

EXHIBIT 4-B

ALLOWABLE AND UNALLOWABLE CDBG ADMINISTRATION COSTS

- A. **Allowable Administration Costs.** Allowable administration costs are those costs that are related to the planning and execution of CDBG eligible activities (HUD 24 CFR, Part 570.206)
- (1) **Classification of Administration Costs.** Project administration costs are classified and must be accounted for on either a direct or indirect basis. **Direct Costs** are those costs that can be identified specifically with a particular cost objective. **Indirect Costs** are those costs incurred for a common or joint purpose, benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefited. **The grantee can expect to account for their administration costs on the direct cost method, simply because the paper work involved in the indirect cost method may be too complex and time consuming to justify its use. If a grantee prefers to use the indirect cost method, they may do so, provided they have an approved cost allocation plan. A copy of the cost allocation plan should be filed with MDOC. If the grantee chooses to use the indirect cost method and does not have an approved cost allocation plan, they should request the appropriate how-to information from MDOC.**
- (2) **Computer Software**
- Computer software necessary to utilize the various CDBG forms and spreadsheets is an eligible administrative cost. In addition, CDBG will also allow appropriate computer hardware as an eligible administrative cost if it is required to run the software; however, DOC will only reimburse the CDBG recipient on a 50/50 cost share basis.
- B. **Unallowable Administration Costs.** The general rule is that any activity that is not authorized under HUD CFR 24, Part 570.206, is ineligible to be assisted with CDBG funds and is, therefore, an unallowable administration cost. **The following activities may not be assisted with CDBG funds (HUD 24 CFR, Part 570.207):**
- (1) **Buildings or portions thereof used for the general conduct of government** as defined in 570.3(d) cannot be assisted with CDBG funds. This does not include, however, the removal of architectural barriers under 570.201(k) involving any such building. Also, where acquisition of real property includes an existing improvement which is to be used in the provision of a building for the general conduct of government, the portion of the acquisition cost attributable to the land is eligible, provided such acquisition meets a national objective described in 570.208.

- (2) **General Government Expenses.** Except as otherwise specifically authorized, expenses required to carry out the regular responsibilities of the unit of general local government are not eligible for assistance.
- (3) **Political Activities.** CDBG funds shall not be used to finance the use of facilities or equipment for political purposes or to engage in other partisan political activities, such as candidate forums, voter transportation, or voter registration. However, a facility originally assisted with CDBG funds may be used on an incidental basis to hold political meetings, candidate forums, or voter registration campaigns, provided that all parties and organizations have access to the facility on an equal basis, and are assessed equal rent or use charges, if any.
- (4) **The following activities may not be assisted with CDBG funds unless authorized under provision of 570.203 or as otherwise specifically noted, or when carried out by a subrecipient under the provisions of 570.204:**

(a) **Purchase of Equipment.** The purchase of equipment with CDBG funds is generally ineligible.

- **Construction Equipment.** The purchase of construction equipment is ineligible. However, compensation for the use of such equipment through leasing, depreciation, or use allowances pursuant to OMB Circulars A-21, A-87 or A-122, as applicable, for an otherwise eligible activity is an eligible use of CDBG funds. The purchase of construction equipment, however, for use as part of a solid waste disposal facility is eligible under 570.201(c).

- **Fire Protection Equipment.** Fire protection equipment is considered for this purpose to be an integral part of a public facility and thus, purchase of such equipment would be eligible under 570.201(c).

(b) **Furnishings and Personal Property.** The purchase of equipment, fixtures, motor vehicles, furnishings, or other personal property not an integral structural fixture is generally ineligible. CDBG funds may be used, however, to purchase or to pay depreciation or use allowances (in accordance with OMB Circulars A-87 or A-122, as applicable) for such items when necessary for use by a recipient or its subrecipients in the administration of activities assisted with CDBG funds, or when eligible as fire fighting equipment, or when such items constitute all or part of a public service pursuant to 570.201(e).

(c) **Operating and Maintenance Expenses.** The general rule is that any expense associated with repairing, operating, or maintaining public facilities, improvements and services is ineligible. Specific exceptions to this general rule are operating and maintenance expenses associated with public service activities, interim assistance, and office space for program staff employed in carrying out the CDBG program. For example, the use of CDBG funds to pay the allocable cost of operating and

maintaining a facility used in providing a public service would be eligible under 570.210(e), even if no other costs of providing such a service are assisted with such funds. **Examples of ineligible operating, repair and maintenance expenses for which CDBG funds may not be used are:**

- Maintenance and repair of streets, parks, playgrounds, water and sewer facilities, neighborhood facilities, senior centers, centers for the handicapped, parking and similar public facilities;
- Maintenance and repair activities including filling pot holes in streets, repairing cracks in sidewalks, mowing recreational areas, and replacing expended street light bulbs; and
- Payment of salaries for staff, utility costs and similar expenses necessary for the operation of public work and facilities.

(d) **New Housing Construction.** Activities in support of the development of low or moderate income housing including clearance, site assemblage, provision of site improvements and provision of public improvements and certain housing pre-construction costs set forth in 570.206(g), are not considered as activities to subsidize or assist new residential construction. **CDBG funds may not be used for the construction of new permanent residential structures or for any program to subsidize or assist such new construction, except:**

- As provided under the last resort housing provisions set forth in 24 CFR Part 42;
- As authorized under 570.201(m); or
- When carried out by a subrecipient pursuant to 570.204(a);

(e) **Income Payments.** The general rule is that CDBG funds shall not be used for income payments for housing or any other purpose. Examples of ineligible income payments include: payments for income maintenance and housing allowances.