

# HUD Guidance on 10% De Minimis Indirect Cost Rate

## Introduction

HUD has allowed Continuum of Care grantees to elect to use indirect costs rates in the CoC program since 2015 and in the Emergency Solutions Grant program since 2014. In early 2021, HUD issued guidance on the implementation of indirect cost rates in these programs. This summary will review the key points concerning implementing the ten percent de minimis indirect cost rate.

- This summary does not cover processes associated with negotiating an indirect cost rate agreement. Further information on that is found in the complete Indirect Cost Toolkit found here: <https://files.hudexchange.info/resources/documents/Indirect-Cost-Toolkit-for-CoC-and-ESG-Programs.pdf>
- All non-profit grantees or subgrantees of the federal government may elect to charge the 10% de minimis rate provided:
  - The organization does not currently have nor has it ever received a negotiated indirect cost rate;
  - The organization is not a state, local government or Indian tribe receiving in excess of \$35 million in direct federal funding;
  - The organization will be using the rate indefinitely and consistently for all federal awards until it chooses to negotiate a rate; and
  - The de minimis rate will be based on Modified Total Direct Costs (MTDC).

The last point is extremely important – the ten percent rate is not applied to the total of the CoC or ESG grant but is only applied to the costs that are included in the MTDC. There are many CoC eligible costs that cannot be included in the MTDC and must be excluded when the 10% rate is calculated. These excluded costs are described in detail below.

Also note carefully that if an organization chooses to apply the 10% de minimis rate to its HUD grant, it must consistently apply that rate to all federal grants. Unless the federal award program specifically prohibits the charging of indirect costs, all federal awards must be treated equally therefore the rate must be applied to all federal awards that permit indirect costs.

CoC grantees cannot simply charge indirect costs to their existing grant. To access indirect costs, grantees must indicate their intent to charge indirect as part of the annual application to HUD. This intent should specify the rate (10%) and the cost base (MTDC). This information should be incorporated into the grant agreement provided by the local HUD office. If the grant agreement does not include an Indirect Cost Schedule, then you will not be able to charge indirect costs in the current program year.

## Modified Total Direct Costs

The ten percent de minimis rate is not applied to the total amount of the HUD ESG or CoC grant award but is instead applied to the cost base which in the case of the de minimis rate must be modified total direct costs (MTDC).

Included within MTDC are:

- All direct salaries and wages, applicable fringe benefits, materials, supplies, services, and up to the first \$25,000 in any subawards.

Specifically excluded from the MTDC are:

- Equipment
- Capital expenditures
- Charges for patient care (this includes some costs allowable under supportive services which must be excluded from MTDC if included in budget)
- Rental Costs (this includes rental assistance – according to the HUD guidance no rent paid under rental assistance or leasing can be included in the MTDC)
- Tuition remission
- Scholarships and fellowships
- Participant support costs
- Any subaward costs that are in excess of \$25,000

## Calculating the MTDC Cost Base

As noted, the ten percent de minimis rate can only be charged to eligible costs included in MTDC. The table below identifies which costs are includable and which must be excluded from MTDC by program component.

Program Component	Included in MTDC	Excluded from MTDC
Rapid Rehousing and Homeless Prevention Financial Assistance	Service delivery costs associated with inspecting units, landlord engagement, processing payments	<ul style="list-style-type: none"> <li>• Rental Application fees</li> <li>• Security deposits</li> <li>• Last months' rent</li> <li>• Rental assistance payments</li> <li>• Utility deposits</li> <li>• Utility payments</li> <li>• Moving costs</li> </ul>
Rapid Rehousing and Homelessness Prevention Services Costs	<ul style="list-style-type: none"> <li>• Housing search and placement</li> <li>• Housing stability case management</li> <li>• Legal services</li> <li>• Mediation</li> <li>• Credit repair</li> </ul>	<ul style="list-style-type: none"> <li>• Rent</li> <li>• Utilities</li> <li>• Equipment</li> </ul>

Program Component	Included in MTDC	Excluded from MTDC
Rapid Rehousing and Homeless Prevention Rental Assistance	Service delivery costs – processing rental assistance payments	<ul style="list-style-type: none"> <li>• Short term rental assistance</li> <li>• Medium term rental assistance</li> <li>• Rental arrears</li> </ul>
Leasing	<ul style="list-style-type: none"> <li>• Service delivery – processing lease payments</li> <li>• Inspections – HQS/lead based paint</li> </ul>	<ul style="list-style-type: none"> <li>• Rent</li> <li>• Utilities</li> <li>• Security deposits</li> <li>• Property damage</li> </ul>
Rental Assistance	<ul style="list-style-type: none"> <li>• Service delivery – processing lease payments</li> <li>• Inspections – HQS/lead based paint</li> </ul>	<ul style="list-style-type: none"> <li>• All rental assistance</li> <li>• Security deposits</li> <li>• Property damage</li> <li>• All other costs associated with rental assistance such as application fees and late charges</li> </ul>
Supportive Services	<ul style="list-style-type: none"> <li>• Annual assessment of service needs</li> <li>• Case management</li> <li>• Education services</li> <li>• Employment assistance and job training</li> <li>• Housing search and counseling</li> <li>• Legal services</li> <li>• Life skills training</li> <li>• Outreach services</li> <li>• Transportation</li> <li>• Other costs associated with the direct provision of services</li> </ul>	<ul style="list-style-type: none"> <li>• Childcare</li> <li>• Moving costs</li> <li>• Education, tuition, scholarships and fellowships</li> <li>• Food</li> <li>• Mental health services</li> <li>• Outpatient health services</li> <li>• Substance abuse treatment services</li> <li>• Utility deposits</li> </ul>
Operating Costs	<ul style="list-style-type: none"> <li>• Maintenance and repair of housing</li> <li>• Building security staff</li> </ul>	<ul style="list-style-type: none"> <li>• Property tax and insurance</li> <li>• Replacement reserve</li> <li>• Utilities</li> <li>• Furniture</li> <li>• Equipment</li> <li>• Property damage</li> </ul>
HMIS	<ul style="list-style-type: none"> <li>• HMIS data collection and contribution activities – staff operations, training, conducting intake</li> <li>• HMIS lead agency activities</li> <li>• Victim service provider or legal service provider activities</li> </ul>	<ul style="list-style-type: none"> <li>• All HMIS equipment including hardware and software licenses</li> <li>• Office equipment</li> <li>• Office space costs</li> <li>• Participant fees</li> </ul>

Program Component	Included in MTDC	Excluded from MTDC
Acquisition, Rehabilitation, New Construction	<ul style="list-style-type: none"> <li>No costs included</li> </ul>	<ul style="list-style-type: none"> <li>All costs excluded</li> </ul>
Administrative Costs	<ul style="list-style-type: none"> <li>General management, oversight, and coordination</li> <li>Trainings</li> <li>Environmental reviews</li> </ul>	<ul style="list-style-type: none"> <li>Rent</li> <li>Utilities</li> <li>Equipment</li> </ul>
Sub-awards	<ul style="list-style-type: none"> <li>First \$25,000 of all subawards, subrecipient contracts</li> </ul>	<ul style="list-style-type: none"> <li>All funds in the subaward that exceed \$25,000</li> </ul>

As shown each cost component for ESG and CoC assistance includes some costs that can be included in the MTDC base and others that must be excluded. Recipients and subrecipients must track costs by element for each eligible component activity. Costs must be separately accounted for in each component. For example, staffing costs associated with the delivery of rental assistance must be separately tracked from other personnel costs and included in the MTDC base as part of rental assistance costs.

### What do Recipients and Subrecipients Need to Do?

In order to bill indirect costs under the CoC or ESG program, under the 10-% de minimis rate, recipients and subrecipients must:

- Notify HUD of the intent to bill for indirect costs. CoC grantees do this as part of the annual application process. The annual application to HUD must show the intent to bill for indirect, indicate the 10% de minimis rate, and specify that the cost base will be MTDC.
- Using the chart above, identify which costs in the approved budget are eligible for inclusion in the MTDC and which must be excluded.
- Total those cost elements eligible for inclusion in the MTDC and apply the 10% de minimis rate to those costs. This will represent the maximum indirect costs that can be billed to the project. Remember that in order to bill the maximum or total indirect costs, your organization must fully expend the CoC grant. The indirect rate can only be charged against costs that are allowed to be included in MTDC and that have actually been expended by the recipient or subrecipient.
- If the grant has subrecipients, the subrecipients are entitled to claim indirect costs on their portion of the award.
- As part of vouchering to HUD include (under the appropriate cost component) the indirect costs that are being charged to that component.
- Remember that no funds are added to HUD grants to cover indirect costs. Any costs charged to indirect will be charged against the grant award. HUD will expect grantees to serve the number of households identified in the grant application regardless of whether the grantee is charging indirect costs to the grant.