

Administrative Cost Limits

CDBG funding may be used to cover administrative costs in Community Improvement Grants of all types. CDBG-eligible administrative costs are limited to 10 percent of the total CDBG award with limits depending upon project type. Such costs are limited to:

Project Type	Up to
Community Facility Competitive Grant	\$ 75,000
Business District Revitalization—Competitive Grant	\$ 80,000
Community Service Facility—Competitive Grant	\$ 60,000
Community Development Innovation Fund	\$ 30,000
Community Economic Development Fund and Competitive Economic Development Grants	\$ 50,000
Urgent Need	\$ 50,000
Housing—Competitive Grant	\$ 80,000
Two-Activity Comprehensive—Competitive Grant	\$ 90,000
Three-Activity Comprehensive—Competitive Grant	\$100,000
Construction-Ready Water and Sewer Fund	\$ 20,000

In instances where Grantees administer projects utilizing its own staff, salaries for persons involved in the grant are grant-eligible, provided that personnel maintain timesheets that show total hours worked, hours worked on the grant, the employees' signatures, and the signature of their direct supervisors. Pay must be at their regular rates. If overtime is worked because of the grant, the grant may not be charged with the entire overtime cost. Please consult your Community Development Specialist for the precise overtime formula.

If the Grantee does not have the local capacity to manage administration of the grant with existing personnel, Appendix 10 outlines how to procure and contract with local or regional agencies or with consultants. Regardless of who provides management and oversight to the grant, certain budgetary rules apply.

Administrative Costs versus Project Costs

In setting up the Project Budget, it is necessary to distinguish between administrative costs and project costs. Certain administrative-type costs may be more appropriately placed as a project cost in the Project Budget. Exceptions include:

- Rehabilitation Specialist's Salary: Item is a project cost as part of the Rehabilitation budget activity. The Grant Manager's salary is a general administrative cost.
- Design and Construction Management Services: A private corporation e.g., non-profit or consultant *may not* provide design and construction management services e.g., engineering, architectural and rehabilitation specialist services *and* Grant Administration services;
- Legal fee for review of construction contract: Item is a project cost as part of the construction budget activity, *versus* a legal fee for review of the grant contract, which is a general administrative cost;
- Legal fee for recording deeds: Item is an administrative cost and not a construction cost;
- Engineer's fee for water line design: Item is a project cost as part of the water line activity; and
- Certain pre-approved costs related to relocation.

Performance Budget Policies

All CDBG Grant Agreements are performance-based contracts. The administrative section of the Project Budget must be based on activities completed or milestones achieved rather than for time and materials. These payment thresholds are negotiated between DHCD and the Grantee after the completion of the Project Management Plan and will outline specific tasks and how much DHCD will pay upon the completion of each task. These tasks are to be delineated in a Compensation Schedule that will become an attachment to the Grant Management contract. DHCD imposes the following general parameters within which the specific levels of compensation are to be determined:

Getting Under Contract with DHCD	15%
Successfully Awarding Contracts	20- 35%
Completing Construction and Addressing Labor Standards Issues	20- 35%
Achievement of benefits	25%
Closeout of Project and Achieving Administrative Closeout	5%
Administrative Budget (above items must equal 100%)	100%

1. ***Getting Under Contract With DHCD:***
Once the CDBG Grant Agreement is signed, the Grantee may request no more than 15% of the CDBG Administrative Budget. These funds are to cover the allowed Prior Authorized Costs (must have written approval from DHCD) and they are to be considered “seed” money for getting the project to bid.
2. ***Successfully Awarding Contracts:***
Based on negotiations with DHCD, between 20% and 35% of the CDBG Administrative Budget can be requested by the Grantee after a contract has been awarded to a successful bidder. In the event that more than one contract will be issued by the Grantee to complete the scope of the project, DHCD and the Grantee must negotiate how much of this line item will be allocated to the awarding of each contract.
3. ***Completing Construction and Addressing Labor Standards Issues:***
Based on negotiations with DHCD, between 20% and 35% of the CDBG Administrative Budget can be requested by the Grantee after the completion of the construction and the monitoring of all applicable Federal Labor Standards. In the event that more than one contract will be issued by the Grantee, DHCD and the Grantee must negotiate how much of this line item will be allocated to the completion of each construction contract. The negotiated percentage that is related to each contract completed should mirror the negotiated percentage related to each contract awarded (above item--Successfully Awarding Contracts).
4. ***Achievement of Benefits:***
DHCD will release 25% of the CDBG Administrative Budget when benefits have been achieved and documented by the Grantee or at the end of construction and DHCD is satisfied that a system is in place that will achieve and adequately document benefits. In the event that less than 100% of all benefits are achieved, DHCD will release the percentage of this line item based on the level of benefits achieved i.e., if you achieve 80% of your benefits, you get 80% of the 25% in this line item.
5. ***Closeout of Project and Achieving Administrative Closeout:***
DHCD will release the final 5% of the CDBG Administrative Budget only when the project has reached Administrative Closeout and all necessary conditions have been met. The amount of compensation designated to be paid upon completion of closeout threshold is subject to be forfeited if closeout forms are not returned to DHCD by the 30-day deadline.

Example

Comprehensive Project
Administrative Budget = \$75,000

15 contracts to award: 14 houses to rehab and 1 water line contract

Getting Under Contract with DHCD	15% x 75,000	\$11,250
Successfully Awarding Contracts	Negotiated 35%	\$26,250
14 Houses At 6% of \$26,250 = \$1575	\$22,050	
1 Water Line At 16% of \$26,250	\$ 4,200	
Completing Construction and Addressing Labor Standards Issues	Negotiated 20%	\$15,000
14 Houses At 6% of \$15,000 = \$900	\$12,600	
1 Water Line At 16% of \$15,000	\$ 2,400	
Achievement of Benefits	25%	\$18,750
Closeout of Project and Achieving Administrative Closeout	5%	\$ 3,750
Total CDBG Administrative Budget		\$75,000

Housing Projects

The policy for housing related costs is explained below.

1. **Construction Cost Limits:** Grantees may use up to \$25,000 to rehabilitate houses, not including mobile homes, to DHCD HQS. Under certain circumstances, DHCD will allow a base cost of up to \$40,000 for a single rehabilitation. These circumstances are:

- The Grantee tests for the presence of lead-based paint, as outlined in the lead related regulations, and all tested surfaces in a unit reveal a lead content below the critical regulatory thresholds; or
- The Grantee has at least four (4) licensed lead abatement contractors who are qualified to bid on the job in question; or
- The unit was constructed after 1978.

For substantial reconstructions, DHCD will allow a not-to-exceed cost limit of \$75,000, inclusive of DHCD's standard recognized exceptions. The only approved additions beyond the \$75,000 cost limit will be up to \$10,000 for an alternative septic system and \$4,000 for the green building/energy conservation credit.

2. **Exceptions:** Exceptions allow the Grantee to commit up to \$25,000, beyond the base construction cost, for the completion of the project. The following activities are considered exceptions:

- Construction of a bathroom when rehabilitating a unit that lacks one;
 - Installation of a well and/or septic system. CDBG funds may not be used to install “pump and haul” systems. Wells must be drilled, tested and approved. Payment will be made for only one (1) well, regardless of the number of wells drilled;
 - Houses that require alternative septic systems are eligible for an additional \$10,000 in exceptions (up to a maximum of \$35,000) for additional costs for the design and installation of an alternative septic system;
 - Provision of water and/or sewer connections, including water meters. Check with your Community Development Specialist about how CDBG funds may be used to install connections to mobile home parks;
 - Provision of ramps and other accessibility features;
 - Provision of one or more additional bedrooms to relieve an overcrowded situation in which more than two (2) bedrooms are necessary or other changes to a unit’s footprint;
 - Actual lab costs for evaluation of lead tests;
 - Housing rehabilitation flood proofing solutions. Flood proofing solutions are defined to include house elevations; the elevation and relocation of utilities; the addition of basement sump pumps with backup generators; the reinforcement of basement doors and dry flood proofing methods as appropriate with the building code;
 - Construction costs for asbestos abatement and/or disposal;
 - Soil evaluation tests; and
 - Property surveys.
3. ***Administrative Cost Limits:*** Administrative costs are limited to 10% of the total CDBG award, not exceeding the limits listed above. They include outreach and intake, income eligibility verification, title issues, deed recordation, staff time for delivery of Home Maintenance Education Program activities, legal fees and homeowner’s insurance.

Legal fees related to the recordation of Deeds-of-Trust may not exceed \$200 per unit. These legal costs should be included under the Project Budget’s Administration line item. The only exception to this is if the Program Design calls for actual *repayment* of a rehabilitation loan. The beneficiary is repaying the loan

(not to be confused with a forgivable loan), the legal costs may be shown in the rehab activity, and be included in the construction costs.

4. ***Construction-related Soft Costs:***

Up to 10 percent of the housing rehabilitation construction activity budget may be used for Rehabilitation Specialist services such as inspections, specifications, bidding and the delivery of HMEP training. Other CRSC include fees for engineers, architects, inspections, blower door tests, lab tests, and clearance tests. Additionally, crucial non-housing activities or non-construction housing support activities that will clearly complement the housing improvements taking place in the project area and will meet a national objective may be included in a housing rehabilitation project with prior DHCD approval. CDBG participation in these activities shall not exceed 15 percent of the total amount requested.

✱ With DHCD's approval, up to 50% of the CDBG funds targeted for grant administration may be transferred into the rehabilitation activity for implementation of the rehab program. In such cases, the total allowable amount budgeted for CRSC cannot exceed 15% of the total budgeted for the rehabilitation activity. If this option is chosen, all rehabilitation program related expenses, including outreach, application processing and inspection must be paid from the rehab activity budget.

5. ***Demolition Cost Limits:*** Demolition costs are only allowed on substantial reconstruction projects. They are “stand alone” costs that must be contracted out separately from the base construction and exceptions contracts. Although there are no cost limits for demolition, DHCD expects them to be reasonable. DHCD reserves the right to cap or cut costs, if necessary. Demolition costs are to be listed under the Project Budget's Substantial Reconstruction line item.
6. ***Temporary Relocation Cost Limits:*** CDBG funds may be used to cover eligible temporary relocation costs up to \$2,000 per unit. Eligible temporary relocation expenses include motel and storage costs but not expenses incurred by family members with whom beneficiaries are staying. The Grantee needs prior approval from DHCD to exceed the \$2,000 cap. Temporary relocation costs are to be listed under the Project Budget's Housing Rehabilitation and/or Substantial Reconstruction line items. Permanent relocation costs are to be listed under the Project Budget's Relocation line item.
7. ***Home Maintenance Education Program (HMEP) Cost Limits:*** Once the HMEP is incorporated into the local Program Design, up to 1% of base construction costs per unit, not to exceed \$250, is allowed. HMEP costs must be based on *actual documented* costs and must be drawn down with the final request for the unit. These costs are not intended to cover staff or Rehabilitation Specialist time for delivering training. Rather, they are intended to cover items such as printed materials (but not copying), cleaning kits and tool kits. HMEP costs are to

be listed under the Project Budget's Housing Rehabilitation and/or Substantial Reconstruction line items.

8. ***Asbestos Inspection Costs:*** A maximum of up to \$800 is permissible for asbestos evaluations. Of that amount, a lump sum amount of \$500 may be paid for the inspection and report of the findings thereof. Up to \$200 is available to reimburse the Grantee for direct costs associated with testing for asbestos. A \$100 lump sum fee is permitted to cover the cost of including the positive results of asbestos testing in the work write-up apprising the contractor of the volume, type and location of asbestos when it is present.
9. ***Mobile Home Cost Limits:*** Mobile homes may be rehabilitated provided the cost of rehabilitation will not exceed \$10,000 plus \$10,000 for well and septic. No other exceptions apply, including connections to public water or sewer systems. These cost limits are not applicable to a double-wide or equivalent with a continuous foundation on footers, which for these purposes only, are considered a permanent home. The use of a mobile home to replace a mobile home may only occur with **prior DHCD approval**. In addition, renters occupying mobile homes that will exceed \$10,000 may be relocated.
10. ***Green Building/Energy Conservation Cost Limits:*** To encourage further adoption of green building and energy conservation practices, \$4,000 will be available for the substantial reconstruction of a unit to a nationally recognized standard, such as EarthCraft or LEEDS. This credit may only be used with **prior DHCD approval**.

Downtown (Business Revitalization) Projects

All budget policies apply as stated above with the exception of architectural fees for projects that include CDBG-funded façade improvements. The policy for façade related soft costs, inclusive of architectural services, is explained below.

1. Application intake, legal, administrative work, architectural work related to individual building façade conceptual plans, construction drawings and other architectural services necessary for façade improvements can be paid with CDBG funds in amount not to exceed 10% of the CDBG-funded construction budget for façade improvements; and
2. DHCD will allow up to \$15,000 or 5% of the CDBG-funded construction budget for façade improvements, whichever is less, to be used to develop design guidelines for the downtown district if the locality enacts and enforces an ordinance that requires all CDBG- and leverage-funded building improvements from the time of the CDBG Grant Agreement's execution forward to be done in a manner consistent with the established design guidelines. The ordinance must be in effect for a minimum of 10 years.

✱ Design guidelines are not a CDBG eligible expense if such an ordinance is not passed.

Microenterprise Programs

Eligible training costs will be negotiated between the Grantee and DHCD.

Community Facility Projects

For projects involving two or more activities e.g., sewer, water, and drainage, engineering fees may not be lumped under one activity. Rather they must be divided proportionately and listed under each activity.

Community Service Facility Projects

CDBG funds may not be used for operating costs.

Leverage Funds

CDBG funds may not be used to provide any improvements on private property for non-LMI households. Fee waivers by the Grantee for non-LMI households may not be counted as leveraging for the purposes of the project.

Project Budget in CAMS

A copy of the Project Budget taken from the original application can be found in the Centralized Applications and Management System (CAMS). When preparing the final budget during the Contract Negotiation period, Grantees should make adjustments as discussed at the negotiation meeting that are pertinent to their project. Changes to the line items should only be made in consultation with their Community Development Specialist to ensure it complies with the CDBG Matrix Codes for activity eligibility.

Several activities are not self-evident and are defined here. Interim assistance is to address emergency conditions threatening public health and safety, the required annual project area clean-up, and limited improvements intended to arrest further deterioration of physically deteriorated areas until permanent improvements can be made. Clearance and demolition is strictly for the clearance or demolition of vacant buildings or the movement of a building to another site. Demolition associated with substantial reconstruction should go under that activity. Homeownership Creation only includes assistance authorized under 105(a) (24) of the *Housing and Community Development Act of 1974*. This would include subsidizing interest rates and mortgage principal amounts for LMI homebuyers, financing the acquisition by LMI homebuyers of housing that is occupied by the homebuyers, providing up to 50% of any down payment required from the LMI homebuyer, or pay reasonable closing costs (normally associated with the purchase of a home) incurred by the LMI homebuyer. Therefore, all construction costs go under housing rehabilitation activities.

Use of the Project Budget

During the course of project implementation the Project Budget must be followed in all obligations or outlays of Grant funds. **Grantees must request and receive a budget revision approval from DHCD for any deviation from the approved project budget.** Due to this restriction, it is essential that the Grantee develop accounting and grant management procedures which maintain tight control over obligations and expenditures to assure conformance with the Project Budget. The Project Budget should be consulted and tracked on a continual basis. This is especially important in the expenditure of Administrative funds as Administrative funds are strictly controlled and Grantees will not be allowed to increase CDBG administrative budgets.

DHCD will utilize the Grantee's Project Budget as a basis for monitoring project implementation particularly in assessing the Grantee's Progress Reports and monthly surveys. Adherence to the Project Budget will also be assessed during compliance reviews and audits.

Failure to adhere to the Project Budget is a violation of the Grant Contract and could result in a requirement for repayment of ineligible expenses from the Grantee's own financial resources.

See Chapter 5: Financial Management for information regarding budget revisions.

Engineering Fee Schedule

CONSTRUCTION COST	Table I	Table II	Table III
	% Basic Engr. Fee	% Basic Engr. Fee	% Insp. Fee
Less than 100,000	-----	-----	10.0
	TO BE NEGOTIATED		
100,000	15.0	14.0	9.8
200,000	14.8	13.0	8.6
300,000	14.6	12.0	7.5
400,000	14.4	11.0	7.0
500,000	14.2	10.0	6.6
600,000	14.0	9.8	6.5
700,000	13.0	9.6	6.4
800,000	12.0	9.4	6.2
900,000	11.0	9.2	6.0
1,000,000	10.0	9.0	5.7
2,000,000	9.8	8.8	4.9
3,000,000	9.6	8.6	4.5
4,000,000	9.4	8.4	4.4
5,000,000	9.2	8.2	4.2
10,000,000	8.2	7.2	3.7
20,000,000	8.0	7.0	3.3

CONSTRUCTION ITEMS

TABLE I

Water and sewer treatment facilities
(add one percent)
Booster Stations
Water distribution lines, under 16" in
diameter and appurtenances

Sanitary sewer lines under 24" in
diameter and appurtenances
Renovation and rehabilitation
Lift Stations

TABLE II

Water distribution lines 16" and larger in
diameter and appurtenances
Sanitary sewer lines greater than 24" in
diameter and appurtenances
Water storage facilities (including
rehabilitation)
Storm sewers and drains
Roads and streets
Industrial buildings, warehouses, etc.
Grading except when incidental to the
project

Surveys for design such as topography, profiles and cross sections are included in the compensation for basic engineering services and Tables I and II have been adjusted to allow for this work.

Any revision in the plans and specifications necessary to bring the cost of the project within the funds allocated for development will be at no additional cost to the Owner (Grantee).

The fees for project costs falling between the figures shown shall be interpolated to the nearest one-tenth of one percent and are to be adjusted to suit special conditions stated in the Contract.

If resident inspection is provided by the engineer, the applicable percentage shown under Table III in the fee schedule is used to determine the maximum CDBG participation will be allowed for full-time resident inspection. The time allowed for construction of each project should be stated in the preliminary engineering report. Resident inspection costs should be shown as a separate item in the project cost summary.

Additional cost for engineering and resident inspection due to projects not being completed in schedule will be an item included in determining the amount of liquidated damages stated in the contract.

Projects with activities bid simultaneously shall be considered as one project for the purpose of computing basic engineering fees and inspection fees.

The percents listed on the chart under columns for Tables I, II and III were established to determine a maximum CDBG participation. It is anticipated that any CDBG funds available as a result of applying less than the maximum CDBG participation for engineering services will be available for other eligible project costs.

To calculate CDBG participation in engineer's fees, take the following steps:

Step 1. Total all public infrastructure construction costs from the budget (do not include housing construction costs or LMI service line costs).

Example

Activity	Cost	Which Table?
Water treatment plant	400,000	Table I
Roads	300,000	Table II
12" Water line	300,000	Table I
Total	1,000,000	

Step 2. Note the total construction costs on the Fee Curve and the corresponding percentages.

Example

Total Cost	Table I: Basic	Table II: Basic	Inspection Fee
1,000,000	10.0	9.0	5.7

Should total construction costs be in the middle of two figures on the table, extrapolate to the nearest tenth percentage:

Total Cost	Table I: Basic	Table II: Basic	Inspection Fee
\$550,000	14.1	9.9	6.5

Step 3. Add up construction totals for all items that are in Table I.

Example

Activity	Cost	
Water Treatment Plant	400,000	Table I
12" Water Line	300,000	Table I
Total Table I items:	700,000	

Step 4. Add up construction totals for all items that are in Table II.

Example

Activity	Cost	
Roads	300,000	Table II
Total Table II items:	300,000	

Step 5. Multiply percentages arrived at in Step 2 with the respective totals of Table I and Table II.

Example

Table I—10.0%

Table II—9.0%

Activity	Cost	
Water Treatment Plant	400,000	Table I
12" Water Line	300,000	Table I
Total Table I items	700,000	10.0%

\$700,000
x 10.0%
= \$70,000

Activity	Cost	
Roads	300,000	Table II
Total Table II items	300,000	9.0%

\$300,000 x 9.0% = \$27,000

Step 6. Add the total from Step 5 together.

Example

$$\$70,000 + \$27,000 = \$97,000$$

If construction costs were wholly funded by CDBG, this figure would represent the most CDBG would participate in basic engineering fees. Anything above this would be the locality's responsibility.

Step 7. If your project exceeds the amount of CDBG funds budgeted for construction of the engineered items (as the example does), determine what proportion of the total engineering fees arrived at in Step 6 DHCD will pay.

Example

CDBG	550,000
Engineered Project	1,000,000
CDBG % =	55.5%

Multiply this figure (55.5%) by total arrived at in Step 6 (97,000)

$\$97,000 \times 55.5\% = \$53,835$ is the most DHCD will spend on basic engineering fees in this project.

Step 8. Inspection Fees are determined by multiplying the percentage arrived at in Step 1 by the total construction costs used in Step 1. Again, CDBG represents a percentage of the total.

Example

$$\$1,000,000 \times 5.7\% = \$57,000$$

$\$57,000 \times 55.5\% = \$31,635$ is the maximum CDBG participation in Inspection Fees

Allowable CDBG participation in additional engineering is capped at 20% of the CDBG amount arrived at in Step 7 (\$53,835) or \$10,767.

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