

# **THE CITY OF HENDERSONVILLE POLICY FOR PROGRAM INCOME RELATED TO THE EXPENDITURE OF FEDERAL FUNDS**

## **Recitals**

1. The CITY OF HENDERSONVILLE, receives funding in the form of grants, awards, subawards, and loans from the Federal Government, collectively referred to as “award(s)” award(s)” or “grants”; and
2. Federal awards require compliance with the National Objective, and alignment with the Federal Goals for the award; and
3. Federal awards require compliance with the provisions of the Federal Uniform Grant Guidance, 2 CFR Sect. 200 (UG), except as modified by the Federal agency administering the award; and
4. Subpart D, in particular Section 200.307 of Subpart D, details post award requirements related to use of program income generated as a result of the Federal award funded project, except as modified by the Federal agency. Uniform Guidance outlines the how program income is determined and used if not otherwise specified by the Federal agency administering the Federal award.

## **POLICY OVERVIEW**

The purpose of this policy is to comply with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, commonly called Uniform Guidance (UG), specifically Subpart D, Section 200.307 Program Income, as defined below. As a recipient, the City should calculate, document, and record program income generated from a project funded in whole or in part by a Federal award in accordance with 2 CFR § 200.307, or as otherwise directed by the Federal awarding agency. Additional controls should explicitly identify appropriate allocation methods, accounting standards and principles, compliance monitoring checks for program income calculations, and records.

## **PROGRAM INCOME POLICY**

### **I. PURPOSE AND SCOPE**

The City Council for the City of Hendersonville adopts the following procedures for its use of program income earned from the expenditure of Federal awards to ensure compliance with the Uniform Guidance, including, but not limited to, 2 C.F.R. § 200.307, the terms of the Federal award, and all applicable Federal regulations governing the use of program income. The City of Hendersonville agrees to administer program income according to the requirements set forth in this policy and as required by the Federal regulations and State law.

The responsibility for following this policy lies with Finance Department (for oversight) and the Departmental Directors who are charged with the administration and financial oversight of the Federal award. Questions on the use and/or reporting of program income should be directed to the Finance Department.

## II. DEFINITIONS<sup>1</sup>

- a. *Award or Federal award* means the Federal financial assistance that a recipient receives directly from a Federal awarding agency or indirectly from a pass-through entity, as described in § 200.101. The Federal award is the instrument setting forth the terms and conditions of the grant agreement, cooperative agreement, or other agreement for assistance.
- b. *Federal awarding agency* means the Federal agency that provides a Federal award directly to a non-Federal entity.
- c. *Federal financial assistance* means the assistance that non-Federal entities receive or administer in the form of grants, cooperative agreements, non-cash contributions, direct appropriations, food commodities, or other financial assistance, including loans.
- d. *Federal program* means all Federal awards which are assigned a single Assistance Listings Number.
- e. *Non-Federal entity* means a State, local government, Indian tribe, Institution of Higher Education (IHE), or nonprofit organization that carries out a Federal award as a recipient or subrecipient.
- f. *Period of performance* means the total estimated time interval between the start of an initial Federal award and the planned end date, which may include one or more funded portions, or budget periods.
- g. *Program income* means gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance except as provided in § § 200.307(f).

## III. PROGRAM INCOME OVERVIEW

For purposes of this policy, program income is the gross income earned by the City that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance, which closes December 31, 2026. 2 CFR 200.1.

Program income includes, but is not limited to, the following sources of income:

- The collection of fees for services performed.
- Payments for the use or rental of real or personal property.
- The sale of commodities or items fabricated under the Federal award.
- The payment of principal and interest on loans made under the Federal award.

Program income does not include fees or revenue from the following:

- The use of rebates, credits, discounts, and interest earned on any of them.
- Governmental revenues, such as taxes, special assessments, levies, or fines.
- Proceeds from the sale of real property, equipment, or supplies.<sup>2</sup>

## IV. USE OF PROGRAM INCOME

Program income earned pursuant to expenditures of CSLFRF is the property of US Treasury and shall be accounted for in one of three ways pursuant to 2 C.F.R. § 200.307(e).

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<sup>1</sup> Excluding the first two, the definitions in this section are found in 2 C.F.R. 200.1.

<sup>2</sup> 2 C.F.R. 200.1 and 2 C.F.R. 200.307 each define and limit the sources of program income.

**Deduction Method:** Program income must be deducted from total allowable costs to determine net allowable costs. Program income shall be used to reduce Treasury’s obligation under the Federal award rather than to increase the funds committed a project. Program income shall be used for current costs. The City shall track and account for program income during the period of performance and shall reimburse Treasury, as required. 2 C.F.R. § 200.307(e)(1).

**Addition Method:** With prior approval, program income may be added to the total amount of the Federal award, thereby increasing the total amount of the award. Program income must be expended on an eligible project or program. 2 C.F.R. § 200.307(e)(2). The City staff should check with the terms of the Federal award, to verify whether the repayment of principal and interest on loans made with Federal funds that will mature or be forgiven on or before the end of the period of performance, may be accounted for using the addition method (see Section VI).

**Matching or Cost Sharing Method:** With prior approval, program income may be used to meet the cost sharing or matching requirement of the Federal award. The amount of the Federal award shall not change. 2 C.F.R. § 200.307(e)(3).

Unless the Federal award otherwise stipulates or permits, or the City has received prior approval, the City **shall apply the deduction method** to account for the use of program income.

## V. ALLOCATION OF PROGRAM INCOME

The City shall only expend program income on costs that are reasonable, allocable, and allowable under the terms of the Federal award.<sup>3</sup> To adhere to these requirements, the City shall comply with the cost principles included in 2 C.F.R. § 200, as outlined in the City’s Uniform Guidance allowable cost policy. The City shall allocate program income to the Federal award in proportion to the pro rata share of the total funding (e.g., if CSLFRF funds cover half of a project’s cost, with general revenue covering the other half, the unit shall allocate 50% of any program income earned to the Federal award and account for its use pursuant to § 200.307).

## VI. REPAYMENT OF PRINCIPAL AND INTEREST ON LOANS MADE WITH FEDERAL FUNDS

Most Federal agencies expects that a significant share of loans made with Federal funds will be repaid. Accordingly, they may issue guidance on how to appropriately account for the repayment of principal and interest. The City agrees to appropriately account for the return of loan funds according to the Federal award terms, as follows:

- **For Loans that mature or are forgiven on or before the last day of the period of performance for the Federal Award:** The City may add the repayment of principal and interest (program income) to the Federal award. When the loan is made, the City shall report the principal of the loan as an expense. The City shall expend the repayment of principal only on eligible uses and is subject to restrictions on the timing of the use of Federal funds pursuant to the Federal award. Interest payments received prior to the

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<sup>3</sup> 2 C.F.R. § § 200.404, 408.

end of the period of performance will be considered **an addition** to the total award and may be used for any purpose that is an eligible use. *The City may not subject to restrictions under 2 CFR 200.307(e)(1) (the deduction method) in accounting for the use of program income if allowed by the awarding Federal Agency.*

- **For Loans with maturities longer than the end of the period of performance:** The City is not required to separately account for the repayment of principal and interest on loans that will mature after the Federal award's period of performance. The City may use Federal award funds for only the projected cost of the loan. The City may estimate the subsidy cost of the loan, which equals the expected cash flows associated with the loan discounted at the City's cost of funding. The cost of funding can be determined based on the interest rates of securities with a similar maturity to the cash flow being discounted that were either (i) recently issued by the City or (ii) recently issued by a unit of state, local, or Tribal government similar to the City. If the City has adopted the Current Expected Credit Loss (CECL) standard, it may also treat the cost of the loan as equal to the CECL-based expected credit losses over the life of the loan. The City may measure projected losses either once, at the time the loan is extended, or annually over the covered period. *Under either approach, the City may not be subject to restrictions under 2 CFR 200.307(e)(1) (the deduction method) and need not separately track repayment of principal or interest if allowed by the Federal funding agency.*
- **Revolving Loan Funds:** The City shall treat the contribution of Federal funds to a revolving loan fund according to approach described above for loans with maturities longer than the period of performance. The City may contribute Federal funds to a revolving loan only if the loan is determined to be for eligible use and the Federal funds contributed represent the projected cost of loans made over the life of the revolving loan fund.

Note: City staff should always consult the rules adopting or governing the award as the specific award terms or regulations may vary the provisions in this policy. Specific award terms or award-specific regulations shall be followed where they conflict with the terms of this policy.

## VII. ADDITIONAL PROGRAM INCOME REQUIREMENTS

- (a) **Identifying, Documenting, Reporting, and Tracking.** To ensure compliance with the requirements of program income as outlined by the Federal regulations, the terms and conditions of the Federal award, and the requirements set forth herein, each department shall identify potential sources of program income and properly report the program income for the period in which it was earned and dispersed.

Program income shall be accounted for separately. The City shall not commingle program income earned from programs supported by Federal funds with the general award of Federal funds the City received from Treasury. Any costs associated with generating program income revenue shall be charged as expenditures to the Federal award.

- (b) **Program Income Earned After the Period of Performance.** The City shall have may not have any obligation to report program income earned after the period of performance. Agency regulations and award terms should be consulted. However, the City shall report program income expended after the period of performance if that program income was earned on or before the end of the period of performance.

- (c) **Subawards.** The City agrees to ensure that any subrecipient of Federal funds abides by the award of the terms and conditions of this policy and is aware that the subrecipient is responsible for accounting for and reporting program income to the City on a quarterly basis.
- (d) **Compliance with State law.** Program income shall not be expended for purposes prohibited under State law.
- (e) **Subject to Audit.** The City recognizes that its use of program income may be audited and reviewed for compliance with Federal laws and regulations, State law, and the terms of the Federal award.

#### VIII. IMPLEMENTATION OF POLICY

The Finance Department will adopt procedures to identify potential program income during the project eligibility and allowable cost review, document actual program income, and follow the requirements in this policy related to the treatment of program income. The Finance Department will oversee the implementation and compliance with this policy by the Department Directors administering the Federal award.

Adopted the \_\_\_\_ day of \_\_\_\_\_, 2022.