



# TCAP Questions and Answers: Program Income

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The following questions and answers are intended to assist TCAP grantees to understand and comply with the use and accounting of TCAP program funds as required by [24 CFR Part 85](#), “Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally-Recognized Tribal Government,” and the TCAP grant agreement. These questions and answers are not a substitute for reading and understanding the regulations or grant agreement provisions. For further information, please consult the regulations at [24 CFR Part 85](#).

## 1. What is program income?

**Answer:** Program income is defined in the Notice as “gross income received by the grantee generated by the use of TCAP funds during the grant period.” The grant period begins on the date HUD executes the grant agreement (HUD Form #40092) with the TCAP grantee, and ends on the date of the final financial report submitted to HUD upon closeout of the TCAP award. Examples of program income include the repayment of principal and interest on a loan made with TCAP funds, other income received from in conjunction with TCAP funds, as well as any interest earned by the grantee on program income before it is expended.

## 2. What are the eligible uses of program income?

**Answer:** Grantees must use program income for eligible TCAP uses. Specifically, program income must be used for capital investment in eligible TCAP projects (i.e., projects that have received or will receive a LIHTC award between October 1, 2006 and September 30, 2009). Capital investment is defined as the costs included in the eligible basis of a project under Section 42 of the Internal Revenue Code.

## 3. Can grantees use program income to pay for administrative expenses associated with the management and oversight of the TCAP program?

**Answer:** No, program income cannot be used to pay for costs of the grantee (or any subgrantee) to administer TCAP including the cost of operating the program or monitoring compliance. Under the Recovery Act, TCAP funds can only be used for capital investment in LIHTC projects that received or will receive a LIHTC award between October 1, 2006 and September 30, 2009. Program income generated by the use of TCAP funds may only be used for eligible TCAP costs. Because administrative

expenses are not an eligible use of TCAP funds, program income cannot be used for this purpose.

#### **4. How should grantees account for any TCAP program income received?**

**Answer:** TCAP grantees must maintain records that adequately identify the source and application of TCAP program income in the same manner as their TCAP funds and in accordance with generally accepted accounting principles, and with state laws and procedures as required by [24 CFR Part 85.20\(a\)](#). Grantees must have fiscal controls and accounting procedures in place that allow them to trace both the receipt and expenditure of TCAP program income, and ensure that program income funds have not been used in violation of the [Recovery Act](#), [CPD Notice 09-03](#), and the grant agreement. .

In accounting for TCAP program income, grantees must track the amount of program income generated by each TCAP project and identify the expenditure of program income by project. Consequently, the grantee's financial management system must enable the grantee to track program income receivables and expenditures on a project by project basis. Grantees may wish to establish a separate account to track TCAP program income received and expended, or they may wish to use an existing accounting system as long as the system enables the grantee to maintain records which adequately identify the source and use of all TCAP program income as required in [24 CFR Part 85.20\(a\)](#) "Standards for Financial Management Systems."

#### **5. If a grantee sub-grants TCAP funds to a local housing credit agency, is the grantee still responsible for tracking and reporting program income?**

**Answer:** Yes. A grantee may authorize a sub-grantee to retain program income for eligible TCAP uses pursuant to a written agreement between the two parties. Sub-granting TCAP funds to local housing credit agencies does not relieve the grantee of its responsibility to adequately account for and report on any program income earned or disbursed. The grantee must account for the source and use of all TCAP program income in accordance with the financial management standards set forth in [24 CFR Part 85.20\(a\)](#).

#### **6. Can grantees use HUD's Integrated Disbursement and Information System (IDIS) to record, disburse and track the use of program income?**

**Answer:** Grantees must use IDIS to set-up TCAP activities and disburse TCAP grant funds. IDIS is not designed for the actual deposit and disbursement of program income funds. Instead, the grantee must deposit TCAP program income into its local bank account and record the receipt and use of this program income in IDIS.

To record the receipt of TCAP program income, the grantee must set up a Program Income Fund in IDIS. ***Once the Program Income Fund is set up in IDIS and TCAP program income is recorded, the grantee must “drawdown” any program income available in IDIS prior to requesting a drawdown of TCAP funds.*** The grantee will use the program income on hand in its local bank account for these program income draws. Assistance in setting-up the Program Income Fund and working in IDIS is available on [HUD’s IDIS webpage](#) or by calling the IDIS Technical Assistance Unit (TAU) at (877) 483-8282.

**7. How will program income affect TCAP commitment and expenditure deadlines?**

**Answer:** Any use of TCAP funds that will generate program income during the grant period should be carefully monitored and considered in light of the statutory deadlines established by the Recovery Act. The Recovery Act requires grantees to commit 75 percent of their TCAP funds by February 16, 2010, expend 75 percent of their TCAP funds by February 16, 2011, and expend 100 percent of their TCAP funds by February 16, 2012. Since [24 CFR Part 85.21\(f\)](#) requires any program income to be disbursed before the grantee (or subgrantee) draws TCAP funds from the U.S. Treasury, the generation of program income has the potential to impede the grantee’s ability to commit and expend TCAP funds within the deadlines established by the Recovery Act.

**8. Are returns on TCAP program income considered program income and subject to the same uses and restrictions?**

**Answer:** Yes, any gross income earned on TCAP program income during the grant period is TCAP program income and is subject to the same eligible uses and accounting. TCAP program income becomes unrestricted only after the first use of the program income for affordable housing following the close-out of the TCAP award (see question #9 below).

**9. If program income is earned after the TCAP grant is closed, what happens to the program income?**

**Answer:** Per authority set forth in [24 CFR 85.25\(h\)](#), HUD has established requirements on the disposition of program income earned after the TCAP grant is closed (i.e., as of the end date of the final financial report submitted by the grantee to HUD in the TCAP grant agreement). The TCAP grant agreement requires that all program income on hand at the time of the termination of the grant period, or earned after the grant period, must be used for the development or operation of housing that remains affordable, for a period of not less than 15 years, to households whose annual incomes does not exceed 80 percent of the median family income for the area. These restrictions apply only to the first use of any program income earned after the grant period. Once the program

income is used to develop or operate affordable housing as defined above, any return on the TCAP program income funds is unrestricted.

**10. Is the use of program income after the TCAP grant period subject to the other federal grant requirements such as the National Environmental Policy Act (NEPA), Lead Safe Housing Regulations (LSHR), etc?**

**Answer:** While a variety of federal grant requirements apply to the use of TCAP funds during the award period (see [CPD Notice 09-03](#) for a complete list of federal grant requirements), these “cross-cutting” federal requirements do not apply to the use of program income following the close out of the TCAP award.

If you have additional questions after reviewing the applicable laws, regulations and guidance provided in this Question and Answer, please send an email to the TCAP mailbox at [TCAP@hud.gov](mailto:TCAP@hud.gov).