**Section 661.701 Determination of Allowable Costs**

a) The grantee will be paid, upon request, in accordance with Section 661.704 for the State share of all necessary costs within the scope of the approved project not to exceed the total grant offer and determined to be allowable in accordance with the criteria set forth in this Section.

b) Allowable project costs.

Allocable project costs of the grantee which are reasonable and necessary are allowable. Necessary costs may include, but are not limited to:

1) Costs of salaries, benefits, and expendable material incurred by the grantee for the project, except as provided in subsection (c)(7);

2) Costs under construction contracts;

3) Professional and consultant services;

4) Landscaping;

5) Supervision of construction work;

6) Removal and relocation or replacement of utilities for which the grantee is legally obligated to pay;

7) Materials acquired, consumed, or expended specifically for the project;

8) An inventory of laboratory chemicals and supplies necessary to initiate plant operations;

9) Flood plain insurance; and

10) Project identification signs.

c) Unallowable costs

Costs which exceed the total amount of the grant offer or which are not necessary for the completion of the work authorized by the grant agreement are unallowable. Such costs include, but are not limited to:

1) Costs relating to service connections;

2) Bonus payments not legally required for completion of construction in advance of a contractual completion date;

3) Personal injury compensation or damages arising out of the project, whether determined by adjudication, arbitration, negotiation, or otherwise;

4) Fines and penalties resulting from violations of, or failure to comply with, federal, state, or local laws;

5) Costs outside the scope of the approved project;

6) Interest on bonds or any other form of indebtedness required to finance the project costs;

7) Ordinary operating expenses of local government, such as salaries and expenses of a mayor, city council members, or city attorney, except as provided in subsection (d);

8) Site acquisition;

9) Costs for which payment has been or will be received under another state of federal assistance program;

10) Costs of equipment or material procured in violation of any provisions of this Part;

11) Costs of special funds (i.e., industry advancement funds; funds to reimburse bidding costs to unsuccessful offerors, etc.) financed by contractors, contributions in the construction industry for methods and materials research, public and industry relations, market development, labor-management matters, wage negotiations, jurisdictional disputes, defraying of all or part of unsuccessful offerors bidding costs, or similar purposes;

12) Costs for resident inspection where such costs are incurred after the expiration of the applicable contractual completion date, even if the contractual completion date is subsequently extended by the grantee, unless such extension has been approved by the Agency in accordance with Section 661.402;

13) Personal and professional services costs (including but not limited to professional engineering costs) arising under a cost-plus-percentage of cost type of agreement (including the multiplier contract where profit is included in the multiplier) or a percentage-of-construction-cost type of contract;

14) Personal and professional services costs (including but not limited to professional engineering costs) when the Agency has been refused access to the books and records of the contractor or the contractor has refused to renegotiate a personal or professional services contract in accordance with the provisions of Section 661.303;

15) Increase in personal and professional services contract fees which are based solely on a percentage of an increased construction cost notwithstanding the contractual liabilities of the grantee under such contract; and

16) Personal and professional service costs, either direct or indirect, relating to entertainment, interest on borrowed capital, or bad debts.

d) Design allowance

The grant shall provide for a design allowance determined in accordance with Appendix C. The grantee shall not otherwise be reimbursed for costs incurred for project design.

e) Disputes concerning costs

The grantee shall seek to resolve questions relating to costs in accordance with Section 661.306.

f) Limitation upon project costs incurred prior to grant award

Payment will not be authorized for costs incurred prior to the date of the grant except as in accordance with the following:

1) Advance acquisition of equipment items requiring long lead times, or advance construction of portions of the project, in emergencies or instances where delay could result in significant cost increases, shall not be approved by the Agency unless the grantee:

A) Submits a written request for approval that demonstrates:

i) Advance acquisition of equipment items requiring long lead times, or advance construction of portions of the project were necessary due to an emergency or because a delay could result in significant cost increases; and

ii) All provisions set forth in this Part relaying to procurement have been met; and

B) Obtains written approval by the Agency prior to the initiation of the advance acquisition or advance construction.

2) The approval of advance acquisition of equipment or advance construction will not constitute a commitment for approval of grant assistance for a project, but will allow payment for the previously approved costs as allowable project costs only upon subsequent award of grant assistance, if requested prior to grant award. In instances where such approval is obtained, the applicant proceeds at its own risk, since payment for such costs will not be made until grant assistance for the project is awarded.