

# Developing and Implementing a CDBG Workout Plan

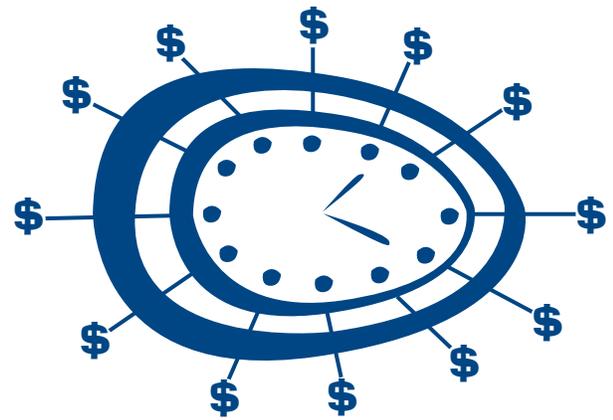
Guidelines for Putting  
Your Community Development  
Block Grant Program  
on the Road  
to Timeliness



U.S. Department of Housing and Urban Development  
Mel Martinez, Secretary  
Roy A. Bernardi, Assistant Secretary for Community Planning and Development

# Developing and Implementing a CDBG Workout Plan

## Guidelines for Putting Your Community Development Block Grant Program on the Road to Timeliness



### Introduction

Cities and counties that receive entitlement funds from the Community Development Block Grant (CDBG) program are required by statute to use their funds in a timely manner. By running a timely local program, grantees promote the goals of the CDBG program by improving the lives of residents of the community, particularly those of low and moderate income.

Some communities, however, fall behind in the timely expenditure of their CDBG funds. If they fail to pass the timely expenditure test at 24 CFR §570.902, HUD may require the community to construct a Workout Plan for reducing its funds backlog to within the regulatory standard. This publication provides guidelines for preparing a Workout Plan acceptable to HUD.

### Purposes of a Workout Plan

The main purpose of a Workout Plan is to help you bring your CDBG program into compliance with the CDBG timeliness standard, which requires that you have no more than 1.5 times the amount of your last annual grant in your CDBG line of credit 60 days prior to the end of your current program year. Preparing a Workout Plan will help accomplish this goal by:

- \* Leading you through the process of analyzing your program to identify the causes for delays, the opportunities for spending funds more quickly, and the actions you can take to hasten the draw-down of CDBG funds.
- \* Focusing your attention on the problem areas of your program that have produced the excess funds backlog and on what needs to be done to address them.
- \* Providing the specific information HUD will need to conclude that you can succeed in bringing your program into compliance 60 days prior to the end of your next program year.
- \* Providing you with a baseline for assessing your progress against the Workout Plan and for reporting such progress to HUD.

### Working Your Way Out of a CDBG Funds Backlog

Working your way out of a funds backlog takes a real effort on your part. However, if you follow the steps described below you will have developed a Workout Plan that not only brings you into compliance, but also, in the long run, will strengthen your program management capabilities.



### Finding the Causes

Communities with a serious backlog of unspent funds need to find the underlying causes, and do so quickly. The longer it takes to identify the causes and to choose an alternative course of action, the less time you have available to implement the Workout Plan. An honest assessment of your projects, program administration, and management capacity should be undertaken. If you do not identify the most likely causes of your problem and realistic remedies, you may not only be unsuccessful in eliminating your excess backlog, but you also may be unable to avoid becoming untimely again. This assessment will entail looking at **all of your CDBG-funded activities** as well as **how you carry them out**. Some key issues and questions you need to consider in this assessment process include:

#### 1. Identifying and responding to problematic projects

- \* Do you have a schedule for each project? If you don't, that is part of your problem.
- \* Which projects are significantly behind schedule? Which are contributing the most to your backlog problem?
- \* What actions can you take to move these projects along faster?
- \* If the delays cannot be overcome quickly, can any of the projects be restructured to defer some portions to another year, freeing up the funds for other uses?
- \* Should one or more projects be terminated so that the unspent funds can be reprogrammed? Are there any not-yet-started, time-consuming projects that could be moved to a future program year,

thereby freeing funds for faster moving projects?

- \* Do you have any other projects already under way that could use freed-up funds quickly?
  - \* Do you have backup projects in the Consolidated Plan that can use funds available for reprogramming?
  - \* What steps do you need to take to rapidly identify other projects not in your current program that could be implemented quickly with freed-up funds? Make sure, however, you do not substitute one problem for another. Once identified, list the projects in your Consolidated Plan so they will be ready to go when funds become available.
  - \* Have you identified all unprogrammed/surplus funds and program income?
  - \* Have you determined whether you need an amendment to your Consolidated Plan?
- #### 2. Identifying and responding to systemic problems
- \* Does your annual program schedule provide sufficient time to identify and refine prospective projects that can be carried out without risking delays?
  - \* Are you working closely enough with other parties running your projects, both within and outside local government, to enable quick identification of delays and their causes?
  - \* Are you getting the information you need from implementing entities to keep track of expenditures so that you can draw down on a regular basis throughout the year?

## Developing and Implementing a CDBG Workout Plan

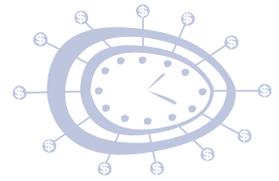
- \* Are you regularly reviewing the progress of each funded project against a projected schedule? (If you do not already use a project management system for this purpose, this is a good time to start.)
- \* Is your backlog largely caused by the failures of subgrantees? If so, what can you do to strengthen their capacity and your oversight? HUD is producing a separate publication titled *Ensuring CDBG Subrecipient Timeliness*. It discusses issues concerning the management of subrecipients for program timeliness purposes. Ask HUD for a copy to assist in this part of your assessment.
- \* If you frequently miss scheduled milestones, do you need to be more realistic in setting your schedules and/or provide more oversight to see that schedules are maintained?
- \* Are you encountering unpredicted delays that were not factored into the overall timely implementation of your program?
- \* Do you require an operating agency to define sufficiently a project and demonstrate a readiness to proceed before you fund the project?
- \* Do you require site control before you include a project in the Consolidated Plan?
- \* Can you do a better job of phasing or staging large projects so that you commit funds only to the portion that can move ahead in the next year or two?
- \* Are you failing to anticipate the receipt of large amounts of program income and, therefore, are you unprepared to use it quickly when received?

- \* Do any of your subgrantees have on hand a large amount of program income they are unlikely to use quickly that you could retrieve for other, faster moving projects?
- \* Is money sitting idle in revolving loan funds because of an insufficient level of program activity?
- \* Is there a substantial gap between when expenditures are made and funds are drawn from the CDBG line of credit for reimbursement? If so, what steps can you take to reduce that gap?
- \* Do you have the number of staff and skill levels you need? Are you using existing staff in the most effective way?
- \* Is your staff adequately trained to do the assigned tasks? Are they sufficiently knowledgeable about the CDBG program?

You may want to seek help with this assessment from your HUD Field Office, which is aware of what other communities in your area are doing. The Field Office may also be able to put you in touch with some of your peers for more detailed discussions of how they run their programs and what worked best for them. HUD has also prepared a separate publication titled *Keeping Your CDBG Funds Moving: Guidelines for Managing Your Overall Community Development Block Grant Program in a Timely Manner*. It focuses on program management issues that affect timeliness. You should request a copy to use in conjunction with assessing and modifying your program as part of preparing your Workout Plan.

### Reviewing the Options

When faced with the need to take action on a project experiencing prolonged





delays, you will want to determine possible options. Is it feasible to stage the project, leaving the part of the project that can be completed in place and reprogramming the balance of funds (assuming it will not affect the eligibility or fundability of the completed portion)? This can be done more easily if you inform all interested parties that you intend to fund the remaining portion in a future year after the delay-producing obstacle has been overcome. If it appears the project will not get under way in the foreseeable future, you will need to terminate it. Identify which ongoing projects are candidates for increased funding. If you wish to continue with the same project unmodified, be sure you have realistically identified what steps you must now take to get that project under way.

### Determining the Course of Action

Develop an action plan to remedy each deficiency you identify. Make a realistic assessment of how long it will take to make the changes and how they will result in drawing CDBG funds more quickly. Continue the process of identifying problems and developing solutions until you can conclude that the selected changes will be more than sufficient to reduce your CDBG balance to a level that will comply with the timeliness requirements by the next measurement date: 60 days before the end of your program year. Make a projection of how much program income will come in during that time period. **Don't forget that the program income you receive during the workout period must be used first before you can draw funds from your CDBG line of credit.** Develop your Workout Plan with the objective of bringing the backlog to a level well below the 1.5 timeliness standard. In this way, if any part of the Workout Plan does not achieve its

intended backlog reduction, it will not necessarily result in failure to meet the standard.

### Bringing Key Officials Into the Solution

It is critical that key officials in the local governing body and local politicians understand your situation. **Educate your chief executive and council members or commissioners about your excess CDBG backlog and the consequences of failing to reduce it.** To get their attention, you may want the help of your HUD Field Office. If HUD has not already discussed CDBG program timeliness with key local officials, invite them to visit your community. You will probably 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 both the changes you may need to make to projects in their jurisdictions and the pressure you may need to place on some of their constituent agencies if they understand the urgency and possible consequences of your backlog problem.

### Caveats About Certain Alternative Approaches

Even if you accurately identify problems that are producing the backlog in your program, it may not be possible to fix the problems quickly. You may be tempted to use float loans or lump sum drawdowns to reduce the backlog of funds in your line of credit. However, you should be aware of some critical issues (discussed in the paragraphs below) before proceeding to do so.

**Float loans:** A grantee may try to reduce its backlog by making one or more float loans. The term *float* is used because the source of funds is money the grantee has in its line of credit that is programmed for other uses, but which is not expected to be needed for some

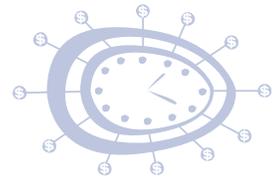
time. You should review the regulations at 24 CFR §570.301(b). If you are considering a float loan, you first need to be sure the loan will be for an activity that meets CDBG requirements. Some activities that need funds quickly could be difficult to assess for eligibility and compliance with CDBG national objectives. Do not rush to fund such activities without making this assessment. You also need to ensure that any such loan will be repaid in time to fund the activities for which the funds were originally programmed. Most often, float loans provide construction financing or pay for property or land acquisition before permanent financing comes from another source. Loans for such purposes often require large amounts of funds for a relatively short period of time.

This short time period highlights a problem with float loans: using the repaid funds quickly enough to avoid creating yet another backlog problem. You must also take care to ensure that you carry out the steps set forth in the regulations at 24 CFR §570.301(b) when making float loans. These steps are designed to make sure citizens are properly notified about, and protected against, the risks of not receiving loan repayments in time to support the underlying projects that are to be undertaken by the repaid funds. To ensure that a float loan will be repaid on time, you should make sure the project has permanent financing. You may also need to obtain an irrevocable letter of credit in case one or more of the underlying projects needs funds before they can be repaid by the float loan recipient. Finally, you will need to deal with the citizen participation requirements for funding of a new activity.

You may be enticed to use float loans because the loan repayments are CDBG program income. Hence, they expand the base

used to determine your 15-percent cap for public services and 20-percent cap on planning and administration. Float loans can make more funds available for those uses. However, a one-time spike in the amount the grantee obligates for public services may create a high expectation for a level of funding that cannot be maintained in subsequent years and may be difficult to end.

**Lump sum drawdown:** A grantee may draw funds in advance to fund the rehabilitation of privately owned properties under 24 CFR §570.513 of the CDBG regulations. You should read these regulations carefully. While a lump sum drawdown might significantly decrease your funds backlog, there are other important factors you should carefully consider. According to §570.513, the funds must be deposited in a financial institution that will agree to provide certain benefits to your community in exchange for receiving the deposit. These benefits include the institution's performing administrative services for your community's rehabilitation program at no cost, or a substantially reduced cost, and paying interest on the deposit at a rate that meets minimum requirements. (The regulations provide more detail on the benefits you need to derive from the institution.) It may take a long time to find a willing financial institution and to negotiate an agreement that will meet these requirements. Moreover, this regulatory provision requires that the deposited funds, and interest paid thereon, be put to use within a short time. You must begin making use of the funds within 45 days after their deposit. Plus, a substantial amount of the funds must be used by 180 days after the account is established, and all funds in the account must be put to use by the end of 24 months. Thus,





lump-sum drawdowns would make sense for your rehabilitation programs only if:

- \* You already have one or more successful rehabilitation loan programs and have the staff and program criteria already in place.
- \* The amount of unspent funds programmed for rehabilitation, together with any additional funds you expect to program, would make a substantial contribution to the reduction of your CDBG funds backlog.
- \* You are able to find a financial institution willing to participate and negotiate an agreement that meets the regulatory requirements within a reasonable time period.
- \* You are likely to spend the funds that will be deposited, along with the interest to be paid on the deposit, for rehabilitation activities by the deadlines required in the regulations.

### Preparing a Written Plan for Submittal to HUD

Once you have determined the course of action for reducing the funds backlog, you will need to prepare a written Workout Plan for HUD. The Workout Plan must at least contain the following elements for it to be approved by HUD.

#### Identification of the Main Causes of the Excess Backlog

HUD will need to conclude from your Workout Plan that (1) you have conducted a thorough review of your program, projects, and activities; (2) you have identified the main causes of your problem; and (3) you have chosen actions that will lead to sufficient improvements to get your program

back into compliance with program standards. In this section of your Workout Plan, summarize the nature and results of your assessment. Although the immediate task is to find ways to hasten program spending to meet timeliness requirements, your program may soon relapse if you do not pinpoint the reasons why the excess backlog developed.

#### Identification of Activities To Be Modified or Terminated

You may find you are able simply to speed up one or more existing activities by taking actions to spend the funds faster. If so, describe in this section of your Workout Plan any such activity, the actions you plan to take, and the results you expect. However, speeding up existing activities will not always reduce the entire backlog, and you will usually need to make substantial changes in some of your funded projects. You may find it necessary to terminate an activity (in whole or in part) or to modify it to free up funds that can be spent faster on another project. List the specific activities you intend to either modify or terminate. Describe all such activities, the actions you plan to take, and the amount of freed-up funds you expect to result from these actions that will be available for other uses.

#### Reprogramming Available Funds

Identify the activities for which you plan to use the funds you will have available from modified or terminated projects. Include also a description of how you will use unprogrammed funds from completed projects or from program income. These projects might include other, already funded activities that can use more funding and use the money quickly. You may also plan to carry out (a) one or more projects previously included in your action plan as backup projects or (b) new projects not previously identified in an

## Developing and Implementing a CDBG Workout Plan

action plan. List these activities, the amount of the freed-up funds you expect to use on each, and the time within which you expect those funds to be expended. **Don't forget to include time for citizen participation, when necessary, to amend your action plan to add a new activity or materially change another.**

### Other Planned Actions

Describe any other steps you plan to take to reduce the excess backlog within the time frame covered by the Workout Plan. This may include adding or reassigning staff, providing training or technical assistance to subgrantees, and securing the aid of your community's chief executive officer or legislative body. It may also include actions to reduce the time that elapses between expenditures and drawing of funds from the line of credit. List all such planned actions, state when you expect to take them, and explain the results you expect to achieve.

### Longer Range Plans

If you have identified any program design weaknesses that you believe need to be corrected to help your community meet the timeliness standard, describe the corrections here. This section might include changes in overall management procedures, in your process for developing an action plan, or in the process you use for assessing projects and subrecipients for future funding decisions. State specifically the deficiency, your planned remedial actions, and how they will improve the likelihood the community will keep its CDBG program timely.

### Milestone Schedule

Include or attach a schedule that lists all of the key actions that the community will take to pursue backlog reduction, and show the dates each action is expected to start and finish. This schedule should include the milestones you have identified for each activity that will use CDBG funds as part of your Workout Plan. (See the sample format provided at the end of this publication.)

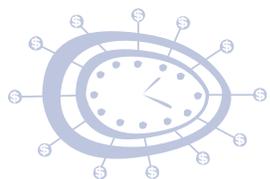
### Drawdown Projection

The Workout Plan should include a projection showing the amount of CDBG funds your community expects to draw down from its line of credit during the period covered by the Plan. The projection should identify the amount of expected draws, by month, for each activity that was delayed but is being retained, as well as those projects you have modified or added to help resolve your timeliness problem. It should also include expected draws for the balance of your program, showing the activities that make up that balance either individually or combined. (See the sample format provided at the end of this booklet.) The projection should also summarize the amount of expected draws for your **entire** program on a monthly basis, showing the effect they will have on your line-of-credit balance. At the bottom of the projection, show how the backlog reduction will affect your drawdown ratio. **Again, in making this projection, don't forget to take into consideration that program income will need to be used before funds can be drawn from your line of credit.**

### Progress Reports

Determine the content and timing of the progress reports your community will provide to HUD over the period of time





covered by the Workout Plan. Identify how you plan to submit the reports (e.g., by mail, fax, e-mail, or other method), the frequency of the reports, and the dates on which you will submit them. The content of such reports should include at least:

- \* A comparison of actual results versus planned results in terms of both meeting your milestones and planned drawdowns from the line of credit.
- \* Other relevant actions taken during the period since the last report.
- \* Your assessment of the progress being achieved by the community in relation to expectations.
- \* Any special actions you plan to take to deal with any significant deviations from the Workout Plan.

See the attached sample formats for how you may show actual accomplishments against planned milestones and drawdowns.

### Commitment

The letter transmitting your Workout Plan to HUD should describe the level of commitment your community will make to execute the Workout Plan. The transmittal letter should also describe the projected results and how they will reduce the excess backlog of CDBG funds. Having the letter signed by your chief executive will indicate that the community commits itself to meeting the objectives reflected in the Workout Plan.

### HUD Approval

HUD will review the Workout Plan you submit to determine if it is realistic and if implementing it will likely bring your pro-

gram back within timeliness standards. It is important to submit the Workout Plan and progress reports in a timely manner. The plan should reflect realistic goals to show you are taking your backlog problem seriously and will deal with it effectively. You may want to determine if HUD staff will review your plan during its development and comment on any aspect that seems questionable. As part of this collaborative process, consider asking HUD for advice or technical assistance as part of your assessment of causes and remedies in the course of developing your Workout Plan. Do not formally submit the Workout Plan to HUD until you are convinced that there is a high likelihood that the Plan will be acceptable to HUD.

### Implementing the Plan

In addition to its daily CDBG workload, your community must also make a concerted effort to implement the commitments made in the Workout Plan if the Plan is to succeed. Because time is of the essence, it is important to discover promptly any significant departure from the Workout Plan in order to allow for corrective action. Therefore, you should require special reports (at least once a month) to track the actions and results committed to in the Plan. You may need to ask subgrantees to provide additional information on a more frequent basis than their normal reporting regimen. You should communicate regularly with key staff members involved in your program to measure progress against the Workout Plan. The Plan should be an agenda item at every staff meeting. Report progress on the Workout Plan to your chief executive monthly.

If, at any time, it appears that progress is seriously lagging, and that the lack of progress is threatening the community's

## Developing and Implementing a CDBG Workout Plan

ability to achieve the overall goal of the Workout Plan, you will be expected to take immediate action to get the community back on track. In such an event, notify HUD immediately; don't wait until the next report deadline (unless that deadline is near). Tell HUD what you expect to do to overcome the problem and discuss whether it merits amending the Plan.

### Sample Formats

Following this section, you will find two sample formats, which allow the grantee to use the same form for both the Plan itself and for reporting progress against the Plan. The first format identifies the milestones to be met for management actions and individual projects. The second details the projection of funds to be drawn down monthly during the reporting period and provides for a running calculation of the drawdown ratio. On both sheets, the shaded area is to be used for reporting actual results by month. HUD plans to make these formats available as downloadable forms available on its Web site.

In the hypothetical community provided here, you can see how Anytown, USA, found in noncompliance with the timeliness standard 60 days prior to the end of its program year, has analyzed its program and determined what to do to improve its timeliness. In this example, Anytown's drawdown ratio (ratio of grant-to-balance of funds) at the start of its new program year July 1, 2002, was 2.61 (includes FY 2002 grant). Anytown has decided that, for the long run, it must revise its overall program schedule to allow more time for staff to identify potential problems with individual projects and to take actions to keep funds moving. Anytown has also decided it needs to: (a) hire more

staff for monitoring its projects; (b) conduct program training for its current subrecipients; and (c) amend its reporting requirements to make information on expenditures and drawdowns more readily accessible. It also realizes that these management actions alone will not immediately result in improved timeliness and that it must take other actions relating to specific projects. The grantee sees its best chance for improving its drawdown rate within the next year in taking actions in three areas:

- ❖ Expediting two of its capital improvement projects (rehabilitation of a library and construction of a neighborhood center).
- ❖ Expanding and expediting one of its housing rehabilitation projects through better outreach efforts and improved staff efficiencies.
- ❖ Replacing the subrecipient it had been using for one of its public services with a more experienced nonprofit agency.

Anytown expects that these actions will result in its program funds balance being well within the 1.5 standard by the end of the 10th month of its current program year (April 30, 2003).

The sample milestone schedule shown here identifies the key actions and dates that Anytown believes it needs to meet in order to undertake these changes, and reports progress against these targets. The accomplishment data in the shaded areas indicates, for example, that, 4 months into the Plan, some potentially serious slippages in meeting milestones have occurred that could result in the grantee failing to achieve its objective of having its fund balance meet the 1.5 standard. Delays in selecting a contractor for the



## Developing and Implementing a CDBG Workout Plan

Rialto Library rehabilitation project and on-site preparation for the Westside Center are already resulting in a shortfall in its draw-down projections as shown on the Funds Drawn report. Therefore, Anytown must give careful attention to those areas of its Workout Plan and take aggressive remedial actions if it is to avoid a growing gap in meeting drawdown projections for the ensuing months.

**Note:** These samples are not intended to indicate the level of detail that a Workout Plan should contain, but rather to show how the material should be presented. In actual use, HUD would expect the Plan to contain much more detailed information than is shown here for these purposes. In reviewing these samples, you should also bear in mind that the information contained in these formats will constitute only a small part of a grantee's Workout Plan and progress reports. The essence of both the Plan and the monthly reports needs to be covered in accompanying narratives.

# Developing and Implementing a CDBG Workout Plan

Preparation date: Nov. 5, 2002  
 Original plan date: July 1, 2002  
 Amended plan date:

## CDBG Workout Plan Milestone Schedule/Progress Report

Grantee: Anytown, USA  
 Contact person: Janet Jones  
 Telephone: (301) 555-1234

Project Name	Milestone	July 2002 Proj	July 2002 Actual	Aug 2002 Proj	Aug 2002 Actual	Sept 2002 Proj	Sept 2002 Actual	Oct 2002 Proj	Oct 2002 Actual	Nov 2002 Proj	Nov 2002 Actual	Dec 2002 Proj	Dec 2002 Actual	Jan 2003 Proj	Jan 2003 Actual	Feb 2003 Proj	Feb 2003 Actual	Mar 2003 Proj	Mar 2003 Actual	Apr 2003 Proj	Apr 2003 Actual	
<b>Program Mgmt</b>	Amend program schedule	Start by 7/3 Complete by 7/15	Completed 7/17																			
	Hire two monitors	Advertise 7/10	Issued ads 7/10			Review applicants by 9/30	Review completed 9/28	Select monitors by 10/25	Monitors selected 10/29													
	Train sub-recipients	Start by 7/15	Started 7/15			Complete by 9/15	Training completed 9/15															
	Amend reports	Start by 7/3 Complete 7/15	Started 7/28	Completed 8/7																		
<b>Rehab Riato Library</b>	Issue RFP	Develop RFP by 7/7	Developed RFP 7/15	Issue RFP by 8/5	RFP issued 8/15																	
	Select contractor					Select by 9/25			Selected 10/25													
	Rehab library							Start by 10/13						Complete 1/15								
	Install new shelves									Order by 11/2		Receive by 12/31				Install by 2/6						
<b>Eastside Rehab Project</b>	Train staff			Start by 8/10	Started 8/10	Complete 9/25	Completed 9/25															
	Mail out brochures					Mail by 9/15			Mailed 10/1													
	Approve Loans									Begin loan process 11/15												
	Select new subrecipient	Select by 7/2	Selected 7/2																			
<b>Meals on Wheels</b>	Train new subrecipient			Start by 8/1	Started 8/3	Complete by 9/15	Completed 9/30															
	Begin service							Begin 10/5	Began meals 10/5													
	Site prep			Start by 8/4 Complete by 8/25	Started 8/14	Completed 9/6	Completed 9/6															
<b>Westside Center</b>	Construct center							Start by 10/15	Started 10/30													Complete by 4/15



