



U.S. Department of Housing and Urban Development
Los Angeles Area Office, Pacific/Hawaii
611 West Sixth Street
Los Angeles, California 90017

Clay Phillips
City Manager
City of Escondido
201 North Broadway
Escondido, CA 92025

DEC 13 2006

Dear Mr. Phillips:

SUBJECT: 2005 Program Year Review Letter
HUD Consolidated Plan Programs

This letter highlights significant achievements made by the City of Escondido utilizing HUD Consolidated Plan program funds, more specifically, the Community Development Block Grant (CDBG) and the Home Investment Program (HOME).

The attached assessment is based upon the City's 2005 Consolidated Annual Performance and Evaluation Report (CAPER), reports from the Integrated Disbursement and Information System (IDIS) and our review of your five-year Consolidated Plan. The assessment also calls attention to those areas in which the City should concentrate its efforts to improve performance.

If you have any comments, please provide your written comments within 30 calendar days from the date of this letter. We will take your comments under careful consideration. If you have no comments we will proceed to make the Program Year assessment letter available to the public. We also encourage each grantee to share this document with its public. A copy of our assessment should also be provided to your independent public accountant and/or external audit team as required by OMB Circular A-133.

Overall Assessment:

Based upon our review of your CAPER, we have determined that overall performance for the City of Escondido is **good**. The City of Escondido received a CDBG grant in the amount of \$1,991,545 and Home Investment Partnerships (HOME) in the amount of \$902,139 in Program Year 2005 to accomplish its goals and objectives.

The City of Escondido appears to have met most of its annual goals for Continuum of Care, Decent Housing and Economic Opportunity. The City is encouraged to continue addressing the needs of its community and the needs of low and moderate-income persons.

Please find enclosed a detailed assessment of the City's performance. If you have any questions, please do not hesitate calling John Cook, your Senior Community Planning and Development Representative at (213) 534-2573.

Sincerely,

A handwritten signature in black ink, appearing to read "William Vasquez". The signature is fluid and cursive, with a large loop at the end.

William Vasquez
Director
Office of Community Planning
and Development

Enclosure

cc: Jerry Van Leeuwen, Director of Housing and Neighborhood Services
Beverly Peterka, Housing Manager
Jamie Kasvikis, Management Analyst

DETAILED ASSESSMENT OF PERFORMANCE

We have organized our conclusions about the City's performance in the following categories: Consolidated Plan, Continuum of Care, Decent Housing, Economic Opportunity, Program Requirements and Single Audit Issues.

Consolidated Plan

The 2005 Program Year marks the first year of the City's five-year Consolidated Plan. The City pursued local, federal, state and private resources as indicated in its strategy to address the priorities and objectives described in the Consolidated Plan. Activities and accomplishments during the Program Year 2005 are consistent with the Consolidated Plan goals and strategies. The City reached or exceeded their first year goals for most of their priorities of the Consolidated Plan.

Continuum of Care

Acceptable Performance

The City's comprehensive strategy for continuum of care is to address the needs of the homeless and non-homeless special needs population. The City's strategy is comprised of activities to address emergency and transitional housing; persons at-risk of becoming homeless; persons in transition from homelessness to permanent housing; and persons in permanent housing to transition from renting to ownership.

The City utilized a variety of funding resources to address the Continuum of Care Strategy. These sources included: the Supportive Housing Program (SHP), Shelter Plus Care, CDBG, HO!v1E, Redevelopment, General Fund, County ESG and HOPW A, FEMA, VA, HHS, and Department of Labor. These funds provided housing and supportive services for homeless families and a variety of special needs populations such as homeless persons with alcohol and drug problems, woman and children fleeing domestic violence, chronically mentally ill homeless individuals and homeless veterans. Specific accomplishments included: health and dental services, food services, emergency shelter, transitional housing, self-sufficiency transitions for homeless families, housing and nursing care for AIDS patients, and assistance with permanent housing options.

During the program year, 32 individuals (four from Escondido) disabled by AIDS were provided 24-hour nursing care. Also during the year, the City provided buildings and property leases for \$1 per year to several more organizations that provide services to the homeless.

Decent Housing

Good Performance

The City utilized CDBG, HO!v1E, Section 8 certificates/vouchers, SHP, tax credits, redevelopment housing set-aside, FEMA, Mortgage Credit Certificates (MCC) and local and private funds to provide and retain affordable housing for low-income

residents. All six housing priorities made progress toward accomplishments during the program year. Listed below are the City's annual achievements related to providing decent housing during the program year 2005 and their related five-year accomplishments.

The City did not meet their one-year goal for priority #1 of increasing homeownership opportunities, however the City did make progress on this priority. The five-year goal for the development of new affordable ownership units is 36. All 36 units are currently underway except for three units that are already completed. Assistance to first time homebuyers also failed to meet first year goals. The City was able to provide nine Homebuyer Entry Loan Program (HELP) loans, yet fell short of the 13.2 annual loan goals. Also during the year, no Mortgage Credit Certificates (MCCs) were issued although an annual goal of four MCCs was anticipated.

Housing priority #2 exceeded the one-year goal to provide 25 loans to conserve the supply of existing ownership units. During FY 2005-2006, 33 loans were funded to existing owner households for needed rehabilitation. During the year, the rehabilitation was completed for five single-family homes and eighteen mobile homes.

Housing priorities #3, #4 and #5 deal with expanding and improving the stock of affordable rental housing. Although the annual goals were not met, the City expects to exceed the five-year goals once the three rental projects underway are completed. The three rental projects-Las Ventanas, Serenity Village, and the So Cal Senior Project-are expected to provide a total of 148 units. The original five-year goal set for these three priorities was 80 units.

The final housing priority #6 is to expand the supply of three and four bedroom units. Again the annual goals were not met, however the City is expected to exceed the five-year goal once the rental projects are completed. The number of large units underway is 86. The five-year goal was 80 units. The Las Ventanas project will provide 78 units and Serenity Village will provide 8 units

Suitable Living Environment

Acceptable Performance

The City utilized CDBG funds for public service and public facilities and improvements. The City expended \$311,757 in public service activities to serve youth, seniors, health care, counseling services, ESL classes, childcare and employment for Katrina victims. The City also expended \$3,358,301 of CDBG funds for public facilities and improvements for neighborhood improvements, street and sidewalk improvements, park improvements and facility repairs.

Economic Opportunity

Good Performance

The City of Escondido offers a Business Retention/Expansion/Attraction Program (BREP), which has been in existence for over 13 years. BREP makes visits and provides assistance to all types and sizes of businesses. Although large employers are targeted, most activities and assistance are made to small businesses. Approximately 1,650 businesses have received visits. An essential element of the Program is a concerted effort to facilitate the expansion and retention of existing Escondido businesses. This is important because these businesses provide the majority of the job growth, as well as stability for existing jobs in the community. The Program has been further enhanced by the Escondido Workforce Roundtable, which has been meeting since early 2003. The purpose of this group is to tie education studies (K -12, adult education, colleges, and universities) to preparing students with the relevant training and skills that will allow them to find good paying jobs. Ultimately, the City's proactive job readiness focus creates an opportunity to lower the number of low-mod income people by preparing individuals for living wage jobs.

The City's Economic Development Division (EDD) staff continues to have a strong relationship with the San Diego Work Force Partnership (SDWP) and for the first time Cal State San Marcos, as well as other organizations to conduct business seminars and the annual Escondido job fair held every October. (SDWP is the agency responsible for the Career Centers around the County.) The EDD continues to actively recruit new businesses as part of the revitalization strategy for targeted commercial districts, and to provide additional high paying jobs. Market information, business recruitment marketing packages, and site location assistance is provided to illustrate market potential. In 2005, EDD updated and reprinted the "Escondido At Your Service Business Resource Guide" that lists informational resources for businesses. A Spanish version ~as produced in October 2004.

Targeted commercial areas are often adjacent to residential areas that provide rental housing and small homes for low-income households. Therefore, efforts to upgrade the business environment are paralleled by efforts to improve the neighborhoods since their environments affect each other. The City has been actively revitalizing neighborhood infrastructure (curbs, sidewalks, better and more plentiful street lighting) with City CDBG and Capital Improvement Budget funds. As a result, there are safer and more pleasant neighborhoods for residents who can walk to nearby shopping, work at nearby businesses, and have the ability to influence positive changes in their neighborhoods.

The Escondido Business Enhancement Zone (BEZ), established in 2000, was modified in 2002 and has become a catalyst for significant private investment, attraction of businesses that provide benefits such as good paying jobs, sales tax and property upgrades. BEZ incentives are available to all business properties in Escondido, provided they meet the public benefit criteria. Incentives are granted on a case-by-case basis.

Closely tied to the BEZ is the ongoing Façade and Property Improvement Program. The Program offers matching grants of \$5,000-\$10,000 for exterior business and property improvements.

The Mercado is located in the urban core of the City and within a low-mod census tract. The Mercado Business Association is now seeing positive changes to the business district. CDBG funds were spent in 2003 and 2004 to provide landscape and streetscape improvements to the area. These improvements have been benefiting the residents and businesses by creating a walkable community that is safe, clean and economically viable.

The City also supports the availability of affordable childcare as part of its overall strategy, stating that childcare is critical for families to build self-sufficiency and to break out of poverty. The City of Escondido expended \$151,291 of CDBG and General funds in FY 2005 for childcare programs. Also, during the year, \$62,752 in CDBG and general funds was used for counseling and resource information for low-income families in the Mission Park area. These programs assist these families to develop greater self-sufficiency.

Program Requirements

Good Performance

The projects undertaken with CDBG funds were reviewed for eligibility and compliance with regulatory requirements. Expenditures were reviewed for compliance with the public service and administrative caps. Overall expenditures were reviewed for productivity, program beneficiaries and timeliness. Based upon available information provided, as of June 30, 2006, the City appears to have met all of the above requirements.

During the program year, the City obligated \$328,500 on public service projects including \$30,000 for Katrina victims. Since the \$30,000 *for* the Katrina victims is excluded from the cap calculations, the obligation amount is within the acceptable level of 15% for the CDBG public service cap.

The CDBG planning and administration cap was within acceptable levels. During the program year, the City obligated and expended \$398,190 on planning and administration projects. The obligation amount was 19.86% of the available funding, which is within the 20% limit.

During the program year, the City receipted \$314,344 in HOME program income. This income was expended on existing activities during the program year. CDBG program income of \$13,297 was receipted during the program year.

During the program year, the City's HOME match liability was \$0. Thus, the City continues to have a carryover of excess HOME match totaling close to \$4.47 million.

As of December 7, 2006, the City's CDBG timeliness expenditure ratio was 1.21. This is within the acceptable ratio for CDBG timeliness. The City is commended for their timeliness of CDBG funds.

The City is reminded that the HOME regulations at 24 CFR 92.500 require that all HOME funds be committed within 24 months and expended within 60 months. Participating jurisdictions failing to meet these requirements will have funds recaptured by HUD. We will continue to review your overall performance in IDIS on the anniversary dates of your commitment and expenditure deadlines.

IDIS Reporting

Good Performance

The City utilized the IDIS system to manage its CDBG and HOME programs in Program Year 2005. The City's input into the database was sufficient to generate substantive reports from the IDIS reporting module. The City is reminded to update the accomplishment data information at quarterly intervals to allow HUD and local stakeholders to evaluate performance information and obtain up-to-date program information on a routine basis.

Other HUD Programs

The City contracted with the Center for Social Advocacy (formerly Heartland Human Relations) during the program year to provide comprehensive fair housing services. The City's 2005 program year fair housing activities and actions taken to address the impediments identified in its fair housing analysis (AI) are being reviewed by the Civil Rights Division. The results of the review will be addressed under separate cover.

Single Audit Issues

In addition to the typical areas reviewed during the annual single audit, we would highlight the following program areas for audit consideration:

Sub-recipient Activity and Commercial Contracts. Examine the recipient's system for monitoring sub-recipients and commercial contracts.

Eligibility and National Objectives. Identify eligible activities funded with CDBG funds; test expenditure and related records; for selected activities, review documentation showing how national objectives are met.

Planning and Administrative Cap. Ascertain the total amount of grant and program income. Review the financial records to determine the amount expended for planning and administration.

Environmental Review. Select a sample of projects on which expenditures have been made and determine whether environmental reviews have been performed in conformance with 24 CFR Part 58.34-35.

Acquisition and Relocation. Select a sample of completed projects involving acquisition of real property, particularly existing homeowner and rental property. Determine that property owners and/or tenants were provided with proper notices and compensation under the Uniform Relocation and Real Property Acquisition (URA) Act and Section 104(d).