



**Department of
Development**

Office of Housing and Community Partnerships

Attachment 12

Program Income Policy

November 2008

Prepared By:

Ohio Department of Development

Community Development Division

Office of Housing and Community Partnerships

Ted Strickland, Governor of Ohio

Lee Fisher, Lt. Governor of Ohio

Director, Ohio Department of Development

Program Income Policy

- A. "Program Income" means gross income received by a unit of general local government or a subrecipient of a unit of local government that was generated from the use of CDBG funds, except that program income does not include the total amount of funds which is less than \$25,000 received in a single year that is retained by a unit of general local government and its subrecipients. When such income is generated by an activity that is only partially assisted with CDBG funds, the income shall be prorated to reflect the percentage of CDBG funds used.
1. Program income includes, but is not limited to the following:
 - i. Proceeds from the disposition by sale or long-term use of real property purchased or improved with CDBG funds;
 - ii. Proceeds from the disposition of equipment purchased with CDBG funds;
 - iii. Gross income from the use or rental of real or personal property acquired by a unit of general local government or a subrecipient of a unit of general local government with CDBG funds, less the costs incidental to the generation of such income;
 - iv. Gross income from the use or rental of real property owned by the unit of general local government or a subrecipient of a unit of general local government that was constructed or improved with CDBG funds, less the costs incidental to the general of such income;
 - v. Payments of principal and interest on loans made using CDBG funds;
 - vi. Proceeds from the sale of loans made with CDBG funds;
 - vii. Proceeds from the sale of obligations secured by loans made with CDBG funds;
 - viii. Interest earned on funds held in a revolving fund account;
 - ix. Interest earned on program income pending disposition of such income;
 - x. Funds collected through special assessments made against properties owned and occupied by households **not** of low and moderate income, where such assessments are used to recover all or part of the CDBG portion of a public improvement; and
 - xi. Gross income derived from the ownership interest in a for-profit entity acquired or purchased with CDBG funds.
 2. Program income does not include:
 - i. Interest earned (except for interest earned on a lump sum drawdown for financing of property rehabilitation activities within the current applicable requirements governing such lump sum drawdowns) on cash advances from the U.S. Treasury. Such interest shall be remitted to HUD for transmittal to the U.S. Treasury and will **not** be reallocated under section 106© or (d) of the Act.

Examples of other receipts that are not considered program income are proceeds from fundraising activities carried out by subrecipients receiving CDBG assistance; funds collected through special assessments used to recover the non-CDBG portion of a public improvement; and proceeds from the disposition of real property acquired or improved with CDBG funds when such disposition occurs after the applicable time period specified in 24 CFR 570.489(j).

- ii. Interest earned by units of general local government on grant funds before disbursement of the funds for activities is not program income and must be returned to the U.S. Treasury, except that the unit of local government may keep interest amounts up to \$100 per year for administrative expenses.

B. "Revolving Fund" means a separate fund (with a set of accounts that are independent of other program accounts) established for the purposes of carrying out specific activities which, in turn, generate payments to the funds for use in carrying out such activities.

1. Payments to the revolving fund are program income and must be substantially disbursed from the revolving fund before additional grant funds are drawn from the state for revolving fund activities. Such program income is **not** required to be disbursed for non-revolving fund activities.
2. A revolving fund established by a unit of general local government may **not** be directly funded or capitalized with grant funds.
3. Expenditures from the revolving fund account must be made in accordance with the unit of general local government revolving fund plan as approved by the state, and according to all applicable federal and state laws and regulations.

C. Program income retained by a unit of general local government.

1. Program income may be retained by the unit of general local government if the program income will be used to continue the activity from which the program income was derived. The state will determine when an activity will be considered to be continued. Funds not to be expended in that same manner must receive prior approval from the state.

The state reserves the right to recapture local program income from communities which fail to adequately meet statutory and regulatory requirements. Any program income derived by the grantee through the administration of economic development funds must also be expended according to applicable federal and state statutory and regulatory requirements. Smaller units of government that do not have an ongoing grant relationship with OHCP or an existing Revolving Loan Fund, will be required to arrange Revolving Loan Fund agreements with the county in which they are located. OHCP will evaluate the grantee's ability to effectively administer a local Revolving Loan Fund at the time of application approval. If it is determined that the local Revolving Loan Fund is not being satisfactorily administered, collateral effectuation, promissory notes, and loan repayments must be provided to the state. A determination on what constitutes a "satisfactorily administered" economic development Revolving Loan Fund is the sole discretion of the state.

2. The unit of general local government, to the maximum extent feasible, is required to disburse program income that is subject to CDBG requirements before requesting additional funds from the state for activities, except as provided in (b)(1) of this policy.
3. The unit of general local government must maintain financial records on the receipt and expenditure of program income funds separately from other CDBG program funds currently being administered at the local level. The total amount of program income on hand must also be reported when submitted a drawdown request for CDBG funds (Request for Payment and Status of Funds Report – Form DS5). In addition, documentation must be maintained, by activity, as to how the program income expenditure(s) meets a CDBG national objective as well as other program requirements.
4. The unit of general local government is required to submit to OHCP, at least annually, a status report on program income received and expended for the previous 12-month period as well as projected levels of program income for the upcoming 12-month period. Units of general local government administering local revolving funds for economic development activities must report on a **semi-annual** basis using the Semi-Annual RLF Status Report.
5. Program income that is received and retained by a unit of general local government is treated as additional CDBG funds and is subject to all applicable requirements of the CDBG Program, including but not limited to, prevailing wage, environmental review, eligibility, national objective, etc.
6. The unit of general local government must demonstrate to the state's satisfaction that these program income funds will be or have been expended in compliance with CDBG requirements, or program income funds must be returned to the state. The state will evaluate the grantee's administration of program income funds based on administrative capacity, timeliness in submitting reports, timeliness in expenditure of program income funds, and documented compliance with CDBG requirements.

D. Program income retained after closeout.

1. For federal fiscal year 1992 and previous years' CDBG funds, program income that is received and retained by the unit of general local government, after closeout of the grant that generated the program income, is not subject to the CDBG requirements, except:
 - i. if the unit of general local government has another ongoing CDBG grant from the state at the time of closeout, the program income continues to be subject to the CDBG requirements as long as there is an ongoing grant; and
 - ii. if the program income is used to continue the activity that generated the program income, the CDBG requirements apply to the program income as long as the unit of general local government uses the program income to continue the activity. The state will determine when an activity will be considered to be continued.

At the point of closeout of a grant, the unit of general local government must provide the state with information concerning the amount of program income on hand.

2. For federal fiscal year 1993 and future years, any program income that is received and retained by the unit of general local government, even after closeout of the grant that generated the program income, **is** subject to CDBG regulations.

E. Program income activity expenditures.

1. Program income generated through an economic development revolving fund capitalized by Economic Development or Formula Program funds must be expended on additional loan financing to eligible businesses. The unit of general local government may, however, use a portion of the revolving fund for eligible public infrastructure improvements resulting in job creation upon prior approval by the state.
2. Program income generated through housing rehabilitation activities from a Comprehensive Housing, Community Housing Improvement or Formula Allocation Program grant must be expended on eligible housing rehabilitation primary activities, such as owner or renter occupied rehabilitation, emergency home repair, weatherization, water or sewer tap ins, etc. The unit of general local government may expend program income funds on secondary activities provided that a comprehensive housing program is being undertaken in a defined target area and OHCP has given prior approval to the targeted program and secondary activity expenditures.
3. Program income generated from activities other than downtown revitalization and economic development revolving funds and housing rehabilitation may be expended on any eligible CDBG activity.
4. Program income generated through a local rental rehabilitation program must be used to continue the rental rehabilitation activity.

F. Administrative expenditures from program income accounts

Units of local government may expend up to 20% or \$50,000, whichever is less, of program income received in a calendar year for administrative expenses directly related to managing those funds. Housing activities must include implementation costs within the allowable administrative expenditures. Time sheets and proper source documentation must be maintained substantiating these expenses, as well as demonstrating a direct relationship between the expenses and the administration of the program income activities.