

## REPORT FROM

### OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: November 22, 2024

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Council File No. 24-0500  
Council District: Citywide

To: The Mayor  
The City Council

From: *for* Matthew W. Szabo, City Administrative Officer 

Reference: Office of the Chief Legislative Analyst report dated June 3, 2024

Subject: **ALLOCATION OF PROGRAM YEAR 50 (2024-25) COMMUNITY DEVELOPMENT  
BLOCK GRANT ADMINISTRATIVE FUNDS**

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#### SUMMARY

On June 18, 2024, the Council adopted the 50<sup>th</sup> Program Year (PY 50) Housing and Community Development Consolidated Plan (Con Plan) for 2024-25. The Con Plan allocates the City's four entitlement grants from the U.S. Department of Housing and Urban Development (HUD): Community Development Block Grant (CDBG); HOME Investment Partnerships Program (HOME); Emergency Solutions Grant (ESG); and Housing Opportunities for Persons with AIDS (HOPWA). Recommendation No. 18 of the Con Plan report instructed this Office with the assistance of the Office of the Chief Legislative Analyst, Department of Aging (Aging), Community Investment for Families Department (CIFD), Economic and Workforce Development (EWDD), and Housing (LAHD) to report and provide recommendations on the allocation of CDBG administrative funding. Considerations should include 1) proportionate funding to total departmental CDBG allocation; 2) departmental use of program delivery allocations; and 3) past performance of timely expenditure and invoicing of CDBG administrative costs.

This Office reviewed the statutory provisions regarding the eligible use of CDBG funds to pay for Program Administration Costs or administrative costs, and general program administration regulations. This Office also reviewed positions in CIFD, EWDD, Aging, and LAHD currently funded in whole or in part with PY 50 CDBG administrative and program delivery cost categories.

Under the Code of Federal Regulations (CFR) Title 24 Part 570.206, program administrative costs related to the overall program management, coordination, monitoring, and evaluation of the CDBG program are allowable. In addition to general oversight and management of the CDBG program and the Con Plan, other eligible program administrative costs include costs for the management of federally designated Empowerment Zone or Enterprise Community, and the HOME program; costs for administration of CDBG-eligible ESG and HOPWA activities as long as staff are not solely working on the ESG or HOPWA programs; fair housing activities; and planning activities for historic preservation, urban environmental design, and economic development (24 CFR 570.205).

Program delivery costs are costs incurred in order to implement specific CDBG programs and activities such as public facilities and improvements, public services, homeownership assistance, rehabilitation and preservation, and special economic activities. Costs are further categorized as direct or indirect costs. Direct costs include staff and overhead costs, travel, and equipment for the direct implementation of the CDBG activity. Indirect costs are those incurred for a common or joint purpose and benefits more than one program or activity, such as central services, internal services for personnel, general administration, purchasing, and fringe benefits.

Based on the review, this Office is not recommending any changes to the CDBG administrative allocations until such time the City obtains technical assistance (TA) from HUD. The HUD technical assistance is critical and necessary to determine the amount that can be reallocated from CDBG administrative funds to program delivery funds. Therefore, this Office recommends that the City request HUD to assist CIFD and other relevant City departments to understand best practices on the use of CDBG administrative funds and to fully maximize Activity Delivery Costs or program delivery costs. This Office will report back to the Mayor and City Council with recommendations on the need for any reallocation of CDBG administrative funds and the optimal use of program delivery funds at the conclusion of the HUD TA.

## **RECOMMENDATIONS**

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

1. Direct CIFD, in coordination with the City Administrative Officer (CAO), to request technical assistance (TA) from HUD on how to maximize the use of program delivery funds and best practices on the use of CDBG administrative funds for each of the City departments that receives these funds;
2. Direct Aging, EWDD, and LAHD to participate in the HUD TA efforts to ensure that administrative and program delivery costs are maximized based on best practices;
3. Direct CIFD, Aging, EWDD, and LAHD to provide the required position details, including the classifications, salaries, full-time equivalents for each specific CDBG-funded programs and/or activities to the CAO in preparation for the HUD TA;
4. Direct CIFD to provide the information outlined in recommendation 3 for both its program implementation and Con Plan administrator role;
5. Direct CIFD, Aging, EWDD, and LAHD to submit modifications to their Program Year 51 CDBG administrative funding requests that maximize program delivery to the extent allowable upon completion of the HUD TA engagement; and,

6. Direct the CAO to report back to the Mayor and the City Council with recommendations on any necessary reallocation of CDBG administrative funds and the optimal use of program delivery funds after the conclusion of the HUD TA engagement.

## **BACKGROUND**

### CDBG Administrative Funds

The Housing and Community Development of 1974, as amended, provides for eligible uses of CDBG funds to pay for program administration costs or administrative costs. The general program administration regulations are codified in the Code of Federal Regulations. CDBG administrative costs are limited to no more than 20 percent of the annual grant, and the estimated amount of program income to be received during the grantee's current program year. The 20 percent limitation has been included in annual appropriations acts for the CDBG program since 1978. Examples of eligible administrative costs include:

1. Salaries of executive officers and staff with general program oversight responsibilities;
2. Leased office space for staff employed in carrying out the CDBG program;
3. Staff time spent for the development of general CDBG program policies and procedures, such as the monitoring of overall program performance;
4. Staff time spent for the development of the Consolidated Plan/Action Plan and Consolidated Annual Performance and Evaluation Report (CAPER); and
5. Administrative services performed under third-party contracts, such as legal, accounting, and auditing services or development of the Consolidated Plan.

This Office believes that all City departments currently receiving CDBG administrative funds are using the funds for CDBG-related activities and are therefore in compliance with HUD regulations. However, it is clear that City departments are not maximizing the use of program delivery funds. In some instances, City departments used administrative funding for activities that qualify as program delivery. Maximizing the use of program delivery costs will free up funding for administrative costs.

The CIFD has been designated as the Con Plan Administrator since its establishment in Fiscal Year 2021-22. CDBG administrative funds are currently allocated to Aging, CIFD, EWDD, and LAHD for the planning and overall administration of CDBG programs. Table 1 below shows the PY 50 (2024-25) CDBG 20 percent administrative cap calculation.

**Table 1. PY 50 (2024-25) CDBG Administrative Cap Calculation**

<b>Category</b>	<b>Amount</b>
PY 50 CDBG Entitlement	\$ 48,426,468
Projected PY 50 Program Income	11,050,812
Subtotal	59,477,280
<b>PY 50 Administrative Cap</b>	<b>\$ 11,895,456</b>

Table 2 below shows the breakdown of PY 50 CDBG administrative and program allocations by department. The total PY 50 CDBG program allocation for CIFD, Aging, EWDD, and LAHD is approximately \$29 million. These four departments also receive a mixture of CDBG administrative and program delivery funds to pay for staff and overhead costs. The total administrative costs for CDBG-related activities is \$14.8 million, of which \$3.4 million is currently being covered by the General Fund. CIFD has a total CDBG administrative allocation of \$8.7 million, which includes costs for both direct CDBG program oversight (\$1.2 million) and the overall oversight and management of the Con Plan (\$7.5 million). As the Con Plan administrator, the CIFD manages a total of \$95.6 million in available CDBG funds for the current program year and unexpended funds from prior program years. The CIFD is also responsible for ensuring the City meets the timeliness requirement and leads any reprogramming efforts necessary to avoid any loss of CDBG funds. In addition, the CIFD is responsible for the development of the Five-Year Consolidated Plan and the Annual Action Plan, annual reports to HUD, ensuring community participation for the plan, reviewing CDBG funding requests, conducting federal and State environmental clearances for projects (other than LAHD projects), and monitoring sub-recipients.

**Table 2. PY 50 (2024-25) CDBG Administrative (Admin) and Program Allocations**

Dept	CDBG Program Allocations	CDBG Admin Allocations	CDBG Admin to Program (%)	General Fund (GF)	Total Admin for Depts receiving CDBG and GF	CDBG Program Delivery	Total CDBG Allocated
Aging	\$ 526,940	\$ 145,574	27.63%	\$ -	\$ -	\$ -	\$ 672,514
CIFD	10,156,695	1,215,461	11.97%	-	-	1,336,933	12,709,089
CIFD* Con Plan	-	7,452,255	-	-	-	-	7,452,255
EWDD	13,372,579	1,204,113	9.00%	1,198,284	2,402,397	986,436	15,563,128
LAHD	4,898,818	1,382,367	28.22%	2,229,508	3,611,875	2,709,421	6,281,179
Fair Housing	-	495,686	-	-	-	-	495,686
<b>Total</b>	<b>\$ 28,955,026</b>	<b>\$ 11,895,456</b>	<b>-</b>	<b>\$ 3,427,762</b>	<b>\$ -</b>	<b>\$ 5,032,790</b>	<b>\$ 43,173,851</b>

*\*This line represents the CDBG administrative costs allocated to CIFD as overall Con Plan Administrator*

As shown in Table 3 below, except for PY 47, the City's total CDBG administrative funding allocation steadily declined over the last five program years due to continued decreases in both the total CDBG entitlement amount and program income. Consequently, the administrative cost allocations for Aging, EWDD, and LAHD were reduced due to the overall funding decrease and the CIFD's increasing needs as the Con Plan administrator. Since its establishment in Fiscal Year 2021-22, the CIFD has scaled up its Administrative and Financial Management and Consolidated Planning Divisions to support the management and oversight of the Con Plan. The entitlement amounts have been trending downward and further changes may be on the horizon with the new administration. Therefore, it is imperative that the City maximize its use of program

delivery and make additional administrative dollars available.

**Table 3. CDBG Administrative Funds Five-Year History**

<b>Program Year</b>	<b>Entitlement</b>	<b>Program Income</b>	<b>Total CDBG Administrative Allocation</b>	<b>Change in Administrative Allocation from Prior Year</b>
PY 46 (2020-21)	\$ 54,326,507	\$ 16,506,512	\$ 14,166,000	\$ (181,000)
PY 47 (2021-22)	53,944,748	18,945,000	14,577,000	411,000
PY 48* (2022-23)	50,929,272	13,528,600	12,891,000	(1,686,000)
PY 49 (2023-24)	50,189,177	11,574,000	12,351,999	(539,001)
PY 50 (2024-25)	\$ 48,426,468	\$ 11,050,812	\$ 11,895,456	\$ (456,453)

*\*In PY 48, the initial total approved administrative allocation was \$16,560,400; however, administrative allocations were reduced by a total of \$606,000 in the mid-year due to the lower revised program income projections.*

### HUD Technical Assistance

This report recommends that CIFD, in coordination with this Office, request technical assistance (TA) from HUD for all relevant City departments on how to maximize the use of program delivery and the best practices for the use of administrative funds. Currently, some City departments assign expenditures to administrative costs until it becomes clear the expenditures qualify as program delivery costs. The main goal of the HUD TA is to maximize the use of program delivery funds, which will free up administrative funding. Increasing program delivery funds would also allow the City to expedite CDBG activities and expend CDBG funds faster, which will assist the City in its timeliness efforts. To meet the timeliness requirement, the City cannot have more than 1.5 times its entitlement award in its line of credit in a program year.

In preparation for the HUD TA, each department will be required to provide additional details on CDBG-funded positions for a thorough analysis of current allocations. This Office also recommends that, upon the conclusion of the HUD TA engagement, the CIFD, Aging, EWDD, and LAHD submit modifications to their PY 51 CDBG administrative funding requests that maximize program delivery. This Office will report back to the Mayor and the City Council with recommendations on any necessary reallocation of CDBG administrative funds for the proper alignment and support of the CDBG programs and activities.

The HUD TA is critical to determine the amount of administrative costs that can be charged to program delivery costs based on departments' support in the implementation of CDBG programs and activities. Prior to the release of the final proposed PY 51 Con Plan, this Office will work with the relevant City departments to analyze the positions that are charging to CDBG administrative funds and report to the Mayor and the City Council with recommendations on the amount of program delivery that can be maximized based on the HUD TA. Program delivery funds are not subject to the 20 percent administrative cap; however, increasing program delivery funds will result

in a proportional decrease to CDBG funds for the implementation of programs and activities, but will help expedite expenditures.

### **FISCAL IMPACT STATEMENT**

The recommendations in this report will have no General Fund impact.

### **FINANCIAL POLICIES STATEMENT**

The recommendations in this report comply with the City's Financial Policies in that grant funds will be utilized for grant-eligible activities.

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