CDBG Advisory Committee

January 20, 2017

Meeting Minutes
Director Metcalf's Introduction – Changes at the State and Federal Levels

The Governor's Budget Summary on housing catalogs the issues CA faces, be it lowest homeownership rates since WWII or capped GDP growth.

Housing is becoming a priority for the Governor's administration and with the Legislature.

Research frequently shows the structural issues that prevent the market from providing the kind of housing California needs. These could be local barriers, added costs by local regulations or lack of capacity in local jurisdictions.

Because of significant pressures on the General Fund, the Governor is asking Departments everywhere to work as efficiently as possible.

We previously had eight staff positions funded through limited term General Fund dollars. Come July 1st, 2017, we will no longer have those staff positions. We have to figure out a way to run the CDBG Grant program to operate within its means.

Historically, we have seen CDBG federal dollars decline. While we have no statement from the incoming Presidential Administration on CDBG, we must be ready if these trends continue.

In addition, HUD career staff have had several issues with the State's expenditure rate. We know they continue to have issues with our expenditure rate and have to work to improve this.

All of the factors underscore the need for a streamlined program redesign.

Questions and Comments from the Advisory Committee:

- If there are regulation changes, it is important to maintain the flexibility needed for local jurisdictions to run the program.

- Because of the lack of training, the process is slowed down on all sides of the program. A key part of moving forward in program administration and the expenditure rate is increased training.

- Housing is a net loss. There are public costs associated with housing. It is does not bring in revenue the same way commercial development projects can.

- This is about the only program we have available to fund infrastructure.

- Rather than just take our comments, let's see your vision and then let us guide you. Otherwise we will tell you we want everything.

Advisory Committee Agenda Items

1. *Additional Goals for the Redesign and Feedback*

   HCD is looking at a more streamlined version of the program that will be easier to administer with fewer staff.

   Some of the options HCD are considering:

   a) Only offering one or two activity types
   b) Increasing the maximum grant award and the minimum grant award
   c) Reusing Program Income for new awards—requiring jurisdictions to use remaining program income on activities they are applying for
   d) We are considering the Massachusetts model
      a. The MA model has a mini-entitlement based on need. Half of the total state grant goes to them. These funds are awarded non-competitively. The local jurisdictions can select whatever activity they want. If they do not take funding one year they cannot be given funds from future years in the three year cycle.
      b. The remaining funds are distributed competitively, to limited activity types.

   HCD is also no longer able to extend contracts as frequently as we have in the past.

   HCD is considering taking back Program Income only if the local jurisdiction has no active program.

   HCD is considering several stakeholder meetings to review these upcoming changes. HCD is considering having one in the middle of the March 1 Training.

   Comment: One of the reasons the State added the 50 percent rule is because some jurisdictions with high poverty rates could easily secure awards but could not easily spend down their funds.

   Question: If it's possible to have what the MA structure looks at the Stakeholder Meetings could you provide it?

   Comment: Consider a cookie-cutter limited pot, and a smaller more dynamic pot with more activities and higher grant amounts.

   Comment: The problem with the MA model is the jurisdictions with the highest need often have the lowest capacity.

Comment: A lot of time is spent trying to help low capacity jurisdictions even determine what is needed and not needed.

Comment: A lot of planning done historically with CDBG PTA grants was not realistic. Planning is fundamentally about whether a project is feasible or not feasible.

Question: When you report to HUD on grant funds can you include the Program Income funds spent on the activity?

- Not exactly. If HCD awards $1.5 million for an infrastructure project, we put $1.5 million in IDIS. When you end up spending $500,000 in a Program Income windfall, we can only report $1 million of funds in IDIS.

HUD is expecting HCD to report all program income. From HUD's perspective, program income and grant dollars are the same. All of these funds are supposed to be considered when making awards in order to have an impact on the expenditure rates.

Comment: Small jurisdictions are better off using their own program income they have on-hand than they are advancing all funds to the project and then betting reimbursed by HCD.

Question: What about offering all activities make administration slower?

- Part of it is the large workload prior to contract management. There is a large rating and ranking workload. This is one of the reasons the MA model is attractive. It eliminates a large amount of rating and ranking workload. There would still be threshold and readiness criteria for activities.

Comment: Eligible counties can have some very wealthy communities, but also have some poverty laden areas. Relying purely on the Jurisdiction ACS data exacerbates this issue and could hide some of the neediest communities.

Comment: Reducing Program Income when you get the award makes a lot of sense. Increasing the minimum grant size is also a good idea.

Question: What is the HOME program expenditure rate? Is it similar to CDBG?

- HCD does disencumber approximately 35 percent of HOME program dollars. It is a similar type of situation.

Comment: Have people report on their Program Income when they get their award letter to lower the amount of award in IDIS. This could allow you to fund further down the list and could reduce disencumbrances.

Comment: But what about supplementals? Don't they prevent this from working?

- Supplementals are an additional, complicated process. A Program Income waiver may be more easy to administer.

Question: Would we be able to propose a Program Income for the money jurisdictions expect to come in?

Comment: What about preventing jurisdictions with Program Income from applying.

2. *Stakeholder Meeting Locations*

HCD is considering Redding as a location. Maybe HCD will host a Ukiah or Eureka meeting instead of Redding.

HCD is also considering two meetings in Sacramento and one in the central valley area. One of the Sacramento dates would be during the training on March 1st.

3. *2017 NOFA*

HCD is planning to release the NOFA for mid-March, with an application due date of late May.

We are considering increases to maximum grant amounts and establishing minimum grant amounts.

Question: Is there any possibility that jurisdictions with ready projects who have not met the 50 percent rule could apply?

- If a waiver was made to get rid of the 50 percent rule it would be across the board.

HCD will have a follow up conversation about waiving the 50 percent rule and prepare to contact the advisory committee.

HCD will review the September minutes during the next meeting.
Comment: If possible please provide the minutes and agenda three days prior to the next advisory committee meeting.

4. *Amount of Allowable Activity Delivery*

This item was put on the agenda by the advisory committee. They need access to activity delivery beyond a loan by loan basis.

They understand that at least one loan must be issued before jurisdictions can receive activity delivery fees. But this means there is no money for marketing or for applications that fail. In some housing markets you could go through several applications before you get a loan.

HCD believes the regulations require HCD to set reasonable activity delivery limits.

Perhaps the percentage of activity delivery could be raised. The additional 'reasonable costs' could help pay for some of the marketing and underwriting costs associated delivering loans. Jurisdictions need to cover this in order to run the programs.

HCD will need more data from the grantees if they want to see activity delivery percentages increase. HCD has to be able to quantify and justify the extra costs, something like grantees quantifying the amount of hours and work that go into the costs.

Comment: Members have submitted this type of information before.

HCD could potentially consider the industry standard costs. This would mean reviewing the mortgage industry standards.

5. *Update to Tom Bettencourt's Research Items*

There will possibly be updates to the contract extension policy. Beyond that, many of these projects may not be continued.

Comment: Procurement is going to continue to be a problem for HCD's expenditure rates.

- The General Conditions clearance for 2016 contracts and later does not require grantees to submit their RFPs and applications unless they are sole source projects.

HCD is recognizing that only receiving one bid on the project is not the same as a sole source project.

When HCD is reviewing sole source submissions all HCD is reviewing for is if grantees are meeting the federal requirements. HCD is looking to see if the advertising is adequate, if the cost analysis is adequate. Grantees could even consider historical awards as part of the cost analysis.

HUD has posted a webinar for procurement on National Disaster resilience. Advisory Committee members could benefit from reviewing this.

HCD has no issue with Grantees procuring for five years, but other issues may arise. You may not want to be tied down to certain costs for five years.

HCD will consider cleaning up HUD's guidance on cost analysis if they are allowed the time to do it. HCD will send it out to the committee as it is, and then work on cleaning it up for the rest of the world. HCD will consider putting this on the next meeting agenda.

6. *Other Items*

Comment: Where exactly is the language specifying that Program Income must be substantially spent down? Is there an opportunity to roll back some of the policies we have instituted? Having to bring Program Income funds all the way to zero is a tremendous amount of work. HCD should research what exactly this means.

Comment: HCD, several years ago, came up with $275,000 as the 'reasonable amount' grantees may have in program income before being obligated to spend program income. HCD and Advisory Committee members agree that the current federal guidance would not allow this.

Comment: Consider some sort of 30-day window where if activity funds are already committed they can be drawn down, regardless of any additional program income accrued during that window.

Comment: HCD and Advisory Committee members agree that if there is a zero-dollar balance on program income at the beginning of the month grantees should be able to draw down additional grant funds.

Comment: When considering program design options, do not limit the total amount of activities. Instead, limit how many activities a jurisdiction can apply for at any given time.

Comment: Raising grant floors and ceilings too much could pose issues for public service activities. These are typically smaller grant amounts. HUD has directed some of the Advisory Committee members to set minimums.

HCD asked members if they consider CDBG infrastructure or CDBG housing more valuable. Members identified both as very important. There was no consensus around one activity being more valuable than the other.

Attendees agreed to schedule the next Advisory Committee meeting in March 24th.