Appendix B: Calculating Program Income

Background
A regulation was needed for the treatment of income generated from the use or disbursement of IHBG funds under NAHASDA. Regulations were promulgated along with notices and guidance to address the use of program income and how it is calculated. In 1999 a seven-member workgroup consisting of four tribal/tribally designated housing entities and three HUD representatives developed the program income calculation described in this Appendix.

Tracking Program Income
Recipients and sub-recipients must track all income received that is generated from the disbursement or use of IHBG funds. All such income is potentially program income dependent on whether or not the total income realized (collected) during a program year exceeds the $25,000 exemption described at 24 CFR §1000.62(b). Please note that if more than $25,000 is collected during a single 12-month period the first $25,000 is also considered program income.

Program Income from Dwelling Units
Most program income is generated from the lease or sale of dwelling units. Common sources of program income generated from dwelling units include, but are not limited to:

- Rent or homebuyer payments collected on units constructed, acquired and/or rehabilitated with IHBG funds that are owned by the recipient or its sub-recipient;
- Rents collected on units developed under the 1937 Housing Act that **have been substantially rehabilitated** with IHBG funds;
- A calculated portion of rents collected on units developed under the 1937 Housing Act that **have not been substantially rehabilitated** using IHBG funds but are otherwise assisted; and
- Proceeds from the sale of homeownership units developed under the 1937 Housing Act if those units **have been substantially rehabilitated** using IHBG funds.

Substantial Rehabilitation of 1937 Housing Act Units
A determination was made by the workgroup that, when IHBG-funded rehabilitation[1] of a 1937 Housing Act unit reached a certain level, any future rent or, in the case of Mutual Help units, proceeds of sale collected on that unit, would be considered program income. To simplify administration and tracking, a surrogate was used to represent the cost of rehabilitation or capital expenses which equaled 40% of the dwelling construction and equipment cost (DC&E) effective the date of the enactment of NAHASDA (10/01/1997). These amounts, broken down by unit size (number of bedrooms), for each Indian tribe are set forth in Appendix C of this Notice. The 40% threshold is only a concept related to the calculation of program income and has no effect on

[1] Rehabilitation is commonly defined as work done on a unit that either appreciably increases the value of the property or extends its useful life. For instance, replacing all of the windows on a dwelling unit would be considered rehabilitation while the replacement of one window may be considered maintenance. Recipients are encouraged to adopt standards that clearly distinguish rehabilitation or modernization work from maintenance. See Notice CPD 16-02 for additional information.

determining Formula Current Assisted Stock. Rehabilitation amounts are cumulative over the life of the IHBG program.

Rental Unit Example: A one-bedroom unit has a 40% DC&E threshold of $25,000 listed on Appendix C. This unit receives IHBG-funded rehabilitation in 2012 totaling $15,000. In 2013 this unit receives additional IHBG-funded rehabilitation totaling another $15,000. Because cumulative IHBG-funded rehabilitation ($30,000) now exceeds 40% of the DC&E threshold established for this unit, all future rental payments collected on this unit will count toward program income on a dollar-for-dollar basis.

Mutual Help (MH) Example: In the MH program, when IHBG is used for rehabilitation, the same calculation noted above for the rental program would apply. However, the recipient would not realize the program income until the unit is paid off. Therefore, if a MH unit has a 40% of DC&E threshold of $35,000 and cumulative IHBG-funded rehabilitation amounts to $40,000, then the proceeds of sale, if any, at the time the unit is paid off will convert to program income. If a MH unit is either not rehabilitated or the HUD-funded rehabilitation is less than 40% of DC&E, the proceeds of sale, if any, may be used in accordance with Answer 42A in the revised Transition Notice published in the Federal Register on April 1, 1999 (64 FR 15778).

<u>Excess MH Administration Fees</u>
In the event that MH administration fees[2] collected in a given calendar year exceed administration costs incurred by the recipient to operate its program, the excess funds would be considered program income.

<u>Program Income Generated from the Operation of 1937 Housing Act Rental Units</u>
To determine how much program income is generated from the use of IHBG funds to operate and maintain 1937 Housing Act rental units, the amount of income received from such units before the date of enactment of NAHASDA (10/01/97) must be considered. Instead of tracking the actual amount received from 1937 Housing Act rental units, a surrogate (amount) was established that reflected the national average of rents received for 1937 Housing Act units in the last year of the program. For 1937 Housing Act rental units, the surrogate is 46% of the Allowable Expense Level (AEL). The AEL and 46% of the AEL for each Indian Tribe can be found in Appendix D of this Notice. The AEL is defined at 24 CFR § 1000.302.

Program income is the amount of total income received for a rental project identified as Formula Current Assisted Stock (FCAS) on the tribe's Formula Response Form **<u>that exceeds</u>** 46% of the per unit AEL times the number of units in the project. The calculation may be done monthly or annually. This calculation only applies to those 1937 Housing Act rental units that **<u>have not been substantially rehabilitated</u>** with IHBG funds. Once a 1937 Housing Act rental unit is substantially rehabilitated with IHBG funds, all future rent collected on that unit is considered program income and the unit is no longer included in the calculations described below. The following are examples of how to properly calculate program income generated from the operation of 1937 Housing Act rental units assisted under the IHBG program.

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[2] MH administration fees are generally flat monthly charges that are applied toward insurance premiums and other overhead expenses incurred by the recipient to manage the MH program.

Example Number 1: An IHBG recipient is managing 446 FCAS rental units and is using IHBG funds to operate and maintain those units. None of the units have been substantially rehabilitated with IHBG funds. The appropriate per unit AEL for this grantee is $166 from Appendix D and 46% of this amount is $76. In order to determine the AEL program income exclusion the recipient must multiply the total number of units by the number of months that the units were operated and/or maintained and then by 46% of the AEL. Once the exclusion is established it is compared with actual rent collections to determine if any program income was generated from the operation and/or maintenance of FCAS rental units. For this example, the recipient collected $418,752 in rent from FCAS units.

Total Rental Units 446 x 12 Months in Program Year (PY) = 5352 Unit Months

$76 (46% of AEL) x 5352 Unit Months = $406,752 Annual Rental Income Exclusion for PY

Total Unit Months	46% of AEL	Rental Income Exclusion
5352	$76	$406,752

***$418,752** Rental Income Collected **- $406,752** PY Rental Income Exclusion = **$12,000** Program Income Generated*

FCAS Rent Collections	Rental Income Exclusion	FCAS Program Income	FCAS Non-Program Income
$418,752[3]	$406,752	$12,000[4]	$406,752

Example Number 2: The same IHBG recipient is now calculating program income for the next PY on its FCAS rental units. During the previous year 6 of the FCAS rental units had been substantially rehabilitated with IHBG funds and, therefore, have been removed from the calculation. This PY the recipient collected $380,280 (net income) from its FCAS rental units.

Total Rental Units 440 x 12 Months in Program Year (PY) = 5280 Unit Months

$76 (46% of AEL) x 5280 Unit Months = $401,280 Annual Rental Income Exclusion for PY

Total Unit Months	46% of AEL	Rental Income Exclusion
5280	$76	$401,280

***$380,280** Rental Income Collected **- $401,280** PY Rental Income Exclusion = **$0** Program Income Generated*

FCAS Rent Collections	Rental Income Exclusion	FCAS Program Income	FCAS Non-Program Income
$380,280	$401,280	$0	$380,280

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[3] This amount reflects <u>net collections</u>. Rent used by the recipient to operate and/or maintain the units should have already been deducted.

[4] This amount may convert to non-program income if program income from all sources for the PY does not exceed $25,000. See the answer to Question 3 in Appendix A.