

Welcome to the US Department of Housing and Urban Development's presentation entitled Smart Management of Program Income.

CDBG Grantees face challenges of limited funds and increasing need.

But, certain activities can generate program income, extending grantees' CDBG dollars further.

Grantees can pay for future CDBG activities using program income. It can also increase amounts available for public services, planning, and administration.

Commonly, grantees generate program income by loaning CDBG funds for property acquisition, housing rehabilitation, down payment assistance, or economic development assistance.

When beneficiaries repay these loans, the money returned is called program income.

Though beneficial, program income can be a little complex to manage, so grantee staff need to follow the rules carefully and set up systems to track and manage it.

Many program income rules and requirements are common to both the Entitlement and State CDBG programs, but not always. In this presentation, we give you the option of learning more about program income from an Entitlement community or State perspective. We will cover:

- Defining Program Income
- How To Plan and Manage Program Income, and
- Disbursing Program Income

Choose your path by selecting one of the options on screen.

In the Entitlement program, CDBG grantees draw down grant funds from HUD for activities. Some of these activities may generate program income.

In this section, we will discuss specifically what program income is and what it is not.

First, let's define program income.

Program income means gross income that is directly generated from a CDBG-funded activity. Program Income may flow back to the Entitlement community or its subrecipients. Program income is subject to the CDBG rules in perpetuity

Some examples of Program Income include:

- Payments of principal and interest on loans made using CDBG funds;
  - Proceeds from sale or (long-term) lease of property purchased or improved with CDBG funds;
- and
- Proceeds from the sale of obligations secured by loans made with CDBG funds.

ALL Revolving Fund income, regardless of amount, is considered Program Income.

Now, let's talk about what is NOT program income.

If an Entitlement Grantee and all its subrecipients have income receipts totaling \$25,000 or less in a program year, the funds are not classified as program income.

However, once this threshold is exceeded, all of the money is considered program income, including the first \$25,000.

Remember the \$25,000 threshold does not apply to revolving loan fund income. That income is always classified as program income, regardless of the amount.”

Let’s talk about another situation as an illustration:

At the grantee’s option, income generated from loans made by Community Based Development Organizations may be excluded from the definition of program income.

Let’s cover a few additional examples of what is not program income.

Reimbursement of funds for program violations is not considered program income.

In addition, interest earned on funds between the time they are drawn down and disbursed is not program income.

Now that we’ve defined program income, let’s explore how to plan for and manage it. Later in the presentation we’ll turn to explaining how program income is disbursed.

Program Income must be used for CDBG eligible activities that meet a National Objective and is subject to all cross-cutting federal requirements. In this regard, program income works just like CDBG Grant Funds!

Program Income is also subject to CDBG spending caps.

For Entitlement grantees, the amount of any CDBG funds that may be obligated during the current program year for public service activities is limited by a cap. That cap is set at an amount equal to 15% of the sum of the most recent CDBG grant amount plus the total amount of program income that was received during the prior program year.

Similarly, the amount of any CDBG funds that may be obligated for administration and planning activities during the current program year may not exceed a cap. The cap is calculated as 20% of the sum of the most recent grant amount plus the total amount of program income received in the current program year.

These calculations do not affect the amounts drawn from each respective account. Grantees must always spend down program income funds on hand before grant funds.

In addition, there are three crucial moments in the management of program income:

- One: Grantees have to estimate and plan for Program Income in each year’s Action Plan.
- Two: Entitlement Grantees must track and receipt Program Income in IDIS.
- Three: Grantees have to disburse Program Income before drawing additional funds from their Treasury account.

Let's talk about these in turn.

Grantees must estimate and plan for program income and include it in activity budgets for the coming year. If more program income is received than expected, the grantee may need to amend its Annual Plan to allocate the additional funds.

Entitlement grantees must track, receipt, and draw the Program Income in IDIS.

To help with this, grantees should set up systems to:

- Track the Program Income receipts, including Program Income retained by subrecipients;
- To process payments with Program Income in accordance with the cash management rules;
- To receipt and draw the Program Income in IDIS.
- To monitor how program income affects the grantee's timely expenditure of funds, and
- To manage large amounts of unexpected program income, if needed.

By now you should have a good sense of what program income is, and how to plan for and manage it. But what about disbursing program income? We'll cover that in this section, and then wrap up with an illustrative example of a grantee managing program income.

The biggest challenge for many Grantees is following the rule that program income must be expended before additional CDBG Grant Funds are drawn down.

This rule also applies to subrecipients allowed to retain program income, that is, they are required to use any program income before requesting additional grant funds from the Entitlement grantee.

Tracking Program Income in IDIS adds a layer of complexity to grant management. When Program Income is used for an expenditure in place of the Grant Funds, the grantee will have extra grant funds to spend for the same or another activity. The grantee will need to reflect all budget revisions in IDIS.

Let's walk through an example. Say a grantee has an activity that's budgeted at \$200,000 – and then receives an invoice for \$50,000 for work performed. The grantee will need to determine if it has program income to help pay the expense.

In this scenario, the grantee recently earned \$40,000 in program income. The \$50,000 expense must first be paid from program income, with any remaining balance paid from grant funds. After paying the expense, the grantee has \$190,000 in grant funds remaining, \$150,000 of which remain budgeted to the activity, and \$40,000 of which may be used to fund other activities.

In a second scenario, the grantee has no program income. In that case, the \$50,000 expense is paid entirely from grant funds, leaving the grantee with \$150,000 in grant funds.

Revolving loan funds also generate program income, but this income is handled differently. Grantees establish revolving funds to loan money to support specific activities such as housing rehabilitation or economic development. The loan repayments are then used to carry out the same type of activity. All revolving loan fund income, regardless of amount, is considered program income.

Grantees must capitalize Revolving Funds with Program Income rather than grant funds, and they need to use revolving fund program income before requesting grant funds for the same type of activity.

Grantees are not required to spend revolving fund program income first for other activities.

The Revolving Fund account is set up in a separate interest-bearing account. Interest charged on loans made by the fund remains in the Revolving Fund.

However, grantees must return bank interest earned on the account to the Treasury.

A Grantee determines whether its subrecipients will return Program Income or retain it. Subrecipients allowed to retain Program Income must report all amounts to the Grantee and use the funds for eligible CDBG activities.

Subrecipient agreements must specify whether program income will be retained or returned, how it will be used, and all reporting requirements.

Now let's talk about a hypothetical situation to illustrate how grantees manage program income in real life.

Anytown, USA is a Grantee receiving an average annual CDBG grant of \$1 million dollars. Here's their situation: About a month before the end of its program year, Anytown receives an unexpected loan repayment of \$100,000 from a housing developer. Under its current CDBG program, Anytown spends an average of \$10,000 each week.

Anytown benefits from the program income in several ways:

- Anytown now has \$100,000 more in CDBG funds to support additional activities;
- With the extra money, Anytown can increase its obligations for public services by up to \$15,000 next year;
- and can increase its administration and planning obligations by up to \$20,000 this year.

Anytown staff will need to manage these funds by:

- Using the program income before drawing any more grant funds from the Treasury. This may pose challenge to Anytown given it typically spends \$10,000 a week and the community is one month from the end of its program year.
- Deciding how to reprogram the Grant funds freed up by unexpected Program Income. This may require a substantial amendment to the Annual Action Plan.
- Coming up with a plan to spend funds quickly so that it can ensure it will not have more than one and a half times its annual allocation on hand 60 days prior to the end of the program year. If staff do not think this is possible, Anytown should discuss this issue with its HUD field office.

As illustrated through this scenario, supporting activities that generate Program Income is a great way for a grantee to augment its CDBG dollars to meet increasing need. Increasing opportunities to earn program income allows Grantees to pay it forward to future program years' CDBG program activities. To do so, they need to plan for Program Income, track it, receipt it, report it, and disburse it according to the CDBG rules.

You have reached the end of our presentation on Smart Management of Program Income for Entitlement grantees. If you wish to continue to the presentation on Smart Management of Program Income for the State CDBG program, click the icon on the screen.

In the State Program, CDBG funds flow from HUD through each state to its eligible Units of General Local Government, or UGLGs. UGLGs use this money to fund activities that may generate program income.

In this section, we will discuss specifically what program income is and what it is not.

First, let's define program income.

Program income means gross income that is directly generated from a CDBG-funded activity. Program Income may flow back to the State grantee or Units of General Local Government, often referred to as UGLGs. Program income is subject to the CDBG rules in perpetuity.

Some examples of Program Income include:

- Payments of principal and interest on loans made using CDBG funds;
- Proceeds from sale or long-term lease of property purchased or improved with CDBG funds; and
- Proceeds from the sale of obligations secured by loans made with CDBG funds.

ALL Revolving Fund and State Fund income, regardless of amount, is considered Program Income.

Now, let's talk about what is NOT program income.

When retained locally, income totaling less than \$35,000 per Unit of General Local Government per year is not considered program income. When returned to the state, amounts totaling under \$35,000 each year are not program income.

However, in both situations, once the threshold is exceeded, all of the money is considered program income, including the first \$35,000.

Remember the \$35,000 threshold does not apply to revolving loan fund income. That income is always classified as program income, regardless of the amount."

Let's talk about another situation as an illustration:

In general, amounts generated by qualified nonprofits carrying out eligible activities under Section 105(a)(15) of the Housing and Community Development Act are not considered program income.

Let's cover a few additional examples of what is not program income.

Reimbursement of funds for program violations is not considered program income.

In addition, interest earned on funds between the time they are drawn down and disbursed is not program income.

Now that we've defined program income, let's explore how to plan for and manage it. Later in the presentation we'll turn to explaining how program income is disbursed.

Program Income must be used for CDBG eligible activities that meet a National Objective and is subject to all cross-cutting federal requirements. In this regard, program income works just like CDBG Grant Funds!

Program Income is also subject to CDBG spending caps.

For State grantees, the amount that may be spent for public services is limited by a cap. That cap is set at 15% of the aggregate amount of a CDBG grant and program income. Expenditures for public services

must not exceed the cap.

Similarly, the amount that may be spent for administration and planning is limited by a cap. That cap is set at 20% of the aggregate amount of a CDBG grant and program income. Expenditures for administration and planning must not exceed the cap. The 20% cap applies to the combined expenditures by a state and its UGLGs for administration and planning costs. States are further limited to a 3% cap for administration, planning, as well as technical assistance.

These calculations do not affect the amounts drawn from each respective account. Grantees must always spend down program income funds on hand before grant funds.

In addition, there are three crucial moments in the management of program income:

- One: Grantees have to estimate and plan for Program Income in each year's Action Plan.
- Two: UGLGs must report or return Program Income and that of their subgrantees to the State.
- Three: Grantees have to disburse Program Income before drawing additional funds from the Treasury account.

Let's talk about these in turn.

Grantees must estimate and plan for program income and include it in activity budgets for the coming year. If more program income is received than expected, the grantee may need to amend its Annual Plan to allocate the additional funds.

UGLGs are required to track and report program Income to the State which then receipts and draws the Program Income in IDIS.

To help with this, UGLG's should set up systems to:

- Track the Program Income receipts, including Program Income retained by subgrantees;
- To disburse Program Income in accordance with the cash management rules, and;
- To report or return the Program Income to the State in accordance with the State's policy

In addition, States need to consider how any unanticipated program income will affect the ability to meet HUD's advisory spending goal of 2.5 times the State's grant.

By now you should have a good sense of what program income is, and how to plan for and manage it. But what about disbursing program income? We'll cover that in this section, and then wrap up with an illustrative example of a grantee managing program income.

The biggest challenge for many Grantees is following the rule that program income must be expended before additional CDBG Grant Funds are drawn down.

This rule also applies to UGLGs that are allowed to retain Program Income, that is, they must use Program Income before requesting additional grant funds from the State.

Tracking Program Income in IDIS adds a layer of complexity to grant management. When Program Income is used for an expenditure in place of the Grant Funds, the grantee will have extra grant funds to spend for the same or another activity. The grantee will need to reflect all budget revisions in IDIS.

Let's walk through an example. Say a grantee has an activity that's budgeted at \$200,000 – and then receives an invoice for \$50,000 for work performed. The grantee will need to determine if it has program income to help pay the expense.

In this scenario, the grantee recently earned \$40,000 in program income. The \$50,000 expense must first be paid from program income, with any remaining balance paid from grant funds. After paying the expense, the grantee has \$190,000 in grant funds remaining, \$150,000 of which remain budgeted to the activity, and \$40,000 of which may be used to fund other activities.

In a second scenario, the grantee has no program income. In that case, the \$50,000 expense is paid entirely from grant funds, leaving the grantee with \$150,000 in grant funds.

Revolving loan funds also generate program income, but this income is handled differently. Grantees establish revolving funds to loan money to support specific activities such as housing rehabilitation or economic development. The loan repayments are then used to carry out the same type of activity. All revolving loan fund income, regardless of amount, is considered program income. Grantees must capitalize Revolving Funds with Program Income rather than grant funds, and they need to use revolving fund program income before requesting grant funds for the same type of activity. Grantees are not required to spend revolving fund program income first for other activities.

The Revolving Fund account is set up in a separate interest-bearing account. Interest charged on loans made by the fund remains in the Revolving Fund.

The State program allows for an additional type of revolving fund. The State may establish a revolving fund to distribute grants to UGLGs throughout the state or in a specific region to carry out specific, identified activities.

The State determines whether the UGLG, or a subgrantee of the UGLG, returns or retains Program Income. UGLGs allowed to retain Program Income must report the amount of the Program Income to the State and spend it on eligible uses.

States must allow the UGLG to keep the program income if it will be used to continue the same activity according to the State's definition.

Grant agreements between state and UGLGs must specify whether program income will be retained or returned, how it will be used, and all reporting requirements.

Now let's talk about a hypothetical situation to illustrate how grantees manage program income in real life.

Here's the situation: SmallCity, USA, has been running a housing rehabilitation loan program that was initially funded with State CDBG funds. For the last few years, it has received Program Income in the form of loan payments of about \$37,000 per year. The State has allowed SmallCity to keep the funds to capitalize a revolving fund for additional housing rehabilitation loans. Two years ago there was a turnover in SmallCity's staff. A State Representative, monitoring the program this year, discovered that SmallCity has not made any housing rehabilitation loans from its revolving fund for the last two years and has \$120,000 in program income on hand. SmallCity continues to request grant funds from the state for housing rehabilitation activities. SmallCity has not reported any program income to the state.

If you were the State monitor, which of the following recommendations would you make?

- Provide Program Income training for the SmallCity staff?
- Work with SmallCity staff to set up a Program Income tracking and reporting system that meets the State's requirements?
- Ensure that SmallCity disburses Program Income before requesting Grant funds for the same activity from the State?
- Or monitor SmallCity closely for the next year to ensure that it is meeting Program Income requirements?

If you answered all of the above, you are correct! SmallCity is fortunate to be receiving program income on a regular basis. With proper management, these funds can help SmallCity extend the reach of its CDBG grant funds and better address the community's housing rehabilitation needs.

As illustrated through this scenario, supporting activities that generate Program Income is a great way for a grantee to augment its CDBG dollars to meet increasing need. Increasing opportunities to earn program income allows Grantees to pay it forward to future program years' CDBG program activities. To do so, they need to plan for Program Income, track it, receipt it, report it, and disburse it according to the CDBG rules.

You have reached the end of our presentation on Smart Management of Program Income. Thank you for watching.