

TO : ALL REGIONAL ADMINISTRATORS
Attention: Assistant Regional Administrator
for Model Cities

FROM : Robert H. Baida, Deputy Assistant Secretary (MCGR)

SUBJECT : Establishing the Start of the Second Action Year

I. Purpose.

This memorandum sets forth the procedure for establishing the start of the second action year for each first round Model City. It follows discussion at the July and October meetings of Assistant Regional Administrators and response of ARA's in September to a memorandum dated July 28, 1969, asking how Regional review loads might be spaced out.

II. Considerations.

Among considerations in setting the start of second action years are the following:

1. Necessity of spacing review loads. If every first round city had exactly a 12-month first action year, about one-half the first round cities and perhaps one-half the second round cities would come up for review at the same time.

2. Effect on the cities. In some cities, it appears from results so far, there is an advantage in entering the second action year as soon as possible. Continued planning efforts point to a better second year program mix than the presently funded first year package. Shift to the second year may give the city an opportunity to kill a few doubtful programs before they start. On the other hand, some

other cities have started a lot of promising projects but have not kept pace with their monitoring and evaluation efforts. A later shift to second year programming--perhaps 15 or 16 months after the start of the first year--may give evaluation a better chance to impact the second year decisions.

3. Adjustment to local calendars. Some cities will want to fit their Model Cities program year to the city fiscal year. Others may prefer not to do this. Some cities may wish to avoid making program decisions at the time of municipal elections. There may be other local reasons for preferring one renewal time over another.

4. Effect on quality of review. Because of changing conditions in the cities--new leadership, a later start of projects, etc.--there may be some cities which the RICC and the HUD staff feel will be easier to review at a later time than others.

5. Funds available to the cities. Obviously a city that is running out of money must be reviewed promptly, or perhaps given a few months' money to finance a first year continuation until the second year planning can be reviewed. At this point, however, it appears very doubtful that any first round cities are going to be out of funds 12 months after their contract signing.

III. Carry-over of unspent funds.

An important factor of entering the second action year is the disposition of funds obligated to the city for the first action year but not spent. In various ways we have promised the cities that such funds may be carried over into succeeding years, providing the city is performing well in the program. A city that may have started

slowly but has steadily increased program momentum during the first year should not be punished in the second year. However, the national purpose of the Model Cities Program may not be well served by allocating a full second round target figure to cities which have shown little or no promise in getting good programs started in the first year.

Even for good cities, there may be a problem in building up a spending rate in the second year which cannot be maintained in the third year. For example: City A has a first round target figure of \$4 million and a second round figure of the same. During the first year, while projects were starting up, it spent only \$2 million. With carry-over, it then has \$6 million for the second year. If the city's supplemental spending consists entirely of on-going staff or other expenses, as compared to one-time capital expenses, for which there is no take-over source in the third year, it cannot establish a \$6 million spending rate in the second year without facing a likely cut of \$2 million for the third year. The tendency of all projects to get more expensive without increasing their scope (because of pay raises, more utilization of services and other reasons) heightens this risk.

Therefore, cities shall not be allowed to use their remaining first round funds to increase their second year spending rate except to the extent that:

1. An amount equal to the first round carry-over is applied to capital or other projects which, by their nature, will not require renewal in the third year, or
2. The city can demonstrate a commitment from other sources,

preferably local or State, to carry out the excess on-going projects in year three, or

3. A combination of #1 and #2.

In cases where the city has carry-over but cannot meet the above conditions for spending the carry-over in year two, either of the following steps may be taken:

- A. The city's first year may be stretched out to use all or part of the carry-over. This technique should be used when a stretch-out is desirable for other reasons--in particular, when it will result in a better second year program, or
- B. The city may be renewed without stretch-out, but the allowable second year spending level will be held to the second year target figure without the carry-over, or without that part of the carry-over not covered by paragraphs 1 to 3 immediately above.

Example: City A, cited above, shows that \$1 million of its projected second year programming represents one-time expenditure, either as capital projects or as projects for which other funding is secure for the third year. It's spending guideline for the second year would be \$5 million. The city would not be permitted to carry forward \$1 million of its first year funds.

Where a city, because of application of the above, is not allowed to add all or part of its carry-over to its second year spending level, it should be indicated to the city that it may get the remaining increase during the second year if it can come up with

one-time projects as described above. Example: Half-way through its second action year, City A identifies a new adult education project for which State or local funds will be available in the third year. It may start this project on supplemental funds in advance of its other funding.

Given these operating considerations and policies, we now request that ARA's recommend a specific starting date for the second action year of each first round city. This date should be not less than ten months nor more than 18 months after start of the first action year. It will be the Central Office intention to follow the ARA's recommendations providing the total pattern of recommendations is consistent with obligation and spending patterns. If recommendations have to be changed to meet these considerations, it is hoped that the changes will affect only a few cities. Proposed changes will be discussed with the ARA's, and time will be allowed to discuss them with the cities before final decision.