

Entitlement/State CDBG-CV Q&A – Cost Overruns

This Q&A speaks to the use of CDBG-CV funds to cover cost overruns or shortfalls on CDBG projects. The guidance on this issue below applies to all CDBG grantees:

Q: Can CDBG-CV funds be used to cover cost overruns associated with increased costs due to COVID-19, such as supply chain issues, etc.?

A: Cost overruns are not eligible activities. If an eligible CDBG-CV activity has a cost overrun and the grantee determines the costs are necessary and reasonable, the grantee may pay the cost as an activity cost.

Q: Can cost overruns be used to document the prevent, prepare for, or respond (PPR) to coronavirus tieback for a CDBG-CV activity?

A: No – just paying pandemic-related cost overruns doesn't mean the activity has a PPR tieback. The nature of the activity must prevent, prepare for, or respond to coronavirus to qualify.

Q: What is an example of CDBG-CV eligible activities that may have cost overruns that a grantee may consider to be necessary and reasonable?

A: An eligible CDBG-CV activity must demonstrate a PPR tieback to coronavirus to have any cost associated with it be eligible. For instance, an eligible CDBG-CV funded activity may have a cost associated with a construction change order issued for a HVAC upgrade project at a senior center that met PPR tieback originally because the upgrade was designed to improve indoor air quality and limit virus transmission. Assuming national objective and other federal requirements will be met, and the grantee determining that the increased cost covered in the change order is necessary and reasonable, this is an eligible activity cost. Please see the [CDBG-CV PPR Tieback Flexibilities Quick Guide](#) for more examples of eligible activities.

Q: What are some examples of costs that are not eligible?

A: Examples of costs that are not eligible due to supply chain or other issues ancillary to the pandemic would be increased costs for a fire engine purchase that did not originally meet PPR tieback or for a street improvement activity, the funds for which were obligated before the pandemic began. The truck manufacturer or the asphalt plant supplying materials to the project may have had to close due to a virus outbreak, or material costs may have jumped exponentially in price and the supplier may point to the pandemic as the reason, but that does not make such price increases eligible to be paid for with CDBG-CV funds because the original activity was not CDBG-CV eligible.

Q: Can CDBG-CV funds be used for activities where a grantee may need to come in mid-stream?

A: Remember, the nature of the funded activity must prevent, prepare for, and respond to coronavirus for any cost to qualify for payment with CDBG-CV funds. If an activity with a cost overrun happens to be CDBG-CV eligible, but the environmental review was not completed prior to the start of the activity, the grantee should consult with a HUD environmental specialist. For construction activities, it is unlikely that the grantee can step in mid-stream. Compliance with labor standards may also be difficult for mid-stream funding.