



U.S. Department of Housing and Urban Development

Honolulu Field Office – Region IX
1132 Bishop Street, Suite 1400
Honolulu, Hawaii 96813
<http://www.hud.gov>
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November 20, 2019

The Honorable Kirk Caldwell
Mayor
City and County of Honolulu
530 South King Street, Room 300
Honolulu, HI 96813

Dear Mayor Caldwell:

**SUBJECT: Annual Community Assessment (ACA) Report
Program Year 2018**

This letter is being sent to convey HUD's assessment of the City and County of Honolulu's (City) performance for its 2018 Community Planning and Development (CPD) Program Year. The report reflects the City's efforts to ensure compliance with HUD Community Development Block Grant (CDBG), HOME Investment Partnerships Program (HOME), Emergency Solutions Grant (ESG), and Housing Opportunities for Persons with AIDS (HOPWA) programs.

As part of HUD's annual review, the Department wants to take this opportunity to address the CDBG program timeliness requirements, and the importance it plays in ensuring that the intent of the CDBG program is achieved. HUD CDBG regulations require recipients to carry out their CDBG activities in a timely manner thus ensuring low- and moderate-income persons are assisted. The standard requires grantees to be at a 1.50 CDBG timeliness ratio 60 days prior to the end of their program year. In other words, the City's CDBG line of credit cannot exceed its current year's grant plus one-half of that amount. The City's program year ends June 30 of each year. About May 2nd of each year, or 60 days prior to the end of the City's program year, the City must have a CDBG grant ratio of 1.50 or less.

When the 60-day test was conducted on May 2, 2019, the City failed to meet its CDBG timeliness expenditure requirement with a timeliness ratio of 1.61. The City's timeliness ratio includes \$8,251,998.5 line of credit balance, \$2,939,743.59 balance in program income, revolving loan funds, and local account funds, and \$1,753,985.00 in questioned costs identified during a review of a sample of CDBG drawdowns submitted in the months prior to the May 2, 2019 official timeliness deadline. The City has requested that HUD reconsider HUD's determination. HUD is awaiting the City's submission of documentation supporting the City's request.

Should the City fail to meet the 1.50 timeliness standard with the test is next conducted on May 2, 2020, the City may have its Program Year 2020 grant reduced by 100 percent of the amount in excess of 1.50 times the annual grant. The City needs to expend and drawdown at least \$6,994,101 before May 2, 2020 to meet the next CDBG timeliness test.

The City achieved compliance with its PY 2013 HOME Program Expenditure deadline on December 31, 2018 and its PY 2014 HOME Program Expenditure deadline on July 31, 2019.

The City failed to expend its ESG PY 2016 funds by the October 11, 2018 deadline. Although the deadline passed, HUD allowed the City to expend its remaining PY 2016 ESG funds by June 30, 2019. Even with the additional time, the City failed to expend its ESG PY 2016 by the extended deadline with a shortfall of \$18,670.96 in PY 2016 ESG funds. HUD also granted the City an extension to expend its PY 2017 ESG funds from the original deadline of October 19, 2019 to June 30, 2020. The City needs to expend and drawdown \$853,253.74 in PY 2017 ESG funds before June 30, 2020. Should the City fail to expend and drawdown its remaining ESG funds by the deadline, HUD may deobligate the balance in PY 2017 ESG funds in IDIS on July 1, 2020.

The City met its HOPWA PY 2015 expenditure deadline by expending \$434,616 before the July 21, 2018 deadline. However, the City missed its PY 2016 HOPWA Program Expenditure Deadline which occurred on October 11, 2019 with a shortfall of \$9,999.86. The City may request to amend the grant agreement for the City's PY 2016 HOPWA grant to extend the period of performance subject to HUD's approval. The City needs to submit a spend-down plan that describes the City's plan to spend the balance of the PY 2016 HOPWA grant by the proposed extension date. Please be advised that any request by the City to extend the period of performance of the City's PY 2016 HOPWA grant and the City's spend-down plan must be acceptable and approved by HUD before any grant agreement is amendment to extend the period of performance.

The enclosed Annual Community Assessment Report reflects HUD's assessment of the City's implementation of its CPD programs. It notes the City's successes and areas needing improvement. The City will have 30 days from the date of this letter to comment on the report. Should the City not wish to comment on the report, or fail to comment within the above time period, please consider the report final and make it available to the public using your standard notification process.

If you have any questions regarding our comments, please call me at 808-457-4678, or Rebecca Borja, Senior CPD Representative, at 808-457-4673.

Sincerely,



For

Mark A. Chandler, Director
Office of Community Planning
and Development

Enclosure

cc:

Mr. Roy K. Amemiya, Jr. (w/enclosure)
Managing Director
Office of the Mayor
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Mr. Nelson H. Koyanagi, Jr. (w/enclosure)
Director
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Ms. Pamela Witty-Oakland (w/enclosure)
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ANNUAL COMMUNITY ASSESSMENT REPORT

City and County of Honolulu
Program Year 2018: July 1, 2018 to June 30, 2019

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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. Per 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 (PY) 2018 performance.

In assessing the City's performance, HUD relied primarily upon the City's PY 2018 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 its HUD Community Planning and Development (CPD) programs which consists of the Community Development Block Grant (CDBG), Home Investment Partnerships (HOME), Emergency Solutions Grant (ESG) and Housing Opportunities for Persons with AIDS (HOPWA) programs. However, HUD has serious concerns regarding the City's implementation of its CPD programs.

Significant Performance Conclusions

Overall, the City has had issues with its management of its CPD programs which consists of the CDBG, HOME, ESG, and HOPWA programs as follows:

- The City failed to meet its CDBG timeliness expenditure requirement on May 2, 2019 with a timeliness ratio of 1.61. The City's timeliness ratio includes \$8,251,998.5 line of credit balance, \$2,939,743.59 balance in program income, revolving loan funds, and local account funds, and \$1,753,985.00 in questioned costs identified during a review of a sample of CDBG drawdowns submitted in the months prior to the May 2, 2019 official timeliness deadline. The City has requested that HUD reconsider HUD's determination. HUD is awaiting the City's submission of documentation supporting the City's request.

The questioned costs are associated City draws on March 20, 2019 and April 17, 2019 for Integrated Disbursement and Information System (IDIS) Activity 1655 Kalihi-Palama Health Center (KPHC) – Phase II Comprehensive Women and Children's Health Facility. The \$1,753,985.00 drawdown of CDBG funds to acquire and store construction materials is ineligible. At the time of the draw, the City had not approved the building permit and construction work had not started for this project. According to the City Department of Planning and Permitting (DPP) Online Permit System, the City did not issue the building permit until May 22, 2019, 62 days after the City's first draw on March 20, 2019 and 34 days after the City's second draw on April 17, 2019. Per the City DPP Online Permit System, an inspection completed on May 28, 2019 verified that work had not started. These draws were 95% of the CDBG funds budgeted for this activity. These draws do not appear to satisfy Federal cost principles affecting allowability of costs including necessary, reasonableness, and consistent treatment of costs.

This represents the second incident in which the City drew down funds substantially in advance of immediate cash needs just to meet the timeliness standard. HUD uncovered the previous incident during a fiscal year 2014 monitoring of the City's CDBG program, in which HUD issued a finding against the City for subrecipient management and oversight – funds disbursement.

The City needs to expend and drawdown at least \$6,994,101 before May 2, 2020 to meet the next CDBG timeliness test.

- The City has failed to expend its ESG PY 2016 funds by the October 11, 2018 deadline with a \$105,270.88 shortfall. Although the deadline passed, HUD allowed the City to expend its remaining PY 2016 ESG funds by June 30, 2019. The City failed to expend its ESG PY 2015 by the extended deadline. After June 30, 2019, the City had a balance of \$18,670.96 in PY 2016 ESG funds that HUD may deobligate.

The City missed its PY 2017 ESG Program Expenditure Deadline which occurred on October 19, 2019. Prior to the deadline the City requested, and HUD granted the City an extension to expend its PY 2017 ESG funds to June 30, 2020. The City needs to expend and drawdown \$853,253.74 in PY 2017 ESG funds before June 30, 2020.

Should the City fail to expend and draw down its remaining PY 2017 ESG funds by the deadline, HUD may deobligate the balance in PY 2017 ESG funds in IDIS on July 1, 2020.

The City is also at risk of failing to meet its PY 2018 ESG Program Expenditure Deadline which will occur on October 3, 2020. The City needs to expend and draw down \$617,775.00 in PY 2018 ESG funds in IDIS before October 3, 2020.

- The City missed its PY 2016 HOPWA Program Expenditure Deadline which occurred on October 11, 2019 with a shortfall of \$9,999.86. The City may request to amend the grant agreement for the City's PY 2016 HOPWA grant to extend the period of performance subject to HUD's approval. The City needs to submit a spend-down plan that describes the City's plan to spend the balance of the PY 2016 HOPWA grant by the proposed extension date. Please be advised that any request by the City to extend the period of performance of the City's PY 2016 HOPWA grant and the City's spend-down plan must be acceptable and approved by HUD before any grant agreement is amendment to extend the period of performance. The City also has a \$685.19 balance in PY 2017 HOPWA funds which the City needs to expend and draw down from IDIS no later than November 13, 2020. HUD may de-obligate HOPWA funds if grantees are not expending funds in a timely manner.

As a result of the City's recent history of unsatisfactory performance and failure to timely resolve open findings, 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 PY 2018. 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.

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 \$9,321,961.66 in CDBG funds on 26 projects. The City met or surpassed the following Consolidated Plan goals for PY 2018: to provide services to victims of domestic violence, to provide services to the homeless; to provide services to low- and moderate-income populations; to renovate homeless shelters; to rehabilitate affordable rental housing; to rehabilitate low- and moderate-income homeowner housing; and to improve public facilities.

When HUD conducted the CDBG timeliness test on May 2, 2019, the City failed to meet its CDBG timeliness expenditure requirement on May 2, 2019 with a timeliness ratio of 1.61. The City's timeliness ratio includes \$8,251,998.5 line of credit balance, \$2,939,743.59 balance in program income, revolving loan funds, and local account funds, and \$1,753,985.00 in questioned costs identified during a review of a sample of CDBG drawdowns submitted in the months prior to the May 2, 2019 official timeliness deadline. The City has requested that HUD reconsider HUD's determination. HUD is awaiting the City's submission of documentation supporting the City's request.

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The City needs to expend and drawdown at least \$6,994,101 before May 2, 2020 to meet the next CDBG timeliness test.

The City has six at risk CDBG activities. The City needs to complete the following at risk activities and bring them into national objective compliance: Nanakuli Hawaiian Homestead Community Association Farrington Highway Improvements, Feeding Hawaii Together Food Pantry Acquisition, Wahiawa CBDO NRSA public service and capital improvement projects, Special Olympics Hawaii Sports Complex, and Department of Community Services Rehabilitation Loan Program. The City has slow moving CDBG projects that drew down little to no CDBG funds in PY 2018: Volunteer Legal Services Hawaii Homeless Legal Access and Easter Seals Hawaii Makiki Service Center Improvements. The City needs to closely monitor these activities and ensure that they progress in a timelier manner.

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 \$1,202,204.78 HOME funds on homebuyer, development of rental housing and TBRA projects. The HOME Program regulation requires a HOME participating jurisdiction (PJ) to expend its annual allocation of HOME funds within 5 years of receiving its HOME grant. Compliance with this requirement is based on a review of the PJ's allocations and expenditures, as reported in the Integrated Disbursement and Information System (IDIS) at the time of its deadline. The City achieved

compliance with its PY 2013 HOME Program Expenditure deadline on December 31, 2018 and its PY 2014 HOME Program Expenditure deadline on July 31, 2019.

The City is in the bottom 34 percent in the nation for HOME funds for percentage of funds disbursed. To meet the next HOME Program Expenditure Requirement for PY 2015 HOME which occurs on September 30, 2023, the City needs to expend and drawdown \$173,781.28 in PY 2015 HOME funds before September 30, 2023. These funds, if not expended by the deadline, will be deobligated.

The City has two HOME funded activity that are slow moving: Artspace Projects, Inc. Ola Ka `Ilima Artspace Lofts, City and County of Honolulu – Kewalo Street Acquisition. The City needs to closely monitor these activities and ensure that they progress in a timelier manner. Failure to complete these activities in a timely manner may result in repayment of HOME funds.

ESG

The City supported several homeless shelters and providers during the program year. The City expended \$998,898.68 ESG funds and carried out nine 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 PY 2018 to provide emergency rental and utility assistance for persons experiencing homelessness and for persons threatened with eviction and to provide emergency shelter services for the homeless.

ESG funds must be committed within 180 months and expended within 24 months of the grant award. The City failed to expend its ESG PY 2016 funds by the October 11, 2018 deadline with a \$105,270.88 shortfall. Although the deadline passed, HUD allowed the City to expend its remaining PY 2016 ESG funds by June 30, 2019. Even with the additional time, the City failed to expend its ESG PY 2016 by the extended deadline. The City has a balance of \$18,670.96 in PY 2016 ESG funds that HUD may deobligate.

Prior to the October 19, 2019 deadline to extend PY 2017 ESG funds, the City requested, and HUD granted the City an extension to expend its PY 2017 ESG funds to June 30, 2020. The City needs to expend and drawdown \$853,253.74 in PY 2017 ESG funds before June 30, 2020. The City is also at risk of failing to meet its PY 2018 ESG Program Expenditure Deadline which will occur on October 3, 2020. The City needs to expend and draw down \$617,775.00 in PY 2018 ESG funds in IDIS before October 3, 2020. Should the City fail to expend and draw down its remaining PY 2017 or PY 2018 ESG funds by the deadlines, HUD may deobligate the balance in IDIS.

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 \$477,429.66 HOPWA funds. The City met or surpassed its Consolidated Plan goal for PY 2018 to provide housing specific supportive services to persons with HIV/AIDS to secure and maintain their housing. The City's support has ensured that 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.

The City met its HOPWA PY 2015 expenditure deadline by expending \$434,616 before the July 21, 2018 deadline. However, the City missed its PY 2016 HOPWA Program Expenditure Deadline which occurred on October 11, 2019 with a shortfall of \$9,999.86. The City may request to amend the grant agreement for the City's PY 2016 HOPWA grant to extend the period of performance subject to HUD's approval. The City needs to submit a spend-down plan that describes the City's plan to spend the balance of the PY 2016 HOPWA grant by the proposed extension date. Please be advised that any request by the City to extend the period of performance of the City's PY 2016 HOPWA grant and the City's spend-down plan must be acceptable and approved by HUD before any grant agreement is amendment to extend the period of performance. The City also has a \$685.19 balance in PY 2017 HOPWA funds which the City needs to expend and draw down from IDIS no later than November 13, 2020. HUD may de-obligate HOPWA funds if grantees are not expending funds in a timely manner.

Housing Trust Fund

HUD recognizes that the State of Hawaii (State) has the primary reporting responsibility for the Housing Trust Fund (HTF) program and will review the State's CAPER as the official report. Although the State administers the HTF program, the City is a subgrantee of HTF funds with considerable discretion in the selection of projects. The State allocated \$1,425,000 HTF to the City each year for Program Years 2017 and 2018. The City committed only PY 2017 HTF funds to the Hawaiian Community Development Board Hale Makana 'O Maili project. The City has not committed PY 2018 HTF to a project. The State's deadline to commit PY 2018 HTF is September 12, 2020. If the City does not commit its \$1,425,000 in PY 2018 HTF funds promptly, the State may reallocate the funds to another County which will result in a loss of PY 2018 HTF for the community of Oahu.

Continuum of Care

During PY 2018, the City was the member agency for the Honolulu Continuum of Care (CoC) known as Partners in Care (PIC). The Honolulu CoC application was awarded \$9,483,399 in CoC funding for nine permanent supportive housing projects, two rapid rehousing projects, one transitional housing projects, one Homeless Management Information System project, one coordinated entry system project, 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 PIC 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

On May 2, 2019, the City failed to meet its CDBG timeliness expenditure requirement with a timeliness ratio of 1.61. The City's timeliness ratio includes \$8,251,998.5 line of credit balance, \$2,939,743.59 balance in program income, revolving loan funds, and local account funds, and \$1,753,985.00 in questioned costs identified during a review of a sample of CDBG drawdowns submitted in the months prior to the May 2, 2019 official timeliness deadline. The City has requested that HUD reconsider HUD's determination. HUD is awaiting the City's submission of documentation supporting the City's request. The City needs to expend and drawdown at least \$6,994,101 before May 2, 2020 to meet the next CDBG timeliness test.

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proposed extension date. Please be advised that any request by the City to extend the period of performance of the City's PY 2016 HOPWA grant and the City's spend-down plan must be acceptable and approved by HUD before any grant agreement is amendment to extend the period of performance. The City also has a \$685.19 balance in PY 2017 HOPWA funds which the City needs to expend and draw down from IDIS no later than November 13, 2020.

Should the City fail to meet the timeliness standards on each of the CPD funds, the City may have its grants reduced.

Areas for Improvement and Recommendations

To improve CPD program compliance, the City needs to ensure timely expenditure of grant funds, through:

- Implementing the City's redefined CPD (CDBG, HOME, HOPWA, ESG, etc.) program grants management structure table "City and County of Honolulu Grant Administrative Authority and Responsibility Table" which clearly lays out the various program responsibilities and authorities and assigns ultimate authority, including grant execution, to the Managing Director.
- Implementing the citywide final, updated written policies and procedures and written project selection procedures that govern the CPD programs and ensure compliance with CPD requirements.
- 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.
- Acting 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 open activities and completed activities still within the CDBG eligible use period.
- Identifying project obstacles and developing plans to address these obstacles 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. Mr. Madaraka will forward any comments or questions he may have separately.

Conclusion

Overall, the City is a high-risk grantee that needs to improve program compliance. While HUD has concerns about the City's CPD 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.