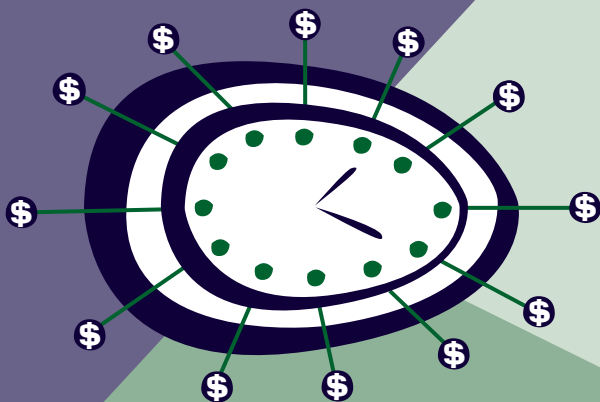




Keeping Your CDBG Funds Moving

Guidelines for
Managing Your
Overall Community
Development Block
Grant Program in
a Timely Manner

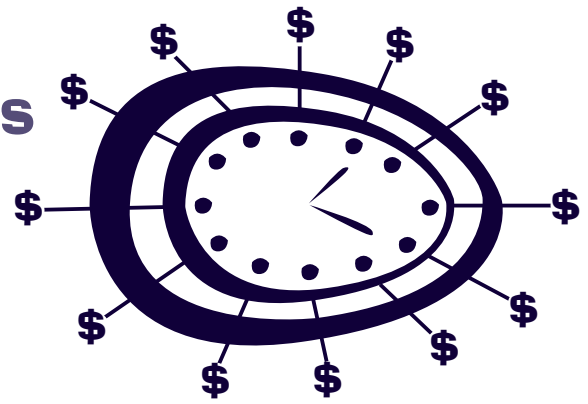


U.S. Department of Housing and Urban Development

Mel Martinez, Secretary

Roy A. Bernardi, Assistant Secretary for Community Planning and Development

Keeping Your CDBG Funds Moving: Guidelines for Managing Your Overall Community Development Block Grant Program in a Timely Manner



Introduction

Cities and counties that receive Community Development Block Grant (CDBG) funding need to implement their programs in a timely manner. Running a local CDBG program in a timely manner helps meet the program goal of improving the lives of residents of the community, particularly those of low and moderate income. Furthermore, experience shows that delays usually increase costs, primarily because of inflation.

Program directors and managers of CDBG grantee organizations that either have fallen behind in their timely expenditures of CDBG funds, or are at risk of doing so, should particularly find the suggestions in these guidelines helpful in managing their programs. Because operating a timely program simply reflects good management practices, any grantee interested in improving its program management should benefit from these guidelines—whether or not it is having a timeliness problem.

Key Steps for Managing a Timely CDBG Program

In 2000, HUD cosponsored a number of CDBG Timeliness Conferences for entitlement grantees interested in improving the timely performance of their programs. During these workshops, participants identified

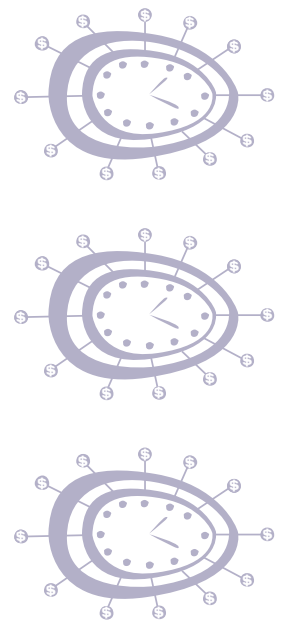
certain key processes and procedures that helped keep program funds flowing. These guidelines highlight some of these elements of a timely program that you can adopt to improve the way you manage the program in your community.

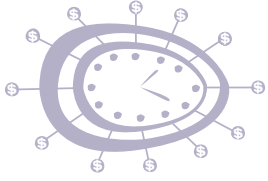
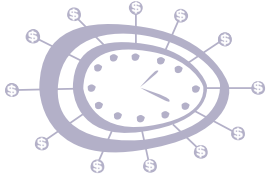
Building Awareness of the Timeliness Issue

Don't make timely conduct of a local CDBG program an afterthought, considered only when you develop a large backlog of unexpended funds, then allowed to drift into the background after the backlog has been sufficiently reduced. Unless you keep the timely flow of funds in mind on an ongoing basis, a problem can develop quickly.

The use of one or more reports that display the current status of funds on hand is essential for this purpose. The Integrated Disbursement and Information System (IDIS) has been modified to enable a grantee to produce a report that shows how much money a grantee needs to draw down by the next 60-day test to reach the 1.5 standard defined in 24 CFR §570.902. You should run this report monthly.

Moreover, you will need the attention and cooperation of almost all segments of the program staff to keep program funds moving. In fact, it helps to make awareness of how





timely the program is moving a key part of almost all deliberations about the program.

- * Timeliness should be built into the process of determining which activities to fund.
- * Each project to be funded should have a schedule for the use of projected funds, preferably tied to key project milestones, so that actual performance can be measured against expectations and problems can be identified at an early stage.
- * There should be contingency plans for dealing with a backlog of unexpended funds if one begins to emerge.
- * Timeliness needs to be factored into the content and frequency of reports used in program management.

In short, keeping aware of program timeliness on an ongoing basis should be built into your entire local CDBG program.

Organizing and Staffing for Accountability

How you organize and staff your CDBG program can make a big difference in how well your program flows. The number and type of staff you maintain can be important to the success of your program. Equally important, however, is the need to clearly assign responsibilities. There is no set formula for determining how many staffers a grantee needs to operate its CDBG program or how the staff should be organized. Among the factors that should be taken into consideration are the size and complexity of the local CDBG program, the local program's relationship to other grantee activities, and the number and type of subgrantees used in carrying out the program. Monitoring projects is important to any scheme for managing

timeliness. Therefore, the more projects and entities that are involved in using CDBG funds (that is, subrecipients or grantee agencies), the more staff that is needed to monitor the projects they carry out.

A project management system should be used. Each project must have clear objectives and measurable results. The larger the number of projects and entities involved in the program, the greater the need for a system to track them. Projects can get lost and escape your attention easily in very large programs. A system containing information on all of your projects, including operating agency, obligations, and expenditures will prove highly beneficial for monitoring the progress of the entire program. The system should also show the current status of each project in terms of both financial and physical completion. There are many computerized grant-management programs used for this purpose, but a manual system may be sufficient for some smaller grantees. For example, a simple, computer-generated spreadsheet can be suitable for this purpose if it contains the critical information needed to track progress and expenditures on a cash flow basis.

Each project should have a schedule showing when you plan to obligate and expend the funds programmed for it, ideally tied to its specific key milestones. This will enable a comparison of expenditures and drawdowns with that timetable on an ongoing basis and lead to early identification of delays as they develop. It is a good idea to provide copies of your periodic reports to each party involved in the program. Reports should show the progress of *all* projects, not just the recipient's own segment, to give all parties a picture of how their projects fit into the total program.



Financial management is essential to timely performance. At least one person should be given the responsibility for monitoring the entire program's financial needs and performance on an ongoing basis. This person needs to receive, review, and generate reports on the financial performance of all participating projects and entities. The frequency of such reports should be at least quarterly, preferably monthly. If any problem appears to be developing for a particular project or entity, more frequent reports should be provided for the problem area(s).

One person should be responsible for ensuring that CDBG funds are drawn down regularly. This person should work closely with the community's accountants to ensure that they synchronize and reconcile records. For many grantees, expenditures move ahead of CDBG drawdowns by a considerable period of time, because they have another source of funds (such as local general funds) to cover them in the interim. Special efforts should be made to minimize the time lag between expenditures and drawdown of CDBG funds. It may help to let subgrantees and contractors know upfront that they should bill as costs are incurred, rather than accumulating expenditures for an extended time before asking for reimbursement.

Be prepared to manage staff turnover. Make sure you realign responsibilities so that all functions are properly covered if an employee leaves or is reassigned. When a seasoned employee leaves, be prepared to deal with the fact that he or she may be replaced with someone who is less knowledgeable about the program. It helps to have written job descriptions so that new staff members can review them to gain an understanding of what specifically is required of them. Do not

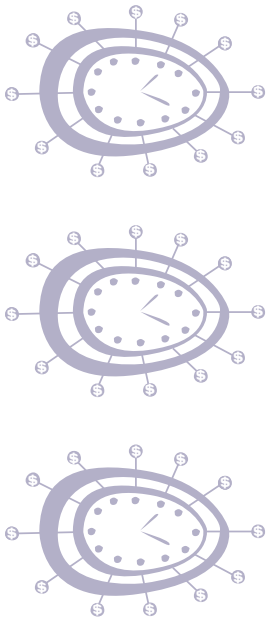
delay training new staff on program rules and requirements. HUD's *Guide to National Objectives & Eligible Activities for Entitlement Communities* is available and can be a good starting point for such training. Contact your local HUD Field Office to determine if it can make training available to your new staff.

Streamlining Program/Project Implementation

An important way to avoid a funds backlog is to design your program with an eye to minimizing the amount of CDBG funds that will sit idle for a long period of time. Work at the front end to identify where projects might be delayed in implementation and take steps to minimize those delays before they materialize. Work closely with all potential subrecipients and grantee agencies as they develop ideas about activities proposed for CDBG funding. Avoid prematurely funding projects not ready to move forward quickly. Help subrecipients and other agencies stage projects properly so large amounts of CDBG funds do not sit idle.

Consider phasing large projects over several years. For example, in the first year, fund only the feasibility and/or design portion(s) of the project. If property acquisition is one of the first steps in a construction project, consider funding only the acquisition phase this year, leaving the construction costs for the following year(s). If relocation is likely, delay funding the construction phase until the relocation is well under way or has been completed.

For many grantees, large public works projects become stumbling blocks to timely performance, because capital improvement projects inherently take a long time to conclude. Sometimes, public works departments



do not carry out CDBG-funded public improvements in a timely manner, in part because they give priority to projects that are funded locally. Some grantees have decided not to use CDBG funds for extensive public works, preferring to use CDBG funds for short-term activities. Others have avoided giving the funds to their public works departments and have found other agencies that can do the work faster. Still others have used the Reimbursement for Pre-Award Costs provision in the CDBG regulations [24 CFR §570.200(h)].

Under the pre-award provision, a grantee can carry out a project using non-CDBG funds exclusively, or in large part, with the understanding that they may reimburse those non-CDBG funds from one or more future CDBG program years. To use this provision, there must be another funding source available. Moreover, when being carried out, the pre-award project needs to meet all the requirements that would otherwise apply to a CDBG-funded project (for example, environmental review and Davis-Bacon).

Do not wait until you are ready to move a project forward to conduct the needed environmental reviews. Even for projects with funding staged over more than one grant year, the environmental review and the release of funds request can cover the entire project, not just the portion to be funded for the year at hand. Moreover, your environmental assessment and request for environmental release of funds can even be done before grant award. Make sure that you allow sufficient time in your schedule for those projects that involve historic preservation.

Doing such work upfront can take a lot of time and effort and is a factor that needs

to be considered both in deciding how many staff you need and for setting the program schedule for the year. It may be necessary to adjust your program schedule to allow more time for both project definition and applications review. Where possible, sequence events and schedule parallel actions to minimize delays in implementation. Use a monitoring visit to serve dual purposes. You might conclude the visit with a discussion about, and assessment of, additional projects for possible funding by CDBG in the future.

Ensuring Timely Expenditure Information Availability

As previously mentioned, the review of program expenditures and drawdowns should occur at all stages of the program schedule. To ensure that an accurate picture is available for this purpose, establish and implement a system for regularly gathering such information from each entity participating in the program for use in your project management system. Uniformity is critical for this purpose. If some participants report monthly and others report quarterly or semiannually, a complete picture of program expenditures will not exist for some timeframes. The deadlines for reports should be fairly uniform for the same reason. Include expenditure reporting requirements in your contracts and agreements with all participating entities. Make the required content and frequency of these reports and the deadlines fit within the overall program status report(s) you intend to use to track program expenditures and drawdowns.

Preparing for Problems in Advance

The more projects and entities involved in your program, the more likely it is that you will encounter delays. Some types of

delays can be anticipated. If your schedules are too optimistic and do not provide for the kinds of delays that experience has shown can occur, your overall program timeliness will frequently run into snags. Look at your actual experiences with projects in the past. Have you allowed enough time in the schedule for property acquisition, historic preservation compliance, environmental impact reviews, and so on?

Also, if you assume that one or more projects will run into obstacles that cannot be predicted and cannot be overcome without producing delays in spending CDBG funds, you can be ready with alternatives. Having in mind specific projects and operating entities to substitute for a troubled project can help minimize the impact of a delayed project on the overall timeliness of your program. As part of the process for preparing your Consolidated Plan and your annual Action Plans, identify and include backup projects that you can substitute if any of your higher priority projects run into delays. Depending on how you describe such projects in your Action Plan and the requirements of your published Citizen Participation Plan, you may be able to reduce the time and effort required to notify citizens properly of your intent to deobligate funds from a particular project and fund one or more others in its place.

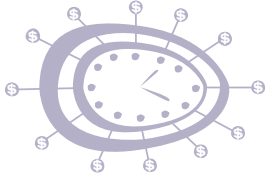
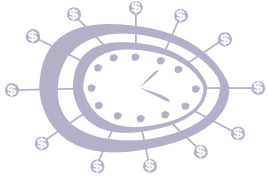
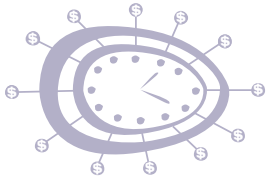
Building these early action concepts into your overall CDBG program will help all participating entities understand in advance your intention to take actions to keep the program timely. It should also help to increase the likelihood that they will accept the idea that their project(s) may be postponed, or even terminated and replaced, if they experience undue delays.

Monitoring for Timeliness

The kind of reporting systems mentioned above will help in early identification of problems. However, reports may not always reveal the cause of the problem. Have your staff regularly contact all participating entities and conduct periodic onsite inspections. Such monitoring can be very staff intensive, so there will naturally be limits on how frequently such contacts and visits can be made. Your staff should be in contact with each participating entity on at least a monthly basis. Site visits should be made on a semiannual basis to ensure that problems can be identified without losing too much time before an adequate response can be provided. When a problem has been identified, even more frequent visits may be appropriate.

Reacting to Incipient Problems

The earlier you identify a problem, the more likely you will be able to take action to prevent prolonged delays. Sometimes, it is just a matter of calling a problem to the attention of the entity running the project. Your staff may also be able to provide some assistance in overcoming a delay. Deobligating funds from a project should be a last resort. Assuming that the project has been identified as responding to a high-priority need in the community, replacing it with something else may mean you will be supporting a less critical project. Therefore, identifying at the start potential delays and what will be done to address them is the best strategy for dealing with timeliness. As soon as it is clear that a project is not progressing according to plan, you need to discuss the problem with the entity or staff running the project. The object of such discussions should be to identify the reason(s) for the delay and to decide what action, if any, needs to be taken



to prevent or minimize the delay. Ultimately, you may find that it is unlikely that the project can proceed without further prolonged delay, despite the best efforts of all involved. In such a case, you should take action immediately to find a substitute project that can use the funds faster.

Educating Key Officials and Getting Their Support

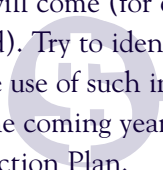
It is critical that key officials in the local governing body and local politicians understand the seriousness of untimely expenditures. Educate your chief executive and council members or commissioners about the consequences of untimeliness. To get their attention, you may want the help of your HUD Field Office. If HUD officials have not already discussed CDBG program timeliness with key local officials, invite them to visit your community. It is probably easier to get the help and cooperation you will need from local government agencies if your chief executive is on your side. Your council members or commissioners will be more likely to accept the changes in projects in their jurisdictions or pressures placed on some of their constituent agencies if they understand the urgency and possible consequences of your backlog problem.

Program Income

Depending on the nature of the local CDBG program, the amount of CDBG program income a grantee receives can be a significant portion of CDBG funding for that year. Some grantees even receive more CDBG program income than the amount of the annual grant. Clearly, managing the use of program income can be just as important as managing grant funds. It pays to think about this issue when deciding how to run the program. Anticipating the receipt of program

income and being prepared to put it to use quickly are key to this issue. If you do not properly anticipate program income, you can develop a backlog quickly because you must use program income before you can make new draws from your line of credit. Check to see how accurately you have been predicting the amount of program income you will receive when you prepare your Action Plan each year. Check your projected amounts against the amount actually received over the past several program years. If you are consistently underestimating the amount you actually receive, you will not be prepared to use those funds, thus affecting your overall program timeliness.

To some extent, you can control the amount of CDBG program income you receive. Some types of activities produce program income, whereas others do not. Usually, a decision is made to use CDBG funds in a way to produce income (for example, lend, rather than grant, funds), which then may be used to address other community concerns. Because using program income can pose an added burden to a community that already is experiencing difficulty spending its grant funds in a timely manner, it may be sensible to make program decisions that will minimize the amount of income the program will receive. However, because the object of the CDBG program is to make the most impact on reducing the community's needs, it is clearly preferable to find ways to manage the program in a way that will lead to timely expenditure of both. You may know about a large amount of program income that you will be receiving, but you may not be able to tell in which year it will come (for example, from the sale of land). Try to identify projects that could make use of such income if it is received during the coming year as part of preparing your Action Plan.



Some other factors concerning the management of program income that you should think about are discussed below.

Should Program Income Be Returned?

Frequently, funds provided to another entity will produce program income. For certain entities, the added burden of using such income along with new grant funds may make it unlikely that they can maintain timely expenditures of their CDBG funds. One way you can manage the problem of spending program income in a timely manner is to avoid allowing a problematic entity to use the income its CDBG funds may produce. Instead, require the income to be returned to the grantee. You may then either (a) use it at the grantee level, (b) award the income to another entity that will put it to use faster, or (c) return it to the entity as a reward for quality performance.

For certain entities, pulling program income back to the grantee level may be difficult for local political reasons. If you find that you cannot overcome political opposition to returning program income to the grantee, consider providing technical assistance to the subgrantee to increase its capacity. You may even authorize such a subgrantee to use some or all of its program income for acquiring the technical assistance it needs.

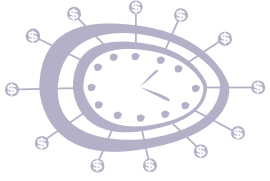
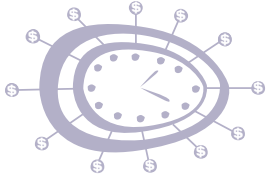
Should a Community-Based Development Organization (CBDO) Be a Subrecipient?

Under the regulations (revised a few years ago), a CBDO is not considered a subrecipient unless the grantee expressly deems the CBDO to be so in the written agreement made at the time CDBG funds are awarded. The principal significance of this determination is whether the income the CDBG funds may produce will be considered program

income. By definition, program income is income received by the grantee or a subrecipient generated from the use of CDBG funds. If a CBDO is not designated as a subrecipient, and its use of CDBG funds produces income that is not returned to the grantee, such income will not be recognized as part of the CDBG program. As such, that income will not be included in the calculation for purposes of determining whether the grantee meets the CDBG timeliness test. You can still specify how and when such funds may be used by the CBDO through the terms of your written agreement, even if the income is not CDBG program income. Any award of CDBG funds to a CBDO should include consideration of whether the CBDO will be deemed a subrecipient. Of course, there are other reasons why you may want to have any income produced by a CBDO award considered CDBG program income, but all aspects of this matter should be carefully thought through before the award is made.

Benefits and Pitfalls of Revolving Loan Funds

Establishing and maintaining one or more revolving loan funds is a routine way of using CDBG funds for ongoing loan programs. When you expect to use CDBG funds over a period of years for making loans (for example, for housing rehabilitation or business assistance), the use of a revolving loan fund makes it possible to keep loan repayments readily available to make additional loans for the same purpose. Unlike other program income, money in a revolving fund is not required to be used to meet cash needs of any other activities in the grantee's CDBG program before grant funds are drawn from the U.S. Treasury. This insulation factor makes funds in a revolving account easily accessible for making the next loan. However, along with these advantages comes the need



to monitor the flow of funds from such accounts. If, for any reason, the stream of new loans lags behind the flow of repayments into a revolving account, funds can very quickly accumulate and create a drag on the overall program's timeliness. Unlike other program income that may accumulate unexpectedly, revolving loan funds may not be put to use as easily. If you cannot get the stream of loan making moving quickly enough to deplete the backlog in a revolving fund, you may elect to move some or all of the funds out of the revolving account and find other uses for them. However, this may necessitate advance notice and opportunity for comment from citizens, because it constitutes an amendment to the Action Plan.

Working Out of a CDBG Funds Backlog

The options for timely expenditures discussed above will be most important for you if you already have a backlog that exceeds HUD's timeliness requirements in 24 CFR §570.902. If so, HUD will likely request that your community develop a Workout Plan for returning your CDBG program to within timeliness standards. Separate HUD guidelines titled *CDBG Timeliness Workout Plans: Guidelines for Preparation and Implementation* is available to assist you. Use the guidance provided here, along with the Workout Plans guidelines, to assess and modify the management of your program in your effort to reduce a backlog.



