



# City Council Report

**Date:** January 8, 2018  
**To:** City Council  
**Through:** Natalie Lewis, Deputy City Manager  
**From:** Ruth Giese, Community Services Director  
Elizabeth Morales, Housing and Community Development Director  
**Subject:** West Mesa Community Development Corporation (West Mesa CDC)  
Activity Amendment  
  
Council District: Citywide

## Purpose and Recommendation

The purpose of this request is to amend the City of Mesa Annual Action Plans for Community Development Block Grant (CDBG) Program Years 2015/2016 and 2016/2017 to modify the eligible activities for two funding allocations awarded to West Mesa Community Development Corporation (West Mesa CDC). The amendments requested would be as follows: (a) Third Substantial Amendment to the Fiscal Year 2015/2016 Annual Action Plan; and (b) Second Substantial Amendment to the Fiscal Year 2016/2017 Annual Action Plan.

## Background

The City of Mesa (City) awarded CDBG funding received from the U.S. Department of Housing and Urban Development (HUD) to West Mesa CDC during fiscal years 2015/2016 and 2016/2017 to provide technical assistance to small businesses under the CDBG eligible activity of special economic development.

Special economic development activity requirements are fully described in 24 CFR 570.203. In summary, the following are expectations to perform this activity: Conduct specialized underwriting that demonstrates business has the capacity to undertake the proposed project, all sources of private dollars have been secured, the number of jobs expected to be created or retained and that the use of public dollars (CDBG funds) is necessary and appropriate.

As a condition of the receipt of CDBG funding from HUD, the City is responsible for ensuring CDBG funds are used in accordance with all program requirements. The City is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts, and for taking appropriate action when performance problems arise.

## **Discussion**

During a monitoring visit conducted on May 3, 2017, it was determined by Housing and Community Development staff that West Mesa CDC did not meet the requirements of 24 CFR 570.203 related to businesses not meeting eligibility requirements. West Mesa CDC was provided with the opportunity to respond to a monitoring review letter issued on May 25, 2017 to explain how its activities reported to the City were in compliance with CDBG program requirements, as well as to provide information on the number of fulltime jobs created or expected to be created resulting from the technical assistance provided by West Mesa CDC.

The initial response provided by West Mesa CDC did not demonstrate that the eligibility of the businesses served met the CDBG program requirements of a special economic development activity which could require reimbursement of CDBG funds by West Mesa CDC expended for both the 2015/2016 and 2016/2017 program years; however, an alternative solution was determined to be allowed under CDBG program regulations.

During the last three months, Housing and Community Development staff has worked closely with West Mesa CDC to address the monitoring findings and other program deficiencies identified during the monitoring visit. This process included a review of all reported activities for program years 2015/2016 and 2016/2017, a review of information required to be maintained by West Mesa CDC to determine program eligibility, the number of full time jobs created, and the level of technical assistance provided to the West Mesa CDC clients.

A determination was made by Housing and Community Development staff that the category of special economic development activities was not the appropriate category for the economic development activities undertaken by West Mesa CDC, but rather the activities undertaken by West Mesa CDC fell within the category of microenterprise assistance. This determination is based largely on the premise that each of the businesses assisted by West Mesa CDC employed less than five persons, no loans were provided, and technical assistance was limited to training or capacity building. Although not in line with the requirements of a special economic development activity, the services provided by West Mesa CDC are consistent with the CDBG eligible activity of microenterprise assistance.

Amending the City's Annual Action Plans for Fiscal Years 2015/2016 and 2016/2017 to include the classification of microenterprise technical assistance for the West Mesa CDC funding would allow compliance with applicable CDBG regulations. Once approved by Council, the amendment will be forwarded for approval to the U.S. Department of Housing and Urban Development (HUD).

Following approval by HUD, these amendments allow the City to transfer CDBG funding provided to West Mesa CDC for program years 2015/2016 and 2016/2017 that was classified as special economic development activities to the new eligible activity category of microenterprise assistance as found in 24 CFR 570.201(o).

## **Alternatives**

Should Council not approve the amendments, HUD could determine the City and

West Mesa CDC are not in compliance with federal regulations and require reimbursement to the U.S. Treasury for the CDBG funds in the total amount of \$180,000 (\$90,000 for each fiscal year).

### **Fiscal Impact**

There is no fiscal impact in approving the amendments as the Council previously approved two awards of CDBG funding to West Mesa CDC in a total amount of \$180,000, \$90,000 each for fiscal years 2015/2016 and 2016/2017. The approval of the amendments serves only to modify the eligible activity under which the funding was allocated.

### **Coordinated With**

In accordance with our Citizen Participation Plan requirements, this amendment request was advertised on December 3, 2017, and one public hearing was conducted on December 18, 2017. Approximately ten people were in attendance and thirteen comments were received. The public comment was in support of the amendment and continued support of West Mesa CDC.