CHAPTER 14 PROGRAM INCOME AND REVOLVING LOAN ACCOUNTS

Introduction

Under the Community Development Block Grant (CDBG) Program, there are specific rules and requirements associated with the management and use of Program Income (PI) received by grantees and their subrecipients.

This Chapter defines PI, explains the PI Reuse Plan, and describes requirements for managing, using, tracking and reporting PI to the Department. Forms, instructions, and additional resources are provided as separate attachments to this chapter.

Program Income constitutes federal CDBG funds and must be expended and used in compliance with all CDBG statutes and regulations. Like CDBG grant funds, for example, PI must be used for CDBG Eligible Activities that meet a National Objective.

This Chapter does not discuss asset management or loan portfolio management, as these subjects are discussed in detail in Chapter 19 of this Grant Management Manual. However, it is important for grantees that provide CDBG funds in the form of loans to ensure that they have an adequate "system" for documenting, tracking and accounting for repayments of CDBG loans: Program Income.

Section 1 - What is Program Income

PI as defined in *CFR §570.489(e)(1) [CDBG Final Rule 2012],* is gross income received by a jurisdiction, or a subrecipient of the jurisdiction that was generated from the use of CDBG funds, regardless of when the CDBG funds were appropriated and whether the activity has been closed out. When income is generated by an activity that is only partially assisted with CDBG funds, the income must be prorated to reflect the percentage of CDBG funds used (e.g., a single loan supported by CDBG funds and other funds; or a single parcel of land purchased with CDBG funds and other funds). Program income (as applied in the State's CDBG Program) includes, but is not limited to, the following:

A. Proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds, except as provided in Section 2 below defining what income is NOT PI;

B. Proceeds from the disposition of equipment purchased with CDBG funds;

PRORATION

When income is generated by an activity that was only partially assisted with CDBG funds, the income shall be pro-rated to reflect the percentage of CDBG funds used. For example, if a loan was originally made using 50 percent (50%) CDBG funds and 50 percent (50%) local funds, then 50 percent (50%) of the repayment of that loan would be considered CDBG PI.

C. Gross income from the use or rental of real or personal property acquired by the jurisdiction or subrecipient of the jurisdiction with CDBG funds, less the costs incidental to the generation of the income;

D. Gross income from the use or rental of real property, owned by the jurisdiction or other entity carrying out a CDBG activity that was constructed or improved with CDBG funds, less the costs incidental to the generation of the income;

E. Payments of principal and interest on loans made using CDBG funds, except as provided in Section 2 below defining what income is NOT PI;

F. Proceeds from the sale of loans made with CDBG funds, less reasonable legal and other costs incurred in the course of such sale that are not otherwise eligible costs under sections 105(a)(13) or 106(d)(3)(A) of the Act;

G. Proceeds from the sale of obligations secured by loans made with CDBG funds, less reasonable legal and other costs incurred in the course of such sale that are not otherwise eligible costs under sections 105(a)(13) or 106(d)(3)(A) of the Act;

H. Interest earned on funds held in a revolving fund account (RLA);

I. Interest earned on program income pending disposition of the income;

J. Funds collected through special assessments made against nonresidential properties and properties owned and occupied by households not of low and moderate income, if the special assessments are used to recover all or part of the CDBG portion of a public improvement; and,

K. Gross income paid to a jurisdiction or subrecipient of the jurisdiction from the ownership interest in a for-profit entity acquired in return for the provision of CDBG assistance.

Section 2 - What is Not Program Income

Per CFR §570.489(e)(1) [CDBG Final Rule 2012], (as it applies to the State's CDBG Program), PI does not include:

A. The total amount of funds, which does not exceed $35,000 received in a single year from activities, other than revolving loan funds that is retained by a jurisdiction and its subrecipients (all funds received from revolving loan funds are considered program income, regardless of amount). See Section 7 – Program Income Accounting for further discussion.

"DE-FEDERALIZING PI"

While the Final Rule increases the amount of PI that can be de-federalized from $25,000 to $35,000, it is important to note that the Final Rule removes **all** RLA funds (including interest earned in a RLA) from the $35,000 calculation. *All funds in any RLA are considered Program Income*.

B. The following classes of interest, which must be remitted to HUD for transmittal to the Department of the Treasury, and will not be reallocated under section 106(c) or (d) of the Act:

1. Interest income from loans or other forms of assistance provided with CDBG funds that are used for activities determined by HUD to be not eligible under §570.482 or section 105(a) of the Act, to fail to meet a national objective in accordance with the requirements of §570.483, or to fail substantially to meet any other requirement of this subpart or the Act;

2. Interest income from deposits of amounts reimbursed to a state's CDBG program account prior to the state's disbursement of the reimbursed funds for eligible purposes; and,

3. Interest income received by units of general local government on deposits of grant funds before disbursement of the funds for activities, except that the jurisdiction may keep interest payments of up to $100 per year for administrative expenses otherwise permitted to be paid with CDBG funds.

C. Proceeds from the sale of real property purchased or improved with CDBG funds, if the proceeds are received more than 5 years after expiration of the grant agreement between the state and the jurisdiction.

D. Interest earned on open grant advances. This must be returned to the Department. (See Chapters 9 and 13.)

E. Unexpended CDBG loan/grant funds. For example, if a grantee made a $40,000 loan to rehabilitate a dwelling but the final cost was only $35,000, the $5,000 would be returned to the grantee loan pool as unspent funds.

F. Any rebates, credits, discounts, refunds, etc. and interest earned.

Section 3 - Revolving Loan Accounts (RLAs)

RLAs are separate accounts independent of other program accounts. RLAs are limited to the following four activities, and are established to generate loans for:

A. Housing Rehabilitation – Single Family (1-4 units);

B. Direct Homeownership Assistance (Homebuyer);

C. Business Assistance; and,

D. Microenterprise Assistance;

NOTE: Multi-Family (5 or more units) Rental Rehabilitation is not listed among the four RLAs above, and thus may not be completed under an RLA. Each Multi-Family Rental Rehabilitation project must be submitted to the Department under the Program Income Waiver or applied for under the annual NOFA for grant funding.

These in turn generate repayments to the RLA for continued use in carrying out such CDBG eligible activities.

A jurisdiction may establish several RLAs, but each must be for one of the single, CDBG eligible lending-type activities listed above, which must meet a CDBG national objective. The name of the RLA should reflect its single activity name in order to avoid confusion on CDBG reports. *(CFR §570.489(f))*

Housing Rehabilitation Revolving Loan Account

The CDBG eligible activity under this RLA is a single-family housing rehabilitation program. The program will be used for the purpose of making loans to rehabilitate residential units (1-4 units), occupied by income eligible households. The CDBG national objective of benefit to Low/Moderate-income (Low/Mod) households will be met by limiting program participants to households that have an annual income at or below 80 percent (80%) of HUD median income limits for the jurisdiction's **county**. Households will be income qualified based on the income calculation method specified in 24 CFR Part 5, and in accord with the Department's Income Manual.

Rehabilitation of "projects" (projects with five (5) or more units on one site) is not allowed under this RLA. Projects with five or more units must be funded via the annual grant process or through the PI Waiver process.

Jurisdictions wishing to include tenant occupied projects for the Housing Rehabilitation program must submit separate (distinguishable from the Owner Occupied Housing Rehabilitation guidelines) guidelines outlining the unique tenant occupied rules and processes.

The review and funding of requests for CDBG loan or grant assistance under this RLA shall be conducted under the Housing Rehabilitation Program Guidelines that have been adopted by jurisdiction and approved in writing by the Department.

No more than 19 percent (19%) of program funds expended from this RLA shall be used for AD costs.

Direct Homeownership Assistance (Homebuyer) Revolving Loan Account

The CDBG eligible activity under this RLA is acquisition of single family housing. The program will be used for the purpose of making loans to assist income eligible homebuyers to purchase a residential property. The CDBG national objective of benefit to Low/Mod-income households will be met by limiting program participants to households that have an annual income at or below 80 percent (80%) of HUD median income limits. Households will be income qualified based on income calculation method specified in 24 CFR Part 5 and in accord with the Department's Income Manual.

The review and funding of requests for CDBG loan or grant assistance under this RLA shall be conducted under the Homeownership Assistance Program Guidelines that have been adopted by the jurisdiction and approved in writing by the Department.

No more than 8 percent (8%) of the funds expended from this RLA shall be used for AD costs.

Business Assistance Revolving Loan Account

The CDBG eligible activity of Special Economic Development will be conducted under this RLA. Specifically, the RLA will fund a business assistance program that provides direct financial assistance for eligible businesses that propose projects which create or retain permanent jobs. The CDBG national objective being met by the Special Economic Development activity will typically be benefit to Low/Mod-income persons. As such, at least 51 percent (51%) of the full time job positions created or retained will be made available to persons whose households have an annual income at or below 80 percent (80%) of the jurisdiction's **county** median income. Income eligibility is based on the income calculation method specified in 24 CFR Part 5 and in accord with the Department's Income Manual.

Business assistance projects under this RLA program may also meet the national objective of elimination of slums and blight but this must be approved by the Department in writing as part of the business's initial loan application.

Under this RLA, the use of Area Benefit to meet the national objective requirement is allowed in limited circumstances. Therefore, jurisdictions should discuss this with their Economic Development Loan Rep before moving forward with any assistance under this RLA. Assistance under this RLA requires approval in writing from the Department.

Local review and underwriting of business assistance projects requesting a CDBG loan under this RLA shall be conducted under the Business Assistance Program Guidelines that have been adopted by the jurisdiction and approved in writing by the Department.

Each individual project funding request made under this RLA program must be submitted for Department review and written approval, prior to closing the loan.

Up to 15 percent (15%) of the total funds expended for business assistance activities shall be used for activity delivery costs.

Microenterprise Assistance Revolving Loan Account

The CDBG eligible activity of direct financial assistance to eligible microenterprise businesses will be conducted under this RLA. Specifically, the RLA will fund a microenterprise direct financial assistance program that provides financial assistance to start up or existing microenterprise businesses. Eligible businesses must meet the HUD definition of microenterprise. A microenterprise is defined as a business that has five (5) or fewer employees including the owner(s). The only CDBG national objective which will be used for this activity is benefit to Low/Mod-income households. As such, micro business owners assisted under this program must be documented as having an annual household income at or below 80 percent (80%) of the jurisdiction's **county** median income, based on income calculation method specified in 24 CFR Part 5, and in accord with the Department's Income Manual.

Local review and underwriting of microenterprise business assistance projects requesting a CDBG loan or grant under this RLA shall be conducted under the Microenterprise Financial Assistance Program Guidelines that have been adopted by the jurisdiction and approved in writing by the Department.

Each individual project funding request made under this RLA program must be submitted for Department review and written approval, prior to closing the loan.

Up to 15 percent (15%) of the total funds expended for business assistance activities shall be used for activity delivery costs.

A. In order to assure compliance with all applicable federal overlay requirements, Departmental approval of a PI Reuse Plan must be formally requested. (See Section 4 below for PI Reuse Plan information.) Additionally, before any RLA can become active, the PI Reuse Plan must be subject to proper Citizen Participation procedures, and adopted by the jurisdiction's governing board.

   Once approval is requested and granted by the Department, and the PI Reuse Plan has been adopted by the jurisdiction's governing board, including being signed by both the jurisdiction's Authorized Representative and the Department's CDBG Section Chief, a jurisdiction, may proceed with expenditure of PI through the RLA(s) described in their approved PI Reuse Plan. (Please see fillable template for the PI Reuse Plan online in this Chapter, under Forms/Reports.)

B. Each RLA must be "**substantially revolving**," defined as the use of at least 60 percent (60%) of the funds in an RLA for loans, which will then be repaid to the account. Amounts up to the remaining 40 percent (40%) may be expended on non-revolving activities, activity delivery, and grants for the same activity as the RLA. ***Note: GA is not included in the calculation for percentage of RLA expenditures that are non-revolving.***

PROGRAM INCOME BALANCE

The Department reserves the right to ensure grantees are expending PI in a timely manner. Jurisdictions with excessive PI ($500,000 or more, including GA) at the end of the fiscal year will be required to submit a plan for expending the funds or risk having to return the PI to the Department. The Grantee should use the PI Annual Report to describe the reason for the large amount of PI on hand and the method(s)/plan(s)/reason(s) the grantee will use to reduce the amount over the coming year.

However, if the jurisdiction needs to 'accumulate' PI to fund a project that will cost more than $500,000, the jurisdiction must identify the project in their **Semi-Annual PI Expenditure/ Performance Report** (in the Annual Comment Section of the Report) with a detailed narrative about the project and the expected timing for the project to start and complete.

Approval of a PI Balance above $500,000 will be made on a case-by-case basis.

C. PI in an RLA designated for the same activity as any active grant must be "**substantially expended"** before grant funds are requested for the grant activity. In this case, substantially expended means having no more than $5,000 in the RLA.

D. If a RLA activity is different than activities funded by active grants, (grant activities such as Public Service or Public Facilities) the PI funds do not need to be substantially expended prior to requesting more grant funds.

E. When completing the Semi-Annual PI Expenditure/Performance Report, expenditures of PI through an RLA are reported. As with other CDBG fiscal reports, funds are considered to have been expended once the costs have been incurred for actual work completed and paid (cash basis accounting).

F. Each RLA must have an approved set of program guidelines. (For template guidelines please see this Chapter's webpage under "Additional Resource Information".) A single set of guidelines must be used to administer the RLA and the same type of grant-funded activity in an open grant. However, if the RLA activity is different than the open grant activity, the program guidelines need to clearly reflect these differences.

G. The transfer of PI from one RLA to another, or from an RLA to an open grant, or PI Waiver project, is allowable. However, the transfer must be approved by the jurisdiction's governing body, and the Department.

If the jurisdiction's PI Reuse Plan does not allow for the transfer, the jurisdiction must update the PI Reuse Plan to reflect the transfer options, including the addition of the PI Waiver option. While the PI Reuse Plan has a 5 year expiration date from final execution, it is recommended that the governing body review it at least annually to determine if the plan should be revised.

The approval must be complete before a transfer can be done. Also, please note that the revision of the PI Reuse Plan would require Departmental approval and execution before it can be considered "complete". Until then, the Semi-Annual PI Expenditure/Performance Report should reflect these funds as not being transferred. These types of transfers may be done at any time during the year.

H. If the transfer of PI from one RLA to another, or from an RLA to an open grant, is in the aggregate amount of $5,000 or less, the transfer is not subject to the Citizen Participation requirement. However, a certified resolution is required.

Section 4 - Program Income Reuse Plan

The PI Reuse Plan is intended to satisfy Federal requirements specified in Section 104(j) of the Housing and Community Development Act ("the Act"), as amended and 24 CFR 570.489(e)(3)(ii)(B). These sections permit a unit of general local government to retain PI for CDBG-eligible community development activities if the State has granted advance approval of a local plan that will govern the expenditure of these funds. The PI Reuse Plan therefore serves as an acceptable substitute for an ongoing contract with the Department. The Department has developed a PI Reuse Plan that contains all the necessary language and information to ensure that all the contractual requirements for PI are included.

Click here to open a copy of: The PI Reuse Plan Template. The template can also be found with all other CDBG forms at this link: CDBG Forms and Reports; or on this chapter's webpage under Forms/Reports.

Steps for Adopting a PI Reuse Plan

1. Submit draft PI Reuse Plan to your CDBG Representative for review and approval (submit Program Guidelines for approval also, if not already approved).
2. Complete the Citizen Participation process and obtain your governing body's approval.
3. Submit approved PI Reuse Plan (signed by the Authorized Representative) to your CDBG Representative.
4. Once you receive a copy back with the CDBG Section Chief's signature, you may expend the associated PI funds if all federal overlay components required for approval to expend funds have been completed.
5. The PI Reuse Plan is effective for five (5) years, at which time a new agreement must be executed between the grantee and the Department. PI may not be expended unless a new PI Reuse Plan is fully executed and adopted.

Section 5 - Committing Program Income to an Application or Open Grant

PI may be expended in conjunction with a CDBG grant. However, once committed, the PI must be expended before drawing down any additional funds from the respective grant activity.

There are two ways of committing PI using a grant activity:

A. **Committing PI to a specific activity in a new CDBG application.** There is no dollar amount limit, and must be done via a certified resolution while following the Citizen Participation process. The certified resolution and proof of publication (noticing the public hearing) must be submitted with the application. (*See Chapter 18 for information on Citizen Participation/Public Hearings.*) If the activity is awarded, the PI committed to the activity will also be approved. The amount committed must be available in the jurisdiction's PI account and cannot be used for any purpose until either all Special Conditions for the awarded activities have been approved in writing, or the jurisdiction has been informed that the activities the PI was committed to were not awarded.

B. **Committing PI to existing activities in an active CDBG grant.** There is no dollar amount limit, and may be done via a certified resolution while following the correct Citizen Participation. Approval will be done on a case by case basis (based on a re-evaluation of the application for the originally awarded activity) once the jurisdiction has submitted the request in writing to the department. It is recommended that the jurisdiction not start Citizen Participation or request a resolution from the governing body until initial approval is given by the Department.

If approved, this process will require a contract amendment to add the PI to the activity and may require additional clearance of special conditions.

Section 6 - Program Income Waivers

PI Waiver Forms can be found with all other CDBG forms at this link: CDBG Forms and Reports; or on this chapter's webpage under Forms/Reports.

PI Waivers allow a jurisdiction to commit PI to an activity outside of an RLA or an open contract. In other words, with a PI Waiver, a jurisdiction may commit PI to a non-revolving activity that is not tied to an application or an open grant, or is a different activity than the jurisdiction has currently been awarded funds for.

In order to expend or commit PI as described above, a jurisdiction must submit a PI Waiver Request Form. On a case-by-case basis, the Department may approve a PI Waiver if the request is consistent with present policy as discussed in this Chapter, and if the requested activity meets all state and federal statutes and regulations, including eligibility and meeting a National Objective.

*PI Waivers are limited to **two** (2) "active" projects/programs at any one time. Active means the Waiver activity(s) has been approved by the Department (jurisdiction's receipt of the approval, signed by the CDBG section staff) but the jurisdiction has not yet "closed out" the approved activity. "Closed Out" has the same meaning as a grant activity with all the required reporting, Citizen Participation, and board resolutions.*

To request a PI Waiver, email the completed form to the CDBG program at CDBG@hcd.ca.gov, and to your HCD Representative. The submission steps are:

- Complete the correct PI Waiver Form, available here: CDBG Forms and Reports, signed by the Authorized Representative, and ensure the form includes a detailed description of the activity that also provides information demonstrating that the project is eligible and meets a National Objective.

- CDBG Program staff will review the jurisdiction's PI Waiver request. Depending on the nature of the activity, the Department will approve, conditionally approve or deny the request.

Upon approval, the form will be returned to the jurisdiction indicating what conditions must be met, similar to contractual special conditions. The jurisdiction is not permitted to incur costs until all conditions given to the jurisdiction have been met (i.e., proof of Citizen Participation, NEPA clearance, proof of site control, procurement, Davis Bacon, etc.).

Section 7 - Program Income Accounting

A. It is important to maintain separate accounting records for PI, which adequately identifies the source(s) and use(s) of PI. These records must contain information pertaining to all grant or sub-grant awards of PI and all authorizations, obligations, un-obligated balances, liabilities, outlays of expenditures, and income.

B. Additionally, as with awarded grant funds, appropriate accounting records of PI costs for PI GA, Activity Delivery and activity costs must be maintained.

C. Effective control and accountability for PI must be demonstrated through State program and fiscal monitoring, and an annual single audit, as required by 24 CFR 570.489(d), 24 CFR 85 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," OMB Circular A-87, A-122 and A-133.

D. PI must be used solely for authorized purposes and each jurisdiction must exercise sufficient control to assure compliance with applicable CDBG program requirements, performance goals, and activities being carried out on a timely basis and within budget. The use of PI must be reported in the required annual audit (see Chapter 11) and cost principles associated with OMB A-87 must be used.

E. PI received must be accounted for based on the jurisdiction's loan portfolio management system (see Chapter 19). This allows the tracking of PI earned by each loan.

F. Per 24 CFR 570.489(e)(2)(i), as amended in the CDBG Final Rule May 23, 2012, all PI received through a RLA, will be counted a PI regardless of the amount, and all PI generated through an open grant that is $35,000 or less may either be:

1. Counted and reported as PI, allowing the Jurisdiction to include that amount in its PI GA (17%) calculation; or,
2. Not counted as PI and reported as such, which "de-federalizes" the funds, and allows them to be deposited into the jurisdiction's General Fund. Supporting accounting records and documentation must be in the Jurisdiction's file to substantiate the calculations reported.

If PI is generated from a loan that is made partially from a RLA and partially from another source, PI accounting and reporting must reflect the correct amounts and proportions of PI from the RLA (counted and reported as PI Income) versus the amount generated from the other source. Proportional accounting would also be necessary if both grant and RLA funds were used to fund the loan. However this would only be needed if the jurisdiction chooses to use option 2 above.

G. Separate accounts for RLAs is required by 570.489(f)(2), and although not required, it is strongly suggested to establish separate, interest-bearing, bank accounts for PI and RLAs as well. This will assist in determining how much interest income must be classified as PI and will aid in eliminating the risk of commingled funds.

H. Once the proper accounts have been established, it is essential the accounting procedures and internal controls be adequate to assure all PI is properly recognized. This requires establishing a system which will anticipate repayments of loans and take appropriate actions when loan repayments are delinquent. At a minimum, accounting procedures and internal controls must ensure the following:

1. All PI due to the jurisdiction is collected (i.e., loan payments).
2. All funds received are accurately classified and coded to the accounts to be credited, including the setting aside PI GA when repayment has been received.
3. The misappropriation of funds is prevented.
4. Funds are immediately deposited into the proper bank account.
5. PI funds are expended before requesting additional CDBG funds when using PI for the same activity as an open grant.

SEMI-ANNUAL/ANNUAL PROGRAM INCOME EXPENDITURE AND ACCOMPLISHMENT REPORT

As of January, 2012, the Department collects all PI and associated accomplishment data in a single Excel workbook. PI will be reported semi-annually, with those reports auto-populating the Annual PI Report. Accomplishments tied to the expenditure of PI will be reported annually (due July 31 each year) on new tabs that have been added to the workbook.

Section 8 - Program Income and Accomplishment Reporting

Jurisdictions that have either: 1) Made loans with State CDBG funds which, when repaid, would be considered PI; or, 2) Are receiving income that has been directly generated from the use of State CDBG funds, are required to submit the Semi-Annual PI Expenditure/Performance Report, which includes accomplishment data. This report is due twice per year to cover a full state fiscal year (see below for dates). It is required to be reported regardless of the amount of PI on hand at the jurisdiction (zero balance at the beginning and end of the report period must still be reported).

The PI reporting form is designed to automatically roll the aggregate information from both of the semi-annual forms into the annual form, and must be submitted electronically as instructed on the report.

Jurisdictions are required to have a positive PI balance on hand at the end of each semi-annual reporting period. The positive balance must be reflected on PI reports. Therefore, jurisdiction may not use a negative PI balance and fund activities with future PI receipts. Negative PI balances would require the jurisdictions to “repay” the PI account with local funds.

When to Submit

Semi-Annual/Annual Program Income Accounting and Accomplishment Report

Submit this report by: *July 31st for period ending June 30th* and *January 31st for period ending December 31st*.

Applicability

Semi-Annual / Annual PI Expenditure and Accomplishment Report Information

Both Semi-Annual and Annual PI reports must be submitted by all Grantees as noted above. This includes when the PI balance is less than $35,000 or PI was not expended during the year, and when the PI balance on hand is zero. This report is required regardless of the amount of PI on hand.

The jurisdiction must use a single report form for the receipt of PI from all CDBG open and closed grants, waivers and RLA sources; and to report the actual expenditures of PI.

PI reports will include the actual expenditures of PI through RLAs, PI Waivers, and PI committed to open grants. The accomplishment types (people, businesses, housing units, and/or jobs) must be reported in the performance section of the Semi-Annual PI Expenditure/Performance Report as described in the text box above, and the narrative below.

PI EXPENDED WITHIN A GRANT

Accomplishment data resulting from activities within a **grant** (PI committed to a grant funded activity) must be reported with the Semi-Annual/Annual Grantee Performance Report.

However, the PI ***expenditure*** data is reported on the Semi-Annual/Annual PI Expenditure and Accomplishment Report.

Accomplishment Information

- All accomplishments achieved through the expenditure of PI outside of an open grant, including through RLAs and PI Waivers must be reported annually on the Semi-Annual/Annual Program Income Expenditure and Accomplishment Report.
- A properly publicized public hearing must be held to review the accomplishments associated with each active RLA.
- All accomplishments achieved through the expenditure of PI within an open grant will be reported within the Semi-Annual/Annual Grantee Performance Report.
- Semi-Annual/Annual Grantee Performance Report with accomplishments resulting from grant activities and the Semi-Annual/Annual PI Expenditure and Accomplishment Report with accomplishments resulting from the expenditure of PI (both are tracked separately in IDIS) is due by July 31st.
- Jurisdictions that are unable to report accomplishments and required demographic data risk having to repay their PI account due to not meeting a national objective, which therefore deems the activity ineligible.

Section 9 - Program Income Compliance

Activities funded with program income (PI) will be monitored in the same manner as active grants and must be in compliance with all Federal regulatory overlays, including:

- Procurement (Chapter 8)
- Citizen Participation (Chapter 18)
- Labor Standards (Chapter 5)
- Lead-Based Paint Regulations (Chapter 20)
- Environmental Review (Chapter 3): *For Housing Rehabilitation RLA, a jurisdiction may now request a **5-Year NEPA Clearance.** (Refer to page 16 of Chapter 3 for more information.)*

Section 10 – Program Income General Administration (PI GA) and Activity Delivery (AD) Costs

It is important for jurisdictions to understand that PI GA and AD have very different requirements and associated responsibilities. While some CDBG eligible costs are considered both AD and PI GA, the jurisdiction's choice to charge a particular cost to AD or PI GA has ramifications the jurisdiction should consider.

For example, PI GA is limited to 17% of the total amount of received PI, which must be accounted for separately. While these funds can be rolled from year to year, a jurisdiction may not expend more than the 17% of PI received in that year. Expending more than the 17% would result in the jurisdiction having to repay the PI GA account for the amount expended over 17%.

AD cannot be expended unless it will result in an eligible activity that has met a national objective. Expending AD prior to this occurring would result in the jurisdiction having to repay the PI GA account for the amount of PI GA expended. AD is also limited to the amount available within a RLA that is non-revolving, which is up to a maximum of 40%. However, should PI GA be available, AD costs may be able to be paid for with PI GA funds. AD is limited to a Program Year (July 1-June 30) and if the funds have been expended with no national objective being met, the jurisdiction risks having to repay the PI account.

PI GA expenditures are not included in the 40% non-revolving calculation but AD is.

Program Income General Administration (PI GA) Expenses

- PI GA can be expended regardless of the expenditure of activity funds or AD. Once loan repayments are received, PI GA (17%) is taken off the amount received and accounted for separately from Activity and AD expenditures. (See Chapter 7, pg. 24 for a detailed chart of allowable costs.) Eligible costs, for example, may include loan portfolio management.

- Prior to 2011, allowable PI GA expenses were calculated based upon PI expended, and prior to May 23, 2012 CDBG Final Rules, allowable PI GA was 18 percent (18%).
- Are not considered to be specific to any activity, including an RLA activity.
- Must be accounted for separately since unexpended PI GA can roll from one fiscal year to the next (July 1-June 30).
- Planning Activities (PTA) are only eligible for funding under PI as PI GA. Any expenditure of PI GA for planning activities must be reported in the comment section of the PI report.

Activity Delivery (AD) Expenses

- AD expenditures are not eligible unless the activities in which the costs are associated have met a national objective. This applies to RLA, Waiver, or open grant activities.

- AD committed to an active grant activity is allowed at the same percentage rate as specified in the grant contract.
- AD must be specifically listed in the certified resolution when committing PI to the active grant activities and listed on PI reports.
- PI AD is allowed up to the **same maximum percentages used for grant funded activities** (See Chapter 7, page 24 for a detailed chart of allowable costs):

    - Housing New Construction - **8 percent (8%)**
    - Direct Homeownership Assistance - **8 percent (8%)**
    - Housing Rehabilitation - **19 percent (19%)**
    - Community/Public Facilities - **8 percent (8%)**
    - Public Services - **8 percent (8%)**
    - Improvements/Public Works - **8 percent (8%)**
    - Direct Economic Development Assistance – **10 percent (10%)**
    - If complex labor standards are invoked (see Chapter 5 – Labor Standards) then activity delivery for any of the above, with the exception of Housing Rehabilitation, can be up to – **12 percent (12%)**

Using CDBG PI for Loan Servicing (HOME and CDBG Funded Loans)

PI may be used to pay for CDBG and HOME Program loan servicing costs but only within the allowable 17 percent (17%) for PI GA.

Section 11 - Transferring Program Income To or From an Entitlement Program

Transfer of PI to Entitlement Program

Jurisdictions may move PI received under the State program to the Entitlement program if/when the jurisdiction is authorized and chooses to participate in the CDBG Entitlement Program provided the jurisdiction's governing body certifies to the Department in writing that the jurisdiction has:

A. Officially elected to participate in the Entitlement Grant Program;

B. Agrees to use such PI in accordance with Entitlement Program requirements;

C. Set up Integrated Disbursement Information System (IDIS) access and agrees to enter receipt of PI into IDIS; and,

D. The jurisdiction submits the above to the State and receives the Department's approval to no longer report State CDBG PI to the Department.

Transfer of PI of Grantees Losing Entitlement Status

The jurisdiction will inform the Department in writing of the Jurisdiction's decision to either:

A. Retain program income generated under Entitlement grants and continue to comply with Entitlement program requirements for program income; or,

B. Retain the program income and transfer it to the State CDBG program, in which case the Jurisdiction will certify that it will comply with the state's rules for program income, and the requirements of 24 CFR 570.489(e) and (f).

Section 12 - Q & A

Q. Does PI expended on planning activities need to be tracked as PI GA, and therefore fall under the 17% PI GA Cap?

A. Yes, PI expended on planning activities fall under the PI GA Cap.

Q. What is the maximum that I am allowed to have in an RLA and still request grant funds for the same activity?

A. In order for the RLA funds to be considered substantially expended, you may have no more than $5,000 in the RLA.

Q. *Where do I report the PI accomplishment information that used to be in the GPR?*

A. **Accomplishments from PI expended on an open grant** activities are reported annually on the Semi-Annual/Annual Grantee Performance Report

Accomplishments from PI expenditures from a RLA or a Waiver activity are reported annually on the Semi-Annual/Annual PI Expenditure and Accomplishment Report.

Both accomplishment types are tracked separately in IDIS and both reports are due by July 31st each year.

Section 13 - References

A. Final Rule (FR) 570.489(e) and (f): Defines program income and criteria for establishing revolving loan accounts at the local level, as amended April 23, 2012, effective May 23, 2012 in the CDBG Final Rule.

B. California Code of Regulations Title 25, s 7104.