

Clarification of the 20% Cap on Planning and Administrative Expenditures

July 1, 1992

Mr. Charley Wolk
The Bejoca Co.
2636 Havencrest Drive
Fallbrook, CA 92028

Dear Mr. Wolk:

Thank you for your letter dated May 28, 1992, to Secretary Kemp about calculation of the 20 percent cap on planning and administrative expenditures in the Community Development Block Grant (CDBG) entitlement program.

First, the regulation at 24 CFR 570.200(g) containing the policy in question has been in effect since November 1983. Since that time, the vast majority of CDBG entitlement recipients have followed the policy for calculating expenditures without regard to the source year of funds used to pay for such costs. Despite the Department's guidance, however, some recipients have continued to claim compliance based on individual source years. The Department believes that it is inadvisable to allow recipients to meet this requirement on a "source year" basis for the following reasons:

- a. The Grantee Performance Report (GPR), HUD's principal tool for determining compliance with the 20 percent limitation, does not track expenditures on a source year basis; and,
- b. the Department has concluded that the allocation of expenditures for program administration against individual activities is inherently arbitrary, and thus leads to an inaccurate measure of how much of the total expenditures for administration in a given year applies to any individual activity. For example, a recipient spent \$100,000 administering an ongoing rehabilitation loan program in FY 1992. The money used to fund the loans in FY 1992 included grant funds received in FY 1992 and previous years, and program income from repayments of loans received over multiple years. To make the calculations necessary to allocate the \$100,000 expenditure for program administration on a source year basis, the recipient must assign each dollar spent for loans that year to a source year and separately trace the cost of administering each such loan. Such a process is a cumbersome, difficult task fraught with the potential for error.

With the policy in question, HUD seeks to assure the uniformity of the procedures used by all entitlements, and further ensure that the administrative and planning limitation will be calculated in the most efficient way. Accordingly, the Department intends to amend the applicable regulations to require compliance based on this policy.

I hope this information is helpful to you. Thank you for your interest in community development.

Very sincerely yours,
Don I. Patch
Director, Office of
Block Grant Assistance