



SUBJECT: Program Income/Revolving Loan Fund Administration

ISSUED: July 1, 2015

DISTRIBUTED TO: Office of Community Development Award Recipients and their Affiliates

PROGRAM POLICY NOTICE

Community Development Block Grant (CDBG) Program Income Defined: Program Income is the gross income received by a unit of general local government directly generated from the use of Ohio State Administered CDBG Program funds.

A. CDBG Program Income includes, but is not limited to the following:

- i. Proceeds from the sale or lease of real property purchased or improved with CDBG funds;
- ii. Proceeds from the sale or lease of equipment purchased or improved with CDBG funds;
- iii. Gross income from the use or rental of real or personal property acquired, constructed or improved by a unit of general local government, less costs incidental to the generation of income;
- iv. Receipt of payments of principal and interest on loans made using CDBG funds;
- v. Interest earned on Program Income pending its disposition; and
- vi. Funds collected through special assessments on properties not owned and occupied by Low- to Moderate-Income (LMI) households in order to recover the CDBG portion of a public improvement.

NOTE: Program Income generated by an activity partially assisted with CDBG funds shall be prorated to reflect the percentage of CDBG funds invested in the activity.

B. CDBG Program Income does not include:

- i. Any income received in a single program year by a unit of general local government that does not exceed \$25,000 with the exception of the receipt of principal and interest on loans funded through a CDBG revolving loan fund;

- ii. Income generated by certain Section 108 activities (refer to 24 CFR 570.500(a)(4)(ii);
- iii. Proceeds from unit of general local government fundraising activities;
- iv. Funds collected through special assessments to recover non-CDBG outlays of capital improvements; and
- v. Proceeds from the disposition of real property by a unit of general local government that was acquired or improved with CDBG funds five years after:
 - the termination of the unit of general local government grant agreement;
 - the termination of the revolving loan fund administration agreement; or
 - the loss of designation as a direct recipient of the Community Development Allocation Program. (Certain conditions apply. Refer to §570.503(b)(8).)
- vi. Income earned from the investment of initial proceeds of a grant advance from the U.S. Treasury, except interest earned:
 - on lump sum drawdowns;
 - from the investment of the initial proceeds of a grant advance;
 - on activities determined to be ineligible; and
 - on the investment of amounts reimbursed to the CDBG program account prior to the use of the reimbursed funds for eligible purposes.

HOME Program Income Defined: Program Income is the income received by a unit of general local government directly generated from the use of Ohio State Administered HOME Program funds or matching contributions.

A. HOME Program Income includes, but is not limited to the following:

- i. Proceeds from the sale or lease of real property purchased or improved with HOME funds or matching contributions;
- ii. Gross income from the use or rental of real property owned by a unit of general local government that was acquired, rehabilitated, or constructed with HOME funds or matching contributions, minus the cost incidental to generating that income;
- iii. Recaptured funds received after the affordability period is met for real property purchased or improved with HOME funds or matching contributions;
- iv. Receipt of payments of principal and interest on loans made with HOME or matching funds, and proceeds from the sale of loans or obligations secured by loans made with HOME or matching contributions;

- v. Interest on Program Income; and
- vi. Any other interest or return on investment of HOME and matching funds

NOTE: Any HOME Program Income generated by the Ohio Housing Finance Agency must be remitted to the Office of Community Development (OCD) upon receipt.

B. All HOME Program Income must be used in accordance with the HOME Program rules. Where Program Income is concerned, there is an important distinction between units of local government/state recipients and community housing development organizations (CHDOs). Specifically:

- i. Program Income received by units of local government or state recipients, such as rental income, repayment of loans, interest on loans, fees, and payments for services, is considered Program Income subject to HOME regulations.

However, project proceeds received and retained by CHDOs are not considered Program Income. The State has the option of permitting project proceeds to be retained by CHDOs or they may require CHDOs to return these proceeds to the State. If the project proceeds are returned to the State, they are Program Income. Use of funds must be specified in the CHDO written agreement and limited to either HOME-eligible activities or other housing activities that benefit low-income families.

Revolving Loan Fund Defined: A Revolving Loan Fund (RLF) is a separate fund (independent of other CDBG and HOME program accounts) set up for the purpose of carrying out specific activities. These activities generate payments to the account for use in carrying out the same types of activities.

A. Requirements of CDBG-funded RLF include:

- i. CDBG Program Income that is held in an RLF does not generally have to be used before grant funds are drawn down for a different type of CDBG project. However, the State may require units of general local governments to substantially disperse Program Income in an RLF identified as having a high and/or stagnant balance before additional grant funds are requested.
- ii. RLFs held by units of general local government may not be directly funded or capitalized by state-administered CDBG grant funds.
- iii. Expenditures from the RLF must be made in accordance with the following:
 - a. OCD Revolving Loan Fund Policies and Procedures Manual;
 - b. Executed Economic Development Revolving Loan Fund Administrative Agreement;
 - c. RLF grantee's OCD-approved Housing Program Policy and Procedure Manual;
 - d. Executed Housing Revolving Loan Fund Administrative Agreement; and
 - e. All applicable federal and state laws and regulations

B. Requirements of HOME-funded RLFs include:

- i. Committed HOME Program Income that is held in an RLF must be disbursed prior to the grantee requesting additional HOME funds, in accordance with §92.504(c)(1)(viii).
- ii. RLFs held by units of general local government may not be directly funded or capitalized by state administered HOME grant funds.
- iii. Expenditures from the RLF must be made in accordance with the following:
 - a. OCD Revolving Loan Fund Policies and Procedures Manual;
 - b. RLF grantee's OCD-approved Housing Program Policy and Procedure Manual;
 - c. Executed Housing Revolving Loan Fund Administrative Agreement; and
 - d. All applicable federal and state laws and regulations.

Program Income Retained by a unit of general local government:

- A. Any CDBG/HOME 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/HOME regulations.
- B. Any CDBG/HOME Program Income that is received and retained by the unit of general local government must be maintained in the treasury of the public office. For example, if a county is administering an OCD-approved RLF, the RLF funds must be maintained in the county treasury with funds disbursed appropriately on a warrant of the county auditor. Housing Program Income generated by eligible partnerships must be retained and disbursed by the applicant and partners according to the partnership agreement.
- C. 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.
- D. 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 RLFs or Housing RLFs must also be expended according to applicable federal and state statutory and regulatory requirements.
- E. Units of general local government that do not have an ongoing grant relationship with OCD or an existing RLF, will be required to arrange RLF agreements with the county in which they are located if they wish to undertake eligible activities that will result in the repayment of principle and interest as a result of a loan of CDBG funds.

- F. OCD will evaluate the unit of general local government's ability to effectively administer a local RLF at the time of application approval. If it is determined that the local RLF 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 RLF or Housing RLF is the sole discretion of the state.
- G. The unit of general local government must maintain financial records on the receipt and expenditure of Program Income funds separately from other CDBG/HOME program funds currently being administered at the local level. The total amount of Program Income on hand must also be reported when submitting a drawdown request for CDBG/HOME 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 CDBG/HOME program requirements.
- H. The unit of general local government is required to submit to OCD, 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 must submit RLF reports to OCD no more than 30 days after receiving the RLF Report request. RLF Reports may include but are not limited to the following:
- program income;
 - program activities; and
 - program outcomes.
- I. Program Income that is received and retained by a unit of general local government is treated as additional CDBG/HOME funds and is subject to all applicable requirements of the CDBG/HOME Programs, including but not limited to, prevailing wage, environmental review, eligibility requirements, national objective, etc.
- J. 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/HOME 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/HOME requirements.

Program Income activity expenditures

- A. Program Income generated through community and economic development activities from a Community Development Program grant or an Economic Development Program grant must be expended on loan financing to eligible businesses or grants for off-site infrastructure improvements resulting in job creation/retention.
- B. Program Income generated through housing activities from a Housing Program or Community Development Program grant must be expended on source-eligible housing activities. Activities must be described in the unit of local government's OCD-approved Housing Program Policies and Procedures Manual..

All uncommitted Housing Program Income balances, HOME or CDBG, at the time of application must be committed to projects in the unit of general local government's Housing Program application.

- C. Units of general local government must receive written approval and an environmental review Release of Funds prior to committing or expending program income. Exception: Written approval is not required to carry out like housing activities (described in the unit of local government's OCD-approved Housing Program Policies and Procedures Manual) from which the program income was generated.
- D. Units of general local government may request to waive the Economic Development RLF or Housing RLF requirements for CDBG Program Income so that those funds may be used on any eligible CDBG activity. Waiver requests will be considered on a case-by-case basis.

Administrative expenditures from Program Income accounts

- A. Units of local government may expend up to 20 percent or \$100,000, whichever is less, of CDBG Program Income and up to 10 percent of HOME Program Income received in a calendar year for administrative expenses directly related to managing those funds. 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.