



Request for City Council Committee Action From the Finance Department

Date: March 19, 2004

To: Barbara Johnson, Chair
Ways & Means/Budget Committee
Lisa Goodman, Chair
Community Development Committee

Prepared by: Terri Spencer, Phone 673-3231

Approved by Patrick Born _____; John Moir _____

Subject: Reprogramming unspent balance of CDBG funds appropriated through Year 27(1999), administrative funds from CDBG Year 28, and update and clarify current reprogramming policy.

Presenters in Committee: Matt Bower

Revised Recommendation per directive:

The Finance Department recommends that the City Council re-appropriate unspent CDBG funds as follows:

Option 1.

2002 administrative funds totaling \$357,415:

- a. \$80,000 of the unspent 2002 Civil Rights Department funds to 2004, Agency 300 (0400-300-3010).
- b. \$3,479 rollover to the various departments as outlined in the attached schedule.
- c. \$273,936 to the Non-Departmental Agency 123 (0400-123-1232) to apply against the CDBG over extension resulting from Block E, reducing the over entitlement of CDBG funds from \$7,381,236 to \$7,107,300

CDBG funds originating prior to 2002 totaling \$572,282:

- a. \$572,282 to the Non-Departmental Agency 123 (0400-123-1232) to apply against the CDBG over extension resulting from Block E, further reducing the over entitlement of CDBG funds from \$7,107,300 to \$6,535,018.

Option 2.

2002 administrative funds totaling \$357,415:

- a. \$80,000 of the unspent 2002 Civil Rights Department funds re-appropriated to 2004, Agency 300 (0400-300-3010).
- b. \$3,479 rollover to the various departments as outlined in the attached schedule.
- c. Refer the remaining \$273,936 of administrative funds for the Mayor's consideration in the 2005 budget process for reprogramming in conformity with HUD program expenditure limits of 20% for administration and 15% for public service. Obtain input from the Public Health Advisory Committee as needed for setting priorities and the review of the selection process.

CDBG funds originating prior to 2002 totaling \$572,282:

- a. Refer the \$572,282 unspent from year 27 and prior years of CDBG funding for the Mayor's consideration in the 2005 budget process for reprogramming in conformity with HUD program expenditure limits of 20% for administration and 15% for public service. Obtain input from the Public Health Advisory Committee as needed for setting priorities and the review of the selection process.

Previous Directives:

At the February 23, 2004 Ways and Means Meeting, staff were directed to report back in two cycles with options for reprogramming of the funds (include figures indicating how much of the balance represents public service, administrative and capital). Also staff were asked to confer with the Public Health Advisory Committee to see if they would be able to look at reprogrammed funds as part of their priority review for this fall's budget process.

Financial Impact (Check those that apply)

- No financial impact: (If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain): Reappropriation of CDBG Funds (0400) that remain unspent and eligible for reprogramming.
- Request provided to the Budget Office when provided to the Committee Coordinator

Background/Supporting Information

The current reprogramming policy, Resolution 95R-258 reads as follows:

1. That Resolution 84R-511-1/2 is hereby rescinded.
2. That by August 1st of each year, the Finance Department shall submit an executive summary of the Grantee Performance Report to the City Council and Mayor, which will identify balances in all CDBG projects for all prior CDBG years. The amounts reported as balances will be tentative amounts, subject to change based on updated accounting reports and project audits. The summary will also identify that portion of

- program balances which are unliquidated obligations and other legally binding commitments, as well as that portion of project balances that is at least two years old.
3. That, with the exception noted in paragraph "4" below, all unspent balances that are at least two years old and not legally committed will be referred to the reprogramming process that will occur as part of the following year's budget process.
 4. That, notwithstanding paragraph "3", balances for one-time capital projects will be reprogrammed to that project.
 5. That the Mayor may choose to recommend the reprogramming of funds from available project balances as part of the annual budget process. The City Council will consider this recommendation as part of its allocation of the following year's CDBG grant.

Attachments

Attachment A-Summary of Options

Attachment B presented here is to clarify and provide guidance on the implementation of the existing resolution 95R-258.

Attachment C is the administrative analysis for the 2002 appropriations.

Attachment D is the detail of the Year 27 and prior unspent balances.

Attachment E includes a summary of the current over extension of CDBG funds related to the Block E Project.

Attachment F is the Civil Rights request for re-appropriation.

Option 1

Year 27 and prior unspent funds

Community Gardens – Keey	Ps	\$ 4,931
General Administration Unallocated	Ad	117
Finance Administration	Ad	286,276
Minneapolis Advisory Committee for People with Disabilities	Ad	69
CLIC Project – Unallocated	Cap	4,019
Redeemer Elevator Restoration	Cap	47,500
South East Asian Community Council	Ps	5,000
Genesis II	Cap	330
Heart of the Beast Puppet Theater	Cap	1,979
CDBG Match HUD Lead Program	Cap	45,352
Boarded Buildings	Cap	176,703
Other Residual Balances	Ad	6
Total		\$572,282

Reprogramming Available by HUD Category

Administration	\$ 286,467
Public Service	9,931
Capital Projects	<u>275,884</u>
Total unspent balances	<u>\$ 572,282</u>

Year 28 Unspent Administrative Appropriations

Total unspent administration appropriations	\$357,415
Civil Rights re-appropriation	(80,000)
Rollover appropriations to various departments	<u>(3,479)</u>
Available unspent appropriations	<u>\$ 273,936</u>

Total available to reduce the Block E over extension \$ 846,218

Option 2

Year 27 and prior unspent funds

Community Gardens – Key	Ps	\$ 4,931
General Administration Unallocated	Ad	117
Finance Administration	Ad	286,276
Minneapolis Advisory Committee for People with Disabilities	Ad	69
CLIC Project – Unallocated	Cap	4,019
Redeemer Elevator Restoration	Cap	47,500
South East Asian Community Council	Ps	5,000
Genesis II	Cap	330
Heart of the Beast Puppet Theater	Cap	1,979
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Reprogramming Available by HUD Category

Administration	\$ 286,467
Public Service	9,931
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Total unspent balances	<u>\$ 572,282</u>

Year 28 Unspent Administrative Appropriations

Total unspent administration appropriations	\$357,415
Civil Rights re-appropriation	(80,000)
Minor rollover appropriations to various departments	<u>(3,479)</u>
Available unspent appropriations	<u>\$ 273,936</u>

Total available to refer for the Mayor’s consideration \$ 846,218
2005 Budget Process

Summary by HUD Category

Administration	\$ 560,403
Public Service	9,931
Capital Projects	<u>275,884</u>
Total Available	<u>\$ 846,218</u>

Reprogramming available from administration could be applied to capital projects or administration in compliance with HUD regulations.

Attachment B-Reprogramming Guideline

CDBG Reprogramming Policy

Purpose: Update and clarify the current reprogramming policy approved with Resolution 95R-258.

There are three sources for reprogramming funds; (1) unspent annual administrative appropriations, (2) unspent and not legally obligated public service funds over two years old and (3) cancelled, ineligible or unspent capital funds. Each will be addressed separately in the following paragraphs.

Appropriations in fund 0400 are based on the CDBG year that starts on June 1 of the coming year. Therefore, the annual appropriation for your fund and agency for any given year should be equal to the amount that was approved by the City Council in December as part of the annual budget process. For example, the amounts approved by the Council in December 2003 represent the CDBG Year 30 award that begins on June 1, 2004. The 2004 appropriation gives the department spending authority in fund 0400 so they can continue to charge to the prior grant or grants with available balances. After June 1, the department can charge to the new grant as well.

The Council Action appropriating the funds divides the CDBG grant into the three major categories, Administration, Public Service and Capital. These categories are further divided between departments. For the most part, administrative appropriations expire in one year, public service funds are available for two years and one time capital projects are available until the project is completed. The first priority is to apply eligible available balances from the reprogramming process to reduce the deficit created by Block E.

Administrative Appropriations

The intent of the reprogramming policy and the footnotes is to limit administrative fund expenditures to the amount that was appropriated for that calendar year, regardless of the amount that is available from the grant balances. The limitation applies to the City department's non-contractual, internal costs. In some instances, CDBG administrative funding has been used to support programs such as Legal Aid, Way to Grow and the Minneapolis Public Housing Authority. These projects are legal obligations and would not become part of the administrative reprogramming calculation unless the projects were finalized without fully expending the funds.

In order for the department to fully utilize the administrative funds available from CDBG, the department should charge all eligible CDBG expenditures to the available grant balances up to the appropriated amount for that calendar year. If the department fails to spend the appropriated amount, the unexpended appropriation becomes available for reprogramming. Amounts will not be known until after the final FISCOL close for the calendar year. This typically occurs in July after the audit has been completed. Once the amounts have been determined, an administrative analysis will be performed and minor amounts may be re-appropriated to the next calendar year through the rollover process.

For analysis purposes, minor amounts will be defined as amounts less than or equal to 5% of the current allocation. The analysis will include a review of available grant balances and department's historic, current and future utilization of the funds. The Office of Grants and Special Projects and the Finance Department will work with the department to determine the amount of the appropriation rollover. Amounts greater than 5% will need to be separately requested and substantiated by the department. Departments will submit their request to their Accounting Manager. The Office of Grants and Special Projects along with Finance Department staff will review these requests and make a recommendation to the City Council. The reprogramming adjustment would occur to the grant that started on June 1 of that year unless it is more appropriate to adjust an earlier grant.

The intent of the analysis of the administrative funding is to avoid having a department substantially increase their normal administrative operating capacity in a given year by under utilizing CDBG funds in the prior year. At the same time, we do not want to create an environment where the accounting for the funds becomes unreasonably cumbersome. Due to changes in the accounting for the CDBG program, we believe that departments, once provided with timely information, will be able to successfully manage their administrative funding. The accounting change was implemented in 2002 with CDBG Year 28.

Public Service

The amounts that are awarded from and appropriated for public service activities expire in two years from the original award date for that CDBG program year that starts on June 1. The department can roll over appropriations from the prior year, as needed to carryout these activities. After two years any unspent amounts and those that are not legally obligated are available for reprogramming and will be referred to the reprogramming process.

Capital Projects

As stated previously, one time capital allocations are available to the department until the project is completed. In the event that the project is cancelled or deemed ineligible for some reason, the available balance would be referred to the reprogramming process.

Attachment D- Eligible Reprogramming from Year 27 and Prior

Below is a summary of potential CDBG reprogramming sources through the end of CDBG Year 27 (May 2003), totaling \$572,282 eligible for the reprogramming process.

Eligible for Reprogramming:

Community Gardens – Key	Ps	\$ 4,931
General Administration Unallocated	Ad	117
Finance Administration	Ad	286,276
Minneapolis Advisory Committee for People with Disabilities	Ad	69
CLIC Project – Unallocated	Cap	4,019
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Total	<u>\$ 572,282</u>

Attachment E: Block E Summary

In 1987, the City Council approved plans to acquire the Block E properties in anticipation of the redevelopment of the entire block. The primary financing source of this acquisition was a "Float Loan" from City's annual CDBG allocation. The plan was to repay the CDBG "Float Loans" with tax increment funds generated from the redevelopment of the property, once the project is completed. However the project developer was not able to come up with the private financing to cover the development costs and the City had to cancel its contract with the developer. In the mean time, the City continued to cover the acquisition costs of the Block E with the CDBG "Float Loans". The Department of Housing and Urban Development (HUD) issued a report as a result of their monitoring of the City in 1992, raising number of findings and concerns about the use of CDBG funds for this project.

The City took several actions and resolved all of the findings and concerns raised in HUD's report. Block E is a completed project as far as HUD is concerned. However, the project continues to remain as an over-allocation of the CDBG funds. According to the Finance Department's records, currently there is an over allocation of CDBG projects of \$7,381,236 over the entitlement due to the Block E expenditures.

In a letter from HUD, dated March 10, 1994, to the City, HUD approved the City's proposal to reduce the over extension of the CDBG funds. The City's proposal as stated in the January 10, 1994 letter to HUD follows.

"As part of the overall resolution of the Block E issue, the City Council included a directive to staff in it's CDBG year 20 program resolution stating that reprogramming options to reduce the current CDBG "over extension" be presented each year as part of the normal budget process. These options are to include but not necessarily limited to the dedication of program income from other CDBG projects, the funding reduction of traditionally "slower" projects, the dedication of future Block E parking lot revenues, the allocation of reprogramming balances from completed projects, and the allocation of future entitlement amounts."

HUD's response from their March 10, 1994 letter follows.

"We cleared certain FY 1992 issues based on proposed procedural changes. As a result, many of the issues require audit or monitoring follow-up. If resolution efforts are not verifiable, the findings will be reissued. Further, we will continue to track the progress made regarding the following three issues, but not as open monitoring findings".
"First, the CDBG grant program over extension will be evaluated annually based on the Grantee Performance Report (GPR)"

To date there has only been one allocation of reprogramming funds in the amount of \$410,620 to off set the \$7,791,856 over extension.

The following schedule summarizes the status of the Block E deficit:

Original Over allocation of Entitlement Funds	\$7,791,856
October 2001 Reprogramming Action	(410,620)
Current Deficit	\$7,381,236
Proposed Action on Administrative Funds	(273,936)
Proposed Action on Completed Prior Projects	(572,282)
Remaining Deficit	\$6,535,018

Staff has determined through the current reprogramming process that \$929,697 of unspent funds that are eligible for reprogramming according to the Council directives. Of that balance, the Civil Rights Department has requested to re-appropriate \$80,000 of their unspent funds to continue their operations in 2004. Staff is recommending the \$3,478 of the unspent administrative funds remain with the departments outlined in the schedule. If the Council approves option 1 of the recommendations, a net amount of \$846,218 will be available to apply against the CDBG over extension resulting in a balance of \$6,535,018.