



# State Community Development Block Grant Program

## METHODS FOR IMPROVING TIMELY PERFORMANCE

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# OVERVIEW OF THE TIMELINESS ISSUE

**S**pending funds in a timely manner is increasingly important for Federal grant recipients. Faced with tighter budgets, Congress wants to ensure that appropriated Community Development Block Grant (CDBG) funds are serving citizens in local communities and fulfilling the national objectives of the program. The U.S. Department of Housing and Urban Development (HUD) must justify its annual budget request to Congress based on the need and urgency for additional resources. Timely use of funds is one of the criteria that may determine future funding levels for the CDBG program.

HUD wants to ensure that CDBG funds are used in a timely fashion. As part of that effort, the Department presented a technical assistance workshop for States in the spring of 2003 to illustrate techniques to improve the timely distribution and expenditure of State CDBG grant funds. (The term "State" refers to a grantee of HUD's State CDBG program.) A product of the technical assistance workshop is this booklet providing States with a summary of the concepts discussed at the workshop.

When is a State untimely? States—unlike Entitlement communities—are not bound by regulation to a timely *expenditure* standard. Determining whether a State is timely requires HUD to examine a State's timely *distribution* of funds. Section 104(e)(2) of the Housing and Community Development Act of 1974, as amended, indicates that HUD shall determine " . . . whether the State has distributed funds to units of general local government in a timely manner . . ." (A unit of general local government (UGLG) is a grantee of a State.) The State CDBG program regulations at 24 CFR 570.494(b)(1) indicate that a State's distribution of funds is timely if (1) all of the State's annual grant—excluding State administration—has been obligated and announced to UGLGs within **15 months** of the State's signing its grant agreement with HUD; and (2) recaptured funds and program income received by the State are expeditiously obligated and announced to UGLGs. "Obligated and announced"

means that grants do not have to be under contract, but the State has to commit the funds publicly within the 15 months. States are further encouraged to obligate and announce 95 percent of funds to UGLGs within **12 months**.

Although there is no timely *expenditure* regulatory standard for States, they should realize that such a requirement is likely to be established in the future. Congress and oversight agencies increasingly judge CDBG and other programs by "the bottom line." Appropriators look at funds allocated in prior years but not yet expended and ask why additional funds should be appropriated. HUD is concerned that without a serious strategy to reduce the level of prior year funds unexpended by grantees, the CDBG program may see its appropriations reduced in the future. One of the goals of the spring 2003 technical assistance workshop was to provide States with management tools, including methods to increase the timely distribution *and* expenditure of funds.

To help States analyze their performance, HUD provides a monthly report to allow them to determine how quickly they are spending their funds and how they rank against other States. One indicator in the report—the "Ratio of Unexpended

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**STATES SHOULD PAY CAREFUL ATTENTION TO THE TREND OF THIS RATIO; IS THE RATIO INCREASING OVER TIME (NOT FAVORABLE) OR DECREASING (FAVORABLE)?**



**A RATIO THAT INCREASES FROM YEAR TO YEAR BECAUSE FUNDS IN THE LINE OF CREDIT ARE INCREASING MAY BE AN INDICATOR THAT PROJECTS ARE NOT ON SCHEDULE.**

Funds to Grant"—shows the number of years of funds that are unexpended in terms of the latest grant amount. States should pay careful attention to the trend of this ratio; is the ratio increasing over time (not favorable) or decreasing (favorable)? A ratio that increases from year to year because funds in the line of credit are increasing may be an indicator that projects are not on schedule.

Another important indicator—the "Ratio of Funds Expended in the Last 12 Months to Grant"—portrays a State's drawdown rate in the last 12-month period compared to the latest grant amount. If the ratio is less than 1.0, the State is spending less than 1 year's worth of money per year and the "Ratio of Unexpended Funds

to Grant" will eventually increase. If the ratio is greater than 1.0, the State is spending more than 1 year's worth of money per year and the "Ratio of Unexpended Funds to Grant" will eventually decrease. Thus, a spending ratio of 1.0 or above will assure that excess funds do not accumulate in the State's line of credit. States should focus on the

*trend* of this ratio rather than a particular ratio each month. This ratio is best used to determine if a short-term problem is occurring that will impact the "Ratio of Unexpended Funds to Grant."

HUD uses the monthly report to keep States advised of their progress and of the progress of the other States, and the Department uses it to respond to requests for information from Congress, the U.S. Office of Management and Budget, and other interested parties. The aggregated report of all States' spending rates is used to gauge the rate at which appropriated CDBG funds are reaching intended beneficiaries.

HUD wants to prevent any State from losing funds if a regulatory timely *expenditure* standard is implemented. The remainder of this document is divided into three sections that provide specific information for States to consider for improving timely performance. These three sections are summarized by the conference breakout sections of the same name: Method of Distribution, Contracting Issues, and Program Administration and Sanctions. This document does not outline HUD's recommendations or endorse any particular method for increasing timeliness but it does provide some methods States have used to improve timeliness in this area.

# METHOD OF DISTRIBUTION



**S**tates distribute CDBG funds to UGLGs to carry out housing and community development projects. Each State distributes the money according to its Method of Distribution (MOD), which is a description of what kinds of activities the State wants to fund and a process for soliciting funding applications from UGLGs. States have an important role in responding to community needs and priorities and the MOD is a reflection of how the State will respond to these items.

States should also simultaneously consider timely distribution of funding (by the State) and timely expenditure of funds (by UGLGs), which are closely interrelated and affect one another. Attention should be paid to timeliness considerations throughout all phases of the grant cycle. For this reason, program design issues need to be considered in tandem with local administrative capacity issues and the complexities typical of projects with multiple funding sources. The State can consider the entire program design process analogous to the completion of a marathon. The course is long and challenging, but if someone keeps a steady pace, continues making progress, and focuses on the finish line, it is much easier than trying to catch up and come from behind.

There are several methods that States may consider when reviewing or changing the MOD. States can:

- Review and streamline the funding process.
- Establish a multistage application process.

- Identify ways to start the application cycle at an earlier point in time.

- Use float funding to improve timely expenditure of funds and provide interim financing to communities.

- Fund large or lengthy projects in separate phases.

### ***1. Review and streamline the funding process.***

States sometimes discover that they have duplicative processes that make their programs more difficult to manage. Reviewing the internal processes and streamlining these, where appropriate, can lead to an improvement in the State's timeliness. By "streamlining," HUD means using any technique to make the funding process move along more efficiently. South Carolina, for example, reduced its application review time by 20 percent by eliminating 24 duplicative processes. Streamlining the process will make it more manageable for both the State and the applicant.

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Coordination with other agencies may help States streamline the funding process. This strategy may allow agencies to coordinate application deadlines, discuss grant issues arising from each project, and arrive at solutions. This also works well with agencies funding large projects that need multiple funding sources, and helps prioritize projects. An agency can discuss the importance of a project in an interagency meeting and determine if providing funding to a project earlier or later in the process makes more sense. Some States have been able to streamline their environmental review process by creating programmatic agreements with other funding agencies, allowing statutory and regulatory review requirements to be met more expeditiously.

## **2. Establish a multistage application process.**

Some States have improved timeliness by establishing a multistage application award process. For example, States could structure their program to include three stages: (1) a preapplication stage to winnow the applicant pool, (2) a final application stage preceding HUD's funding announcement, and (3) a final award stage when the State receives HUD's grant. Using a multistage application process may help States award funds to UGLGs as soon as HUD makes them available to the State. This affects both timely distribution and expenditure because (1) funds can be distributed faster since the evaluation of applications has al-

ready occurred and (2) funds can be expended faster since projects can be started immediately upon receipt of HUD funds.

States can establish applicant eligibility criteria tied to previous performance or refuse to accept applications from UGLGs with unexpended CDBG funds or with open projects. Many States develop waiting lists of eligible projects to fund as additional funds become available (from recaptures, program income, or subsequent allocations). The State must list the selection criteria, benchmarks, or other requirements, and it must provide for such a process in its MOD.

The primary benefit of using performance-threshold criteria and multistage application cycles is to identify those proposed projects that are most likely to be implemented promptly upon grant award. A few questions that States can use to judge project readiness include:

- Has a project administrator been identified and what is administrator's experience level?
- Is there a firm commitment for other funding required by the project?
- Are qualified contractors identified?
- Have preliminary architectur-



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al or engineering work and environmental studies been undertaken?

- Have past performance measures (as established by the State) been met?

### *Other methods to consider for improving timeliness*

#### **Types of projects to fund**

Some States have found that funding larger grants does not guarantee improved expenditure rates. While a larger project has the potential to draw down a large proportion of the State's total allocation, a project's complexity and timeline typically grows with the size of its budget. An unexpected delay in a large project can seriously hamper the State's overall timeliness.

#### **Building organizational capacity**

Some States assert that providing technical assistance to UGLGs positively affects the expenditure rate. There is often a need to build organizational capacity among UGLGs through workshops, trainings, and onsite technical assistance. In addition, States and UGLGs may need to leverage technical assistance from other sources.

#### **Establishing incentives**

Some States offer incentives for timeliness, such as awarding more administrative funds to timely UGLGs. This is an incentive for UGLGs who are paying administrative expenses from their own funds. This does not pose a problem for HUD provided that the State is within its statutory limit for admin-

istrative expenses and that these expenses are eligible (refer to 24 CFR 570.489(a)). Past performance thresholds are also an incentive for UGLGs because States are more likely to fund their next grant applications if past grants have been completed in a timely manner.

### **3. Identify ways to start the application cycle at an earlier point in time.**

Implementing a multistage application process to increase timeliness can be accomplished alone or as a part of a "fast forward" initiative instead of the traditional funding cycle. Usually, the UGLG application process starts *after* HUD awards funds to a State, and it can take 9–12 months from that time to distribute funds to UGLGs and an additional 12–15 months before the UGLG is ready to draw down funds.

A "fast forward" initiative, used by some States, awards 2 years of funding in a single program year. This puts UGLGs on a fast track for year 2 since funds will have been distributed in year 1 for year 2 and expenditure of funds can begin 1 year earlier. The "fast forward" initiative may reduce by 12 months the lag time for distribution and expenditure. The 2-year cycle allows States to conditionally announce year 2 awards well in advance of the start of the program year. Expenditure of funds can begin sooner and likely will occur at a faster rate, thus increasing timeliness. Both of these techniques give States increased flexibility to award funds so they

will be expended expeditiously.

For protection from financial risk and possible litigation, States should make “conditional” grant awards subject to States’ actually receiving their funds from HUD. The conditional award could involve a legal contract—with funding coming after the execution of the grant agreement with HUD. UGLGs should be made aware of the risks involved with conditional grant awards. The State also needs to have a process for approving UGLGs to incur costs prior to receipt of funds. The State should be aware of the Consolidated Plan and citizen participation considerations indicating essentially that the year 2 selection process must be described in both years’ MODs and that the State has to conduct citizen participation for both years. States should refer to 24 CFR 91.115 and 91.320 for further information on the applicable requirements.

Finally, States should be aware that the use of any “fast forward” techniques initially might require a greatly increased workload from staff without a comparable enhancement of staff resources, which can greatly increase pressure on both State CDBG administrators and CDBG applicants.

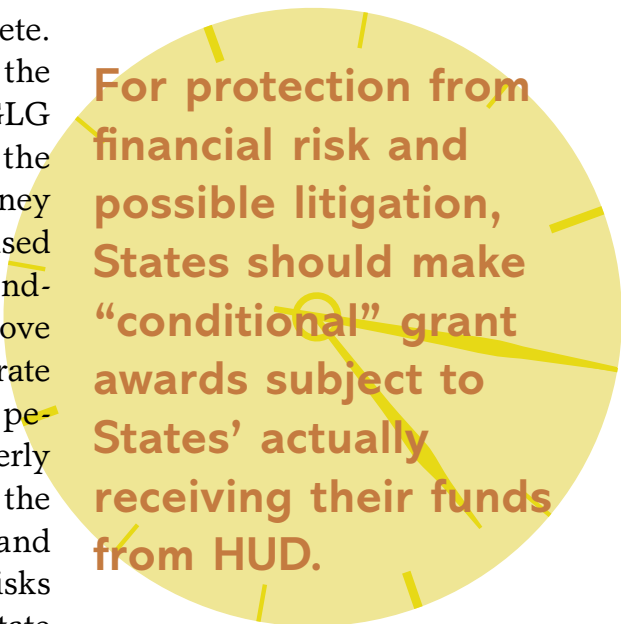
#### ***4. Use float funding to improve timely expenditure of funds and provide interim financing to communities.***

Some States are looking to float funding as an interim technique to improve their timely expenditure rates. Float funding involves the

State making a grant to the UGLG, which in turn (usually) makes a loan to a business. States can use CDBG funds to provide float funding to finance two projects, and at the same time temporarily increase the expenditure of funds. For example, State CDBG funds are under contract to UGLG A for a large construction project, but UGLG A is not ready to draw down funds. Because UGLG A is not ready, the State awards the same amount of funds to UGLG B, which has a short-term project to complete.

UGLG B repays the State prior to UGLG A’s needing the money. The money is, in essence, used twice. Float funding can improve the expenditure rate during the loan period if it is properly structured and if the State realizes and plans for the risks involved. The State should keep the following items in mind when deciding whether to implement float-funded activities:

- The State’s MOD must permit float-funded activities.
- The State’s program design must require that program income be returned to the State. States should carefully consider the program income implications contained in Section 104(j) of the Housing and Community Development Act of 1974 (as amended). Section 104(j) addresses the return of program in-



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come to States and the definition of "continuing the same activity."

■ The State must ensure that the second UGLG pays the funds back to the State *before* the original UGLG needs them. In addition, the State must ensure that the UGLG originally awarded the funds is ready to receive (and begin using) its funds on schedule.

Float funding can *temporarily* improve expenditure ratios. However, the State needs to ensure that, following the example above, UGLG A is ready to spend the funds repaid by UGLG B, because all of the funds returned to the State from UGLG B are program income. Program income must be spent before drawing other funds from the line of credit. If the

State receives large amounts of program income repaid from float loans, it may be unable to draw funds from its line of credit for some weeks or months until the program income has all been disbursed. For this reason, float funding should be viewed as only a temporary solution to lower the State's unspent funds. States considering float funding need a good management information system that is able to project fund availability and ensure liquidity.

## **5. Fund large or lengthy projects in phases.**

Dividing large or lengthy projects into annual funding phases can be useful when the State is unsure that the UGLG has the capacity to administer a project of the size and scope proposed. Phasing allows the UGLG with housing rehabilitation projects, for example, to begin with a grant for a small number of units before receiving a grant for the entire project. This allows the State to determine the UGLG's capacity before larger amounts of money are allocated. Another phased approach is to have the State award a public-facility grant for project design in the first year with project construction funded in a subsequent year grant.

It is not possible to phase all large projects. Some projects that meet critical community needs may require a large advance commitment of CDBG funds. For example, a large affordable housing project typically has multiple funding sources, uses Federal tax credits, requires infrastructure improvements, and needs Federal and State reviews and permits. It may take the UGLG several years before such a project can be completed. Community needs may justify the large upfront commitment of CDBG funds, especially if other funders will not contribute money without a firm CDBG fund commitment.

# CONTRACTING ISSUES



**T**he Method of Distribution considerations discussed previously will assist in ensuring that funds get to the communities sooner. States also have to make sure that UGLGs do their part by implementing activities in a timely manner, because it is the State's responsibility to ensure timely expenditures by localities (refer to Section 104(e)(2) of the Housing and Community Development Act of 1974, as amended). The State's legal contract with the UGLG can be used to ensure the requirements of the Act are followed. States can employ various contract provisions with UGLGs to increase the likelihood that funds will be spent in a timely manner.



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States can:

- Lay the groundwork for timeliness by preparing contracts promptly, by incorporating project deadlines, thresholds, penalties, incentives, and reporting requirements in contracts with UGLGs. Enforce contracts fairly and consistently.

- Specify all funding sources in the contract whenever multiple sources are used to complete a project.

- Amend contracts when UGLGs have a surplus of unexpended funds, as soon as the surplus becomes apparent.

- Develop specific documentation requirements and contract provisions for economic development activities.

***1. Lay the groundwork for timeliness by preparing contracts promptly, incorporating project deadlines, penalties, incentives, and reporting requirements in contracts with grantees. Enforce contracts fairly and consistently.***

States can lay the groundwork for timeliness by preparing contracts once grant recipients have been identified, rather than waiting for formal grant announcements. There may be several weeks' lag time between the completion of staff review work and the public announcement-of-awards event. Preparing contracts before grant announcements could allow the State to issue, and the UGLGs to sign, grant contracts sooner. The UGLG can begin incurring project

costs after a contract is executed—subject to the environmental release of funds. In some States, though, the Attorney General reviews all grant contracts in advance, and the CDBG agency may have little control over how quickly that review occurs. Hence, it may be worthwhile to negotiate with the Attorney General’s office to determine if the review process can be streamlined.

States also have the authority to allow their grant recipients to incur project costs prior to grant award. UGLGs can be reimbursed for eligible preagreement costs, provided the project is funded and all environmental requirements are met. By authorizing the UGLG to incur costs prior to grant award, the State may allow UGLGs to complete environmental reviews, appraisals, engineering, and other preliminary steps ahead of actual contract execution, thereby leading to a faster project start and a better chance of timely completion. Some States go even further, requiring UGLGs to complete some of these steps at their own (non-reimbursable) expense before submission of the application, as evidence that a project will be ready to go as soon as funds are awarded.

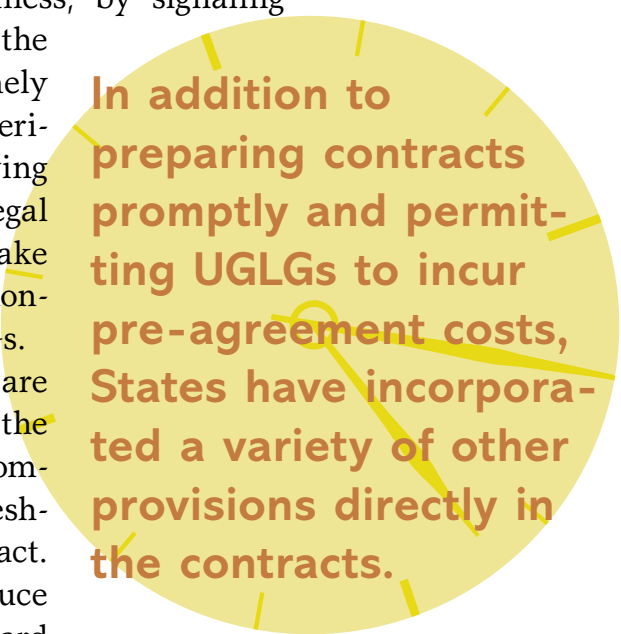
In addition to preparing contracts promptly and permitting UGLGs to incur pre-agreement costs, States have incorporated a variety of other provisions directly in the contracts with the UGLGs. Some of these contract provisions are described below.

■ **Deadlines** specify a particular timeframe (30–120 days, for ex-

ample) for the UGLG to complete an action. This may include requiring the UGLG to complete startup actions, such as setting up files and bank accounts, preparing detailed milestone schedules, and performing preliminary tasks such as environmental reviews. Other examples include: submitting specifications, plans, or permits; requesting the first drawdown; expending 25, 50, or 100 percent of project funds; or closing out a project. Project deadlines that are listed in the contract encourage timeliness, by signaling to UGLGs that the State takes timely implementation seriously, and by giving the State the legal mechanisms to take action against non-compliant UGLGs.

■ **Penalties** are imposed when the UGLG fails to comply with a threshold in the contract. Some States reduce the UGLG’s award by a certain dollar amount for each day the locality fails to reach the required threshold. Other States recapture all funds not obligated within 24 months or another time period. States need to carefully consider the impact of penalties, especially for partially complete projects.

■ **Incentives** are rewards for surpassing contract thresholds and can be used in various ways to reward the UGLG for completing a project ahead of schedule. For ex-



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ample, States can reward UGLGs with administrative money in cases where administration is paid for with local funds.

**WHEN PROJECTS HAVE MULTIPLE FUNDING SOURCES, STATES MAY WANT THE PROJECT BUDGET IN THE CONTRACT**

■ **Reporting requirements or monitoring visits** stated in the contract can enforce timeliness. Several States have added language in contracts requiring regular progress reports to be submitted. Failure to provide these or to meet established performance benchmarks results in remediation measures, such as on-site monitoring, unannounced visits, or letters. Monitoring and providing technical assistance to the UGLG early in the process helps the State find and correct problems before they get out of hand.

States must enforce specific thresholds, incentives, or penalties consistently and fairly. The

State's legal counsel should be aware of, or approve of, all contract provisions (as applicable). Gaining the support of State and local elected officials or of agency political leadership in advance may be necessary to withstand inevitable challenges to the State's efforts to enforce contract provisions. If the process is managed fairly, it typically gains support from elected officials, because elected officials realize that properly managed projects contribute to the improvement of their communities.

**2. Specify all funding sources in the contract whenever multiple sources are used to complete a project.**

When projects have multiple funding sources, States may want the project budget in the contract to delineate the amount of funds expected from the CDBG program and from all other sources to ensure that all funding is in place. Deadlines should be set for commitment of other funds. For timeliness reasons, many agencies want to be the last funding agency, because it provides some sense of security that the project will proceed. Other States choose to be the first agency to commit funds to a project to show other prospective funders the importance of the project and to encourage joint funding, despite potential negative effects on timely expenditure.

**3. Amend contracts when UGLGs have a surplus of unexpended funds, as soon as the surplus becomes apparent.**

If the UGLG is nearing the completion of a project and it appears that there will be unexpended funds, discuss possible modifications to the project and amend the original contract to reflect the modifications. The State should do this as soon as it becomes aware of the surplus, rather than waiting until the project is completed. Of course, this should be done only if there is a need for the project expansion, not just to improve timeliness. Leaving funds with a good performer may allow for a faster expenditure



**TO DELINEATE THE AMOUNT OF FUNDS EXPECTED FROM THE CDBG PROGRAM AND FROM ALL OTHER SOURCES TO ENSURE THAT ALL FUNDING IS IN PLACE.**



**States can:**

- *Lay the groundwork for timeliness by preparing contracts promptly, by incorporating project deadlines, thresholds, penalties, incentives, and reporting requirements in contracts with UGLGs. Enforce contracts fairly and consistently.*
- *Specify all funding sources in the contract whenever multiple sources are used to complete a project.*
- *Amend contracts when UGLGs have a surplus of unexpended funds, as soon as the surplus becomes apparent.*
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of funds than reallocating them to another UGLG. In contrast, recapturing and reallocating the unexpended funds would involve more staff time and may result in slower expenditures and drawdowns. The State should keep in mind that modifying the original project will only help timeliness when the modified project can be done quickly, meets a national objective, and fits into the State's MOD. If these criteria cannot be met, recapturing and reallocating funds may be faster, especially if the State has a list of alternate projects.

A good example of this is a water-and-sewer project where the UGLG has unexpended funds and could extend the line within the project's target area. Not only would this project modification meet CDBG eligibility requirements, it is likely that the UGLG could complete the project and draw down the funds in a time-

ly manner. An example where recapture and reallocation may make sense is an architectural barrier removal project that has had numerous delays and problems within the UGLG's control, and for which construction bids have not yet been advertised and the UGLG has failed to address the problems.

**4. Develop specific documentation requirements and contract provisions for economic development activities.**

Economic development is a very important part of the CDBG program. Each year, States collectively spend more than 15 percent of their grant funds for economic development activities. Economic development activities differ from most other CDBG activities in that a national objective (e.g., job creation) may not be met until after the

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physical completion of the project. In addition, meeting the national objective is dependent on the actions of an entity other than the UGLG. For these reasons, there are unique issues involved with the timely expenditure of economic development funds.

States must have a clear understanding of the business' timeline prior to making the award (this assumes that the business is identified by the UGLG at the time the UGLG applies for funds). States can develop certain administrative policies and contract provisions that address the unique issues involved in economic development activities and at the same time encourage timeliness. Documents submitted by the business in the application process help States understand the scope of the project and help forecast timing of the project so the State can minimize the time between grant award and construction commencement. Two examples of documents that States may want to request include:

***1. The agreement between the UGLG and the job-creating company***

This agreement should outline the responsibilities of both parties. States may prefer to prescribe the format or draft the agreement for the UGLG. States should consider requiring UGLGs to submit final agreements for State approval prior to release of funds.

## 2. Job creation proposal

This is a staffing plan that the company will execute. Careful attention should be given to this document to determine if the plan for job creation is feasible and can be completed within the anticipated timeframe. States should refer to Appendix I, pages 4–6, of the “State CDBG Guide to National Objectives and Eligible Activities Guide” for information on properly documenting job creation.

- States should also consider the unique requirements inherent in economic development projects when contracts are drafted between the State and the UGLG. The State should consider:

### 1. Three-party contracts

- If State law permits, use three-party contracts signed by the State, the UGLG, and the company. This gives the State more direct authority over the job-creating company.

### 2. Deadlines and milestones

- Because economic development projects can sometimes be long-term projects, it is important for contracts to contain prescribed deadlines and milestones to be achieved. States have the right to withdraw award funds from UGLGs that fail to meet deadlines. The State may want to consider inserting a requirement for the submission of progress reports into the contract.

## 3. Consequences of various “events of contract default”

- For example, if the job-creating company fails to perform, the State can take the action of requesting the tax commissioner to withhold tax credits.

- The State can monitor economic development projects similar to other projects and may consider requiring the job-creating company to attend all meetings held between the State and the UGLG. In addition, the State may want to consider holding some of the meetings at the company location and consider making unannounced visits to monitor job reports, financial statements, loan payments, insurance, and other documentation.



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# PROGRAM ADMINISTRATION AND SANCTIONS

**S**ome States have implemented administrative procedures that have improved their programs and their expenditure rates. The strategies employed can affect all phases of program management—from selecting projects to sanctioning untimely UGLGs.

*States are encouraged to:*

- *Provide technical assistance to UGLGs to improve performance.*
- *Implement State and UGLG staff performance requirements.*
- *Implement enforcement mechanisms.*
- *Manage program income.*
- *Focus on information technology to track contract compliance.*



### **1. Provide technical assistance to UGLGs to improve performance.**

States recognize the importance of providing technical assistance to UGLGs and approach it in various ways. Some States provide technical assistance when problems occur, while others provide assistance on a routine basis so that problems are less likely to occur. States have adopted a variety of successful technical assistance strategies. States may want to consider the following ideas described below.

*1. Discuss timeliness with applicants and grant recipients at every phase of the project—project development, application stage, and implementation.*

Technical assistance should be considered before small problems become unmanageable. Open projects should be examined, and targeted technical assistance should be provided for those projects that are exhibiting slower-than-expected progress.

*2. Encourage UGLGs to undertake concurrent processes where feasible, thereby completing one or more tasks simultaneously.*

*3. Present regularly scheduled, mandatory workshops and training seminars covering all phases of the grant cycle.*

Show prospective applicants and new administrators the application process, project management, compliance, and practical issues, such as using spreadsheets to create milestone reports. Host regularly scheduled training for new staff. This training will assure that important information is conveyed on a regular basis. The training is most effective when elected officials, UGLG staff, and State CDBG staff are assembled to see that each project gets off to a good start. Require the attendance of key staff at meetings as a contract condition.

*4. Promote and foster peer-to-peer technical assistance in which top performers are teamed with poor performers to identify ways to improve their timeliness.*

## **2. Implement State and UGLG staff performance requirements.**

A good knowledge and understanding of CDBG regulations by both State and UGLG staff can help both parties meet milestones and improve timeliness. Some States have placed performance requirements on their own staff to make sure grant administrators are providing UGLGs with accurate, timely technical assistance. For example, the State of South Carolina's grant administrators are held accountable

for the progress of their projects and are measured on factors such as the number of days an administrator takes to respond to a UGLG's request.

All grant administrators (both State and local) should receive training. In addition, States may want to consider requiring local grant administrators be certified. For example, the State of Indiana requires grant administrators who work on CDBG grants to take CDBG courses and to pass a 3-hour certification exam to become certified CDBG administrators.

## **3. Implement enforcement mechanisms.**

Performance requirements without mechanisms to ensure compliance are rarely successful. Consistently applied enforcement

mechanisms can be key in helping States meet their timeliness goals. Many States currently employ successful enforcement tools, while other States are exploring and comparing various tools to enforce timeliness. Some ideas States can use to enforce timeliness efforts include:

- Awarding funds to an alternate applicant when the originally funded UGLG fails to meet readiness tests as prescribed in the contract. For example, the State can consider canceling a grant and awarding the funds to another applicant if the UGLG is not showing substantial progress within 6 months (or another established time period) of grant award. The State would define "substantial progress" and advise UGLGs of the definition.

- Establishing a deadline to begin construction. For example, Indiana's UGLGs have 8 months to begin construction. When UGLGs fail to meet the 8-month threshold, they have 30 days to rectify the situation or risk having their grant terminated.

- Placing restrictions on UGLGs when unspent portions of program income balances exceed levels determined by the State. The State would define these levels and advise UGLGs of the definition.

- Barring UGLGs from applying for additional CDBG funds when they fail to meet milestones.

- Revoking grant administrators' ability to work on CDBG projects when they fail to perform their duties or fail to pass a CDBG

**A good knowledge and understanding of CDBG regulations by both State and UGLG staff can help both parties meet milestones and improve timeliness.**



administration certification course, if applicable.

#### 4. *Manage program income.*

The management of program income is a very important consideration when examining ways to improve timeliness because unexpected program income can greatly impact the State's ability to spend funds quickly. States can review the program income requirements found at Section 104(j) of the Housing and Community Development Act of 1974, as amended.

The State *may* permit the UGLG that receives or will receive program income to retain the program income. The State *must* permit the UGLG to retain the program income if the program income will be used to continue the activity from which the program income was derived. However, the State defines when an activity will be considered to be continued, and States have wide latitude in determining whether the activities being proposed by the UGLG are, in fact, the "same activity." States can be very strict in making this determination.

With regard to timeliness issues, the State needs to consider the effects of its policy decisions to either permit the UGLG to retain the program income or require the UGLG to return the program income to the State. States should carefully consider both options, because they have differing effects on timeliness.

##### 1. *Program income retained at the local level*

The State and the UGLG need to

plan for these funds and have the capacity to expend the program income, or else the grant closeout will be delayed or the ability to administer the next grant will be hampered.

##### 2. *Program income returned to the State*

This affects timely expenditure in the short run (as program income has to be expended before drawing from the line of credit, negatively affecting the ratios, as discussed in the "Overview" section) and timely distribution in the long run (as program income will eventually be used to make more grants to UGLGs).

To properly manage program income, States should consider the following:

- Identify potential sources of program income and decide whether activities that generate program income should be funded. If the State decides to fund these activities, it must make decisions on whether the income should be returned to the State. Some examples of sources of locally retained program income include loan repayments, property sales, rental income, special assessments, and interest earned on revolving loan funds. An example of program income returned to the State is income from float-funded activities.

- Create program income agree-

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**WAYS TO  
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TIMELINESS  
BECAUSE  
UNEXPECTED  
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**AUTOMATED SYSTEMS ASSIST STATES IN MONITORING COMPLIANCE. MANY STATES HAVE PURCHASED OR DEVELOPED**

ments with UGLGs (subject to the statutory and regulatory requirements referenced above).

- Establish reporting requirements for UGLGs. Some States require UGLGs to submit reports every 6 months indicating the amount of program income received, expended, and on hand.

- Identify program income expected to be returned to the State in the MOD and account for how it will be distributed. The State may need to improve the accuracy of estimating the flow of program income back to the State.



**SOFTWARE THAT AUTOMATES AND TRACKS CDBG PROJECTS FROM APPLICATION TO CLOSEOUT.**

have purchased or developed software that automates and tracks CDBG projects from application to closeout. These systems allow staff from CDBG offices, public works

departments, and other agencies to approve and monitor the various stages of a project—from permits to required progress reports to drawdowns. Systems can generate reminder letters, overdue notices, flag deadlines not met, etc. An automated process to electronically approve, route payment requests, and electronically wire transfer funds to the UGLG's bank account saves time over issuing and mailing paper checks. Many of the current automated systems are also linked to the Integrated Disbursement Information System, HUD's online drawdown and reporting system for the CDBG program.

These automated systems can be used by States to track expenditures and provide information about slow expenditure rates. As a result, States can monitor and offer technical assistance to assist UGLGs in completing projects and drawing down funds expeditiously.

**5. Focus on Information Technology.**

Automated systems assist States in monitoring compliance. Many States





# CONCLUSION

**S**tates have many options to consider for improving their timely performance. A focus on timeliness should permeate throughout the entire grant cycle—throughout a State’s chosen MOD, in its contracting instruments, and in its program administration and enforcement strategies. The techniques described in this document can be used alone or as part of a comprehensive strategy to focus on timeliness issues. States should consider partnering with other States that have experienced similar issues in order to obtain real-world solutions to their problems.



**IF YOU HAVE QUESTIONS ABOUT THE OPTIONS  
DISCUSSED IN THIS DOCUMENT, PLEASE CONTACT  
YOUR HUD FIELD OFFICE OR THE STATE AND  
SMALL CITIES DIVISION OF HUD'S OFFICE OF  
BLOCK GRANT ASSISTANCE IN WASHINGTON, DC,  
AT (202) 708-1322.**







<http://www.hud.gov/offices/cpd/communitydevelopment/library/statetimeliness.pdf>

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