



U.S. Department of Housing and Urban Development

Honolulu Field Office – Region IX  
1132 Bishop Street, Suite 1400  
Honolulu, Hawaii 96813  
www.hud.gov  
espanol.hud.gov

December 6, 2013

The Honorable Kirk Caldwell  
Mayor  
City and County of Honolulu  
530 South King Street  
Honolulu, HI 96813

Dear Mayor Caldwell:

Subject: Untimely Expenditure of Community Development Block Grant Funds  
Failure to Execute a CDBG Workout Agreement

The purpose of this letter to follow-up on HUD's August 27, 2013 letter in which HUD advised you that as required by 24 CFR 570.902 of the Community Development Block Grant (CDBG) regulations, this office reviewed the City and County of Honolulu (City) for compliance with the requirements for carrying out a CDBG program in a timely manner. A grantee is considered to be in compliance if 60 days prior to the end of its program year, there is no more than 1.50 times its annual grant remaining in the line-of-credit. The City has a July 1 program year start date. When the 60-day test was conducted on May 2, 2013, it was calculated that your community had a balance in its line-of-credit of 1.76 times its annual grant. Taking into account the City's \$2,374,772.74 balance of CDBG program income and revolving loan funds, the City's timeliness ratio increased to 2.07 for the second tier of the CDBG timeliness test. Accordingly, the City is in non-compliance with the timeliness standard.

As a result, the City's program now falls under the sanctions policy enunciated in the Department's letter of November 20, 2001, enclosed. According to the policy, grantees that become newly untimely, beginning with those grantees with program years starting February 1, 2002, and later, have 12 months, to their next 60-day test, to reach the 1.50 timeliness standard. Failure to meet the 1.50 standard when the 60-day test is next conducted on May 2, 2014, will result in a reduction of your PY 2014 grant by 100 percent of the amount in excess of 1.50 times the annual grant, except where HUD determines that the untimeliness resulted from factors beyond the grantee's reasonable control. The grant reduction will be calculated as follows: new 60-day ratio minus 1.5, times PY 2014 grant.

Prior to a grant reduction, each grantee is entitled to an informal consultation as provided for in 24 CFR 570.911 of the CDBG regulations. At that time, the grantee will have the opportunity to demonstrate how factors beyond its reasonable control caused significant delays in program implementation and affected timely performance. The burden will be on the grantee to make a compelling argument that it qualifies for an exception. Grantees should not, however, delay actively working to improve their drawdown ratio on the assumption they will meet this criterion. These determinations will be made only at such time as a grantee has not met the standard and HUD is otherwise prepared to make a reduction. Each grantee will be advised of the HUD decision following the informal consultation.

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Attached to HUD's August 27, 2013 letter was a workout agreement to be executed between HUD and the City that outlined the details of the corrective actions to be taken by the City toward achieving the 1.50 ratio. As of the date of this letter the City has failed to enter into the agreement further establishing the City as a High Risk Grantee and raising concerns about the City's capacity to manage its CDBG funds. As a result, the following formally outlines HUD's findings and establishes a minimum timeliness standard that the City must achieve in the months remaining before the official timeliness test date of May 2, 2014 and beyond until the City demonstrates its capacity to manage its CPD programs.

**City and County of Honolulu**  
**CPD Program Management Capacity Issues**  
**and**  
**Action Steps to Address Capacity Weaknesses**

Whereas, the U.S. Department of Housing and Urban Development (HUD) administers the Community Development Block Grant (CDBG) program established by Congress under the Housing and Community Development Act of 1974, as amended; and

Whereas, HUD has promulgated regulations for the CDBG program; and

Whereas, the City and County of Honolulu (City) is an entitlement recipient of CDBG funds under 24 CFR 570; and

Whereas, the City must comply with HUD program requirements in order to receive funding; and

Whereas, regulations at 24 CFR 570.902(a)(1)(i) requires an entitlement recipient of CDBG funds meet a 1.5 timeliness standard for the expenditure of CDBG program funds sixty days prior to the end of the grantee's current program year; and

Whereas, since Program Year 2008, the City has failed the CDBG timeliness test every other year; and

Whereas, on May 2, 2013, the City had a balance in the Line of Credit Control System and revolving loan fund that was 2.07 times the City's annual allocation, thus failing the timeliness standard test; and

Whereas such failure, if repeated on May 2, 2014 may result in a reduction of the City's next CDBG grant by 100% of the amount in excess of the 1.5 timeliness standard; and

Whereas the City anticipates receiving \$34,067,334 in CDBG program income (more than four times the City annual allocation of CDBG funds) from the sale of CDBG assisted real properties during the program year 2013 that the City will need to manage effectively to achieve CDBG timeliness; and

Whereas, the City receives CDBG project proposals through a request for proposals process; and

Whereas, the City's project ranking, rating, and selection process does not require sufficient information to identify and refine prospective projects that can be carried out without risking delays; and

Whereas, the City has, on occasion, targeted CDBG funds to projects that encountered predictable delays that the City did not factor into the overall timely implementation of its CDBG program; and

Whereas, the projects that fall behind schedule directly impact the City's ability to meet CDBG timeliness requirements; and

Whereas, the City submitted Action Plans containing project descriptions that lack sufficient detail to determine project eligibility and national objective and require project corrections before HUD could approve the plan;

Whereas, as a result of the City's recent history of unsatisfactory performance; lack of effective management systems in place to ensure program compliance; failure to timely resolve open findings; statement by City staff that program noncompliance is not a big deal; and concerns about the City's on-going capacity to manage its CDBG funds resulted in HUD determining that the City and County of Honolulu is a High Risk Grantee; and

NOW, THEREFORE, the City falls under 24 CFR 85.12 special grant conditions for high-risk grantees. In order to avoid a reduction in next year's grant amount, the City needs to ensure timely expenditure of grant funds, through:

- a. Changes in overall City HUD programs (CDBG, HOME, HOPWA, ESG, etc.) management procedures as part of developing an action plan. The City shall develop a process for assessing projects and subrecipients for future funding that will:
  - i. Build timeliness into the process of determining which projects to fund;
  - ii. Avoid prematurely funding projects not ready to move forward quickly; and
  - iii. Assist subrecipients stage projects properly so large amounts of CDBG funds do not sit idle.
- b. Develop and submit to HUD, for each open CDBG-funded project, clear objectives, measureable results, and a schedule for obligation and expenditure of funds which is tied to key project milestones. The City shall assure that actual performance can be measured against expectations and that timeliness is factored into program management.
- c. Assure that each future CDBG and/or other Consolidated Plan formula funded project has clear objectives, measurable results, and a schedule for the obligation

and expenditure of project funds tied to key project milestones so that actual performance can be measured against expectations, problems can be identified at an early stage and steps can be taken at the front end to minimize delays before they materialize.

- d. Take action to speed up the completion of existing projects and to obligate the funds faster by modifying or terminating projects.
  - e. By 4:00 pm January 15, 2014, review currently funded projects to see if funds can be reprogrammed and spent faster on another project and report to HUD the result of the review and determination.
  - f. Complete environmental assessments and requests for environmental release of funds in accordance with 24 CFR Part 58.
2. The City is advised to the minimum monthly expenditure/fund balance standard to be met by the last day of each month as identified in Table 1 with the intent of achieving CDBG timeliness by May 2, 2014.

Month	Month End Fund Balance	Projected Ratio
May 2, 2013	\$ 15,591,105	2.07
***	***	***
November 30, 2013	\$ 12,991,548	1.73
December 31, 2013	\$ 16,534,046	2.12
January 31, 2014	\$ 11,734,046	1.50
February 28, 2014	\$ 6,934,046	0.89
March 31, 2014	\$ 26,381,380	3.37
April 30, 2014	\$ 11,761,380	1.50
May 2, 2014	\$ 11,761,380	1.50

Notes:

The month end fund balance for November 2013 includes LOCCS balances.

The month end fund balance for December 2013 includes the City Program Year 2013 CDBG allocation of \$7,817,498 and anticipated CDBG program income of \$525,000 included in the City's PY 2013 Action Plan.

The month end fund balance for March 2014 includes \$34,067,334 in CDBG program income from the sale of CDBG assisted real properties.

The projected ratio is the key requirement for each month. The City must account for both LOCCS balance and program income on hand (including excess funds in the CDBG Revolving Loan Fund) to achieve the projected ratio requirement.

- The City is to submit monthly reports by the seventh calendar day of each month to HUD, Honolulu Field Office, Office of Community Planning and Development starting January 7, 2014 until the City satisfactorily improves program compliance and capacity to manage the CPD programs. In its monthly report, the City will indicate its compliance with timeliness table (Table 1) and progress in meeting the monthly expenditure/fund balance standard. The report shall include a table identifying the target ratio and the City's actual ratio for the last day of the prior month (Table 2) and a second table outlining the status of each open CPD funded project (Table 3).

Table 2

Month	Month End Fund Balance			Actual Ratio	Projected Ratio
	LOCCS	Program Income	CDBG Revolving Loan Fund		

Table 3

Project	Subrecipient Agmt Date	Env Review Complete Date	Expected Project Start Date	Expected 1st CDBG Draw Date	Actual First Draw Date	Fund Amt	Draw Amt	Pct Drawn	Last Draw Date	Draw Days	Comments/ Project Status and Last Date Contacted Subrecipient

- HUD will provide the City with a written quarterly analysis of the City's performance and risk status starting with the Quarter ending March 31, 2014.
- Starting January 2014, the City and HUD CPD Program Management (BFS Director, DCS Director and HUD CPD Director) will meet every two weeks until May 2, 2014 and monthly thereafter to discuss the City's progress in addressing CPD program weaknesses and project completion.

My staff and I remain committed to assist the City meet the CPD program requirements and will assist the City in achieving program compliance. Should you have any questions regarding this letter, please feel free to contact me at 808-457-4678.

Sincerely,



Mark A. Chandler, Director  
Office of Community Planning  
and Development

cc:

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Director  
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