Determination of Eligibility of Technical Assistance to Contractors Participating in Rehabilitation Programs

October 3, 1994

MEMORANDUM FOR: John J. Kane, Acting Director, Office of Community Planning and Development, 3C

FROM: Kenneth C. Williams, Deputy Assistant Secretary for Grant Programs, CG

SUBJECT: Determination of Eligibility of Technical Assistance to Contractors Participating in Rehabilitation Programs

This is in response to your request for a written opinion regarding the eligibility of providing technical assistance to small and minority-owned contractors to assist them in obtaining working capital loans to participate in the City of Philadelphia's rehabilitation program. Unfortunately, the original response was lost. Please accept this apology for the delay in responding and for any inconvenience it may have caused.

The issue regarding the eligibility of the above activity was originally the result of a monitoring review of the Philadelphia Commercial Development Corporation (PCDC). The PCDC administers a program with the objective of assisting small and minority-owned contractors to participate in inner-city rehabilitation programs. Small and minority-owned contractors are selected to rehabilitate houses that are owned and/or occupied by low- and moderate-income persons. PCDC assists the contractors in applying for a loan from a line of credit the PCDC has established with a local bank. Community Development Block Grant (CDBG) funds are used to pay PCDC's administrative costs (i.e., salaries). Any CDBG funds used for actual rehabilitation of the properties are provided by subrecipients such as the Philadelphia Housing Development Corporation.

During the 1986 monitoring visit, the Philadelphia Office concluded that "Staff costs associated with assisting the contractors to obtain the financing (e.g., processing loan documents and payments) can be considered part of the delivery cost of the rehabilitation activities and, therefore, eligible and fundable under the same provisions as those activities." At that time, your office also considered the possibility of this activity being eligible as a special economic development activity under §570.203(b), but concluded that "technical and managerial assistance that is directly and immediately related to aiding the Contractor in completing a CDBG housing rehabilitation contract may be considered part of the delivery cost for the rehabilitation activity." After further consideration that the primary beneficiaries of the technical assistance activity appear to be the contractors and not the homeowners, the Philadelphia Office concluded that the original determination was incorrect.

This issue was discussed during a July 9, 1992, telephone conversation with James Broughman, then Director of the Entitlement Communities Division, and members of the Philadelphia staff. Based on the information provided at that time,

Mr. Broughman expressed the view that the assistance provided to the small and minority-owned contractors might be eligible under 24 CFR 570.206 of the regulations. Under 24 CFR 570.206, CDBG funds may be used to provide payment of "reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or in part" with CDBG funds, including reasonable costs of overall program management, coordination, monitoring, and evaluation.

However, after further discussion, provision of additional information by the Philadelphia Office, and further review of the described activity with program counsel, it has been determined that the activity is eligible as a rehabilitation activity delivery cost. Section 570.202(b)(9) permits "rehabilitation services...related to assisting owners, tenants, contractors, and other entities participating or seeking to participate in rehabilitation activities..." Thus, your original determination in 1986 is correct.

If you have any further questions, please contact the Entitlement Communities Division at (202) 708-1577.

cc:John E. Wilson, SC