

4. Overall Expenditures Level – Benefit To L/M Income Persons

4.1 Purpose

The purpose of this chapter is to describe the requirement with respect to the level of expenditures 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 expended, during a one, two, or three- year period specified by the state for this purpose, will be for activities meeting the L/M Income Benefit national objective. State grantees may meet this requirement through any of the four sub-categories under the L/M Income Benefit national objective. Those subcategories are:

- L/M Income Area Benefit,
- L/M Income Limited Clientele,
- L/M Income Housing, and
- L/M Income Jobs.

This requirement applies to the sum total of CDBG funds received by the state during the specified period, not to individual subrecipient grant allocations or funds expended for individual activities. The 70 percent requirement should not be confused with the requirement that each individual activity meet a national objective (most national objectives criteria require that at least 51 percent of the beneficiaries be L/M income persons.).

Since compliance with the 70 percent overall L/M Income Benefit requirement under 24 CFR 570.484 involves showing the percentage of total expenditures used for activities benefitting persons of low- and moderate-income, the state must keep records documenting that it met the 70 percent benefit test. (Instructions on computing the overall benefit are provided later in this chapter. In addition, this calculation is performed automatically in the PR-28 Financial Summary of the State PER. Also, CPD Notice 11-03 provides guidance on the State PER.)

4.2 CDBG Funds

Note that this requirement applies to the expenditures of CDBG funds during the specified period. For this purpose, CDBG funds include the following:

- CDBG grants received from HUD,
- CDBG funds reallocated to the state by HUD,
- CDBG program income, including payments to revolving funds, 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.

All funds listed above should be included in the calculation except:

- Funds used by the state, or by the units of local government, for program administration, technical assistance and planning activities (except for “planning only” grants counted under the L/M Income Area Benefit or Slum/Blight national objectives); and
- Funds expended by the state for repayment of Section 108 loans;

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 compliance period begins on the start date of the first program year and ends when the state has expended all funds from the consecutive program years specified by the state for the purpose of meeting the overall benefit requirement.

For example, a state selects a two-grant year period comprising Fiscal Year (FY) 2010 grant and the 2011 grant for determining compliance. The compliance period would begin with the state's 2010 program year start date, July 1; and end when all funds from both grants have been expended, Oct. 15, 2012. Compliance with the overall L/M Income Benefit requirement for this state will be based on all funds expended out of the FY 2010 and FY 2011 allocations, plus all program income, reallocated funds, loans guaranteed under Section 108, and EDI and BEDI grants associated with the state's Method of Distribution for those two years. Therefore, a final determination of compliance cannot be made until October 15, 2012 when all funds from both FY 2010 and FY 2011 allocations have been expended.

To demonstrate compliance with the 70 percent overall L/M Income Benefit requirement, states must track the expenditure of program funds against the specific FY allocation of funds from which each activity was funded.

To illustrate (continuing to use the example from above of the state determining compliance with overall L/M Income Benefit requirement for FY 2010 and FY 2011), during the July 1, 2010 – October 15, 2010 time period the state is also tracking expenditures for all open CDBG Grants. This includes the two-year period comprising FY 2008 and FY 2009 as FY 2009 funds have yet to be fully expended. It also includes the two-year period comprising FY 2012 and FY 2013 as FY 2012 started July 1, 2012. The state must track the expenditures related to FY 2008 and FY 2009 in the July 1, 2010 – October 15, 2010 time period separately as they must not be included in the L/M Income Benefit requirement calculations for FY 2010 and FY 2011. The L/M Income Benefit requirement calculations for FY 2008 and FY 2009 will be calculated independently, once all funds are expended out of the FY 2009 allocations.

In terms of the IDIS system, it is important to highlight that funds are tracked according to expenditures versus drawdowns. An "expenditure" is the disbursement or payment of funds, whereas a "drawdown," also called a voucher, is a request for payment against a grantee's line of credit for one or more activities.

Expenditures

States set up activities in IDIS and track the expenditures for those activities according to program year, using the budget fiscal year appropriation to define the source of funds. States are required to account for their expenditures and demonstrate compliance with 24 CFR 570.484 according to this timeframe.

Drawdowns

It is important to note that IDIS will display a "grant year" associated with vouchers which may not coincide with the "grant year" indicated by the grantee when funding the activity. For all grants prior to the FY 2015 grants, IDIS fulfills drawdown requests by withdrawing funds on a first in, first out (FIFO) basis, using the oldest fiscal year money still remaining in the grantee's

line of credit. Therefore, the specific grant on the voucher and the specific grant identified in activity funding may not reconcile with one another. Beginning with the FY 2015 grants, the grantee will have ability to indicate the grant year on both the funding and draws for each activity. Therefore, beginning with the FY2015 grants, the records on the line of credit, IDIS records, and grantee records on grant year for both activity funding and draws will coincide. For prior years, States should not use the grant year on the voucher as the basis for tracking compliance with the overall L/M Income Benefit requirement.

4.3 Calculating Overall Expenditures Benefit

4.3.1 Time Period

Given the option of choosing a one, two, or three program year period for the purpose of meeting the overall expenditures benefit, the state must specify the chosen time period in “Overall Benefit” criterion of the “Use of Funds” certification, one of the specific CDBG Certifications the state is required to include in its Consolidated Plan and/or Annual Action Plan (see text box below).

“Specific CDBG Certifications” at 24 CFR 91.325(b)(4)(ii):

2. Overall Benefit. The aggregate use of CDBG funds including section 108 guaranteed loans during program year(s) 199_, __, and __. (a period specified by the grantee consisting of one, two, or three specific consecutive program years), shall principally benefit persons of low or moderate income in a manner that ensures that at least 70 percent of the amount is expended for activities that benefit such persons during the designated period;

For example: if a state makes a certification based on a single program year, PY 2010, the calculation testing whether the state met the overall expenditures benefit must include only the allocation of funds received for PY 2010. Alternatively, if a state certifies that it is basing the overall expenditures benefit on two program years, PY 2010 and PY 2011, the same certification applies to both program years (PY 2010 and PY 2011), and the calculation must include the aggregation of expenditures from both FY allocations received in PY 2010 and PY 2011. It is useful for HUD and the state to periodically observe the state’s progress in complying with the 70 percent overall L/M Income benefit requirement in order to ensure that the grantee meets the requirement by 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.)

4.3.2 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:

- **Planning/Capacity Building and Program Administration:** 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)).

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.

Note: Planning-only activities that must meet a national objective are not excluded.

- Section 108 Loan Repayments: 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.

- Technical Assistance and Administrative Cost Set-Aside: Expenditures against the Technical Assistance and Administrative Cost 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.

4.3.3 Expenditures that meet the L/M Income Benefit National Objective

The following expenditures meet the L/M Income Benefit National Objectives:

Housing activities

Funds expended for activities that qualify under the L/M Income Housing subcategory are to be included, 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.

Specifically, 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. 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 toward meeting the state's 70 percent certification. The limit is determined as follows:

- Step 1: Find the percentage of all units occupied by L/M income households in each assisted structure (or where all the units have not yet been occupied, the percentage that is expected to be so occupied). This includes two or more structures that are "presumed" single structures such as:
 - Rental buildings located on the same or contiguous properties, when the buildings will be under common ownership and management;
 - All Community Development Financial Institution (CDFI) obligations related to housing activities during any one-year period; or
 - All housing activities, per unit of local government, undertaken pursuant to a Community Revitalization Strategy (CRS).
- Step 2: 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

- Step 3: 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 (i.e. it cannot be considered an expenditure that meets the L/M Income Benefit). The amount of funds claimed as benefiting L/M income persons cannot be greater than the amount of CDBG funds spent on the project.

Calculating the L/M Income Benefit for Housing Activities

The State funded the rehabilitation of a 10-unit building. Eight of the 10 units are to be occupied by L/M income households. The rehabilitation of that building cost \$200,000, funded solely with CDBG funds. Of the \$200,000 expended, what amount meets the L/M Income Benefit National Objective?

Step 1: Calculate the percentage of units occupied by L/M income households:

$$\frac{(8 \text{ units occupied by L/M income households})}{(10 \text{ total units rehabilitated using CDBG funds})} = .8$$

Step 2: Multiply the percentage calculated in Step 1 above (.8) by the total cost of the CDBG-assisted activity:
($\$200,000 \times 0.8 = \$160,000$)

The total amount considered eligible to meet the L/M Income Benefit National Objective is **\$160,000**.

Step 3: Determine the excess amount that cannot be considered to meet the L/M Income Benefit National Objective:
($\$200,000 - \$160,000 = \$40,000$.)

Reference: 24 CFR 570.484(b)(4)

- All other activities: Funds expended for an activity qualifying under another 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 their entirety as an expenditure counting toward the overall L/M Income benefit requirement.

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

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

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 as an expenditure counting toward the overall L/M Income benefit requirement.

4.3.5 All Other Expenditures

To determine whether the recipient is meeting the 70 percent expenditure requirement, compare the expenditures that meet the L/M Income Benefit National Objective to the total of all CDBG expenditures (minus the expenditures listed in the “Exclusions” section above). The total expenditures include activities qualifying under the Slum/Blight and Urgent Need national objectives as well as excess amounts for housing activities, as illustrated in the example above.

Example

Calculating the Overall L/M Benefit Percentage

The state has made a one-year certification covering its 2009 program year. The state's program year begins on July 1, 2009; the last funds are expended on February 22, 2012. Here is an itemized list of all the state's resources and expenditures for its 2009 grant:

1. **Allocation Amount:** The state's FY 2009 allocation amount is \$33,650,000.
2. **Program Income:** During the life of the FY 2009 allocation, the state receives \$1,750,000 of program income that is re-distributed to local governments as new grants.
3. **Section 108 Loan Guarantees:** Three Section 108 Loan Guarantees are approved for state grant recipients under the state's FY 2009 Method of Distribution, totaling \$4,700,000.
4. **Section 108 Loan Repayments:** No CDBG funds were used for the repayment of Section 108 loans.
5. **State Administrative Costs:** The state expends a total of \$1,090,000 for state administrative costs and technical assistance activities.
6. **Subrecipient Administrative Costs:** State grant recipients collectively expend \$3,150,000 on grant administration costs. Planning only grants are not excluded from the calculation if they meet the L/M Income Benefit national objective.
7. **Eligible L/M Income Benefit Activity Costs:** Of the remaining funds, \$35,860,000, expended by state grant recipients, \$33,856,000 was spent for activities that qualify under the L/M Income Benefit national objective.
 - a) **Housing Activity:** Included in those L/M income activities was one involving the rehabilitation of a 10-unit building, 8 of which are to be occupied by L/M income households. The rehabilitation of that building cost \$200,000, funded solely with CDBG funds. Of which, \$40,000 was determined to be excluded from the calculation.
 - b) **Activities Meeting Slum/Blight Criteria:** A total of \$983,250 was expended by the state grant recipients for activities that qualify under the Slum/Blight national objective.
 - c) **Activities Meeting Urgent Need Criteria:** Amount spent for activities that qualify under the Urgent Need national objective was \$1,020,750.

Calculation:

Calculating Total CDBG Expenditures

FY2009 allocation	33,650,000
Program Income	+1,750,000
Section 108 loans	+4,700,000
Expenditures sub-total	40,100,000
State administrative and TA costs	-1,090,000
State grant recipient admin-	-3,150,000
Total CDBG Expenditures	35,860,000

Calculating L/M Benefit National Objective Expenditures

Expenditures countable toward overall L/M Benefit requirement (see #7 on itemized list above)	33,856,000
Excess amount that cannot be considered to meet the L/M Income Benefit National Objective (see example under Housing Activities above) -	-40,000
Total L/M Benefit National Objective Expenditures	33,816,000

Calculating the percentage of L/M Benefit expenditures

Total L/M Benefit National Objective Expenditures	33,816,000/
Total CDBG Expenditures	35,860,000
Percentage of L/M Benefit Expenditures	94.3 %

The percentage of L/M Benefit Expenditures (94.3%) is sufficient to demonstrate compliance with the 70 percent certification.

4.3.6 Tips

The review of data in IDIS or on-site monitoring may result in activities being reclassified from one national objective to another in the case that one or more activities fail to meet a national objective or if changes are made to 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.