

OVERALL EXPENDITURES LEVEL— BENEFIT TO L/M INCOME PERSONS

Purpose

The purpose of this chapter is to describe the requirement that must be met with respect to the level of expenditures made for activities that meet the L/M Income Benefit national objective. Consistent with the primary objective of Section 104(b)(3)(A) of the Housing and Community Development Act of 1974 as amended, the State program regulations require each CDBG grant recipient to certify that, in the aggregate, at least **70 percent** of CDBG funds to be expended, during a one, two, or three program year period specified by the state for this purpose, will be for activities meeting the L/M Income Benefit national objective. This requirement applies to the sum total of state activities as a whole, not to individual activities or individual state grant recipients. (The 70 percent requirement should not be confused with the requirement that each individual activity must meet a national objective. Most National Objectives criteria require that at least **51 percent** of the beneficiaries be L/M income persons.)

Since this requirement involves showing the percentage of total expenditures that are for certain kinds of activities, it is necessary to keep records to enable a computation that will yield that percentage. (Instructions on how to make this computation are provided later in this chapter.)

CDBG Funds

Note that this requirement applies to the expenditures of **CDBG funds** during the specified period. For this purpose, CDBG funds include all those funds received in the form of:

- ✓ CDBG grants received from HUD,
- ✓ CDBG program income received by the state and its state grant recipients,
- ✓ EDI and BEDI grants (Section 108(q) of HCDA of 1974), and
- ✓ Proceeds of loans guaranteed by HUD under Section 108.

For states, this requirement applies to funds expended against the one, two or three years' worth of allocations received from HUD, as specified by the state. The period during which compliance will be determined begins on the start date of the first program year which the state has included, and ends when all funds have been expended out of

the allocations for the program years the state has included.

For example, one state selects a two-year period comprising Fiscal Years (FY) 1999 and 2000 for determining compliance; the state's program year start date is July 1. The last funds from the FY 1999 allocation are expended on December 29, 2001; the last funds from the FY 2000 allocation are expended on October 15, 2002. Compliance with the overall L/M Income Benefit requirement for this state will be based on all funds expended out of the FY 1999 and FY 2000 allocations, plus all program income, reallocated funds, Section 108 Loan Guarantees, EDI and BEDI grants associated with the state's Method of Distribution for those two years. A final determination of compliance cannot be made until October 15, 2002.

To demonstrate compliance with the 70% overall L/M Income Benefit requirement in Section 24 CFR 570.484 of the State CDBG regulations, states must track the expenditure of program funds against the specific fiscal year's allocation of funds from which each activity was funded. In terms of the IDIS system, it is important to highlight a subtle distinction between expenditure of funds and drawdown of funds. To demonstrate compliance with 24 CFR 570.484, states must accumulate the expenditures against all the activities set up in IDIS under a given program year's funds. However, the IDIS system fulfills drawdown requests on a First-In, First-Out basis (using the oldest fiscal year money still remaining in the line of credit); states should not use the fiscal year of the money used to fulfill a drawdown request as the basis for tracking compliance with the overall L/M Income Benefit requirement.

Calculating Overall Expenditures Benefit

Time Period

Since the state is given the option of choosing a one, two, or three program year period for this purpose, the period shall be governed by the Consolidated Plan certification(s) made by the state. That is, if the state made a certification based on a single program year, the calculation to be made to test whether that certification was met is to cover only the allocation of funds for that program year. If the certification calls for two program years, the same certification must be made for both program years and the calculation to be made to make sure those certifications are met is to include the aggregation of expenditures from both such program years' allocations.

It is useful for HUD and the state to periodically check to see how things are progressing, in order to ensure that there will be no problems meeting the requirement at the end of the compliance period. (However, compliance problems with the 70 percent overall L/M Income Benefit requirement are rare in the state CDBG program.)

Exclusions

In determining the percentage of CDBG funds spent for L/M Income Benefit activities, the following amounts *are to be excluded* from the calculation (*both from the numerator and the denominator*):

- ❖ Expenditures made for costs charged to the basic eligibility categories of Planning and Capacity Building (HCDA Section 105(a)(12)) and state and state grant recipients' Program Administration Costs (HCDA Section 105(a)(13)). Note, however, that planning-only activities that must meet a national objective are **not excluded**.

Rationale: Since these expenditures are made in support of the grant recipient's CDBG program generally, L/M income persons are assumed to benefit from the expenditures in the same proportion that they benefit from the expenditure of all other CDBG funds.

- ❖ Funds deducted from the grant by HUD or used by the state from its program income for the repayment of a loan guaranteed under Section 108.

Rationale: The expenditure of the *proceeds* of such loans are counted for this purpose, and also subjecting funds used for the repayment of the loans to the calculation would result in double counting the expenditures made for activities supported by the loans.

- ❖ Expenditures against the one percent Technical Assistance Set-Aside, as provided for in HCDA Section 106(d)(5).

Rationale: Activities funded under HCDA Section 106(d)(5) do not have to meet a national objective.

The Numerator

The numerator to be used for calculating the percentage for this purpose is to consist of the following:

Housing activities:

Funds expended for activities that qualify under the L/M Income Housing subcategory are to be included in the numerator, *but may be limited*, depending on whether the assisted housing was a multi-unit structure and the proportion of the total cost of the activity that was paid for using CDBG funds.

More specifically, because Section 105(c)(3) of the HCDA limits the extent to which an activity that involves the acquisition, new construction, or rehabilitation of property to provide housing may be considered to benefit L/M income persons, in any case where the units in an assisted multi-unit structure are not occupied in their entirety by L/M income households, there is a limit on the amount of CDBG funds that may be counted towards meeting the state's 70 percent certification. The limit is determined as follows:

- ❖ Find the percent of all the units in each assisted structure that are occupied by L/M income households (or where all the units have not yet been occupied, the percent that is expected to be so occupied);
- ❖ Multiply the total costs of the assisted activity (including those paid for with CDBG and with non-CDBG funds) by the percentage determined in the preceding step; and
- ❖ In the event that the amount of CDBG funds expended for the assisted structure exceeds the amount determined in the above

step, **the excess amount must be excluded from the numerator.** The amount of funds claimed as benefiting L/M income persons cannot be greater than the amount of CDBG funds spent on the project.

Reference: 24 CFR 570.484(b)(4)

All other activities:

Funds expended for an activity that qualifies under any other subcategory of the L/M Income Benefit national objective (i.e., Area Benefit, Limited Clientele and Jobs) during the applicable period are to be included in the numerator in their entirety.

**No Credit for
“Slum/Blight” or
“Urgent Needs”
Activities**

Note that **no** expenditures for activities that the state qualifies under the national objectives of Slum/Blight or Urgent Needs may be included in the numerator for this calculation even though it is recognized that such activities may provide some level of benefit to L/M income persons.

Note: If an activity could meet the Slum/Blight or Urgent Needs criteria, but the state has elected to qualify it under the L/M Income Benefit national objective and it meets the criteria for that objective, expenditures for that activity are to be included in the numerator as described above.

**The
Denominator**

The expenditure of CDBG funds *for all other purposes* during the applicable period is to be included in the denominator for this calculation, along with all funds benefiting L/M income persons. This includes activities qualifying under the Slum/Blight and Urgent Need national objectives; this also includes excess amounts for housing activities that are excluded from the numerator, as described above.

Example

The state has made a one-year certification covering its FY 2000 program year. The state's program year begins on July 1, 2000; the last funds are expended on February 22, 2003.

1. The state's FY 2000 allocation amount is \$33,650,000.
2. During the life of the FY 2000 allocation, the state receives \$1,750,000 of program income that is re-distributed to local governments as new grants.
3. Three Section 108 Loan Guarantees are approved for state grant recipients under the state's FY 2000 Method of Distribution, totaling \$4,200,000.
4. One of the Section 108 Loan Guarantee recipients also is awarded a \$500,000 EDI grant in June 2001; all grant funds are expended in April 2002.
5. No CDBG funds were used for the repayment of Section 108 loans.
6. The state expends \$330,000 for activities under the one percent Technical Assistance Set-Aside provision.
7. The state expends \$760,000 for state administrative costs of running the program.
8. State grant recipients collectively expend \$3,150,000 on grant administration costs.
9. Of the remaining funds expended by state grant recipients, \$33,856,00 was spent for activities that qualify under the L/M Income Benefit national objective.
10. Included in those L/M income activities, is \$118,000 worth of planning-only grants, all of which meet the L/M Income Benefit national objective.
11. Included in those L/M income activities was one involving the rehabilitation of a ten-unit building, eight of which are to be occupied by L/M income households. The rehabilitation of that building cost \$200,000, funded solely with CDBG funds.
12. A total of \$983,250 was expended by the state grant recipients for activities that qualify under the Slum/Blight national objective.
13. Amount spent for activities that qualify under the Urgent Need national objective was \$1,020,750.

The calculation would run like this:

Total resources:

FY2000 allocation.....	33,650,000
Plus Program Income.....	1,750,000
Plus Section 108 loans	4,200,000
Plus EDI grant funds.....	500,000
Total resources/ expenditures.....	40,100,000
Minus state administrative costs	760,000
Minus state grant recipient admin.....	3,150,000
Minus one percent Technical Assistance Set-Aside costs	330,000

Leaves for the denominator35,860,000

Expenditures fully countable toward overall

L/M Benefit requirement 33,656,000

Plus amount allowed for the multi-unit building160,000

(determined by dividing 8 by 10 (which equals .8) and multiplying \$200,000 by .8 which results in a limit of \$160,000 that may be included, and \$40,000 which cannot be included)

Leaves for the numerator33,816,000

This calculation then involves dividing \$33,816,000 by \$35,860,000, which results in the percentage of 94.3, a number that is sufficient to demonstrate compliance with the 70 percent certification.

Tips

The review of data in IDIS or on-site monitoring may result in activities being reclassified from one national objective to another, in one or more activities failing to meet any national objective, or in changes in the expenditures classified as planning and administration. All such determinations must be taken into account and, where applicable, the expenditures used in the calculation adjusted accordingly, before determining compliance with the Overall Expenditures Benefit requirement. (Of course, if the reclassified expenditures were incurred in a program year for which records are no longer available, a recalculation of the overall expenditures would not be possible for that period.)