U.S. Department of Housing and Urban Development

Activity Delivery & Program Administrative Costs

April 21, 2011

Speakers and Format

- Speakers

  – Steve Johnson, HUD

  – John Laswick, HUD

  – Marsha Tonkovich, ICF

- How to ask questions

  – Change status in Live Meeting from green to purple

  – Press *1 to ask a question through Premiere Conference

    - Provide Name and Organization

    - If question already answered, press *2 to remove from queue

  – Change status back to green after question answered

Agenda

- Presentation on key topics:
  - Administrative costs
  - Program or activity delivery costs

- Discussion of common questions and answers

- Open session to take your questions!

Program Administrative Costs (PACs) Vs. Activity Delivery Costs (ADCs)

- **PACs** - are overall program management costs incurred by a grantee or subrecipient

  - Costs must be related to grant management

  - Costs are only allowable to pay administrative expenses of NSP-funded (in whole or in part) projects or activities
    - Example: NSP cannot pay for administration of McKinney Act programs or locally funded programs

  - Total allowable admin costs are capped

- **ADCs** - are actual implementation and delivery costs for carrying out NSP-assisted project, activity, or service
  - Not counted toward admin cap

Key NSP Roles & Responsibilities

- Grantee = organization under contract with HUD to administer funds

- Subrecipient = nonprofit or public agency that assists grantee to administer all or portion of NSP program

- Developer = for-profit or nonprofit entity that manages project financing, construction, resale
  - Must have site control
  - Takes on the risk of development

- If nonprofit undertaking both subrecipient & developer roles, must have separate contracts

Which Entities May Charge Program Administrative Costs?

- Only grantees and their subrecipients may incur and be reimbursed for PACs

  - Grantee decides if subrecipient can incur PACs, ADCs, or both types of costs, depending on their role

  - Subrecipient can charge admin costs but not profit/fees
    - PACs Counts toward 10% cap

  - Developers earn fees or profit for carrying out activities
    - They DO NOT administer programs; therefore cannot charge PACs to NSP program
    - Also cannot charge ADCs – these would be development costs

  - <u>Implication</u>: Grantees need to think carefully about how to categorize nonprofit partners, depending on their role

Types of Administrative Costs

- Generally are four types of admin costs:

  ❶ In-house management and staff costs

  ❷ Contract services costs

  ❸ Overhead costs

  ❹ Indirect costs

Program Administration Costs – Staffing & Contracted Services

- Typical admin costs may include but not be limited to:

  - Public information/outreach

  - Fair Housing compliance

  - Monitoring of projects/programs

  - Preparation of Action Plan amendments

  - Preparation and submission of quarterly reports

  - General program oversight (accounting, HR, management, etc.)

- These services may be done in-house or contracted out

PACs – Staffing & Contract Services (cont)

- Two options for calculating staff costs:
  - Entire salary/wages – PACs allocable when staff time is 100% program admin related duties <u>OR</u>

  - A pro-rata share of work that includes some admin

- Must choose only one option!

- Costs can include fringe

- Both grantees & subs must document staff hours by timesheets or other approved means

- Contracted costs must be backed up by invoices and assessment of cost reasonableness
  - Must be procured

Program Administration Costs – Overhead & Indirect Cost Rate

- Can include <u>NSP portion</u> of applicable overhead costs, such as:
    - Office space
    - Utilities
    - Copier/computers

- Can also charge using indirect cost rate
    - Shared costs spread across agencies and programs based on a percentage "rate"
    - Percent determined based on indirect cost allocation plan developed in accordance with A-87 or A-122 and approved by Federal Agency when required

Administrative Cap

- Planning and administration may not exceed the amount of:
    - 10% of NSP grant <u>and</u> NSP program income

- Can use CDBG admin $$$ for NSP admin, if needed
    - Counts toward CDBG 20% admin cap

- <u>Implication of cap</u>: Carefully consider which costs are counted toward general admin v. activity delivery and implementation

Activity Delivery Costs

- ADC = Costs allocable to implementing activities, such as:
  - Appraisals
  - Work specifications
  - Construction inspections and oversight
  - Underwriting
  - Relocation, environmental reviews, etc.
  - Counseling

- ADC do not count against NSP admin cap

- May have track to specific address depending upon DRGR set up & whether counted toward total development cost (TDC)

Activity Delivery Costs (cont)

- Can pay for ADC even if project does not proceed
  - Example: appraisal, inspection, enviro review for project that proves infeasible
  - Do not need to move these costs to 10% admin cap – keep within original eligibility category and DRGR set up
  - However, ADC should be reasonable in proportion to hard project costs
    - No hard and fast rule but majority of costs should be hard costs
  - If seeing significant proportion of projects that do not proceed, may want to assess your project selection process

Admin v. Activity Delivery Staff Costs

- PAC staff work on over-arching issues related to overall NSP grantee/subrecipient management
  - For subrecipients, most but not all NSP-related staff costs are ADC
  - Caution: must keep timesheets to demonstrate tie to NSP – cannot pay for general operating costs not associated with NSP

- ADC staff work on implementing specific NSP projects

- For staff who work on both ADC and PAC, use timesheet to allocate salary

Developer Fees v. Admin Costs v. Activity Delivery

- As noted earlier, developers cannot charge admin or activity delivery costs

- Developer fee is intended to cover their profit and overhead on deal
  - Developer overhead must be reasonable and covers back office costs related to undertaking NSP projects

- Developers may also charge reasonable actual soft costs (attorney, inspection etc) as part of total development costs

Developer Fees v. Admin Costs v. Activity Delivery (cont)

- May also have builder or general construction contractor involved in deal

- May be identity of interest with developer but total costs/returns must be reasonable

  - Builder may charge reasonable profit and overhead

  - Builder may also charge general requirements, which covers site costs related to managing that site (i.e. fencing, security, site office etc)

Activity Delivery Costs & DRGR

- Set up ADCs in DRGR tied to funded activity types

- In DRGR projects = Eligible Use A-E

- Activities are below and tied to projects:
  - **Project 1**
    - **Activity 1.A**
    - **Activity 1.B**
  - **Project 2**
    - **Activity 2.A**
    - **Activity 2.B**

- Elements of the activity budget:
  - Hard and soft costs
  - Activity delivery costs
  - Failed acquisition costs

- Note: Wholly different approach than CDBG & IDIS

Case Study – DRGR Activity Budget

- Total Budget for Acq/Rehab of Sub #1= $1MM

Acquisitions		Rehab Costs		Disposition Costs (i.e. Closing Costs)		Activity Delivery Costs		Failed Acquisitions		Total
$ 360,000	+	$ 596,000	+	$ 20,000	+	$ 14,000	+	$ 10,000	=	$ 1,000,000

Common Questions/Answers

- Is 25% low income targeting requirement applied to entire grant amount or only to 90% of grant that is not used for general administration?

- Can NSP1 administrative funds be used to cover NSP2 or NSP3 administrative costs?

- May NSP admin funds be used to pay A-133 audit costs?

- Are administrative and planning costs that were incurred prior to a grantee's NSP3 award date eligible for reimbursement as an administrative expense under NSP3 award?

Common Questions/Answers (cont)

- Can CDBG and HOME Program funds be used for activity delivery staffing cost or general administrative and planning staffing costs for implementation of NSP program?

- Do NSP funds appropriated for program administration automatically meet LMMH national objective?

- Are meetings/conferences and associated transportation costs eligible expenses under NSP program administration?

Common Questions/Answers (cont)

- How to track funding that is spent on properties that do not move forward? Would this go to administration as part of doing business or can it be counted as project delivery cost?

- When are activity delivery costs allowed vs developer fees and can one entity receive both for same project?

Please Give Us Your Feedback

- Answer a few short questions
- Link:

http://www.surveymonkey.com/s/Income_Activity_Admin