

## Federal Funding Risks

In 2025, the U.S. Department of Housing and Urban Development (HUD) provided the City with a grant agreement for the Program Year 2025 Community Development Block Grant (CDBG) award. The grant agreement contained new conditions which require compliance with Executive Orders related to DEI, cooperation with immigration enforcement, and other Administration policies. The City's CDBG Program Manager and legal staff found the new grant conditions to be in conflict with the City's values generally and City's Sanctuary Policy specifically, and otherwise unlawful.

The City joined a lawsuit, *King County v. Turner, et al.* in November 2025. More than 80 local government Grantees from around the state and country represented in the lawsuit received an injunction on new grant conditions added to federal funding awards such as CDBG. The injunction blocks HUD from requiring compliance with the new grant conditions. The City's upcoming Program Year 2026 grant agreement will be covered while the injunction is in place. This will permit the City to execute our CDBG Grant Agreement and access funds without complying with the new grant conditions introduced in 2025.

HUD has appealed the injunction. The appeal is active in the Ninth Circuit Court of Appeals. If the injunction is overturned, HUD would have the authority to issue the City a new grant agreement for Program Year 2025 and Program Year 2026 requiring compliance with the new conditions. In this event, the City would most likely not need to repay grant funding spent while protected by the injunction but would potentially not be able to spend any future grant funding requiring compliance with the new grant conditions.

If the injunction is overturned, so that the offending grant conditions are applicable, the City will not be able to accept any grant funds from HUD and doesn't have local funding capacity to fund unspent contracted awards. Staff have communicated the risks surrounding funding availability to subrecipients recommended for Program Year 2026 funding. Program Year 2026 subrecipient agreements will include language is approved by our legal staff and ensures the City is not obligated to fully fund contracts with local sources should the injunction be overturned and new grant agreements be issued by HUD.

The City is on track to receive and execute the Program Year 2026 grant agreement with HUD on time with the Program Year beginning September 1, 2026.