



DEPARTMENT OF  
**HOUSING**



# CDBG-DR

## PROGRAM INCOME POLICY

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PUERTO RICO DEPARTMENT OF HOUSING  
CDBG-DR PROGRAM  
**PROGRAM INCOME POLICY**  
VERSION CONTROL

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## 1 Legal Basis

The Puerto Rico Department of Housing (**PRDOH**) was selected as the grantee of the Community Development Block Grant Disaster Recovery (**CDBG-DR**) funds allocated to the Government of Puerto Rico by the United States Department of Housing and Urban Development (**HUD**) to address Puerto Rico's long-term recovery needs caused by Hurricanes Irma and María, pursuant to a letter dated February 23, 2018 sent by the former Governor of Puerto Rico to the Secretary of HUD. Therefore, PRDOH created the CDBG-DR Finance Division, a separate division from the existing PRDOH Finance Division, to oversee the use of CDBG-DR funds.

## 2 Purpose

The purpose of this Program Income Policy is to set forth the definition, types, accounting, reporting, tracking, and use of program income funds following Federal requirements.

This Policy will establish how PRDOH and its subrecipients define and manage program income. As examples, two PRDOH programs designed to generate program income are City Revitalization and Low Income Housing Tax Credits (**LIHTC**) Programs. Programs likely to generate program income will be managed at the subrecipient level by municipalities and any other subrecipient.

## 3 Scope

This Policy outlines PRDOH's CDBG-DR financial management policies related to the management of program income as applicable to PRDOH and its subrecipients of CDBG-DR funds.

The policies in this document are implemented by Standard Operating Procedures (**SOP**). This Program Income Policy may be updated as necessary.

## 4 Definitions/Acronyms

### 4.1 Definitions

- **Activity:** An activity is a specific project addressing a need, which is performed and reported by PRDOH and or subrecipients.
- **Community Development Block Grant - Disaster Recovery:** The Community Development Block Grant - Disaster Recovery (**CDBG-DR**) is a federal grant for long term disaster recovery, funded by the United States Department of Housing and Urban Development (**HUD**).
- **Program Income:** Gross income received by the recipient or subrecipient that is directly generated by a CDBG-DR activity or earned as a result of an award, regardless of when the funds were appropriated and whether the activity has been closed out.

- **Quarterly Performance Report (QPR)** - A Quarterly Performance Report (**QPR**) is a report submitted to HUD by PRDOH via the DRGR system showing the progress of CDBG-DR recovery activities.
- **Subrecipients:** A non-federal entity that receives a sub-award from a pass-through entity to carry out part of a federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.<sup>1</sup>
- **Yardi:** Yardi Voyager is a web-based, fully integrated end-to-end platform to manage operations, accounting, and reports. The platform will be used by PRDOH to manage the grant.

## 4.2 Acronyms

- **CDBG-DR:** Community Development Block Program – Disaster Recovery
- **DRGR:** Disaster Recovery Grant Reporting System
- **HUD:** United States Department of Housing and Urban Development
- **PRDOH:** Puerto Rico Department of Housing
- **PI:** Program Income
- **QPR:** Quarterly Performance Report

## 5 Program Income

The PRDOH acknowledges the program income definition at 24 C.F.R. § 570.489(e) and Federal Register Notice 83 FR 5844 for CDBG-DR funds allocated under Public Law 115-56. In accordance with those definitions, program income for the PRDOH CDBG-DR Program is defined as the following:

Program income is define gross income (greater than \$35,000 annually in the aggregated) generated from the use of CDBG-DR funds and received by a State or a subrecipients of a State, except as provided in 83 FR 5844 pertaining to the net income from the use or rental property owned by a State, local, government, or subrecipient thereof that was constructed or improved with CDBG-DR funds, and received by a State or a subrecipient of a State.

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<sup>1</sup> 2 C.F.R. § 200.93 - Subrecipient.

Program income includes, but is not limited to, the following:

- Proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG-DR funds;
- Proceeds from the disposition of equipment purchased with CDBG-DR funds;
- Gross income from the use or rental of real or personal property acquired by the recipient or subrecipient with CDBG-DR funds, less the costs incidental to the generation of the income;
- Gross income from the use or rental of real property owned by the recipient or subrecipient carrying out a CDBG-DR activity that was constructed or improved with CDBG-DR funds, less costs incidental to the generation of the income;
- Payments of principal and interest on certain loans made using CDBG-DR funds, except as provided at 24 C.F.R. § 570.489(e)(2)(iii);
- Proceeds from the sale of loans made with CDBG-DR 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 Housing and Community Development Act of 1974 (**HCD Act**);
- Proceeds from the sale of obligations secured by loans made with CDBG-DR 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 HCD Act;
- Interest earned on funds held in a revolving fund account;
- Interest earned on program income pending disposition of the income;
- Funds collected through the special assessment 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-DR portion of a public improvement; and
- Gross income paid to PRDOH or subrecipient from the ownership interest in a for-profit entity acquired in return for the provision of CDBG-DR assistance.

Program income does not include the following:

- Any income received in a single program year by the PRDOH and its subrecipients that does not exceed thirty-five thousand dollars (\$35,000), other than revolving funds that are retained by PRDOH and its subrecipients (all funds from revolving funds are considered program income). It is the policy of PRDOH to report 100% of Program Income generated by the CDBG-DR program in the DRGR system;
- Amounts generated by activities eligible under section 105(a)(15) of the HCD Act and carried out by an entity under the authority of section 105(a)(15) of the HCD Act (as per 24 C.F.R. § 570.489(e)(2)(ii));

- Payments of principal and interest made by a subrecipient carrying out a CDBG-DR activity for PRDOH, toward a loan from PRDOH to the subrecipient, to the extent that program income received by the subrecipient is used for such payments;
- Income earned from the investment of initial proceeds of a grant advance from the U.S. Treasury; interest earned on loans or other forms of assistance with CDBG-DR funds that are used for activities that are determined by HUD to be ineligible or to fail to meet a national objective; interest earned on the investment of amounts reimbursed to the CDBG-DR program account prior to the use of the reimbursed funds for eligible activities;
- Funds collected through special assessments to recover non-CDBG-DR outlays of capital improvements;
- The following classes of interest<sup>2</sup> will be remitted to HUD for transmittal to the U.S. Treasury and will not be returned to PRDOH's CDBG-DR line of credit:
  - Interest income from loans or other forms of assistance provided with CDBG-DR funds that are used for activities determined by HUD to be not eligible under 24 C.F.R. § 570.482 or section 105(a) of the HCD Act, to fail to meet a national objective in accordance with the requirements of 24 C.F.R. § 570.483, or fail to substantially to meet any other requirement of Subpart I of the HCD Act;
  - Interest income from deposits of amounts reimbursed to PRDOH's CDBG-DR program account prior to PRDOH's disbursement of the reimbursed funds for eligible purposes; and
  - Interest income received by a municipality on deposits of grant funds before disbursement of the funds for activities, except that the municipality may keep interest payments of up to \$100 per year for administrative expenses otherwise permitted to be paid with CDBG-DR funds.
- Proceeds from the sale of real property purchased or improved with CDBG-DR funds, if the proceeds are received more than five (5) years after the expiration of the subrecipient agreement between PRDOH and the municipality (certain conditions apply - refer to 24 C.F.R. § 570.503(b)(7));

## 6 Revolving Funds

HUD allows PRDOH CDBG-DR and its subrecipients to establish revolving funds to carry out specific, identified CDBG-DR funded activities, such as housing rehabilitation or economic development loan programs. A revolving fund is a separate fund (with a set of accounts that are independent of other program accounts) established to carry out

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<sup>2</sup> 24 C.F.R. §200.305(b)(9) Allows interest earned up to \$500 per year may be retained by PRDOH for administrative expenses as opposed to being transmitted to U.S. Treasury.



specific activities which, in turn, generate payments to the fund for use in carrying out the same types of activities. These payments to the revolving fund are considered program income and must be substantially disbursed from the revolving fund before additional grant funds are drawn from the U.S. Treasury for revolving fund activities. Such program income is not allowed to be disbursed for non-revolving fund activities.<sup>3</sup>

Unlike a General Program Income Account, program income in a revolving loan fund (**RLF**) can be retained, and CDBG-DR program funds can still be drawn from the Treasury for other non-RLF expenditures by the program, until such point that the cumulative Program Income held in the RLF PI Account is sufficient to fund the next expenditure (i.e., loan/investment) associated with the RLF. At which point, the expenditure must utilize the retained program income funds.

No revolving fund shall be directly funded or capitalized with CDBG-DR grant funds, pursuant to 24 C.F.R. § 570.489(f)(3).

The requirements of CDBG-funded revolving funds include:

- Revolving funds must be held in interest-bearing accounts; and
- Interest earned on revolving fund balances must be remitted to the U.S. Treasury not less than annually. (Note: Interest paid by borrowers of CDBG-DR-funded loans made from the revolving fund is considered program income and subject to the CDBG-DR program income requirements).

## **7 Program Income General Guidelines**

### **7.1 Program Income Impact on Budgets**

The amount of PRDOH CDBG-DR funds, impacted by program income, used for certain activities and services are subject to caps established by federal regulations. The following requirement impacts the budgets and administrative expenditures cap:

- In accordance with the 83 FR 5844, 83 FR 40314, and 85 FR 4681 no more than five percent (5%) of the grant award (plus program income) may be used for administrative costs.

### **7.2 Pro-Rating Program Income**

If program income is generated by a project that is only partially assisted with CDBG-DR funds, the amount of program income attributable to CDBG-DR shall be pro-rated accordingly to reflect the percentage of CDBG-DR funds used (24 CFR Part 570.489(e)(1)). For example, if a parcel of land was purchased with fifty percent (50%) CDBG-DR funds and fifty percent (50%) other funds, fifty percent (50%) of any income

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<sup>3</sup> 24 C.F.R. § 570.489(f)(1)

from the sale or long-term lease of that property would be considered CDBG-DR program income subject to CDBG-DR rules and requirements.

### **7.3 Management of Program Income**

The PRDOH may require subrecipients to remit program income to PRDOH as it is generated or retain the program income itself for other eligible uses.

#### **7.3.1 Program Income Retained by the Subrecipient**

- The subrecipient retains its program income for use in the program activities under the subrecipient agreement so long as the program income is substantially disbursed before additional grant funds requested are drawn from the U.S. Treasury for the same activities. *(unless the Subrecipient utilizes a Revolving Loan Fund (RLF) for use of its program income. See above for details.)*

#### **7.3.2 Program Income Retained by the PRDOH**

- The subrecipient remits program income to PRDOH.

### **7.4 Usage of Program Income**

Program income must be used for eligible CDBG-DR activities, as listed in 42 U.S.C. Section 5305(a). CDBG-DR funds remain governed by CDBG-DR rules as long as they are used to continue disaster recovery activities. Program income is subject to all rules and regulations governing CDBG-DR funds including, but not limited to, compliance with national objective, procurement, equal opportunity, environmental, labor standards, lead-based paint hazard treatment, etc.

Program Income *(other than Program Income deposited in an RLF)* must be disbursed prior to the drawdown of additional funds from the U.S. Treasury (or, in the case of subrecipients, from the PRDOH).

### **7.5 Program Income Bank Account**

PRDOH and its subrecipients must established interest-bearing bank accounts to manage Program Income (Regular PI and RFL) separately from the subrecipients CDBG-DR account.

### **7.6 Financial Management System**

The PRDOH maintains and requires each subrecipient with Program Income to maintain an internal accounting system in accordance with 2 CFR Part 200, Subpart D, that will:

- Record program income in the corresponding recipient's accounting records;
- Ensure that all program income is collected and properly classified; and,
- Ensure that the handling of program income complies with Federal and local state requirements.

PRDOH Yardi system provides the most of the financial information for completing quarterly DRGR reporting.

## **7.7 Accounting Records**

The PRDOH and its subrecipients will maintain records of all program income received and disbursed. They must ensure their accounting records and supporting documentation include reliable, up-to-date information on the sources and uses (eligible activities, a national objective was met, etc.) of all program income.

If a subrecipient is permitted by PRDOH to retain PI to expend on other eligible uses in its Subrecipient Agreement, a PI Account is required to be set-up in DRGR that allows PRDOH, along with the subrecipient to track PI generated and expended by the subrecipient.

Drawdowns of PI generated by an activity in a PI Account can be created against the activity that generated the PI, or other activities in the same PI Account. Any activities that are not assigned to a PI Account will remain in a "General PI Account. Regardless of whether an activity is assigned to a specific Grantee-created PI Account, or if it is in the General PI Account (unassigned), DRGR requires all PI received in each PI Account/General Account to be used prior to drawing additional CDBG-DR funds from the U.S. Treasury.

### **7.7.1 General PI Account**

Any program income, except Revolving Loan Fund related, received by PRDOH or a subrecipient will be deposited into their respective PI Bank Accounts. Program income will be reported to HUD, via DRGR, when received. The subrecipients will notify PRDOH of the program income receipted via a Program Income Receipt Form and PRDOH will use the form to record the program income in the DRGR system to the corresponding program/activity generating the income. Reporting of program income to PRDOH needs to occur in a timely manner upon receipt of PI.

Usage of the funds in these accounts needs to be documented following the principle that program income (*other than Program Income deposited in a revolving fund*) must be disbursed prior to the drawdown of additional funds from the U.S. Treasury (or, in the case of subrecipients, from the PRDOH).

As a general rule the program income in DRGR retained by the Grantee (PRDOH) is held under a General PI Account and is not restricted in its expenditure to the program/activity generating the program income. The program income in DRGR retained by a subrecipient is held in a specific PI Account established for a specific set of CDBG-DR activities administered by the subrecipient.

### 7.7.2 RLF PI Account

Program income that is utilized under a Revolving Loan Fund is accounted for within DRGR as an RLF, requiring a specific "RLF PI Account" to be set-up within DRGR. A separate interest-bearing account should be maintained for Revolving Loan Funds (**RLFs**).

Subrecipients that utilize an RLF are required, in general, to follow the same criteria for program income as those using a "General PI" account, with the following exceptions:

1. Subrecipient(s) identify the specific Program/Activities(projects) that constitute the RLF.
2. A specific "RLF PI Account" must be created in DRGR that includes the program/activities that can generate and expend receipted program income for that RLF.
3. Subrecipients must establish the requisite bank accounts to capture/track PI cash receipts as well as the appropriate accounting to ensure all PI receipts and expenditures are recorded and tracked at the subrecipient level.

## 7.8 Program Income Reporting

PRDOH and subrecipients are responsible for reporting Program Income receipts and disbursements.

### 7.8.1 PRDOH Reporting

The CDBG-DR Finance Division will report all Program Income generated, including Program Income generated by its subrecipients, in Yardi and DRGR at least quarterly<sup>4</sup> by creating Program Income Receipts for the DRGR activity that generated the Program Income. Additionally, the CDBG-DR Finance Division will report all Program Income expenditures by creating DRGR vouchers for the activity for which Program Income was expended.

### 7.8.2 Subrecipient Reporting

*The subrecipient must report to PRDOH all Program Income received and, if allowed, expended, at the time it is received and when it is expended.* PRDOH must record the receipt and expenditure of any Program Income at the time it occurs. In many cases, a subrecipient's reimbursement request for payment may only be satisfied using both Program Income funds and CDBG-DR funds. Standard monthly reporting regarding Program Income receipts and expenditures is to occur monthly, along with the monthly invoice package.

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<sup>4</sup> Prior to creating DRGR vouchers for CDBG-DR grant funds, the CDBG-DR Finance Division will first report Program Income receipts to ensure Program Income is expended prior to drawing additional grant funds from U.S. Treasury.

## 7.9 Program Income Reconciliation

The grantee and subrecipient Program Income shall be reconciled, at least, on a quarterly basis using reports and/or account information regarding the amount of Program Income received, disbursed, and any remaining balances.

For reconciliations between PRDOH Financial Management System and HUD DRGR system, if a discrepancy is identified during the reconciliation process, the Accounting Bureau shall determine which system requires correction, document the corrective actions taken, and make the necessary adjustments in Yardi and/or DRGR.

## 8 Closeout

The closeout of the CDBG-DR grant with HUD or an agreement with a subrecipient is a process in which all the parts of the contract requirements were completed or terminated.

### 8.1 Subrecipients Program Income Closeout

PRDOH will work with all subrecipients to ensure all closeout requirements, as described in the subrecipient agreement, are met prior to releasing a final payment to the subrecipient. Subrecipients' obligation to PRDOH shall not end until all closeout requirements are met.

### 8.2 Transfer of Program Income to CDBG Program

HUD 83 FR 5844 allows PRDOH to transfer Program Income generated by the CDBG-DR grant to its annual CDBG Program before close-out of the CDBG-DR grant, or to any annual CDBG-funded activities carried out by a municipality. Program Income received after close-out may also be transferred to the annual CDBG Program. In all cases, any Program Income that is transferred to the annual CDBG Program will not be subject to the waivers and alternative requirements of the Federal Register Notice but will instead be subject to regular CDBG Program rules.

## 9 Approval

This policy will take effect immediately after its approval.



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**Félix X. Hernández Cabán**  
**Disaster Recovery Director**  
**CDBG-DR Program Finance Division**

April 9, 2021

**Date**

**END OF POLICY**