CONFLICT OF INTEREST PROVISIONS
SUMMARY OF RULES FOR CITY OF MODESTO HUD SPONSORED PROGRAMS

I. Introduction

The City of Modesto (CITY), as grantee, administers a variety of programs sponsored and funded by United States Department of Housing and Urban Development (HUD Programs) including Community Development Block Grant (CDBG) Emergency Solution Grant (ESG) Neighborhood Stabilization Program (NSP 1, NSP 2 and NSP 3), HOME Investment Partnerships Program (HOME), Community Development Block Grant Recovery (CDBG-R) and Homelessness Prevention and Rapid Re-housing Program (HPRP), (hereinafter referred to as “HUD sponsored program(s)” and/or “HUD funded program(s)”). All such programs are governed by conflict of interest rules to prevent (1) undue influence in decision making process and (2) financial gain or other benefit from the expenditure of HUD grant funds. Conflict of interest rules apply to CITY and those persons and organizations it contracts with in relation to HUD grant funds.

This memorandum seeks to provide a summary of controlling conflict of interest rules applicable to covered persons. For purposes of this summary, “covered person” includes (1) employees, agents, consultants, officers and elected and appointed officials of (a) CITY or (b) persons/organizations seeking or receiving HUD grant funds from CITY, which includes subgrantees, subrecipients, for-profit and non-profit developers, contractors and subcontractors (2) who exercise functions or responsibilities with respect to HUD sponsored programs or is in a position to participate in decision-making process or gain inside information with regard to HUD sponsored programs.

II. Purpose

It is not possible to provide a complete explanation of conflict of interest rules. The intention of this document to provide a general summary of relevant conflict of interest rules to heighten awareness of covered persons to promote the prevention, detection and disclosure of a conflict of interest and/or potential conflict of interest.

Every attempt has been made to provide current information regarding applicable conflict of interest rules. Laws and regulations may change in the future and each covered person is obligated to review applicable rules and provisions and/or seek independent advice to insure compliance.

Each covered person has the affirmative duty to comply with the conflict of interest rule and shall immediately notify the City of Modesto in writing of the existence of the conflict of interest or potential conflict of interest.
III. Recipients or Applicants of HUD Funds From CITY.

Persons/organizations seeking or receiving HUD grant funds from CITY should carefully consider whether any of their activities may give rise to an improper conflict of interest situation. Conflict of interest situations that are not properly addressed can result in:

1. Loss of HUD funding to a particular program and/or CITY;
2. Voiding of any contract funded or supported by HUD funds from CITY;
3. Disgorging of any financial gain or other benefit received;
4. Abstaining from participating in a decision-making capacity;
5. Termination, resignation or loss of position;
6. Imposition of civil and/or criminal penalties.

Persons/organizations seeking or receiving HUD grant funds from CITY should ask themselves the following questions:

* Are any of my employees or board members:

- a City employee or consultant who participates in decision-making or exercises influence over the decision-making process of CITY HUD sponsored programs as part of their position?

- a member of any committee, commission or board that will approve and/or administer expenditure of HUD grant funds or approve a sponsored project or fund recipient?

- a City Councilmember?

* Are any immediate family members or business associates of my employees or board members:

- a City employee or consultant who participates in decision-making or exercises influence over the decision-making process of CITY HUD sponsored programs as part of their position?

- a member of any committee, commission or board that will approve and/or administer expenditure of HUD grant funds or approve a sponsored project or fund recipient?

- a City Councilmember?

* Will any of my employees or board members receive a financial interest or benefit from HUD grant funds (other than employee salaries or personnel benefits)? Will any immediate family members or business associates of my employees or board members receive a financial interest or benefit from HUD grant funds (other than employee salaries or personnel benefits)?

* To my knowledge, will my program or project have a financial effect on a City official or employee who exercises HUD sponsored program-related functions, or an immediate family member or business associate of such person? For example, will any of these persons be receiving rental payments, other business income, or program services from my program? Or, for example, do any of these persons own real property near the program or project site, and is it likely that my program or project will have an effect on neighboring real property values?
If you can answer "yes" to any of these questions, it is possible that there may be a conflict of interest. You should review the rules below to determine whether an actual conflict situation is raised, and, if so, what action needs to be taken to avoid a violation of the law. You should contact City staff immediately if you suspect that there might be an issue.

Each recipient of HUD grant funds from CITY will be required in its grant contract with the City to warrant and represent, to the best of its knowledge at the time the contract is executed, that they are not aware of any improper conflict of interest circumstances as described below. Also, the contract will obligate contractors to exercise due diligence to ensure that no improper conflict situations occur during the contract. This is a continuing duty and obligates the recipient to monitor for potential conflicts for the term of the grant contract.

A number of federal, state, and City conflict of interest laws will govern activities that are funded with CDBG funds. The following are the major rules summarized here:

* HUD conflict of interest regulations (24 CFR, 570.611 and 24 CFR Part 85, Subpart 36).
* The California Political Reform Act (Gov't. Code, 87100 to 87500), and implementing regulations (2 CCR, 18700 to 18703).
* California Government Code Section 1090, et seq.
* City of Modesto Conflict Disclosure Ordinance (Modesto Municipal Code, Title 2- Administration, Chapter 10 – Conflict Disclosures, Sections 2-10.01 – 2-10.03)

Excerpts from some of these laws and others are included as an attachment to this summary.

IV. City Officials, Their Family or Business Partners Benefiting from HUD Sponsored Projects.

**HUD Rule.** The HUD conflict of interest rule prohibits any "covered person" associated with the CITY (as defined below) from obtaining a financial interest or benefit from a HUD assisted activity or contract, or the proceeds under any such contract, during that covered person's tenure with the CITY and for one year thereafter. A "covered person" is defined by HUD as any employee, agent, consultant, officer, or elected or appointed official of the City who, with respect to HUD-funded activities under the contract: (a) exercises or has exercised any functions or responsibilities; or, (b) is in a position to participate in a decision-making process; or, (c) is in a position to gain inside information. City staff members or consultants who exercise the above roles or function with respect to the HUD funded activity are considered "covered persons." For purposes of the CITY’s HUD funded programs, a "covered person" specifically includes any member of the Modesto City Council, or any member of the City of Modesto Citizens Housing and Community Development Committee (CH&CDC) or any equivalent board, committee or commission of the City of Modesto that reviews and makes recommendations on the funding for the contract, whether or not that Councilmember or director actually participated in the review or recommendation. "Covered person" may also include members of other City boards and commissions, if that board or commission has exercised functions or decision-making with respect to a HUD funded activity.

Under the City's Guidelines, "financial interests or benefits" include, but are not limited to, salaries, consultant fees, commissions, gifts, sales income, rental payments, investment income, or other business income. Program services that may have monetary value to the recipient are also considered a "financial benefit." Thus, for example, a City employee who prepares a contract for expenditure of
HUD grant funds or a City official who sits on a City board that reviews a HUD sponsored funding proposal may not receive rent payments or other income from the contractor while that person remains with the City and for one year after that person leaves the City.

The HUD rule further prohibits anyone with "family or business ties" to the covered public official from receiving a financial interest or benefit. The City's Guidelines define "family ties" to include a spouse, brother, sister, parent or child of the public official, and define "business ties" to mean a general partner or joint venture of a public official.

State Law. State law may prohibit a CITY board member or City employee who has or had a financial interest in a HUD sponsored contract or program activity from participating in the City's decision to fund the program or project.

Financial benefits covered by state law could include indirect effects such as the spillover effects of a HUD sponsored program or project on the value of real property owned by City official that is located near the program or project site. This could be a particular concern for projects or programs that involve the use of HUD grant funds to make significant capital improvements to real property, such as projects involving new construction or substantial rehabilitation of housing or commercial property. This normally affects property owned by a City official within 500 feet of a HUD sponsored project. For property leased by a City official, look to whether the project will either (1) change the City official's use or enjoyment of the leased property, or (2) the project will increase or decrease the official's annual rent by 5%.

Another state law requires that any public official of the City who is an employee or a member of the board of directors of a person or organization receiving HUD grant funds from CITY, even a non-compensated director, should publicly recuse him/herself from participating in any discussions relating to the HUD funded grant-making process. Failure of the person to recuse him/herself before the discussions begin may disqualify the organization's application for funds.

For example, if one of your employees or board members is also a director of a Community Development District Board, she should recuse herself from any of the CDBG board's consideration of CDBG grants. If she does not and the CDBG board awards your organization a grant, your organization will be disqualified from receiving the grant.

V. Interests of persons associated with the contractor.

The HUD rule also addresses financial interests that are held by certain persons associated with a RECIPIENT OF HUD GRANT FUNDS FROM CITY. The HUD rule prohibits any "covered person" associated with the RECIPIENT from obtaining a financial interest or benefit (with the exception of the use of HUD funds to pay salaries and other related administrative and personnel costs) from a HUD assisted activity or contract, or the proceeds under any such contract, during that covered person's tenure with the contractor and for one year thereafter. A "covered person" is defined by HUD as any employee, agent, consultant, officer, or elected or appointed official of the contractor who, with respect to HUD-funded activities under the contract: (a) exercises or has exercised any functions or responsibilities; or, (b) is in a position to participate in a decision-making process; or, (c) is in a position to gain inside information. This rule extends to those with whom the covered person has "family or business ties" (as defined above). This rule would, for example, prohibit certain employees...
or directors of a RECIPIENT OF HUD FUNDS FROM CITY from using HUD funds to pay for rent on property owned by that employee or director, as well as family and business associates of that person.

HUD funds/proceeds should also not be used in any self-dealing transaction within the meaning of the California Corporations Code involving a material financial interest of a director of the contractor, unless such a transaction is expressly permitted or considered valid under the Corporations Code.

VI. Remedies and Sanctions.

City of Modesto HUD grant contracts provide that if a RECIPIENT OF HUD FUNDS FROM CITY fails to make a good faith effort to avoid an improper conflict of interest situation or is responsible for the improper conflict situation, the City may (1) suspend payments of HUD grant funds, (2) terminate the contract, (3) require reimbursement by the recipient to the City or to HUD of any amounts already disbursed, and/or (4) bar future HUD funding of the recipient by the City. In addition, the City may suspend payments or terminate the contract in the event HUD suspends or terminates its grant to the City for conflict of interest reasons, or in the event the City reasonably determines that an improper conflict of interest situation may arise from payments under the contract. This could happen whether or not the recipient is responsible for the conflict of interest situation.

A number of penalties may be imposed or remedies, cures, waivers and exceptions may be pursued in the event an actual conflict of interest exists. Early disclosure of an actual conflict of interest or potential conflict of interest is critical and may influence the penalty imposed and/or remedy sought. The ultimate disposition depends largely on the nature, extent and severity of the conflict. The evaluation of an actual conflict of interest is fact sensitive and each case requires examination on the merits.

VII. Guidance.

If a conflict of interest is identified or suspected, covered person(s) shall immediately provide written notification to City of Modesto, Parks, Recreation and Neighborhoods Department. At minimum the written notification shall include documentation of the following:

- Disclosure of the identity of the covered person(s) involved,
- when and how it was discovered,
- the nature of the conflict of interest,
- the financial interest or benefit derived or to be derived from the City of Modesto HUD sponsored program or funding.

The covered person(s) shall cooperate fully with City of Modesto staff and promptly provide any additional information requested by City of Modesto to evaluate the conflict of interest.

The City of Modesto will evaluate the circumstances of the conflict of interest and notify HUD of its findings, and if applicable, a request that HUD grant an exception to the conflict of interest regulations. The factors to be considered by HUD in acting upon a request for an exception are outlined on page 7 of this Summary.
1. **HUD Provision**

   The primary HUD regulations that may have application to a City of Modesto HUD sponsored program are found in the Title 24 of the Code of Federal Regulations, Housing and Urban Development and in particular, 24 CFR 84.44, 24 CFR 85.36, 24 CFR 570.489 (h) and 24 CFR 570.611.

   The conflict of interest provisions of the Community Development Block Grant (CDBG) Regulations (24 CFR 570.611) reads in substance as follows:

   (b) **Conflicts prohibited.** The general rule is that no persons described in paragraph (c) of this section who exercise or have exercised any functions or responsibilities with respect to CDBG activities assisted under this part, or who are in the position to participate in a decision making process or gain inside information with regard to such activities, may obtain a financial interest or benefit from a CDBG-assisted activity, or have a financial interest in any contract, subcontract, or agreement with respect to a CDBG-assisted activity, or with respect to the proceeds of the CDBG-assisted activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for one year thereafter.

   (c) **Persons covered.** The conflict of interest provisions of paragraph (b) of this section apply to any Person who is an employee, agent, consultant, officer, or elected official or appointed official of the Recipient, or of any designated public agencies, or of subrecipients that are receiving funds under this part.

   The conflict of interest provision stated appears and is part of the Agreement for Community Development and Emergency Solutions Grant Services, CDBG-R, HPRP, NSP1, NSP2, NSP3, and HOME Program Agreements between the City of Modesto and community development corporations. In addition, the City has also given assurance that it, "...shall incorporate or cause to be incorporated, in all such contracts or subcontracts a provision prohibiting such interest pursuant to the purposes of this agreement."

   This provision would preclude persons who are employed by the City of Modesto or who are officers or public officials of the City and who exercise functions or responsibilities with respect to the CDBG, ESG, CDBG-R, HPRP, NSP1, NSP2, NSP3 and HOME programs from deriving any financial benefit from contracts or subcontracts funded through the HUD sponsored programs during their office or employment and for one year thereafter.
Members of The Citizens Housing and Community Development Committee (CH&CDC) are public officials within this definition since they are an integral and officially recognized component in the decision-making processes of the HUD sponsored programs. As a component of the citizen participation process, the Mayor receives input from the CH&CDC on the City's Block Grant Program.

If members of the CH&CDC were to receive compensation through a HUD sponsored programs contract or subcontract they would be in conflict of interest. They would have to divest themselves of that financial interest and if they desired to receive a financial interest from a HUD sponsored programs-funded contract or subcontract in the future, they would have to have been off the CH&CDC for at least one year before being eligible to receive such a HUD sponsored programs-funded financial interest. It city employees who exercised any functions or responsibilities with respect to the CDBG program were to receive compensation through a HUD sponsored programs-funded contract or subcontract they would be in conflict of interest. They would have to divest themselves of that financial interest and, if they desired to receive a financial interest from a HUD sponsored programs-funded contract in the future, they would have to have been separated from their City job for at least one year prior to receiving such an interest.

The provisions set forth in 24 CFR 570.611 (d) provide for HUD consideration of waivers to its conflict of interest provisions on a case-by-case basis. Full public disclosure of the conflict is required together with an opinion by the City Attorney that the financial interest for which the exception is sought would not violate state or local law. HUD would then make a determination on whether to grant the requested waiver taking the following factors into consideration:

1. Whether the exception would provide a significant cost benefit or an essential degree of expertise to the program or project which would otherwise not be available;
2. Whether an opportunity was provided for open competitive bidding or negotiation;
3. Whether the person affected is a member of a group or class of low or moderate income persons intended to be the beneficiaries of the assisted activity, and the exception will permit such person to receive generally the same interests or benefits as are being made available or provided to the group or class;
4. Whether the affected person has withdrawn from his or her functions or responsibilities, or the decision-making process with respect to the specific assisted activity in questions;
5. Whether the interest or benefit was present before the affected person was an employee, agent, consultant, officer or official covered by the conflict of interest provisions;
6. Whether undue hardship will result either to the recipient or the person affected when weighed against the public interest served by avoiding the prohibited conflict; and
7. Any other relevant considerations.

2. OMB CIRCULAR A-102 PROVISION

The OMB conflict of interest provision set forth in Circular A-102, "Uniform Requirements for Assistance to State and Local Governments," Attachment 0, "Procurement Standards", is applicable to, "... the procurement of supplies, equipment, construction and services for Federal assistance programs." Paragraph 7, Code of Conduct prohibits the City's employees, officers and agents from participating in the selection or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would-be involved. A conflict arises when
   a. The employee, officer or agent
   b. Any member of his immediate family;
   c. His or her partner, or
   d. An organization which employs, or is about to employ, any of the above, has a financial or other interest in the firm selected for award.

This provision is less stringent than the HUD conflict of interest provision, and would simply require that the affected individual disclose his or her financial interest and abstain from participating in discussions or actions regarding the selection, award or administration of a contract.
3. **STATE OF CALIFORNIA PROVISION**

The State's conflict of interest provisions are contained in the Government Code. Section 87100 of that code prohibits a public official from using his/her official position to influence a decision in which he or she knows or has reason to know he or she has a financial interest. Government Code Section 87100 reads as follows:

No public official at any level of State or local government shall make, participate in making or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know he has a financial interest.

Governmental Code Section 82048 defines public official as, *every member, ... officer, employee, or consultant of a State or local agency*. "CH&CDC members are public officials within this definition since they are an integral and off officially recognized component in the decision-making processes of the City's Community Development Block Grant Program.

Government Code Section 87103 provides that an official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material effect on the official or on a member of the official's immediate family on:

(a) a business in which the official has an investment worth $1,000 or more;
(b) real property in which the official has an interest worth $1,000 or more;
(c) any source of income of $250 or more received during the prior 12 months;
(d) a business in which the official is a director, officer, partner, trustee, employee or has a management position;
(e) the donor of a gift to the official of $250 or more received during the prior 12 months.

Government Code Section 1090 prohibits City officers and employees from being financially interested in any contract made by them in their official capacity or by any body or board of which they are members.

Conflict of interest statutes in the Government Code may require a public official who has a conflict of interest due to a financial interest to (1) disclose the interest and abstain from participating in any decision-making process that would affect the interest and/or (2) resign from his/her position on the board, commission or other body of which he/she is a member. Depending on the nature, extent and severity of the violation imposition of civil and/or criminal penalties are possible.

4. **CITY OF MODESTO PROVISION**

The City's conflict of interest provisions, which are found in Modesto's Charter Title 2 Chapter 10, provides:

**Section 2-10.01**

It is the intention of the City Council to require disclosure of every individual financial interest in every agreement of any kind that requires City Council approval and in any development project that comes before the City Council by application for land use approval, so that conflicts of interest that such agreements or applications create for Council Members can be more readily determined.

**Section 2-10.02:**

In furtherance of the purposes of the California Fair Political Practices Act, and the City's "Tin Cup" ordinance, it is the intent of the City Council that the identities of all individuals with a financial interest in every agreement of any kind that requires City Council approval and in land development applications before the City Council be known to the Council and to the public. The following definitions are intended to further this purpose:

(a) Development: Any proposed use of real property, whether existing or to be constructed, which use may require City Council approval either directly, or on appeal from the Planning Commission.

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(b) Agreement:

(1) Public works contracts and agreements for goods and services that require Council approval are required by Chapter 3 of Title 8 of the Modesto Municipal Code;

(2) Any other agreements submitted by the City Manager to the City Council for approval and any other application, request for entitlement or approval whatsoever;

(3) Grants of money or non-monetary city assistance to any organization, including but not limited to, non-profit corporations, or not for profit associations who seek such assistance from the City Council for any reason; and

(4) Franchises granted by the City Council as provided for in Article 14 of the City Charter and/or any applicable provision of the Modesto Municipal Code.

(c) Application: Any submission of information required to be made to the City by state law, ordinance, contract or resolution for the purpose of development approval or agreement approval.

(d) Applicant: An applicant is any person who submits an application or on whose behalf an application is submitted.

(e) City Council: The Modesto City Council and the Modesto Redevelopment Agency.

(f) Person: Shall mean any individual, firm, company, partnership, limited liability partnership, limited liability corporation, joint venture, association, proprietorship, club or fraternal organization, joint stock company, domestic or foreign corporation, estate, trust, business trust, receiver, trustee, trustee in bankruptcy, administrator, executor, assignee, syndicate, or any other group or combination acting as a unit whether mutual, cooperative, fraternal, non-profit or otherwise.

(g) Financial Interest: Financial interest means ownership or control over any property, real or personal, tangible or intangible available for use by an applicant including, but not limited to, real property, cash, securities, merchandise, raw materials, finished goods, operating supplies, ordinary maintenance material and parts, accounts receivable and notes and loans receivable, prepaid expenses, collateral used as security for a loan made to the person making an application, long-lived legal rights and competitive advantages developed or acquired by an applicant including, but not limited to, redevelopment agreements as well as other intangible assets and rights. A financial interest may also be an expectation of receipt of gross revenue (before adjustments or deductions for any costs of doing business whatsoever) from a person making an application.

(h) Gross Revenue: The term gross revenue shall include transactions in which a person making an application agrees to pay or to reduce the obligation of another.

Section 2-10.03

(a) No application for any land use approval from the City of any type including, but not limited to, subdivision map approvals, zoning changes, general plan amendments, precise plan approvals, conditional use permits, development agreements, and any other request for approval requiring the submission of information to the City, shall be deemed complete for the purposes of any California law, or ordinance including, but not limited to, the California Permit Streamlining Act, until all persons having any financial interest in the applicant(s) have been identified by name, in particular, individual persons owning or controlling "persons" or entities with financial interests in a person submitting an application, subject to the reasonable discretion of the City's Community Development Director. No application deemed incomplete in this regard by the Community Development Director shall proceed, or be acted upon in any manner by either the Planning Commission or the City Council. To cause such an application to be acted upon by deception or otherwise shall be a violation of this Code and a misdemeanor.

(b) No agreement shall be submitted to the City Council for approval until all persons having any financial interest in the applicant(s) have been identified by name, in particular individual persons owning or controlling "persons" or entities with financial interests in an applicant, subject to the reasonable
discretion of the City department director proposing such approval to the City Council. No application deemed incomplete in this regard by the City department director proposing such approval shall be processed or be acted upon in any manner by the City Council. To cause such an application to be acted upon by deception or otherwise shall be a violation of this Code and a misdemeanor.

(c) In order to implement this section every City department director proposing approval of any application by the City Council shall provide every applicant with an application form for the purpose of disclosing the financial interests required to be disclosed by this section. Each applicant must verify in writing, under penalty of perjury, that the financial interest information provided in such application form is true, correct and complete.

(d) Each applicant shall have a continuing obligation to maintain the truth, accuracy and completeness of the financial interest information provided on the application in accordance with this section until after the final consideration by the City Council of any matter arising out of or relating to the application.

(e) In the event that the City Council finds that an applicant did not exert due diligence and good faith in its maintenance of true, accurate and complete financial interest information in accordance with the requirements of this section, then, and in that event, the application shall be deemed to have been, and treated for all purposes as if it had been, incomplete from the first day it was filed through the date of the finding.

(f) Nothing in this section is intended to imply any obligation on the part of City employees, consultants, volunteers or elected officials to investigate research or otherwise verify the content of any application.

(g) This chapter shall not apply to persons having an aggregate economic interest in an applicant less than two thousand dollars ($2,000.00) at all times prior to final Council determination of the application.

(h) This chapter shall not apply to (1) business entities listed, or meeting the financial criteria for listing on the New York or the Pacific Stock exchanges unless it is reasonably foreseeable that a City Council decision will increase or decrease that entity's gross revenues or expenses by one million dollars ($1,000,000) or more, and (2) business entities granted a waiver by a vote of two-thirds (2/3) of the City Council, sitting in public session.

(i) Each Councilmember and the Mayor shall, at least once annually, in conjunction with their State Fair Political Practices Act disclosure requirements, file with the City Clerk a report setting forth the names and addresses of persons (associates) having a financial interest, as defined herein, in any property, contract, application, expectation of receipt of gross revenue or for profit enterprise or venture, no matter how organized, in which the reporting member has a financial interest. It shall be the further obligation of each member to file with the City Clerk amendments to their annual reports on a quarterly basis to ensure, in so far as possible, that the public is aware of matters coming before the Council in which a Councilmember associate has a financial interest.

(Added by Ord. 3269-C.S., § 1, amended by Ord. 3276-C.S., § 1 effective 1-9-03)
ACKNOWLEDGEMENT AND CERTIFICATION

I have read the foregoing Conflict of Interest Provisions Summary of Rules For City of Modesto HUD Sponsored Programs together with the Attachment To Summary of Conflict of Interest Rules For City of Modesto HUD Sponsored Programs Excerpts From Relevant Laws, and hereby certify that I and/or the entity/organization identified below has/have and will continue to comply with all applicable conflict of interest laws, rules and regulations including the obligation to immediately notify the City of Modesto, in writing, of the existence or potential conflict of interest in relation to a City of Modesto HUD sponsored program.

DATE: ____________________________  SIGNED: ____________________________

PRINT NAME: ____________________________  TITLE/POSITION: ____________________________

ENTITY/ORGANIZATION: ____________________________