



**MISSISSIPPI DEVELOPMENT AUTHORITY  
DISASTER RECOVERY DIVISION  
PROGRAM INCOME POLICY**

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## REVISION LOG

The revision log identifies submission dates and changes to each version.

Version	Date	Name	Description of Changes
1.0			Initial Policy
2.0	3/28/2022		Updated for 2022 Allocation Programs

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## 1.7 PROGRAM INCOME

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### 1.7.1 Purpose and Scope

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 Mississippi Development Authority Disaster Recovery Division (MDA-DRD) and its subrecipients define and manage program income. This Program Income Policy may be updated as necessary

### 1.7.2 Definitions

**1.7.2.1 Activity** – an activity is a specific project addressing a need, which is performed and reported by MDA-DRD and/or subrecipients.

**1.7.2.2 Community Development Block Grant - Disaster Recovery (CDBG-DR)** – the Community Development Block Grant - Disaster Recovery (CDBG-DR) is a federal grant for long term disaster recovery, appropriated by the U.S. Congress and flowing through the United States Department of Housing and Urban Development (HUD).

**1.7.2.3 Program Income (PI)** – gross income received by the recipient or subrecipient that is directly generated by a CDBG-DR activity or earned as a result of a CDBG-DR award, regardless of when the funds were appropriated and whether the activity has been closed out.<sup>1</sup>

**1.7.2.4 Quarterly Performance Report (QPR)** – a Quarterly Performance Report (QPR) is a report submitted to HUD by MDA-DRD via the Disaster Recovery Grant Reporting (DRGR) system showing the progress of CDBG-DR recovery activities.

**1.7.2.5 Subrecipient** – a non-federal entity that receives a sub-award from a pass-through entity (such as MDA-DRD) to fund an activity as part of a CDBG-DR 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>2</sup>

**1.7.2.6 MAGIC** – Mississippi's Accountability System for Government Information and Collaboration (MAGIC) is the statewide accounting and procurement system of record, encompassing Finance (accounting, budgeting, grants management), Logistics (procurement, fleet management, inventory management), and Data Warehouse functionality.

### 1.7.3 Examples of Program Income

Per the definition found in 3.7.3.3. and the guidelines given by HUD, program income includes, but is not limited to, the following:

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<sup>1</sup> See 24 C.F.R. § 570.500(a), as well as the applicable Federal Register Notices governing CDBG-DR allocations from HUD.<sup>1</sup>

<sup>2</sup> 24 C.F.R. § 570.500(c)

- 1.7.3.1** Proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG-DR funds;
- 1.7.3.2** Proceeds from the disposition of equipment purchased with CDBG-DR funds;
- 1.7.3.3** 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;
- 1.7.3.4** 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;
- 1.7.3.5** 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);
- 1.7.3.6** 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 (HCDA);
- 1.7.3.7** 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 HCDA;
- 1.7.3.8** Interest earned on funds held in a revolving fund account;
- 1.7.3.9** Interest earned on program income pending disposition of the income;
- 1.7.3.10** 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
- 1.7.3.11** Gross income paid to MDA-DRD 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:

- 1.7.3.12** Any income received in a single program year by the MDA-DRD and its subrecipients that does not exceed twenty-five thousand dollars (\$25,000), other than revolving funds that are retained by MDA-DRD and its subrecipients (all funds from revolving funds are considered program income). It is the policy of MDA-DRD to report all Program Income generated by the CDBG-DR program in excess of the threshold amount in the DRGR system;
- 1.7.3.13** Amounts generated by activities eligible under section 105(a)(15) of the HCDA and carried out by an entity under the authority of section 105(a)(15) of the HCDA (as per 24 C.F.R. § 570.489(e)(2)(ii));
- 1.7.3.14** Payments of principal and interest made by a subrecipient carrying out a CDBG-DR activity for MDA-DRD toward a loan from MDA-DRD to the subrecipient, to the extent that program income received by the subrecipient is used for such payments;
- 1.7.3.15** 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;

**1.7.3.16** Funds collected through special assessments to recover non-CDBG-DR outlays of capital improvements;

**1.7.3.17** The following classes of interest<sup>3</sup> will be remitted to HUD for transmittal to the U.S. Treasury and will not be returned to MDA-DRD's CDBG-DR line of credit:

**1.7.3.17.1** 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 HCDA, 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 HCDA;

**1.7.3.17.2** Interest income from deposits of amounts reimbursed to MDA-DRD's CDBG-DR program account prior to MDA-DRD's disbursement of the reimbursed funds for eligible purposes; and

**1.7.3.17.3** 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.

**1.7.3.18** 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 MDA-DRD and the municipality (certain conditions apply - refer to 24 C.F.R. § 570.503(b)(7)).

#### **1.7.4 Revolving Funds**

HUD allows MDA-DRD 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 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>4</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

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<sup>3</sup> 24 C.F.R. §200.305(b)(9) Allows interest earned up to \$500 per year may be retained by MDA-DRD for administrative expenses as opposed to being transmitted to U.S. Treasury

<sup>4</sup> 24 C.F.R. § 570.489(f)(1)

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-DR 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).

## **1.7.5 Program Income General Guidelines.**

### **1.7.5.1 Program Income Impact on Budgets**

The amount of MDA-DRD CDBG-DR funds used for certain activities and services which are impacted by program income remain subject to all caps established by federal law and regulations. Specifically, the Congressional appropriation has established that no more than five percent (5%) of the grant award (plus program income) may be used for administrative costs.

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

### **1.7.5.3 Management of Program Income**

MDA-DRD may require a subrecipient to remit program income to MDA-DRD as it is generated or may allow the subrecipient to retain the program income for other eligible uses. MDA-DRD will make this determination and incorporate its decision in the grant agreement with the subrecipient or in subsequent written agreements between the parties, such as a close-out memorandum of understanding. If MDA-DRD allows the subrecipient to retain program income, the subrecipient must use those funds for CDBG-DR eligible program activities as approved by MDA-DRD. Furthermore, program income must be used by the subrecipient before making any request for drawing down CDBG-DR funds for the same activities. If the subrecipient is given permission to use program income in an RLF, it shall follow all rules and requirements governing such use.

### **1.7.5.4 Usage of Program Income**

Program income must be used for eligible CDBG-DR activities, as listed in 42 U.S.C. Section 5305(a) and waived or modified by the applicable Federal Register Notice(s). 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, and other requirements.

Program Income (other than Program Income deposited in an RLF) must be disbursed prior to the drawdown of additional funds from MDA-DRD.

#### **1.7.5.5 Program Income Bank Account**

MDA-DRD and its subrecipients must establish bank accounts to manage Program Income separately from the subrecipient's CDBG-DR accounts. MDA-DRD must have a program income receivable account set up to track program income generated from federal grant activities. Any interest earned on PI, including that earned from an RLF, must be returned to Treasury annually per 24 CFR § 570.500(b).

#### **1.7.5.6 Financial Management System**

MDA-DRD 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.

#### **1.7.5.7 Accounting Records**

MDA-DRD and its subrecipients will maintain records of all program income received and disbursed. It will ensure that its subrecipients' 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 MDA-DRD 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 MDA-DRD, 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. Usage of the funds in these accounts needs to be documented.

As a general rule, the program income in DRGR retained by MDA-DRD 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. 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 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:

**1.7.5.7.1** Subrecipient(s) identify the specific Program/Activities (projects) that constitute the RLF.

**1.7.5.7.2** 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.

**1.7.5.7.3** 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.

### **1.7.5.8 Program Income Reporting**

MDA-DRD and its subrecipients are responsible for reporting Program Income receipts and disbursements.

#### **1.7.5.8.1 MDA-DRD Reporting**

MDA-DRD will report all Program Income generated, including Program Income generated by its subrecipients, in MAGIC and DRGR at least quarterly by creating Program Income Receipts for the DRGR activity that generated the Program Income. Additionally, MDA-DRD will report all Program Income expenditures by creating DRGR vouchers for the activity for which Program Income was expended.

#### **1.7.5.8.2 Subrecipient Reporting**

The subrecipients must notify MDA-DRD of the program income received at the time it is received and when it is expended via the Program Income Quarterly Report. MDA-DRD will use this form to record the program income in the DRGR system to the corresponding program/activity generating the income. Program Income is to be reported by the subrecipient to MDA-DRD for five (5) years from the end of the period of performance. After grant closeout, program income proceeds can be moved to the grantee CDBG account into perpetuity or can be returned to Treasury.

MDA-DRD must record the receipt and expenditure of any Program Income at the time it occurs. In many instances, a subrecipient’s reimbursement request for payment may only be satisfied using both Program Income funds and CDBG-DR funds. Standard reporting regarding Program Income receipts and expenditures is to occur monthly, along with the monthly invoice package.<sup>5</sup>

### **1.7.5.9 Program Income Reconciliation**

MDA-DRD 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. If a discrepancy is identified during the reconciliation process between MAGIC and the DRGR system, the MDA-DRD Finance Department shall determine which system requires correction, document the corrective

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<sup>5</sup> See, CDBG-DR Program Income Quarterly Report attached as Exhibit “1”.

actions taken, and make the necessary adjustments in MAGIC and/or DRGR.

## **1.7.6 Closeout**

### **1.7.6.1 Subrecipient Program Income Closeout**

MDA-DRD 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 MDA-DRD shall not end until all closeout requirements are met.

### **1.7.6.2 Transfer of Program Income to CDBG Program**

HUD 87 FR 6364 allows MDA-DRD 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 local government within the state. Program Income received after close-out may also be transferred to the annual CDBG Program.<sup>6</sup> 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.

## **1.7.7 Policy Approval Statement**

This Program Income policy will take effect immediately after its approval. This document supersedes any previously approved version.

***End of Policy***

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<sup>6</sup> See, Subsection 3.7.6.2.