

Q and A on Using CDBG-CV funds for emergency payments to a public utility

Q: May CDBG-CV be used to provide assistance to a household by paying a public utility provider on the household's behalf?

Emergency payments are an eligible CDBG/CDBG-CV public services activity type and must be made to the provider (e.g., landlord, lender or utility company) of rent, mortgage, or utility payments on behalf of an individual or family, and not directly to an individual or family in the form of income payments, debit cards, or similar direct income payments. Grantees must ensure that proper documentation is maintained to ensure that all costs incurred are eligible. Grantees must document, in their policies and procedures, how they will determine the amount of assistance to be provided is necessary and reasonable and how the activity meets a CDBG national objective. For CDBG-CV, the grantee must also document how the activity prepares for, prevents, or responds to the coronavirus and does not duplicate other benefits.

There are some specific requirements a grantee must consider in making an emergency payment to a public utility on behalf of an individual or family, and these include:

1. The costs a grantee-owned utility incurs in providing services are allowable to the extent they are consistent with cost principles at 2 CFR Part 200, Subpart E. The costs typically incurred by a grantee-owned utility include depreciation, payments to external suppliers (e.g., of electricity or natural gas), operating and maintenance, etc. However, the grantee must ensure that the costs to be allocated to individuals/families do not include depreciation of assets whose cost was borne by the Federal Government (including assets acquired or improved with CDBG funds).
2. The cost principles cited above also do not permit a grantee to earn a profit on charges to grant programs. Therefore, the grantee must ensure that the "per unit" cost of delivering the utility service to an individual/family is reasonable. If the grantee wishes to base its charge to the grant on the fee billed to the individual/family, it must ensure that the amount of the utility fee is reasonable. One test of the reasonableness of the utility fee billed to the individual/family is whether the operations of the utility are budgeted so as to realize an excess of revenue over expenses (i.e., a "profit") for the budget period. If the utility's operations are budgeted and accounted for in a separate enterprise fund, as is likely for most grantees, the grantee should evaluate the fund's budget and/or financial statements to ascertain whether its operations will generate a profit. If a profit is not indicated, the billed fee may be used to support the reasonableness of the charge to the grant for the emergency payment.
3. If the utility is operated so as to earn a profit, the grantee must calculate the per unit cost for residential customers based on the actual costs of providing the service and an allocation base that results in an equitable allocation to the grant.

If the grantee operates a public utility that is not budgeted or accounted for in a separate fund, the grantee is strongly advised to discuss options with its assigned HUD field office.