

Documenting Costs: Program Administration & Activity Delivery Costs

CDBG-DR Program Guidance

Effective Date: December 12, 2022

OVERVIEW

To support long-term disaster recovery from the 2019 floods (DR-4420), the State of Nebraska received a Community Development Block Grant Disaster Recovery (CDBG-DR) grant through the United States Department of Housing and Urban Development (HUD). As Nebraska's designated grantee, DED was tasked to create a CDBG-DR Action Plan (AP) and is incurring the staffing costs associated with implementing and carrying out CDBG-DR activities described therein. Within its AP, DED contemplates awards being made to Subrecipients. Thus, it is anticipated Subrecipients will also incur staffing costs for awards of CDBG-DR funding. There are two types of eligible staffing costs under CDBG-DR that may be incurred by DED and Subrecipients:

- **Program Administration Costs (PACs)** and
- **Activity Delivery Costs (ADCs).**

HUD [Notice CPD 13-07](#) is the primary policy document on this subject for state CDBG programs.¹ The guidance listed below has been adapted, as appropriate, for the State of Nebraska's CDBG-DR program.²

POLICY PURPOSE

It can be challenging determining whether a staff cost should be allocable as PACs or ADCs. The content of this document is intended to inform DED employees and external providers, contractors, consultants, Subrecipients, Successful Applicants, partners, external departments, and agencies doing business with DED, of:

1. the correct utilization of PACs and ADCs and
2. how to document such costs for reimbursement.

¹ HUD guidance, *Notice CPD-13-07: Allocating Staff Costs Between Program Administration Costs vs. Activity Delivery Costs in CDBG*, <https://www.hudexchange.info/resource/3725/notice-cpd-13-07-allocating-staff-costs-program-administration-delivery-costs-cdbg/>. This Notice provides guidance on the allocation of staff costs for the Community Development Block Grant (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.

² See also HUD guidance, *CDBG-DR Cost Types Summary*, <https://www.hudexchange.info/resource/6347/cdbgdr-cost-types-summary/>. This document provides guidance for Community Development Block Grant Disaster Recovery (CDBG-DR) grantees to understand the differences between the different cost types to correctly classify costs.

CDBG-DR & CDBG STATE PROGRAM: A COMPARISON³

Distinct from the annual CDBG State Program, CDBG-DR is a one-time appropriation to address unmet needs related to DR-4420. While CDBG-DR funded projects may be part of a community-wide long-term planning effort, they must be directly related and responsive to conditions having a direct connection to the impact of DR-4420. The annual CDBG State Program (or “regular CDBG” program) is designed to be an ongoing program with rolling, annual funding years and application cycles; it is further informed through the Consolidated Plan and the planning process thereof, addressing “big picture” needs not specific to a federal disaster declaration.

Figure 1 is a summary of HUD guidance, *CDBG and CDBG-DR: A Comparison*, as it applies to DED as the grantee. As grantee, DED is responsible for all administration requirements under the grant, including where Subrecipients are awarded funding for specific project activities under the programs set forth in the state’s Action Plan. These types of costs are Program Administration Costs (PACs). PACs are those costs incurred to administer the grant itself. Activity Delivery Costs (ADCs), however, are those costs associated with delivery of funded activities. Subrecipients carrying out CDBG-DR-funded activities inherently incur ADCs.

Figure 1. CDBG-DR and CDBG: a Comparison

	CDBG-DR	CDBG
Statutory Authority	<ul style="list-style-type: none"> • Supplemental appropriation provides funds for specific disasters/years • Housing and Community Development Act of 1974, as amended (HCDA) provides basic framework 	<ul style="list-style-type: none"> • HCDA • Annual appropriation acts
Purposes	<ul style="list-style-type: none"> • Disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization 	<ul style="list-style-type: none"> • Viable communities through provision of decent housing, suitable living environment and economic opportunity
Regulations	<ul style="list-style-type: none"> • 24 CFR 570 • Federal Register Notices (FRNs) for each CDBG-DR appropriation • Appropriation allows HUD to waive HCDA provisions and add alternatives⁴ 	<ul style="list-style-type: none"> • 24 CFR 570

PROGRAM ADMINISTRATION COSTS (PACs)

PACs are costs incurred for the **general** management, oversight, and coordination of the **CDBG-DR grant**. PACs must be used for activities related to the CDBG-DR grant and programs as a whole. As PACs are those costs associated with the administration of the grant via the HUD grant agreement and due to the program design, PACs are not likely to be incurred by any entity other than DED. Rather, a Subrecipient or Successful Applicant managing a single program (e.g., a unit of local government Subrecipient under the Homeownership Production Program) should determine how staff time can be charged as an eligible ADC since these costs may be directly related to a specific CDBG-DR activity.

³ See also HUD guidance, *CDBG and CDBG-DR: A Comparison*, <https://www.hudexchange.info/resource/5627/cdbg-and-cdbg-dr-a-comparison/>. This fact sheet explains the differences between the Community Development Block Grant (CDBG) and CDBG - Disaster Recovery (CDBG-DR) Programs.

⁴ As allowed or approved by HUD, any waivers and alternatives are published as a FRN.

ACTIVITY DELIVERY COSTS (ADCs)

ADCs are those allowable costs incurred for **implementing and carrying out a specific CDBG-DR activity** pursuant to CDBG-DR requirements or DED's approved CDBG-DR Action Plan. Although similar to PACs, the distinction is important; ADCs are those costs associated with implementing the Action Plan, e.g., a Subrecipient receiving an award via the Infrastructure Match Program incurring costs to carry out their project. ADCs are included in the total program, project, or activity budget and can be incurred by Grantees, Subrecipients, and Successful Applicants, or their contractors providing services directly related to the implementation and completion of a **specific** CDBG-DR activity (e.g., project -specific administration or oversight, environmental review, work write-ups, onsite inspections of actual work completed).

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 thus be linked to the final cost objective. For example, costs identified as PACs at the onset of a project, such as preparing a request for proposal (RFP), 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.



It is important to recognize that **staff time allocable as ADCs represents the actual time spent on implementing and completing an eligible CDBG-DR activity**. For example, staff time for a housing rehabilitation specialist, whose duties are to conduct home inspections, prepare work write-ups, and inspect projects through completion, would be 100 percent allocable as ADCs. However, circumstances may require that the project incurs other staff costs for personnel that spend less than 100 percent of their time working on the CDBG-DR activity – only time worked on the project can be charged to the project as an ADC. For example, a project may need an engineer to approve, inspect, and sign off on structural improvements. The engineer's staff-time can be prorated and allocable as ADCs in support of implementing and completing the eligible CDBG-DR activity.

Subrecipients and Successful Applicants must be aware of the risk associated with initiating a project that does not materialize or reach fruition and, therefore, does not meet a HUD National Objective or a final cost objective. In such cases, the incomplete activity will most likely be determined ineligible and the staff costs disallowed.

WHO IS ELIGIBLE FOR PACs?

These costs may only be incurred by the Grantee (i.e., DED). Subrecipients and Successful Applicants should allocate eligible staff time spent on implementing and carrying out specific CDBG-DR activities that are critical to the completion of the CDBG-DR program and/or project as ADCs. For eligible ADC activities, refer to **What Activities are Eligible ADCs?**

WHO IS ELIGIBLE FOR ADCs?

 ADCs can be reimbursed for:	 ADCs are <u>NOT</u> to be reimbursed for:
<ul style="list-style-type: none">• CDBG-DR Grantees (i.e., DED)• Subrecipients⁵	<ul style="list-style-type: none">• Program beneficiaries;• Developers⁶;• Owners;• Businesses; and• Other entities that are not undertaking specific CDBG-DR activities.

WHAT ACTIVITIES ARE ELIGIBLE ADCs?

Eligible ADCs must **relate to a CDBG-DR funded eligible activity** that addresses needs arising from Winter Storm Ulmer (DR-4420) and also meets a HUD National Objective. Note that ADCs alone **cannot** meet a HUD National Objective.

Example ADCs include, but are not limited to:

- Employee salaries for the time devoted to implementing and carrying out activities for a specific CDBG-DR project and/or program (e.g., salary of Subrecipient staff performing inspections of housing units set for rehabilitation).
- Environmental and historic preservation reviews;
- Development of policies and procedures necessary to implement a specific program or project;
- Duplication of benefits review and analysis;
- Completing work write-ups;
- Conducting underwriting or applicant selection;
- Engineering, design, and architecture services for a project;
- Applicant intake and/or eligibility screening for a specific program; and
- Project- or program-specific tasks incurred by entities contracted by Grantees, Subrecipients, or Successful Applicants (e.g., contractor conducts environmental review for the Subrecipient).

ADCs must comply with the Cost Principles outlined in 2 CFR Part 200, Subpart E. See **Documenting Eligible Costs** for more information.

DISCUSSION & FAQs

In broad terms, distinguishing between cost types can be confusing – especially for those applicants and Subrecipients having familiarity with the “regular CDBG” program. Many costs categorized as “General

⁵ Subrecipients are those entities having entered into a Subrecipient Agreement and may include units of local government, non-profit organizations, etc. who are implementing projects in the Infrastructure Match or Planning Programs, plus Affordable Housing Construction Programs that do not include a developer fee.

⁶ This includes “Successful Applicants” as in any eligible entity that is selected to enter into a funding agreement with DED to implement CDBG-DR program activities (e.g., for-profit developers, etc.) who are implementing projects in the Affordable Housing Construction Program that include a developer fee.

Administration” under the State’s CDBG Program are likely, in the case of an awarded CDBG-DR project, eligible as an ADC. Subrecipients should review the list above and maintain records on costs incurred through timesheets and summaries of work completed.

1. What entities can charge activity delivery costs?

- *Grantees (The State of Nebraska) and its Subrecipients can charge certain costs to ADC if the costs are directly attributable to CDBG-DR project implementation. Developers are not allowed to charge ADC costs, but they may charge for actual project costs. A Subrecipient is a public or a nonprofit organization who administers an activity on behalf of the grantee.*

2. What are some of the activity delivery costs of homeownership assistance that may be charged to the CDBG-DR activity?

- *The salary of a grantee or Subrecipient's staff person(s) taking and processing applications from interested homebuyers and conducting homeownership classes may be charged to homeownership assistance proportionate to the amount of time (grantee or) Subrecipient staff spends on these activities.*

3. Is there a cap on how much Activity Delivery Costs can be charged to a project?

- *For budgeting purposes, the Subrecipient Agreement includes a cap on activity delivery costs for the funded activity. As with all things in CDBG-DR, costs must be reasonable and comply with those cost principles found in OMB Circular 2 Part 200.*
- *Subrecipients will have to document that costs are eligible, reasonable, and necessary. What is eligible, reasonable, and necessary is going to vary by the complexity of the activity you are administering and how the costs are tied directly back to delivering that activity.*
- *In special cases and where appropriate documentation can provided, Subrecipients may ask DED to increase the budgeted ADCs through a budget amendment.*

4. Can one entity (i.e., nonprofit or local government) charge both activity delivery costs and a developer fee for the same project?

- *No. An entity cannot serve both the role of a Subrecipient and a developer in the same project; therefore, the entity may not charge both an activity delivery fee and a developer fee to the same project. Details of each type of cost will be detailed in the Subrecipient Agreement or Funding Agreement, such an agreement is signed after DED awards funding.*

5. What are the differences between administration expenses and activity delivery costs?

- *Activity delivery costs are charges directly attributable to project implementation and are limited to costs incurred in carrying out a specific CDBG-DR funded eligible activity. Section 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."⁷*

⁷ References used in this section have been adopted from Entitlement Program Regulations, these regulations are being used as points of reference and are not definitive for State CDBG or CDBG-DR funds awarded. Use of Entitlement Program Regulations is permissible according to the Federal Register Notice issued by HUD.

- According to 24 CFR 570.206, administrative costs are classified as "reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or part [with CDBG funds]."⁸ This generally relates to management of the entire CDBG-DR program, not to individual activities.

6. What are the different ways a staff member's time or salary can be charged to CDBG-DR, and how must their time be recorded?

- Salaries and/or wages for a staff person responsible for CDBG-DR program implementation are eligible expenses and may be charged to either administration or activity delivery costs. The allocation of staff-time charges as activity delivery costs is limited to costs that add value or help advance the implementation of a specific CDBG-DR-funded eligible project or activity. Directly related to a Subrecipient's implementation of a specific CDBG-DR funded activity, said Subrecipient may charge certain costs of delivering on that "activity" as activity delivery costs. It is unlikely any costs incurred by a Subrecipient carrying out a CDBG-DR award will include costs for implementing those activities that would not be eligible as an ADC. Costs shall be allocated to the most appropriate cost type.
- When charging staff costs to activity delivery, the staff person must keep a timesheet and a project specific activity report. The associated costs should be allocated by time increments (i.e., hourly or a portion of) on a per project basis. Eligible activity delivery costs may include costs related to the sale of the property, identifying income eligible homebuyers, obtaining appraisals, construction oversight and management, loan underwriting and other activities. Section 570.206 of the CDBG regulations which apply to CDBG-DR states 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."⁹
- Subrecipients (and Grantees) can charge indirect costs (e.g., paid leave time, sick time, etc.) to the CDBG-DR grant so long as they are eligible, and they are charged in accordance with a cost allocation plan that complies with Federal requirements.
- Employees who work on programs such as HOME, regular CDBG, or ESG, may only have their staff salary charged to the CDBG-DR funds on a prorated basis. If they spend 50% of their time working on CDBG-DR-related tasks, and the balance of their time carrying out other duties not related to the CDBG-DR program, then only 50% of their time can be charged to the CDBG-DR program.

7. How are ADCs included in the Total Development Cost for housing projects?

- The maximum sales price for a property sold to an individual as a primary residence is limited to the total development costs, which includes the acquisition cost plus rehabilitation or redevelopment costs necessary to rehabilitate the property. The aggregation of acquisition, rehabilitation, and redevelopment costs generally may include costs related to the sale of the property such as staff time spent identifying homebuyers, obtaining appraisals, etc., as well as sales and closing costs. Costs directly attributable to project implementation are allowed as activity delivery costs and must be reasonable.

⁸ Ibid.

⁹ Ibid.

8. Can ADCs be charged as part of an Infrastructure project?

- *Yes. If you have staff who are doing things, like your Davis-Bacon site inspections and reviews for labor standards or engineering assessment and architecture that you are paying for, then it is considered ADCs.*

9. Are there other staff and incidental costs of building inspections that may be paid with CDBG-DR funds?

- *Yes. The staff costs associated with processing and issuing the citations, collecting, and processing the fines, and postage are all eligible activity delivery costs of CDBG DR-assisted inspections.*
- *Staff may include a clerk or another staff member that performs these activities. However, CDBG-DR funds may only be used to pay staff costs for the time spent on these activities pertaining to CDBG-DR-assisted inspections. Records must be kept showing the percentage of time spent on CDBG-DR-assisted inspections and non-CDBG-DR-assisted inspections.*

10. Can you clarify which DR activities will have general administration?

- *No CDBG-DR activities led by Subrecipients will have general administrative costs. Only DED will have "general administration" responsibilities for the CDBG-DR grant.*

11. The budget submitted in our application may change over time, specifically as we know how many projects we can finance and once we know costs from our contract administrator. Our budget will change, is there a formal process for informing DED of this and how does that change activity delivery costs?

- *There will be a formal process for amending project budgets which will be communicated for each program.*
- *As a particular project is underway and actual costs are realized as the project progresses, Subrecipients must work with DED to amend the current budget in AmpliFund to reflect the actual budget (based on actual and projected expenses), subject to approval by DED. Those budget adjustments would reflect updates to activity delivery costs.*

12. Would travel be considered "Program Administrative Costs" or "Activity Delivery Costs"?

- *Generally speaking, travel costs are considered as an administrative cost. However, if there is travel that is solely dedicated to an activity, such as an inspector that is driving from property to property for one program, and you are paying mileage, at some point that travel will be considered an activity delivery cost. DED may need to review a Subrecipient's documentation to confirm if travel is an eligible cost for a given project. Ahead of a specific instance to consider and in the interim, Subrecipients should review the HUD published guidance at Notice CPD-13-07: Allocating Staff Costs Between Program Administration Costs vs. Activity Delivery Costs in CDBG.*

13. Are Housing Resiliency Planning projects eligible for ADCs?

- *Planning-only projects do not include ADCs. Such costs would likely be eligible as Planning Costs.*
- *Planning activities related to a specific project is a Project Cost not a Planning Cost.*

DOCUMENTING ELIGIBLE COSTS

Subrecipients must maintain adequate records and documentation in support of all costs, as set forth in the applicable CDBG-DR Federal Register Notice and 2 CFR Part 200. If awarded, the Subrecipient Agreement or Funding Agreement will include an approved award budget and list of the activity(ies), cost type(s), and budget amount. This information will be ultimately associated with reporting to DED (and DED's reporting to HUD). Costs submitted to DED for reimbursement by CDBG-DR funding must align and reconcile with the underlying agreement. For example, Planning Costs incurred by a Subrecipient are only reimbursable if Planning Costs are included in the approved budget. In any case, all costs submitted for reimbursement by CDBG-DR must adhere to cost reasonableness.

Activity Delivery Costs are considered as part of the Project Cost budget. To ensure Subrecipients are reimbursed for incurred ADCs, all costs must be clearly documented and attributed to a CDBG-DR eligible activity. When allocating ADCs, the following documentation requirements apply:

- **Staffing costs** must be based on payrolls or timesheets that demonstrate the time was spent on an eligible project.
- **Professional services** must comply with 2 CFR 200.459 and include an invoice with contractor staff time dedicated to an eligible ADC.

See also *Invoice Checklist for Reimbursement*.

To classify and document costs correctly, costs **must meet cost principles**.¹⁰ Be aware, like all reimbursable costs, Project Costs, ADCs, and Planning Costs must meet four criteria:

- **Necessary:** CDBG-DR funding will fill a necessary gap to address an unmet need that cannot be filled by another funding source. This is demonstrated by conducting a duplication of benefits analysis and calculation for each activity.
- **Reasonable:** Costs do not exceed what a prudent person would incur under similar circumstances as demonstrated by the market price for comparable goods and services. For contracted work, you should conduct and document an independent cost estimate to establish cost reasonableness.
- **Allowable:** Costs must be allowable under CDBG-DR requirements and under 2 CFR Part 200, Subpart E. Some costs such as lobbying, entertainment, and alcohol, are never allowable under any circumstance.
- **Allocable:** Costs must be clearly allocated, meaning the cost is assigned to a CDBG-DR eligible activity with a methodology for determining where to attribute cost.

DOCUMENTATION ISSUES:

Common documentation issues when allocating ADCs include, but are not limited to:

- **Incomplete projects:** If a Grantee, Subrecipient, or Successful applicant reports ADCs that **do not result in a completed project**, the ADCs must be reallocated to the program administration budget (i.e., PAC) or be repaid from non-federal sources.
- **Ineligible costs:** If CDBG-DR is spent on ineligible items, that cost must be repaid from **non-federal sources**.
- **Tie to Winter Storm Ulmer (DR-4420):** All costs must be tied to the qualifying disaster event.

¹⁰ Reference 2 CFR 200 Subpart E.

RESOURCES

Title	Source	Description
State of Nebraska Disaster Recovery Action Plan	DED	The Action Plan is a document that describes the plan to allocate available funding to housing, infrastructure and planning activities.
DED's Technical Assistance Website	DED	Designed to help navigate cross-cutting requirements and program information.
CDBG and CDBG-DR: A Comparison	HUD Exchange	This fact sheet explains the differences between the Community Development Block Grant (CDBG) and CDBG - Disaster Recovery (CDBG-DR) Programs.
Notice CPD-13-07: Allocating Staff Costs Between Program Administration Costs vs. Activity Delivery Costs in CDBG	HUD Exchange	This Notice provides guidance on the allocation of staff costs for the Community Development Block Grant (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.
CDBG-DR Cost Types Summary	HUD Exchange	This document provides guidance for Community Development Block Grant Disaster Recovery (CDBG-DR) grantees to understand the differences between the different cost types to correctly classify costs.
CDBG-DR Manual	DED	The contents of this manual are intended to assist all DED employees and external providers, vendors, contractors, consultants, Subrecipients, Successful Applicants, partners, citizens, external departments, and agencies doing business with DED, as well as beneficiaries and others associated with, working for, accessing, or attempting to access benefits under the CDBG-DR Programs.

The State of Nebraska enforces conduct in the CDBG-DR program to ensure that no person is excluded from participation in, denied the benefit of, or subjected to discrimination in any housing program or activity because of their age, race, color, creed, religion, familial status, national origin, sexual orientation, military status, sex, disability, marital status, or any other federally protected class.