Housing and Community Development

Organizational Restructuring Options and Impacts

Santa Barbara County Executive Office
May 25, 2010

Executive Summary

On March 16, 2010, the Santa Barbara County (County) Board of Supervisors (Board) directed the County Executive Office (CEO) to analyze the impacts and potential cost-savings associated with eliminating the Housing and Community Development Department (HCD) as a stand-alone department, and integrating its programs into other County departments. Accordingly, this report summarizes current best-practices in community development programming, analyzes the nature of federal pass-through funding programs overseen by HCD, and analyzes potential cost savings associated with four reorganization options. In addition to these options, the Board may wish to consider waiting until a new CEO has been hired to finalize any reorganization decisions.

This report concludes that merging and integrating the components of HCD into another department is not likely to yield significant cost-savings. Moreover, the existing HCD Director fills multiple executive roles, serving as the day-to-day manager of the County's Redevelopment Agency (RDA) and the Program Administrator for the new emPowerSBC program, in addition to the executive responsibilities of the Department. Therefore, unfunding the HCD Director position could catalyze the need to fund one or two new positions to ensure that the RDA and emPowerSBC maintain appropriate executive and administrative oversight.

Beyond any immediate opportunities for cost-savings, the long-term implications of eliminating HCD as a stand-alone department warrant special consideration. For example, the County should carefully analyze and determine the impacts this reorganization could have on continued eligibility for federal entitlement grant funding, since the County serves as the lead agency enabling a consortium and partnership involving six other local jurisdictions to access federal resources. Moreover, the emPowerSBC program will face new barriers to successful implementation, if leadership positions currently in the HCD Administration Division are no longer funded.

As a result of these impacts, and given the relatively modest cost-savings that might be achieved through consolidating HCD with another department(s), the CEO recommends retaining HCD as a separate department for FY 2010-11.

I. Introduction

Between February and March 2010, the Board held a series of workshops to analyze fiscal challenges and establish priorities regarding potential impacts to public services, given the difficult economic climate. During these workshops, on March 16, 2010, the Board of Supervisors directed the County Executive Office to study the feasibility and cost-savings associated with integrating the Housing and Community Development (HCD) and Redevelopment Agency, into the Planning & Development (P&D) department. In addition, the CEO was directed to review the impacts associated with moving the emerging emPowerSBC program, which is currently overseen by HCD, to the County Executive Office or the Auditor-Controller. The Board requested that this information be presented in a report, so that formal direction could be provided to staff, leading up to the adoption of the FY 10-11 Budget.

To carryout this direction, the CEO worked with affected departments to review organizational options, and analyze impacts related to service delivery, cost-effectiveness, and operational strategy. This analysis involved reviewing HCD's organizational history, departmental goals and missions, requirements associated with federal entitlement funding, and strategies employed by other agencies in California to manage similar services. Together, this information was used to establish the framework for this report, which sets the context for community development service delivery in the County, evaluates reorganization options, and recommends an approach for Board consideration.

II. Housing and Community Development Service Delivery: Background and Context

Prior to establishing HCD as a separate department, housing, redevelopment, and economic activities were scattered across the County, in P&D, the Treasurer-Tax Collector, and the CEO's Office. Subsequently, during Fiscal Year (FY) 2001-02, an independent and functionally integrated HCD was established in anticipation of additional Community Development Block Grant (CDBG) entitlement funding, and the recognition that a separate department was needed to ensure sufficient accountability regarding the use of federal resources. This new department presented the opportunity to build on the existing affordable housing program by offering complimentary resources to support community programming in the areas of homelessness prevention, public infrastructure, and economic development across the region.

To incubate the new department, HCD was established under General County Programs with supervision provided by the County Administrator. The first HCD Director was hired in December 2002, enabling an administrative and leadership element necessary for the new department to mature. This first Director resigned in August 2006, and HCD continued functioning under the Assistant County Executive Officer, while a replacement was recruited. In January 2007, this second HCD Director was selected, but then retired in March 2009, at which time HCD again functioned under the supervision of an Assistant County Executive Officer. In October, 2010 the current HCD Director was appointed.

Amidst this relatively frequent organizational change, continuous improvements have been made to ensure that HCD's business processes are transparent and appropriate. Following implementation of a series of recommendations set forth through an audit of the department's housing finance operations by the County Auditor-Controller in FY 2006-07, HCD recruited new staff with specific financial expertise and program audit experience, enabling it to continue playing a vital role in regional economic development, social services, affordable housing, and community enhancement activities. Although HCD is one of the County's smallest departments, with 12 FTE through FY 2009-10, it oversees a wide variety of programming. A summary of some its key services and programs include:

- Serving as lead agency for two regional partnerships with local cities, including the CDBG Urban County partnership (since 2006) and the Santa Barbara County HOME Consortium (since 1994). Through these partnerships, HCD oversees an average of approximately $15 million in funding in any given year that has been accumulated from past years and is reserved for specific capital projects and supportive services to low-income individuals and families. Over the last five years, these funds have leveraged approximately $120 million in additional resources from varying local, State, and federal sources for services and projects. HCD staff is responsible for receipt, allocation, expenditure, and audit of funds to support community based programming in both the cities and the unincorporated areas. This includes the provision of public services to special needs and homeless persons, and the development and revitalization of community infrastructure and affordable housing. Grants include United States Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG), HOME Investment Partnerships Act (HOME), Emergency Shelter Grant (ESG), and McKinney-Vento Program funds.

- Managing over 400 affordable housing units, inclusive of qualifying

Figure 1: HCD Services Snapshot

The Consolidated Plan

One of HCD's key services is to update the Santa Barbara County Consolidated (Con) Plan every five years, on behalf of the cities comprising the CDBG Urban County Partnership and HOME Consortium. These regional collaborations enable the County and its partner jurisdictions to maintain "entitlement" status, ensuring eligibility for three specific types of funding through HUD. The Con Plan is an application through HUD that is required to obtain these resources, which include Community Development Block Grant, HOME Investment Partnership Act, and Emergency Shelter Grant funds.

Through the current Con Plan, HCD manages the receipt and pass-through of $20M over revolving 5-year periods. HCD works with formal selection committees for each grant comprised of technical experts, lenders, real estate professionals, service providers, and others to recommend qualifying services and projects to the Board of Supervisors for funding under each type of grant. Specific grant requirements are explained in detail below, and HCD must ensure that the projects it recommends for funding are consistent with federal objectives.

<u>CDBG</u>: Projects must: 1) benefit low and moderate income persons, 2) aid in the prevention or elimination of slums or blight, or 3) address an urgent (emergency) need. HCD manages approximately $2M of annual funding for eligible activities including:

- Infrastructure
- Housing rehabilitation
- Economic development
- Public supportive services

<u>HOME</u>: Projects are to expand the supply of decent, safe, affordable housing options for low and moderate income households. HCD manages approximately $1.8M of annual funding for eligible activities including:

- Housing construction and rehabilitation
- First-time homebuyer assistance
- Rental assistance

<u>ESG</u>: Provides shelter and supportive services to the homeless. HCD manages approximately $89,000 of annual funding for:

- Shelter operations
- Essential services
- Homeless prevention services
- Rehabilitation of existing shelters

HCD is responsible for ongoing fiscal compliance, project monitoring, and auditing regarding these use of these funds by recipients. The Con Plan is updated annually by an Action Plan, which recommends specific projects for new or ongoing funding.

homebuyers and renters, ensuring the recording of appropriate restrictive covenants, and monitoring homeowner compliance with applicable policies and guidelines.

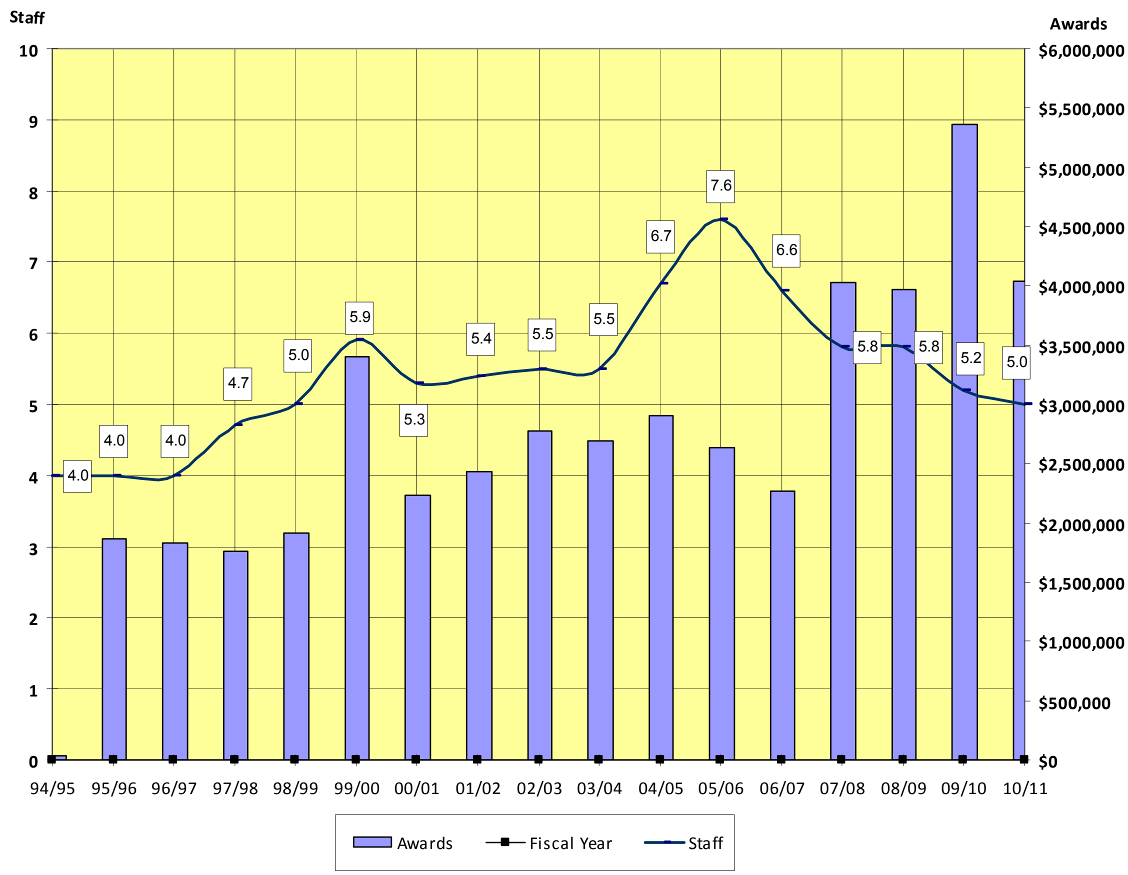
- Overseeing the day-to-day operations of the County Redevelopment Agency (RDA) and its employees on behalf of the CEO, in coordination with the County Auditor-Controller (A/C). In preparation for FY 10-11, the RDA Executive Team (CEO, A/C) agrees that HCD oversight of RDA would provide synergistic programming and complimentary services, making for efficient use of County resources to deliver redevelopment and revitalization services to the public. Specifically, the financial and transactional nature of community development functions such as economic development, infrastructure investment, affordable housing development, and grant administration already managed by HCD compliment the activities of the RDA, allowing for common staff to address issues across multiple disciplines.
- Managing a countywide effort to design and implement emPowerSBC, a $200 million Board-directed economic development program that is the largest in County history. This leading-edge, inventive-based program provides financing to property owners who are interested in installing energy efficiency and water conservation improvements. Money lent is paid back on property tax bills over a period of up to 20 years. Based on a comprehensive feasibility study presented to the Board on December 1, 2009, successful implementation of emPowerSBC could restore 45% of the jobs lost in the construction trades during the current recession, while also increasing the value of thousands of properties throughout the region over the next 10 years.
- Overseeing the pass-through of Board-directed General Fund contributions to twelve regional Chambers of Commerce and Visitors Bureaus and four homeless shelters.
- Managing the Orcutt community facilities district, funding public improvements for the area.
- Managing special projects, studies, and analysis such as the Ordinance 44 report on the rights and duties of tenants and landlords.
- Coordinating and facilitating economic analysis and public information about the County's response to the American Recovery and Reinvestment Act (ARRA).
- Economic impact analysis, modeling, and forecasting for use by the CEO and various County departments for decision-making and presentation to the Board of Supervisors.

Providing these services through a stand-alone Housing and Community Development department has enabled singular executive focus on fostering public/private partnerships; and building viable relationships with local, State, and federal agencies, non governmental organizations, and community stakeholders to enable appropriate programming. At the staff level, the skills needed to carry out the department's functions described above are unique, requiring specific training and in some cases federal certifications.[1] Over the course of the last decade, HCD staff has built the expertise and capacity necessary to facilitate innovation in local program design, as well as the technical efficiencies to manage federal entitlement resources.

As the graph below illustrates, while staffing levels dedicated to managing HCD's complex grants have remained fairly consistent, at around 5-6 FTE/positions over the past fifteen years, a significantly greater level of grant resources have been awarded and are being managed by the department. HCD staff currently manages close to two times more resources than when the department was established in FY 2001-02, with the same level of staff. In total, staff has been able to secure over $46 million in direct federal and State resources for the region, over the last 15 years. Notably, almost 40% of these resources have been awarded since FY 2007-2008, demonstrating the efforts by both the federal and State governments to catalyze local economic development and facilitate social support services during the current economic recession.

[1] Federal regulators including HUD encourage formal certification on program regulations and administrative standards for HOME funds. In addition, HUD strongly encourages, and can mandate, technical training for financial staff in local agencies.

Figure 2:
Housing and Community Development
Total Federal and State Grant Awards $46,151,514
Grants Staffing FY 94/95 through FY 10/11



*Note – staffing includes HCD Grants Division and a portion of one fiscal FTE: the staff frequently working with entitlement funding. FY 10-11 Figures are estimates, as all of the allocations are not yet known.

This volume of grant and federal funding activity is anticipated to continue, particularly as it relates to CDBG and HOME, as well as grants for energy efficiency and renewable energy. As expressed by the County's Auditor-Controller, such federal grants, especially those related to ARRA, can be considered "high-risk" and subject to higher audit and compliance scrutiny. Without question, staff capacity and skills with specific experience in entitlement funding will be required to efficiently manage federal and State resources for future programs and projects. Accordingly, HCD's organizational structure, which is explained in greater detail below, has been designed to effectively coordinate various fiscal, programmatic, and administrative functions.

III. HCD – Organizational Structure

As a business unit, HCD includes approximately 12 FTE and a total departmental budget of $10.3 million (all funds) in FY 2009-10. A significant portion of HCD's annual appropriations are federal entitlement grant expenditures for projects and supportive services in the region. Organizationally, HCD is comprised of one division, and 3 sub-divisions or cost-centers with the following programs:

- Office of the Director (Subdivision 1): $1.29 million and 3.7 FTE. In addition to administrative responsibilities, under the direction of the CEO, this department has functional oversight over the following areas:
    - Administration: 2.3 FTE, $340,000
    - Fiscal: 1.4 FTE, $434,000
    - Advertising: 0 FTE, $300,000 in GFC pass-through of $225,000 to local chambers of commerce, plus one-time funding of $75,000 to film commission
    - Orcutt CFD Administration: 0 FTE, $219,000
- Housing and Grants Administration (Subdivision 2): 4.5 FTE, $7.7 million
    - Housing Finance Administration: 4.5 FTE, $2.3 million
    - General Project Program: 0 FTE, $5.4 million in grant proceeds for projects
- Property Management (Subdivision 3): 3.8 FTE, $1.3 million

Midway through FY 2009-10, the HCD Director assumed management oversight of the RDA; however, the RDA remained a separate business unit with a separate budget, outside of HCD.

For FY 2009-10, HCD's significant sources of revenue from local, State, and federal sources include:

- $2,020,535 – Federal Community Development Block Grant (CDBG)
- $1,781,867 – Home Investment Partnership Act (HOME)
- $829,013 – American Recovery and Reinvestment Act (ARRA)-ESG-HPRP
- $772,000 – Energy Efficiency and Conservation Block Grant for emPowerSBC
- $647,700 – General Fund Contribution (GFC)
- $542,154 – American Recovery and Reinvestment Act (ARRA)-CDBG-R
- $88,873 – Emergency Shelter Grant (ESG)

A portion of HCD's costs cannot be recouped through grants, due to federal and state requirements regarding reimbursement for administration. Accordingly, other financing sources associated with managing the County's community development programs – such as RDA administrative charges, affordable housing administrative sources and General Fund Contribution – assist in balancing HCD's budget. In addition, the newly implemented emPowerSBC program is expected provide an additional revenue source for the department in future years.

In summary, the HCD organizational and fiscal structures discussed above help to establish a point of reference against which potential reorganization options can be evaluated for FY 2010-11. As discussed in detail below, reorganization or elimination of HCD as a separate department will carry certain costs and benefits, when compared to the current FY 2009-10 scenario.

IV. Organizational Options for FY 2010-11

Given HCD's current organizational structure and programmatic responsibilities, any potential cost-savings associated with the reorganization options discussed below will be realized solely through consolidation of administrative positions. Further reductions may be feasible; however, these would involve eliminating community development programs and unfunding staff currently operating these programs. Accordingly, compared to the FY 2009-10 Budget, a cost-savings of approximately $217,000 in salaries and benefits *could* be achievable through the elimination of the HCD Director Position, currently in the HCD Office of the Director, Administration Program. Given the department's small size, unfunding any other staff would drive direct programmatic changes and service level impacts, altering the department's current technical capacity.[2]

However, if the HCD Director position were unfunded, the scope of management responsibilities for the department(s) receiving programs from HCD would be increased. For example, the HCD Director currently performs multiple executive functions on behalf of the CEO, in addition to overseeing HCD. As discussed above, these duties include managing the day-to-day activities for the RDA and serving as the legislatively-required Program Administrator for the newly established emPowerSBC program. Accordingly, HCD's staffing is proposed to increase by 6 FTE as a result of integrating existing RDA staff into the department and implementing the emPowerSBC program in FY 2010-11. Oversight of this new and existing HCD staff, interfacing with the community, and overall accountability for ongoing programs would shift to the departments receiving HCD's current programs. At the same time, if cost-savings are to be maintained, these departments would be required to absorb HCD's programs without funding additional management or staff positions. As discussed later, this could prove to be a challenge, effectively negating any potential savings associated with unfunding the HCD Director position.

One important consideration regarding HCD reorganization options is whether the goals associated with the various funding sources or programs currently managed by HCD would align with the mission, goals, and services of other departments. For example, the P&D Director has indicated, in a memorandum to the CEO on April 5, 2010, an ability and willingness to assume management responsibilities for the RDA and community development grant programs, if directed by the Board. Due to an expressed general

[2] Notably, other staff in the Office of Director are not considered duplicative with resources in other departments, as the skills and services performed by these personnel are unique to the management of federal grants and pass-through relationships.

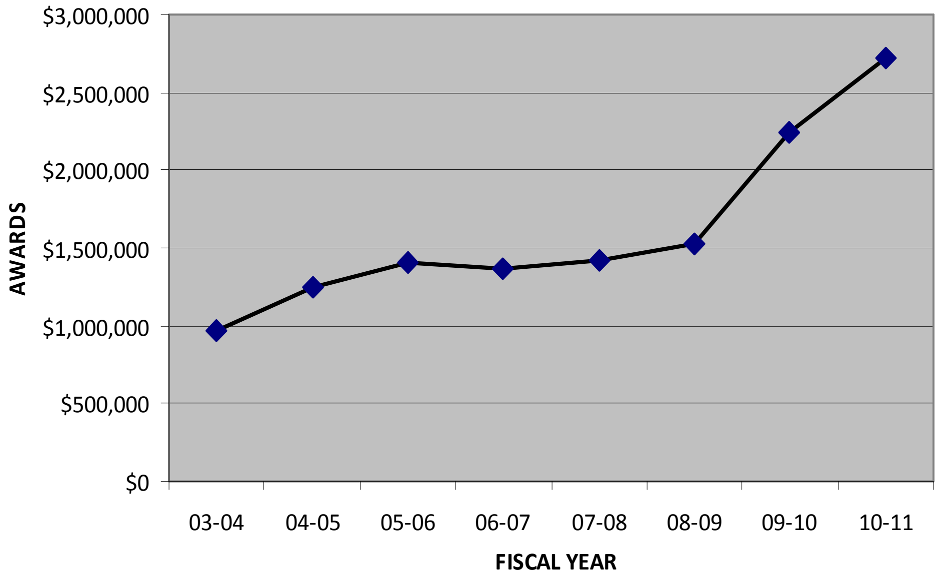
alignment with P&D's mission and activities, oversight of coordinated grant (primarily CDBG) and planning programs could deliver positive public outcomes.[3] Conversely, the P&D Director has indicated that homeless grants and programs have a stronger relationship with the Department of Social Services, and therefore, would not align with P&D's operational functions.

This is problematic, because one document – the Consolidated Plan, and its follow up annual Action Plans – are used to apply for CDBG, HOME, and ESG funds from HUD. Separating the responsibility for application, administration, and compliance maintenance related to the Consolidated Plan and associated funding sources would likely lead to inefficiencies and a lack of clarity regarding organizational accountability. Further, CDBG provides both for infrastructure and human services resources; in fact even a majority of CDBG infrastructure funds go toward projects specifically needed to deliver services to the homeless, seniors, and other special needs populations. All funds must be used to support revitalization of federally-defined impoverished "slums" or "blighted areas," or to address specific HUD goals such as improved accessibility for the handicapped.

In other cases, departments have expressed an interest in transferring functions to, not away from, HCD. This is especially the case for emPowerSBC, where the County Auditor-Controller has indicated that a direct conflict of interest would be present if the program were moved into this department, citing the need for independent financial oversight. Given this conflict of interest, moving emPowerSBC to the Auditor-Controller's department is not considered a viable option in this analysis. In addition, the P&D Director does not recommend moving the emPowerSBC program or ARRA program efforts to P&D. Similarly, through the FY 2009-10 budget process, the Public Health Department elected to transfer the management of approximately $300,000 in General Fund pass-through dollars directed towards homeless shelters to HCD, given the positive alignment with HCD's activities. In this case, HCD was seen as the appropriate organization to manage these resources, given that it already oversees significant funding for services to the homeless and approximately 50 agencies that provide a range of supportive services to low-income individuals and families. In fact, HCD's management of funding for services to the homeless has almost tripled over the last seven years, as illustrated by the chart below.

[3] Under this arrangement, P&D would continue charging administrative costs to RDA funds and grants.

Figure 3: Funding for Services to the Homeless



With this analytical framework, several feasible reorganization options are available for the Board's consideration. Each of these options presents a unique set of benefits and costs, or pros and cons. Accordingly, each option is evaluated using two overarching criteria: 1) the ability to generate cost-savings and 2) the ability to continue strategic pursuit of community development goals and outcomes by:

- Ensuring that housing and community development services remain a high priority for the County, both in perception and in actions.
- Maintaining alignment with federal and state requirements, objectives, and priorities for grant funds.
- Maximizing staff efficiencies and synergies to deliver positive results.

Reorganization Option #1a *(Recommended Option)*

Summary: Retain HCD as a stand-alone department, including continued functional and budgetary oversight of the Redevelopment Agency and emPowerSBC. As part of the FY 2010-11 Recommended Budget, the RDA and emPowerSBC are included as two new components of the HCD operating budget.

Pros:

- Focused oversight and investment in community development. By maintaining HCD as a stand-alone department, the County will be able to continue focusing on targeted and successful community and economic development initiatives during these recessionary times. This organizational structure promotes executive accountability for outcomes, transparency, and fosters successful relationships with stakeholders throughout the County. Moreover, the presence of a separate

HCD effectively communicates to the public that these actions are a priority for the County.

- Continued eligibility for HUD funding: Through the existing organizational structure, the County is positioned to ensure its continued eligibility for the $15 million in resources that have been dedicated to projects and are managed on behalf of partner jurisdictions. Specifically, the County is required to demonstrate to HUD a commitment to the importance of fiduciary and programmatic oversight, as well as staff and management capacity building. In addition, the County must continuously manage relationships with each of the local cities participating in the two regional entitlement program partnerships (The Urban County Partnership and HOME Consortium). Notably, if any one city were to stop participating, the eligibility of the entire region for entitlement funding could be jeopardized. Given its demographics, if the City of Lompoc were to choose to stop participating, eligibility would automatically be stripped from the regional partnership. Accordingly, maintaining HCD as a separate department would continue to illustrate to HUD the County's commitment to the success of federally-funded projects, while preserving existing successful relationships with the jurisdictions participating in the two regional entitlement program partnerships.

- Synergies between federal and State grants and local initiatives: The continued management oversight of RDA by HCD provides synergy among the County's housing, economic development and the RDA functions. RDA is naturally aligned with economic development and affordable housing, since these functions are incentive-based in nature, and beneficial to the creation of employment opportunities. The RDA already manages a $4 million affordable housing fund to address needs in the project area. Moreover, the financial and transactional nature of community development functions such as economic development, RDA, housing development, and grant administration allows common staff to address issues from across disciplines. As noted by the County Auditor-Controller, HCD has long been envisioned as an appropriate home for the RDA.

  Retaining HCD as a stand-alone department creates efficiencies through time and cost savings as well as technical transfer of knowledge. For example, under federal programs, all affordable housing projects require either annual or semi-annual monitoring by staff. This is a similar requirement for affordable housing generated through local resources, such as in lieu fees or redevelopment funds. Keeping complimentary programs together under one departmental umbrella allows staff to carry out and coordinate similar activities, driving staff efficiency and the development of technical expertise. The same holds for other skills associated with managing community development projects. Regardless of whether federal or local resources are used, underwriting and financing standards, environmental review, analysis of rents and incomes, fair housing and construction bid compliance review, labor standards, and other project monitoring requirements are either identical or very similar in nature and scope across programs.

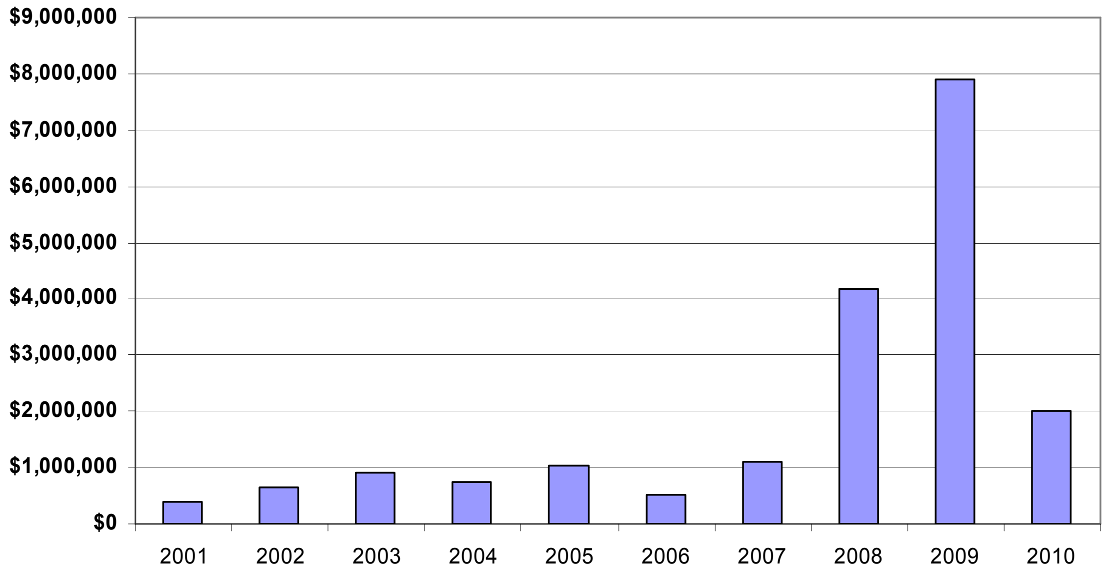
Finally, these existing programs complement the recently-established emPowerSBC program, which is forecasted to be the largest Board-directed economic development initiative in the County's history. Since emPowerSBC is essentially a lending program, many of the same skills and review standards discussed above apply. In fact, HCD was originally viewed as an appropriate home for emPowerSBC by the County's project team, which includes representatives from the Auditor-Controller, Treasurer-Tax Collector, County Counsel, and the CEO's Office, as illustrated in the feasibility report provided to the Board in December 2009, due to the fact that HCD staff had specific underwriting and lending experience.

With all federal entitlement grants and programs, the prevailing "best practice" is to have strong staff and organizational capacity. As indicated by industry best-practices, as well as HUD, the most effective entitlement jurisdictions: a) manage relationships effectively, b) have requisite technical, programmatic and financial expertise to share with and build the capacity of internal and external partners including cities, developers, non-profit organizations, and regulatory agencies, and c) have a demonstrated track record of producing good projects/programs with successful outcomes.

- Organizational separation of regulatory and advocacy functions: Maintaining HCD as a stand-alone department helps avoid any potential conflict of interest that could arise when regulators of development (permitting and inspection) also share responsibility as advocates for development (RDA, housing development). This is important, because even the perception of a conflict of interest regarding the duties of County agencies to consistently implement standards, procedures, or ordinances could impair the public's trust.

  Nonetheless, consistent coordination and collaboration between the County's regulatory, planning, advocacy, and financial functions regarding community development is critical for positive economic outcomes in the region. As an example, since the culmination of the 7-year process to develop and achieve Board-adoption in 2007 of the Isla Vista Master Plan (IVMP), which laid the foundation for urban revitalization in this community, the implementation of projects and acquisition of sites for reinvestment in Isla Vista has flourished. Around that time four years ago, the RDA was moved from P&D to the CEO to catalyze infrastructure development, and assist in the transition from land use planning to project development. As part of this transition, the Auditor-Controller started and continues to play a key role ensuring the success of complex infrastructure financing. In addition, coordination with other departments such as Public Works and General Services has driven positive results. In fact, under the CEO and recently HCD's oversight, in close financial coordination with the Auditor-Controller, $7.9 million in projects such as the Pardall Road enhancements and the new Downtown parking lot occurred in 2009. These improvements have leveraged an estimated $40 million in private investment that is progressing through the entitlement process. In this case, the unique skills and capabilities of planners, housing specialists, redevelopment specialists, and financial administrators were leveraged to deliver positive outcomes.

Figure 4: Isla Vista RDA Project Expenditures



* Note – Prior to 2007, project expenditures consisted primarily of the costs of the Isla Vista Master Plan.

Cons:

- Minimal administrative cost-savings within HCD. Retaining HCD as a separate department would not achieve any immediate administrative cost-savings.

Reorganization Option #1b

Summary: Retain HCD as a stand-alone department, including continued functional and budgetary oversight of emPowerSBC, while moving the RDA to P&D.

Pros:

- Close coordination between planning and redevelopment for the Isla Vista area: P&D consists of both Development Review and Long Range Planning managers and staff that have special experience and expertise in navigating the planning process, understanding the regulatory environment, working with the Coastal Commission, and understanding the economic opportunities associated with land use policy for the Isla Vista area. When coupled with resources to finance projects and implement plans, this option could produce synergies that would help drive reinvestment in the community.

Cons:

- Minimal administrative cost-savings within HCD. Retaining HCD as a separate department would not achieve any immediate administrative cost-savings. Moreover, the potential coordination between P&D and the RDA noted in the "Pro" to this option could still be achieved if the RDA were to remain within HCD.

- The perception of potential conflicts of interest: A potential conflict of interest arises when an agency with the authority to regulate development (P&D) also shares responsibility as an advocate for development (RDA). Specifically, the perception could be that the agency chooses to enforce standards in some cases, while being more lenient regarding redevelopment projects financed or overseen by the same agency. Conversely, the regulatory function could be perceived to hamper development and revitalization opportunities for the public. In large part, this is a management issue, as some agencies, such as San Diego County successfully manage the RDA within the Planning Department. However, the perception that a conflict *could* exist warrants special consideration.[4]
- Technical management capacity: RDA administration and management requires expertise to ensure adherence to California Redevelopment Law for reporting requirements on annual budgeting, Statement of Indebtedness, Low and Moderate Income Housing Fund, Public Improvement Expenditure Findings, RDA Annual Report and Audit, pass-through payments to taxing agencies, RDA bonds, and relocation guidelines. Failure to comply with State law can jeopardize RDA's ability to continue engaging in blight-eliminating activities. While existing executive and financial oversight by the CEO and A/C would remain in place under this option, productivity may suffer over the short term, as the required new capacity and skills are built within P&D management.

Reorganization Option #2a

Summary: Shift current HCD divisions and programs, as well as the Redevelopment Agency to Planning & Development, while shifting emPowerSBC to the CEO. Convert the HCD Director position to the emPowerSBC Program Administrator, at an equal fully loaded cost of approximately $217,000. Under this option, 4 emPowerSBC FTE would be transferred to the CEO, and at least an additional 1 FTE in financial and administrative support would be required to operate the program in the County Executive Office. This would result in the CEO absorbing a cost increase of approximately $130,000 associated with the 1 FTE, using the assumption that current CEO staff is fully subscribed.

Pros:

- Status and cadence for emPowerSBC: Under current direction and assistance from the CEO's office, HCD is actively implementing emPowerSBC. This option would shift the program from HCD to the CEO's office, enabling the program time to mature and produce successful economic development outcomes. Given that the HCD Director is temporarily physically located in the CEO's office, project status and cadence would be maintained. This approach is consistent with other new programs and projects, which require active involvement and strategic executive oversight. For example portions of the new Information Technology Department – specifically the Geographic Information Systems unit – were managed in the CEO's

[4] The P&D Director has indicated that the department could manage the situation in such a way that potential conflicts of interest could be minimized.

Office prior to transferring to the Information Technology Department. Similarly, P&D's Long Range Planning Division was relocated to the CEO's Office to enable a renewed focus on strategic land use planning, prior to transitioning back to P&D.

- Maintenance of administrative expertise and capacity: As a business unit, HCD has built a cohesive group of expert technical staff who depend on each other for administrative, financial, legal, and managerial support to effectively implement and carryout entitlement program statutory and regulatory requirements, and manage the County's affordable housing stock. As discussed below, accounting for program revenue, differentiating fund accounts, interfacing with the federal Treasury system, timely reporting, and monitoring all require staff expertise and capacity which takes time and experience to engender. If all of HCD's divisions, programs, and resources, with the exception emPowerSBC, were moved to P&D, a measurable degree of collective knowledge and technical resources could be maintained to minimize any gap in service delivery to the public.

Cons:

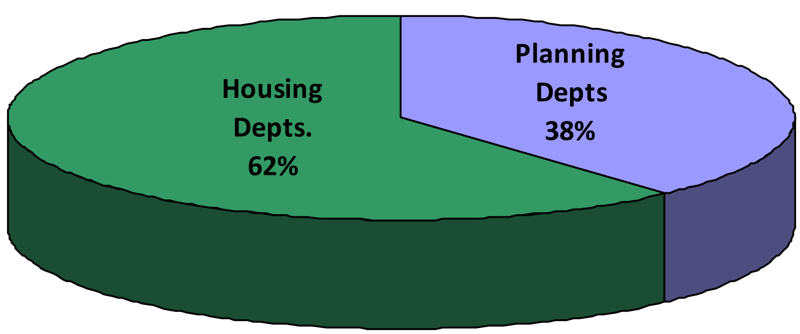
- Increased costs: Under this option, emPowerSBC staff, as well as necessary administrative and fiscal support currently provided by HCD would be transitioned to the CEO's Office. emPowerSBC is a highly complicated financial program that is forecast to involve contracts, debt-issuance, payments, and a high degree of coordination with the Auditor-Controller and Treasurer-Tax Collector. Accordingly, the CEO's Office would be required to hire an additional FTE and absorb new costs to ensure service levels are not impaired. These are tasks and activities that the HCD Office of Director, Administration and Fiscal programs could largely absorb, given the department's current focus on incentive-based programming, were the department to remain a stand-alone agency. However, by separating staff, efficiencies and knowledge is lost and new staff would be required for successful program implementation.

- Potential conflict with the functional role of the CEO regarding emPowerSBC: A primary function of the CEO is to provide consistent organizational coordination, effectiveness, and accountability across the County operation. While the CEO can play a role in the incubation of new programs, managing day-to-day program operations can distract from its key functions. This includes ensuring that programs implemented by County departments reflect the Board's policy, maximize cost-effectiveness, and responsibly leverage available County resources – functions which can be weakened when the CEO is responsible for operating the very programs that s/he must critically analyze. As with many other programs, and in the case of the emPowerSBC, the CEO is legally responsible for designating the emPowerSBC Program Administrator but this designation authority is distinct from day-to-day operations and administration.

- Lowered profile of community development services: Shifting HCD from a stand-alone department to a functional division within P&D – or any other department – will increase the difficulty of implementing the County's affordable housing, community development, economic development, and revenue goals. This is because coordinated economic development efforts to support regional business development, create jobs, and incubate innovative public/private partnerships often require singular executive focus and accountability to foster working relationships with regional agencies, industries, and trade associations. P&D managers currently oversee many important County processes and functions, with little slack in the existing management structure. Therefore, adding community development services to this environment would likely remove the direct line of contact and frequency of interactions that currently exists between the department head and stakeholders on community development matters.

- Mission inconsistency: Many HCD programs are closely aligned with social service programming that target specific resources to service providers assisting disadvantaged or low-income individuals and communities. For example, according to HUD's website, the CDBG program "works to provide services to the most vulnerable in our communities, create jobs through the expansion and retention of businesses, and to ensure decent affordable housing." The same is true of federal HOME and McKinney-Vento funds, which support ending homelessness and provide "wrap-around" services such as day care, job training, and skills coaching. Accordingly, the County must have an organizational structure to engage in these activities, many of which are not covered in P&D's current mission, where the focus is specific to land-use and the physical environment. This dilemma is present in other California counties, where 62% (8 of 13) of those receiving CDBG manage and distribute these funds in stand-alone Housing Departments, versus 38% (5 of 13), which manage CDBG in Planning Departments.

Figure 5: Where are CDBG Funds Managed?
California Counties



- Potential risks to continued eligibility for HUD funding: If the County were to fall out of compliance with HUD requirements, approximately $15 million in federal funding that has been reserved for projects under CDBG, HOME, ESG and McKinney-Vento could be jeopardized. Since the Urban County HUD designation has been in place for just three years, federal regulators have not yet been adequately convinced of the program's sustainability. Specifically, HUD evaluates the capacity, skills, knowledge and abilities of executive leadership and staff to determine risks and eligibility for continued receipt of entitlement funding. A change in management that would reduce HCD to a functional division within P&D – or any other department – may call into question the County's commitment to the importance of fiduciary and programmatic oversight, and staff and management capacity-building.[5]

To clarify, each of these federal programs have specific statutory requirements, as well as uniform administrative and regulatory requirements. HCD staff has individually and collectively developed technical and professional expertise regarding environmental review requirements, labor standards, written agreements, fair housing law, financial underwriting, eligible and ineligible activities, and federal procurement requirements, among other areas. As the Lead Agency and administrator of two regional consortia, HCD uses these skills to provide technical assistance and guidance to partner cities within the County. In addition, HCD serves as the principal interface with:

- The HUD LA Field Office management and staff,
- The federal Treasury system, and
- HUD's Washington DC Headquarters.

Having a stable management and institutional structure provides assurance to the federal government that these programs will have integrity over time. Such relationships and technical expertise are significant elements of managing a successful CDBG Urban County and demonstrating commitment to each of the County's local partner cities. Given that HCD has already experienced significant executive turnover, staff should work with HUD to ensure that any changes to the current organizational structure would not contribute to the perception that the County is deemphasizing its commitment to entitlement funds or has increased the risks in being able to properly manage these funds.

- Costs of organizational change: Departmental reorganizations may impact existing projects, produce service delays, and effect employee morale, as is common with large-scale organizational changes. To the extent that employees will require relocation, tenant improvements and other onetime costs associated to the move may be required.
- The perception of potential conflicts of interest: As noted in Option 1b, above, a potential conflict of interest arises when an agency with the authority to regulate development (P&D) also shares responsibility as an advocate for development (RDA and housing, and infrastructure development catalyzed through federal grants). Specifically, the perception could be that the agency chooses to enforce standards in some cases, while being more lenient regarding projects financed or

[5] The P&D Director has indicated that he feels P&D could have the expertise to comply with HUD requirements, or could quickly build the capacity needed to manage HUD's entitlement programs, if necessary.

overseen by the same agency, especially since federal entitlement funding goals push local agencies to spend resources as quickly as possible. Moreover, HCD has worked to establish a unique and collaborative approach with stakeholders that is defined primarily by its ability to provide incentives, not by its regulatory authority. Accordingly, these relationships could be impacted if managed through a structure where both financial incentives and planning regulations were overseen by one agency.

In large part, this is a management issue, and the P&D Director has indicated that P&D could facilitate the situation such that potential conflicts could be minimized. However, the perception that the agency *could* cross the line warrants special consideration.

- Technical management capacity: New management and administration that may be unfamiliar with the nuances of federal funding programs may be unaware of important technical issues, leading to unintended results. For example, timeliness of fund expenditures, the ability to meet regulatory timelines, and the ability to maintain adequate administrative performance measures imposed by federal agencies are items that could unfamiliar to managers in P&D.

  Similarly, ongoing RDA administration and management requires expertise to ensure adherence to California Redevelopment Law for reporting requirements on annual budgeting, Statement of Indebtedness, Low and Moderate Income Housing Fund, Public Improvement Expenditure Findings, RDA Annual Report and Audit, pass-through payments to taxing agencies, RDA bonds, and relocation guidelines. Failure to comply with State law can jeopardize RDA's ability to continue engaging in blight-eliminating activities. Accordingly, management productivity may suffer over the short term, as the required new capacity and skills are built within P&D.

Reorganization Option #2b

Summary: Shift HCD divisions to P&D, but move the RDA and emPowerSBC in the CEO's Office. Currently, per RDA's organizational charter, the CEO serves as RDA's Executive Director, the Auditor-Controller serves as the Treasurer, and County Counsel serves as legal counsel to the Agency. In addition, under this option, the HCD Director would be converted to the emPowerSBC Program Administrator; a position that could also provide functional oversight of RDA operations and expenditures. This option would not produce structural savings; in fact, costs could increase by $130,000, due to operating emPowerSBC in the CEO's Office (similar to Option 2a).

Pros:

- Status and cadence: As would be the case with emPowerSBC moving to the CEO's Office (described in Option 2a), under current direction of the CEO's office, the RDA is actively implementing new projects and programs that serve to catalyze revitalization and reinvestment in the Isla Vista community. In the past eighteen months, numerous high-profile projects have been implemented, including the completion of the Pardall Road improvements, the Alumni corner solar parking lot, and the Zip Car program. In addition, the RDA is actively pursuing several public/private partnerships to encourage new residential and commercial development in the project area, supported by the financial acumen of the Auditor-Controller. The existing momentum and cadence, bolstered by synergies with the existing RDA executive team and HCD staff, have delivered real projects to transform the Isla Vista community. The CEO's office currently provides leadership necessary for the garnering multi-departmental support for emerging programs, and to the extent that existing personnel is kept in place, associated project momentum and cadence will continue.

Cons:

- Increased costs: As described in Option 2a, this option would involve increased costs of approximately $130,000 associated with moving emPowerSBC to the CEO.
- Technical management capacity: Conversely, if existing RDA personnel is not kept in place, appointing a new designee to oversee day-to-day RDA operations could slow the cadence of project management, and would alter the existing positive synergy and collaborative efforts of the CEO, Auditor-Controller, and HCD. Under this option, a new RDA manager would need to become familiar with the unique reporting, legal and financial objectives of the RDA, in addition to maintaining current workload, management duties, and business relationships in the Isla Vista area. Finance and administrative support would need to continue to be provided by CEO administrative staff and the Auditor-Controller.
- Potential conflict with the functional role of the CEO: As in Option 2a, the CEO's function of providing consistent organizational coordination, effectiveness, and accountability across the County operation could be compromised in this option.

Reorganization Option #3

Summary: Wait for the arrival of a new CEO to make any final reorganization decisions.

Pros:

- New executive direction: The arrival of a new CEO on November 1, 2010 is likely to bring new perspectives and experience to the County, as s/he assesses the needs of the organization in line with the Board's policy priorities. Accordingly, the Board may wish to delay any final reorganization decision until a new CEO has arrived and assessed the County's operational strengths and weaknesses.

Cons:

- Delayed implementation of Board direction: Implementation of the Board's direction will not occur until the new CEO presents recommendations.

V. Conclusions and Recommendations

Strategic and effective community development services and operations require focused executive and departmental oversight to ensure the effective implementation of incentive-based public programming. As demonstrated by Table 1 (below), a stand-alone HCD best positions the County to support regional prosperity and quality of life; therefore, the Board is recommended to maintain the current organizational structure. Moreover, it is unlikely that any potential cost-savings will be associated with dissolving HCD; in fact, this action could be associated with increased costs to the County. Further, the risks of dissolving HCD warrant consideration, as the County's eligibility for entitlement funding could be strained, and implementation of the emPowerSBC program or RDA projects could be impacted.

Given prevailing economic conditions across the region, the County's actions to stimulate public-private partnerships and job growth should now be greater than ever. To the extent the Board desires to continue this concerted focus, any actions to slow existing efforts or the momentum associated with projects should be avoided, until the economy is balanced.

Lastly, it is worth noting that HCD personnel represent some of the best qualities of County employees: transparency, objectivity, accountability, resiliency, and craftsmanship. This has been evident through efforts to continuously improve upon the funding process, create innovative County programs, and foster relationships with regional stakeholders. These are traits that should be appreciated, rewarded, and continued through a consistent organizational structure.

Table 1: Summary of HCD Reorganization Options and Impacts

Factors	**Option 1a (Recom'd)** Maintain HCD as a dept	**Option 1b** Maintain HCD as a dept; RDA to P&D	**Option 2a** Move HCD Programs and RDA to P&D; emPowerSBC to CEO	**Option 2b** Move HCD Programs to P&D; RDA and emPowerSBC to CEO	**Option 3c** Wait for new CEO
Overall structural costs or cost-savings, compared to FY 09-10 (estimate for FY 10-11)	**$0**	**$0**	**+$130,000**	**+130,000**	**NA**
Ability to continue strategic pursuit of community development goals	**High** (Achieves all three bullets on pg. 10)	**High** (Partially achieves first, fully achieves second and third bullets on pg. 10)	**Moderate** (Partially achieves all three bullets on pg. 10)	**Moderate** (Achieves first, partially achieves second and third bullets on pg. 10)	**NA**