IV. GENERAL ADMINISTRATIVE REQUIREMENTS

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A. Background

Acceptance of HOME funds obligates grantees to ensure that HOME monies are used in accordance with all applicable requirements. This chapter will discuss eligible administrative costs and use of program income.

B. Eligible Administrative and Planning Costs

The HOME allocation received by the Department of Commerce, Division of Housing and Community Development (DHCD) includes funds that may be used for reasonable administrative costs. Administrative costs may be incurred for operational expenses during the performance period of the contract. The HOME Final Rule allows for some flexibility in the allocation of costs as administrative or activity-related soft costs The HOME Final Rule defines administrative costs and activity-related soft costs in the HOME Program at 24 CFR Part 92.206 (c). For the HHR program the following cost categories will apply.

Eligible administrative and planning costs include the following:

General Management, Oversight, and Coordination: These costs are always categorized as administrative costs. By accepting HOME funds, a grantee assumes the responsibility for meeting all HOME requirements over time.

- Staff salaries, wages and other costs related to executing HOME activities such as program coordination, management and evaluation, travel costs.

  There are two alternatives for determining the amount of staff costs to charge. Grantees must choose one and use it consistently for the duration of the grant.

  1. Include the **entire** salary, wages and related costs of each person whose **primary** responsibility involves program administration assignments. Under this scenario if a staff member spends 90% of his/her time on HOME Program management, oversight, and coordination the entire salary could be charged to HOME administration. However, if only 30% of his/her time is spent on HOME Program management none of the time could be charged to HOME.

     OR

  2. Determine the **pro rata share** of salary, wages, and related costs of each person whose job includes **any** HOME program administration assignments for each person. Under this scenario 75% of ones person's time and 30% of another person's time could be charged to HOME Program administrative costs.

- Administrative services under third party agreements (e.g., consultant, legal services).

- Providing public information to local officials, citizen organizations, and the general public about the HOME Program.

- Fair housing activities.

- Indirect costs such as office rent, utilities, and maintenance. These may only be charged to the HOME Program under an agency cost allocation plan.

- Costs of complying with the Federal requirements listed in subpart H of the HOME Final Rule are eligible administrative costs. These include environmental review, relocation assistance (advisory services) for displaced persons.

- Processing of applications for HOME Homebuyer and/or HOME Rehabilitation and Accessibility assistance.

- Costs of a program audit.

- Cost of providing tenant-based rental assistance (TBRA) to individuals or families (that is, security deposit payments and direct rental assistance to the tenant).

Activity-Related Soft Costs

Costs related to the development or financing of HOME-assisted housing are related soft costs of an activity and are eligible under the HOME program, as outlined in §92,206(d). The costs must be "reasonable and necessary costs incurred by the owner..(or grantee)..and associated with the financing, or development (or both) of new construction, rehabilitation or acquisition of housing assisted with HOME funds."

- Architectural, engineering or related professional services required to prepare plans, drawings, or specifications of an activity.

- Costs to finance an activity such as private lender origination fees, credit reports, fees for title evidence, recording fees and filling of legal documents, building permits.

- For rental housing development activities only: an initial operating deficit reserve to meet any shortfall in project income during the period of rent-up. It may only be used to pay operating expenses, scheduled payments to replacement reserves, and debt service.

- Impact fees that are charged for all activities within a jurisdiction,

- Relocation payments, including: replacement housing payments for moving expenses, and payments for the reimbursement of reasonable out-of-pocket expenses incurred in connection with temporary relocation.

Administrative Or Activity-Related Soft Costs

Certain costs may be charged as either administrative **or** as activity-related soft costs. Choose either the Administrative or Activity budget line and consistently charge the following activities to that budget line for the term of the grant.

- Homebuyer or tenant counseling is an eligible activity-related cost. However, staff and overhead costs, and other services related to assisting potential owners, tenants, and homebuyers may be charged as activity-related soft costs only if the activity is funded and the individual becomes the owner or tenant of the HOME-assisted activity specified under 92.206(d)(6).

- Costs for initial, interim, and final HQS inspections, Lead Risk Assessments, and lead clearance testing for specific Homebuyer and Rehabilitation activities.

- Appraisals.

  NOTE: If the salary for the person undertaking these duties is included under administrative costs, a charge may not also be made under activity-related soft costs.

Non-Allowable Costs

- Insurance against defects. Costs of insurance with respect to any costs incurred to correct defects in the organization's materials or workmanship are unallowable. [OMB Circular A-122 "Cost Principles for Non-Profit Organizations" subparagraph 22.a.(2).f.]

- Activity-related soft costs incurred by a property owner are considered activity-specific and cannot be charged as administrative costs.
- Application fees to activity owners are not an eligible HOME Homebuyer cost.
- Fees based on percentage of assistance. All charges must be a flat fee made known to the participant at the time of application.
- Fees charged to a project for ongoing project monitoring and compliance reviews.
- Fees for origination or loan servicing.

C. HOME Program Income

Program income (PI) means gross income received by the subrecipient/grantee that is directly generated from the use of HOME funds and matching contributions. When program income is generated by housing that is only partially assisted with HOME funds or matching funds, the income shall be prorated to reflect the percentage of HOME funds or match used (24 CFR 92.2 Definitions).

Program income includes, but is not limited to:

- Proceeds from the sale or long-term lease of real property acquired, rehabilitated or constructed with HOME funds or matching contributions;
- Gross income from the use or rental of real property owned by the subrecipient that was acquired, rehabilitated or constructed with HOME funds or matching contributions, minus the costs incidental to generating of that income,
- Payments of principal and interest on loans made with HOME or matching funds,
- Proceeds from the sale of loans or obligations secured by loans made with HOME or matching contributions,
- Interest on program income pending its disposition,
- Any other interest or return on the investment permitted under 92.205(b) of HOME and matching funds,

  NOTE: This does not include recaptured fund, repayments or CHDO proceeds.

- Income generated by an activity, which is funded with program income, is also HOME program income.

Recaptured Funds

Recaptured funds are HOME funds which are recouped by the grantee when an assisted homebuyer property is sold (does not continue to be the principal residence of the assisted homebuyer) within the affordability period required by 24 CFR 92.254(a)(4).

- Recaptured funds are a return of original HOME investment and are technically not program income. Therefore, unlike program income, 10% of recaptured funds **cannot** be used for administrative costs (HUD Notice: CPD 97-09, Part IV Recaptured Funds).

CHDO Proceeds

- Activity proceeds received by CHDOs may be considered program income. Specific use of funds will be specified in the CHDO written agreement/contract. The contract will specify whether use of funds will be limited to activities listed in the contract, other HOME-eligible activities or other housing activities that benefit low-income families.

NOTE: DHCD retains the right to have a flexible policy on the use of proceeds that differs from CHDO to CHDO, or even from activity to activity.

- Proceeds which the CHDO is permitted to retain are not HOME program income and, therefore, are not subject to the HOME requirements, except as described below:

  - The CHDO proceeds retained by the CHDO must be used for HOME-eligible or other housing activities to benefit low-income families, as required by 24 CFR 92.300(a)(2). Examples of "other housing activities" include: emergency repairs, activity operating costs and reserves, housing refinancing costs, CHDO operating expenses and homebuyer counselling.

  - CHDO proceeds retained by a CHDO are not subject to the requirements of the HOME regulations, except for 24 CFR 92.300(a)(2). Proceeds are not subject to the Davis-Bacon Act, National Environmental Policies Act and Uniform Relocation Assistance and real Property Acquisition Policies Act.

  - Because CHDO proceeds are derived from the expenditure of HOME funds, any activities that are funded with CHDO proceeds may not be contributed as match.

- If a CHDO is functioning in the capacity of a subrecipient, any funds generated from HOME-assisted activity are program income and **not** CHDO proceeds. Therefore, such funds are subject to the HOME requirements pertaining to program income.

- CHDO proceeds do **not** include funds that are recaptured because the assisted homeownership housing does not continue to be the principal residence of the assisted homebuyer for the affordability period, as required by 24 CFR 92.503(c) Ownership Interest.

Program Income and Consortiums

Program income derived form consortium activities is program income of the consortium. The Consortium Agreement may permit a member to retain program income for other HOME activities within that member's boundaries. However, the member must use its program income before additional HOME funds are drawn down for use within its boundaries. In accordance with 24 CFR 92.503(a)(3), any program income on hand when a consortium member terminates its participation in the consortium, as well as any future program income (accounts receivable) is program income of the remaining consortium and may not be retained by the former consortium member.

General Requirements

- All HOME program income must be used in accordance with the HOME program rules.

- Program income must be expended before additional HOME funds are requested. [HOME Final Rule 24 CFR 92.504 (c)(1(viii)]. Grantees are strongly encouraged to combine program income/CHDO proceeds with new HOME funds to facilitate tracking of units through HUD data system.

- All grantees must maintain records which adequately identify the source and application of their HOME funds (including program income and CHDO proceeds) as part of the financial transactions of their home program, consistent with generally accepted accounting principles and the requirements of 24 CFR part 85.20/

- Subrecipients are not required to identify program income by program funding year. However, they must be able to identify which activities generated program income and which activities received program income, including the amount. Thus, the subrecipient's financial management system should track program income receivable (such as the amount and date of principal and interest due on a HOME loan).