regulations, give communities considerable flexibility to carry out a broad range of economic development activities, including those on former military bases.

Issue. Six commenters (3 national associations, 2 states and one local government) identified other Federal requirements as major inhibitors to the use of CDBG for economic development (particularly for microenterprise assistance), and asked the Department to examine ways to streamline these other requirements. Specifically identified were environmental review procedures, program income requirements, and the Davis-Bacon Wage Rate Act.

Response. HUD acknowledges that these areas are the source of frequent complaints. However, as some commenters noted, the underlying bases for many of the regulatory requirements in these areas are statutory, and thus lie beyond HUD's span of control. HUD is willing to explore ways in which regulations governing these other federal requirements might be made more amenable to the use of CDBG funds for economic development.

In particular, the Department realizes that CDBG regulations governing the use of CDBG program income must be revised to include 1992 changes to the Act. Issues concerning program income will be dealt with more comprehensively in separate future rulemaking. In the meantime, and in response to these comments, the Department has identified three incremental changes which can be made regarding program income, and has included them in this final rule.

1. The 1992 State CDBG program regulations included a provision excluding from the definition of program income an amount of up to \$10,000 per year per state grant recipient. This provision was consistent with 1992 amendments to the Act. which permitted the Secretary to exclude from program requirements amounts of program income that are determined to be so small that compliance with requirements would place an unreasonable administrative burden on units of local government. During the past two years, a number of states have commented to HUD that many of their grant recipients regularly receive over \$10,000 per year in program income; thus, at its present level, this exclusion provision is of little or no benefit to state grant recipients. Since state grant award amounts are typically smaller than the average yearly entitlement grant amount, state grant recipients typically receive less program per year than entitlement grantees. The problem noted by states is likely to be

equally or more problematic for entitlement grantees.

The Department has determined that \$25,000 is a more appropriate level at which to set the yearly exclusion amount. These final regulations also extend the exclusion provision to the Entitlement program for the first time. In a separate rulemaking, the Department is also adding the exclusion provision to the HUD-Administered Small Cities program regulations.

2. The existing definition of program income includes revenue generated by activities carried out with the proceeds from loans guaranteed under Section 108. Such revenue is now treated as program income even if the guaranteed loan is repaid with non-CDBG funds. Such revenue is treated as program income notwithstanding that it is required to be pledged to the repayment of the Section 108 loan. The final rule excludes from the definition of program income certain amounts generated by activities financed by Section 108 loans, to the extent that non-CDBG funds are used to repay the loan. Activities which can qualify for this exclusion are those meeting the criteria at § 570.209(b)(2)(v) or § 570.482(f)(3)(v) (the "important national interest" activities), and those carried out in conjunction with an **Economic Development Initiative grant** in an area determined by the Department to meet the eligibility requirements for Urban Empowerment Zone designation.

Any revenue generated by activities financed with Section 108 loan guarantees which is not defined as program income would be miscellaneous revenue. In addition, any amounts in debt service accounts that were funded with non-CDBG funds (e.g. Section 108 funds and monies provided by the assisted business) that remain after full and final repayment of the guaranteed loan would also be considered miscellaneous revenue.

3. As discussed earlier under the heading of Community-Based Development Organizations, the Department has substantially revised the requirements governing activities funded under § 105(a)(15) of the Act (and § 570.204 of the Entitlement regulations). As a result of those changes, the department has determined that amounts generated by such activities can also be excluded from the requirements governing the use of program income.

Because § 105(a)(15) of the Act differentiates between the types of eligible entities in entitlement jurisdictions and nonentitled areas, this change has been effected by different means for the Entitlement and State

CDBG programs. Section 570.500(c) of the Entitlement regulations, which defines the term "subrecipient", has been revised; entities described in § 570.204(c) [which implements § 105(a)(15) of the Actl, are no longer defined as subrecipients. As noted previously, the term "subrecipient" is not defined in the State CDBG program. Section 570.489(e) of the State rule (which comprises program income requirements) has been revised to exclude from the definition of program income amounts generated by § 105(a)(15) activities. States are expected to ensure that any such activities are indeed carried out by an entity pursuant to § 105(a)(15).

It should be noted that this exclusion does not cover situations in which a grantee provides CDBG assistance to one of these entities in the form of a loan. Any repayments of principal or interest from the entity to the grantee for such a loan would be considered to be CDBG program income, regardless of the source of the funds used for repayment.

Issue. Numerous commenters noted that HUD needs to provide additional training for grantees and HUD Field Office staff to ensure uniform understanding, interpretation and implementation of the revised regulations. HUD should also go beyond formal training to provide other mechanisms (such as national conferences, development of model programs, resource guidebooks and computer bulletin boards) for sharing information on economic development activities. Areas in which certain commenters were particularly interested in seeing greater information-sharing included: related federal initiatives such as welfare reform and Empowerment Zones/Enterprise Communities; sharing of model programs; microenterprise assistance programs; use of "first source" agreements for job creation activities; and combining CDBG with other federal economic development resources.

Response. The Department acknowledges the importance of training on new regulations, and is planning to provide training to both grantees and HUD Field Office staff once these regulations are effective. HUD is also developing a CDBG economic development reference manual which will include model programs. The Department's Consolidated Technical Assistance initiative, which is already being implemented, should also result in additional training opportunities on economic development issues.

The Department plans to develop guidelines by which those communities