**Sonny Perdue**
Governor

Department of
# Community Affairs

**Mike Beatty**
Commissioner

MEMORANDUM

To: Mayor, County Commission Chairs, RDC Executive Directors, Other Interested Parties

From: Brian Williamson
Assistant Commissioner

Date: February 27, 2008

Subject: Clarifications for the 2008 CDBG/CHIP Annual Competition; Increased Project Delivery Fees; 2008 Income Limits; Ineligible Procurement Practices

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## Clarifications for the 2008 CDBG/CHIP Annual Competition

**Strengthening the Strategy Component of FY 2008 CDBG Applications.** The *FY 2008 Applicants' Manual* (page 34) lists the following under Program Strategy:

> ...3) an analysis of the ongoing financial effort that the applicant has made or will make to address the identified problem and to maintain and operate the proposed project, facility or system...

In addressing the item above, in the past most CDBG applicants have focused on discussing the financial arrangements for maintenance of planned infrastructure systems. **Please note that more competitive applications should also address the local government's financial condition. To ensure your application remains as competitive as possible, applicants are encouraged to include narrative that explains and documents the local government's inability to finance the proposed project through traditional public or private financing sources.** For example, a proposed activity for replacement of failing water lines could document that the local water rate structure is appropriate and that increasing rates to afford traditional financing would cause a hardship on the local residents. As an example, the U.S. EPA considers utility rates that exceed 1% of median household income as an affordability concern. See http://www.efc.unc.edu/RatesDashboards/ga.htm for additional information and explanation. Additional documentation can include turn downs from other lenders, financial statements, and community demographic information. While the discussion of financial effort will most often be applicable to utilities, applicants should discuss financial effort for other types of projects as well.

**NPDES Permit Costs and the 12 Percent Limitation on Engineering Fees.** National Pollutant Discharge Elimination System (NPDES) monitoring is required for many CDBG infrastructure projects (most often for erosion and sedimentation control). The costs of monitoring NPDES requirements should be reflected as a line item cost on the preliminary engineering report submitted with the CDBG application. DCA limits the amount of CDBG dollars budgeted for engineering (design and non-NPDES inspection) to 12 percent of the CDBG construction cost (excluding construction contingencies). When making the CDBG engineering budget calculation for the 2008 Annual Competition, applicants ***may*** include the CDBG cost of NPDES monitoring with the CDBG cost of construction for the purpose of calculating the maximum allowable engineering that CDBG will pay. Of course, applicants may choose to pay for engineering, NPDES monitoring, or a portion of construction costs themselves and count those costs toward an increased leverage or match. DCA reserves the right to reduce NPDES line items should these monitoring costs appear excessive.

Currently grantees, once funded, may include NPDES monitoring in either the construction contract or the engineering contract. DCA is reviewing this matter in order to decide whether to establish a uniform policy regarding the appropriate placement of these costs in CDBG-related contracts. Please keep in mind that most NPDES monitoring for erosion and sedimentation control does not have to be monitored by a professional engineering firm. See Department of Natural Resources regulations at the following link for further information on the types of firms that may design and monitor under NPDES permits:
http://www.georgiaepd.org/Files_PDF/techguide/wpb/cnstrct_swp_infrastructure.pdf

Whether in the engineering contract or in the construction contract, local governments should look for opportunities for competitive pricing for NPDES monitoring costs without compromising the quality of the required monitoring. Also, see the section below on *Ineligible Procurement Practices* for further information regarding these matters.

**Clarification on Requirements to Use CDBG Funds in Revitalization Areas.** As the *Applicants' Manual* (2008 edition) makes clear, recipients must "sit out" at least one year before applying for funding again **unless** a recipient falls into one or more of the categories outlined in the *Manual*. (See Part I, Page 15.) One of these categories is DCA's Revitalization Area Strategy (RAS) designation. For RAS, the requirement to "sit out" a year is lifted when the recipient proposes a project in an RAS area. This does not mean that recipients with RAS designations must always apply for projects in their RAS areas. It does mean, however, that recipients with RAS designations must "sit out" a year before being able to apply for funding **outside** their RAS areas.

## Housing Project Delivery Costs (PDCs)

PDCs have not been adjusted since May 2001. Due to the length of time since the last change in PDCs and the growth in administrative costs and requirements for housing projects, PDCs are being raised for both the CDBG and CHIP programs as follows:

**PDC Increases for CDBG and CHIP**

| Unit Type | Activity | Maximum PDC |
|---|---|---|
| Stick Built (including Modular) | Rehabilitation/Reconstruction | $2,500 (formerly $2,000) |
| Stick Built (including Modular) | Down Payment and Second Mortgage Assistance | $1,500 (formerly $1,000) |
| No change in PDCs for Manufactured Housing Units | | |

**PDC Increases for CHIP Set-Aside**

| Unit Type | Activity | Maximum PDC |
|---|---|---|
| Stick Built (including Modular) | Rehabilitation/Reconstruction | $3,500 (formerly $3,000) |
| Stick Built (including Modular) | Down Payment and Second Mortgage Assistance | $2,500 (formerly $2,000) |
| No change in PDCs for Manufactured Housing Units | | |

These increased PDCs are effective immediately for all existing CDBG/CHIP housing awards and for projects being developed for the 2008 Annual Competition housing awards. Please make the appropriate budget adjustments on DCA-1, DCA-7, and DCA-8 when preparing your 2008 Annual Competition application. Keep in mind that the PDCs listed are maximum amounts. Maximum amounts may only be charged to the applicable grant when actual costs equal or exceed the maximum PDCs available. Documentation in the form of detailed invoices must be submitted to the local government recipient in order to receive PDCs.

## 2008 Income Limits

HUD has released the 2008 Low- to Moderate-Income Limits. These new limits should be used for any CDBG surveys that have not already been started. For surveys that are already underway or that have been completed, applicants may utilize the 2007 Income Limits. A copy of the new income limits may be found at:
http://www.huduser.org/Datasets/IL/IL08/ga_fy2008.pdf.

**Ineligible Procurement Practices**

DCA has recently become aware of ineligible procurement practices by some CDBG grantees. DCA has reviewed contract construction documents that require the general contractor to use the services of the consulting engineer for inspection services required under the NPDES permit and that specify a price for that inspection work, effectively allowing the engineer to select himself or herself for the inspection work and to set the price for that work. This is contrary to the principle of promoting fair and open competition. (See the *Recipients' Manual* (2007 edition) for further information.) **When the NPDES inspection work is included in the construction contract, the general contractor must be allowed to bid this line item without restrictions on price or inspection firm unless otherwise required by regulation. Keep in mind that ineligible procurement practices are subject to sanctions including repayment to DCA of disallowed costs.**

For questions concerning this Memorandum, please contact Steed Robinson at (404) 679-3168.

Thank you.

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