

## CDBG Frequently Asked Questions

### ***I. How does HUD decide how much funding we will receive?***

HUD calculates our funding percentage each year using census data with a formula that takes into account our total population, the number of persons in poverty and the number of housing units with more than one person per room (overcrowding). Our funding amount is further impacted by the number of new entitlements and the funding at the national level. As more communities are authorized to receive funding, everyone's slice of the funding pie decreases.

### ***II. What is the annual CDBG Program Cycle?***

1. Council suggests projects for funding
2. City issues notice that applications are available during a set time frame – usually 30 to 45 days
3. Applications are turned in by City Departments and Non-Profit Organizations to the Planning office
4. City seeks public input on funding through a stakeholder workshop, a community survey, and a Council-led public hearing
5. Staff reviews applications for completeness and eligibility
6. Council reviews applications
7. Council allocates (awards) the funds through the adoption of a Resolution
8. Staff prepares a document called an "Action Plan" and makes the draft available for 30-days of public review and comment.
9. The Action Plan in final form is provided to HUD no later than August 15<sup>th</sup>
10. HUD has 45 days to review the Action Plan and request additional information, if necessary
11. If the Action Plan has been accepted by HUD, a new contract is sent to the City Manager to execute near the first of October and funding is made available
12. The City prepares the end of the year report, the Consolidated Annual Performance Evaluation Report (CAPER) after the September 30<sup>th</sup> close of the program/fiscal year
13. The CAPER is made available for 15 days of public review comments
14. The CAPER must be submitted to HUD no later than December 31<sup>st</sup>
15. HUD has 45 days to review the CAPER and request additional information, if necessary

### ***III. What activities generally cannot be paid for with CDBG funds?***

- Assistance for buildings or portions of buildings used for the general conduct of government
- General local government operating and maintenance expenses
- Partisan political purposes, including voting registration
- Equipment purchases (exceptions apply to fire protection equipment)
- New housing construction (although you can tear down an old house and build a new house in its place)

### ***IV. What happens if a project is never finished or is slow to be completed?***

1. If funds are committed but never used, HUD can instruct the City to reallocate the funds to a different project or return them to HUD. HUD watches the City's use of funds – if five or more years have passed and no funds are expended, HUD is likely to take this step.

2. For projects using the "benefit low/mod individuals" National Objective, the project is not considered to meet that objective until people are benefitting from it. If CDBG funds are spent, but the project is not finished within a reasonable period of time, HUD will determine that no National Objective was met and will require that all funds expended be repaid out of non-federal dollars.
3. CDBG funds should only be awarded when the City is confident that a project can be finished within a few years. **CDBG funds should not be "seed money" at the front end of a project - they are best used to close a "gap" when the majority of funds have been raised.**

#### V. What is the CDBG "Timeliness Test"?

HUD evaluates each grantee's performance every year. One of the most important factors is the "timeliness" of expenditures.

- On the last day of July HUD compares the funds available to be drawn (undisbursed funds from the City's CDBG line of credit) to the amount of its current allocation and program income that has been received. If the percentage exceeds 1.5%, the grantee has failed the Timeliness Test. If this occurs:
  - HUD will look to see how likely it is that the grantee will spend enough funds during the next program year to reduce the amount to an acceptable level;
  - HUD will look to see how many contracts have been executed for specific activities that have obligated the expenditure of funds;
  - HUD will increase its oversight (monitoring) of the program and will consider the City to be a higher risk entitlement;
  - HUD can reduce the next year's CDBG allocation if timeliness issues are not resolved satisfactorily.

#### VI. What determines if a project is eligible for CDBG funding?

1. Every project must (a) be eligible within program regulations and (b) meet one of the three national objectives.
2. In addition, the project should address one of the Priority Needs that are established in the 5-Year Consolidated Plan. Currently in San Marcos those are:
  - a. Housing
  - b. Transportation / Public Facilities / Infrastructure
  - c. Clearance Activities
  - d. Public Services
  - e. Program Administration
3. 70% of all funding must satisfy the **Provide a Benefit to Low and Moderate-Income Persons** national objective.
4. A project benefits low-mod persons if at least 51% of the persons or households that benefit from the project have an annual income that is at or below 80% of the Area Median Income (AMI).
5. Different types of projects have specific requirements and may have funding limits. These are discussed in detail below.

#### VII. What special regulations apply to the various types of projects that can be funded?

##### A. Public Facilities/Infrastructure Projects

Parks, sidewalks, community centers are all examples of eligible public facility projects. Eligibility requirements for park and sidewalk projects include:

- **Low/Mod Service Area.** The area to be served by the project (where people live who will use the facility) must have an overall low-mod population of at least 51%. HUD has calculated the low/mod percentage for each census block group – the majority of block groups in San Marcos are considered to be low-mod. In fact, when considered as a whole, San Marcos is 70.6% low/mod by HUD’s calculation.
- **Residential Area.** The service area must be primarily residential in nature.

Public Facilities are generally defined to be either publicly owned or owned by a non-profit and operated so as to be open to the general public during normal operating hours.

- **Reasonable Fees.** If fees are charged for the use of the facility they must be reasonable and not have the affect of preventing low/mod individuals from using the facility.
- **Low/Mod Clientele.** 51% or more of the people using the facility must be low/mod (documentation required)
- **San Marcos Residents.** 51% or more of the people using the facility must be San Marcos residents
- **Program Income.** Net profits from use of the facility are considered program income and must be reported and possibly returned to the City’s HUD CDBG account. Any funds not returned to the CDBG account must be reinvested into programs that qualify for CDBG funding (i.e., benefitting low/mod income citizens);

#### **B. Public Services (funding programs that benefit low/mod individuals)**

- **Supplanting other funds.** HUD will not allow CDBG funds to be substituted for funds that were previously paid by the City or the State for that same program. For example, if CDBG funds are awarded to a project, any Human Services Advisory Board funds awarded to the same program should not be lower than the city’s funding during the previous year.
- **New program/Quantifiable Increase.** The non-profit has to show that funding is requested for either a new service (such as a new program the non-profit was adding) or for a quantifiable increase in the level of service (such as they are adding a new counselor because of the increase in the number of clients and are asking for more money to cover that salary)
- **Funding Cap.** HUD limits the funding of public service category projects to 15% of the annual allocation. For an allocation of \$577,572, the maximum total that could be funded is \$86,635.
- **Beneficiaries.** 51% or more of the beneficiaries must live in San Marcos and must be from a low/mod household

#### **C. Housing Activities (First Time Homebuyer, Habitat for Humanity, Housing Rehabilitation)**

- **Income Eligibility.** The family or person receiving direct assistance must provide extensive documentation to show that their annual income does not exceed the income limits.
- **Lead Paint.** For housing rehabilitation, each house built before 1978 must be tested for lead paint. The type of remediation required is based on the amount of CDBG funds used in the project. If the amount is less than \$25k, interim controls are used.
- **Davis Bacon Act.** For rehabilitation projects, if more than 7 houses are included in the program, then the entire project must comply with Davis-Bacon Act requirements (federal wage rate/certified payroll compliance). Southside has traditionally limited the number of houses assisted with CDBG funds to 7 each year.
- **Relocation Assistance.** Tenants (renters) who must move out of a home because it is being sold/acquired in a transaction where CDBG funds are included (1<sup>st</sup> time homebuyer program, for example) may be eligible for relocation assistance under the Uniform Relocation Act (URA). Since funding is not available for this, our First Time Homebuyer program does not consider a house to be eligible if it is currently occupied by someone other than the purchaser or homeowner/seller. Voluntary relocation during renovation does not fall under the URA.

- **Habitat for Humanity.** The cost of land purchased with CDBG funds on behalf of Habitat for Humanity is included in the sales price, but the amount is not included in the Habitat loan. The City holds a second lien against the property in the form of a 10-year forgivable loan. If the buyer resides in the home for the full 10 years, the “loan” converts to a “grant”. If the homebuyer moves out before the 10 years are completed, the “unforgiven” pro-rated portion of the loan is due to the City and will be returned to our CDBG funds.

#### **D. Clearance Activities**

This category has been used by the City to fund the demolition of unsafe structures and cleaning/clearing the lot afterwards. Because substandard structures have a negative effect on surrounding properties, the National Objective usually used for these programs is the Prevention/Elimination of Slum or Blight on a spot basis.

- **Vacant/unoccupied structures.** Unless the City has budgeted to pay relocation expenses in accordance with the Uniform Relocation Act, the program should specify that only vacant (usually for 45 days or more) buildings will be demolished.
- **Income is NOT an eligibility requirement.** Since this program does not use the Low/Mod National Objective, it is not necessary to document the property owner’s income eligibility.
- **Documentation.** The City must be able to objectively document the blighted condition of the property.
- **Rehabilitation.** Rehabilitation of buildings under this national objective is permitted, but only to the extent necessary to eliminate specific conditions detrimental to public health and safety.

#### **E. Program Administration**

Program administration costs include staff and related costs required for overall program management, coordination, monitoring, reporting, and evaluation including Fair Housing activities.

- **Funding Cap.** HUD limits the funding of program administration costs to 20% of the annual allocation. For an allocation of \$577,572, the maximum total that could be funded is \$115,514.

#### ***VIII. How is a person/household/family’s annual income determined and documented?***

**Direct benefit.** Usually, to determine whether or not an individual or a family can be considered L/M, we calculate the projected income for the person/family for the next twelve months and compare that amount to the current income maximums based on family size. HUD allows 3 slightly different methods of calculating income, but essentially they all require the collection of the following data from each individual or family:

- Most recent two years of income tax returns with W2’s
- Six months of bank statements for checking accounts
- Most current financial statements for liquid assets
- Check stubs for 3 to 6 months
- Annual benefit letters for Social Security, VA payments, etc.
- Child support receipt documentation (can include divorce decrees and/or reports from Attorney General)

**Presumed Clientele.** Documentation is not required if the service/project is provided exclusively for a clientele that fits one of the “presumed” categories; i.e., abused children, elderly persons, battered spouses, homeless persons, adults who are severely disabled persons (as defined by Census), illiterate adults, persons living with AIDS, and migrant farm workers. HUD presumes that at least 51% of the people who fall into one of these categories are low/mod.

**Nature and Location.** Documenting the income of each beneficiary may not be necessary there is adequate documentation describing how the nature and the location of the activity establishes that it will be used predominantly by low/mod persons. For example, a program that is only provided to the residents of public housing would fit this category since only persons who qualify as low/mod are eligible to live in public housing.

**IX. When can grant funds be used?**

Funds for the new program year come available after HUD has approved the Action Plan and a contract has been executed between the City and HUD. The program year starts October 1<sup>st</sup>. This does not necessarily mean money can immediately be spent.

1. No funds may be obligated by a Subrecipient until both the City and the Subrecipient have executed the Subrecipient Agreement prepared by the City.
2. Every program/project must have an environmental review that is usually completed by city staff. The level of review required is based on the project's possible impact on the natural environment.
3. **No funds can be obligated until the environmental clearance is complete, and if necessary, a Release has been issued by HUD.**
4. Obligating funds occurs when a contract is executed or the expenditure of funds is otherwise authorized or made necessary.
5. CDBG funds cannot be added to an already existing contract that was signed before the environmental review is completed.
6. CDBG funds cannot be used to pay for the purchase of an item that was ordered before the completion of the environmental review and/or subrecipient agreement execution.

**X. How are income limits determined?**

The City's income limits are set by HUD each year. San Marcos is included in the Austin-Round Rock-San Marcos Metropolitan Statistical Area (MSA). Our numbers are based on the median income for this MSA which, in addition to the named cities, includes Hays, Williamson and Travis Counties. Because our limits include these areas, our number is higher than it would be if the calculation was based on San Marcos alone.

The 2012 Median Family Income for a family of four in our MSA is established by HUD to be \$75,900. Since 80% of the median income is the cap HUD sets on eligibility to be considered "low/mod", most programs set a program maximum of 80%. The City is allowed to make the program maximum lower (for example, establishing 50% as the maximum income limit for a specific program).

A formula is used to increase or decrease the income limit based on the size of the family/household. See the following chart for an example of how household size affects the 80% limit:

1 Person	2 Person	3 Person	4 Person	5 Person
\$42,500	\$48,600	\$54,650	\$60,700	\$65,600