CDBG program income (Attachment D).

After adjustments, CDBG resources available for allocation total \$72,864,231. Funds available for allocation in the PY 41 Con Plan for CDBG, HOME, ESG and HOPWA total approximately \$128 million. As entitlement amounts and program income are reduced, the amount that can be spent on the Public Service and Administration/Planning categories must be reduced due to HUD-mandated cap limits on these categories, which are 15 percent and 20 percent, respectively. The reduction in the dollars associated with these caps means that less funds can be allocated to Public Service and Administration/Planning programming. It should be noted that various line items that fall under the Public Service category, including AIDS Prevention, Domestic Violence Shelter Operations, Project SAVE and the Rita Walters Learning Complex are partially funded with CDBG with recommendations to supplement these items with non-Con Plan funds.

Because program income is applied to the calculation of the cap for the City's Public Services funding, an increase in program income could increase the amount of funding that can be dedicated to public services. As a potential strategy for increasing the amount of public services in the future, CDBG could be used to fund a small business loan program or other loan programs, which could potentially create a steady stream of program income to the City. In addition to increasing the amount of resources for Public Services, this loan program would also be investing in the City's hardest hit communities and creating economic growth opportunities. Our office recommends that the Economic and Workforce Development Department (EWDD), with the assistance of HCID, report within 60 days on the

feasibility of creating a small business loan program or other loan programs to generate additional program income. As entitlement and program income amounts are decreased, and with the elimination of the Community Based Development Organization (CBDO) category in PY 40, the amount available for public service programs is continually reduced, and the ability to fund these programs becomes increasingly difficult.

The PY 41 Con Plan would provide approximately \$5.3 million in budgeted reimbursements to the General Fund from CDBG for related costs. The estimated City General Fund contribution to CDBG program related costs for PY 41 is approximately \$1.5 million.

Timeliness

On February 5, 2015, HUD notified HCID that the City's CDBG unspent balance total was higher than the acceptable total of 1.5 times the City's annual grant as of February 1, 2015, which is 60 days prior to the end of its program year. HUD advised that the City is on a one-year probationary period during which a workout plan and quarterly reports to address timeliness must be submitted. Due to the City's timeliness issue, the City must be proactive in determining which projects are able to spend money in a timely manner. Our office recommends that HCID, with the assistance of the CLA and CAO, be instructed to review all projects with outstanding balances as of June 30, 2015 and provide a report with reprogramming recommendations to bring the City in compliance with these regulations.

Further discussion of the issues and recommendation regarding the 2015-16 PY 41 Con Plan are included in the Findings to this report.

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

Relative to the Approval of the City's 2013-2017 Housing and Community Development Consolidated Plan and 41st Program Year Action Plan for 2015-16:

1. Find that the 41st Program Year Housing and Community Development Consolidated Plan (41st PY Con Plan) – Third Year Action Plan will not have a significant effect on the environment, pursuant to the City's CEQA Guidelines, and in compliance with the California Environmental Quality Act of 1970; that the Notice of Exemption reflects the independent judgment of the lead Agency of the City of Los Angeles; that the documents constituting the record of proceedings in this matter are located in the Council File in the custody of the City Clerk, and acknowledge the Notice of Exemption for the 41st PY Con Plan, which was submitted by the Los Angeles Housing and Community Investment Department (HCID) and attached to the Council File (Attachment E).

All new federally-funded projects are subject to environmental review under the requirements of the National Environmental Policy Act (NEPA) and pursuant to the U.S. Department of Housing and Urban Development (HUD) regulations, prior to any commitment of federal funds for expenditure, unless they are exempt from such review. HCID has determined that some action is programmatically exempted per Code of Federal Regulations (CFR) 58.34 and categorically excluded per CFR 58.35 (a) (b) from the annual environmental requirement.

Commitment of funding for new projects that could result in a direct or indirect physical change to the environment are also subject to environmental review under the California Environmental

Quality Act (CEQA), if implementation of the projects is authorized as part of the budgeting process. HCID has determined that some action is programmatically exempt annually under CEQA Guidelines for General Exemptions, Article 18 Statutory Exemptions Section 15260 through 15285, and Article 19 Categorical Exemptions Section 15300 through 15333.

Those projects that are not exempt or not yet defined are approved, subject to: 1) confirmation that the project to be funded is categorically excluded under NEPA pursuant to 24 CFR Part 58 and exempt under CEQA pursuant to the Guidelines prior to project implementation; or 2) appropriate environmental review prior to project implementation.

All projects involving new construction and/or major rehabilitation will require the preparation of a Mitigated Negative Declaration/Environmental Assessment and Finding of No Significant Impact or Environmental Impact Report/Environmental Impact Statement on a site-by-site basis.

2. Approve the 41st PY Con Plan and the related budgets for the Community Development Block Grant (CDBG) Program, HOME Investment Partnership (HOME), Housing Opportunities for Persons With AIDS (HOPWA) and Emergency Solutions Grant (ESG), included as Attachment A to this report, and as amended by the Council.
3. Authorize the General Manager of HCID, or designee, to sign, on behalf of the City, the Application for Federal Assistance for the CDBG, HOME, HOPWA, and ESG Programs and the associated Grantee Certifications, subject to the review and approval of the City Attorney as to form.
4. Authorize the General Manager of HCID, or designee, to submit the annual 2015-2016 41st PY Action Plan to HUD after Council and Mayor approval and the 30-day public comment period ends, as well as after the 2015 federal allocations have been announced by HUD.
5. Instruct all Departments funded in the Consolidated Plan to continue the hiring freeze on all Con Plan-funded positions during PY 41, or until subsequent Council and Mayor action.
6. Instruct the General Manager, HCID, or designee, to:
 - a. Provide written notification to all applicants of the 41st PY Con Plan, as follows:
 - i. To successful applicants, advising them of final award recommendations and required contracting processes to facilitate program implementation;
 - ii. To unsuccessful applicants, informing them that they are not recommended for award and further advising them of current and forthcoming alternative, competitive application processes; and
 - iii. For all categories, notify the relevant Council Offices and the City Attorney of these correspondences.
 - b. Provide written notice to all implementing departments and agencies to refrain from programming or expending CDBG savings and/or program income as articulated in the CDBG Expenditure Policy and Guidelines adopted by Council and approved by the Mayor (C.F. 01-2765-S2).

- c. Monitor public services and administrative services expenditures against the 41st PY statutory spending limitations respectively and report to the Mayor and Council within 30 days with recommendations for necessary adjustments in the event it is anticipated that either cap will be exceeded.
- d. Prepare Controller instructions and/or make any technical adjustments that may be required and are consistent with the intent of the 41st PY Con Plan CDBG actions and instruct the Controller to implement these instructions.
- e. Prepare, with assistance from the Economic and Workforce Development Department (EWDD) and the CRA/LA (Designated Local Authority), quarterly reports for submission to the Mayor and Council on program income receipts for all Con Plan sources.

Relative to CDBG and HOPWA Reprogramming:

- 7. Approve the reprogramming of approximately \$12.8 million in CDBG funds, detailed in Attachment C of this report and approximately \$4.0 million in HOPWA prior year savings, as a source of revenue for the 41st PY Action Plan budget, subject to verification of availability by HCID.

Relative to Contract Authorities:

- 8. Authorize General Managers, or their designees, of program implementing departments to submit the appropriate Contract Authorities to the CLA and CAO immediately following Council approval of the 41st PY Con Plan budget.

Relative to Related Cost Recovery

- 9. Instruct Departments receiving CDBG funds to submit billing and reimbursement documentation relative to related costs on a quarterly basis to the CDBG fund administrator, HCID, and to continue to work with the CAO and CLA to identify salary and expense savings throughout the fiscal year and transfer those savings to the General Fund to compensate for unrecovered related costs.

Relative to Belmont High School Field Contract Authority:

- 10. Authorize the HCID's General Manager to negotiate and execute an agreement with the Los Angeles Unified School District for an amount not to exceed \$500,000 in CDBG funds, retroactive to November 1, 2010 with an end date of October 31, 2015, for purposes of compensating the District for the City's share of costs incurred in the development and installation of the Belmont High School athletic field.

Additional Instructions

- 11. Instruct the CLA and CAO to meet with the Mayor, Council Offices and departments regarding program income and unspent CDBG balances to determine what additional income and/or savings can be realized for application toward the General Fund contribution for 41st PY Con

Plan.

12. Instruct EWDD, with the assistance of the Mayor's Office, CAO and CLA, to report with recommendations to establish Economic Development Fund guidelines in accordance with the policies of the proposed Economic Development structure.
13. Instruct CDBG-funded departments, with assistance from HCID as grant administrator, to report to Council with recommendations to eliminate the General Fund impact resulting from the Con Plan.
14. Request the City Attorney's Office to report on the CDBG-funded City Attorney Residential Enforcement (CARE) and City Attorney Task Force for Apartment and Rental Properties (TARP) programs, including program process, community outreach efforts and budget details within 60 days.
15. Instruct the Department of Building and Safety to report on the CDBG-funded Code Enforcement (Citywide PACE) program, including program process, community outreach efforts and budget details within 60 days.
16. Instruct HCID to report on both the Single Family Rehabilitation – Handyworker and Urgent Repair Programs, including the process to utilize funding, community outreach efforts and budget details within 60 days.
17. Instruct HCID to prepare and transmit for Council approval a Draft Request for Proposals (RFP) for the selection of a Slum/Blight consultant to prepare Slum/Blight determination reports.
18. Instruct HCID to prepare and transmit for Council approval a Draft FamilySource Centers RFP, Policies, and Guidelines for the selection of FamilySource Center operators throughout the City.
19. Instruct HCID, with the assistance of the CLA and CAO, to review all projects with outstanding balances as of June 30, 2015 and provide a report with reprogramming recommendations to meet HUD requirements for timeliness.
20. Instruct HCID, with the assistance of the CAO, to report on the program income loan portfolio, the program income projection process, and the \$8.8 million discrepancy which was discovered after the Mayor's Proposed Con Plan was released within 90 days.
21. Instruct HCID to report on specific project information for the Great Streets line item, including scope and budget, within 30 days to determine eligibility and timeframe to expend.
22. Instruct HCID to report on the status of the Clean Tech Business Incubator (LA Kretz Innovation Campus) project.
23. Instruct EWDD, with the assistance of HCID, to report on the feasibility of creating a small business loan program or other loan programs to generate additional program income within 60 days.

FISCAL IMPACT STATEMENT

The recommendations within this report address the 2013-2017 Housing and Community Development Five-Year Consolidated Plan (Con Plan) and the 41st Program Year Action Plan for 2015-16, which is comprised of total funds of approximately \$72.9 million from CDBG, \$32.3 million from HOME, \$18.3 million from HOPWA and \$4.6 million from ESG. All recommendations are subject to the final award of grant funds by the U.S. Department of Housing and Urban Development.

The PY 41 CDBG will provide approximately \$30.7 million to support positions (direct salaries: \$16 million, expenses including contracts: \$9.3 million, related cost reimbursement: \$5.4 million). In addition, there are four programs (AIDS Prevention, Domestic Violence Shelter Operations, Project SAVE and Rita Walters Learning Complex) funded in the Public Service category that will require assistance from Non-Con Plan sources. Should the Council decide to supplement these programs with General Fund dollars, the cost will be \$2.5 million.

The estimated potential impact on the General Fund is \$1.5 million in related costs. An additional impact of \$2.5 million could be realized if the General Fund is used to supplement Public Service programs. For reference, the previous year's PY 40 fiscal impact was estimated at \$829,000 for related costs and an additional \$9.2 million (\$10 million total) in one-time funding to supplement programs that were previously funded as Community Based Development Organizations.

It is a policy decision as to how and what level the City will contribute City resources, specifically the General Fund, to leverage CDBG grant program activities.

Attachments

- A PY 41 Con Plan Budget
- B CDBG Expenditures Footnotes
- C CDBG Prior Year Savings
- D CDBG Program Year 41 Sources and Cap Calculations Detail
- E CEQA Notice of Exemption
- F Public Comments on the Proposed Consolidated Plan

SMT:KEK:IS:amg/crm/dh

FINDINGS

1. Background

The Proposed 41st Program Year (PY 41) Housing and Community Development Consolidated Plan (Con Plan) for 2015-16 includes four U.S. Department of Housing and Urban Development (HUD) entitlement grants for a 12-month program year beginning April 1, 2015 through March 31, 2016. These four grants include the Community Development Block Grant (CDBG), HOME Investment Partnership (HOME), Emergency Solutions Grant (ESG) and Housing Opportunities for Persons with AIDS (HOPWA). The PY 41 Con Plan represents the third year Action Plan of a Five-Year Year Plan (2013-2017). Every five years, the Housing and Community Investment Department (HCID), as Con Plan administrator, will submit a Five-Year Plan to HUD that reflects Council and Mayor policy decisions and priorities for the City and the allocation of grant funds.

On January 22, 2015, the Mayor’s Office presented the PY 41 Con Plan. The Housing Committee instructed the Chief Legislative Analyst (CLA), with the assistance of the City Administrative Officer (CAO) and HCID, to review the Mayor’s Proposed Budget and respond to various issues raised by Committee members. In preparing this report, our office has consulted with Council Offices to address issues raised in Committee.

2. Estimated PY 40 Con Plan Resources

The PY 41 Con Plan has a CDBG entitlement amount of \$49,954,532, a two percent decrease from the PY 40 CDBG entitlement. The PY 41 HOME entitlement of \$18,839,495 and the HOPWA entitlement of \$14,324,879 both represent decreases of 10 percent from PY 40 in each respective grant. Conversely, the PY 41 ESG entitlement of \$4,554,073 is an increase of \$223,716, or five percent, from the PY 40 allocation of \$4,330,357. Considering the federal entitlement, program income, and prior year savings, Con Plan resources for all four grants are as follows:

Source	PY 40	PY 41 Mayor Proposed (Projected Entitlements + Program Income + Savings)	PY 41 CLA Proposed (Actual Entitlements + Program Income + Savings)	Year-to-Year Change
CDBG	72,455,518	75,416,506	72,864,231	408,713
HOME	30,579,442	32,287,100	32,256,495	1,677,053
HOPWA	19,205,755	19,871,600	18,276,879	(928,876)
ESG	5,229,355	5,142,900	4,554,073	(675,282)
Totals	127,470,070	132,718,106	127,951,678	481,608

Home Investment Partnerships Program (HOME)

The PY 41 HOME budget totals \$32,256,495 (\$18.84 million PY 41 entitlement plus \$13.4 million in

program income). The Mayor's Proposed Con Plan estimated the entitlement for HOME at \$18.87 million. Therefore, slight reductions were made after discussions with HCID.

The HOME Program grant provides the majority of funding for the Affordable Housing Trust Fund. The grant provides loans for predevelopment, acquisition, refinancing, construction and rehabilitation. The HOME administrative cap is calculated as 10 percent of the 41st PY entitlement and the projected 41st PY program income:

HOME Administrative Cap	
41st PY Entitlement	18,839,495
Projected 41st PY Program Income	13,417,000
Subtotal	32,256,495
Administrative Cap (10% of Subtotal)	3,225,650

Housing Opportunities for Persons with AIDS (HOPWA)

The PY 41 HOPWA budget totals \$18,276,879 (\$14.3 million PY 41 entitlement plus \$4 million in prior year savings). HOPWA funds are used primarily for permanent supportive housing development and other services and administrative costs to be determined in consultation with the Los Angeles Countywide HOPWA Advisory Committee. HOPWA grant regulations limit City administrative costs to three percent of the entitlement and seven percent for entities the City contracts with for program services:

HOPWA Administrative Cap	
41st PY Entitlement	14,324,879
City Admin Cap (3% of Entitlement)	429,746
Contractor Admin Cap (7% of Entitlement)	1,002,742

The Mayor's Proposed Con Plan, based on available information at the time, projected an entitlement of \$15.9 million, therefore reductions were necessary. In consultation with HCID, it was determined that the largest reduction could be made to the Permanent Supportive Housing (PSH) line item. HCID reports that in the past, up to \$1 million of the HOPWA entitlement was allocated to PSH. However, in PY 40, \$3.7 million was allocated in addition to \$635,000 that was unexpended from the previous year. Of the total PY 40 funds, \$1 million was allocated to each of three projects (\$3 million total) selected through HCID's Notice of Funding Availability process (NOFA) as follows: Arlington Square (CD 10), Rampart Apartments (CD 13) and T. Bailey Manor (CD 14). In addition, for PY 41, there will still be a rollover balance of approximately \$1.3 million available for projects.

Emergency Solutions Grant (ESG)

The PY 41 budget for ESG totals \$4,554,073, which is the total entitlement amount with no prior year

savings. The ESG program provides funds for homelessness prevention and rapid re-housing. The ESG grant has two caps which limit the amount of funding for certain activities, the Shelter/Outreach Cap and the Administrative Cap. The Shelter/Outreach Cap is calculated as the greater of 60 percent of the ESG entitlement or the "Hold Harmless Need," an amount set in the Los Angeles Homeless Services Authority (LAHSA) FY 2010-2011 Budget:

ESG Shelter/Outreach Cap

41st PY Entitlement	4,554,073
60% of Entitlement	2,732,444
Hold Harmless Need Based on LAHSA FY 2010-2011	2,891,815
Shelter/Outreach Cap	2,891,815

The Administrative Cap is calculated as 7.5 percent of the ESG entitlement:

ESG Administrative Cap

41st PY Entitlement	4,554,073
Administrative Cap (7.5% of Entitlement)	341,555

Community Development Block Grant (CDBG)

CDBG funds are allocated under the following categories: economic development, neighborhood improvement, housing, administrative/planning and public service programs provided by non-profit entities, contractors and City staff. Both the administrative/planning and public service categories have spending limits which are discussed further in this report.

The CDBG grant is restricted by two caps that limit how program funding can be expended, the Public Services Cap and the Administrative Cap. The Public Services Cap is based on 15 percent of the 41st PY entitlement and the estimated 40th PY program income. The Administrative Cap is based on 20 percent of the 41st PY entitlement and projected 41st PY program income. Additional information on specific CDBG categories and cap limitations is discussed further in this report.

3. CDBG Prior Year Savings and Program Income

The Mayor proposed reprogramming over \$5.9 million in prior CDBG funds and budgeted these funds in PY 41. After a careful examination of the Mayor's CDBG Prior Year Savings Available for Reprogramming, we recommend restoring funding for the Center for Assault (\$150,000 - CD 6) and the Broadway Streetscape and Façade program (\$200,859 – CD 14). Due in part to an \$8.8 million CDBG deficit and the need to ensure funds are spent timely per HUD's ruling (and subsequent City probation),

our Office examined each active CDBG project (over 350) and determined that an additional \$7.3 million can be reprogrammed from existing projects and budgeted in PY 41. This reprogramming amount represents projects that are ineligible, have funds that have gone unspent for multiple years with no plan for expenditure, and projects that have been canceled. The two highest sources of new reprogramming comes from the Economic Development Model (\$1.5 million) and Economic Development Fund (\$1 million). The Economic Development Model received funding in PY 40 to serve as a source of funds to pay for economic development program delivery or economic development capital projects. Inasmuch as the City is still developing this model, this funding is recommended for reprogramming. Once the City develops and approves the Economic Development Model, future CDBG funds may be budgeted for this purpose. The Economic Development Fund, funded with CDBG in PY 39 and PY 40 and designed to fund capital programs, has a current CDBG unspent balance of \$6 million. In order to help cover the \$8.8 million deficit for the PY 41 CDBG budget, \$1 million is recommended to be reprogrammed from this fund, leaving a balance of \$5 million. The Mayor's Office has recommended that this fund receive an additional \$1 million in PY 41. We do not recommend this allocation due to the balance that remains unspent. A further discussion can be found below under Economic Development.

Upon analyzing CDBG prior year savings, funds allocated to the Belmont High School athletic field in the amount of \$500,000 were considered an unspent balance. After discussions with HCID, it was determined that these funds are to be paid to the Los Angeles Unified School District as part of the original project agreement. At the request of HCID, it is recommended that HCID be authorized to negotiate and execute an agreement with the Los Angeles Unified School District for an amount not to exceed \$500,000 in CDBG funds, retroactive to November 1, 2010 with an end date of October 31, 2015, for purposes of compensating the District for the City's share of costs incurred in the development and installation of the Belmont High School athletic field.

After making the adjustments, the total reprogramming recommended for PY 41 is \$12,844,970. These funds will be budgeted to fund additional projects.

4. Public Services

Spending Limitations

CDBG funding in the public service category is limited to 15 percent of the current year's allocation plus the previous year's program income, per HUD regulations. For PY 41, the amount available for public service activities is \$11.8 million, which is a \$734,849 reduction from the Mayor's Proposed Budget due to program income reductions for the current PY 40. Similarly to PY 40, both AIDS Prevention and Domestic Violence Shelter Operations are recommended to be funded with both CDBG and non-Con Plan dollars. Reductions made to LAHSA line items were completed in coordination with LAHSA and HCID to determine the best placement of funds. In addition, partial funding was restored to the Rita Walters Learning Complex with the recommendation that both this organization and Project SAVE be supplemented with non-Con Plan dollars. It is a policy decision to determine the amount and source of funding for activities supplemented with non-Con Plan dollars. It should be noted that for PY 40, both AIDS Prevention and Domestic Violence were funded with General Fund. Prior to receiving funding through CDBG, AIDS Prevention was initially funded with Urban Development Action Grant (UDAG) funds when the program began in the 1990s, and Domestic Violence Shelter Operations were previously funded with Law Enforcement Assistance Administration (LEAA) grant funds.

CDBG Public Service Cap

41st PY Entitlement	49,954,532
Projected PY 40 Program Income For Cap Calculation	28,712,793
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Subtotal	78,667,325
Public Service Cap (15% of Subtotal)	11,800,099

5. Economic Development

While the Mayor’s Proposed Budget allocated an additional \$1 million to the Economic Development Fund (EDF) to supplement allocations made in PY 39 and PY 40, our Office recommends that no additional funding be allocated until EDF guidelines and/or policies are transmitted for Council approval. It is in the best interest of the City to allocate funding in areas for which funds can be spent in a timely and efficient manner rather than remaining in the EDF, which to date, has no Council-approved expenditure plan or policy. Our office recommends that EWDD, with the assistance of the Mayor’s Office, CAO and CLA, be instructed to report with recommendations to establish EDF guidelines in accordance with the policies of the proposed Economic Development structure.

Continued funding for Economic Development Program Delivery (\$2.5 million; level funding from PY 40) and LA BusinessSource Program (\$4.5 million; \$225,000 increase from PY 40) remains for PY 41. New funding is provided for Healthy Neighborhood Market Network Program (\$250,000), LA Clean Tech Business Incubator (\$850,000) Techshop Los Angeles (\$500,000) and 94th and Broadway Site Improvements (\$750,000). The Mayor’s Proposed Budget allocated \$350,000 to the LA River – Atwater Landing River Café and Bike Hub. However, our office recommends that due to eligibility uncertainty and the need for further planning and location discussions with Council District 13, this funding be redirected. Upon review of plans and eligibility, a similar project could be funded in future years.

6. Housing and Related Programs

Funds allocated to Housing Programs are administered by HCID and include funding from CDBG, HOME, and HOPWA. Both the Affordable Housing Trust Fund Program Delivery and Section 108 Debt Service have approximately level funding from PY 40 (2014-15) allocation. The Homeownership Assistance and Rehabilitation Comprehensive line items have been combined in PY 41 to phase out the Rehabilitation Comprehensive Program and allocate more funds to the Homeownership Assistance Program, which funds soft-second mortgages and has a significant waiting list which will allow funding to be spent rapidly. As stated previously, the HOPWA Permanent Supportive Housing Development line item was reduced, but since PY 40 funding was significantly higher than previous years, there is ample savings to fund projects throughout PY 41 without an additional allocation. Newly funded in PY 41, the 5181 Adams Boulevard Housing Project located in Council District 10 is recommended for funding in the amount of \$750,000.

Both the Single Family Rehabilitation – Handyworker and Urgent Repair Programs continue to receive level funding for PY 41. The Single Family Rehabilitation – Handyworker Program provides minor repair services by City-approved contractors for low-income elderly and disabled homeowners. The Urgent Repair Program responds to life-threatening conditions in multi-family rental units when an owner does not comply with a Notice to Correct. To determine whether these programs are being fully utilized and that eligible residents are aware of the programs, it is recommended that HCID report on both the Single Family Rehabilitation – Handyworker and Urgent Repair Programs, including the process to utilize funding, community outreach efforts and budget detail.

7. Neighborhood Improvements

The Mayor's Proposed Budget allocates \$24.6 million to projects under the Neighborhood Improvement category. Although the entitlement was lower than the Mayor's Proposed Budget has estimated and program income was significantly reduced, our Office has identified additional savings in prior year projects leaving approximately \$23.2 million for this category. The Mayor's Proposed Budget provided funding for Neighborhood Facility Renovations. Without a plan or specific projects to fund, we recommend that funding be reallocated and considered during reprogramming.

Additional funding has been allocated to the Neighborhood Improvement Fund (NIF). This amount is recommended to be reduced slightly from the Mayor's Proposed Budget from \$2.5 million to \$2.1 million. HCID is in the process of finalizing the list of projects that will be recommended for NIF funding, and it is anticipated that the \$2.1 million in PY 41 funding in addition to the existing \$2.6 million in the NIF will fully fund all eligible projects. The Mayor has also proposed funding for Great Streets Program to be designated in Council Districts 7, 8, 9, and 14; however, project specifications have not been submitted to determine eligibility. It is recommended that HCID report on specific project information, including scope and budget, within 30 days to determine how quickly these funds can be expended.

Various adjustment to funding were made based on Council District priorities, and the following new projects are recommended for funding:

Council District 6 Street and Sidewalk Improvements (CD 6 - \$300,000) – Improvements to streets and sidewalks throughout the district.

James Slauson Recreation Center (CD 9 - \$250,000) – Park improvements including new play equipment, repaving of the parking lot, upgraded sports fields, and additional improvements as needed.

The Mayor's Proposed Budget allocated additional funds to further assist in paying related costs for the City Attorney Residential Enforcement (CARE), City Attorney Task Force for Apartment and Rental Properties (TARP), and Code Enforcement (Citywide PACE). With the General Fund impact in mind, our office supports this increase in funding. The CAO has estimated that for these programs, \$631,997 in related costs will need to be funded by the General Fund. By allocating additional funds to these projects, the burden on the General Fund is lessened. More information on the complete General Fund impact of the PY 41 Con Plan is found later in this report.

Both the CARE, TARP, and Citywide PACE programs provide staff dedicated to responding to code violations in CDBG-eligible areas. To understand the process by which violators are discovered and the extent to which residents are aware that there are existing programs to prevent health and safety code violations in their neighborhoods, it is recommended that the City Attorney's Office and Building and

Safety report on their respective CDBG –funded code enforcement programs including program process, community outreach performed and budget details.

8. Administration/Planning and Related Cost Recovery

Spending Limitations

HUD regulations limit the expenditures of CDBG administrative and planning activities to no more than 20 percent of the current year’s (PY 41) CDBG resources (PY 41 entitlement and estimated program income). Similar to the public service cap, the funding level for these activities is directly impacted by the annual entitlement amount and program income projections. The PY 41 administrative and planning activity funding levels are detailed below:

CDBG Administrative Cap	
41st PY Entitlement	49,954,532
Projected PY 41 Program Income For Cap Calculation	15,713,985
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Subtotal	65,668,517
Administrative Cap (20% of Subtotal)	13,133,703

As shown, the amount available for administrative and planning activities is \$13,133,703 for PY 41, a \$729,677 decrease from the PY 40 allocation of \$13,863,380. Projected PY 41 program income includes HCID monitored loan repayments, neighborhood facilities leases, Section 108 loan repayment and EWDD loans (Attachment D). As described previously, HCID loan income has been reduced from \$17.4 million to \$12.3 million since the release of the Mayor’s Proposed Budget. Because of this, various reductions throughout the category are necessary.

Funding in the amount of \$50,000 has been allocated for Slum Blight Area Documentation. According to the HCID, this amount should cover approximately two study areas. HUD allows projects to qualify for funding if the area is determined to be blighted. In the past, the City relied on Community Redevelopment Agency slum/blight studies, however these studies and many of the corresponding redevelopment project areas have since expired. Expiration dates on slum/blight studies are specified because the goal of providing funds to the area is to eventually eliminate or reduce the slum/blight. The City should make it a priority to fund extensive studies of the City’s CDBG-eligible areas, so that determinations can be made and the City can direct funding to projects in the areas that need it most. While the City may use CDBG funds to pay for these studies, the Administrative Cap restricts the amount of funds used for this purpose and the budget has reached the cap maximum. Additional funds for this category would require a similar reduction to another administrative line item. Non-CDBG funds may be used to supplement the \$50,000 dedicated for blight studies.

Because these determinations may expand the areas for which CDBG funds can be used, our Office recommends that HCID immediately commence the competitive process necessary to contract with slum/blight determination consultants.

Related Cost Recovery and General Fund Participation

Costs for the City to administer the Con Plan vary from year to year, but are always subject to the 20 percent cap. The City funds these costs (direct and indirect costs) with CDBG or General Fund, or a combination of the two. Because of the spending cap, the additional costs that cannot be funded under the administrative and planning cap have been funded with the General Fund in previous years. However, the decision to provide this gap in funding is an annual policy decision and subject to Mayor and Council approval.

Administrative costs include direct salaries as well as related (or indirect) costs which are calculated and determined on an annual basis. For PY 41, the related costs are based on the current CAP (Cost Allocation Plan) rate which is CAP 36. The CAP rate, prepared annually by the Controller, is the City's mechanism for calculating the indirect costs of staffing, including but not limited to pensions, health and life insurance, utilities, and other various costs to employ a staff member beyond their direct salaries.

For PY 41, the CAO has calculated total related costs to be approximately \$6.9 million. Of this amount, approximately \$5.4 million can be funded with Con Plan dollars. This results in the balance of approximately \$1.5 million in related costs to be considered by Council and the Mayor to be funded with a General Fund allocation. The City's Financial Policies state that the City will pursue program grants but will limit financial support of these programs to avoid commitments beyond available funding. In order to maintain grant administrative operations while reducing the impact to the General Fund, it is recommended that all departments funded in the Con Plan continue the hiring freeze on all Con Plan-funded positions during PY 41, or until subsequent Council and Mayor action.

Because CDBG entitlement amounts have decreased over the past few years and related costs per employee have increased, full reimbursement to the General Fund has become increasingly more difficult. In reviewing past years CDBG savings, funds set aside by a department for related costs are often left unencumbered instead of immediately reimbursing the General Fund for these costs. In order to keep the General Fund participation to a minimum, CDBG-funded departments should be paying these related costs immediately upon quarterly reconciliation of administrative costs.

9. Timeliness of CDBG Expenditures

On February 5, 2015, HUD notified HCID that the City's unspent CDBG balance exceeded the maximum of 1.5 times the City's annual grant amount 60 days prior (February 1, 2015) to the end of the program year (March 31, 2015). On March 6, 2015, HCID responded to HUD with the HUD-requested workout plan for the expenditure of CDBG funds. HCID reported that as of February 28, 2015, the City was down to a 1.49 ratio. It will be necessary for City staff to continue to facilitate a swift expenditure of CDBG funds. As HUD has stated, if the City fails to meet the 1.5 standard again in 2016, HUD will reduce the City's grant by the entire amount in excess of 1.5 times the City's annual grant. Throughout the current PY 40, HCID, with the assistance of relevant City departments has reviewed all projects with remaining balances and made recommendations to reprogram projects that have remained unspent. Because loss of funding is threatened and will occur should the City not comply, it is necessary for the project review process to continue throughout PY 41. As stated previously, it is recommended that HCID, with the assistance of the CLA and CAO, be instructed to review all projects with outstanding balances as of June 30, 2015 and provide a report with reprogramming recommendations. For example, if HUD were to penalize the City for this current PY 40 at the ratio of 1.53 as of February 1, 2015, the City would have to repay HUD approximately \$1.3 million for being 0.03 of a point above the

maximum allowable balance.

10. Contract Authorities

City departments must have Council and Mayor approval before executing contracts with agencies funded with PY 41 Con Plan grants. Participating departments are responsible for following City regulations regarding competitive selections processes and must ensure that contractors are in full compliance with all City standard contracting provisions. It is recommended that all participating departments submit relevant contract authorities for CLA and CAO review immediately following Council and Mayor approval of PY 41 Con Plan funding.