

City of Elizabeth

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

and/or

EMERGENCY SOLUTIONS GRANT (ESG)



Fiscal Year 2017-2018 (CD-43)

RESOURCE MATERIALS

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ADMINISTRATIVE COSTS
VS.
ACTIVITY DELIVERY COSTS (ADC's)

U.S. Department of Housing and Urban Development
Community Planning and Development



Special Attention of:

Notice: CPD 13-07

All CPD Division Directors
All CDBG Grantees

Issued: August 23, 2013
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SUBJECT: 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

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I. INTRODUCTION AND PURPOSE

There has been much confusion when determining whether a staff cost should be allocable as a program administrative cost or an activity delivery cost, as well as confusion over the treatment of direct or indirect costs associated with these two cost categories.

This Notice provides guidance on the allocation of staff costs for the CDBG program between two cost categories: (1) general program administrative costs, as related to overall program planning and CDBG grant administration; and (2) activity delivery costs, as related to implementing and carrying out specific CDBG-eligible activities.

HUD recognizes that the existing use of “administration” throughout its regulations can cause confusion. To clarify, the Office of Block Grant Assistance will use the term PACs for Program Administrative Costs and ADCs for Activity Delivery Costs, in order to differentiate between the two.

The Office of Management and Budget (OMB) establishes principles to maintain a uniform approach for determining costs and promoting effective program delivery and efficiency. The most applicable sections to the CDBG program are: OMB Circular A-87, which has been relocated to 2 CFR Part 225, and contains the Cost Principles for State, Local, and Indian Tribe Governments, and OMB Circular A-122, which has been relocated to 2 CFR Part 230, and contains the Cost Principles for Nonprofit Organizations. The basic guidelines address the following aspects of costs: the factors of cost allowability, cost reasonableness, allocable costs, applicable credits, and the composition of costs as either direct or indirect. These principles also provide guidance for allocating allowable costs to program administration costs or activities with final cost objectives (see Appendix C for definition of final cost objectives) to activity delivery costs.

The Insular Areas (Guam, Virgin Islands, American Samoa, Trust Territory of the Pacific Islands, and the Northern Mariana Islands) and Nonentitlement Areas in Hawaii follow the Part 570 regulations for entitlement communities regarding PACs and ADCs. The treatment of these costs for the State CDBG program is not addressed in this guidance.

II. BACKGROUND

Program administration costs (PACs). The statutory provision regarding the eligible use of CDBG funds to pay PACs is section 105(a)(13) of the Housing and Community Development of 1974, as amended (the HCDA). The general program administration regulations are codified at 24 CFR 570.205 and 570.206. Costs attributable to program administration are limited in that not more than 20 percent of the annual grant, and the estimated amount of program income to be received during the grantee’s current program year, can be obligated by entitlement grantees, Insular Areas, and Nonentitlement Counties in Hawaii for such costs. The 20 percent limitation is not contained in the HCDA, but has been included in annual appropriations acts for the CDBG program since 1978. The limitation on program administration costs is codified at 24 CFR 570.200(g). Examples of program administration costs allocable to the CDBG program include the following:

1. Salaries of executive officers and staff with general program oversight responsibilities;
2. Leased office space for staff employed in carrying out the CDBG program;
3. Staff time spent for the development of general CDBG program policies and procedures, such as the monitoring of overall program performance;
4. Staff time spent for the development of the Consolidated Plan/Action Plan and Consolidated Annual Performance and Evaluation Report (CAPER); and
5. Administrative services performed under third-party contracts, such as legal, accounting, and auditing services or development of the Consolidated Plan.

As noted above, under the authority of 24 CFR 570.206, CDBG funds may be used to pay staff costs for persons responsible for general CDBG program administration as a whole. These general PACs cover such positions as a community development director, urban planner generalists, and general administrative and clerical staff. In addition, staff costs associated with compliance oversight and monitoring of a grantee's subrecipients would generally fall under the program administration cost category as well unless such costs may be allocated to a final cost objective.

Activity delivery costs (ADCs). ADCs are those allowable costs incurred for implementing and carrying out eligible CDBG activities. All ADCs are allocable to a CDBG activity, including direct and indirect costs integral to the delivery of the final CDBG-assisted activity. CDBG expenditures for activity delivery costs are not governed by 24 CFR 570.205 and 570.206.

To recognize the difference between ADCs and PACs, 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, 24 CFR 570.205(a)(4)(iii) and (iv) state 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." Examples of ADCs allocable to CDBG activities include the following:

1. Compensation of employees for the time devoted to the performance of implementing and carrying out a specific eligible CDBG activity, such as carrying out as 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 activity, such as the paper for housing rehabilitation program applications or uniforms for code enforcement staff working in eligible 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 ensure legitimate progress payments.

Direct and Indirect Costs. All costs are either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. General standards and guidelines for determining direct and indirect costs charged to Federal awards are provided at Appendix A to 2 CFR Part 225.

According to Appendix C, Section E, direct costs are those that can be identified specifically with a particular final cost objective. Typical direct costs chargeable to Federal awards are compensation of employees for the time devoted and identified specifically to the performance of those awards; the cost of materials acquired, consumed, or expended specifically for the purpose of those awards; equipment and other approved capital expenditures; and travel expenses incurred specifically to carry out the award. In addition, any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

According to Section F of Appendix A, general indirect costs are those 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. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

III. ALLOCATION OF STAFF COSTS

A. Program Administration Costs (PACs)

The allocation of staff-time costs and overhead charges to general program administration is eligible under 24 CFR 570.205 and 570.206. These provisions allow "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 set forth at 24 CFR 570.200(g), HUD will find a grantee in compliance with this requirement if the grantee limits the amount of CDBG funds *obligated* for planning plus administration during each program year to an amount not greater than 20 percent of the sum of its entitlement grant made for that program year plus the estimated amount of program income to be received by the grantee and its subrecipients during that same program year.

1. The National Objective and Proportional Costs

The HCDA requires that CDBG expenditures be made for eligible activities that result in meeting 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. However, general PACs are not required to meet a specific 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* calculated under the 70 percent overall LMI benefit requirement at 24 CFR 570.200(a)(3)(i).

Where an individual performs general administration functions and implements specific eligible CDBG activities under 24 CFR 570.201-204, the grantee may elect to charge *all* of such staff costs to the program administration category, or *only a portion* of such costs to program administration, with the balance of CDBG-eligible costs allocable to the activity as ADCs. It is important that the grantee ensure that only ADC-eligible costs are charged to this category. However, PACs may not be charged as ADCs. It is also important that the treatment of dividing allocable costs between PACs and ADCs is consistently applied and supported by staff timesheet documentation relative to specific eligible activities.

2. Urban County and Subrecipient Administrative Costs

An urban county entitlement grantee must be especially cognizant of allocating staff costs for general administration and oversight of its CDBG program. To carry out any eligible CDBG activity, the county can use its own staff, the staff of a unit of general local government (UGLG), a subrecipient's staff [as defined in 24 CFR 570.500(c)], or contractor's staff [as procured in compliance with 24 CFR 570.85.36]. An urban county has a unique relationship with an UGLG, as it is required to impose upon a participating UGLG the same requirements that apply to a subrecipient [See 24 CFR 570.501(b) and 570.503 requirements]. Persons responsible for administering the general CDBG program as a whole either at the county level or the UGLG level would incur staff costs allocable to the general program administration costs category [24 CFR 570.206] and thus be subject to the 20 percent cap. (HUD has issued previous guidance on subrecipient agreements and grantee management in "*Managing CDBG: a Guidebook for Entitlement Grantees on Subrecipient Oversight*," March 2005.)

UGLGs are generally awarded CDBG funds by the urban county and treated as subrecipients to carry out eligible activities within the county's boundaries. The county uses its staff to administer UGLG cooperation agreements and monitor UGLG performance as appropriate. Notwithstanding, a question may arise regarding the salary of a person that works for the UGLG that is carrying out a series of eligible activities, as there may be instances in which the UGLG staff generally administer the contract and contract performance, and carry out a portion of the associated ADCs for a project with a final cost objective. In such instances, the UGLG's staff time shall be prorated and allocated to each cost category (PACs and ADCs) accordingly. Care is warranted, as it is the urban county that is responsible for ensuring that staff costs incurred by the UGLG are allocated appropriately as PACs or ADCs as described in this Notice. County staff may incur both ADCs and PACs in some cases. An example is conducting or attending job walks, bid openings, and pre-construction conferences for construction projects. If the urban county is overseeing and reviewing preconstruction activities for a participating UGLG, the cost would be classified as a PAC. However, if the county was directly managing pre-construction activity rather than the UGLG, the cost would be classified as an ADC.

Grantees are reminded to monitor activities carried out by their staff and their subrecipients to ensure that general administrative costs are not inappropriately charged as activity delivery costs as a means to avoid the 20 percent program administration cap. Moreover, all costs must be allocable as either direct or indirect costs according to 2 CFR 225.

3. Allocating other CPD programs' administrative costs to CDBG

Grantees may charge other formula program [e.g., HOME, ESG, or HOPWA] PACs to the CDBG program in certain circumstances, subject to the limitations below. However, this is not permitted with CDBG Disaster Recovery funds. PACs are allocable to other formula CDBG programs in proportion to the amount of time staff spend working on such programs, or with regard to managing activities in support of other programs, such as is the case with the use of CDBG to pay general program administration costs for the HOME program [24 CFR 570.206(i)(2)]. However, it is critical to note that where such costs are collectively treated as program administration because they are subject to the CDBG program's overall 20 percent cap on PACs.

Grantees must maintain adequate records and documentation in support of all costs, as set forth in the following sections of the regulations: 24 CFR 570.502 and 570.506; and Part 85.20, standards for financial management systems. Additionally, the grantee's records should clearly show there is a consistent treatment of like costs under similar circumstances.

- a. *HOME and EZ/EC Costs.* Section 105(a)(13) of the HCDA and 24 CFR 570.206(i) provide that CDBG funds may be used to pay costs for carrying out the overall administration of a *federally* designated Empowerment Zone (EZ) or Enterprise Community (EC), and the Affordable Housing Program (HOME) under 24 CFR Part 92 and 24 CFR 570.206. Renewal Communities (RCs) are not included as eligible communities under this statutory and regulatory provision. CDBG funds may be used to pay a combination of PACs for these EZs, ECs, and the HOME program; however as noted earlier, the combined costs for using CDBG in this manner is subject to CDBG's overall 20 percent cap. To illustrate, in a current program year, if a grantee decides to obligate 10 percent of its program administration budget for the HOME program, then it must limit its obligations for its CDBG program administration costs to 10 percent in the same program year.

Section 105(a)(20) of the HCDA states that CDBG funds may be used to pay for housing services associated with projects assisted under the HOME program. This CDBG eligible activity was promulgated under 24 CFR 570.201(k) in the Entitlement program. Hence, while HOME program administration costs remained eligible under Section 105(a)(13) of the HCDA and 24 CFR 570.206(i) in the Entitlement program, HOME ADCs became eligible under 24 CFR 570.201(k). (See section III B. of this Notice for further discussion of ADCs under the HOME program.)

- b. *ESG, SHP, HOPWA Costs.* As a general rule, neither the statute nor the regulations provide for the use of CDBG funds to pay PACs *solely* for the administration of the following CPD programs: Emergency Solutions Grant (ESG) program, the Supportive Housing Program (SHP) program, RCs, or the Housing Opportunities for Persons with AIDS (HOPWA) program. For example, a staff person in a general administrative position that works only for the ESG program may not be paid with CDBG funds for their time spent on the ESG program.

Notwithstanding, there are circumstances where CDBG funds may be used for staff administration costs associated with eligible ESG, SHP, or HOPWA activities (such as homeless services, health screening, or job training). CDBG funds may be used to pay PACs attributable to any of these programs if the activities carried out are otherwise CDBG eligible and meet all CDBG requirements (e.g., eligibility, national objective compliance, and environmental review requirements). For example, when a staff person spends most of his/her time administering the CDBG program, and a small part of their time carrying out general administrative functions for the ESG program, the *only* administrative staff time allocable to the CDBG program is that time spent on administering the CDBG program and carrying out CDBG-eligible ESG activities.

- c. *Consolidated Plan and Annual Action Plan Costs.* Another circumstance where costs are eligible as CDBG PACs is when the grantee is preparing its Consolidated Plan and/or annual Action Plan [24 CFR Part 91]. During this program administration exercise, staff costs associated with all of the components of completing the Consolidated Plan to be assisted by any or all four CPD formula grant programs (CDBG, HOME, ESG, and HOPWA) to be identified in the Consolidated Plan and annual Action Plan may be allocated to the CDBG program as PACs. [See 24 CFR 570.205 and .206.]

4. Other types of eligible administrative staff costs

- a. *Administrative expenses to facilitate housing.* Often grantees ask whether or not they can charge planning and financial administrative costs for housing to the CDBG program under 24 CFR 570.206(g). However, 24 CFR 570.206(g) refers to housing identified in a recipient's Housing Assistance Plan (the HAP), which is no longer in use and was replaced by the Consolidated Plan. Inasmuch as the Consolidated Plan includes non-housing activities, and is not exclusively limited to low- and moderate-income persons, the Department has determined that 24 CFR 570.206(g) cannot be read to substitute costs related to the Consolidated Plan for costs formerly eligible in connection with the HAP. However, if a specific activity is construed to involve a HAP-type implementing activity, the Department is willing to consider a waiver of this section of the regulations to permit the expenditure of CDBG funds for statutorily permissible planning and administrative expenses designed to facilitate housing development. The Assistant Secretary for Community Planning and Development (CPD) will make the final written determination with regard to a CPD program waiver.
- b. *Activities to further fair housing.* The costs associated with the development of an analysis of impediments to fair housing and development and implementing local initiatives to affirmatively further fair housing may be allocated to the Consolidated Planning activity as program administration costs. Alternatively, certain fair housing activity costs, such as housing counseling, may be CDBG-eligible and allocable as activity delivery costs.

5. Ineligible Costs

General administrative affairs of government. Per Section 102(a)(21) 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 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, including executive, management, and clerical functions; and purely administration function such as personnel, legal, and accounting departments.

6. Identifying A Final Cost Objective

In the initial stages of creating a project, there may be general administrative costs allocable as PACs; however, as the project progresses, such costs may qualify as implementing ADCs and linked to the final cost objective. This is consistent with treating costs that support the final cost objective. For example, costs identified as PACs at the onset of a project, such as preparing a request for proposal, reviewing bid proposals, and preparing contract documents, may be administrative in nature, but if such costs are part of the implementation of the activity and can be identified with a final cost objective, then allocating such staff costs as ADCs is the appropriate cost treatment.

On the other hand, a grantee must be aware of the risk associated with initiating a project that does not materialize or reach fruition and, therefore, does not meet a CDBG national objective or a final cost objective. In such cases, the incomplete activity will most likely be determined ineligible and the staff costs disallowed or possibly considered general administrative costs. When such costs are assigned as PACs, the grantee's obligations may exceed the 20 percent program administration cost limitation. Accordingly, HUD may advise the grantee to repay its CDBG program line-of-credit with non-federal funds for the amount in excess of the 20 percent cap.

Grantees must maintain adequate records and documentation in support of all costs, as set forth in 24 CFR 570.502 and 570.506, and Part 85.20, standards for financial management systems. Additionally, the grantee's records should clearly show there is a consistent treatment of like costs under similar circumstances.

There has been confusion in allocating staff costs associated with complex activities designed to operate as programs. Such activities include housing rehabilitation programs, economic development loan programs, microenterprise development programs, and homebuyer assistance programs. To be clear, housing rehabilitation administration is the only activity that has a separate IDIS matrix code that allows for the allocation of administrative costs as ADCs. This category is used to charge housing rehabilitation administration costs for all CDBG-assisted housing rehabilitation and housing rehabilitation carried out using other funding sources that meet all CDBG program requirements. For other program-type activities, general program administrative costs are treated as PACs and subject to the 20 percent cap. For this reason, grantees operating programs must use care in identifying which costs can be consistently treated as ADCs (i.e., part of delivering a final cost objective) versus those costs that are identified as general administration costs. See Table 1 below regarding the allocation of costs and HUD's

Integrated Disbursement and Information System (IDIS), Matrix Codes. The table shows eligible activities, the proper cost category, statutory and regulatory references, and the IDIS matrix codes.

Table 1 - Allocable PACs and ADCs for eligible activity program-type costs

Program	Cost Categories (PACs or ADCs)	HCD Statute	Regulation	IDIS Matrix Code
Rehabilitation - Admin. Services	ADCs	105(a)(1)	570.202(b)(9)	14H - <u>Not</u> Subject to the 20% cap, but included as ADCs
Types of Eligible Buildings and Improvements	ADCs	105(a)(1)	570.202(a)(1-4)	14A
HOME - Admin. Costs	PACs	105(a)(13)	570.206(i)(2)	21H - All Non-ADCs subject to 20% CDBG Cap
HOME Services Eligible under CDBG	ADCs	105(a)(20)	570 201(k)	14J
Special Economic Development Admin.	PACs	105(a)(13)	570.206	20 and 21A - All Non-ADCs subject to 20% CDBG Cap
Special ED Activity Delivery & Services	ADCs	105(a)15)	570 203(a), (b) and (c)	17A, 18A, 18B
Microenterprise Program - Admin. Costs	PACs	105(a)(13)	570.206	20 - All Non-ADCs subject to 20% CDBG Cap
Microenterprise Delivery Costs for Activities	ADCs	105(a)(23)	570 201(o)	18C
Homeownership Assistance Program Admin.	PAC	105(a)(25)	570.201(n)	20 - All Non-ADCs subject to 20% CDBG Cap
Homeownership Assistance Delivery Costs	ADCs	105(a)(23)	570.201(n)	13
PACs = Program Administration Costs ADCs = Activity Delivery Costs				

Table 2 below presents the IDIS matrix codes that may be used when charging costs to program administration.

Table 2 – IDIS Matrix Codes for Program Administration Costs

<u>Matrix Code</u>	<u>Eligible Activity</u>	<u>Regulatory Citation</u>
20	Planning	24 CFR 570.205
21	General Program Administration	24 CFR 570.206
21B	Indirect Costs	24 CFR 570.206
21D	Fair Housing Activities	24 CFR 570.206
21E	Submission of Applications for Federal Programs	24 CFR 570.206

B. Activity Delivery Costs (ADCs)

1. General

Activity delivery costs (ADCs) are those costs *not* subject to the 20 percent limitation for PACs. ADC staff costs are considered part of the costs for carrying out an eligible CDBG activity pursuant to 24 CFR 570.201 – 570.204. Accordingly they are treated as part of the total cost for delivering a final cost objective under the CDBG program. This is the only limiting requirement – that ADCs are incurred in order to implement and carry out specific CDBG-assisted activities. 24 CFR 570.205(a)(4)(iii) affirms this as it states, “...engineering and design costs related to a specific activity... are eligible as part of the cost of such activity under 570.201-570.204.”

At times the initial costs for an eligible CDBG activity may be treated as administrative costs; however, in the activity’s final accounting, it may be more appropriate to treat these costs as ADCs. Generally, for example, staff costs for performing environmental reviews or housing relocation work are considered part of the total ADCs associated with the underlying CDBG-assisted activity. At times, incurring up-front costs may appear PACs in nature, but upon completion of the activity these costs can re-allocated as ADCs. As an example, if staff time spent for preparing and issuing a request for proposals (RFP) for multifamily housing rehabilitation, reviewing and selecting bids, and preparing contract documents and notices to proceed can be identified as part of the final cost objective, then allocating these costs as ADCs is the appropriate cost treatment for those properties that proceed to completion and occupancy.

Notwithstanding, there is risk in allocating costs in this manner. Where an activity is not completed, or the activity does not meet a CDBG national objective, the up-front costs must be allocated as PACs because they cannot be associated with achieving a final cost objective. In such cases where this would result in obligations or expenditures exceeding a grantee’s 20 percent program administration cap, HUD may advise the grantee to repay its CDBG program for any amount above the cap with non-federal funds. In the above example, staff time spent reviewing proposals for multifamily housing rehabilitation projects that do not proceed to completion cannot be charged as ADCs, as there is no funded activity (and no final cost objective) to charge them to.

It is important to recognize that staff time allocable as ADCs represents the actual time spent on implementing and completing an eligible CDBG activity. For example, staff time for a housing rehabilitation specialist, whose duties are to make home inspections, prepare work write-ups, and inspect projects through completion, 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 improvement. Hence, the engineer’s staff-time can be prorated and allocable as ADCs in support of the final cost objective.

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 activity could be considered part of the

ADCs for the housing rehabilitation activity as a whole. (See also the IDIS Matrix Code 14H definition regarding housing rehabilitation administration as activity delivery costs.)

CDBG funds may be used for ADCs in conjunction with other CPD formula grant activities (e.g., assisted with HOME, ESG, or HOPWA) where the activity is otherwise CDBG eligible and meets a national objective. But, because the activity is assisted in whole or in part with CDBG, it is subject to all CDBG rules and federal requirements in addition to those rules of the other grant programs. As stated above, however, this does provide for the use of CDBG funds for general PACs associated with the other formula programs.

2. Costs in support of the HOME Program

Generally, new construction housing is an ineligible CDBG activity as set forth at 24 CFR 570.207. However, the use of CDBG in the support of HOME-assisted projects has been eligible since the enactment of CDBG statutory amendments made in 1992. Initially, the use of CDBG with HOME funds was subject to CDBG's 20 percent limit on general program administration. Subsequent statutory amendments removed this restriction. Section 105(a)(20) of the HCDA states that CDBG funds may be used to pay for housing services in support of HOME-assisted projects. This provision is codified in the CDBG regulations at 24 CFR 570.201(k).

Thus, while the use of CDBG for HOME program administration costs remained eligible under 24 CFR 570.206(g), it was clarified at 24 CFR 570.201(k) that the use of CDBG funds is an eligible use in support of a HOME-assisted project. The overall intent of this change was to provide for a broad array CDBG uses in support of HOME-assisted projects. The statute and 24 CFR 570.201(k) refers to CDBG eligible ADCs for HOME under the term "housing services." Housing services are eligible under 24 CFR 570.201(k). Eligible CDBG-HOME housing services include such things as housing counseling and tenant-based rental assistance, energy auditing, work specifications and architectural plans, loan processing, tenant selection, and other services related to assisting owners, tenants, third party entities participating or seeking to participate in a HOME project.

Please note, however, that the eligibility and benefit requirements of the CDBG and HOME programs differ in that the HOME term "project" and the CDBG term "activity" are not synonymous, and that care should be exercised in management and documentation when blending the two sources of funds on one activities.

3. Public Service Costs

Staff costs for carrying out public services associated with another CPD program are also eligible providing that public service is eligible and meets a national objective. As an example, for a nonprofit organization providing health services to homeless persons or persons with AIDS, payment of the employee's salary delivering the services (rather than an Executive Director or Chief Operating Officer) would be eligible as part of carrying out the underlying public service. The provision of health services is a CDBG-eligible public service activity under Section 105(a)(8) and 24 CFR 570.201(e). Therefore the grantee may use CDBG funds to pay the

employee's salary that is carrying out the public service as an ADC, providing the non-profit meet the compliance requirements under the public service provision and the CDBG program in general. That is to say, if the activity is a new public service or a quantifiable increase in the level of an existing public service, staff costs allocable to CDBG are limited by the grantee's overall 15 percent public service cap.

[Note: Public service expenditures are limited to not more than 15 percent of a grantee's annual CDBG allocation plus 15 percent of their prior year's program income. This requirement is statutory under Section 105(a)(8) of the HCDA.]

IV. DIRECT AND INDIRECT COSTS

There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to a certain service or function, but indirect with respect to the Federal award or other final cost objective. Thus, certain indirect costs may be allocable as part of carrying out an eligible CDBG activity, such as housing rehabilitation, and appropriately identified and treated as ADCs. General guidelines for determining direct and indirect costs charged to Federal awards are provided at 2 CFR 225 (formerly OMB Circular A-87). A brief discussion of these costs categories follows.

Direct costs are those that can be identified specifically with a particular final cost objective. 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;
- b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards;
- c. Equipment and other approved capital expenditures;
- d. Travel expenses incurred specifically to carry out the award;

Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

Indirect costs are those incurred for a common or joint purpose and benefiting more than one cost objective. They are not readily assignable to the cost objective specifically benefiting from the award without effort disproportionate to the results achieved. The term "indirect costs," as used by OMB, applies to costs that originate in the grantee's CDBG department and other departments that supply goods, services, and facilities for carrying out the CDBG program. Indirect costs examples are as follows:

- a. Central services costs, such as motor pools, computer centers, accounting office space leases, telephone service, utility bills, copy machines, etc.;
- b. Internal service costs, such as personnel, general administration, and purchasing;
- c. Legal costs and self-insurance costs; and
- d. Fringe benefit costs, such as pensions and health insurance.

In addition to restrictions contained in 2 CFR Part 225, there may be state or local laws that further limit the amount of administrative or indirect cost allowed. Moreover, amounts not recoverable as indirect costs or administrative costs allocable to one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

V. OTHER FINANCIAL MANAGEMENT REQUIREMENTS

1. General

The Office of Management and Budget (OMB) establishes cost principles to establish a uniform approach for determining costs to ensure effective and efficient program delivery. The most applicable sections to the CDBG program are the following: OMB Circular A-87 [[relocated to 2 CFR Part 225](#)], which contains the [Cost Principles for State, Local and Indian Tribe Governments](#); and OMB Circular A-122 [[relocated to 2 CFR Part 230](#)], which contains the [Cost Principles for Nonprofit Organizations](#). These cost principles are incorporated into the CDBG regulations by reference, but most substantially at 24 CFR 570.500 – 505.

The OMB basic guidelines apply to all federal agencies and address the following cost categories: allocable and allowable, reasonable costs, cost composition as a direct or indirect cost, and the treatment of applicable credits or offsetting costs. Accordingly, these principles effect the allocation of allowable staff costs to general administration activities or otherwise CDBG-eligible activity costs that are associated with a final cost objective. Generally, OMB advises that costs be accorded consistent treatment in order to enhance the likelihood that comparable costs are treated similarly in the application of cost accounting practices. OMB also advises that a cost may *not* be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost. Attachment D provides paraphrased excerpts from OMB's Cost Principles.

2. Applicable Credits

In general, applicable credits reduce the net amount of CDBG funds necessary to carry out an eligible CDBG activity (see 2 CFR part 225, Appendices A). Applicable credits refer to receipts or reductions of expenditure-type transactions that offset or reduce a cost item that is allocable to a Federal award as either a direct or indirect cost. To the extent that such offsets or credits are received by the governmental unit, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate. Examples of transactions that generate applicable credits are the following:

- The collection of loan application fees associated with provisions of financial assistance to rehabilitate privately-owned multifamily housing [24 CFR 570.202]. Such fees are often collected to assure the applicant's commitment to providing the necessary underwriting and compliance documentation for the project;

- The collection of loan application fees for provisions of financial assistance to for-profit businesses [economic development activities at 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 a prudent financial underwriting; and,
- Taking advantage of purchase discounts, rebates, or allowances, and accounting for adjustments for overpayments or erroneous charges associated with an eligible activity.
- 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 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 activity.

VI. CONCLUSION

Table 3 presents a snapshot of the relationships among costs. Appendix A provides instructions on how to calculate the amount that may be used for PACs for Entitlements. Appendix B provides a Functional Staff Cost Model. Appendix C provides the OMB Cost Definitions and Guidelines. Additional guidance may also be found in The CDBG Guide to National Objectives and Eligible Activities, located on the web at: http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_17133.pdf. Questions regarding this Notice should be directed to your local HUD Field Office.

Table 3 – Relationships Among Costs



APPENDIX A

Program Administration Cap Calculation for Entitlements

Description

Not more than 20 percent of the sum of any grant plus program income that is received during the program year may be obligated by the grantee and its subrecipients for program administration costs, as defined in §570.205 and §570.206, respectively. Recipients of entitlement grants will be considered to be in conformance with this limitation if total obligations charged under those categories during the grantee’s most recently completed program year, without regard to the source year of funds, are not greater than 20% of the sum of the entitlement grant received for that program year plus the program income received during that program year by the grantee and its subrecipients. [References: Appropriation Acts and §570.200(g)]

Calculating the Cap

To determine the base against which the 20% cap will be applied, total the amount of CDBG funds received during the program year from the following sources:

Step 1

- (1) Entitlement Grant (from line 8.b of the Funding Approval form, HUD-7082): \$ _____
- (2) Surplus from Urban Renewal (from line 10.b of the Funding Approval form): \$ _____
- (3) Program income received by the grantee and its Subrecipients: \$ _____
- (4) TOTAL \$ _____

Step 2

- (1) To calculate the cap amount, multiply the total amount determined in line (4) above by 0.20 and enter the number here: \$ _____

This amount represents the cap; it is the maximum dollar amount that may be obligated during the program year and charged to the eligible categories of program administration, §570.205 and §570.206, respectively.

Determining Compliance with the Cap

Step 3

Compliance with the cap is determined for entitlement grantees by performing the calculation below at the end of each program year, as follows:

- (1) Determine the total amount of CDBG funds expended during the program year for activities that are classified as eligible under §570.205 (Planning and Capacity Building) and §570.206 (Program Administration Costs): \$ _____
- (2) Add to the above amount the total amount of unliquidated obligations for activities under these same two categories, as of the end of the program year: \$ _____
- (3) Subtract from the balance the total amount of unliquidated obligations for these two categories, as of the end of the preceding program year: \$(_____)
- (4) Enter here the result of the above calculations. This is the amount of net obligations for Program Administration during the program year: \$ _____

To be in compliance with the 20% cap, the amount determined above, as the net amount obligated, may not exceed the amount determined as the cap in Line for the year in the first portion of this subsection (see Step 2 above).

Net amount obligated Line (4) above:	\$ _____
Cannot be greater than the cap:	\$ _____

APPENDIX B

Functional Staff-Cost Model

HOUSING REHABILITATION PROGRAM		ALLOCABLE STAFF COSTS	
Staff Organization	Staff Function	Program Administration Costs	Activity Delivery Costs
		(24 CFR 570.205-206 and 570.489(a))	(24 CFR 570.201-204)
Grantee's CDBG Program Management	To administer, plan, and carry out a CDBG-assisted community development program and related activities	General management of personnel tasked with oversight and coordination, monitoring and evaluation, reporting and audit compliance	When time is spent on the implementation of a specific CDBG-eligible activity
Division/Program Director	To oversee Support Staff and Line Staff in carrying out CDBG-funded eligible activities or program(s) as identified in the grantee's consolidated plan	General administration and program management of financial requirements, program- and activity-related staff, and overall activity implementation and outcome evaluation	Time spent carrying out specific CDBG-eligible activity work, such as conducting the environmental review, administering Davis-Bacon requirements, or overseeing relocation benefits
Unit of General Local Government (UGLG) or Subrecipient Staff	To carry out CDBG-funded projects and activities located in their jurisdiction as an urban county participant, or under a subrecipient agreement	General UGLG administration, financial requirements, reports, documentation and compliance records, monitoring and oversight	All project-related implementation activities per a written agreement between the grantee and UGLG, or subrecipient
Project Managers	To oversee Line Staff and Support Staff in the implementation and carrying out of eligible CDBG-funded projects and activities	General administration duties for program management, program planning and analysis, reporting, monitoring and evaluation	Oversee day-to-day specific CDBG-eligible activities: Underwriting loans, reviewing construction progress, processing contractor invoices, approving change orders
Support Staff	To carry out general capacities for program management, oversight, and coordination of the grantee's CDBG program	General administrative and planning, analysis, reports, program monitoring and evaluation, and audit compliance	Preparing contracts, loan documentation, processing contractor payments, loan repayments, recording liens and notices of completion
Line Staff	To carry out the implementation of CDBG-funded projects and activities	Planning and analysis, reports, program monitoring and evaluation, and audit compliance	Perform specific CDBG-eligible activity implementation work: loan processing, construction progress inspections, contractor payments, change order initiation
Contractor	To perform for compensation with regard to implementing and completing a CDBG-funded project on behalf of the grantee, UGLG, or subrecipient	N/A	Perform in accordance with a written contract between the grantee, unit of local government, subrecipient, or homeowner
Homeowner	To receive the benefits of a CDBG-assisted activity	N/A	N/A

APPENDIX C

OMB COST DEFINITIONS AND GUIDELINES

The terms and definitions provided below are derived from the Office of Management and Budget (OMB), which establishes principles and standards to provide a uniform approach for determining allocable and allowable costs to promote effective program delivery and efficiency. Heretofore, OMB guidance was set forth in Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments.” However, A-87 has recently been relocated to the federal regulations at 2 CFR Part 225. This was part of an initiative to provide the public with a central location for Federal government policies on grants and other financial assistance and non-procurement agreements (See website link below.) These definitions have been paraphrased to reflect relevant terms used for identifying and treating allowable costs applicable to the CDBG program. For the precise language that applies to any aspect, please go the following OMB website:

http://www.whitehouse.gov/sites/default/files/omb/assets/omb/fedreg/2005/083105_a87.pdf

DEFINITIONS

1. *Cost* means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.
2. *Cost objective* means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.
3. *Final cost objective* means a cost objective, that has allocated to it both direct and indirect costs and is a final accumulation point. For example, this could be an eligible CDBG activity of rehabilitating a single-family dwelling that upon completion will meet a low- and moderate-income household national objective.
4. *Allocate* means to assign an item of cost or a group of items of cost, to one or more cost objectives, such as an eligible CDBG activity. This term includes both direct assignment of cost and the reassignment of a share of costs from an indirect cost pool, such as accounting services applicable to overall program PACS.
5. *Allocable costs.*
 - a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
 - b. All activities which benefit from the governmental unit’s indirect cost, including unallowable activities, will receive an appropriate allocation of indirect costs.
 - c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR Part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.
 - d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.
6. *Allowable costs.* To be allowable under Federal awards, costs must meet several general criteria among them which are the following:
 - a. Be necessary and reasonable for proper and efficient performance and administration of the Federal award.
 - b. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
 - c. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
 - d. Be adequately documented.

7. *Reasonable costs.* A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
 - a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
 - b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award. All activities which benefit from the governmental unit's indirect cost, including unallowable activities, will receive an appropriate allocation of indirect costs.
8. *Applicable credits.* Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: Purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or a cash refund, as appropriate.

Cost Composition

9. *Total cost.* The total cost of Federal awards is comprised of the allowable direct cost to the CDBG program, plus its allocable portion of allowable indirect costs, less applicable credits.
10. *Classification of costs.* There is no universal rule for classifying certain costs as either *direct or indirect* under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to Federal awards are provided in the section 2 CFR 225.

Direct Costs

11. *Direct costs* are generally those that can be identified specifically with a particular final cost objective. Examples of direct costs chargeable to Federal awards are:
 - a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.
 - b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
 - c. Equipment and other approved capital expenditures.
 - d. Travel expenses incurred specifically to carry out the award.
12. *Minor items.* Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

Indirect Costs

13. *Indirect costs* are those: 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. The term "indirect costs," applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.
14. *Cost allocation plans and indirect cost proposals.* Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to 2 CFR Part 225.
15. *Limitation on indirect or administrative costs.*

- a. In addition to restrictions contained in 2 CFR Part 225, there may be laws that further limit the amount of administrative or indirect cost allowed.
 - b. Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.
16. *Interagency Services*. The cost of services provided by one agency to another.

CDBG MATRIX CODE DEFINITIONS

Matrix codes are used to indicate—but do not establish—activity eligibility. An activity must be eligible in accordance with the regulations at 570.201–570.207. Grantees need to refer to the regulations to determine an activity's eligibility; the codes defined below are used in IDIS Online chiefly to categorize activities for reporting purposes.

Code Definition

01 Acquisition of Real Property

Acquisition of real property that will be developed for a public purpose. Use code 01 for the CDBG-funded purchase of real property on which, for example, a public facility or housing will be constructed.

When CDBG funds are used to:

- *acquire a public facility that will be rehabilitated with CDBG funds and continue to be used as a public facility, assign the appropriate 03* code.*
- *acquire housing that will be rehabilitated, use code 14G.*

02 Disposition of Real Property

Costs related to the sale, lease, or donation of real property acquired with CDBG funds or under urban renewal. These include the costs of temporarily maintaining property pending disposition and costs incidental to disposition of the property.

03A Senior Centers

Acquisition, construction, or rehabilitation of facilities (except permanent housing) for seniors. 03A may be used for a facility serving both the elderly and the handicapped provided it is not intended primarily to serve persons with handicaps. If it is, use 03B instead. *For the construction of permanent housing for the elderly, use code 12; for the rehabilitation of such housing, use the appropriate 14* code.*

03B Handicapped Centers

Acquisition, construction, or rehabilitation of centers, group homes, and other facilities (except permanent housing) for the handicapped. 03B may be used for a facility serving both the handicapped and the elderly provided it is not intended primarily to serve the elderly. If it is, use 03A instead. *For the construction of permanent housing for the handicapped, use code 12; for the rehabilitation of such housing, use the appropriate 14* code.*

03C Homeless Facilities (not operating costs)

Acquisition, construction, or rehabilitation of temporary shelters and transitional housing for the homeless, including battered spouses, disaster victims, runaway children, drug offenders, and parolees. *For the construction of permanent housing for the homeless, use code 12; for the rehabilitation of such housing, use the appropriate 14* code.*

03D Youth Centers

Acquisition, construction, or rehabilitation of facilities intended primarily for young people age 13 to 19. These include playground and recreational facilities that are part of a youth center. *For the acquisition, construction or rehabilitation of facilities intended primarily for children age 12 and under, use 03M; for facilities for abused and neglected children, use 03Q.*

03E Neighborhood Facilities

Acquisition, construction, or rehabilitation of facilities that are principally designed to serve a neighborhood and that will be used for social services or for multiple purposes (including recreation). Such facilities may include libraries and community centers.

03F Parks, Recreational Facilities

Development of open space areas or facilities intended primarily for recreational use.

03G Parking Facilities

Acquisition, construction, or rehabilitation of parking lots and parking garages. Also use 03G if the primary purpose of rehabilitating a public facility or carrying out a street improvement activity is to improve parking. *If parking improvements are only part of a larger street improvement activity, use 03K.*

03H Solid Waste Disposal Improvements

Acquisition, construction or rehabilitation of solid waste disposal facilities.

03I Flood Drainage Improvements

Acquisition, construction, or rehabilitation of flood drainage facilities, such as retention ponds or catch basins. Do not use 03I for construction/rehabilitation of storm sewers, street drains, or storm drains. *Use 03J for storm sewers and 03K for street and storm drains.*

03J Water/Sewer Improvements

Installation or replacement of water lines, sanitary sewers, storm sewers, and fire hydrants. Costs of street repairs (usually repaving) made necessary by water/sewer improvement activities are included under 03J. *For water/sewer improvements that are part of:*

- *more extensive street improvements, use 03K (assign 03K, for example, to an activity that involves paving six blocks of Main Street and installing 100 feet of new water lines in one of those blocks).*
- *a housing rehabilitation activity, use the appropriate 14* matrix code. For construction or rehabilitation of flood drainage facilities, use 03I.*

03K Street Improvements

Installation or repair of streets, street drains, storm drains, curbs and gutters, tunnels, bridges, and traffic lights/signs. Also use 03K: •for improvements that include landscaping, street lighting, and/or street signs (commonly referred to as "streetscaping").

- if sidewalk improvements (see code 03L) are part of more extensive street improvements.

03L Sidewalks

Improvements to sidewalks. Also use 03L for sidewalk improvements that include the installation of trash receptacles, lighting, benches, and trees.

03M Child Care Centers

Acquisition, construction, or rehabilitation of facilities intended primarily for children age 12 and under. Examples are daycare centers and Head Start preschool centers. *For the construction or rehabilitation of facilities for abused and neglected children, use 03Q; for the construction or rehabilitation of facilities for teenagers, use 03D.*

03N Tree Planting

Activities limited to tree planting (sometimes referred to as "beautification"). *For streetscape activities that include tree planting, use 03K; for sidewalk improvement activities that include tree planting, use 03L.*

03O Fire Stations/Equipment

Acquisition, construction, or rehabilitation of fire stations and/or the purchase of fire trucks and emergency rescue equipment.

03P Health Facilities

Acquisition, construction, or rehabilitation of physical or mental health facilities. Examples of such facilities include neighborhood clinics, hospitals, nursing homes, and convalescent homes. *Health facilities for a specific client group should use the matrix code for that client group. For example, use 03Q for the construction or rehabilitation of health facilities for abused and neglected children.*

03Q Facilities for Abused and Neglected Children

Acquisition, construction, or rehabilitation of daycare centers, treatment facilities, or temporary housing for abused and neglected children.

03R Asbestos Removal

Rehabilitation of any public facility undertaken primarily to remove asbestos.

03S Facilities for AIDS Patients (not operating costs)

Acquisition, construction, or rehabilitation of facilities for the treatment or temporary housing of people who are HIV positive or who have AIDS. *For the construction or rehabilitation of facilities for AIDS education and prevention, use 03P.*

03T Operating Costs of Homeless/AIDS Patients Programs

Costs associated with the operation of programs for the homeless or for AIDS patients, such as staff costs, utilities, maintenance, and insurance. Because payment of operating costs for these programs is a public service under CDBG, all CDBG expenditures for 03T activities are included in the calculation of the Public Services cap.

03 Other Public Facilities and Improvements

Do not use this code unless an activity does not fall under a more specific 03* code. also, do not use one activity for multiple facilities and then assign it an 03 because the types of facilities are different. One legitimate use of 03 is for activities that assist persons with disabilities by removing architectural barriers from or providing ADA improvements to government buildings (activities that otherwise would not be eligible for CDBG funding).

04 Clearance and Demolition

Clearance or demolition of buildings/improvements, or the movement of buildings to other sites.

04A Cleanup of Contaminated Sites

Activities undertaken primarily to clean toxic/environmental waste or contamination from a site.

05A Senior Services

Services for the elderly. 05A may be used for an activity that serves both the elderly and the handicapped provided it is not intended primarily to serve persons with handicaps. If it is, use 05B instead.

05B Handicapped Services

Services for the handicapped, regardless of age.

05C Legal Services

Services providing legal aid to low- and moderate-income (LMI) persons. *If the only legal service provided is for the settlement of tenant/landlord disputes, use 05K.*

05D Youth Services

Services for young people age 13 to 19 that include, for example, recreational services limited to teenagers and teen counseling programs. Also use 05D for counseling programs that target teens but include counseling for the family as well. *For services for children age 12 and under, use 05L; for services for abused and neglected children, use 05N.*

05E Transportation Services

General transportation services. *Transportation services for a specific client group should use the matrix code for that client group. For example, use 05A for transportation services for the elderly.*

05F Substance Abuse Services

Substance abuse recovery programs and substance abuse prevention/education activities. If the services are provided for a specific client group, the matrix code for that client group may be used instead. For example, substance abuse services that target teenagers may be coded either 05D or 05F.

05G Services for Battered and Abused Spouses

Services for battered and abused spouses and their families. *For services limited to abused and neglected children, use 05N.*

05H Employment Training

Assistance to increase self-sufficiency, including literacy, independent living skills, and job training. *For activities providing training for permanent jobs with specific businesses, use 18A.*

05I Crime Awareness/Prevention

Promotion of crime awareness and prevention, including crime prevention education programs and paying for security guards.

05J Fair Housing Activities (subject to Public Services cap)

Fair housing services (e.g. counseling on housing discrimination) that meet a national objective. *For fair housing services activities carried out as part of general program administration (and thus not required to meet a national objective), use 21D.*

05K Tenant/Landlord Counseling

Counseling to help prevent or settle disputes between tenants and landlords.

05L Child Care Services

Services that will benefit children (generally under age 13), including parenting skills classes. *For services exclusively for abused and neglected children, use 05N.*

05M Health Services

Services addressing the physical health needs of residents of the community. *For mental health services, use 05O.*

05N Services for Abused and Neglected Children

Daycare and other services exclusively for abused and neglected children.

05O Mental Health Services

Services addressing the mental health needs of residents of the community.

05P Screening for Lead Poisoning

Activities undertaken primarily to provide screening for lead poisoning. *For lead poisoning testing/abatement activities, use 14I.*

05Q Subsistence Payments

One-time or short-term (no more than three months) emergency payments on behalf of individuals or families, generally for the purpose of preventing homelessness. Examples include utility payments to prevent cutoff of service and rent/mortgage payments to prevent eviction.

05R Homeownership Assistance (not direct)

Homeowner downpayment assistance provided as a public service. If housing counseling is provided to those applying for downpayment assistance, the counseling is considered part of the 05R activity. Assistance provided under 05R must meet the low/mod housing national objective. Therefore, unless the assistance is provided by a CBDO in an NRSA, it is subject to the public service cap and only low/mod households may be assisted. If the assistance is provided by a CBDO in an NRSA, the housing units for which CDBG funds are obligated in a program year may be aggregated and treated as a single structure for purposes of meeting the housing national objective (that is, only 51% of the units must be occupied by LMI households). *For more extensive types of homeownership assistance provided under authority of the National Affordable Housing Act, use code 13.*

05S Rental Housing Subsidies

Tenant subsidies exclusively for rental payments for more than three months. Activities providing this form of assistance must be carried out by CBDOS.

05T Security Deposits

Tenant subsidies exclusively for payment of security deposits.

05U Housing Counseling

Housing counseling for renters, homeowners, and/or potential new homebuyers that is provided as an independent public service (i.e., not as part of another eligible housing activity).

05V Neighborhood Cleanups

One-time or short-term efforts to remove trash and debris from neighborhoods. Examples of legitimate uses of this code include neighborhood cleanup campaigns and graffiti removal.

05W Food Banks

Costs associated with the operation of food banks, community kitchens, and food pantries, such as staff costs, supplies, utilities, maintenance, and insurance.

05 Other Public Services

Do not use this code for public services activities unless an activity does not fall under a more specific 05* code. An example of a legitimate use of this code is referrals to social services.

06 Interim Assistance

Only for activities undertaken either to:

- Make limited improvements (e.g., repair of streets, sidewalks, or public buildings) intended solely to arrest further deterioration of physically deteriorated areas prior to making permanent improvements.
- Alleviate emergency conditions threatening public health and safety, such as removal of tree limbs or other debris after a major storm.

07 Urban Renewal Completion

Completion of urban renewal projects funded under Title I of the Housing Act of 1949. Do not use code 07 for a downtown renewal, downtown development, or urban renewal activity unless the activity will result in the closing out of a federally approved urban renewal project.

08 Relocation

Relocation payments and other assistance for permanently or temporarily displaced individuals, families, businesses, non-profit organizations, and farms.

09 Loss of Rental Income

Payments to owners of housing for loss of rental income due to temporarily holding rental units for persons displaced by CDBG-assisted activities.

11 Privately Owned Utilities

Acquisition, reconstruction, rehabilitation, or installation of distribution lines and facilities of federally regulated, privately owned utilities. This includes placing new or existing distribution lines/facilities underground.

12 Construction of Housing

Construction of housing with CDBG funds must be carried out by CBDOs, in accordance with the regulations at 570.204(a).

13 Direct Homeownership Assistance

Homeownership assistance to LMI households as authorized under 105(a)(24). Forms of assistance include subsidizing interest rates and mortgage principal, paying up to 50% of downpayment costs, paying reasonable closing costs, acquiring guarantees for mortgage financing from private lenders, and financing the acquisition by LMI households of the housing they already occupy. If housing counseling is provided to households receiving direct homeownership assistance, the counseling is considered part of the code 13 activity. All recipients of assistance provided under matrix code 13 must be LMI.

14A Rehab: Single-Unit Residential

Rehabilitation of privately owned, single-unit homes.

14B Rehab: Multi-Unit Residential

Rehabilitation of privately owned buildings with two or more permanent residential units. *For the rehabilitation of units that will provide temporary shelter or transitional housing for the homeless, use 03C.*

14C Rehab: Public Housing Modernization

Rehabilitation of housing units owned/operated by a public housing authority (PHA).

14D Rehab: Other Publicly Owned Residential Buildings

Rehabilitation of permanent housing owned by a public entity other than a PHA. *For the rehabilitation of other publicly owned buildings that will provide temporary shelter or transitional housing for the homeless, use 03C.*

14E Rehab: Publicly or Privately Owned Commercial/Industrial

Rehabilitation of commercial/industrial property. If the property is privately owned, CDBG-funded rehab is limited to:

- Exterior improvements (generally referred to as "facade improvements").
- Correction of code violations

For more extensive rehabilitation of privately owned commercial/industrial property, use 17C; for infrastructure developments and improvements at commercial/industrial sites, use 17B.

14F Rehab: Energy Efficiency Improvements

Housing rehabilitation with the sole purpose of improving energy efficiency (e.g., a weatherization program). *For energy efficiency improvements to public housing units, use 14C; for other publicly owned residential buildings, use 14D.*

14G Rehab: Acquisition

Acquisition of property to be rehabilitated for housing. 14G may be used whether CDBG funds will pay only for acquisition or for both acquisition and rehabilitation.

14H Rehab: Administration

All delivery costs (including staff, other direct costs, and service costs) directly related to carrying out housing rehabilitation activities. Examples include appraisal, architectural, engineering, and other professional services; preparation of work specifications and work write-ups; loan processing; survey, site and utility plans; application processing; and other fees. Do not use 14H for the costs of actual rehabilitation and do not use it for costs unrelated to running a rehab program (e.g., tenant/landlord counseling). *For housing rehabilitation administration activities carried out as part of general program administration (and thus not required to meet a national objective), use code 21.*

14I Lead-Based Paint/Lead Hazards Testing/Abatement

Housing rehabilitation activities with the primary goal of evaluating and reducing lead-based paint/lead hazards. *For lead-based paint/lead hazards screening, use 05P.*

14J Housing Services

Housing services in support of the HOME Program, eligible under 570.201(k).

15 Code Enforcement

Salaries and overhead costs associated with property inspections and follow-up actions (such as legal proceedings) directly related to the enforcement (not correction) of state and local codes. *For the correction of code violations, use the appropriate rehabilitation code.*

16A Residential Historic Preservation

Rehabilitation of historic buildings for residential use.

16B Non-Residential Historic Preservation

Rehabilitation of historic buildings for non-residential use. Examples include the renovation of an historic building for use as a neighborhood facility, as a museum, or by an historic preservation society.

17A Commercial/Industrial: Acquisition/Disposition

Land acquisition, clearance of structures, or packaging of land for the purpose of creating industrial parks or promoting commercial/industrial development. 17A activities must be carried out by the grantee or by non-profits.

17B Commercial/Industrial: Infrastructure Development

Street, water, parking, rail transport, or other improvements to commercial/industrial sites. 17B also includes the installation of public improvements, such as the construction of streets to and through commercial/industrial areas. 17B activities must be carried out by the grantee or by non-profits.

17C Commercial/Industrial: Building Acquisition, Construction, Rehabilitation

Acquisition, construction, or rehabilitation of commercial/industrial buildings. 17C activities must be carried out by the grantee or by non-profits.

17D Commercial/Industrial: Other Improvements

Commercial/industrial improvements not covered by other 17* codes. 17D activities must be carried out by the grantee or by non-profits.

18A Economic Development: Direct Financial Assistance to For-Profits

Financial assistance to for-profit businesses to (for example) acquire property, clear structures, build, expand or rehabilitate a building, purchase equipment, or provide operating capital. Forms of assistance include loans, loan guarantees, and grants. With one exception, a separate 18A activity must be set up for each business assisted. The exception is an activity carried out under 570.208(a)(4)(vi), for which job aggregation is allowed.

18B Economic Development: Technical Assistance

Technical assistance to for-profit businesses, including workshops, marketing, and referrals. Also use 18B for activity delivery costs eligible under 570.203(c).

18C Economic Development: Micro-Enterprise Assistance

Financial assistance, technical assistance, or general support services to owners and developers of micro-enterprises. A micro-enterprise is a business with five or fewer employees, including the owner(s). With one exception, a separate activity must be set up for each micro-enterprise assisted. The exception is an activity carried out under 570.208(a)(4)(vi), for which job aggregation is allowed.

19A Obsolete – use code 21H.

19B Obsolete – use code 21H.

19C CDBG Non-Profit Organization Capacity Building

Activities specifically designed to increase the capacity of non-profit organizations to carry out eligible neighborhood revitalization or economic development activities. Such activities may include providing technical assistance and specialized training to staff.

19D CDBG Assistance to Institutes of Higher Education

Obsolete. Instead of using this matrix code, set the INSTITUTION OF HIGHER EDUCATION field to “yes” on the Add/Edit Subordinate Organization screen to indicate that the activity will be carried out by an institution of higher education. Then assign the appropriate matrix code based on the nature of the activity to be undertaken by the institution.

19E CDBG Operation and Repair of Foreclosed Property

Activities to prevent the abandonment and deterioration of housing acquired through tax foreclosure. These include making essential repairs to the housing and paying operating expenses to maintain its habitability.

19F Planned Repayments of Section 108 Loans

Repayments of principal for Section 108 loan guarantees.

19G Unplanned Repayments of Section 108 Loans

Unplanned repayments of principal for Section 108 loan guarantees.

20 Planning

Program planning activities, including the development of comprehensive plans (e.g., a consolidated plan), community development plans, energy strategies, capacity building, environmental studies, area neighborhood plans, and functional plans.

20A Program planning activities for when states award grants to units of general local government in which planning is the only activity, or in which planning activities are unrelated to any other activity funded as part of the grant. These are often referred to as “planning only grants” or “planning-only activities.”

21A General Program Administration

Overall program administration, including (but not limited to) salaries, wages, and related costs of grantee staff or others engaged in program management, monitoring, and evaluation. Also use 21A to report the use of CDBG funds to administer federally-designated Empowerment Zones or Enterprise Communities. *For CDBG funding of HOME admin costs, use 21H; for CDBG funding of HOME CHDO operating expenses, use 21I.*

21B Indirect Costs

Costs charged under an indirect cost allocation plan.

21C Public Information

Providing information and other resources to residents and citizen organizations participating in the planning, implementation, or assessment of CDBG-assisted activities.

21D Fair Housing Activities (subject to Admin cap)

Fair housing activities carried out as part of general program administration rather than as a public service. They are subject to the Admin cap, but do not have to meet a national objective. *For fair housing activities carried out as a public service, use 05J.*

21E Submission of Applications for Federal Programs

Preparation of (1) documents that must be submitted to HUD to receive CDBG funds or (2) applications to other federal programs for community development assistance.

21H CDBG Funding of HOME Admin

CDBG funding of administrative costs for HOME Program activities eligible under 570.206(i)(2).

21I CDBG Funding of HOME CHDO Operating Expenses

CDBG funding of CHDO operating expenses for HOME Program activities eligible under 570.206(i)(2).

21J State Program administration, including (but not limited to) salaries, wages, and related costs required for overall program management, coordination, monitoring, reporting, and evaluation. This category includes both the state’s costs of administering the CDBG program, as well as units of general local governments’ (and their subrecipients’) costs of administering grants awarded to them by the state.

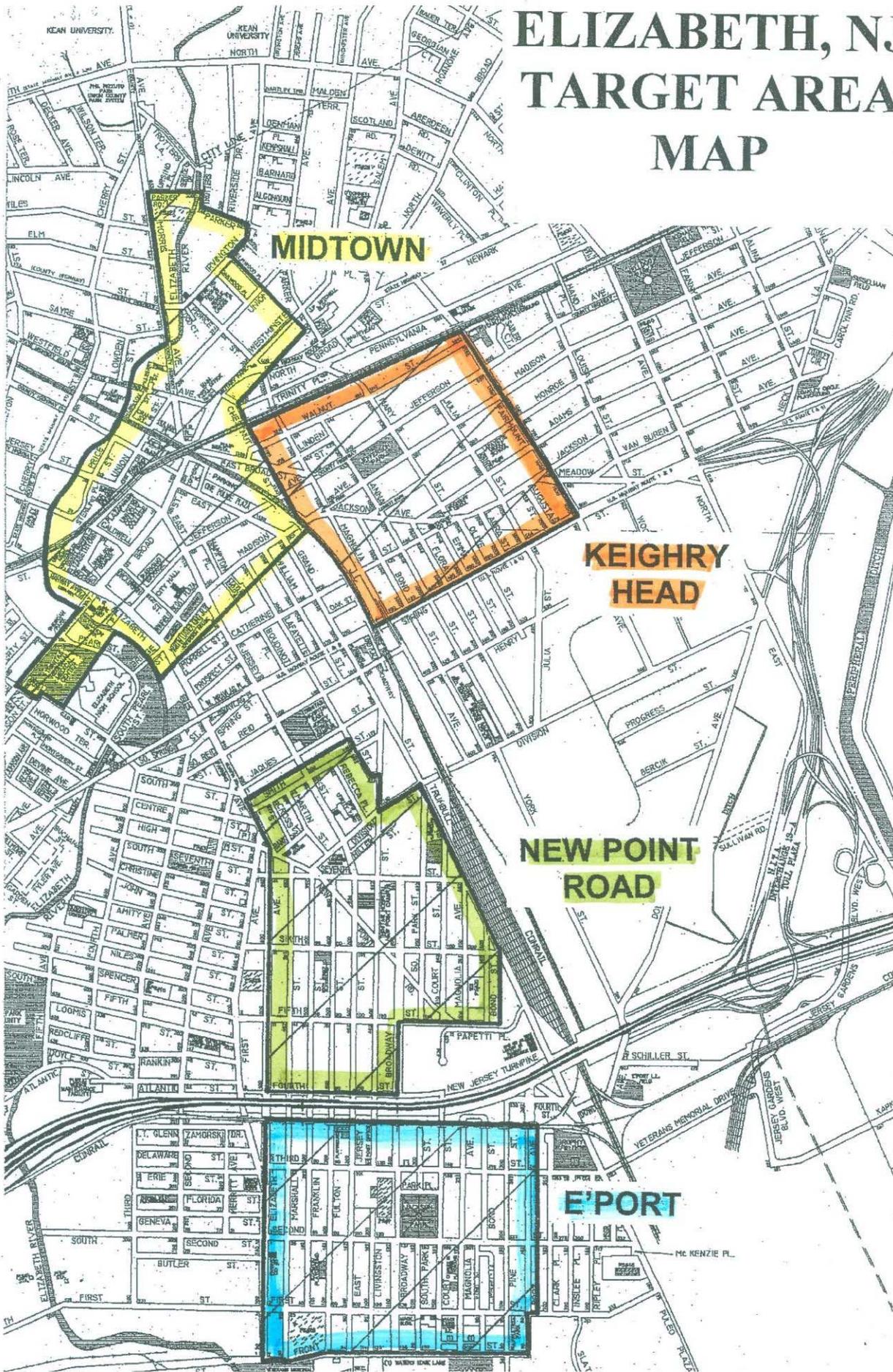
22 Unprogrammed Funds

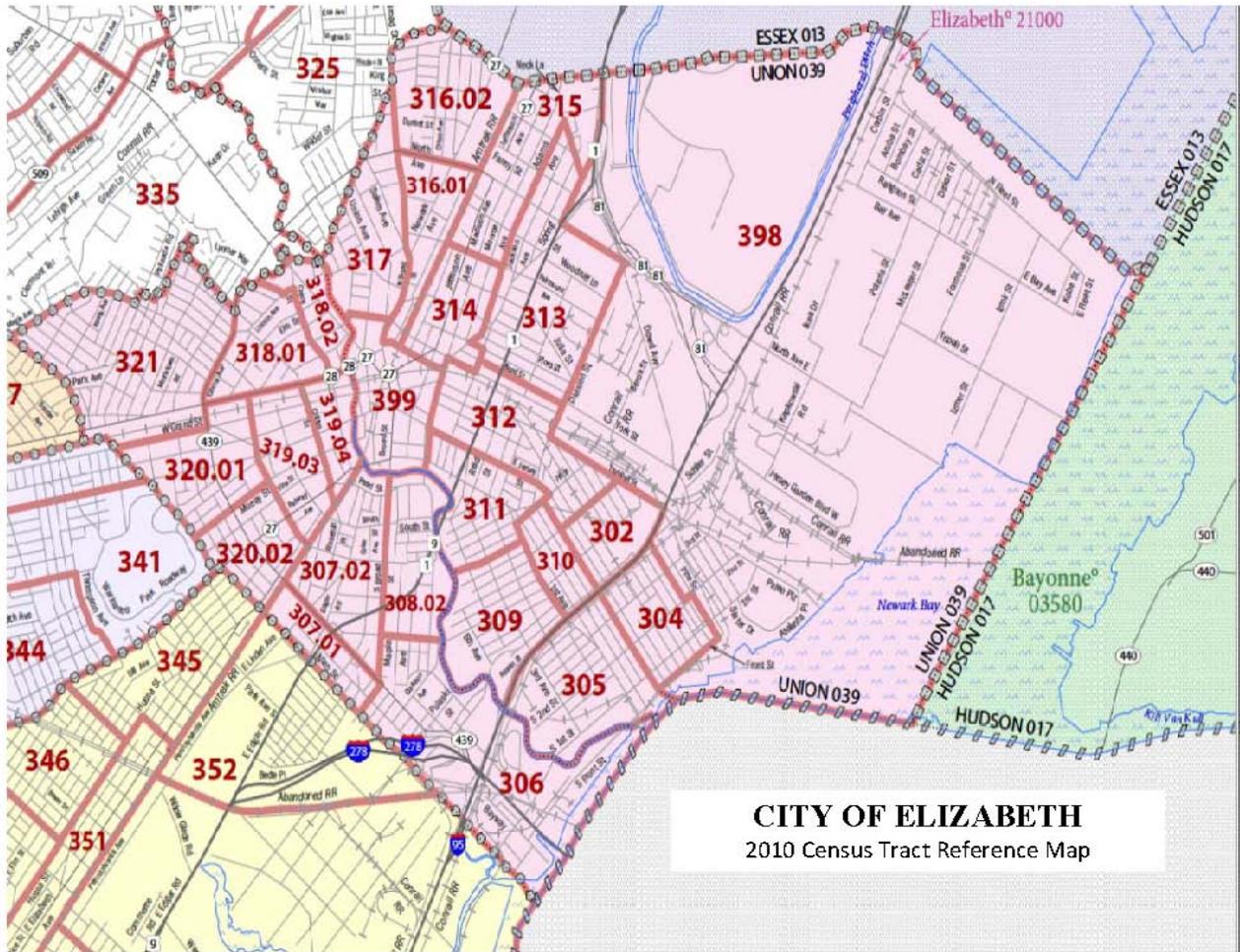
Identification of funds that are not yet programmed for use—e.g., reserve or contingency funds.

23 Tornado Shelters Serving Private Mobile Home Parks

Construction or improvement of tornado-safe shelters for residents of manufactured housing and the provision of assistance (including loans and grants) to nonprofit and for-profit entities, in accordance with Section 105(a)(24). {Note that two pars. 24 have been enacted.}

ELIZABETH, NJ TARGET AREA MAP





FY 2016 HUD Income Limits Summary
Newark, NJ HUD Metro FMR Area
Median Income \$89,700

FY 2016 Income Limit Category	PERSONS IN FAMILY							
	1	2	3	4	5	6	7	8
Extremely Low 30%	\$18,850	\$21,550	\$24,250	\$26,900	\$29,100	\$31,250	\$33,400	\$35,550
Very Low 50%	\$31,400	\$35,900	\$40,400	\$44,850	\$48,450	\$52,050	\$55,650	\$59,250
Low 80%	\$46,000	\$52,600	\$59,150	\$65,700	\$71,000	\$76,250	\$81,500	\$86,750

ECONOMIC DEVELOPMENT

Eligible Activity Definitions/National Objectives

Job Training

Job training includes any project or program where low and moderate income persons receive assistance to increase self-sufficiency, including literacy, independent living skills, and job training. Job training would use the Limited Clientele (LMC) national objective.

Microenterprise

A micro-enterprise is a business with five or fewer employees, including the owner(s). CDBG funds can be used to provide financial assistance, technical assistance, or general support services to owners and developers of micro-enterprises. Microenterprise can use the Limited Clientele (LMC), Low Mod Area (LMA), or Low Mod Job (LMJ) national objective depending on the situation:

- If the owner of the microenterprise qualifies as low mod income, LMC can be used and the income certification is valid for three years. If the owner of the microenterprise is not low mod income, LMA or LMJ must be met.
- If the business service area is primarily residential and the business provides goods or services to the area, LMA can be used.
- If the owner of the microenterprise is not low mod income and LMA cannot be used, the microenterprise must meet the LMJ national objective.

Technical Assistance

CDBG funds can be used to provide technical assistance to for-profit businesses, including workshops, marketing, and referrals. Technical Assistance can use the Low Mod Area (LMA) or Low Mod Job (LMJ) national objective depending on the situation:

- If the business service area is primarily residential and the business provides goods or services to the area, LMA can be used.
- If LMA cannot be used, the business must meet the LMJ national objective by creating or retaining permanent jobs.

Public Benefit Standards

In addition to meeting a national objective, economic development activities must meet a public benefit standard. The public benefit standard is meant to ensure an excessive amount of funds is not used to produce a benefit. There are two standards: one for area-based activities and one for job-based activities.

- The public benefit standard for job-based activities states that not more than \$35,000 will be spent for each permanent, full-time equivalent (FTE) position (40 hours per week) is created or retained. In other words, if the program has \$350,000, the program would need to show that a minimum of 10 FTE jobs were created. The public benefit standard to all CDBG funds obligated to economic development activities in the program year (July to June).
- The public benefit standard for area-based activities states that not more than \$350 will be spent for each low and moderate income person in the service area. In other words, if there are 1,000 persons in the service area, the public benefit standard would allow \$350,000 in expenditures. The public benefit standard to all CDBG funds obligated to economic development activities in the program year (July to June).

ECONOMIC DEVELOPMENT

CDBG Regulations

§ 570.203 Special Economic Development Activities. A recipient may use CDBG funds for special economic development activities in addition to other activities authorized in this subpart that may be carried out as part of an economic development project. Guidelines for selecting activities to assist under this paragraph are provided at §570.209. The recipient must ensure that the appropriate level of public benefit will be derived pursuant to those guidelines before obligating funds under this authority. Special activities authorized under this section do not include assistance for the construction of new housing. Activities eligible under this section may include costs associated with project-specific assessment or remediation of known or suspected environmental contamination. Special economic development activities include: (a) The acquisition, construction, reconstruction, rehabilitation or installation of commercial or industrial buildings, structures, and other real property equipment and improvements, including railroad spurs or similar extensions. Such activities may be carried out by the recipient or public or private nonprofit subrecipients. (b) The provision of assistance to a private for-profit business, including, but not limited to, grants, loans, loan guarantees, interest supplements, technical assistance, and other forms of support, for any activity where the assistance is appropriate to carry out an economic development project, excluding those described as ineligible in §570.207(a). In selecting businesses to assist under this authority, the recipient shall minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods. (c) Economic development services in connection with activities eligible under this section, including, but not limited to, outreach efforts to market available forms of assistance; screening of applicants; reviewing and underwriting applications for assistance; preparation of all necessary agreements; management of assisted activities; and the screening, referral, and placement of applicants for employment opportunities generated by CDBG-eligible economic development activities, including the costs of providing necessary training for persons filling those positions. [53 FR 34439, Sept. 6, 1988, as amended at 60 FR 1944, Jan. 5, 1995; 71 FR 30035, May 24, 2006]

§ 570.204 Special Activities by Community-Based Development Organizations (CBDOs). (a) Eligible activities. The recipient may provide CDBG funds as grants or loans to any CBDO qualified under this section to carry out a neighborhood revitalization, community economic development, or energy conservation project. The funded project activities may include those listed as eligible under this subpart, and, except as described in paragraph (b) of this section, activities not otherwise listed as eligible under this subpart. For purposes of qualifying as a project under paragraphs (a)(1), (a)(2), and (a)(3) of this section, the funded activity or activities may be considered either alone or in concert with other project activities either being carried out or for which funding has been committed. For purposes of this section: (1) Neighborhood revitalization project includes activities of sufficient size and scope to have an impact on the decline of a geographic location within the jurisdiction of a unit of general local government (but not the entire jurisdiction) designated in comprehensive plans, ordinances, or other local documents as a neighborhood, village, or similar geographical designation; or the entire jurisdiction of a unit of general local government which is under 25,000 population; (2) Community economic development project includes activities that increase economic opportunity, principally for persons of low- and moderate-income, or that stimulate or retain businesses or permanent jobs, including projects that include one or more such activities that are clearly needed to address a lack of affordable housing accessible to existing or planned jobs and those activities specified at 24 CFR 91.1(a)(1)(iii); activities under this paragraph may include costs associated with project-specific assessment or remediation of known or suspected environmental contamination; (3) Energy conservation project includes activities that address energy conservation, principally for the benefit of the residents of the recipient's jurisdiction; and (4) To carry out a project means that the CBDO undertakes the funded activities directly or through contract with an entity other than the grantee, or through the provision of financial assistance for activities in which it retains a direct and controlling involvement and responsibilities. (b) Ineligible activities. Notwithstanding that CBDOs may carry out activities that are not otherwise eligible under this subpart, this section does not authorize: (1) Carrying out an activity described as ineligible in §570.207(a); (2) Carrying out public services that do not meet the requirements of §570.201(e), except that: (i) Services carried out under this section that are specifically designed to increase economic opportunities through job training and placement and other employment support services, including, but not limited to, peer support programs, counseling, child care, transportation, and other similar services; and (ii) Services of any type carried out under this section pursuant to a

strategy approved by HUD under the provisions of 24 CFR 91.215(e) shall not be subject to the limitations in §570.201(e)(1) or (2), as applicable; (3) Providing assistance to activities that would otherwise be eligible under §570.203 that do not meet the requirements of §570.209; or (4) Carrying out an activity that would otherwise be eligible under §570.205 or §570.206, but that would result in the recipient's exceeding the spending limitation in §570.200(g).

(c) Eligible CBDOs. (1) A CBDO qualifying under this section is an organization which has the following characteristics: (i) Is an association or corporation organized under State or local law to engage in community development activities (which may include housing and economic development activities) primarily within an identified geographic area of operation within the jurisdiction of the recipient, or in the case of an urban county, the jurisdiction of the county; and (ii) Has as its primary purpose the improvement of the physical, economic or social environment of its geographic area of operation by addressing one or more critical problems of the area, with particular attention to the needs of persons of low and moderate income; and (iii) May be either non-profit or for-profit, provided any monetary profits to its shareholders or members must be only incidental to its operations; and (iv) Maintains at least 51 percent of its governing body's membership for low- and moderate-income residents of its geographic area of operation, owners or senior officers of private establishments and other institutions located in and serving its geographic area of operation, or representatives of low- and moderate-income neighborhood organizations located in its geographic area of operation; and (v) Is not an agency or instrumentality of the recipient and does not permit more than one-third of the membership of its governing body to be appointed by, or to consist of, elected or other public officials or employees or officials of an ineligible entity (even though such persons may be otherwise qualified under paragraph (c)(1)(iv) of this section); and (vi) Except as otherwise authorized in paragraph (c)(1)(v) of this section, requires the members of its governing body to be nominated and approved by the general membership of the organization, or by its permanent governing body; and (vii) Is not subject to requirements under which its assets revert to the recipient upon dissolution; and (viii) Is free to contract for goods and services from vendors of its own choosing. (2) A CBDO that does not meet the criteria in paragraph (c)(1) of this section may also qualify as an eligible entity under this section if it meets one of the following requirements: (i) Is an entity organized pursuant to section 301(d) of the Small Business Investment Act of 1958 (15 U.S.C. 681(d)), including those which are profit making; or (ii) Is an SBA approved Section 501 State Development Company or Section 502 Local Development Company, or an SBA Certified Section 503 Company under the Small Business Investment Act of 1958, as amended; or (iii) Is a Community Housing Development Organization (CHDO) under 24 CFR 92.2, designated as a CHDO by the HOME Investment Partnerships program participating jurisdiction, with a geographic area of operation of no more than one neighborhood, and has received HOME funds under 24 CFR 92.300 or is expected to receive HOME funds as described in and documented in accordance with 24 CFR 92.300(e). (3) A CBDO that does not qualify under paragraph (c)(1) or (2) of this section may also be determined to qualify as an eligible entity under this section if the recipient demonstrates to the satisfaction of HUD, through the provision of information regarding the organization's charter and by-laws, that the organization is sufficiently similar in purpose, function, and scope to those entities qualifying under paragraph (c)(1) or (2) of this section.

§ 570.209 Guidelines for Evaluating and Selecting Economic Development Projects. The following guidelines are provided to assist the recipient to evaluate and select activities to be carried out for economic development purposes. Specifically, these guidelines are applicable to activities that are eligible for CDBG assistance under §570.203. These guidelines also apply to activities carried out under the authority of §570.204 that would otherwise be eligible under §570.203, were it not for the involvement of a Community-Based Development Organization (CBDO). (This would include activities where a CBDO makes loans to for-profit businesses.) These guidelines are composed of two components: guidelines for evaluating project costs and financial requirements; and standards for evaluating public benefit. The standards for evaluating public benefit are mandatory, but the guidelines for evaluating projects costs and financial requirements are not. (a) Guidelines and objectives for evaluating project costs and financial requirements. HUD has developed guidelines that are designed to provide the recipient with a framework for financially underwriting and selecting CDBG-assisted economic development projects which are financially viable and will make the most effective use of the CDBG funds. These guidelines, also referred to as the underwriting guidelines, are published as appendix A to this part. The use of the underwriting guidelines published by HUD is not mandatory. However, grantees electing not to use these guidelines would be expected to conduct basic financial underwriting prior to the provision of CDBG financial assistance to a for-profit business. Where appropriate, HUD's underwriting guidelines recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and in the case of a microenterprise or other small business to take into account the differences in the capacity and level of sophistication among businesses of differing sizes. Recipients are encouraged, when they develop their own programs

and underwriting criteria, to also take these factors into account. The objectives of the underwriting guidelines are to ensure: (1) That project costs are reasonable; (2) That all sources of project financing are committed; (3) That to the extent practicable, CDBG funds are not substituted for non-Federal financial support; (4) That the project is financially feasible; (5) That to the extent practicable, the return on the owner's equity investment will not be unreasonably high; and (6) That to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project. (b) Standards for evaluating public benefit. The grantee is responsible for making sure that at least a minimum level of public benefit is obtained from the expenditure of CDBG funds under the categories of eligibility governed by these guidelines. The standards set forth below identify the types of public benefit that will be recognized for this purpose and the minimum level of each that must be obtained for the amount of CDBG funds used. Unlike the guidelines for project costs and financial requirements covered under paragraph (a) of this section, the use of the standards for public benefit is mandatory. Certain public facilities and improvements eligible under §570.201(c) of the regulations, which are undertaken for economic development purposes, are also subject to these standards, as specified in §570.208(a)(4)(vi)(F)(2). (1) Standards for activities in the aggregate. Activities covered by these guidelines must, in the aggregate, either: (i) Create or retain at least one full-time equivalent, permanent job per \$35,000 of CDBG funds used; or (ii) Provide goods or services to residents of an area, such that the number of low- and moderate-income persons residing in the areas served by the assisted businesses amounts to at least one low- and moderate-income person per \$350 of CDBG funds used. (2) Applying the aggregate standards. (i) A metropolitan city, an urban county, a non-entitlement CDBG grantee in Hawaii, or an Insular Area shall apply the aggregate standards under paragraph (b)(1) of this section to all applicable activities for which CDBG funds are first obligated within each single CDBG program year, without regard to the source year of the funds used for the activities. For Insular Areas, the preceding sentence applies to grants received in program years after Fiscal Year 2004. A grantee under the HUD-administered Small Cities Program, or Insular Areas CDBG grants prior to Fiscal Year 2005, shall apply the aggregate standards under paragraph (b)(1) of this section to all funds obligated for applicable activities from a given grant; program income obligated for applicable activities will, for these purposes, be aggregated with the most recent open grant. For any time period in which a community has no open HUD-administered or Insular Areas grants, the aggregate standards shall be applied to all applicable activities for which program income is obligated during that period. (ii) The grantee shall apply the aggregate standards to the number of jobs to be created/retained, or to the number of persons residing in the area served (as applicable), as determined at the time funds are obligated to activities. (iii) Where an activity is expected both to create or retain jobs and to provide goods or services to residents of an area, the grantee may elect to count the activity under either the jobs standard or the area residents standard, but not both. (iv) Where CDBG assistance for an activity is limited to job training and placement and/or other employment support services, the jobs assisted with CDBG funds shall be considered to be created or retained jobs for the purposes of applying the aggregate standards. (v) Any activity subject to these guidelines which meets one or more of the following criteria may, at the grantee's option, be excluded from the aggregate standards described in paragraph (b)(1) of this section: (A) Provides jobs exclusively for unemployed persons or participants in one or more of the following programs: (1) Jobs Training Partnership Act (JTPA); (2) Jobs Opportunities for Basic Skills (JOBS); or (3) Aid to Families with Dependent Children (AFDC); (B) Provides jobs predominantly for residents of Public and Indian Housing units; (C) Provides jobs predominantly for homeless persons; (D) Provides jobs predominantly for low-skilled, low- and moderate-income persons, where the business agrees to provide clear opportunities for promotion and economic advancement, such as through the provision of training; (E) Provides jobs predominantly for persons residing within a census tract (or block numbering area) that has at least 20 percent of its residents who are in poverty; (F) Provides assistance to business(es) that operate(s) within a census tract (or block numbering area) that has at least 20 percent of its residents who are in poverty; (G) Stabilizes or revitalizes a neighborhood that has at least 70 percent of its residents who are low- and moderate income; (H) Provides assistance to a Community Development Financial Institution that serve an area that is predominantly low- and moderate-income persons; (I) Provides assistance to a Community-Based Development Organization serving a neighborhood that has at least 70 percent of its residents who are low- and moderate-income; (J) Provides employment opportunities that are an integral component of a project designed to promote spatial de-concentration of low- and moderate-income and minority persons; (K) With prior HUD approval, provides substantial benefit to low-income persons through other innovative approaches; (L) Provides services to the residents of an area pursuant to a strategy approved by HUD under the provisions of §91.215(e) of this title; (M) Creates or retains jobs through businesses assisted in an area pursuant to a strategy approved by HUD under the provisions of §91.215(e) of this title. (N) Directly involves the economic development or redevelopment of environmentally contaminated properties. (3) Standards for individual activities. Any activity subject to these guidelines which falls into one or more of the following categories will be considered by HUD to

provide insufficient public benefit, and therefore may under no circumstances be assisted with CDBG funds: (i) The amount of CDBG assistance exceeds either of the following, as applicable: (A) \$50,000 per full-time equivalent, permanent job created or retained; or (B) \$1,000 per low- and moderate-income person to which goods or services are provided by the activity. (ii) The activity consists of or includes any of the following: (A) General promotion of the community as a whole (as opposed to the promotion of specific areas and programs); (B) Assistance to professional sports teams; (C) Assistance to privately-owned recreational facilities that serve a predominantly higher-income clientele, where the recreational benefit to users or members clearly outweighs employment or other benefits to low- and moderate income persons; (D) Acquisition of land for which the specific proposed use has not yet been identified; and 36 (E) Assistance to a for-profit business while that business or any other business owned by the same person(s) or entity(ies) is the subject of unresolved findings of noncompliance relating to previous CDBG assistance provided by the recipient. (4) Applying the individual activity standards. (i) Where an activity is expected both to create or retain jobs and to provide goods or services to residents of an area, it will be disqualified only if the amount of CDBG assistance exceeds both of the amounts in paragraph (b)(3)(i) of this section. (ii) The individual activity standards in paragraph (b)(3)(i) of this section shall be applied to the number of jobs to be created or retained, or to the number of persons residing in the area served (as applicable), as determined at the time funds are obligated to activities. (iii) Where CDBG assistance for an activity is limited to job training and placement and/or other employment support services, the jobs assisted with CDBG funds shall be considered to be created or retained jobs for the purposes of applying the individual activity standards in paragraph (b)(3)(i) of this section. (c) Amendments to economic development projects after review determinations. If, after the grantee enters into a contract to provide assistance to a project, the scope or financial elements of the project change to the extent that a significant contract amendment is appropriate, the project should be reevaluated under these and the recipient's guidelines. (This would include, for example, situations where the business requests a change in the amount or terms of assistance being provided, or an extension to the loan payment period required in the contract.) If a reevaluation of the project indicates that the financial elements and public benefit to be derived have also substantially changed, then the recipient should make appropriate adjustments in the amount, type, terms or conditions of CDBG assistance which has been offered, to reflect the impact of the substantial change. (For example, if a change in the project elements results in a substantial reduction of the total project costs, it may be appropriate for the recipient to reduce the amount of total CDBG assistance.) If the amount of CDBG assistance provided to the project is increased, the amended project must still comply with the public benefit standards under paragraph (b) of this section. (d) Documentation. The grantee must maintain sufficient records to demonstrate the level of public benefit, based on the above standards, that is actually achieved upon completion of the CDBG-assisted economic development activity(ies) and how that compares to the level of such benefit anticipated when the CDBG assistance was obligated. If the grantee's actual results show a pattern of substantial variation from anticipated results, the grantee is expected to take all actions reasonably within its control to improve the accuracy of its projections. If the actual results demonstrate that the recipient has failed the public benefit standards, HUD may require the recipient to meet more stringent standards in future years as appropriate. [60 FR 1947, Jan. 5, 1995, as amended at 60 FR 17445, Apr. 6, 1995; 71 FR 30035, May 24, 2006; 72 FR 12535, Mar. 15, 2007; 72 FR 46370, Aug. 17, 2007]

ESG Requirements

The ESG program provides funding to:

1. Improve the number and quality of emergency shelters for homeless individuals and families;
2. Help operate these shelters;
3. Provide essential services to shelter residents;
4. Rapidly re-house homeless individuals and families; and
5. Prevent families and individuals from becoming homeless.

ESG funds may be used for five program components: street outreach, emergency shelter, homelessness prevention, rapid re-housing assistance, and HMIS; as well as administrative activities (up to 7.5% of a recipient's allocation can be used for administrative activities).

Eligible Recipients

ESG is a formula grant program. Eligible recipients generally consist of metropolitan cities, urban counties, territories, and states, as defined in 24 CFR 576.2.

Metropolitan cities, urban counties and territories may subgrant ESG funds to private nonprofit organizations.

State recipients must subgrant all of their ESG funds (except for funds for administrative costs and under certain conditions, HMIS costs) to units of general purpose local government and/or private nonprofit organizations.

All recipients must consult with the [Continuum\(s\) of Care](#) operating within the jurisdiction in determining how to allocate ESG funds.

Beneficiary Eligibility

The minimum eligibility criteria for ESG beneficiaries are as follows: For essential services related to street outreach, beneficiaries must meet the criteria under paragraph (1)(i) of the "homeless" definition under § 576.2. For emergency shelter, beneficiaries must meet the "homeless" definition in 24 CFR 576.2. For essential services related to emergency shelter, beneficiaries must be "homeless" and staying in an emergency shelter (which could include a day shelter). For homelessness prevention assistance, beneficiaries must meet the requirements described in 24 CFR 576.103par. For rapid re-housing assistance, beneficiaries must meet requirements described in 24 CFR 576.104. Further eligibility criteria may be established at the local level in accordance with 24 CFR 576.400(e).

Eligible Program Components

Emergency Shelter

Renovation, including major rehabilitation or conversion, of a building to serve as an emergency shelter. The emergency shelter must be owned by a government entity or private nonprofit organization. The shelter must serve homeless persons for at least 3 or 10 years, depending on the type of renovation and the value of the building. Note: Property acquisition and new construction are ineligible ESG activities.

Essential Services, including case management, child care, education services, employment assistance and job training, outpatient health services, legal services, life skills training, mental health services, substance abuse treatment services, transportation, and services for special populations.

Shelter Operations, including maintenance, rent, repair, security, fuel, equipment, insurance, utilities, food, furnishings, and supplies necessary for the operation of the emergency shelter. Where no appropriate emergency shelter is available for a homeless family or individual, eligible costs may also include a hotel or motel voucher for that family or individual.

See 24 CFR 576.102.

Homelessness Prevention

Housing relocation and stabilization services and short-and/or medium-term rental assistance as necessary to prevent the individual or family from moving to an emergency shelter, a place not meant for human habitation, or another place described in [paragraph \(1\)](#) of the homeless definition.

The costs of homelessness prevention are only eligible to the extent that the assistance is necessary to help the program participant regain stability in their current housing or move into other permanent housing and achieve stability in that housing.

Eligible costs include:

- Rental Assistance: rental assistance and rental arrears
- Financial assistance: rental application fees, security and utility deposits, utility payments, last month's rent, moving costs
- Services: housing search and placement, housing stability case management, landlord-tenant mediation, tenant legal services, credit repair

See 24 CFR 576.103.

Rapid Re-Housing

Housing relocation and stabilization services and/or short-and/or medium-term rental assistance as necessary to help individuals or families living in shelters or in places not meant for human habitation move as quickly as possible into permanent housing and achieve stability in that housing.

Eligible costs include:

Rental Assistance: rental assistance and rental arrears

- Financial Assistance: rental application fees, security and utility deposits, utility payments, last month's rent, moving costs
- Services: housing search and placement, housing stability case management, landlord-tenant mediation, tenant legal services, credit repair

See 24 CFR 576.104