



Memorandum

Indian Health Service
Rockville MD 20857

TO: Area Sanitation Facilities Construction (SFC) Program Directors

FROM: Mark A. Calkins June 4, 2026
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SUBJECT: SFC Program, Interim Guidance Memo (IGM) #2026-04

Proration of Planning and Engineering Costs into Eligible and Ineligible Shares.

Modifications to: "[Sanitation Deficiency System \(SDS\): A Guide for Reporting Sanitation Deficiencies for American Indian and Alaska Native Homes and Communities](#)" September 2019

This memo provides interim guidance and clarification regarding the treatment of eligible and ineligible cost shares associated with planning and engineering activities for SDS projects.

Background:

Since the publication of the September 2019 SDS Guideline, the SFC Program received an historic investment of funds from the Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Law (BIL). This investment resulted in an unprecedented number of projects being selected for funding from the SDS project inventory.

With increased funding, associated oversight, and experience in applying SDS policies during multiple annual review cycles, the SFC Program has identified several clarifications, modifications, and internal control improvements that should be incorporated into the 2019 SDS Guideline. Continued refinements of SDS guidance improves the quality, consistency, and reliability of SDS data, which the Indian Health Service is required to report annually to Congress.

[IGM 2025-03](#), issued on April 9, 2025, provided an initial set of modifications to the 2019 SDS Guideline.

The IGM reinforces the requirement to prorate planning and engineering costs into eligible and ineligible shares and provides additional guidance regarding the timing and documentation of ineligible cost-share commitments.

Guidance:

1. Existing SDS Requirements

Consistent with the 2019 SDS Guideline, if a project proposes to serve ineligible housing or other ineligible users, the total project cost estimate must be prorated into eligible and ineligible cost shares, and the ineligible share must be contributed by a non-IHS source.

Relevant SDS Guideline provisions include:

a. Section 4g - Communities with Varying Eligibility

Section 4g defines Indian and non-Indian communities, outlines eligibility requirements, and establishes the methodology for prorating costs based on Equivalent Dwelling Units (EDU's).

b. Section 6c – Planning and Engineering Costs

Section 6c provides guidance regarding planning and engineering costs and their inclusion within SDS project cost estimates.

c. Section 6g – Contributions

Section 6 g requires that the pro-rata share of total project cost associated with ineligible homes and users be contributed from non-IHS sources and reported in the SDS project listing.

2. Deferred Commitment of Ineligible Share for Certain Planning Projects

For SDS Tier 2 or Tier 3 Planning projects that meet all the following criteria:

- a. The project is located within an Indian Community;
- b. The project serves a majority (>50 percent) of eligible EDUs; and
- c. The project is being advanced for the purpose of developing a future Tier 1 Ready-to-Fund construction project;

the ineligible share associated with planning and engineering activities may be deferred at the planning stage.

The deferred amount shall be incorporated into the total ineligible cost share calculated for the downstream Tier 1 “*Ready to Fund*” construction project and must be documented and committed at the time the Tier 1 project is submitted for funding consideration.

For purposes of this guidance, a commitment may be documented through a tribal resolution, executed contribution agreement, funding agreement, budget authorization, or other written documentation acceptable to the Area SFC Program Director demonstrating a reasonable

expectation that the required non-IHS funding share will be available prior to project award.

Documentation of the deferred planning and engineering cost share shall be maintained in the SDS project record and shall include:

- The amount of deferred ineligible cost share;
- The methodology used to calculate the amount;
- The anticipated non-IHS funding source, if known; and
- Documentation of commitment when the associated Tier 1 project is submitted.

3. Projects That Do Not Advance to Tier 1

This guidance is intended to facilitate the advancement of planning projects toward a future Tier 1 Ready-to-Fund construction project.

If a planning project does not advance to a Tier 1 construction project, no retroactive recovery of deferred planning and engineering costs shall be required unless otherwise directed by the Director, Division of Sanitation Facilities Construction.

Rationale:

As part of the program administration authorized under P.L. 86-121, the SFC Program has historically provided technical assistance to Indian communities using SFC Program staff resources without requiring immediate contribution for an ineligible funding share. IHS engineers routinely perform planning and engineering activities as part of this technical assistance function.

For projects located within Indian Communities and serving a majority of eligible EDUs, requiring immediate commitment of the ineligible share associated with planning and engineering activities may unnecessarily delay project development and advancement to Tier 1 “*Ready to Fund*” status.

Allowing deferred commitment of the ineligible planning and engineering cost share in these limited circumstances supports efficient project development while preserving the requirement that all ineligible project costs ultimately be funded from non-IHS sources.

End IGM