

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 the Act, section 104(b)(3)(A) of the Housing and Community Development Act of 1974 as amended requires each CDBG grantee to certify that, in the aggregate, at least **70%** of CDBG funds to be expended, during a one, two, or three program year period specified by the grantee for this purpose, will be for activities meeting the L/M Income Benefit national objective. (This should not be confused with the requirement that each individual activity must meet a national objective, most of which require that at least **51%** of the beneficiaries be LM 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 grantee and its subrecipients, if any;
- ✓ EDI (Section 108(q) of HCD Act of 1974);
- ✓ Proceeds of loans guaranteed by HUD under Section 108; and
- ✓ Urban renewal surplus grant funds authorized by HUD.

Reference: §570.3

For Entitlement grantees, this requirement applies to the expenditure of CDBG funds during the applicable program year(s) *without regard to the source year* of the funds.

Calculating Overall Expenditures Benefit

Time Period

Since the grantee is given the option of choosing a one, two, or three program year period for this purpose, the period contained in the Consolidated Plan certification(s) made by the grantee to receive the grant for the program year(s) shall govern. That is, if the grantee 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 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 during both such program years.

Note that, in cases where the certification period exceeds one year, it is useful for both HUD and the grantee to check at the end of each year prior to the end of the total period to see how things are progressing, in order to ensure that the test may be met by the end of the entire period covered by the certification.

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 (§570.205) and Program Administration (§570.206).

Rationale: Since these expenditures are made in support of the grantee'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 grantee 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 to also subject 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.

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.

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 authorizing statute 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 grantee's 70% 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.**

Reference: §570.200 (a)(3)

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 grantee 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 grantee 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.

**Reporting
Expenditures**

The Integrated Disbursement and Information System (IDIS) will assist in providing the information to be used for determining compliance with the national objectives and with this requirement.

Example

The grantee has made a one-year certification and during that program year has spent a total of \$1,000,000. \$150,000 of that amount was spent for activities that were subject to the 20% cap on planning and administration. No funds were used for the repayment of Section 108 loans.

Of the remaining \$850,000, \$700,000 was spent for activities that qualify under the L/M Income Benefit national objective. 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 all of which was financed with CDBG funds.

The calculation would run like this:

Total expenditures	\$1,000,000
Less planning/admin	(150,000)
Leaves for the denominator.....	
Amount spent for non-housing L/M activities	850,000 500,000
Amount allowed for the multi unit building.....	160,000
<i>(determined by dividing 8 by 10 [or .8] and multiplying \$200,000 by .8 which results in a limit of \$160,000 that may be included)</i>	
Leaves for the numerator	
	660,000

The calculation then involves dividing \$660,000 by \$850,000, which results in the percentage of 77.6, a number that is sufficient to demonstrate compliance with the 70% 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.)