Dear Mr. Phillips:

SUBJECT: 2007 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 2007 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 $1,776,351 and a Home Investment Partnerships (HOME) grant in the amount of $846,029 in Program Year 2007 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 call John Cook, your Senior Community Planning and Development Representative at (213) 534-2573.

Sincerely,

[Signature]

William Vasquez
Director
Office of Community Planning and Development

Enclosure

cc: Jerry Van Leeuwen, Director of Housing and Neighborhood Services
    Roni Keiser, Housing Manager
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 2007 Program Year marks the third 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 2007 are consistent with the Consolidated Plan goals and strategies. The City reached or exceeded their third year goals for most of their priorities of the Consolidated Plan.

**Continuum of Care**

Good 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, HOME, Redevelopment, General Fund, County ESG and HOPWA, 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.

In 2007, the City participated in the development of a Regional Winter Shelter Plan for north San Diego County. The result was a Regional Winter Shelter Plan successfully negotiated and adopted by all the North County cities. In FY 2007-2008, the plan resulted in 671 unduplicated homeless persons being provided shelter and services in North County. Of these persons, 182 received shelter and services at the newly opened Salvation Army site in Escondido.

During the program year, 29 individuals (two 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, HOME, 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 met their projected accomplishments during the program year. Listed below are the City's annual achievements related to providing decent housing during the program year 2007 and their related five-year accomplishments.

The City did meet their one-year goal for priority #1 of increasing homeownership opportunities. The five-year goal for the development of new affordable ownership units is 36 was met this year. The City was able to provide 36 Homebuyer Entry Loan Program (HELP) loans and therefore greatly exceeded their established annual goals. Also during the year, nine Mortgage Credit Certificates (MCCs) were issued. This met the yearly goal of four MCCs yet the City is behind on their five-year goal.

Housing priority #2 met the one-year goal to provide 25 loans to conserve the supply of existing ownership units. During FY 2007-2008, 25 loans were funded to existing owner households for needed rehabilitation. Rehabilitation was completed for three single-family homes and 22 mobile homes.

Housing priorities #3, #4 and #5 deal with expanding and improving the stock of affordable rental housing. The City exceeded the five-year goal of 80 units with the completion of Las Ventanas and Serenity Village. These two projects provided 86 affordable units. The So Cal Senior Project is currently in the development stages of producing an additional 60 affordable units which will result in a total of 146 units.

The final housing priority #6 is to expand the supply of three and four bedroom units. The annual and five-year goals were exceeded with the completion of two rental and two ownership projects during the program year. The Las Ventanas rental project provided 78 affordable 3-bedroom units and Serenity Village provided 8 affordable 3-bedroom units. The Brotherton Square ownership project provided 5 affordable 3-bedroom units and the Orangewood townhome ownership project provided 7 affordable ownership units.

**Suitable Living Environment**

*Acceptable Performance*

The City utilized CDBG funds for public service and public facilities and improvements. The City expended $287,419 in public service activities to serve youth,
AIDS patients, childcare services, seniors, ESL classes, counseling services, health care, and the homeless. The City also expended $860,931 of CDBG funds for public facilities and improvements for neighborhood improvements, street and sidewalk improvements, park improvements and public facility repairs.

**Economic Opportunity**

Good Performance

Priority 2 for Community Development Projects is to provide economic development opportunities for Mission Park area residents to increase their employment opportunities. During the program year, CDBG public service funding was used to provide ESL classes to 66 non-English speaking residents, childcare subsidies to 31 "working Poor" families with 41 children, and family counseling and parent training to 83 children and their family members. In addition, the Escondido Workforce Roundtable is working on a workforce development project to address the City's shortage of skilled healthcare workers. The program is expected to be implemented this current fiscal year.

The City of Escondido offers a Business Retention/Expansion/Attraction Program (BREP), which has been in existence for 15 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. 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) partners with the library and the Small Business Development Center (SBDC) to provide free-of-charge business seminars. Also, 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 attract new businesses. EDD provides at no cost, the "Escondido At Your Service Business Resource Guide" and a similar publication "A Sus Ordenes" that list informational resources for businesses.

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, 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 by the City Council. 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 Business District is located in the urban core of the City and within a low-mod census tract. The Mercado Business Association has seen positive changes in their business district. The City has received a SANDAG grant to supplement the City funds earmarked for Mercado area improvements. The revitalization taking place is benefiting residents and businesses alike by creating a walkable community that is safe, clean and economically viable.

Program Requirements
Acceptable 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, 2008, the City appears to have met all of the above requirements.

During the program year, the City obligated $347,173 on public service projects. The obligation amount of 14.8% 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 $355,270 on planning and administration projects. The obligation amount was 19.9% of the available funding, which is within the 20% limit.

During the program year, the City receipted $29,618 in HOME program income. This income was expended on existing activities during the program year. CDBG program income of $5,250 was receipted during the program year. The program income amounts reported in IDIS do not match the amounts in the CAPER and will need to be reconciled. City and HUD staff are working on reconciling these amounts.
During the program year, the City's HOME match liability was $248,288. The City continues to have a carry over of excess HOME match totaling close to $3.6 million even though the City did not contribute match during the program year.

As of January 13, 2009, the City's CDBG timeliness expenditure ratio was 1.98. This is above the acceptable ratio for CDBG timeliness in January. The City will need to expend 825,736.30 by April 30th, 2009 to meet the regulatory requirements for timeliness expenditures.

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**

Acceptable Performance

The City utilized the IDIS system to manage its CDBG and HOME programs in Program Year 2007. The City's input into the database was sufficient to generate substantive reports from the IDIS reporting module. However, only $3004 of the close to $1.5 million expended for CDBG during the program year went to complete an activity. 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 2007 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).