

FY 2019 CDBG Program Overview

During FY 2019, the City will administer CDBG funds received from the U.S. Department of Housing and Urban Development (HUD). Hayward is considered a CDBG Entitlement jurisdiction because of its population size. Formula funding is provided annually upon HUD's approval of Council's CDBG allocations, which form the substantive portion of the City's CDBG Annual Action Plan. The formula by which CDBG Entitlement funding is determined considers the total Congressional budget appropriation to HUD, and is calculated according to each Entitlement jurisdiction's population size and poverty level derived from the most recent Census data.

On February 12, 2018, the Trump Administration's Office of Management and Budget released its Program Year 2018/Fiscal Year 2019 budget proposal containing \$700 billion in reductions over a 10-year period to domestic programs. The budget proposal includes the complete elimination of the \$3 billion CDBG program. If that budget proposal is ultimately enacted by Congress, then the City of Hayward would no longer receive any CDBG entitlement allocation. In FY 2017, the City of Hayward's final CDBG entitlement allocation was \$1,228,347, a reduction of more than 12% over FY 2016.

Reporting from Washington indicate that Congress is unlikely to approve the complete elimination of the CDBG program due to its efficiency and effectiveness at providing needed funds particularly for infrastructure projects; however, a reduction of up to 50% is under consideration. Reductions to CDBG in the range 12% to 17%, consistent with proposed cuts to other domestic programs, is a distinct possibility. However, no clear federal guidance has emerged to indicate planned reductions to the CDBG program pending the outcome of the federal budget development process.

Minimum Contracting Standards for Nonprofit Agencies Requesting City Funds

The City's Minimum Contracting Standards were established in consultation with HUD and the Finance Department and were approved by Council in FY 2014 for the CDBG, Social Services, and Arts & Music grant programs to provide a fair and consistent way to confirm that adequate internal controls exist to account for an applicant's resources, including City funds. Furthermore, the CDBG program has intensified its requirements with tighter fiscal controls and more frequent reporting and documentation. In turn, the City must also be attentive to a grantee's programmatic and financial management capabilities.

A component of the Minimum Contracting Standards requires applicants to undergo an annual financial audit. An independent third-party audit can cost \$3,000 - \$5,000 or more depending on the size of an agency's budget, which can be beyond the means of some of Hayward's smaller nonprofit agencies unless they are able to secure pro bono services. To mitigate this barrier while still maintaining accountability, the City's funding process allows agencies that are unable to meet the Minimum Contracting Standards to apply for funding through an eligible fiscal sponsor. The fiscal sponsor may utilize up to 10% of the awarded funds to offset their administrative costs for managing the grant on the applicant's behalf.

In FY 2019 as in past years, all applicants were required to maintain the Minimum Contracting Standards prior to applying for City funding. This is the fourth year in which it is required for Arts & Music programs. To assist the Arts & Music applicants to meet the standards, City staff for the fourth consecutive year identified a fiscal sponsor for all those agencies (Hayward Area Historical Society), and helped facilitate the fiscal sponsorship and application processes with applicants and the fiscal sponsor.

To ensure that grantees had sufficient capacity to meet the Minimum Contracting Standards, applicants were required to attach the agency's most recent annual financial audit, agency-wide budget, and proposed project budget to their grant proposal. Proposals that did not include these required attachments were deemed ineligible for funding. Applicants were advised of the requirements in the published Notice of Available Funding and at the Bidder's Conference. The application materials also clearly indicate that agencies are required to meet the Minimum Contracting Standards to be eligible for City funding. Additional clarification regarding the audit requirement is provided on page 3 of the application materials, as follows:

"If awarded funding, to execute a FY 2018-2019 contract, each agency must have completed an independent fiscal audit for FY 2016-2017 (or calendar year 2016). Submission of the management letters that accompanied the audits is also required. If there were any findings in the audits, a letter from the board of directors explaining the corrective measures taken to resolve the problem(s) must be provided.

Agencies that do not have a current audit as described above are eligible to apply for City funding only under the auspices of a fiscal administrative that can meet this standard. The fiscal administrator must apply for the funding, and if granted, the fiscal administrative may utilize up to 10% of the grant for its own expenses."

All the FY 2019 applicants were determined to be able to meet the fiscal audit standard and eligible to receive City funding. In past years when there were ineligible applicants, staff conferred with each of the applicants to further explain the specifics of an independent fiscal audit, options for applying through a fiscal sponsor, and other eligibility resources which the applicants can explore for future funding cycles.