



Special Attention of:

All CPD Division Directors
State and Local Government CDBG-DR,
CDBG-MIT, & CDBG-NDR Grantees
All CPD Field Office Directors

Notice: CPD-2023-06

Issued: August 24, 2023

**Expires: This Notice remains in effect
until amended, superseded, or rescinded.**

SUBJECT: Allocating Costs between Program Administration Costs, Activity Delivery Costs, and Planning Costs for Community Development Block Grant Disaster Recovery (CDBG-DR) Grantees, Community Development Block Grant Mitigation (CDBG-MIT) Grantees, and Community Development Block Grant National Disaster Resilience (CDBG-NDR) Grantees.

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I. INTRODUCTION AND PURPOSE

On August 23, 2013, HUD's Office of Community Planning and Development (CPD) issued a Notice providing guidance for allocating staff costs titled, *Allocating Staff Costs between Program Administration Costs vs. Activity Delivery Costs in the Community Development Block Grant (CDBG) Program for Entitlement Grantees, Insular Areas, Non-Entitlement Counties in Hawaii, and Disaster Recovery Grantees* ([CPD Notice 13-07](#)). While CPD Notice 13-07 applied to the use of CDBG-DR funds, the Notice specifically excluded State CDBG grantees from the guidance and therefore, CPD Notice 13-07 also did not apply to the use of CDBG-DR funds by state grantees. As of the publication date of this new notice, CPD Notice 13-07 no longer applies to CDBG-DR, CDBG-MIT, or CDBG-NDR grants.

This Notice provides updated guidance, applicable to states and local government grantees receiving CDBG-DR, CDBG-MIT, and CDBG-NDR funds. It provides guidance on the allocation of costs between three cost categories: (1) Program Administration Costs; (2) Activity Delivery Costs; and (3) Planning Costs. For efficiency, references to "CDBG-DR" in the following sections also include CDBG-MIT and CDBG-NDR, unless specifically stated otherwise. **This Notice does not apply to other CDBG programs listed in CPD Notice 13-07.**

Finally, this Notice explains how these three cost categories intersect with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Requirements) located in 2 CFR part 200. The Uniform Requirements address cost allowability, cost reasonableness, allocable costs, applicable credits, and the composition of costs as either direct or indirect.

III. BACKGROUND

This Notice clarifies PACs, ADCs, and planning costs for the use of CDBG-DR funds by state and local government grantees. In the use of CDBG-DR funds, except as modified by waivers and alternative requirements, the State CDBG program rules at 24 CFR part 570, subpart I apply to state grantees receiving a CDBG-DR allocation. For insular areas, HUD waives the provisions of 24 CFR part 570, subpart F and imposes the alternative requirement that insular areas administer their CDBG-DR allocations in accordance with the regulatory and statutory provisions governing the State CDBG program, except as modified by applicable waivers and alternative requirements. For local government grantees, except as modified by waivers and alternative requirements, the regulatory provisions at 24 CFR part 570 governing the Entitlement CDBG Program apply.

HUD is publishing this notice because neither the Housing and Community Development Act of 1974 (42 U.S.C. 5301 et seq.) (HCDA), the Code of Federal Regulations, nor CDBG-DR *Federal Register* notices provide definitions that clearly distinguish between program administrative costs and activity delivery costs for state CDBG-DR grantees. Further, the CDBG Entitlement and State Programs do not contemplate the scale of disaster and mitigation planning associated with CDBG-DR funds or the planning-related waivers and alternative requirements that HUD generally provides to state CDBG-DR grantees. Therefore, this notice provides additional descriptions of state and local government grantees' program administrative costs, activity delivery costs, and planning costs for CDBG-DR grants. Generally speaking, these terms are understood as follows:

Program Administration Costs. Reasonable general costs (including carrying charges) of grant management that do not include staff and overhead costs directly related to carrying out other CDBG-DR eligible activities, since those costs are eligible as part of such activities.

Activity Delivery Costs. Allowable costs incurred for implementing and carrying out eligible CDBG-DR activities. All ADCs must be allocable to a CDBG-DR activity. ADCs include direct costs integral to the delivery of the final CDBG-DR assisted activity. In some circumstances, ADCs may include indirect costs, as further described below.

Planning Costs. Costs of data gathering, studies, analysis, and preparation of plans and the identification of actions that will implement such plans.

II.A. The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR Part 200, as amended (Uniform Requirements)

The Uniform Requirements at 2 CFR part 200 establish a uniform approach for determining costs and promoting effective and efficient program delivery for non-Federal entities. 2 CFR part 200 supersedes certain Office of Management and Budget (OMB) Circulars that HUD previously made applicable to grantees (e.g., A-87, A-122, and A-133). For CDBG-DR local government grantees, all of 2 CFR part 200 applies except those requirements that are excluded or modified by 24 CFR 570.502. On the other hand, grantees subject to State CDBG requirements are only required to comply with those part 200 requirements imposed by 24 CFR subpart I or a waiver or alternative requirement applicable to state CDBG-DR grantees.

All CDBG-DR grants are subject to Uniform Requirements in part 200, subpart E for costs chargeable to these grants: 200.403: Factors affecting allowability of costs; 200.404: Reasonable costs; and 200.405: Allocable costs. These requirements apply to the allocation of allowable staff costs to program administrative costs or otherwise CDBG-DR eligible ADCs.

Grantees should remember that the Uniform Requirements apply to non-Federal entities – meaning a state, local government, Indian tribe, Institution of Higher Education (IHE), or nonprofit organization that carries out a Federal award as a recipient or subrecipient. Non-Federal entity, in this case, does not include for-profit organizations or contractors. Grantees should review 2 CFR 200.331 to determine whether an entity is a subrecipient or a contractor.

II.B. Program Administration Costs

The statutory provision regarding the use of funds for administrative costs for state and local government grantees is in section 105(a)(13) of the HCDA (42 USC 5305(a)(13)). Local government grantees are subject to the PAC regulation at 24 CFR 570.206.

In past *Federal Register* notices, the Department has waived the regulations at 24 CFR 570.489(a)(1)(i) and (iii) governing administrative costs for states, resulting in the uniform treatment of administrative costs for state and local government grantees.

Generally, the appropriations acts for CDBG-DR grants impose a five percent cap on program administrative costs. Therefore, *Federal Register* notices impose this cap on PACs:

- 5 percent of the total grant amount for administrative costs (plus up to 5 percent of program income generated by the grant).

Grantees should reference applicable *Federal Register* notices to confirm the applicable administrative costs cap for their grant.

Beneficiaries (e.g., developers, business owners, and homeowners) are not recipients or subrecipients (see 2 CFR 200.1 and 570.500(c)) and therefore cannot incur PACs.

II.C. Activity Delivery Costs

In their descriptions of program administrative costs and planning costs, the CDBG Entitlement regulations at 24 CFR 570.205 and 570.206 include information that helps to define ADCs.

In distinguishing between ADCs and PACs, the CDBG Entitlement regulation at 24 CFR 570.206 notes that “staff and overhead costs directly related to carrying out activities [are] eligible under 570.201 through 570.204, since those costs are eligible as part of such activities.” In addition, the CDBG Entitlement planning regulation at 24 CFR 570.205(a)(4)(iii) and (iv) states that “...engineering and design costs related to a specific activity... are eligible as part of the cost of such activity under 570.201-570.204.”

State CDBG-DR grantees are not subject to 24 CFR 570.205 or 570.206. However, state CDBG-DR grantees may use the statements above in 570.205 and 570.206 as guidance regarding CDBG-DR ADCs.

Examples of ADCs allocable to CDBG-DR activities include the following:

1. Compensation of employees for the time devoted to the performance of implementing and carrying out a specific eligible CDBG-DR activity, such as carrying out a public service or implementing an ongoing housing rehabilitation program;
2. Cost of materials acquired, consumed, or expended by staff in carrying out a specific eligible CDBG-DR activity, such as the paper for housing rehabilitation program applications or uniforms for code enforcement staff working in most impacted and distressed areas; and
3. Travel costs incurred specifically for carrying out eligible activities, such as visits made to the job site of a housing rehabilitation activity to monitor progress before making progress payments.

Beneficiaries (e.g., developers, business owners, and homeowners) are not recipients or subrecipients (see 2 CFR 200.1 and 570.500(c)) and therefore cannot incur ADCs.

II.D. Planning Costs

Eligible planning activities are listed in section 105(a)(12) of the HCDA (43 U.S.C. 5305(a)(12)). The CDBG Entitlement regulation at 24 CFR 570.205 describes eligible planning, urban environmental design, and policy-planning-management-capacity building activities.

Generally, state and local government CDBG-DR grantees are subject to the following cap concerning planning costs:

- 15 percent of the total grant amount for planning expenses.

For more recent grants, this cap is imposed on all grantees through a waiver and alternative requirement. For older grants, this cap may have been imposed through a waiver and alternative

requirement or as a functional cap (because the grants were subject to a combined administrative and planning cap of 20 percent and an administrative cost cap of 5 percent).

The State CDBG program has specific requirements for planning-only grants and the way that they must meet a national objective. However, HUD typically modifies these requirements. *Federal Register* notices published for CDBG-DR grants often provide a waiver and alternative requirement for planning costs, because nearly all effective recoveries rely on some form of area-wide or comprehensive planning activity to guide overall redevelopment, independent of the ultimate source of implementation funds. To assist state CDBG-DR grantees in carrying out comprehensive planning initiatives, the Department typically waives the requirements at 24 CFR 570.483(b)(5) and (c)(3). Instead, states must comply with 24 CFR 570.208(d)(4) when funding disaster recovery-assisted, planning only grants, or directly administering planning activities that guide recovery in accordance with the applicable appropriations act.

In addition, the types of planning activities that states may fund or undertake are expanded under the HUD waiver and alternative requirement typically provided, to be consistent with those of the CDBG Entitlement program, described at 24 CFR 570.205 which defines planning as “activities which consist of all costs of data gathering, studies, analysis, and preparation of plans and the identification of actions that will implement such plans.” (24 CFR 570.205(a)). These planning activities may include functional land-use plans, open space plans, historic preservation plans, comprehensive plans, community recovery plans, the development of housing codes, zoning ordinances, and neighborhood plans. In the CDBG Entitlement program, these planning activities are presumed to meet a national objective under the requirements at 24 CFR 570.208(d)(4).

II.E. Direct and Indirect Costs

Regulatory requirements for distinguishing direct and indirect costs charged to Federal awards are provided at 2 CFR part 200. Depending on how a grantee or subrecipient classifies and allocates indirect costs under its Federal awards, a portion of indirect costs may be allocable to an eligible CDBG-DR activity, such as housing rehabilitation, and appropriately identified and treated as ADCs. However, grantees must remember that costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. A cost may not be assigned as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated as an indirect cost (2 CFR 200.403(d)). Generally, grantees should focus on assigning costs to the appropriate cost objective and when that’s not feasible, costs may be considered indirect. A brief discussion of these cost categories follows.

According to 2 CFR 200.1, a *cost objective* means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc.... A cost objective may be a major function of the non-Federal entity, a particular service or project, a Federal award, or an indirect cost activity, as described in 2 CFR Part 200 – subpart E (“Cost Principles”). Examples of cost objectives can include: the CDBG-DR grant award or a CDBG-DR funded activity or project.

Pursuant to 200.413, *direct costs* are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded

activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Typical direct costs chargeable to Federal awards are:

- a. Compensation of employees for the time devoted and identified specifically to the performance of those awards; and
- b. Cost of materials specifically for the purpose of those awards.

As an example of direct costs, grantees may charge travel costs incurred in the performance of direct services supported by the CDBG-DR grant or approved capital expenditures for an approved CDBG-DR project or activity.

Pursuant to 2 CFR 200.1, *indirect costs* are costs incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted without effort disproportionate to the results achieved. Typical indirect costs are:

- a. General and Administrative salaries and wages;
- b. Office building security services;
- c. Office supplies;
- d. Depreciation; and
- e. Rent.

However, under certain conditions, grantees may charge some costs that would normally be indirect as direct costs. For example, charging administrative and clerical staff costs as direct costs may be appropriate only if all of the following conditions are met:

- a. Administrative or clerical services are integral to a project or activity;
- b. Individuals involved can be specifically identified with the project or activity;
- c. Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- d. The costs are also not recovered as indirect costs.

2 CFR 200.413(b) provides additional examples of when certain costs that otherwise would be treated as indirect costs may be considered direct costs. Examples include the following when directly related to a specific cost objective:

- a. Extraordinary utility consumption;
- b. Costs of materials supplied from stock or services rendered by specialized facilities;
- c. Program evaluation costs; or
- d. Other institutional service operations.

III. ALLOCATION OF STAFF COSTS BETWEEN PACs, ADCs, AND PLANNING COSTS

The following table provides examples that help to distinguish between PACs, ADCs, and planning cost categories (however, this is not an exhaustive list and there are cases where costs can be eligible in multiple categories).

Table 1: Examples of Categories of Program Administration Costs, Activity Delivery Costs, and Planning Costs

PACs	ADCs	Planning Costs
<ul style="list-style-type: none"> • Some costs associated with the development of the Action Plan and subsequent updates or amendments (see Table 2) • Accounting and Financial Management • DRGR Recordkeeping • Overall Grant Management • Marketing and Outreach for Action Plan development & amendments • Monitoring of Programs and subrecipients • Internal Auditor activities • Non-specific Legal/accounting/HR/audit • Personnel/ Human Resources activities • Staff and contracted services for the above activities • Leased office space and general overhead operations 	<ul style="list-style-type: none"> • Developing activity specific policies and procedures (i.e., Housing Rehab program, Econ. Dev. program, Infrastructure program) • Processing applications for assistance • Project specific Environmental Review*, design, and engineering • Activity specific construction oversight • Project specific accounting and payments • Marketing and outreach to applicants and contractors for a specific activity • Applicant intake • Activity specific monitoring, oversight, and management • Activity specific legal services (drafting contracts, collections) • Activity specific staff and contracted services • All of the above activities for subrecipients 	<ul style="list-style-type: none"> • Some costs associated with the development of the Action Plan and subsequent updates or amendments (see Table 2) • Feasibility Studies • Marketing Studies • Comprehensive plans • Community development plans • Functional plans, in areas such as: Housing; Land use and urban environmental design; Economic development; Open space and recreation; Energy use and conservation; Floodplain and wetlands management; Transportation; Utilities; and Historic preservation • Capital improvement plans • Individual project plans (but excluding engineering and design costs related to a specific activity which are ADCs) • General environmental, urban environmental design and historic preservation studies

		<ul style="list-style-type: none"> • General environmental assessment- and remediation-oriented planning related to properties with known or suspected environmental contamination* • Strategies and action programs to implement plans, including the development of codes, ordinances, and regulations
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*Grantees should note that 24 CFR 570.205(a)(4)(iv) states, "the reasonable costs of general environmental, urban environmental design and historic preservation studies; and general environmental assessment- and remediation-oriented planning related to properties with known or suspected environmental contamination. However, costs necessary to comply with 24 CFR part 58, including project specific environmental assessments and clearances for activities eligible for assistance under this part, are eligible as part of the cost of such activities under §§ 570.201-570.204. Costs for such specific assessments and clearances may also be incurred under this paragraph but would then be considered planning costs for the purposes of § 570.200(g);" This is an example of a type of cost that could be allocated under multiple cost categories, grantees should have policies in place to treat these types of costs consistently across its programs and ensure compliance with caps on planning costs.

III.A. Allocating Costs Associated with the Development of the Action Plan

In the annual CDBG program, staff costs incurred in creating the Consolidated Plan/Action Plan and Consolidated Annual Performance and Evaluation Report (CAPER) are considered PACs. However, due to the scope and nature of CDBG-DR grants and the emphasis on data gathering, analysis, and planning for future disasters that must go into the development of CDBG-DR Action Plans, HUD has determined that some staff costs associated with the development of the action plan can be assigned as planning costs.

Generally, CDBG-DR grantees are instructed to create action plans that incorporate resilience planning and mitigation activities to prepare for future disasters (e.g., gathering data to analyze future disaster impacts influenced by climate change) while they also redevelop significant portions of their communities that have been destroyed and devastated by disasters. The larger scale nature of this planning effort involves more elements of typical planning activities: extensive data collection and analysis to develop an impact and unmet needs assessment and a mitigation needs assessment in coordination with other Federal agencies, HUD, and local partners. For these reasons, CDBG-DR grantees may assign *some* staff costs in developing the Action Plan as planning costs, as long as the costs are allocated consistent with existing Federal statutes, regulations, and the terms and conditions of the Federal award. Examples of eligible costs for each category are provided in Table 2. While all costs associated with developing the Action Plan can be assigned to PACs, grantees have the option of assigning certain costs listed below in the planning costs column as either planning or PACs.

Table 2: Examples of Costs Associated with the Development of the Action Plan that can be assigned as Program Administration Costs vs. Planning Costs

PACs	Planning Costs
<ul style="list-style-type: none"> • Costs related to providing local officials and citizens with information about the disaster recovery program or action plan. • Costs related to citizen participation and public comment including the provisions of information and other resources to residents and citizen organizations participating in the planning, implementation, or assessment of activities being assisted with CDBG-DR funds. • Costs to prepare program budgets and schedules, and amendments both in and outside of DRGR. • Costs related to the provision of fair housing services designed to further the fair housing objectives of the Fair Housing Act (42 U.S.C. 3601-20) by making all persons, without regard to race, color, religion, sex, national origin, familial status, or handicap, aware of the range of housing opportunities available to them. • Costs related to other fair housing enforcement, education, and outreach activities. • Costs for other activities designed to further the housing objective of avoiding undue concentrations of assisted persons in areas containing a high proportion of low- and moderate-income persons. 	<ul style="list-style-type: none"> • Costs related to data gathering, analysis, and the development of the impact and unmet needs assessment used to inform the grantee’s action plan. • Costs for Fair Housing planning activities, such as the assessment required to determine the impact CDBG-DR funds will have on protected class groups under fair housing and civil rights laws, vulnerable populations, and other historically underserved communities. • Costs related to data gathering, analysis, and the development of the mitigation needs assessment used to inform the grantee’s action plan. • Costs related to the required consultation with states, Indian tribes, local governments, Federal partners, nongovernmental organizations, the private sector, and other stakeholders and affected parties in the surrounding geographic area, including organizations that advocate on behalf of members of protected classes, vulnerable populations, and underserved communities impacted by the disaster, to ensure consistency of the action plan, including costs to consult with other relevant government agencies, including state and local emergency management agencies that have primary responsibility for the administration of FEMA funds, if applicable.

III.B. Program Administration Costs

The allocation of staff-time costs and overhead charges to PACs is eligible under 24 CFR 570.206 (for local governments) and section 105(a)(13) of the HCDA (42 USC 5305(a)(13). This provision allows "reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or in part [with CDBG funds]." As mentioned previously, generally the appropriations acts cap administrative costs at 5 percent of the grant. Accordingly, CDBG-DR grantees are permitted to use only up to five percent of the grant (plus five percent of program income generated by the grant) for administrative costs by the grantee, units of general local government, or subrecipients. Thus, the total of all costs classified as PACs for a CDBG-DR grant must be less than or equal to the five percent cap (plus five percent of program income generated by the grant).

In addition to imposing the statutory cap on PACs (which overrides the regulatory cap at 570.200(g) for local government grantees), for states, *Federal Register* notices governing CDBG-DR grant funds generally waive the provisions of 42 U.S.C. 5306(d) and 24 CFR 570.489(a)(1)(i) and (iii), and 24 CFR 570.489(a)(2) to the extent that they cap administration and technical assistance expenditures. For state grantees, 42 U.S.C. 5306(d)(5) and (6) are generally waived and replaced with the alternative requirement that the aggregate total for administrative and technical assistance expenditures must not exceed five percent of the grant, plus five percent of program income generated by the grant.

Where an individual performs both administrative functions and implements activity delivery functions for an eligible activity, the grantee may elect to charge all such staff costs to PACs, or allocate a portion of such costs as PACs, with the balance as ADCs. It is important to note that while ADCs may be charged as PACs, PACs may not be charged as ADCs. This means a program administrative cost like marketing and outreach of the CDBG-DR action plan must be charged as a PAC; it cannot be charged as an ADC to the various activities created in the action plan. Dividing costs between PACs and ADCs must be consistently applied and adequately supported, in accordance with 2 CFR 200.403. The method of classifying these costs should be documented in financial management policies and procedures.

- *Example (Labeling Costs as PACs and ADCs)*

A grantee's team hired financial and accounting staff who take on the tasks of both accounting and financial management for the entire grant (task one), as well as project-specific accounting and payments (task two). Referencing Table 1 above, task one would be categorized as PACs, while task two would be categorized as ADCs. A grantee must always submit costs (including salaries) for time spent on task one as PACs, since they are categorized as PACs. When submitting costs for the time spent on task two which is categorized as ADCs, the grantee does have the flexibility to submit as either ADCs or PACs.

When a state CDBG-DR grantee awards funds to a local government as a subrecipient or subgrantee it needs to determine if it, as the direct CDBG-DR grantee, should also award funds for PACs to the subrecipient or subgrantee. States may want to consider whether the local government will be managing just one single program or whether the local government will be managing multiple programs that span multiple activity eligibility types.

For example, is the local government only administering a housing rehabilitation program? Or is the local government administering a housing rehabilitation program, a buyout program, and working with a nonprofit to run a small business grant program in an underserved community?

If the answer to the first question is yes, and the local government is only administering a single housing rehabilitation program then the state may not need to award any PACs to the local government, because all of the local government's costs would be associated with the delivery of that single DRGR Activity (e.g. housing rehabilitation), and then the local government would not need to incur any costs that would be allocated as PACs. However, if the local government is administering multiple programs that span multiple eligible activity types or is awarding funds to other pass-through entities then the state may want to consider whether awarding a portion of its allowable PACs would make sense, since some costs incurred by the local government might be for the overall administration of all of the local government's programs and may not be easily associated with just one of its activities.

Generally, grantees should review their expenditure plans to make sure they are using their PACs in the most prudent way possible since generally *Federal Register* notices limit CDBG-DR PACs to only 5 percent of the total grant amount (plus 5 percent of program income). Grantees should calculate their need to cover PACs over the life of the grant and consider how much of their available program administrative funds should be spent at the beginning of the grant launch, the implementation phase, and the closeout phase, to ensure they don't hit their cap too early. This is especially important for CDBG-DR grantees who can submit an Action Plan for program administrative costs to access program administrative funds prior to the Secretary's certification of financial controls and procurement processes, and adequate procedures for proper grant management. If it's allowable and a CDBG-DR grantee chooses to submit the Action Plan for program administrative costs, the grantee should consider its need to cover program administrative costs over the life of the grant.

III.C. Activity Delivery Costs

It is important to recognize that staff time allocable as ADCs represents the actual time spent on implementing and completing an eligible CDBG-DR activity by the grantee or subrecipient that is carrying out that activity.

Care is warranted, as it is the grantee that is responsible for ensuring that staff costs incurred by subrecipients are allocated appropriately as PACs or ADCs as described in this Notice. Grantee staff may incur both ADCs and PACs in some cases. When there is a subrecipient carrying out an activity, but the grantee's staff may have some involvement in an oversight capacity, the grantee's costs for oversight cannot be charged as ADCs. For example, a grantee's staff costs for time to oversee and review preconstruction activities for a subrecipient would be classified as a PAC. However, if the grantee was directly managing pre-construction activity rather than the subrecipient, the cost would be classified as an ADC.

An additional example of ADCs would be staff time for a housing rehabilitation specialist working only on CDBG-DR projects, whose duties are to make home inspections, prepare work writeups, and inspect projects through completion. These staff costs would be 100 percent allocable as rehabilitation activity delivery costs. However, circumstances may require that the project incurs other staff costs for personnel that spend less than 100 percent of their time working for the rehabilitation program. For example, a project may need a city engineer to approve, inspect, and sign off on integral structural improvements. Hence, the cost of the engineer's staff-time in support of the activity is allocable as ADCs. However, the grantee must adhere to the cost principles for charging salary and fringe benefits in 2 CFR 200.430 and 200.431 and the requirements in 2 CFR 200.403 and 200.412 on policies about dividing costs

between PACs and ADCs, and that direct and indirect costs must be consistently applied and adequately supported. As a best practice, grantees can document hours spent on the engineer's staff time in support of the activity and charge the cost of those hours spent as direct costs to the activity. If the engineer's hours spent on the activity cannot be documented, the grantee may be able to include the engineer's entire salary in the indirect cost pool and thereby allocate to individual activities as part of indirect costs in accordance with 2 CFR part 200.

As another example, perhaps a project calls for the temporary relocation of a household while the removal of lead-based paint is performed for a housing rehabilitation project. Staff costs for those carrying out the relocation portion of the activity could be considered part of the ADCs for the housing rehabilitation activity.

ADCs are integral to the delivery of the final CDBG-DR assisted activity that achieves a national objective; therefore, ADCs are entirely allocable to that CDBG-DR activity. ADCs are not subject to the caps on administrative or planning costs. When a grantee is managing a program that achieves multiple national objectives, such as a housing rehabilitation program that ultimately serves low- and moderate-income (LMI) persons and then also meets the Urgent Need national objective criteria, if the costs are charged as ADCs, the ADCs can be allocated proportionately to the national objective achieved by the program. This can be done unless there is substantial evidence to the contrary (consistent with 24 CFR 570.208(a) and 570.489(b) or for compensation costs, the allocation would be inconsistent with 2 CFR 200.430 or 200.431). Alternatively, a grantee can maintain records for each cost that allow it to classify each ADC as attributable to a particular national objective.

For example, a grantee may operate a housing rehabilitation program with grant intake centers to accept and process housing rehabilitation applications, inspectors to assess damage and rehabilitation needs, or design consultants to prepare rehabilitation standards. The staff costs, overhead, and other eligible ADCs associated with these activities can be allocated to the activity proportionally to the funds disbursed under each of the two national objectives. Example 1 below illustrates how this would work:

Example 1:

Staff costs for an employee who spends 100% of work hours processing housing rehabilitation applications:

\$60,000

Grantee Action: Grantee allocates 80 percent of its rehabilitation program costs to rehabilitation activities that meet the LMI national objective and 20 percent of these costs to rehabilitation activities that meet the Urgent Need national objective:

$60,000 \times .8 = \$48,000$ in ADCs will be allocated to the LMI activity

$60,000 \times .2 = \$12,000$ in ADCs will be allocated to the Urgent Need activity

As the grantee charges costs to the grant, it can temporarily assign ADCs to a national objective based on its projections for how many units in the housing rehabilitation program will meet the LMI national objective criteria and how many units will meet the Urgent Need national objective criteria. However, if projections differ from final determinations about the national objectives

met by all units rehabilitated, the national objectives assigned to ADCs must be adjusted, if necessary, to reflect the proportion of actual completed units that meet each national objective.

III.D. Planning Costs

Planning costs are activities that support comprehensive planning. As discussed in section III.A., generally, CDBG-DR Action Plans must incorporate resilience planning and mitigation activities to prepare for future disasters (e.g., gathering data to analyze future disaster impacts influenced by climate change). This requires a larger planning effort involving extensive data collection and analysis to develop an impact and unmet needs assessment and a mitigation needs assessment in coordination with other Federal agencies, HUD, and local partners. For these reasons, CDBG-DR grantees may assign *some* staff costs of developing the Action Plan as planning costs, if it is allocated consistent with existing Federal statutes, regulations, and the terms and conditions of the Federal award. See Table 2 for more examples.

Project-specific planning activities that are undertaken to meet the national objective for a project or program may be classified as ADCs. ADCs of an activity that does not ultimately meet a national objective that include costs defined at 24 CFR 570.205 may be reclassified as planning costs (e.g., project specific environmental assessments and clearances). 24 CFR 570.205 states that “costs for such specific assessments and clearances may also be incurred under this paragraph but would then be considered planning costs” for the purposes of applicable caps on planning.

- *Example 2 (ADCs that qualify as Planning Costs):*
The grantee has clarified in its financial policies and procedures that staff and overhead costs to conduct environmental reviews are ADCs for its housing rehabilitation program, however during the process of conducting the environmental review for an activity the grantee finds that undertaking the rehabilitation activity would adversely affect the environment according to NEPA standards. Since the program took all appropriate steps and found in the process of undertaking the eligible activity that the site was infeasible, the grantee appropriately took action to stop the activity and instead move forward with other activities that will successfully meet a national objective. In this case, the grantee reclassifies the ADCs for the activity-specific environmental assessments and clearances as planning costs (since they are eligible costs under 24 CFR 570.205), keeping in mind that the grantee must limit planning costs to 15 percent of its grant.

III.E. Ineligible Costs

General administrative affairs of government. Section 102(a)(21) defines the term “buildings for the general conduct of government” to mean “city halls, county administrative buildings, state capital or office buildings, or other facilities in which the legislative or general administrative affairs of the government are conducted. Such term does not include such facilities as neighborhood service centers or special purpose buildings located in low- and moderate-income areas that house various non-legislative functions or services provided by government at decentralized locations.” Per Section 105(a)(2) and 105(a)(14) of the HCDA and 24 CFR 570.207(a)(1), buildings or portions thereof used for the general conduct of government cannot be assisted with CDBG-DR funds. HUD’s Office of General Counsel has stated the “general administrative affairs of government” consists of overall departmental and program management and operation functions of a state or local government, including executive, management, and

clerical functions; and purely administration functions such as personnel, legal, and accounting departments.

Inherently Governmental Responsibilities. Generally, *Federal Register* notices governing CDBG-DR grant funds note that CDBG-DR grantees (or a procuring entity) may contract for administrative support, in compliance with 2 CFR 200.459, but may not delegate or contract to any other party any inherently governmental responsibilities related to oversight of the grant, including policy development, fair housing and civil rights compliance, and financial management.

IV. NATIONAL OBJECTIVE REQUIREMENTS

IV.A. Requirements

All CDBG expenditures must be made for eligible activities that result in the achievement of one of three national objectives: (1) provides benefit principally to persons of low- and moderate-income (LMI); (2) aids in the prevention or elimination of slums or blight; or (3) meet a need having a particular urgency that the grantee is unable to finance on its own. For CDBG-DR, grantees should consult their applicable CDBG-DR *Federal Register* notices on any waivers or alternative requirements pertaining to the national objective criteria. Generally, when HUD finds that all costs fail to achieve a national objective, HUD's recommended corrective action instructs the grantee to repay the costs of the activity from a non-Federal source.

Generally, PACs are presumed to meet a CDBG national objective because such costs are generally made in support of other CDBG-eligible activities that meet a national objective. Thus, PACs are not included in the calculation of the 70 percent overall LMI benefit requirement at 24 CFR 570.200(a)(3)(i) and 570.483(f).

Planning expenditures (HCDA section 105(a)(12) and 24 CFR 570.205) made in support of the CDBG program are generally presumed to benefit low- and moderate-income persons in the same proportion that LMI persons benefit from the expenditure of all other CDBG funds. Thus, these costs are also not included in the calculation of the 70 percent overall LMI benefit requirement at 24 CFR 570.200(a)(3)(i) and 570.483(f). While this presumption does not apply to the expenditures for planning-only activities in the State CDBG Program, for CDBG-DR, HUD typically imposes a waiver and alternative requirement that 24 CFR 570.208(d)(4) applies to states when funding disaster recovery assisted, planning-only grants, or when directly administering planning activities that guide disaster recovery, meaning that these are treated as CDBG funds expended for planning costs under 24 CFR 570.205 and will be considered to address a national objective.

IV.B. Disaster Recovery and Grant Reporting (DRGR) System

All DRGR Activities must be tied to DRGR Project Budgets that include all similar activities grouped by categories, such as major programs outlined in the published Action Plan or DRGR Public Action Plan (e.g., Housing, Economic Development, Infrastructure). To facilitate the proper management of ADCs, the Department advises that if the national objective and the Activity Type are the same, then developments, contracts, projects, or programs can be consolidated into a single DRGR Activity. Grantees cannot create stand-alone DRGR Activities for ADCs.

- *Example 3 (Infrastructure):*
A subrecipient (unit of local government) has 10 storm water management projects that they plan to reconstruct. The projects will all improve flood mitigation in LMI areas. The national objective is LMA, and the Activity Type is “MIT - Public Facilities and Improvements-Covered Projects Only.” Since the national objective and the DRGR Activity Type are shared by all the projects, all 10 projects will be reported as one DRGR Activity. The planned Performance Measures for this DRGR Activity example are: 10 storm water projects implemented, 20,000 cubic feet of storm water management area constructed, and 15,000 linear feet of streams restored.
 - Alternatively, if two of the 10 storm water management projects were later identified to meet an Urgent Need national objective instead of the LMA national objective, the grantee would group those two Urgent Need projects into their own stand-alone DRGR Activity since they share a national objective and Activity Type. The grantee would then have two DRGR Activities (one for eight LMA storm water projects and one for two Urgent Need storm water projects) under its DRGR Project Budget for Infrastructure and would ensure that the ADCs were allocated proportionately to each national objective activity grouping.

V. OTHER FINANCIAL MANAGEMENT REQUIREMENTS – APPLICABLE CREDITS

The regulation at 2 CFR 200.402 provides, “the total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits.” The regulation at 2 CFR 200.406 defines applicable credits as those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect costs. To the extent that such credits accruing to or received by the grantee relate to allowable costs, they must be credited to the CDBG-DR grant either as a cost reduction or cash refund, as appropriate. In some instances, the amounts received to finance activities or service operations of the grantee should be treated as applicable credits. Specifically, the concept of netting such credit items must be recognized in determining the rates or amounts to be charged to the grant.

In general, applicable credits reduce the net amount of CDBG-DR funds necessary to carry out an eligible CDBG-DR activity. Examples of transactions that generate applicable credits may include:

- a. The collection of loan application fees that do not exceed the cost of processing an application, when the fee amounts are returned to the grantee’s program account to defray a cost charged to the CDBG-DR grant by the grantee or subrecipient. For example:
 - Loan application fees for financial assistance to rehabilitate privately-owned multifamily housing that is eligible under section 105(a)(4) of the HCDA or 24 CFR 570.202. Such fees to defray the grantee or subrecipient’s direct costs paid with CDBG-DR funds are often collected to assure the applicant’s commitment to providing the necessary underwriting and compliance documentation for the project.

- o The collection of loan application fees for provisions of financial assistance to for-profit businesses to carry out economic development projects, eligible under section 105(a)(17) of the HCDA or 24 CFR 570.203(b). Such fees are collected to assure a commitment from the applicant/borrower to provide documentation necessary for the grantee to conduct prudent financial underwriting.
- b. Application or receipt of purchase discounts, rebates, or allowances, and accounting for adjustments for overpayments or erroneous charges associated with an eligible activity.
- c. Collection of code enforcement fines, but only if (1) the cost of the code inspections and enforcement and/or the inspectors' salaries must have been wholly or partially paid for with CDBG-DR funds, and (2) the intended purpose of the code enforcement fine (as reflected in local law, handbook, manual, etc.) is to recover the costs incurred for the code enforcement activities without regard to the source of funds for payment of the code enforcement activities.

VI. CONCLUSION

This guidance clarifies the procedures for allocating costs among the following cost categories: Program Administration, Activity Delivery, and Planning. This guidance also explains the reporting of similar projects in DRGR, allowing for more efficient oversight as well as a more efficient allocation of ADCs. Grantees must continue to comply with the Cost Principles.

For further information: Grantees with questions concerning this notice should direct their inquiries to their Grant Managers or CPD Representatives. Field Offices should direct their questions to the Office of Disaster Recovery at (202) 708-3587.