



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #101

Community Development Block Grant Administration (DOA -- General Agency Provisions)

[LFB 2013-15 Budget Summary: Page 22, #8]

CURRENT LAW

The Department of Administration (DOA) is the entity designated by the U.S. Department of Housing and Urban Development (HUD) to administer all Small Cities Community Development Block Grant (CDBG) funds. Under the CDBG program, federal funds are provided for activities such as housing rehabilitation, acquisition, relocation, handicapped accessibility improvements, home ownership assistance, public facilities improvements and economic development. The Department allocates 35% of the funds to community development, 35% to economic development, and 30% to housing.

GOVERNOR

Provide \$250,000 GPR and 3.0 GPR positions annually in the Division of Housing general program operations appropriation for administration of the state's programs supported by federal CDBG funds. Funding for the positions would be as follows: (a) salaries (\$150,800 annually); (b) fringe benefits (\$55,500 annually); and (c) supplies as services (\$43,700 annually).

DISCUSSION POINTS

1. Prior to 2011 Act 32, the Department of Commerce was the state's designated recipient of federal funding for the small cities CDBG program. Under Act 32, Commerce was eliminated and responsibility for CDBG programs was divided between DOA (responsible for housing assistance programs) and the Wisconsin Economic Development Corporation (WEDC, responsible for other CDBG programs).

2. The federal 2012 CDBG allocation to the State of Wisconsin is \$23,503,300 FED. This funding award is currently being administered by DOA and WEDC, until July 1, 2013, at which time all economic development and community development administrative functions will transfer from WEDC to DOA. Federal regulations allow \$100,000 and up to 3% of the grant award to be expended on administration and subrecipient technical assistance. However, federal funds expended for administration must be matched by the state fully. Below is the initial grant allocation determined by DOA for the 2012 award.

| <u>Funding Purpose</u> | <u>CDBG FED</u> | <u>Required Match GPR</u> |
|--|------------------|---------------------------|
| DOA Administration and Technical Assistance | \$338,400 | \$221,000 |
| WEDC Administration and Technical Assistance | 466,600 | 249,100 |
| Economic Development Grants | 7,944,400 | 0 |
| Community Development and Public Facilities Grants | 7,944,400 | 0 |
| Housing Grants | <u>6,809,500</u> | <u>0</u> |
| Total Allocation | \$23,503,300 | \$470,100 |
| Program Income Available for Administration | \$30,000 | \$0 |
| Total | \$23,533,300 | \$470,100 |

3. In an August, 2012, letter to the Secretary of DOA, HUD ordered the State to improve its administration of economic and community development CDBG funding and assume the responsibilities the administration had delegated to WEDC. According to the administration, the decision to transfer responsibilities to DOA beginning July 1, 2013, was in part intended to clearly delineate, on a state fiscal year basis, administrative expenditures by WEDC and DOA before and after the transfer. The required state match of \$221,000 GPR for the housing component of CDBG funds is currently paid by DOA. The responsibility for providing the required state match of \$249,100 GPR for administration of economic and community development CDBG funds currently lies with WEDC. Starting July 1, 2013, DOA will need to assume payment of the state match of approximately \$250,000 GPR for the economic and community development component of the program. According to DOA, due to the overlap of federal program years and state fiscal years, in addition to the percentage-based calculation of administrative funds, a state match greater than \$249,100 could be required if the federal 2013 or 2014 CDBG awards provide more federal funding than the 2012 award of \$23,503,300 FED. Therefore, the administration recommends providing \$250,000 GPR. Failing to provide the match could result in partial or total loss of federal CDBG funding.

4. In its letter, HUD stated that DOA's Division of Housing "does not have the staff capacity or experience to adequately oversee the economic development and public facility activities administered by the former [Department of Commerce] and the new activities that are being undertaken by the WEDC." The agency ordered the state to hire a high-level administrator for monitoring, oversight, and compliance of the program funds. Specifically, HUD required that the administrator "have demonstrated experience in economic development and public facilities grants administration, particularly with knowledge of federal grant programs and federal management policies, such as OMB circulars, CDBG Regulations [sic.], and the Housing and Community

Development Act."

5. The recommended administrative manager position (1.0 FTE) corresponds to the high-level administrator requirement by HUD.

6. The Legislative Audit Bureau (LAB) is required by law to conduct the following biennial audits of WEDC, beginning in 2013: (a) a financial audit of WEDC; and (b) a program evaluation audit of the economic development programs administered by WEDC under Chapter 238 of the Wisconsin Statutes. In addition, as part of its annual financial and compliance audit of the State of Wisconsin, the LAB reviews the finances of DOA. In its 2011-12 single audit of the State of Wisconsin (released March, 2013), the LAB identified a number of concerns relating to WEDC's administration of CDBG funds and issued recommendations to correct the deficiencies.

7. According to DOA, a complete evaluation of the CDBG economic development and community development programs will be conducted by the Department, and changes will be made to the program administration to meet the requirements of HUD and the recommendations of the LAB. The administration indicates that several items identified by the evaluating agencies should be addressed. The administration acknowledges that DOA should: (a) hire an administrator for the CDBG non-housing programs (a Bureau Director for the Bureau of Economic and Community Development); (b) review projects dating back to 2004 to confirm that documentation maintenance has been properly performed and demonstrates compliance with citizen participation and environmental oversight and review requirements; (c) address any lack of required documentation; (d) review the federal Integrated Disbursement and Information System data entries to verify proper documentation for projects dating back to 2004; (e) establish accounting record accuracy (grant and loan balances and WEDC account close-out); (f) conduct monitoring visits of CDBG fund recipients to establish that funds are expended for allowable activities only; (g) provide for accurate submittal and collection of program income; (h) adequately track loans; and (i) review current application, implementation, and program management documents.

8. In addition to the above, DOA indicates that the transfer of CDBG responsibilities from WEDC will also require commitment of staff. The positions would identify all projects to be transferred, verify that project documentation is complete, and transfer paper and electronic documents and data. The positions would also perform day-to-day duties relating to the administration of the program funds, including: (a) outreach through interaction with communities regarding the availability of funding; (b) eligibility determination, including determining whether a project would meet national objectives; (c) financial underwriting (determining the financial feasibility or viability of an economic development project); (d) application processing, including review of environmental and citizen participation requirements; (e) contract execution; (f) data entry; (g) invoice and payment processing; (h) monitoring progress of funded projects and utilization of funds; and (i) conducting final program and financial evaluation. Positions would be funded as shown in the table below.

| <u>Position Title</u> | <u>Annual Salary</u> | <u>Fringe Benefits</u> | <u>Supplies and Services</u> | <u>Total</u> |
|----------------------------|----------------------|------------------------|------------------------------|---------------|
| Administrative Manager | \$59,200 | \$21,800 | \$14,800 | \$95,700 |
| Grants Specialist Advanced | 45,800 | 16,900 | 14,400 | 76,800 |
| Grants Specialist Advanced | <u>45,800</u> | <u>16,900</u> | <u>14,400</u> | <u>76,800</u> |
| Total | \$150,800 | \$55,600 | \$43,600 | \$250,000 |

9. According to the administration, DOA is required to provide state matching funds for the administration of all CDBG funds. Although DOA has the needed GPR funding for the housing component of the program, it requires an additional \$250,000 GPR annually for the state match for administration of the economic and community development component of the program. Further, the administration indicates that, due to the volume of concerns discovered relating to the administration of the CDBG funds by WEDC as well as numerous corrective actions recommended by HUD and the LAB, additional staff resources may be necessary to administer the funds in compliance with federal regulations and sound fiscal management principles. The administration indicates that the transfer of the functions from WEDC to DOA involves an additional workload. For the reasons the administration provides, the Committee could choose to approve the Governor's recommendation to provide \$250,000 and 3.0 GPR positions annually for administration of all federal CDBG funds. [Alternative 1]

10. To account for the increase in federal funds to DOA's Division of Housing, the Committee could choose to provide \$12,700,000 FED annually (the approximate difference between the 2012 CDBG award allocated to grants and the appropriation's base funding of \$10.0 million) to the Division's federal aid to local assistance appropriation, and \$466,700 FED annually to the Division's federal aid for state operations appropriation, to reestimate funding for economic and community development grants to local governments. [Alternative 2] If the appropriations are not reestimated, since both appropriations are continuing FED appropriations, DOA would still be permitted to expend the federal funds received.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$250,000 GPR and 3.0 GPR positions annually in the Division of Housing general program operations appropriation for: (a) 1.0 high-level administrator for monitoring, oversight, and compliance of federal CDBG funds; and (b) 2.0 grants specialists to assist in administering CDBG economic and community development programs as well as implementing HUD evaluation and LAB audit recommendations.

2. Provide \$12,700,000 FED annually to the Division of Housing's federal aid to local assistance appropriation, and \$466,700 FED annually to the Division's federal aid for state operations appropriation, to reestimate funding for economic and community development grants to local governments.

| ALT 2 | Change to Bill | |
|--------------|-----------------------|--|
| | Funding | |
| FED | \$26,333,400 | |

3. Delete the provision.

| ALT 3 | Change to Bill | |
|--------------|-----------------------|-----------|
| | Funding | Positions |
| GPR | - \$500,000 | - 3.00 |

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