



OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

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

MEMORANDUM FOR: All CDBG Entitlement Grantees and All CPD Field Office Directors

THROUGH Kimberly Nash, Director, Office of Block Grant Assistance, DGB

FROM: Kera M. Package, Deputy Assistant Secretary
for Grant Programs, DG

SUBJECT: Community Development Block Grant (CDBG) Entitlement Program
CDBG Timeliness – A New Policy Initiative to Address Untimely Performance

This memorandum provides explanatory background and establishes a new policy for HUD's monitoring of the timely performance of grantees in the CDBG Entitlement Program. HUD goals, through the implementation of this process, are:

- to address the expenditure challenges that many grantees are still facing as they emerge from the COVID-19 pandemic;
- focus corrective actions on systemic cases of untimely expenditure;
- provide grantees, many of whom have new staff, with additional training on timely expenditure; and
- increase capacity for HUD personnel in Headquarters and the Field to focus on providing technical assistance to improve timely expenditure ratios.

Background:

In accordance with, Section 104(e)(1) of the Housing and Community Development Act of 1974, as amended, HUD has a statutory obligation to determine on at least an annual basis whether a CDBG grantee is carrying out its program in a timely manner. The regulation at 24 CFR 570.910 provides HUD with authority to address performance deficiencies. After the second consecutive year violation of the 1.50 timeliness standard, pursuant to 24 CFR 570.911 HUD offers the grantee an informal consultation before its next grant is reduced. A grantee may avoid a sanction if it demonstrates to HUD's satisfaction that its untimeliness resulted from factors beyond its reasonable control.

Recognizing the extenuating circumstances facing many local governments due to coronavirus, HUD suspended¹, effective January 21, 2020, corrective actions for untimely performance. This suspension authority expired on October 1, 2021.

HUD resumed the untimely expenditure corrective actions in November 2021.² Upon resuming corrective actions, HUD extended the timeframe upon which an informal consultation would occur from the previous two-year policy to three consecutive years of untimely expenditure. This three-year application concluded on September 30, 2023, and HUD restored its two-year informal consultation standard.

Unfortunately, many grantees are still grappling with after-effects from the pandemic, including staff upheavals, contractor shortages, continued supply chain delays, and cost increases that have made it difficult for them to maintain the timely performance of their CDBG programs. These factors, combined with later appropriations from Congress, have caused an exponential increase in the number of grantees who have been untimely two or more consecutive years. As of August 6, 2024, following the last timeliness test date of FY24, that number stands at 223 grantees – more than seven times the typical pre-pandemic number for any given year.

The extent of the current untimeliness issue requires a new approach for monitoring timely performance. HUD endeavors now to establish an approach that stresses the importance of timely performance for grantees and provides training in this area for grantee staff, most of whom are new to their positions since the pandemic. This modernized approach aims to increase the effectiveness of grantee affordable housing and community development programs, supported sustained Congressionally authorized funding levels for the CDBG program, and further advance achievement of the overall national objective of providing assistance to low- and moderate-income persons.

This memorandum sets forth a policy change that fulfills HUD's statutory obligation; acknowledges the continued challenges facing grantees as they emerge from the pandemic; focuses corrective actions on systemic cases of untimely expenditure; provides grantees with additional training and technical assistance on timely expenditure; and allows for HUD personnel in Headquarters and the Field to focus on supporting grantees to develop strategies to improve timely expenditure ratios.

The Current Timeliness Requirement:

¹ Section IV.B. *Flexibilities, Waivers, and Alternative Requirements* of Federal Register Notice FR-6218-N-01, **Program Rules, Waivers, and Alternative Requirements Under the CARES Act for Community Development Block Grant Program Coronavirus Response Grants, Fiscal Year 2019 and 2020 Community Development Block Grants, and for Other Formula Programs**, (hereinafter, the "CDBG-CV Notice"), dated August 17, 2020, provided a number of flexibilities, waivers, and alternative requirements for the administration of fiscal year 2019 and 2020 CDBG grants. First among these was Section IV.B.1. *Timeliness*, wherein HUD determined that corrective actions related to timeliness for fiscal year 2020 were not appropriate. HUD advised grantees that this suspension did not eliminate the timely expenditure requirements set forth in 24 CFR 570.902. HUD continued to run expenditure reports and notified grantees of deficiencies when their grant fund balances exceeded the regulatory standard. HUD subsequently extended this suspension, by memoranda issued quarterly, through the end of the 2021 fiscal year.

² See CPD memo, "Restarting the Corrective Actions Process for Untimely Expenditure."

In November 2001, HUD established the following two-step corrective actions process for grantees that failed to meet the 1.50 timeliness standard:

- For first time violations of the standard, HUD sends a warning letter to the grantee, usually with a request for a workout plan that describes how the grantee will be timely by its next test date.
- For violations of the standard for a second consecutive year or more, HUD invites the grantee, in accordance with 24 CFR 570.911, to an informal consultation with HUD Headquarters. In this meeting, the Department provides the grantee the opportunity to demonstrate to HUD's satisfaction that the lack of timeliness is due to circumstances beyond its reasonable control. After the consultation, if HUD maintains its finding that the grantee is untimely, HUD may reduce the grantee's next year grant by the amount it exceeds the standard.

Change to the CDBG Timeliness Corrective Action Policy – Focusing Corrective Actions on Severe Cases of Untimeliness and Building Timely Expenditure Capacity for Less Severe Cases of Untimeliness:

Recognizing that other offices within the Department have been pursuing alternatives to corrective actions, such as risk-based technical assistance to further grantee capacity building, HUD proposes conducting informal consultations only with those grantees that have shown systemic timeliness failure over a lengthy period – four consecutive years or more – or have significant balances in their adjusted line of credit – more than four times their last annual formula grant. HUD is characterizing this corrective action policy as a “Focus on the Fours.”

All other grantees in non-compliance with the 1.50 timeliness standard for the second consecutive year or more will be invited to a CDBG Timeliness Workshop (the “Workshop”) that will offer assistance and training on strategies to keep their funds moving and developing an effective timeliness workout plan. Within 30 days after the Workshop, each grantee will need to submit a timeliness workout plan to its local HUD office that meets HUD requirements. Any workout plan deficiencies not corrected before grant agreement execution may be addressed with additional conditions on a grantee's 2024 grant. If a grantee decides to not participate in the Workshop, then an informal consultation, pursuant to 24 CFR 570.911, will be scheduled prior to the actual reduction of the grantee's FY2024 grant.

Recognizing that 2024 fiscal year grants were delivered later than in prior years, and that the grant agreement execution process is now occurring for the majority of CDBG grantees, HUD field offices may, at their discretion, execute grant agreements for untimely grantees who possess approved 2024 program year Con Plans and Annual Action Plans before the date of the Workshop if the grantee has submitted, and HUD has approved, a CDBG timeliness workout plan since the grantee's FY 2024 timeliness test date. Such execution requires the imposition of a grant condition to the grantee's 2024 grant providing that the grantee will attend the Workshop or HUD may take additional actions.

To further assist grantees in the development of a timeliness workout plan, HUD plans to conduct in-person timeliness clinics in various HUD regions. The purpose of these follow-up clinics for Workshop attendees is to provide direct assistance regarding timeliness strategies,

further develop workout plan components, and receive implementation guidance from trained HUD staff.

Grantees becoming untimely for the first time in FY2024 will, as before, be sent a warning letter with a request for the submission of workout plan showing how the grantee will be timely by its next test date.

The table below illustrates the new policy based on a grantee's timeliness status in FY2024:

FY2024 CDBG Timeliness Status Table

Grantee timeliness status in FY24 on its test date	Action taken
Timely	No action requested
Untimely for the first time	Sent a warning letter and requested to submit workout plan
Untimely for the second or third consecutive year, but with an adjusted line of credit ratio less than 4.00	Invited to CDBG Timeliness Workshop Required to submit workout plan within 30 days of the Workshop Invited to attend additional in-person timeliness clinics May be invited to join a timeliness technical assistance cohort
Untimely for the second or third consecutive year or more, but with an adjusted line of credit ratio greater than or equal to 4.00	Invited to an informal consultation and subject to loss of grant funds. May be required to participate in risk-based technical assistance and/or may be required to participate in a timeliness technical assistance cohort
Untimely for the fourth consecutive year or more	Invited to an informal consultation and subject to loss of grant funds. May be required to participate in risk-based technical assistance and/or may be required to participate in a timeliness technical assistance cohort

This new timeliness policy will remain in effect until superseded. HUD will continue to monitor a grantee's adjusted line of credit ratio (including program income) in the application of this policy.

Potential for, and General Issues Related to, Grant Reductions:

A grantee invited to an informal consultation with HUD Headquarters will still have the opportunity to make its case for an exception to the timeliness standard based on circumstances beyond its reasonable control. The burden on a grantee will be to clearly demonstrate with compelling information how factors beyond its reasonable control caused significant delays in program implementation and affected its timely performance. A grantee should not delay improving its drawdown ratio. If a grantee fails to demonstrate that the untimeliness was due to factors beyond its reasonable control, HUD's determination following the meeting may result in reducing the grantee's next grant up to and including the amount exceeding the 1.50 timeliness standard. For example, if a grantee's annual grant is \$1 million and the 60-day adjusted ratio is 1.57, the maximum amount of the reduction is \$70,000 ($1.57 - 1.50 = .07 \times \$1 \text{ million} = \$70,000$). HUD may also grant an exception to the standard based on the circumstances set forth by the grantee as beyond its reasonable control. HUD will not reduce a grant or sanction a grantee more than the amount of its next year's grant from HUD.

Any grant reduction will affect the amount of CDBG funds available for 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.

Conclusion

The Department expects that this new policy will not only provide relief to grantees struggling to become timely, but also provide much-needed training and technical assistance to support grantees in administering their CDBG programs in a timely fashion. The policy reserves corrective actions for those grantees that have consistently demonstrated an inability to become timely or successfully manage the federal dollars under their control.

Grantees may direct questions about how this policy specifically affects their community to their assigned local HUD field office. HUD field office staff may direct general questions about this policy to C. Duncan Yetman, Deputy Director, Entitlement Communities Division, at c.duncan.yetman@hud.gov.