



# TCAP Questions and Answers: Program Income, Fees and Asset Management

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The following questions and answers are intended to assist TCAP grantees to understand allowable fees associated with TCAP projects and how to comply with the use and accounting of TCAP program funds as required by [24 CFR Part 85](#), “Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally-Recognized Tribal Government.” These questions and answers are not a substitute for reading and understanding the regulations or grant agreement provisions. For further information, please consult the regulations at [24 CFR Part 85](#).

## 1. What is program income?

**Answer:** [24 CFR Part 85.25\(b\)](#) defines program income as gross income received by the grantee generated by the use of TCAP funds during the grant period. The grant period begins on the date HUD executes the grant agreement (HUD Form #40092) with the TCAP grantee, and ends on the date of the final financial report submitted to HUD upon close-out of the TCAP award. Examples of program income include: the repayment of principal and interest on a loan made with TCAP funds, other income received by the grantee in conjunction with TCAP funds, as well as any interest earned by the grantee on program income before it is expended. Income received by a TCAP project owner is not program income.

## 2. Can TCAP grantee charge fees to LIHTC projects receiving TCAP funds? Are these fees considered program income?

**Answer:** Yes, TCAP grantees can charge fees to LIHTC projects which will also receive TCAP funds. However, fees charged by the tax credit allocating agency to LIHTC project, such as fees normally charged in conjunction with applications for LIHTC awards, cannot be paid for with TCAP funds. Fees associated with LIHTCs are not considered TCAP program income, as these fees are not generated by the use of TCAP funds in a project. If a TCAP grantee charges additional or incremental fees related to TCAP such fees cannot be paid for with TCAP funds. Furthermore, fees charged in connection with TCAP, other than asset management fees, are program income, because they are attributable to TCAP funds. (See Question 5 regarding asset management fees). However, unlike LIHTC’s fees, TCAP program income cannot be used for administrative costs incurred by the TCAP grantee. (See Question 3 for more information about eligible uses of program income).

**3. What are the eligible uses of program income?**

**Answer:** Grantees must use program income for eligible TCAP uses. Specifically, program income must be used for capital investment, as defined in [CPD Notice 09-03](#) in eligible TCAP projects (i.e., projects that have received or will receive a LIHTC award between October 1, 2006 and September 30, 2009). Program income cannot be used to pay for costs of the grantee (or any subgrantee) to administer TCAP, including the cost of operating the program or monitoring for compliance.

**4. The Recovery Act requires TCAP grantees to perform asset management functions, at the owner's expense, to ensure compliance with Section 42 of the Internal Revenue Code. Are the fees generated as a result of this asset management requirement considered TCAP program income?**

**Answer:** No. Reasonable and customary fees charged by the TCAP grantee to the project owner for the purpose of satisfying the statutory asset management requirement are not considered program income. Income generated through imposition of TCAP asset management fees cannot be used to offset general organizational expenses associated with the administration of TCAP, but must solely be used to cover expenses associated with the administrative expenses incurred in the performance of asset management functions. For further guidance regarding TCAP Asset Management, see the Asset Management Q&A posted on the TCAP website (coming soon).

**5. How should grantees account for any TCAP program income received?**

**Answer:** TCAP grantees must maintain records that adequately identify the source and application of TCAP program income, in the same manner as required for their TCAP funds, and in accordance with generally accepted accounting principles and state laws and procedures pursuant to [24 CFR Part 85.20\(a\)](#). Grantees must have fiscal controls and accounting procedures that allow them to trace both the receipt and expenditure of TCAP program income, and ensure that program income funds have not been used in violation of the [Recovery Act](#), [CPD Notice 09-03](#), and the grant agreement.

Grantees must track the amount of program income received from each TCAP project and identify the expenditure of program income by project. Grantees may establish a separate account for TCAP program income to simplify tracking, or use an existing accounting system as long as the system enables the grantee to maintain records which adequately identify the source and use of all TCAP program income as required in [24 CFR Part 85.20\(a\)](#) "Standards for Financial Management Systems."

**6. If a grantee sub-grants TCAP funds to a local housing credit agency, is the grantee responsible for tracking and reporting program income?**

**Answer:** Yes. A grantee may authorize a sub-grantee to retain program income for eligible TCAP uses pursuant to a written agreement between the two parties. However, sub-granting TCAP funds to other housing credit agencies does not relieve the grantee of its responsibility to adequately account for and report on any program income earned or disbursed. The grantee must account for the source and use of all TCAP program income in accordance with the financial management standards set forth in [24 CFR Part 85.20\(a\)](#).

**7. Can grantees use HUD's Integrated Disbursement and Information System (IDIS) to record, disburse and track the use of program income?**

**Answer:** Grantees must use IDIS to set-up TCAP activities and disburse TCAP grant funds. IDIS is not designed for the actual deposit and disbursement of program income funds. Instead, the grantee must deposit TCAP program income into its local bank account and record the receipt and use of this program income in IDIS.

To record the receipt of TCAP program income, the grantee must set up a Program Income Fund in IDIS. Once the Program Income Fund is set up in IDIS and TCAP program income is recorded, the grantee must "drawdown" any program income available in IDIS prior to requesting a drawdown of TCAP funds. The grantee will use the program income on hand in its local bank account for these program income draws. Assistance in setting-up the Program Income Fund and working in IDIS is available on [HUD's IDIS webpage](#) or by calling the IDIS Technical Assistance Unit (TAU).

**8. How will program income affect TCAP commitment and expenditure deadlines?**

**Answer:** Grantees should consider uses of TCAP funds that generate program income and carefully track program income on hand or anticipated to ensure compliance with of the statutory deadlines established by the Recovery Act. The Recovery Act requires grantees to commit 75 percent of their TCAP funds by February 16, 2010, expend 75 percent of their TCAP funds by February 16, 2011, and expend 100 percent of their TCAP funds by February 16, 2012. Since [24 CFR Part 85.21\(f\)](#) requires any program income to be disbursed before the grantee (or sub-grantee) draws TCAP funds from the U.S. Treasury, the generation of program income may impede the grantee's ability to commit and expend TCAP funds within the deadlines established by the Recovery Act.

**9. Are returns on TCAP program income considered program income and subject to the same uses and restrictions?**

**Answer:** Yes, any gross income earned on TCAP program income during the grant period is TCAP program income and is subject to the same eligible uses and accounting requirements. TCAP program income becomes unrestricted only after the first use of the program income for affordable housing following the close-out of the TCAP award (see question #10 below).

**10. If program income is earned after the TCAP grant is closed, what happens to the program income?**

**Answer:** Pursuant to [24 CFR 85.25\(h\)](#), HUD has established requirements for the disposition of program income earned after the TCAP grant is closed. TCAP grant closeout will be a two-step process that involves a financial closeout and a program closeout.

HUD will initiate the financial closeout of all TCAP awards immediately following the statutory February 16, 2012 TCAP deadline. During financial closeout, each TCAP grantee will be required to complete a Standard Form 269, Financial Status Report. The SF-269 must be completed by the grantee and submitted to HUD within 90 days of February 16, 2012. During this 90 day window, the grantee may continue to generate gross income from TCAP activities, but such income will be considered program income and must be used for eligible TCAP costs.

Once the grantee submits and HUD accepts the SF-269 Financial Status Report, which must include an accurate accounting of the total TCAP program income earned, expended, and balance on hand at the time of SF-269 submission, the financial closeout of the TCAP award is complete. The TCAP grant agreement requires that all program income on hand at the time of financial closeout, or earned after the grant period, must be used for the development or operation of housing that remains affordable, for a period of not less than 15 years, to households whose annual incomes does not exceed 80 percent of the median family income for the area. These restrictions apply only to the first use of any program income earned after the grant period. Once the program income is used to develop or operate affordable housing as defined above, any return on the TCAP program income funds is unrestricted.

**11. Is the use of program income received after the TCAP grant period subject to the other federal grant requirements such as the National Environmental Policy Act (NEPA), Lead Safe Housing Regulations (LSHR), etc?**

**Answer:** While federal grant requirements apply to the use of TCAP funds during the award period (see [CPD Notice 09-03](#) for a complete list of federal grant requirements),

these “cross-cutting” federal requirements do not apply to the use of program income received after the close out of the TCAP award.

If you have additional questions after reviewing the applicable laws, regulations and guidance provided in this Question and Answer, please send an email to the TCAP mailbox at [TCAP@hud.gov](mailto:TCAP@hud.gov).