

ANNUAL COMMUNITY ASSESSMENT REPORT

City and County of Honolulu
Program Year 2014: July 1, 2014 to June 30, 2015

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Introduction

The Housing and Community Development Act of 1974, as amended, and the National Affordable Housing Act of 1990 require federal grant recipients receiving federal assistance under the Acts to submit an annual performance report disclosing the status of grant activities. The U.S. Department of Housing and Urban Development (HUD) is required by 24 CFR 91.525 to determine whether the grant recipient is in compliance with the statutes and has the continuing capacity to implement and administer the programs for which assistance is received. In accordance with 24 CFR 91.525, HUD's comments below and the cover letter above incorporate the Department's assessment of the City and County of Honolulu's (City's) program year 2014 performance.

In assessing the City's performance, HUD relied primarily upon the City's program year 2014 Consolidated Annual Performance and Evaluation Report (CAPER), technical assistance, on-site monitoring, and communications with the City's federal programs staff. During this period, the City generally met the intent of the Emergency Solutions Grant (ESG) and Housing Opportunities for Persons with AIDS (HOPWA) programs and was successful in its management of the ESG and HOPWA programs. However, HUD has serious concerns regarding the City's implementation of its Community Development Block Grant (CDBG) and Home Investment Partnerships (HOME) programs and its on-going capacity to manage the programs.

Significant Performance Conclusions

Overall, the City has had capacity issues with its management of its CDBG and HOME programs as follows:

- Although the City passed the CDBG timeliness test on May 2, 2015, the City reprogrammed CDBG funds from three projects and drew down \$2,853,393 for the acquisition of Kaneohe Elderly Apartments just one day before the deadline to meet CDBG timeliness. This represented the second consecutive year that the City reprogrammed and drew down CDBG funds for an acquisition activity to meet timeliness. In April 2014, the City reprogrammed CDBG funds from ten projects and drew down \$10,000,000 for the acquisition of Hibiscus Hill Apartments four days before the CDBG timeliness test. The City has since fallen behind in its implementation of CDBG projects and expenditure of CDBG funds. The City's current rate of CDBG expenditures puts the City at risk for failing the CDBG timeliness test on May 2, 2016 with a \$6,183,898 shortfall not including program income.
- HUD monitoring revealed evidence that two years ago in 2012 the City drew down CDBG funds prematurely in an effort to meet CDBG timeliness and avoid recapture of future CDBG funds. As a result, the City must submit, 15 calendars after the CDBG timeliness test, copies of the City's approval of the subrecipient payment requests and proof of the subrecipient's payment for all CDBG draws completed within 45-days of the CDBG timeliness test date.
- The City has, on occasion, targeted CDBG funds to projects that encountered predictable delays that the City did not factor into the overall timely implementation of its CDBG program.
- HUD monitoring revealed CDBG eligible use and national objective weaknesses in the City's ongoing management of open and completed activities still within the eligible use period.
- HUD monitoring revealed that projects implemented with CDBG funds were inconsistent with the projects in the City's Action Plan approved by HUD. As a result, prior to executing the subrecipient agreement for any CDBG project/activity, the City must submit its draft subrecipient agreement with its written project/activity review to HUD for confirmation of the subrecipient agreement's consistency with the approved Action Plan.
- HUD monitoring revealed that the City is untimely in the processing of CDBG loan conversion requests and is not in compliance with accepted CDBG corrective actions to a Fiscal Year 2011 CDBG monitoring finding. As a result, the City needs to notify the subrecipients for the outstanding CDBG loan conversion requests in writing of the City's decision to deny or approve their conversion requests and provide HUD with copies of the letters sent to the subrecipients.

- HUD monitoring revealed that the City did not follow through with its CDBG Corrective Action Plan to address deficiencies in the City's CDBG overall management system. As a result, the City needs to invest in a grants management tool, acquire and implement a software program to provide a system for grant and contract management, revise project selection policies and procedures, standardize inter-department and inter-unit protocols, and submit documentation to HUD.
- HUD monitoring revealed weaknesses in the City's HOME affordability requirements. As a result, HUD required the City to revise its template for HOME written agreements and amend its written agreements for projects still within the affordability period.

As a result of the City's recent history of unsatisfactory performance; lack of effective management systems in place to ensure program compliance; failure to timely resolve open findings; and concerns about the City's on-going capacity to manage its CDBG funds; HUD has determined that the City is a high risk grantee.

CPD Programs

CDBG

The City used CDBG funds to address affordable housing, homelessness, public services, public facilities, community development and economic development needs during program year 2014. During the program year, 100 percent of CDBG funds (excluding funds expended for administration and planning) were spent on activities that benefited low and moderate-income persons. HUD noted that the City completed acquisition of the Honolulu Fire Department Kuakini Aerial and Pawaa Engine.

The City's Consolidated Plan describes the following high priority concerns that will be addressed through the CDBG program: housing and special needs housing, homelessness, community and economic development, and planning and administration. During the program year, the City expended \$6,864,990 CDBG funds on 17 projects. The City met or surpassed the following Consolidated Plan goals for Program Year 2014: to provide funds as gap/equity financing to preserve existing rental housing and provide low and moderate income families with increased opportunity to live in affordable rental housing; to provide access to and renovate emergency and transitional shelters for persons experiencing homelessness; to acquire, construct, or renovate buildings to benefit low and moderate income persons, seniors and persons with disabilities; to acquire or construct equipment and facilities for police, fire and emergency services to benefit low and moderate income communities; to acquire, construct, replace, or renovate City-owned facilities and infrastructure to benefit low and moderate income communities; to support the development of NRSAs in low and moderate income communities; to provide supportive services to victims of domestic violence; and to provide supportive services to achieve self-sufficiency and well-being to low and moderate income persons and communities.

HUD reviewed the City's report of progress against the performance benchmarks established for the Wahiawa and Ewa Beach NRSAs. The City has taken steps to offer enhanced flexibility in undertaking economic development, housing, and public service activities with its CDBG funds in communities with approved NRSAs. However, the City canceled Wahiawa General Hospital rehabilitation project during Program Year 2014; and the City currently has only one funded NRSA project, the Wahiawa Community Based Development Organization (CBDO) NRSA Project that did not expend any CDBG funds and is slow to achieve its goals. The City should continue to work with its NRSAs to create meaningful economic and employment opportunities and to demonstrate significant, measurable results towards revitalization of NRSA communities.

The City has 20 CDBG funded activities that are slow moving. The City needs to complete the following slow moving activities and bring them into national objective compliance: Kahuku Village Conversion, Kulana Malama, Ewa Villages Area H, Habitat for Humanity Leeward Oahu, Hale Mohalu II, Honolulu Fire Department Land Acquisition for Hauula, Windward Spouse Abuse Shelter Saving One Life and Family at a Time Project, Pacific Housing Assistance Corporation Senior Residence at Iwilei, Hui Kauhale, Inc. Hibiscus Hill Apartments, Trillium Housing Services Kaneohe Elderly Apartments, Family Promise of Hawaii Support Services, Goodwill Industries of Hawaii, Inc. Ohana Center Energy Conservation, Institute for Human Services Emergency Shelter Improvements, Child and Family Services Ka Pa Ola Improvements, Parents and Children Together Ohia Domestic Violence Shelter Improvements, Kokua Kalihi Valley Gulick Elder Center Rehabilitation, Alternative Structures International Ohana Ola O Kahumana Phase 1 Plumbing, Gregory House Programs Housing and Supportive Services for Persons with HIV/AIDS, Helping Hands Hawaii, and Wahiawa CBDO NRSA. HUD also identified four CDBG activities funded with Program Year 2014 funds that do not have executed subrecipient agreements: Child and Family Service, Hawaiian Community Assets, Women In Need, and Kokua Kalihi Valley KVIBE Warehouse Renovation. The City should continue to closely monitor these activities and ensure that they progress in a timelier manner. Failure to complete these activities in a timelier manner may result in repayment of CDBG funds.

HOME

The City is expending its HOME funds toward projects that will assist low- and moderate-income persons. During the program year, the City expended \$4,041,255 HOME funds on six projects. HOME funds are required to be committed within 24 months and expended within 60 months of the grant award. Failure to commit and expend funds within the required time period will result in the deobligation of the funds. During this period, the City met the commitment and expenditure requirements within the required time periods.

The City took affirmative steps to maintain its good standing in three out of five indicators measured by HUD regarding the City's HOME program performance. Specifically, the City maintained good standing in percentage of renters below 50 percent of the area median income, percentage of occupied rental units to all rental units and percentage of allocation years

not disbursed. The City's efforts resulted in an overall ranking in the 22th percentile, which places the City in the top 78 percent of local participating jurisdictions in the nation.

The City has two HOME Program trouble indicators, one for percentage of rental disbursements to all rental commitments and the other for the percentage of completed CHDO disbursements to all CHDO reservations. The City is ranked in the bottom 3 percent in the nation for HOME fund rental disbursements to all rental commitments. The City is ranked in the bottom 3 percent in the nation for CHDO disbursements to all CHDO reservations. HUD strongly encourages the City to take steps to improve its timely expenditure of the funds as poor performance in this area may result in the future loss of HOME funds.

The City completed two HOME funded affordable housing projects: Housing Solutions Seawinds Apartments Transitional Housing and Hawaii Community Development Board Nanakuli Affordable Rentals.

The City has two HOME funded activities that are slow moving: Hui Kauhale Ewa Villages Area H and Pacific Housing Assistance Corporation Villas at Malu'ohai. The City should work with these organizations to complete construction and start operations. The City needs to closely monitor these activities and ensure that they progress in a timelier manner. Failure to complete these activities in a timelier manner may result in repayment of HOME funds.

ESG

The City supported a number of homeless shelters and providers during the program year. The City expended \$775,713 ESG funds and carried out six activities funding homeless shelter operations, essential services, homeless prevention and rapid rehousing. The City met or surpassed the following Consolidated Plan goals to strengthen communities for program year 2014 to provide emergency rental and utility assistance for persons experiencing homelessness and for persons threatened with eviction.

ESG funds are required to be committed within 180 months and expended within 24 months of the grant award. The City has failed to commit and expend \$41,247 in Program Year 2011 and \$23,286 in Program Year 2012 funds. HUD has advised the City of the need to expend and draw these ESG funds in prior year Annual Community Assessment reports. The City's inaction leads HUD to believe that the City is willing to give up \$64,533 in ESG funds, which could be used to address homelessness in Oahu.

HOPWA

The City distributes its HOPWA allocation to the Gregory House Programs and Life Foundation who provide tenant-based rental assistance, short-term rent mortgage and utility payments, and supportive services to individuals with HIV/AIDS. During the program year, the City expended \$415,772 HOPWA funds. The City met or surpassed its Consolidated Plan goal

for program year 2014 to provide housing specific supportive services to persons with HIV/AIDS to secure and maintain their housing.

The City's support has ensured that the persons with HIV/AIDS in Oahu have greater access to affordable housing and special needs services. HUD encourages the City to continue its support of its HIV/AIDS providers.

Continuum of Care

During program year 2014, the City was the led agency for the Honolulu Continuum of Care (CoC) application and was awarded \$9,791,369 in CoC funding for 11 permanent housing projects, eight transitional housing projects, one safe haven, one supportive service only project, three homeless management information systems projects, and one CoC planning project. The City is a participant in the Hawaii Interagency Council on Homelessness, whose goal is to develop a plan to more comprehensively integrate a system of housing and services to assist individuals who are chronically homeless. The City works in partnership with Partners In Care to develop, enhance and implement a Continuum of Care strategy for the homeless. HUD wishes the City and its partners continued success in implementing actions to end homelessness.

Community Empowerment

As part of its Consolidated Plan, the City developed a Citizen Participation Plan. The Plan is intended to develop ways to involve the public in the development of the Consolidated Plan/Action Plan. Opportunities were provided for citizen participation in the development of the Plan and performance report. The City reported that no oral or written comments were received. HUD encourages the City to continue its efforts to foster public participation and encourages the City to explore additional opportunities to involve the public in its planning process.

Management of Funds

In accordance with the CDBG regulations, the timeliness ratio benchmark should be 1.50 sixty days prior to the end of the City's program year. On May 2, 2015, the City had a balance in the Line of Credit Control System that was 1.49 times its annual CDBG grant. HUD determined that, for program year 2014, the City was in compliance with the CDBG timeliness regulations.

Although the City passed the CDBG timeliness test on May 2, 2015, the City reprogrammed CDBG funds from three projects and drew down \$2,853,393 for the acquisition of Kaneohe Elderly Apartments just one day before the deadline to meet CDBG timeliness. This represented the second consecutive year that the City reprogrammed and drew down CDBG funds for an acquisition activity to meet timeliness. In April 2014, the City reprogrammed CDBG funds from ten projects and drew down \$10,000,000 for the acquisition of Hibiscus Hill Apartments four days before the CDBG timeliness test. The City has since fallen behind in its

implementation of CDBG projects and expenditure of CDBG funds. The City's current rate of CDBG expenditures puts the City at risk for failing the CDBG timeliness test on May 2, 2016 with a \$6,183,898 shortfall not including program income.

Areas for Improvement and Recommendations

In order to improve CDBG and HOME program compliance, the City needs to ensure timely expenditure of grant funds, through:

- Changes in overall City HUD programs (CDBG, HOME, HOPWA, ESG, etc.) management procedures as part of developing an action plan.
- Building timeliness into the process of determining which projects to fund.
- Avoiding prematurely funding projects not ready to move forward quickly.
- Assisting subrecipients stage projects properly so large amounts of CDBG funds do not sit idle.
- Taking action to speed up the completion of existing projects and to obligate the funds faster by modifying or terminating projects.
- Completing environmental assessments and requests for environmental release of funds in accordance with 24 CFR Part 58.
- Strengthening the City's ongoing management of CDBG and HOME open activities and completed activities still within the CDBG eligible use period and HOME affordability period.
- Ensuring that HOME program written agreements and recorded deed restrictions adequately enforce requirements.
- Identifying project obstacles and developing plans to address these obstacles in order to strengthen its programs.

Fair Housing & Equal Opportunity

HUD encourages the City to continue its activities that address the impediments identified in the City's Analysis of Impediments (AI) document. The CAPER was forwarded to Mr. Jelani Madaraka, Lead Equal Opportunity Specialist, HUD Honolulu Field Office, to review for compliance with Fair Housing and Equal Opportunity requirements. He will forward any comments or questions he may have under separate cover.

Conclusion

Overall, the City is a high risk grantee that needs to improve program compliance. While HUD has concerns about the City's CDBG and HOME programs, HUD notes that the City has assisted low- to moderate-income communities and individuals. HUD encourages the City to continue its support of various housing and community development programs. In closing, HUD would like to recognize the City's staff for their hard work and dedication to the CPD programs despite decisions and program management issues that are beyond their control.