

CDBG Timeliness and Best Practices to Achieve Timely Performance

Welcome to the US Department of Housing and Urban Development's presentation entitled, CDBG Timeliness and Best Practices to Achieve Timely Performance.

Each year entitlement grantees and states use CDBG funds on housing, infrastructure, economic development and public services, benefiting people and communities across the nation.

Since so many people depend on CDBG, it is essential that grantees and their partners deliver these programs quickly and effectively. To ensure that people are receiving the benefits of the CDBG program, HUD has specific performance measures for entitlement grantees and states: timely expenditure for entitlement grantees and timely distribution for states.

In this product, you will learn about these requirements. By the end you should be able to:

- Describe how the CDBG timeliness calculation works, and how program income factors into it.
- Define what it means to be untimely and what impact it has on you, the CDBG grantee.
- Identify best practices so that you can proactively manage CDBG grant funds and avoid being untimely.

Why does timely performance matter?

Communities depend on CDBG in many ways and funds are spent each year helping low and moderate-income people and communities have access to affordable housing, job training, afterschool programs, meals, childcare, sidewalks, clean water and parks.

In this product we liken managing CDBG programs to the operation of an airport. As you know, implementing CDBG projects, like getting airplanes off the ground, can be complex work. Each CDBG grantee manages multiple activities and there are often many partners working together run each activity.

It is important that partners and grantee staff are clear on their roles and the expectations for timely performance for the activity to be successful.

When partners do not deliver on time, or do not expend funds in a timely way, activities and services can be delayed, ultimately affecting beneficiaries. This spending backlog means people are not receiving much needed benefits.

It is important that grantees stay on top of spending as backlogs can have compounding effects. Just like at an airport, one delay may lead to another if not properly managed. When one CDBG project falls behind, it can divert attention from other projects. It may also indicate deficiencies with the grantee's planning and project management and impair a grantee's overall capacity to administer its CDBG grants

efficiently.

Now that we've set the stage for why timely performance is important, what exactly is it?

Timely performance is measured differently for entitlement grantees and states. Let's talk about these standards and how HUD keeps track of them. We'll talk about entitlement grantees first.

For Entitlement Grantees, Insular Areas and Non-Entitlement Counties in Hawaii, "timely performance" means compliance with the regulatory requirement that a CDBG Entitlement grantee must spend its program funds in a timely manner.

To determine whether entitlement grantees meet timely performance, HUD calculates the ratio of unexpended funds to the annual grant award 60 days prior to the end of the program year.

To do this HUD sums the amount of program income the grantee has on hand with the amount of funds remaining in the CDBG line of credit and divides by the amount of the annual grant award. If the ratio is less than or equal to 1.5, then the grantee has met the timely performance requirement. If the ratio is more than 1.5, then the grantee is considered untimely. This calculation is also used to determine timeliness for non-entitlement counties in Hawaii.

For insular areas, HUD completes the same calculation, but the combined amount of program income and funds available in the line of credit cannot exceed 2.0 times the insular area's grant amount.

Let's look to an example to illustrate how the timely expenditure calculation works.

In this example we have an entitlement grantee that has a current CDBG grant of \$1,000,000.

Currently the grantee has \$1,500,000 available in its line of credit, including unspent funds from its recent \$1,000,000 grant and from prior program years' grants. In addition, the grantee has \$100,000 in program income on hand. So, the total available funds are \$1,500,000 + \$100,000 or \$1,600,000.

To determine if the grantee meets HUD's timely performance requirement divide the total funds available, or \$1,600,000, by this year's grant amount, or \$1,000,000. This yields a ratio of unspent funds to the annual grant amount of 1.6. This means the grantee has remaining funds that amount to 1.6 times more than the grant for the current year and has not spent the funds in a timely manner.

Often grantees neglect to include program income balances, including the balances of revolving loan funds, in the timely expenditure calculation. If in this example the grantee did not factor program income into the calculation, it could have been misled into thinking that it had met the timely expenditure requirement.

Let's see how these calculations differ

Without program income, the ratio of unspent funds to the annual grant amount is 1.5.

With program income, the ratio is 1.6.

HUD strongly recommends that grantees perform a cash flow analysis of their revolving loan funds annually.

To help in determining whether a grantee is untimely or not, HUD relies on Integrated Disbursement and Information Systems Reports or IDIS Reports. HUD specifically looks at the PR 56 report. This report is located among shared reports folder in IDIS.

Specifically, HUD reviews the “Adjusted for PI Ratio” to determine whether or not a grantee has met the timely expenditure requirement.

We’ve covered the timeliness calculation for entitlement grantees. Now let’s look at timely DISTRIBUTION for State grantees. This is determined by the state grantee having publicly “obligated and announced” 100% of its annual grant within 15 months of signing its grant agreement with HUD. Grant administration funds are excluded from this calculation.

To help meet the 15-month requirement, HUD encourages state grantees to “obligate and announce” 95% of its annual grant within 12 months of signing its grant agreement with HUD.

State grantees generally meet the timely distribution regulatory requirement. Additionally, HUD also strongly encourages states and their partners to spend their funds quickly and efficiently.

Like for entitlement grantees, it is important for states and their partners to maintain a healthy spending rate as it demonstrates that activities and services are being provided to people and communities who need them.

To meet timely performance criteria, States should make awards to local governments either before or as soon as their federal awards are deposited into their Treasury account. They should also ensure that the funds are spent by local governments in a timely manner.

HUD prepares reports monthly to help state grantees monitor their spending. These reports show monthly and aggregate spending. When analyzing these reports, state grantees should look across months for spending trends, such as the ratio of unexpended funds to the grant – has this gone up, down or remained constant over time?

So, to recap, States must distribute funds quickly after grant award and they should work with partners to make sure funds are spent quickly as well.

So, what happens if a grantee fails to meet the timely performance standard?

State grantees that do not meet the timely distribution regulatory requirement will receive a finding requiring them to evaluate the deficiencies in their process.

For entitlement grantees, HUD has policies and procedures that define consequences for being untimely.

Let's start with First Time Untimely Grantees.

First Time Untimely Grantees are entitlement, Insular area, or non-entitlement counties in Hawaii grantees that have met the expenditure rule in the prior program year, but not in the current year. In these cases, the HUD Field Office will send a "warning letter" to the CDBG point of contact issuing them a finding of noncompliance.

In the letter, the HUD Field Office notifies the grantee that it has until 60 days prior to the end of the next program year to become compliant. The letter also directs the grantee to submit a workout plan showing how the grantee will bring its expenditure performance back into compliance.

Let's talk about workout plans as they are critical to getting a grantee back on track.

The purpose of the workout plan is to help grantees:

- assess why they have delays and identify opportunities to spend money more quickly,
- focus on problem areas and come up with solutions to address them,
- demonstrate to HUD how they will come into compliance within the next year, and
- provide a baseline for measurement of their progress.

HUD has specific guidance on creating a workout plan. A typical workout plan includes:

- Identification of the causes of the backlog
- Identification of activities to be modified or terminated
- Reprogramming of funds
- Milestones
- Drawdown projections

The workout plan then becomes a path forward for the grantee to resolve its timeliness issues. If it follows the plan, it will be more likely to meet the performance requirements the next year.

Second Time Untimely Grantees are entitlement, Insular area or non-entitlement counties in Hawaii grantees that have been untimely for two or more consecutive years.

If these grantees have been untimely two years in a row, HUD's Deputy Assistant Secretary for Grant Programs will send a letter to the grantee's chief elected official informing them of the timely expenditure noncompliance. The letter will identify the dollar amount by which the grantee failed to meet the standard and state that its next year's grant may be reduced by that amount. In the letter, HUD will invite the grantee to participate in an informal consultation with HUD.

Prior to the informal consultation, untimely grantees are encouraged to submit a written response to HUD. This response should detail the grantee's explanation for its untimely performance. The grantee should include any evidence of circumstances beyond the grantee's reasonable control.

HUD will review this response and revisit the grantee's workout plan from the prior year's noncompliance and evaluate how much progress was made against the stated goals. This evaluation will inform how HUD proceeds with the grantee.

Should a twice untimely grantee be unable to demonstrate to HUD that its untimeliness was due to circumstances outside of its control, HUD may reduce the grantee's next grant by up to the dollar amount by which it failed to meet the timeliness ratio.

The grantee will then need to amend its Action Plan to reflect the reduction in funds.

There are several things grantees can do to manage their CDBG funds well and ensure they meet HUD's timely performance standards.

They can:

- Plan wisely
- Set clear expectations
- Monitor project implementation and spending
- Use CDBG financing options

PLAN WISELY.

Timely expenditure of funds begins with planning. Entitlement grantees and States should plan carefully to award funds to projects that will proceed on time in order to ensure that funds are expended quickly.

There are several ways you can increase the likelihood that projects will proceed on schedule and deliver the benefits to the people they are intended to serve.

- Solicit and select projects and activities that demonstrate not only need, but also readiness to proceed and partner capacity to implement;
- To ensure readiness to proceed, select projects that have site control, are on track with environmental review and have other funding commitments in place.
- Review partners' track records when evaluating their capacity to implement projects effectively.

Also, be sure to:

- Begin the project selection and award process before the funds are available so that projects are ready to go once funds are received. Make sure to include "subject to the availability of funds" caveats in all funding awards.
- Divide large projects up into phases using funds from different program years instead of setting money aside and waiting for later stages of the project to begin.
- Anticipate program income receipts and be sure to include them in your activity planning. Remember, program income must be spent before grant funds.

Create a list of backup activities that are easy and quick to implement, in case projects fall through, are delayed, or unexpected program income is received.

SET CLEAR EXPECTATIONS.

As CDBG grantees rely on partners to implement projects to achieve results in a timely way, it is important that they set clear expectations for performance. Here are some things you can do to help your partners do their work effectively.

- Make sure to set up administrative systems so that once you make awards, contracts can be executed quickly and efficiently.
- Ensure that contracts detail:
 - performance timelines,
 - interim milestones, and
 - the number of expected beneficiaries or other measures of impact
- Lay out expectations for reporting and accountability in your contracts with partners. Be sure to describe the actions you may take if the partner does not achieve performance goals. Such actions may include: providing technical assistance, making reductions in current funding.
- Explain to partners that past performance will also have impacts on future funding decisions.

In addition to ensuring that contracts lay out performance expectations clearly, provide training and technical assistance on grant administration and project management.

Provide sample RFPs & contracts, administrative plans, and sample file documentation. Share tips and best practices to help partners administer their activities efficiently. Pay special attention to new partners and those that have had trouble implementing activities in the past.

Finally, be sure your elected officials understand the timely distribution and expenditure requirements – AND the consequences of noncompliance.

MONITOR PROJECT IMPLEMENTATION AND SPENDING.

Once contracts have been executed and expectations set, entitlement grantees and states should have administrative systems in place to track spending and project performance. Here are some best practices.

- Designate staff to oversee overall program spending and routinely run IDIS spending reports, such as the PR-56.
- Keep all IDIS records up to date. Be sure to track and enter program income and revolving loan fund receipts
- Communicate progress by reporting on spending and potential issues at staff meetings.
- Develop expenditure schedules, review them monthly or quarterly with partners and follow up on discrepancies.
- Include program income, including from revolving loan funds, in any calculations to determine timely expenditure of funds.
- Establish clear systems for processing payments including timelines for processing invoices. Require that partners be up to date on quarterly progress reports prior to processing payments.
- Identify partners who may be at risk for low performance early on and keep an eye on their progress. If issues arise, provide technical assistance as soon as possible.
- Train new staff in policies and procedures related to spending and how to monitor partner spending.

USE CDBG FINANCING OPTIONS.

The CDBG program offers several ways to help grantees get a head start and manage spending. When using these options, make sure you have the expertise to manage the risks as well as the benefits.

One common financing option is the ability to incur pre-award costs for critical activity components, such as procurement and environmental review. Grantees must have procedures in place to ensure CDBG requirements are met before costs are incurred. This way, they can authorize partners to incur these costs so that, if funded, they will have a head start on project implementation.

HUD has developed guidance and resources to assist grantees in complying with the requirements. They include:

“Keeping Your CDBG Funds Moving”

“Developing and Implementing a CDBG Workout Plan”

“Ensuring CDBG Subrecipient Timeliness”

“Methods for Improving Timely Performance” of State CDBG-funded programs and others. Search on the resource title to locate them on HUD Exchange.

A lot of details need to come together for grantees to successfully manage their CDBG funding. One or two delays can throw off timely implementation of activities and services, leaving community members, and beneficiaries of these funds, behind.

As a grantee, there is a lot you can do to make sure you are spending funds in a timely way. Here are some potential next steps:

- Be sure to pay attention to how the timeliness calculation works and to include program income, including the balances of revolving loan funds, to determine timely expenditure of funds.
- Meet with subrecipients. Explain the importance of timely performance and how their spending contributes to the grantee’s overall performance.
- Get familiar with the best practices and resources described in this video, and if you need additional help contact your local Field Office.

Remember, grantees and their partners must work together to make sure that funds are well-managed and spent in a timely way. This way we can best meet the needs of people and help our communities take off.