FACT SHEET
Broadband Technology Opportunities Program
Program Income

This fact sheet provides general guidance on the appropriate calculation, use, management, and reporting of program income under the National Telecommunications and Information Administration’s (NTIA) Broadband Technology Opportunities Program (BTOP). This fact sheet is not a substitute for the terms and conditions of specific BTOP awards, including the Department of Commerce’s (DOC’s) Uniform Administrative Requirements found at 15 Code of Federal Regulations (C.F.R.) Parts 14 and 24, and the DOC Financial Assistance Standard Terms and Conditions. Should this fact sheet and the BTOP award terms differ, the terms and conditions of a specific BTOP award govern.

Overview

Recipients and subrecipients of BTOP grants for Infrastructure (including Middle Mile, Last Mile, and Comprehensive Community Infrastructure), Public Computer Center (PCC), and Sustainable Broadband Adoption (SBA) projects all 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 DOC Uniform Administrative Requirements at 15 Code of Federal Regulations (C.F.R.) Sections 14.24 and 24.25.

In summary, BTOP recipients and subrecipients must: (1) account for any program income received as a result of their BTOP project during the award period; and (2) utilize that program income in one of the ways allowed by the award terms and conditions, regardless whether the originally approved BTOP project budget included anticipated program income. See 15 C.F.R. §§ 14.24, 24.25; BTOP Round One NOFA, § V.E, 74 Fed. Reg. 33104, 33113 (July 9, 2009); BTOP Round Two NOFA, § V.F, 75 Fed. Reg. 3792, 3803 (Jan. 22, 2010).

The following sections provide additional details and examples of calculating, using, managing, and reporting program income under BTOP grant awards. The diagram attached to the end of this Fact Sheet provides an overview of this process.

Calculating Program Income

Program income is defined as gross income earned by a grant recipient directly generated by a Federally supported activity or earned as a result of the award during the award period. See 15 C.F.R. §§ 14.2(aa), 24.25(b). As noted below, however, recipients may deduct costs incident to the generation of program income from gross income if those costs have not been charged to the award. See 15 C.F.R. §§ 14.24(f), 24.25(c). If recipients deduct such costs from gross income, then the net figure is the program income a recipient must report on its SF-425 and use on the award as noted below.

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 BTOP project. Program income includes, among other things, 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. See 15 C.F.R. §§ 14.2(aa), 24.25(a). For example, if the recipient is assessing fees to outside organizations or individuals for services, such as training, Internet access, or webpage hosting, and the costs of providing those services are included in the project budget (in either the Federal or non-Federal share), the project is earning program income.
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 BTOP project. When income results partly from the BTOP 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 BTOP project. Only income recognized by the recipient or subrecipient qualifies as program income – income earned by contractors or third parties is not program income unless it is passed through to the grant recipient or subrecipient.

Program income does not include interest on grant funds. 15 C.F.R. §§ 14.2(aa), 24.25(a). Any interest earned on grant funds must be handled according to 15 C.F.R. Sections 14.22 and 24.21, as applicable. See also DOC Financial Assistance Standard Terms and Conditions, § A.02.d.

Program income also does not include rebates, credits, or discounts received by the recipient or subrecipient. 15 C.F.R. §§ 14.2(aa), 24.25(a). These items must be deducted from allowable costs, as required by the applicable cost principles.

Examples of Program Income – Infrastructure Recipients:
- Income from sale of previously unavailable services provided through BTOP-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 BTOP-funded (including in-kind or match-funded) facilities.
- Income from leasing BTOP-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 BTOP-funded facilities.

Examples of Program Income – PCC and SBA Recipients:
- Fees charged for classes where the instructor or the equipment used in the class is funded by the BTOP award.
- Fees that a recipient or subrecipient collects for printing or other services offered on BTOP-funded computers.
- Income from the sale of refurbished computers.

Institutions of higher education, hospitals, other non-profits, and commercial organizations have no obligation with respect to program income earned from license fees and royalties for copyrighted material, patents, patent applications, trademarks, and inventions produced under a BTOP award. See 15 C.F.R. § 14.24(h). Note, however, that the DOC reserves significant rights to use, reproduce, and publish such materials. See 15 C.F.R. §§ 14.36, 24.34; DOC Financial Assistance Standard Terms and Conditions, § M.04.

Period When Program Income Rules Apply
BTOP recipients and subrecipients have no obligations regarding program income earned after the end of the award period. See 15 C.F.R. §§ 14.24(e), 24.25(b),(h).
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 BTOP project. For example, if a last mile service provider (who is not a subrecipient) leases capacity on a BTOP-funded middle mile network operated by a BTOP 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. Also, if a user at a PCC goes online and purchases goods from an unrelated website, the amount that the user pays for the goods is not program income.

Deduction of Costs Incident to Generation of Program Income

Recipients may deduct costs incident to the generation of program income if those costs have not been charged to the award. See 15 C.F.R. §§ 14.24(f), 24.25(c); Round Two NOFA, footnote 50. Notably, these costs may be deducted even if they would not have been allowable costs under the award, so long as they are directly connected to generating the program income. Recipients are not required to deduct costs incident to the generation of program income. However, if they choose to do so, they should apply a justifiable and consistent methodology.

Examples of Deducting Costs Incident to Generating Program Income – Infrastructure Recipients:

- An Infrastructure recipient may incur taxes and universal service fees as a direct result of charging service fees to a new subscriber on the BTOP-funded network. These taxes and fees may not be eligible expenses under the BTOP 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 BTOP-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.

Examples of Deducting Costs Incident to Generating Program Income – PCC and SBA Recipients:

- A PCC may charge users a fee for printing on BTOP-funded printers, resulting in program income. However, if BTOP (or matching) funds were not used to purchase the paper and toner used for printing the user’s document, the costs of that paper and toner may be deducted from gross income in order to determine the actual amount of program income from printing fees.

- A PCC or SBA recipient may charge a fee to students for a class on Internet-related entrepreneurship. If BTOP (or matching) funds were not used to pay the instructor’s wages, those wages may be deducted from gross income in order to determine the actual amount of program income from course fees.

Some costs may be incurred only partially for the purpose of generating program income related to the BTOP award. For example, an Infrastructure recipient may have certain fixed costs of operating a Network Operations Center that serves both the BTOP-funded network and non-BTOP facilities. In such cases, recipients must develop a consistent and justifiable methodology for allocating costs between BTOP-related and non-BTOP-related activities.
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. Program income generated during the award period must be obligated before the end of the award period. There are no restrictions on the use of program income earned by recipients after the end of the award period.

Additive Method

BTOP 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 BTOP Federal and matching funds also apply to program income utilized under the Additive Method. As a result of this rule, recipients of Infrastructure 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 request and receive approval to utilize program income under the Additive Method to enhance the original project. For example, a PCC or SBA recipient may propose to utilize program income to purchase additional supplies for the project or pay for additional hours of instructor time. An Infrastructure 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 also request and receive approval to 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

BTOP recipients may utilize program income to finance the required non-Federal matching share of the project (the “Cost-Sharing Method”). This option was authorized by the BTOP Round Two NOFA and by a Special Award Condition (SAC) attached to Round One awards. 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 BTOP Federal and matching funds also apply to program income utilized under the Cost-Sharing Method.

Recipients must request approval to 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.
Managing and Reporting Program Income

Managing Program Income
Recipients are expected to manage program income in a consistent, documented manner consistently with their accounting methodology and all applicable regulations.

The DOC Uniform Administrative Requirements state that a recipient must disburse available program income before making additional drawdowns. See 15 C.F.R. §§ 14.22(g), 24.22(f)(2). 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 BTOP 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. See the SF-425 line item instructions for more detail. 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.

Recipients that earn program income that is not shown on their approved budget Form SF-424A or 424C must revise their budgets to account for the program income. Recipients will want to provide the most accurate estimates of program income as they can for a revised budget but should not revise their budget for anticipated program income more than semi-annually. Recipients should work closely with their Federal Program Officer and the Grants Officer when making these budget revisions.

Frequently Asked Questions

How much program income is generated from the sale of an IRU that will continue after the award period? Does it matter when the actual payments are received?

The income from the IRU must be recognized consistent with the recipient’s accounting methodology, regardless of the actual timing when payments are received. However, as noted above, if the cash has not yet been received, the recipient is not restricted from making additional drawdowns.

Can a recipient use program income to repay a loan that it used to provide the non-Federal matching share of the award?

This is equivalent to using program income under the Cost-Sharing Method. Note, however, that a recipient may not use program income to pay interest on the loan because interest is not an eligible project cost under the applicable OMB cost principles.
Additional Resources

For additional guidance, please refer to the following resources:

  - Program Income Special Award Condition attached to BTOP Round One grants.


Attachment 1: Example of Calculating and Using Program Income

Step 1: Determining Gross Program Income

Program Income: revenue recognized by the recipient or subrecipient during the award period that exists due to the BTOP project (15 C.F.R. §§ 14.2 and 24.25).

Must be recognized in accordance with GAAP and in a consistent manner.

In this example, the recipient earned $35,000 from the sale of services through BTOP-funded facilities.

Step 2: Deduction of Costs Incident to Generation of Program Income

Recipients may deduct costs directly incident to generation of program income if those costs have not been charged to the award, even if they would not have been allowable costs under the award.

Step 3: Calculating Net Program Income and Permissible Uses of Program Income

Net program income is calculated by subtracting net costs from gross program income. Net program income generated during the award period must be obligated before the end of the award period in one of three ways (see explanations to the right). There are no restrictions on the use of program income earned by recipients after the end of the award period.

Net program income must be used for allowable costs under the grant award.