



## Request for City Council Committee Action from the Departments of IGR & Finance

**Date:** April 11, 2011

**To:** Council Member Betsy Hodges, Chair Ways & Means/Budget  
**Referral to:** City Council

**Subject:** 2011 Budget Resolution 2010R-598 Footnote bb – CDBG Over-obligation-Block E

**Recommendation:** Receive and File

**Previous Directives:** December 13, 2010- RESOLUTION 2010R-598 Footnote bb: Direct the IGR and Finance departments to work together to determine the impacts of not addressing the over-obligation of CDBG resources related to Block E. This information should be presented with the City's 2010 final report to the Ways & Means/Budget Committee in the first quarter of 2011.

### Department Information

Prepared by: Matt Bower, IGR Department, Manager Resource Coordination, 673-2188 Approved by: Steven Bosacker, City Coordinator Heather Johnston, Interim Chief Financial Officer Presenters in Committee: Matt Bower, IGR Department, Manager Resource Coordination
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### Financial Impact *(delete all lines not applicable to your request)*

- No financial impact

## Supporting Information

### Background

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 Float Loan was made while subsequent CDBG budgets continued to allocate full CDBG awards to programming. The plan was to repay the CDBG "Float Loans" with tax increment funds generated from the redevelopment of the property, once the project completed replenishing the City's CDBG budget with this program income.

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 finding among other items that many of the costs related to the float loan were ineligible.

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 continued to remain on the City's books as an over allocation of the CDBG funds due to the float loan. At the time the option to the City Council was to either repay the full float, or to not allocate future CDBG funds to projects in an amount equal to the outstanding float.

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) . . . . ."*

The CDBG over obligation amount originally was \$7,791,856. Over time the City Council has reduced the over extension by reprogramming old or unused outstanding project balances and more recently dedicating 50% of CDBG program income received toward the internal gap. City staff annually reports these actions in its performance report to HUD. Currently, the Block E overextension stands at \$4,828,893.

The daily effect to city finance staff working with CDBG finances is that in the HUD online financial system, project budgets cannot be fully loaded on an annual basis as the online system only recognizes the City's letter of credit balance as being \$4.8 million less than

what the city annually budgets. Fortunately, city project spending patterns have been slow enough so that being able draw funds has not been impeded. However, slow spending is not a desirable goal for programmatic purposes.

### **Impacts of not addressing the CDBG over extension**

Other than the potential drawdown impacts encountered by staff mentioned above, the primary impact of not addressing the over extension would be not meeting the terms of a negotiated settlement of a monitoring finding issued by HUD. In response, HUD may re-open their findings and request that the city do one of the following:

1. Immediately repay the current amount of over extension to the U.S. Treasury with local, non-federal funds.
2. Not budget for a future CDBG award in the amount of the over extension balance (this would either be done by the City pledging to HUD to do so, or by HUD reducing a future award by the amount of over extension). This will effectively cut CDBG programs by the amount of the over extension (currently \$4.8 million). A full list of CDBG funded programs can be found in Schedule 4 of the 2011 Adopted Budget at <http://www.ci.minneapolis.mn.us/finance/docs/2011BudgetCDBGProgram.pdf>.

An additional consideration to factor is that if the CDBG program were to be substantially cut or eliminated, the City would have CDBG program obligations equal to the over extension that could only be met with general fund resources and/or the laying off of staff and cancellation of contracts. If the CDBG program were eliminated by Congress, HUD likely would request that the over extension be repaid to the U.S. Treasury in order to close out the grant.