

Eligibility Determination for Local Initiatives Support Corporation

March 23, 1992

MEMORANDUM FOR: John A. Mastropietro, Regional Administrator-
Regional Housing Commissioner, 1C

ATTENTION: Daniel P. Kolesar, Director
Community Planning Development, 1.1C

FROM: Anna Kondratas, Assistant Secretary for Community
Planning and Development, C

SUBJECT: Eligibility Determination for Local Initiatives Support Corporation (LISC) Project, Hartford, CT

This is in response to your memorandum dated December 3, 1991, in which you question the eligibility of a housing program operated by LISC, a subrecipient of the City of Hartford.

LISC borrowed money from the City Of Hartford's Pension Commission to establish a property acquisition loan pool (the Land Acquisition for Neighborhood Development program) from which nonprofit developers may borrow funds to acquire properties in Hartford to create housing for low and moderate income persons. LISC is using CDBG funds to pay the interest on the money borrowed from the pension fund and is categorizing the activity as "acquisition" on the GPR.

Your Office made a monitoring finding that the funds spent on this activity are ineligible because there was no direct connection to land acquisition for low/mod housing. You also expressed some concern as to whether or not the payment of interest violated OMB Circular A-87, Attachment B, (D)(7), which states that "interest on borrowings (however represented),... are unallowable except when authorized by Federal legislation..."

The "acquisition in whole or in part by the recipient, or other public or private nonprofit entity..." is an eligible activity as described at Section 570.201(a) of the regulations. Furthermore, costs associated with carrying out the acquisition, such as interest charges, are also eligible as activity delivery costs, and as such, do not violate the above referenced provision of A-87. Therefore, it would appear that payment of the interest on money borrowed from the pension fund is an eligible cost to the extent that the money is expended for an eligible CDBG activity.

The question that remains, however, is whether these interest costs were necessary. The information provided by the City describes the steps that were taken to establish the framework of the loan program. The City has not indicated, however, why it is necessary to borrow one million dollars from the pension fund, thereby incurring substantial interest costs, so far in advance of the time the Community Development Corporations were ready to use the funds for acquisition.

Without that information, we are unable to determine whether the interest costs were necessary as required by OMB Circular A-122, which applies to LISC as a non-profit organization.

If you have any further questions, please contact the Entitlement Communities Division at FTS 458-1577.

cc: Linda Marston, SC