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# Program Income & Federal Interest

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May 24, 2023





# DISCLAIMER

This presentation is for informational purposes only and is intended solely to assist with better understanding the Program Income and Federal Interest regulations and other requirements relevant to recipients of Broadband Infrastructure Program awards. The guidance does not and is not intended to supersede, modify, or otherwise alter applicable statutory or regulatory requirements, or the specific application requirements set forth in the program's Notice of Funding Opportunity (NOFO).

In all cases, statutory and regulatory mandates, and the requirements set forth in the program's NOFO, shall prevail over any inconsistencies contained in the information presented.



# Program Income



# Overview



## Purpose:

- This presentation will provide guidance on the appropriate calculation, use, management, and reporting of program income for the National Telecommunications and Information Administration's (NTIA) Broadband Infrastructure Program (BIP).
- This presentation is not a substitute for the terms and conditions of specific BIP awards, including:
  - the Uniform Administrative Requirements found at 2 Code of Federal Regulations (C.F.R.) Part 200; and
  - the DOC Financial Assistance Standard Terms and Conditions.

## Program Income Overview:

- Recipients and subrecipients of BIP grants may generate and receive program income as a result of these Federally-funded projects.
- The definition of program income and guidelines for its use can be found in the Uniform Administrative Requirements at 2 C.F.R. §§ 200.1 and 200.307.
- BIP recipients and subrecipients must:
  - account for any program income received as a result of their BIP project during the award period;
  - utilize that program income in one of the ways allowed by their award terms and conditions and/or the Uniform Administrative Requirements, regardless of whether the originally-approved BIP project budget included anticipated program income.

## Disclaimer:

Should this presentation and the terms of a specific BIP award differ, the terms and conditions of the specific BIP award will govern.



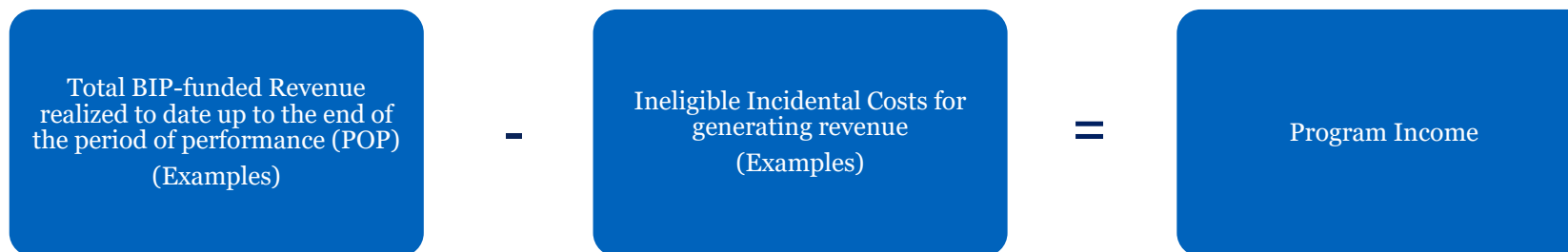
# Calculating Program Income



Program income is defined in 2 C.F.R. § 200.1 as gross income earned by a grant recipient directly generated by a supported activity or earned as a result of a Federal award during the period of performance, except as provided by 2 C.F.R. § 200.307(f), which concerns income after the period of performance. Program income includes but is not limited to income from fees for services performed, the use or rental of real or personal property acquired under Federal awards, the sale of commodities or items fabricated under a Federal award, license fees and royalties on patents and copyrights, and principal and interest on loans made with Federal award funds. For more information, see 2 C.F.R. §§ 200.1 and 200.307.

## Period When Program Income Rules Apply:

There are no Federal requirements governing the disposition of income earned after the period of performance, unless the Federal awarding agency regulations or the terms and conditions of the Federal award provide otherwise. See 2 C.F.R. § 200.307(f).



# Permissible Uses of Program Income



A recipient or subrecipient shall retain any program income generated during the award period and use it in one of the following ways: **(1)** add it to the funds committed to the project by NTIA and the recipient for eligible project costs; **(2)** use it to finance the non-Federal share of the project; or **(3)** deduct it from the total allowable project costs, reducing the Federal and non-Federal dollars required for the project

Recipients must calculate program income according to a methodology listed in 2 C.F.R. § 200.307(e):

**Addition:** Program income may be added to the Federal award by the Federal agency and the non-Federal entity. The program income must be used for the purposes and under the conditions of the Federal award. See 2 C.F.R. § 200.307(e)(2).

**Cost sharing or matching:** Program income may be used to meet the cost sharing or matching requirement of the Federal award. The amount of the Federal award remains the same. See 2 C.F.R. § 200.307(e)(3).

**Deduction:** Ordinarily program income must be deducted from total allowable costs to determine the net allowable costs. Program income must be used for current costs unless the Federal awarding agency authorizes otherwise. Program income that the non-Federal entity did not anticipate at the time of the Federal award must be used to reduce the Federal award and non-Federal entity contributions rather than to increase the funds committed to the project. See 2 C.F.R. § 200.307(e)(1).

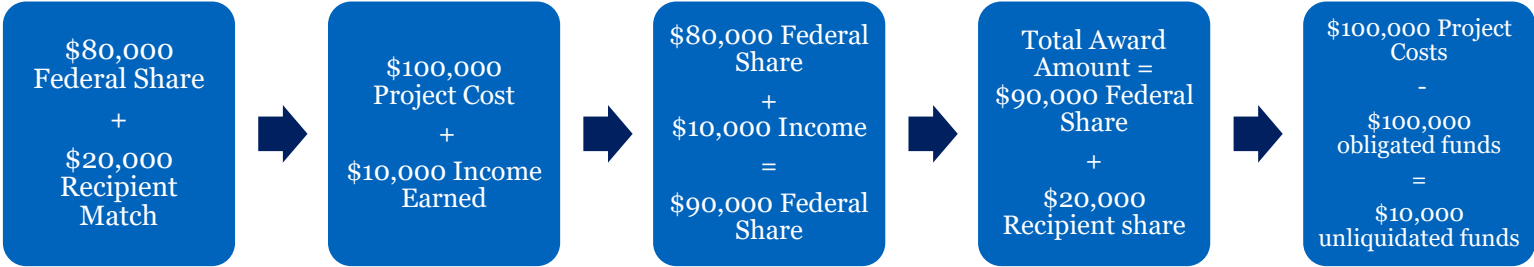


# Additive Method

BIP recipients are encouraged to add program income to the funds committed to the project (the “Additive Method”) and spend it on eligible costs of the project, including additional eligible activities that meet the purposes of the award. The same restrictions on eligible costs that apply to BIP Federal and matching funds also apply to program income utilized under the Additive Method. As a result of this rule, recipients of BIP awards may not use program income to pay operating expenses of the project (with the exception of certain specifically authorized operating lease costs).

A recipient may utilize program income under the Additive Method to enhance the original project. A BIP recipient may propose to purchase equipment with greater capacity or reliability, or to construct laterals to additional community anchor institutions within the original proposed funded service area. Note, however, that recipients must consider the potential timeframe for requesting approval of the project changes and demonstrating compliance with all environmental requirements.

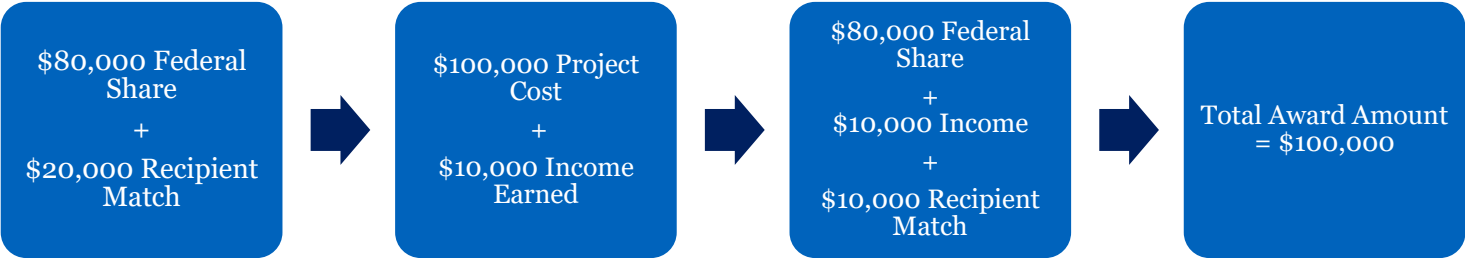
A recipient may utilize program income under the Additive Method to fund eligible costs of the project that were not included in the original budget. For example, an Infrastructure recipient may propose to spend program income on overtime labor that is necessary to meet project deadlines.



# Cost-Sharing Method



BIP recipients may utilize program income to finance the required non-Federal matching share of the project (the “Cost-Sharing Method”). Recipients may also use program income to repay the principal balance (but not the interest) on a loan they secured to pay for the non-Federal cash match. The same restrictions on eligible costs that apply to BIP Federal and matching funds also apply to program income utilized under the Cost-Sharing Method. Recipients may use program income for the non-Federal matching share by identifying the anticipated program income and submitting revised budget documentation reflecting the proposed changes. In evaluating such requests, NTIA will consider whether replacing a previously anticipated contribution with program income would reduce the impact of the project.

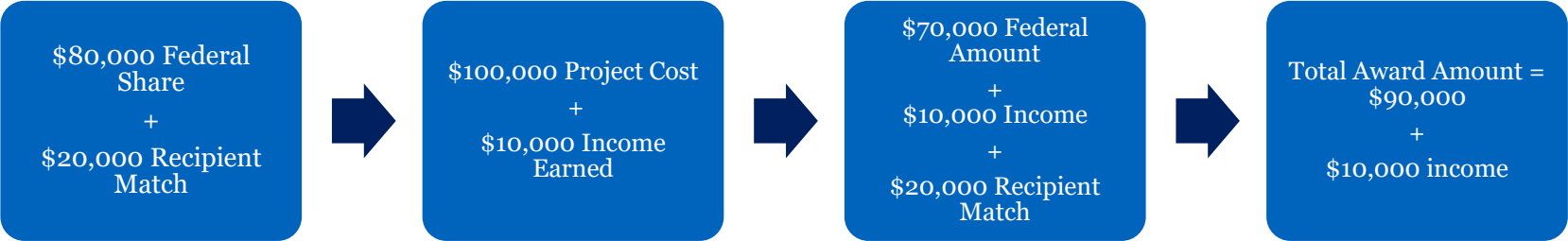




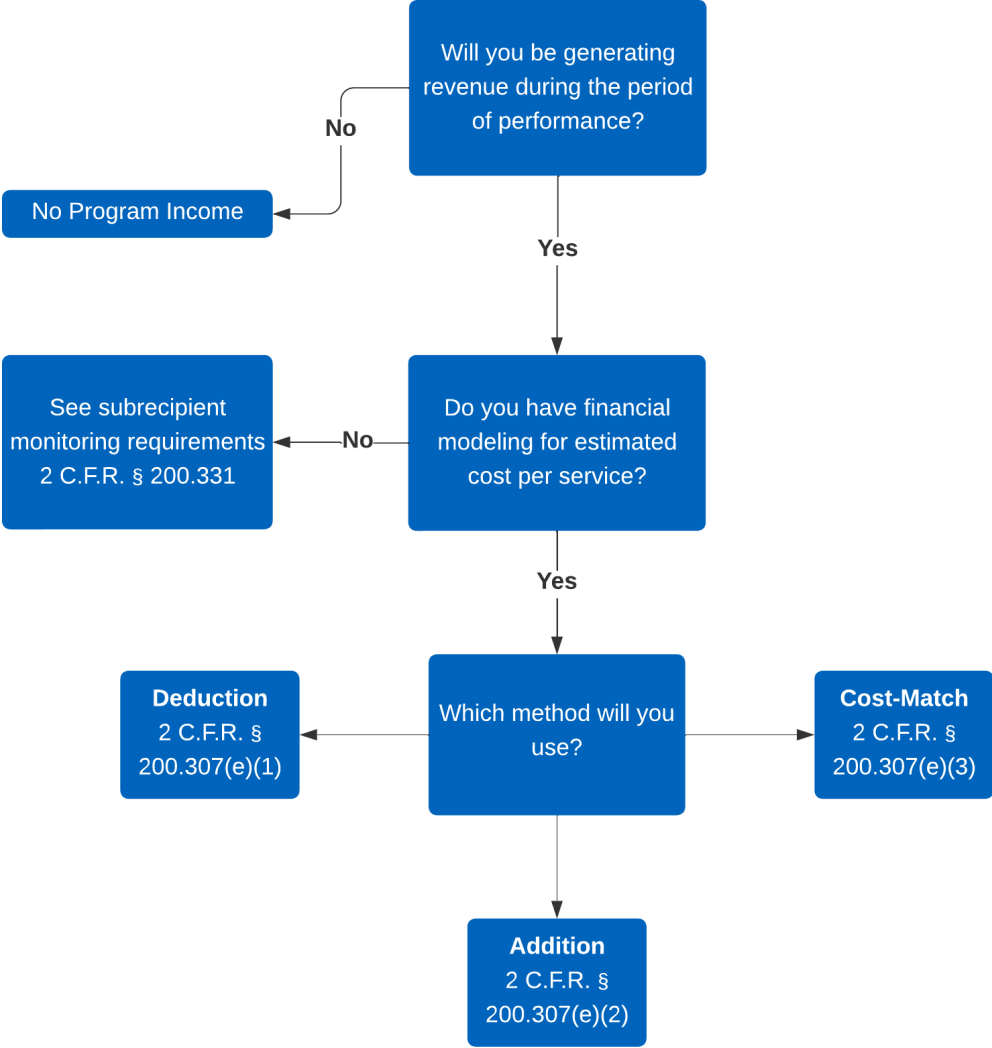
# Deductive Method



If program income cannot be utilized for additional eligible project costs or to finance the non-Federal share of the project, the recipient must deduct the program income from the total allowable costs of the project (the “Deductive Method”). In this case, the recipient will be unable to draw down the full amount of the original Federal award.



# Determining Program Income



# Gross Income Resulting from the Award



Program income includes any revenue recognized by the recipient or subrecipient during the award period that exists due to the BIP project.

Program income includes income from fees for services performed, from license fees and royalties on patents and copyrights, from the use or rental of real or personal property acquired with grant funds, and from the sale of commodities or items fabricated under a grant agreement.

Recipients should account for program income in a manner consistent with the accounting methodology used in their normal business operation and in a consistent manner across the project.

- Recipients and subrecipients should calculate income as program income if it is directly traceable in whole or in part to the BIP project.
- When income results partly from the BIP project and partly from the recipient's existing operations, then the recipient must develop a justifiable methodology to calculate the pro-rated portion of the income to the BIP project.
- Income earned by contractors or third parties is not program income unless it is passed through to the grant recipient or subrecipient.



# Examples of Program Income



- Income from sale of previously unavailable services provided through BIP-funded (including in-kind or match-funded) facilities, such as Internet access, voice-over-IP, or point-to-point connections.
- Incremental income from the sale of upgraded services provided through BIP-funded (including in-kind or match-funded) facilities.
- Income from leasing BIP-funded (or match-funded) facilities, such as dark or lit fiber indefeasible rights-of- use (IRUs), conduit or tower space, or rights-of-way.
- Hookup fees or internal wiring for customers using the BIP-funded facilities.
- Fees charged for classes where the instructor or the equipment used in the class is funded by the BIP award.
- Fees that a recipient or subrecipient collects for printing or other services offered on BIP-funded computers.



# Subrecipients, Vendors, and Third Parties



Program income requirements flow down from recipients to subrecipients. All of the responsibilities relating to program income also apply to all subrecipients of an award.

- For example, if the grant has paid for equipment that the recipient transfers to a subrecipient and the subrecipient uses the equipment to provide a service that generates income, then the recipient must report the income.
- Recipients also must monitor their subrecipients' receipt and expenditures of program income.

Program income requirements do not, however, flow down to vendors or apply to third parties who happen to earn income as a result of the BIP project.

- For example, if a last mile service provider (who is not a subrecipient) leases capacity on a BIP-funded middle mile network operated by a BIP recipient, the amount that the service provider pays to the recipient in exchange for this capacity is program income.
- However, income that the service provider receives from its own last mile customers is not program income.



# Examples of Deducting Costs Incident to Program Income



- An Infrastructure recipient may incur taxes and universal service fees as a direct result of charging service fees to a new subscriber on the BIP-funded network. These taxes and fees may not be eligible expenses under the BIP award. However, they may be deducted from the income received from the subscriber to determine program income.
- An Infrastructure recipient may incur electricity costs to operate a BIP-funded microwave tower. This cost is an operating cost which is not an eligible expense to be charged to the award. However, a proportional share of the electricity cost may be deducted from the program income that the recipient receives from offering services on that tower.

Some costs may be incurred only partially for the purpose of generating program income related to the BIP award. For example, an Infrastructure recipient may have certain fixed costs of operating a Network Operations Center that serves both the BIP-funded network and non-BIP facilities. In such cases, recipients must develop a consistent and justifiable methodology for allocating costs between BIP-related and non-BIP-related activities.



# Managing Program Income



Recipients are expected to manage program income in a consistent, documented manner that is consistent with their accounting methodology and all applicable regulations.

The Uniform Administrative Requirements state that a recipient must disburse available program income before making additional drawdowns. However, this provision must be read in conjunction with the proportionality requirement in the DOC Financial Assistance Standard Terms and Conditions, § A.03.b, which requires only that matching funds be spent at the same general rate as Federal funds. Thus, a recipient that is using program income as its cost match may draw down additional Federal funds before expending all available program income, as long as that program income is not necessary to meet the proportionality requirement.

Note that if program income has been recognized on the recipient's books, but the recipient has not yet received the cash, then the program income is not "available," so the recipient is not restricted from making additional drawdowns.



# Reporting Program Income



Recipients must report program income quarterly on Form SF-425 and in the BIP Quarterly Performance Progress Report (PPR). How program income is reported on the SF-425 depends upon whether the recipient uses the Additive, Cost-Sharing, or Deductive Method for utilizing program income. On the Quarterly PPR, recipients report total program income in Questions 1 and 2b of the Activity Based Expenditures section, consistent with the way that they report program income and expenditures on the SF-425.





# Federal Interest

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# Overview



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## **Purpose:**

The uniform requirements governing the management and disposition of real property, equipment, supplies, and intangible property acquired or improved, in whole or in part, under a federal financial assistance award are set forth in 2 C.F.R. §§ 200.310 to 200.316 (as applicable), and are incorporated into the terms and conditions of all BIP Awards.

Under these regulations, each recipient and subrecipient of a BIP award holds all real property, equipment, and intangible property that are acquired or improved with a BIP award in trust as a trustee for the beneficiaries of the BIP project under which the property was acquired or improved. See 2 C.F.R. § 200.316.

This trust relationship exists throughout the duration of the useful life of the BIP Property, as determined by NTIA in accordance with the BIP Estimated Useful Life Schedule, during which time NTIA retains an undivided equitable reversionary interest in the BIP Property (the “Federal Interest”).



# Overview cont.



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## **During the duration of the Federal Interest, the recipient or subrecipient shall not:**

- Sell, lease, transfer, assign, convey, hypothecate, mortgage, or otherwise convey any interest in the BIP Property without the prior written approval of the Grants Officer.
- Use the BIP Property for purposes other than the purposes for which the award was made without the prior written approval of the Grants Officer.
- Fail to comply with Federal laws and regulations, Department of Commerce policies, Executive Orders, and Office of Management and Budget (OMB) Circulars that are incorporated into the terms and conditions of the award.



# Scope of the Federal Interest Documentation Requirement



Each recipient or subrecipient of a BIP grant award must execute and file in the appropriate office(s) documentation of the Federal Interest with respect to the acquisition or improvement, in whole or in part, of BIP Property.

See 2 C.F.R. § 200.316.

The obligations of the recipient or subrecipient with respect to the Covered BIP Property **remain in effect for the entire useful life of the Covered BIP Property.**

Failure to properly and timely file and maintain such documentation of the Federal Interest may result in appropriate enforcement action under a BIP award, including, but not limited to, disallowance of the cost of acquisition or improvement by NTIA.

Recipients and subrecipients are not required to document or record evidence of the Federal Interest in previously acquired real or personal property that is donated to the project as a recipient, subrecipient or third party in-kind matching contribution to the extent that such property is not subsequently improved under a BIP award.

The requirements to document and record evidence of the Federal Interest in Covered BIP Property apply equally to recipients and subrecipients of BIP grant awards.



# Documentation of Federal Interest for Covered Property



This group of slides discuss the approaches for documenting the Federal Interest in real property, fixtures, equipment and/or intangible personal property.

These slides also discuss (i) timing requirements for the recording or filing of the applicable Federal Interest documentation; (ii) requirements for an attorney certification pertaining to the execution and recording or filing of the applicable Federal Interest documentation; and (iii) requirements for the submission of the Federal Interest documentation to NTIA/BIP, all of which apply to Covered BIP Property regardless of its character.

In some cases, state or local law may vary from the general approaches described here. In such cases, the recipient or subrecipient should ensure that it complies with any additional or different requirements of state or local law, and should describe its compliance with these requirements in its attorney certification.



# Real Property



To document the Federal Interest in Covered BIP Property consisting of real property, the recipient or subrecipient must prepare and properly record a “Covenant of Purpose, Use and Ownership” (“Covenant”).

The Covenant differs from a traditional mortgage lien in that it does not establish a traditional creditor relationship requiring the periodic repayment of principal and interest to NTIA. Rather, pursuant to the Covenant, the recipient or subrecipient acknowledges that it holds title to the Covered BIP Property in trust for the public purposes of the BIP financial assistance award and agrees, among other commitments, that it will repay the Federal Interest if it disposes of or alienates an interest in the Covered BIP Property, or uses it in a manner inconsistent with the public purposes of the BIP award, during the useful life of the Covered BIP Property.

The Covenant must be properly recorded in the real property records in the jurisdiction in which the real property is located in order to provide public record notice to interested parties that there are certain restrictions on the use and disposition of the Covered BIP Property during its useful life and that NTIA retains an undivided equitable reversionary interest in the Covered BIP Property to the extent of its participation in the BIP project, i.e. the Federal Interest.



# Fixtures and Personal Property



To the extent that the Covered BIP Property consists of fixtures or personal property other than supplies (both tangible, such as equipment, or intangible, such as licenses or permits), the recipient or subrecipient must record UCC-1 forms with the appropriate state office in accordance with that state's codification of the Uniform Commercial Code (UCC), Article 9 (for personal property not affixed to land) and/or recorded in the real property records of the jurisdiction where the real property is located if for assets affixed to the land.

The recipient or subrecipient should consult the law of the state where the asset is located to determine whether it should be classified as real or personal property.

UCC forms may differ slightly from state to state. These forms are usually available from an attorney, a bank's loan department, or an office supply store and may be available online in some states.



# Useful Life Schedule



Category	Type	Estimated Useful Life
Buildings	Construction of new buildings, prefabricated buildings, or concrete pads	20 years
	Modification, rehabilitation, or outfitting of existing buildings	15 years
Outside Plant	Active Powered equipment, such as amplifiers, NIDs, etc.	10 years
	Passive Unpowered equipment, including aerial coaxial plant, aerial copper plant, aerial fiber plant, buried copper plant, buried coaxial plant, buried fiber plant, underground plant, taps, drops	20 years
Towers and Poles	Construction of new towers or poles or modifications of existing towers or poles	20 years
	Emergency power generation equipment at tower site	10 years
Network and Access Equipment	Broadband switching equipment, broadband routing equipment, broadband transport equipment, network broadband access equipment (e.g., CMTSSs, DSLAMs, Radio Network Controllers, etc.), wireless base stations, antennas, emergency power supply equipment	10 years
Operating Equipment	Billing/Operations systems	10 years
	Office furniture and fixtures	10 years
	Work equipment and vehicles	5 years for non-construction related motor vehicles; 10 years for work-related motor vehicle
Customer Premise Equipment	Customer broadband access equipment (e.g., cable modems, DSL modems, wireless modems, etc.), general purpose computers and peripheral equipment, office machinery	5 years



# Federal Documentation Requirements Real Property vs. Fixtures and Personal Property



Type of Covered BIP Property	Approach to Documenting the Federal Interest
<p><b>Real Property (land and improvements, structures, appurtenances, except movable machinery and equipment)</b></p>	<ul style="list-style-type: none"> <li>• Properly executed and recorded Covenant of Purpose, Use and Ownership; in the case of land leases, easements, rights-of-way, or other non-fee simple interests in real property, the recipient’s interest should be as long as the useful life of any property deployed or installed thereon, unless other terms acceptable to NTIA have been approved in writing by the Grants Officer. The recipient must ensure that either the associated agreement acknowledges the Federal Interest in the property, which should provide for a right of assignment, if the recipient fails to act in accordance with the terms and conditions of the BIP award, or that a covenant that acknowledges the Federal Interest is recorded.</li> <li>• The recipient or subrecipient should consult applicable state law to determine whether a particular asset should be classified as either real or personal property.</li> </ul>
<p><b>Fixtures (personal property so affixed to the land that it is legally considered part of the realty)</b></p>	<ul style="list-style-type: none"> <li>• UCC-1 filed in the jurisdiction where the real property is located, renewed as necessary for as long as the useful life of the fixture; in case of land leases, easements, rights-of-way, or other non-fee simple interests in real property, the recipient’s interest must be as long as the useful life of the fixture deployed or installed thereon, unless other terms acceptable to NTIA have been approved in writing by the Grants Officer. The recipient must ensure that either the associated agreement acknowledges the Federal Interest in the property, which should provide for a right of assignment if the recipient fails to act in accordance with the terms and conditions of the BIP award, or that a covenant that acknowledges the Federal Interest is recorded.</li> <li>• The recipient or subrecipient should consult applicable state law to determine whether a particular asset should be classified as either real or personal property.</li> </ul>
<p><b>Personal Property, both tangible and intangible</b></p>	<ul style="list-style-type: none"> <li>• UCC-1 filed in the central filing office as directed under the State’s Uniform Commercial Code, Art. 9, noting the Federal Interest in the personal property, renewed as necessary for as long as the estimated useful life of the property; or if another legal filing scheme preempts the UCC, then in accordance with such requirements. In the case of capital leases of personal property (including, where applicable, indefeasible right-of-use (IRU) agreements), the recipient must ensure that either the associated agreement acknowledges the Federal Interest in the property, which should provide for a right of assignment if the recipient fails to act in accordance with the terms and conditions of the BIP award, or that a UCC-1 that acknowledges the Federal Interest is recorded.</li> <li>• The recipient or subrecipient should consult applicable state law to determine whether a particular asset should be classified as either real or personal property.</li> </ul>



# Timing Requirements



Documentation of the Federal Interest is to be perfected and recorded/filed in accordance with state and/or local law concurrent with or as soon as reasonably possible following any purchase, lease or other acquisition or improvement of Covered BIP Property, but in any event not later than closeout of the grant and before any sale or lease of the property. The recipient must account for any real or personal property acquired or improved with Federal funds as part of the award closeout procedures. See 2 CFR §§ 200.311; 200.313; 200.315; and 200.344, as applicable.

The recipient or subrecipient shall execute and record all documentation necessary to maintain the Federal Interest for the useful life of the Covered BIP Property. If the BIP grant award is amended to include additional or materially different Covered BIP Property, the recipient or subrecipient is required to file additional UCC-1 documentation covering such Covered BIP Property and to amend any existing files. New and/or amended UCC-1 documentation must be retained in the recipient's or subrecipient's grant files and provided to NTIA as soon as reasonably possible following such new or amended filings.

A recipient or subrecipient must also timely file continuation statements for personal property for the duration of the Federal Interest under the terms of the award. The recipient or subrecipient should first consult its counsel if it has any questions and then follow up with its assigned BIP FPO if further guidance is needed.



# Attorney Certification

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The recipient or subrecipient must obtain a certification from counsel, licensed by the state within which the filings were made, that the Covenant and/or UCC documentation, as applicable, has been properly executed and recorded or filed (as the case may be) in accordance with state law.

## Federal Interest Documentation

The recipient or subrecipient must provide the Grants Office with: (1) a copy of the instruments reflecting the documentation of the Federal Interest, specifically the recorded Covenant(s) and/or the filed UCC documents with the recording or filing stamp and information clearly visible; and (2) the attorney certification(s) described above. The recipient or subrecipient should submit this documentation via email to [ugam@nist.gov](mailto:ugam@nist.gov), with the award number and “Federal Interest” referenced in the subject line. The recipient or subrecipient must maintain in their grants files copies of the instruments reflecting the documentation of the Federal Interest, specifically the recorded Covenant(s) and/or the filed UCC documents with the recording or filing stamp and information clearly visible.



# Federal Interest Determination Question

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**For purposes of determining the amount of the Federal Interest, may a recipient or subrecipient designate certain facilities as purchased or constructed solely with Federal Funds and certain other facilities as purchased or constructed solely with matching non-federal funds?**

No. The amount of the Federal Interest on a particular piece of real or personal property acquired or improved with funds made available through a BIP financial assistance award is computed as the percentage of the then current fair market value of the property that is attributable to NTIA's participation in the BIP project.





# Q&A

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