



STATE OF MISSISSIPPI
HALEY BARBOUR, GOVERNOR
MISSISSIPPI DEVELOPMENT AUTHORITY
Gray Swoope
EXECUTIVE DIRECTOR

LONG TERM WORKFORCE HOUSING MEMORANDUM

DATE: July 28, 2010

SUBJECT: LTWH Program Income

- I. BACKGROUND:** All gross income (as defined at 24 CFR 570.500) generated by activities carried out with KCDBG Funds (Program Income) must be reported to MDA. MDA may permit Program Income to be retained only if the Program Income will be used to continue the activity from which it was derived. MDA will determine on a case-by-case basis whether such Program Income should be retained by the Sub-recipient. Program Income is subject to all applicable KCDBG laws and regulations for so long as it exists. Program Income does not include any income received by the sub-recipients in a single program year if the total amount of such income from all KCDBG funding does not exceed \$25,000.
- II. GUIDANCE:**
- A. Program Income includes, but is not limited to (*Source: 24 CFR 570.489(e)*):
1. Proceeds from the disposition of real property purchased or improved with KCDBG funds;
 2. Proceeds from the disposition of equipment purchased with KCDBG funds;
 3. Gross income from the use or rental of real property acquired, constructed or improved with KCDBG funds less the costs incidental to the generation of the income (e.g. maintenance).
- B. Program Income from the use or rental of real property acquired, constructed or improved with KCDBG funds is any income that is greater than the operating cost and debt associated with the KCDBG project. The Program Income for such a project is derived by deducting the operating costs (taxes, utilities, insurance, etc.) and debt (loan, mortgage, etc.) from the gross income.
- C. When income is generated by an activity that is only partially assisted with CDBG funds, the income is prorated to reflect the percentage of CDBG funds used. For projects involving rental units, the gross income is the rent received for the rental units. When a rental project is developed with both KCDBG funds and other funds, any Program Income is allocated between the KCDBG funds and other funds according to the budget ratio for that project.

D. Program Income is determined on a yearly basis utilizing the effective date of the Sub-recipient's grant agreement.

Example # 1 Rental Project:

\$2,016,000 (Annual Gross Income from Rents)
-3,700,000 (Annual operating cost \$1,200,000.00 + Annual project debt \$2,500,000.00)
(\$1,684,000)

Because of the negative number, there is no Program Income in the example given.

Example # 2 Partially CDBG-Funded Project:

Budget Ratio – 60% KCDBG funds; 40% Other Funds
\$200,000 (Total annual Program Income)
\$120,000 (CDBG Program Income-- \$200,000 X .60)
\$ 80,000 (Other Income -- \$200,000 X .40)

Example # 3 New Construction Project:

\$14,000,000 (The yearly sum of New House Sales, i.e., disposition of real property)
-13,980,000 (All Yearly Costs Incidental to Construction of New House)
\$ 20,000 (Gross Income for the year).

Gross income is not considered to be Program Income because it is less than \$25,000 and may be retained by the Sub-recipient.

III. APPLICATION OF GUIDANCE: If the annual CDBG Program Income is equal to or more than \$25,000, it may be retained and used by the Sub-recipient if it is used to continue the activity from which the income was derived. In addition, to the maximum extent feasible, the Program Income must be spent prior to drawing additional CDBG funds. After closeout of the grant, CDBG Program Income equal to or more than \$25,000 within the period of affordability shall be subject to the same requirements. Annual Program Income equal to or more than \$25,000 is to be returned to MDA as soon as possible following the close of the Sub-recipient's year in which the Program Income occurred. Such Program Income must be returned to MDA no later than fourteen (14) days following Sub-recipient's closure of its financial books for the preceding year and determination of the amount of returnable Program Income.

IV. REQUIRED ACTION: The Sub-recipient must adhere to this clarification memorandum and maintain it on file for future reference.

V. CONTACT: Questions concerning this Memorandum should be addressed to the appropriate Horne Project Coordinator.