

PART III

FUNDS MANAGEMENT AND CASH AND MANAGEMENT INFORMATION SYSTEM

CHAPTER 10. FUNDS MANAGEMENT

10-1 ALLOCATION FORMULA. (See 24 CFR 511.30)

- A. General. HUD will allocate amounts available for rental rehabilitation grants for any fiscal year to cities having populations of 50,000 or more, urban counties, consortia (See Chapter 7 of this Handbook for more information about consortia), and States on the basis of the formula contained in 24 CFR 511.30 of the program regulations and described in this section of this handbook. Allocations are subject to the minimum allocation described in 24 CFR 511.31. Allocations are published annually in the Federal Register pursuant to 24 CFR 511.34, and grantees thereafter receive their grants by submitting Program Descriptions for HUD approval under 24 CFR 511, Subpart C.
- B. Source of data to be used. The data to be used for calculating the specific allocation for each entity referred to in paragraph A above and in 24 CFR 511.30 are taken from data supplied by the Bureau of Census, based upon the latest decennial census available to HUD prior to the start of the fiscal year, adjusted for boundary changes and annexations.
- C. Formula factors. The formula for determining allocations for the Rental Rehabilitation Program is contained at 24 CFR 511.30(c) and uses three specific factors:
1. Rental units where the household head is at or below the poverty level, as defined by the Office of Management and Budget;
 2. Rental units built before 1940 where the household head is at or below the poverty level; and
 3. Rental units with at least one of four problems (overcrowding, incomplete kitchen facilities, incomplete plumbing, or high rent costs).

- a. "Overcrowding" for purposes of the formula is a condition that exists if there is more

than one person per room occupying the unit.

- b. "Incomplete kitchen facilities" are those lacking a sink with running water, a range, or a refrigerator.
- c. "Incomplete plumbing" exists in a unit that lacks hot and cold piped water, a flush toilet, or a bathtub or shower inside the unit for the exclusive use of the occupants of the unit.
- d. "High rent costs" occur when more than 30 percent of household income is used for rent.

D. Calculating the formula.

- 1. In accordance with the regulations at 24 CFR 511.30(d), the formula is an equation with the data for each entity referred to in paragraph A above expressed as numerator for each factor and the total national data for each factor expressed as denominator. This ratio is then multiplied by the amount available for allocation. Data for areas eligible for assistance under Title V of the United States Housing Act of 1949 (Title V-eligible area data) are excluded from the data for a State or a consortium. Title V-eligible area data for States and consortia are also excluded from the total national data.
- 2. The allocation for each entity is calculated as follows:
 - a. The ratio of the number of rental units where the household head is at or below the poverty level within the jurisdiction of the entity to the number of such rental units using the total national data, multiplied by .25; plus
 - b. The ratio of the number of rental units built before 1940 where the household head is at or below the poverty level within the jurisdiction of the entity to the number of

such rental units using the total national data, multiplied by .25; plus

- C. The ratio of the number of rental units with at least one of the four problems identified in paragraph C.3 above within the jurisdiction of the entity to the number of such rental units using the total national data, multiplied by .50; and
- d. The sum of the ratios in paragraphs D.2 a, b and c above multiplied by the amount available for allocation to determine the specific allocation for each entity.

10-2 MINIMUM ALLOCATION AMOUNT. (See 24 CFR 511.31) Except as provided in paragraph B below, the minimum allocation for any city, urban county, or consortium determined under the formula contained in 24 CFR 511.30 for any fiscal year is \$50,000. Cities, urban counties, and consortia with formula allocations of \$50,000 or more will be deemed to meet this threshold. A formula allocation that is below \$50,000 and is not accepted by a city, urban county, or consortium under paragraph B below will be added to the allocation for the State Program in which the city, urban county, or consortium is located. A city, urban county, or a jurisdiction in a consortium with a formula allocation below \$50,000 that elects not to receive its allocation may participate in the State Program, as provided in Subpart F of 24 CFR 511 even if it did not elect to accept its formula allocation. (see also Chapter 5 of this Handbook).

- A. Localities in Urban Counties. Localities located in urban counties follow the urban county in terms of eligibility. For any city or urban county that would receive less than the minimum allocation amount (established at \$50,000 by program regulations at 24 CFR 511.31), the amount would be added to the State allocation and the city or urban county could participate in the State Program. However, any city or urban county that is eligible for \$50,000 or more by formula may not participate in a State or HUD-administered State Program. Any locality that is part of an urban county cooperation agreement is deemed to be an area that is eligible for a formula allocation if the urban county would receive at least \$50,000 and, thus, such a locality is not eligible to participate in a State Program (or HUD-administered Program) whether or not the urban county actually participates in the Rental Rehabilitation Program.

- B. Optional Grantees. A city, urban county, or consortium that: (1) accepted a formula allocation in the preceding fiscal year, and (2) has a formula

allocation in the current fiscal year that is less than \$50,000, may elect to accept its formula allocation by submitting written notification to HUD of its decision to do so within 30 days of the date of publication in the Federal Register of its proposed allocation for the fiscal year. If such a city, urban county, or consortium does not notify HUD within this period, HUD will regard the city, urban county, or consortium as having elected not to accept its formula allocation and will notify the appropriate State of its additional allocation. This election procedure does not affect the deadline for submitting Program Descriptions under 24 CFR 511.20(a). If a grantee does not elect to accept its formula amount in a fiscal year where it falls below the \$50,000 minimum threshold, it would not be given the option of so electing in an immediately succeeding fiscal year(s). In such an instance, the formula amount if less than \$50,000 would automatically be added to the State's portion and the affected city, urban county or consortium would have to apply to the State for funding.

10-3 HOW RRP FUNDS ARE MADE AVAILABLE TO GRANTEES.

- A. Appropriation. Funds are appropriated by Congress and apportioned by the Office of Management and Budget (OMB).
- B. Allocation. Funds are allocated by the formula described at 24 CFR 511.30 and in Paragraph 10-1 of this chapter. Also funds may be reallocated, as an additional grant, under 24 CFR 511.33(b) and Paragraph 10-5 of this Handbook.
- C. Notice. Pursuant to 24 CFR 511.34, a notice is published in the Federal Register announcing RRP allocations for the fiscal year and deadlines for submission of Program Descriptions for formula-eligible grantees.
- D. Fund assignment. After the Secretary of HUD approves a Fund Assignment Plan for the RRP for the fiscal year, the funds are assigned to the Regional Offices using the Regional Fund and Contract Authority Assignment form HUD-185. A list of all localities and States by Region and Field Office that are eligible for formula allocations is attached to

the memorandum assigning the funds. Grant numbers are indicated for each locality that has previously participated as a formula grantee and for each State

that has previously administered the program.

- E. Subassignment. After Regional Offices receive the forms HUD-185, they then sub-assign the RRP funds to Field Offices using the Regional Fund and Contract Authority Sub-Assignment form HUD 185.1. Regional Offices also attach the appropriate portion of the list of localities and States that are eligible for formula allocations (the list that was attached to the form HUD-185).

If there are localities which participated as formula grantees in the preceding fiscal year and, due to a decrease in program funding, their formula amounts are less than \$50,000 in the current fiscal year, such localities (optional grantees) have the option of participating as formula grantees or in the appropriate State Rental Rehabilitation Program.

If an optional grantee declines its less-than-\$50,000 formula amount, the amount is to be added to the State's allocation. In States where there are optional grantees, HUD Regional or Field Office staff should inform the States as early as possible of their full allocation.

- F. Reservation of Funds for the RRP Grantees. Once Program Descriptions are received for the localities/States, CPD staff in each Field Office should send a copy of the form HUD-185, with the list of localities and States attached, to the Regional Accounting Division (RAD). If any of the formula eligible grantees decline to participate in the program, or if they apply for less than their allocation, their names should be removed from the list or the lesser amount should be indicated, respectively, before providing the list to RAD. In addition, if optional grantees (those whose formula amounts are less than \$50,000) choose not to participate as formula grantees, their names should not only be removed from the list before sending the list to RAD for fund reservation, but also the amount of any funds declined by optional grantees should be added to the allocations for the State and the new amount should be indicated for the State. Based on this list RAD will establish fund reservations in the Program Accounting System (PAS) for each grantee whose allocation is based on the formula.

Reservations for grants to be approved by Field Offices under the HUD-Administered State Program will be recorded in PAS by RADs based on form

HUD-718s, Fund Reservation and Contract Authority, submitted by program staff on a grantee-by-grantee basis.

- G. Obligation of Funds to RRP Grantees. A Funding Approval form HUD-40015 (Exhibit 10-1) and Grant Agreement form HUD-40015.1 (Exhibit 10-2) signed by the Field Office Manager for each initial fiscal year grant and any subsequent reallocation are to be sent to the Regional Accounting Division (RAD) so that Rental Rehabilitation grant funds can be recorded as obligations by RAD in the PAS. Obligation of funds for the Rental Rehabilitation Program occurs when the Field Office Manager signs a Funding Approval and Grant Agreement for a grantee and the grantee is notified (after Congressional notifications have been made). Thus, the date of obligation is the date of notification to the grantee and should be the same day the Field Office Manager signs the Funding Approval and Grant Agreement. Field Offices should immediately provide RAD with a copy of the Funding Approval and Grant Agreement signed by HUD. All documents pertaining to obligations of rehabilitation grant funds should be forwarded to RAD as soon as possible to be recorded as obligations. Obligations will be recorded by RAD based on the Funding Approval and Grant Agreement signed by the Field Office Manager. After the Grant Agreement is signed by the grantee, Field Offices are to provide RAD with a copy of the fully executed Grant Agreement. Upon receipt of the fully executed Grant Agreement, RAD records the contract stage in PAS which transfers the grant amount to the Letter of Credit Control System (LOCCS). When the RAD records an initial Grant Agreement for the fiscal year in PAS, 10 percent of the grant will automatically be set aside in LOCCS for administrative expenses (See Paragraph 11-3 of this Handbook for additional information on administrative costs). The following day the funds should be available for the grantee to set up projects provided the grantee has submitted a Direct Deposit Sign-Up form (SF 1199-A) (Exhibit 10.), and has received Security IDs. (Please refer to Chapter 11 of this Handbook for additional information on these forms.)
- H. Assignment of Grant Numbers and Submission of Security Forms and Direct Deposit Sign-Up Forms. If

a grantee participated in the Rental Rehabilitation Program in a previous Fiscal Year and is still participating as the same type of grantee (formula

grantee--MC or UC, State grantee--SG, or HUD-Administered--HG or HD) this year, its grant number must stay the same except for the Fiscal Year part of the number. Also if a grant number has been used previously, but that grantee is not participating in the program this Fiscal Year, the grant number is not to be used for another grantee.

For a State-Administered (State) Program, the State must complete a form HUD-40022 State Designation of Local Recipients (Exhibit 10-4), if the State allocates funds to local recipients and must send a copy of this form to the Rental Rehabilitation Program, P.O. Box 23997, L'Enfant Plaza Station, Washington, D.C. 20026. States should be reminded to keep grant numbers the same (except for the Fiscal Year part of the grant number) for local recipients that participated previously as local recipients in a State Program. In addition, if a grant number has been used previously, but that local recipient is not participating in the program in any subsequent funding year, the grant number is not to be used for another local recipient.

Unless grantees are new grantees or unless they change from one category of grantee to another category (such as from a local recipient in a State Program to a formula grantee), or unless they change bank information, they do not have to submit new Direct Deposit Sign-Up Forms. However, new formula grantees must submit Security Forms and Direct Deposit Sign-Up forms even if the information being submitted is the same as the grantees submitted before when they were State recipients or HUD-Administered grantees. Grantees having more than one grant number (e.g., SG and MC) will have separate security IDs for each grant number (See Chapter 11 of this Handbook for more detail.)

10-4 DEOBLIGATION OF GRANT AMOUNTS.

- A. General. Under 24 CFR 511.33(c), HUD may deobligate rental rehabilitation grant amounts that are not committed to specific local projects in conformity with the schedule submitted by the grantee as part of its Program Description or as part of a reallocation request. In connection with any such deobligation, HUD may also deobligate any unutilized grant amounts

set aside for administrative expenses in the grantee's program account under the C/MI System. Deobligation may also occur as a result of a remedial

action under 24 CFR 511.82. Before deobligating grant amounts, HUD will consult with the affected grantee and take into account factors such as the timing of the grantee's program year; a reasonable start-up time for implementing a new program, if applicable; the timing of State distributions to State recipients, if applicable; the timing of expected project approvals for projects in the grantee's pipeline; climatic or other considerations affecting rehabilitation work schedules; and other relevant considerations. Whatever the reason for deobligation, the procedures in Paragraphs D and E of this section apply.

B. Time Frames. In the early years of the RRP, the date on which the clock started on the time frames associated with deobligations under 24 CFR 511.33(c) was the date the grantee signed the grant agreement. Effective June 14, 1990, this was changed to the date HUD signs the grant agreement. The following time frames, therefore, control when HUD will deobligate funds:

1. For grants obligated after June 14, 1990, HUD will deobligate any rental rehabilitation grant amounts that are not committed to specific local projects within 2 years of the date of obligation of the grant under 24 CFR 511.21(d) (3 years in the case of a State that distributes rental rehabilitation grant amounts to State recipients) or expended for eligible costs within 4 years of such date of obligation (5 years in the case of a State that distributes rental rehabilitation grant amounts to State recipients). The date of obligation is the date that the Field Office Manager having jurisdiction signs the Funding Approval form HUD 40015 and Grant Agreement form HUD 40015.1, and the grantee is notified of the grant award (See Paragraph 10-3.G. of this Handbook.)
2. For grants obligated before June 14, 1990, HUD will deobligate any grant amounts that are not committed to specific local projects within 2 years of the grantee's execution of the Grant Agreement form HUD 40015.1 for the fiscal year in question (3 years in the case of a State that distributes rental rehabilitation grant

amounts to State recipients) or expended for eligible costs within 4 years of such date of execution of the Grant Agreement by the grantee

(5 years in the case of a State that distributes rental rehabilitation grant amounts to State recipients).

3. Extensions. On a case-by-case basis, HUD Field Offices may extend for up to an additional year any of the time periods referred to in this section. None of the time periods referred to in this section are extended by any suspension of project set-ups or other remedial action imposed by HUD under this part. A grantee that wishes to request an extension must do so in writing and must include in the request any relevant information bearing on the request such as projects which are in the grantee's pipeline for which commitments are imminent or information on the construction schedule for specific projects including expected draw dates. Field Office approvals of extensions will be granted only upon clear evidence of progress by the grantee in reaching its commitment and disbursement goals.
- C. Coordination. Field Office staff should coordinate deobligation actions with the Rental Rehabilitation Coordinator in the appropriate Region. Field and/or Regional staff must notify Headquarters Rehabilitation Management Division of any deobligation actions that are being taken, and, if advisable, request that the grant from which funds will be taken be suspended from further project set-ups. After consulting with the Central Office on the proposed deobligation, the responsible HUD Field Office should call the grantee to explain the impending action and review the grant information in the Cash and Management Information (C/MI) System.
- D. Processing the Paperwork. To deobligate funds from a grantee, Field Office staff must complete a form HUD-40015 (Exhibit 10-1). Grantee acceptance of a Grant Agreement (Exhibit 10-2) is not required for deobligation actions. A copy of the form HUD-40015 must be sent to the Regional Accounting Division (RAD), and RAD records the deobligation upon receipt of this document. The HUD Field Office should be sure that funds are available for deobligation before sending the deobligation document to RAD.

- E. Notification to grantee. At the same time the Field Office sends the HUD-40015 to RAD, the Field Office will prepare a package, consisting of the signed Funding Approval Form (HUD-40015) and a

letter to the grantee indicating that funds being deobligated are no longer available to the grantee for commitment.

10-5 REALLOCATION OF RENTAL REHABILITATION FUNDS. (See 24 CFR 511.33)

- A. General. Rental rehabilitation grant amounts may become available for reallocation by HUD as a result of factors such as failure of a city, urban county, or consortium to receive a formula allocation for which it is eligible; deobligation of rental rehabilitation grant amounts based on the progress of a grantee in carrying out its Rental Rehabilitation Program, as provided in 24 CFR 511.33(c) and Section 10-4; and actions based upon reviews and audits as provided in Subparts H and I of the program regulations at 24 CFR 511, principally Section 511.82.
- B. Reallocation of Rental Rehabilitation Grant Amounts. HUD will reallocate rental rehabilitation funds that are available in any fiscal year to such grantee or grantees as HUD determines to be appropriate to promote the expeditious use of grant amounts, consistent with the sound development and administration of grantees' Rental Rehabilitation Programs. Grant amounts reallocated may come from any fiscal year's appropriation for which amounts are available for reallocation. Reallocations will generally be made among grantees within the various HUD Regional Office jurisdictions before reallocations among Regional Offices are considered.

The following procedures must be followed when funds are being reallocated:

1. Prior year funds. Any prior year funds that are deobligated (recaptured) from a grantee must be returned to Headquarters before they can be reallocated to other grantees. After the funds have been deobligated by RAD and returned to Headquarters, Headquarters then may assign such funds that are still available for obligation back to the Region for subassignment to the appropriate Field Office(s). The same process

as discussed in Paragraph 10-3 above is used to assign funds back to the Regional Office.

2. Current year funds. If current year funds are deobligated, they may be reallocated to other

grantees without being returned to Headquarters.

3. Coordination. Field Office staff should coordinate reallocation actions with the Rental Rehabilitation Coordinator in the appropriate Region. Field and/or Regional staff must notify Headquarters Rehabilitation Management Division of any reallocation actions that are being taken.
- C. Other Relevant Considerations for Reallocating Funds. In deciding whether to reallocate rental rehabilitation funds, which are available for reallocation, in addition to the general criteria in Subparagraph 10-5.B above, Field Office staff should also consider how well the grantee is meeting the following six program objectives:
1. The extent to which more than 80 percent of units rehabilitated are affordable. (Affordable rents are rents at or below Fair Market Rents (FMRs) for the Section 8 Existing Housing Program or HUD-approved community-wide exception rents.)
 2. The extent to which rental rehabilitation grants are used to rehabilitate units containing two or more bedrooms and three or more bedrooms.
 3. The extent to which units rehabilitated with rental rehabilitation grants were occupied by very low income families before rehabilitation and those families were not displaced from the project.
 4. The extent to which the gross amount of public subsidy funds have been minimized per unit. This objective favors those projects which have the lowest public subsidy costs regardless of the total dollar value of the rehabilitation. A \$2,000 project with \$1,000 in public subsidy would, for example, be weighed more heavily than a \$5,000 project with \$2,000 in public subsidy. This objective tends to favor projects with low to moderate rehabilitation costs. Projects

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where other Federal funds, such as CDBG, are used for the match would not rank well under this objective.

5. The extent to which the amount of public subsidy

funds as a percentage of total rehabilitation costs have been minimized. This objective favors those projects where the grantee or State recipient has leveraged the greatest amount of private funds. Using the same example as above, the \$5,000 project with \$2,000 in public subsidy (40 percent) would be weighed more heavily than the \$2,000 project with \$1,000 in public subsidy (50 percent). This objective, therefore, tends to favor programs which use gap financing or programs where rehabilitation costs are substantial.

6. The extent to which rental rehabilitation grant funds have been committed to specific local projects and projects have been completed over the preceding 3 years.

Thus, before reallocating funds, Field Office staff should consider how well the grantee is meeting the objectives listed above as well as any other knowledge or information they may have concerning the grantee's performance. Performance in meeting these objectives should be weighed not only in deciding whether to reallocate funds but also in deciding how much to reallocate.

For example, a low level of performance against the five qualitative objectives (items 1-5 above) would argue against reallocating funds to a grantee with a high commitment rate (Item 6 above). Similarly, if two grantees have equal commitment rates, the one with the higher performance against the qualitative factors should receive a higher reallocation bonus.

- D. Information Resources. Field and Regional Office staff can obtain information on commitments and completions and on the other program objectives for each grantee by reviewing the following reports generated by the Cash and Management Information (C/MI) System reports.

1. Status of Project Funds Report (A67RSCA). The A67RSCA is one of the C/MI reports that is available from the computer facility during the first 4 days of each month in each Field and

Regional Office. This report enables staff to determine how well grantees are meeting the quantitative objectives for commitments and completions (Item 6, Paragraph F above).

2. Property and Tenant Characteristics Report (A67RQCA). Regional and Field Office staff can generally check a grantee's progress in meeting the five qualitative program objectives (Items 1-5, Paragraph F above) by referring to the Property and Tenant Characteristics Report (A67RQCA), another C/MI report that is available to the Field and Regional Offices on a monthly basis. The RQCA report provides information for all projects that have been completed by the grantee. The report provides summary information on a cumulative basis for all grant years for each grantee. The information on the right side of the report is from Project Completion Reports, form HUD-40014-B (Exhibit 10-7) submitted by the grantee and the information on the left side of the report is from Pre-Rehabilitation Reports, form HUD-40014 (Exhibit 10-6) for those projects for which Project Completion Reports have been received.
3. Property and Tenant Characteristics Quarterly Report (A67RQBA). In addition to the A67RSCA and the A67RQCA reports, the C/MI System generates a quarterly report that provides specific information by funding year for the following program objectives:
 - o Affordability
 - o Unit Size (by number of Bedrooms)
 - o Lower Income benefit

Since program requirements and objectives are for each grant year's funds, this report should be most useful in determining how well grantees are meeting program requirements by grant year.

- E. Procedures for reallocating funds to grantees. With respect to reallocating funds to grantees which are determined to warrant additional grant amounts under the standards of 24 CFR 511.33(b) and Section 10-5 of this Handbook, the procedures are as follows. The Field Office will request from each such grantee a letter indicating that the grantee wants and can use

the additional funding. The grantee's letter must request the specific amount the grantee has been offered and is eligible to receive. With the letter, the grantee shall include a new schedule for use of the additional funds that complies with 24 CFR

511.20(b)(8) and, if applicable, will indicate any amendments to its previously approved Program Description for the fiscal year to which the new funds are attributable. If the grantee's amendments (if any) to its Program Description and its schedule are approvable, the Field Office will follow the procedure established for obligating funds in the Rental Rehabilitation Program as described in Section 10-3.G of this Handbook.

- F. Reallocation of Rental Rehabilitation Grant Amounts at the End of Fiscal Year. Rental rehabilitation grant amounts that are not obligated at the end of any fiscal year may be added to the amount available for formula allocation under 24 CFR 511, Subpart D, for the succeeding fiscal year, or may be made available for reallocation in the succeeding fiscal year under 24 CFR 511.33(b), as HUD determines appropriate.