



# Guidance on CDBG-DR Costs



# Welcome & Speakers

- Welcome to HUD's webinar series on CDBG-DR basics
  - Webinars will focus on key rules and requirements for managing DR grants
  - Webinars will also share tips & lessons learned
- Speakers:
  - Tyler Bridges, U.S. Department of Housing and Urban Development (HUD)
  - Marsha Tonkovich, The Community Building Collaborative , a subcontractor to ICF International

# Polling and Asking Questions

- Webinar will include some polls & brief opportunities to practice
  - If you are attending as a group, feel free to briefly discuss before answering
- How to ask questions
  - Questions will be taken throughout webinar
  - Written questions: Type questions into the “Questions” box located on your GoToWebinar panel

# CDBG-DR Webinar Series

- This is the third in a series of webinars about CDBG-DR for CDBG-NDR grantees and CDBG-DR grantees
  - Specific guidance on NDR will not be covered in these webinars
- Upcoming webinar schedule (all times eastern):

Topic	Date
2016 Disaster Recovery Grant Reporting System	March 31, 2016 at 2pm
2016 Duplication of Benefits	April 7, 2016 at 2pm
2016 Environmental Review	April 21, 2016 at 2pm

# Agenda

- Types of Costs and Applicable Caps
  - Project Costs
  - Planning Costs
  - Program Administration Costs (PACs)
  - Activity Delivery Costs (ADCs)
- Direct and Indirect Costs
- Documentation of costs
- Cost Principles
- Timeliness
- Program Income

# Poll #1

- What is your level of familiarity with federal cost principles:
  - Have an accounting/finance/compliance background and very familiar
  - Am a policy or technical person but generally understand how the principles are applied to programs & projects
  - Am new to federally-financed programs but have a basic idea of good accounting concepts
  - None of the above – the *Super Circular* sounds like a new Marvel comic book character to me

# Types of Costs and Applicable Caps



# Types of CDBG-DR Costs

- Four types of program costs
  - Project Costs
  - Activity Delivery Costs (ADCs)
  - Planning Costs
  - Program Administration Costs (PACs)
- Need to plan upfront approximate mix of project, planning, PAC and ADC costs for entire allocation so do not exceed applicable caps
- Resources:
  - 2 CFR 200; HUD notice CPD 13-07
  - Resource links provided on concluding slides



# Project Costs

- Direct costs of undertaking the project
  - All assistance directly to developers, homeowners, businesses and other beneficiaries
  - Examples of project costs:
    - Construction hard costs
    - Project soft costs such as architecture, engineering, permits if these costs are paid by the beneficiary (whether using CDBG-DR \$\$\$ to pay these costs or not)
    - Developer fees, contractor overhead and profit
    - Costs to provide public services, including staff time and other direct costs (such as supplies) to deliver the service
  - Can include grantee or subrecipient costs IF they undertake the project directly
    - Example: grantee acquires land in order to build new water/sewer lines

# Activity Delivery Costs (ADCs)

- Costs incurred by a grantee or subrecipient directly related to delivery of a specific CDBG-DR project or service by a beneficiary
  - Developers, owners, businesses & other beneficiaries cannot have ADC
- Examples of eligible activity delivery costs when paid directly by grantees/subrecipients or conducted by staff:
  - Site specific environmental costs
  - Engineering/design/architecture services for a project
  - Applicant intake/eligibility screening in specific program
  - Project underwriting/selection
  - Leased office space and related utility costs for delivering a single program
    - Be careful – not usually allowed to determine this based on simple pro-ration of all costs/space
- ADC costs may also be conducted by entities contracted by grantee/subrecipient to do tasks on its behalf
  - Example: contractor conducts environmental review project data collection for the grantee

# Activity Delivery Costs (ADCs) (continued)

- No defined maximum cap on ADCs
  - Must comply with Cost Principles (2 CFR 200)
    - Necessary/reasonable/ allowable/allocable (more later on this)
    - In evaluating reasonableness, consider the percent of ADCs as a proportion of the total project cost
      - » Reasonable ADCs will vary by activity type
    - If charging staff costs as ADCs, must have timesheet to document and allocate costs – this requirement includes subrecipients!
    - If the only CDBG-DR investment in the project is ADC, that still makes the project subject to all CDBG-DR requirements
      - » Example: using staff whose salaries are paid by CDBG-DR to do inspections on an Army Corps-funded infrastructure project
- ADCs count toward 50% LMI targeting threshold and meet national objectives in same proportion as the projects they are tied to
- Citations: 24 CFR 570 (Subpart C)

# Planning Costs

- The “end product” of a Planning Activity is the Plan
  - Planning for a specific project is a project cost (or ADC if undertaken by the grantee/subrecipient)
- Only grantees and subrecipients can incur planning costs
  - Use and amount of planning funds should be defined in grant agreements with subrecipients
- Eligible types of planning costs:
  - Costs incurred for data gathering, studies, analysis and preparation of plans
  - Does not include engineering or architecture plans in support of construction activities

# Planning Costs (continued)

- Funding Cap: up to 20% of grant and program income (combined with administration costs)
  - Admin + planning may not exceed 20%
  - Admin is capped at 5% within the 20%. For example: if admin is 5%, planning cannot exceed 15%
- Normally, planning is different for CDBG states & entitlements
  - Recent CDBG-DR FR notices have allowed states to fund planning-only recovery activities (via the grantee or subrecipients) not related to specific projects
  - Planning-only activities not related to a project do not need to meet a national objective

# Program Administration Costs (PACs)

- Costs incurred for the general management, oversight and coordination of the CDBG-DR grant
- Must be used for activities related to CDBG-DR program
  - Cannot be used to cover admin related to managing other recovery programs
- Examples of eligible administrative costs:
  - Monitoring overall program performance
  - Leased office space and general operations
  - Staff time and/or contracted services to manage the funds and CDBG-DR program overall
  - Administrative support
    - Legal/accounting/HR/audit
  - Financial management/DRGR
  - Reporting/QPR
  - On-going compliance monitoring after project close-out

# Program Administration Costs (PACs) (continued)

- Funding Cap: Max 5% of total grant amount and program income
- Only grantees and subrecipients can incur administration costs
  - Amount and use of administration funding provided to grantees and subrecipients must be outlined in grant agreement
  - Grantee determines what proportion of 5% admin is shared with each subrecipient, depending on nature of their assigned CDBG-DR tasks

# Poll #2

- Which of the following expenses would be an eligible ADC:
  - The staff costs to develop an action plan amendment related to a new housing program
  - The costs for a contracted entity which accepts and underwrites the CDBG-DR economic development program applications
  - The grantee runs a CDBG-DR clearance program. The costs to demolish dilapidated, damaged homes
  - The rent for all of the office space occupied by the CDBG-DR division
  - Funds paid to a developer related to the design of a CDBG-DR funded rental project



# Direct and Indirect Costs



# Direct Costs Versus Indirect Costs

- All costs are either direct or indirect
- Direct Costs (tangible goods or services)
  - Costs incurred attributable to one cost objective
    - For example: costs explicitly and solely incurred for CDBG-DR
  - Charges based on direct billing or Cost Distribution Plan
  - Examples: salaries, construction materials for project
- Indirect Costs (incidental costs)
  - Costs incurred benefitting more than one cost objective (or funding source)
  - Indirect costs must be billed in accordance with an approved Cost Allocation Plan or agreed upon Indirect Cost Rate pursuant to OMB 2 CFR 200
  - Example: shared utilities/equipment usage/building space; common janitorial or security services
- Do not get indirect and administrative costs confused – indirect can be an eligible type of admin expense but is not the same thing
  - Warning! Paying indirect costs does NOT raise your admin cap beyond 5%

# Cost Distribution

- Cost Allocation Plans must be based on level of effort associated with CDBG-DR program
  - Must also cover costs legitimately incurred related to delivery of the CDBG-DR activities
  - If a cost is included within an approved indirect plan it must not also be charged as a CDBG-DR admin expense (duplication)
  - Indirect plans can be at the level of the entire grantee (e.g. whole city) or department (e.g. the community development agency of a state)
- Should **NOT** be based **solely** on:
  - Number of program areas
  - Amount budgeted
- Cost Allocation Plan must be approved by cognizant federal agency before indirect costs can be charged



# Poll #3

- Which of the following costs could not be covered by an indirect cost allocation plan:
  - A consolidated personnel agency that does hiring/HR for all state departments, including CDBG-DR
  - Lead based paint inspections solely for CDBG-DR projects
  - Office space located within city hall
  - Subrecipient costs for shared printers, copiers and other office equipment/supplies
  - Basic office supplies purchased for the whole agency and distributed to individual departments within the agency

# Documentation of Costs



# Documentation of Costs

- Costs must be supported by adequate documentation based on type of cost
- Staff time
  - Time sheets – identifying program area
  - Payroll records (using cost distribution)

NOTE: Payroll Certifications required for staff who are 100% dedicated to program (2 CFR 200)
- Cost for materials/supplies/services
  - Vendor invoices
  - Be certain to document reasonableness for all costs (more later on this topic)

# Salaries and Wages

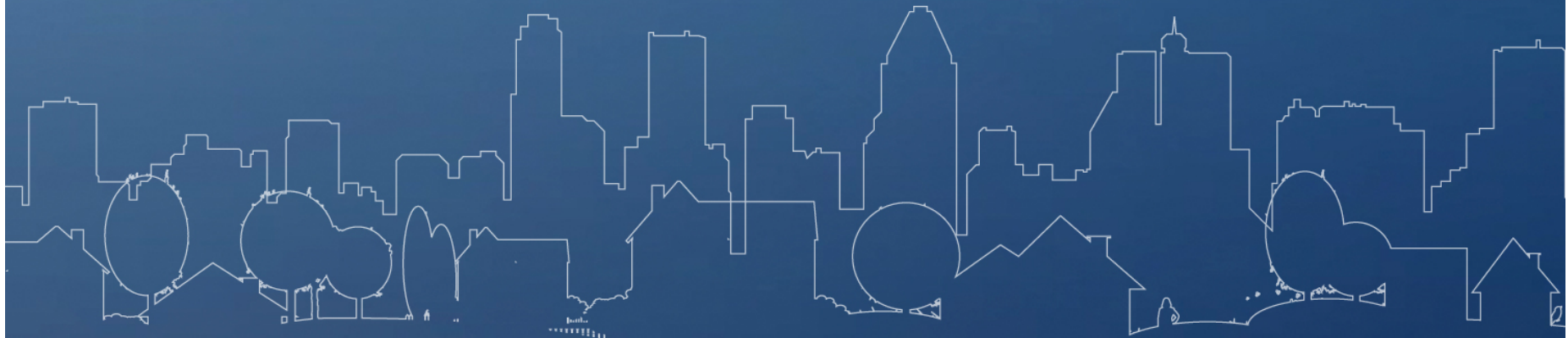
- Charges for salaries and wages, whether treated as direct or indirect costs, must be based on payrolls documented and approved by a responsible official(s) of the governmental unit
- Salaries and wages solely charged to the program must be supported by periodic certifications that employees worked solely on that program for the reporting period

# Other Cost Documentation Issues

- **Incomplete projects:** If eligible activity delivery costs do not result in completed project, costs must be reallocated to administration or repaid from non federal sources
  - This includes costs to review applications which the grantee determines to be ineligible
  - Exception for housing rehabilitation
- **Ineligible costs:** If CDBG-DR is spent on ineligible items, that cost must be repaid to HUD from non-federal sources
- **Tie to CDBG-DR:** all costs regardless of whether administrative, planning, activity delivery or project cost must be tied to the qualifying disaster event



# Cost Principles



# Cost Principles

- In addition to other regulatory and programmatic considerations, costs must follow basic Cost Principles:
  - Necessary
  - Reasonable
  - Allowable
  - Allocable
- Refer to 2 CFR 200 Subpart E

# Necessary Costs

- A cost is generally necessary when it fills an eligible funding gap and is needed by the recipient
- Consider questions such as:
  - Is this cost necessary as a part of recovery for this beneficiary?
  - Does the beneficiary still need this assistance or is their funding gap covered in another way?
  - Does underwriting indicate that this assistance will create excess returns to the private beneficiary?

# Cost Reasonableness

- Cost is reasonable when it does not exceed what a prudent person would incur under similar circumstances
- Consideration should be given to:
  - Is cost necessary and appropriate?
  - Market prices for comparable goods and services
- Independent cost estimates should be conducted to evaluate reasonableness of contractor bids
  - Do not assume that simply choosing the lowest cost bidder is sufficient documentation of cost reasonableness
- Look at third party documentation of typical costs
  - Grantees commonly use either costing software or past experience for similar cost or web research

# Allowable Costs

- 2 CFR 200 Subpart E identifies allowable and unallowable costs
  - Some costs are never allowed (e.g., lobbying, entertainment, alcohol)
  - Some costs are allowed but with certain conditions (e.g., pre-award costs)
- Criteria for allowability:
  - Must conform to limitations
  - Must be in accordance with GAAP
  - Must not be included under another federally- funded program
  - Must be adequately documented



# Cost Allocability

- Determines where to attribute cost
- Process known as cost allocation method
- Found in cost allocation plan

# Other Key Items in Super Circular

- Financial management systems
- Procurement
- Conflict of interest
- Record keeping
- Audits

# Poll #4

- Which of the following costs would likely be OK CDBG-DR expenses under the cost principles:
  - An economic development project that provided a 30% return to the owner
  - Costs to replace damaged counter tops with new imported from Italy granite counter tops
  - The independent cost estimate is for \$1m and the lowest bidder is \$1.01m
  - Reimbursement of the state's human services agency for temporary housing expenses paid by federal SSBG funds
  - A portion of the state's annual tourism budget, with the hope of bringing economic revitalization after the storm



# Timeliness



# CDBG-DR Obligation & Expenditure Timelines

- Most CDBG-DR Congressional appropriations come with a specific timeline. Must review appropriation and FR related to your disaster for specific timelines
- Recent example from 113-2 (Sandy):
  - All obligations by September 2017
    - “Obligation” is defined as a funding agreement between state/local grantee and HUD
    - HUD allows grantees to request obligations in phases
  - Two years from date of obligation to expend all funds
    - HUD can provide limited extensions of the two year expenditure deadline

# Program Income



# Program Income

- Program Income (PI) follow:
  - 24 CFR 570.489(e) for State governments
  - 24 CFR 570.504 for Non-State governments
  - FR notice for your disaster
- Funds generated due to expenditure of CDBG-DR funding that are paid to state grantee, UGLG or a subrecipient
- Examples of PI-generating activities include:
  - Sale, lease or rental proceeds of real property acquired with/improved by CDBG-DR funds
  - Repayment of CDBG-DR loans



# Program Income (continued)

- Things that are not considered PI:
  - Total income generated by your specific CDBG-DR allocation and received by a state, unit of local government or retained by a subrecipient that does not exceed a specified annual threshold
    - Example for PL113-2 (Sandy): \$35,000 per year
    - See your FR notice for specific cut off
  - Funds generated and retained by nonprofits conducting activities under 105(a)(15) of the statute
  - Funds repaid to and retained by private beneficiaries (homeowners, businesses, etc)



# Program Income (continued)

- Must develop a system for tracking, reporting and monitoring PI
  - PI is not remitted back to HUD
  - Either is kept at grantee & its receipt/use is reported in DRGR
  - Grantee must have PI policies and procedures



# Poll #5

- Which of the following payments are not program income?
  - The principal plus interest on a CDBG-DR loan repaid to a grantee
  - A private business gets a CDBG-DR loan and returns to profitability
  - A grantee buys land using CDBG-DR and sells that land to a developer
  - A CBDO makes CDBG-DR small business loans under 105(a)(15) and receives repayments



# Program Income (continued)

- Expenditures of PI must meet all CDBG-DR rules such as:
  - Eligibility, tie to the storm, national objective
  - Included within the 50% LMI targeting requirement
  - Other federal requirements such as environmental review, Davis Bacon, Fair Housing, etc
  - Can take 5% of program income for administrative expenses
- Intended use of PI must be described in Action Plan

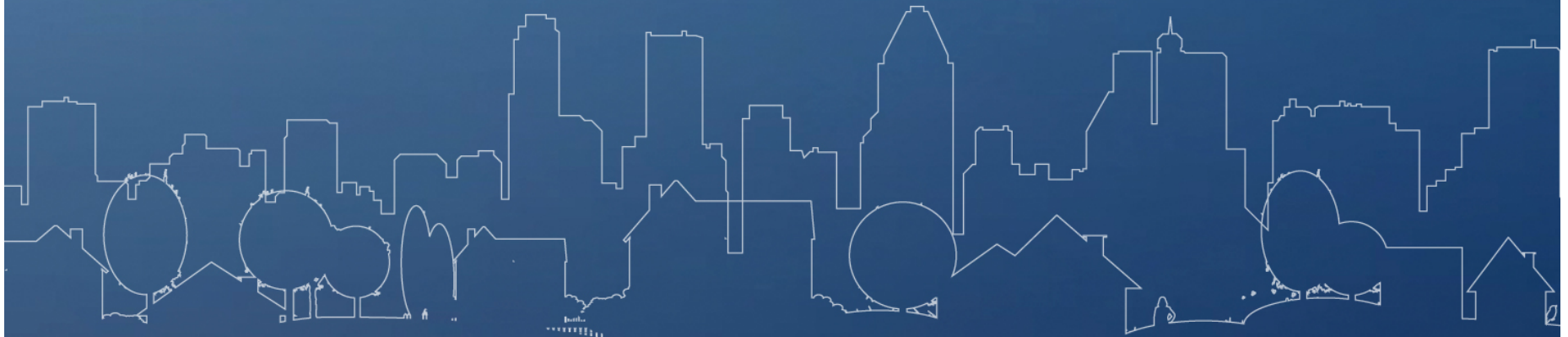




# Program Income (continued)

- Options for use of PI will differ by disaster/FR notice
- Cannot just hold PI until decide how to use it or for future activity
- Recent 113-2 example of options:
  - Grantee retains all PI and uses it before drawing down additional CDBG-DR funds from DRGR
  - Grantee allows subrecipients to retain and they use before they request additional CDBG funds from grantee
  - Grantee places PI into a revolving fund for a specific activity type – pays next bill for that activity type from that RLF
  - State grantee creates a revolving fund to distribute funds to UGLG for specific activities
  - Grantee transfers PI to its regular CDBG program
    - \$\$\$ loses its DR waivers and rather meets the regular CDBG rules

# Questions & Resources



# Resources

- Upcoming webinars in this series:  
<https://www.hudexchange.info/news/2016-cdbg-dr-webinar-series/>
- CDBG-DR Website at HUD Exchange:  
<https://www.hudexchange.info/programs/cdbg-dr/>
- 24 CFR 570: [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title24/24cfr570\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title24/24cfr570_main_02.tpl)
- HCD Act: <https://www.hudexchange.info/resources/documents/Housing-and-Community-Development-Act-1974.pdf>
- Toolkits: <https://www.hudexchange.info/programs/cdbg-dr/toolkits/>
- Notice CPD 13-07: Allocating Staff Costs Between Program Administration Costs versus Activity Delivery Costs in CDBG:  
<https://www.hudexchange.info/resource/3725/notice-cpd-13-07-allocating-staff-costs-program-administration-delivery-costs-cdbg/>
- 2 CFR Part 200: <https://www.hudexchange.info/resource/4957/uniform-administrative-requirements-cost-principles-and-audit-requirements-federal-awards-conforming-amendments/>

# Thank you!

