

Retention of Program Income for Further Economic Development Activities

April 23, 1986

Honorable David L. Boren
United States Senator
621 North Robinson
Oklahoma City, OK 73102

Dear Senator Boren:

Thank you for your letter to Secretary Pierce dated March 28, 1986, on behalf of local economic development agencies. Since the Community Development Block Grant (CDBG) program is administered by my office, Secretary Pierce has asked me to respond to your concerns.

To the extent that its agreement with the grantee permits, a subrecipient such as a local economic development agency, may retain program income and use it for additional economic development activities in accordance with the CDBG program rules. The subrecipient has no statutory or regulatory right to such an arrangement.

The requirement in our regulations at 24 CFR 570.504(b) for the use of program income on hand before any additional funds can be drawdown is based on Treasury Department regulations at 31 CFR Part 200. This requirement generally precludes drawing down of funds from a Letter of Credit prior to need. Where program income is available, there is not a need for additional funds. These rules are applicable to all grantees, and to those subrecipients that they have authorized to retain and use program income.

The Housing and Community Development Act of 1974 was amended in 1983 at section 104(i) to clarify that grantees could retain program income but only if it was used for eligible community development activities in accordance with the provisions of the law.

Should a grantee and subrecipient elect to close out their agreement because the subrecipient as suggested in your letter, has become self sufficient and no longer wishes to be accountable under the rules of the CDBG program, they may do so. However, in order to comply with section 104(i) described above, any program income that the subrecipient has on hand at the time of closeout or receives after the closeout shall be paid to the grantee.

With the present size of our national debt, all Government outlays, including the funds made available to grantees in response to their drawdown requests, can be viewed as being made with funds upon which the government is paying interest. For a grantee or subrecipient to earn interest on its program income, while at the same time drawing down additional funds from Treasury would result in the Government incurring unnecessary interest costs and adding needlessly to the annual Federal budget deficit. Thus, HUD and Treasury rules prohibit drawing down funds in advance of need and no relaxation of those rules is contemplated.

Your continued interest in the program is always appreciated.

Sincerely,

(Signed)

Alfred C. Moran
Assistant Secretary
Cc: Washington Office
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