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To: John Weidl, City Manager
Common Council

From: Rachelle Blitch, Director of Financial and Administrative Services

Re: MOU Between CDA and Water Utility

During a discussion regarding monthly financials, I was informed of an agreement between the CDA and the Water Utility to repay grant funding. Having extensive experience with federal grants, I found the circumstances surrounding this agreement perplexing. After a thorough investigation of the MOU and consultation with our auditor, my findings and recommendations are as follows:

Background

The Community Development Block Grant (CDBG) program, established in 1974, is administered by the U.S. Department of Housing and Urban Development (HUD). Whitewater received its funds through a state-administered program managed by the Department of Administration (DOA) Division of Energy, Housing and Community Resources (DEHCR). The program came under scrutiny, and in 2018, states were informed that their Revolving Loan Fund (RLF) programs would be evaluated for effectiveness. In February 2019, HUD announced its decision to proceed with closing the program. Wisconsin was given a deadline of January 31, 2021, to comply with the close-out process.

According to the CDBG Close-Out Manual, there were three ways to participate in the program. Given Whitewater's outstanding loans, there were two available options. The CDA could either purchase all of the outstanding loans in their RLF portfolio, thereby receiving the outstanding principal and interest on the loans, or they could retain the responsibility of servicing the loans and remit all payments to the state as they were received.

The highlighted section of the manual (**Exhibit 1**) ([Full manual](#) page 5) outlines the financial details of each option. The CDA opted for Option 1, which required them to purchase the outstanding loans amounting to \$334,272.67 (**Exhibit 2**). In return, the DOA permitted the total bank balance of \$502,228.91 (\$559,303.02 less administrative costs of \$34,209.69) and the purchased RLF receivables of \$334,272.67 (combined total of \$859,366) to be used on a qualifying project within the allotted timeframe.

Several projects were considered but deemed unsuitable due to the longer implementation time required, which would not fit within the given timeframe for project completion. The CDA decided to allocate the funds to the construction of the new water tower, as it was already planned. An agreement was drafted (**Exhibit 3**) requiring the water utility to repay the CDA \$851,866 for a zero percent interest loan.

Findings

The initial step involved substantiating the legal validity of the MOU. To ascertain whether the CDA had the authority to enter into the agreement, it was necessary to determine if they had rights to the funds by identifying the legal recipient of the grant.

1. According to the manual (**Exhibit 1**), only Units of General Local Governments (UGLG) were eligible for the CDBG Close-Out Program. UGLGs are defined as political subdivisions of a state that has general purposes and authority over a specific geographic area such as cities, counties, villages, and towns. The recipient of the grant was the City, and while the CDA was authorized to administer the RLF program, it was not entitled to retain the funds.
2. Funds received from federal grants are strictly limited to the approved expenses outlined in the project/program guidelines. Any unused funds must be returned after the final reporting deadline. The funds that needed to be returned at the end of the program (**Exhibit 1**) were not CDA funds but federal funds. Subsequently, the state permitted the City to apply for a separate grant for the amount of the returned funds (**Exhibit 4**), provided it was for an approved project.

Recommendations

Since it was determined that the City was the recipient of the grant, there is no legal obligation for the City to repay the CDA. The grant funds were intended for use by the City, and the CDA was merely authorized to administer the RLF program. The CDA was never entitled to retain the funds once the program concluded, and therefore, any assumption of repayment obligation to the CDA is unfounded.

Given this clarification, both staff and our auditors recommend revoking the Memorandum of Understanding. The terms of the MOU erroneously suggested a repayment obligation that does not legally exist, leading to an incorrect increase in the CDA's fund balance. Revoking the MOU will rectify this misinterpretation and ensure compliance with federal grant regulations, which mandate the proper allocation and return of unused funds.