

Urban Renewal Land Sales' Proceeds Subject to CDBG Program Income Requirements

August 3, 1990

MEMORANDUM FOR: Sam R. Moseley, Regional Administrator- Regional Housing Commissioner, 6S
>ATTENTION: R.D. Smith, Director
Community Planning and Development, 6C

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

**>SUBJECT: Urban Renewal Land Sales' Proceeds Subject to CDBG Program Income Requirements
U.R. Project Ark-R-63 - North Little Rock, AR**

> This is in response to your July 31, 1990, memorandum requesting written confirmation of a staff opinion that the land sales' proceeds from the subject urban renewal project subsequent to the City's repayment of the Categorical Program Settlement Grant must be subject to Community Development Block Grant (CDBG) program income requirements.

> The Closeout Agreement for the project states in item six on page three that:

>"Disposition proceeds in excess of \$423,000.00, which is the amount deducted as a project funding resource in the grant calculation for the Categorical Program Settlement Grant, shall be subject to the repayment requirements of 24 CFR 570.486."

> 24 CFR 570.486 applies to repayments of categorical program settlement grants. However, the section of the regulations that applies to proceeds after the categorical program settlement grant is repaid is 570.804(b)(7)(i), which reads, in part:

> All remaining project property owned by the local public agency shall be identified and the proceeds from the sale or lease of such property after financial settlement shall be treated as program income of the unit of general local government under the provisions of 570.506; provided however, that such proceeds may be applied to the reimbursement of any funds of the unit of general local government, other than the funds made available under the Part or cash local grants-in-aid required on the basis of incurred net project costs, which were used for the payment of temporary loans for the project.

> 570.506 was the section of the regulations in 1980 that dealt with program income; the current citation is 570.504. Since the City is a CDBG entitlement grantee, the governing provision in this case is the language after "except" in 570.504(b)(4).

> It follows from this that the land sales' proceeds from the subject urban renewal project subsequent to the City's repayment of the Categorical Program Settlement Grant must be subject to CDBG program income requirements.

- > The City has used some of the land sales' proceeds to repay \$130,281 in ineligible Rental Rehabilitation expenditures. This is an ineligible use of the funds. The Field Office should determine the total amount of such land sales proceeds, and ascertain whether other such funds have been misspent.
- > In the present case, if, prior to the ineligible use of funds, the City was misled by the October 17, 1988, and the May 4, 1990, written guidance from the HUD Little Rock Field Office into believing that the funds were not subject to CDBG program income requirements, we will not require that this matter be settled by advising the City to repay the \$130,281. Instead, advise the City that any and all other such Urban Renewal land sales' proceeds must be identified and properly used in accordance with CDBG program income requirements.
- > Please advise the Little Rock Field Office in future to include the relevant regulatory citation in each finding of non-compliance, so this type of error can be avoided.