

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

NOV 19 2001

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

Dear Chief Elected Official:

The purpose of this letter is to advise grantees participating in the Community Development Block Grant (CDBG) program of a newly policy to reduce future grants when a grantee fails to meet the timely expenditure requirements of the program. As previously indicated in letters, at timeliness conferences, and in one-on-one discussions with grantees administering the CDBG program, the Department has made clear that its high priority to reduce the number of entitlement grantees that exceed the regulatory standard for carrying out their program in a timely manner. Under the provisions of 24 CFR 570.902 of the CDBG regulations, a grantee is considered to be timely, if 60 days prior to the end of the grantee's program year, the balance in its line-of-credit does not exceed 1.5 times the annual grant. For currently timely grantees, and that is 85% of you, I congratulate you on your excellent record in providing CDBG funds effectively to principally benefit low- and moderate-income persons. Keep up the good work.

The Department, working hand in hand with entitlement communities, has had substantial results over the past several years in reducing the number of grantees in non-compliance with the timeliness standard. Despite our considerable efforts, there is still a significant number of grantees that exceed that standard. In order to remedy this continuing problem, HUD has found it necessary to establish and make public its policy for dealing both with entitlement grantees that are currently in non-compliance with the 1.5 performance standard for timeliness and those that come into non-compliance in the future. HUD will no longer accept promised action, but needs to see actual performance.

HUD prefers fostering compliance over sanctions, but will take the necessary steps to institute grant reductions where necessary. Loss of a grant is a serious step, not one to be taken lightly by either the Department or the grantee. It is our intention by announcing this policy now, to put all grantees on notice that HUD is serious about reducing the backlog of unspent CDBG funds.

Currently Untimely Grantees

HUD will impose the following corrective actions that could reduce future grants over two program years for all currently untimely grantees.

Step 1:

HUD will partially reduce the next grant of any currently untimely grantee that fails to reach the timeliness standard of 1.5 at their next 60 day test, starting with those grantees with program years beginning May 1, 2002. The grant will be reduced on a graduated basis, ranging from 15% to 30% of the amount in excess of 1.5 times the annual grant, depending on the amount of time between policy announcement and the program year start date, as indicated below. There are two possible exceptions to the reduction for:

- Any grantee drawing down funds at a rate that, if continued, would bring it into compliance by the following 60 day test, or

- Any grantee where HUD determines that untimeliness resulted from factors beyond the grantee's control.

The percentage of reduction by program year start date is as follows:

<u>Program Year Start Date</u>	<u>% Reduction</u>	<u>Program Year Start Date</u>	<u>% Reduction</u>
May 1, 2002	15%	October 1, 2002	30%
June 1, 2002	18%	January 1, 2003	30%
July 1, 2002	21%	February 1, 2003	30%
August 1, 2002	24%	March 1, 2003	30%
September 1, 2002	27%	April 1, 2003	30%

Step 2:

If, at the 60 day test the following year, a currently untimely grantee still does not meet the 1.5 standard, the next grant will be reduced by 100% of the amount in excess of 1.5 times the annual grant, except:

- Where HUD determines that untimeliness resulted from factors beyond the grantee's control.

The above policy applies to grantees that are currently untimely. This letter also establishes HUD policy for dealing with grantees that are currently in compliance with the timeliness standard, but become untimely (newly untimely grantees).

Newly Untimely Grantees

All newly untimely grantees (grantees with program years starting February 1, 2002 and later) have 12 months, to their next 60 day test, to reach 1.5. Failure to meet the 1.5 standard will cause HUD to reduce the next grant by 100% of the amount in excess of 1.5 with one exception for:

- Any grantee where HUD determines that the untimeliness resulted from factors beyond the grantee's control.

General Issues Related to Grant Reductions

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, grantees will have the opportunity to demonstrate how factors beyond their reasonable control caused significant delays in program implementation and affected their timely performance. The burden on grantees will be to clearly demonstrate with compelling information that the circumstances were truly beyond their control. Grantees should not delay improving their drawdown ratio on the basis that they may meet this criteria, as HUD will not make these determinations until such time as the grantee has not met the standard and is subject to a grant reduction.

All grant reductions will be based on the dollar amount in excess of 1.5 times the annual grant. For example, if a grantee's annual grant is \$1 million and the 60 day ratio is 1.57, the maximum amount of the reduction is \$70,000 ($1.57 - 1.50 = .07 \times \$1 \text{ million} = \$70,000$). As indicated, there may be a pro-ratio of that amount for currently untimely grantees.

Please note that any grant reduction will affect the amount of CDBG funds available to planning and administration. By law, no more than 20% of any grant may be used for these purposes. If there is a significant grant reduction or a reduction to zero of a new grant, there will be limited or zero CDBG funds to

pay the grantee's administrative staff.

HUD field office staff is available to provide technical assistance to grantees and to assist with reformatting workout plans to conform to the currently policy.

Each currently untimely grantee will shortly receive a letter from the HUD field office indicating specifically how this policy affects that individual grantee and what that grantee must do to improve performance sufficiently to avert a reduction.

Should you have general questions about this policy, please contact Nelson R. Bregon, Deputy Assistant Secretary for Grant Programs at (202) 708-1506. For information about how this policy specifically affects your community, please contact your local HUD field office.

Sincerely,

Roy A. Bernardi
Assistant Secretary

cc: CD Director