

Chapter 2. Recordkeeping and Reporting Responsibilities

In order to demonstrate compliance with the affordability requirements of the various funding programs, each Borrower must fulfill certain record-keeping and reporting requirements. This chapter introduces and discusses the requirements of Project Set-up, Project Compliance Transition, Project Closeout Monitoring, Ongoing Certifications, Annual Recertifications, Over-Income Residents, Rent Increase Rules, Resident Lease Agreement Renewal and Amendment to the Lease Agreement, Termination of the Resident Lease Agreement, and Annual Housing Quality Standards (HQS) Inspections.

2.1 Project Set-Up

Prior to the Borrower or Management Company beginning lease-up, the Borrower and/or Management Company will send a proposed Management Plan to the Agency with the following resident eligibility documents for review and approval:

- Application;
- Wait List;
- Lease Agreement;
- Lease addendum/addenda, and
- Certification and Verification forms.

Additionally, the Borrower and/or Management Company will send a proposed Security Plan to the Agency for review and approval of the following project security criteria:

- Security cameras;
- Lighting, and
- Security patrol.

The Agency staff will review the documents to become familiar with the project's policies and procedures for the following:

- Resident/Applicant screening criteria;
- Property management staffing levels;
- Affirmative marketing of units;
- Selection of qualified residents/applicants;
- Establishing and maintaining resident eligibility records;
- Developing and maintaining the resident/applicant wait list;
- Resident/Applicant notice of denial/non-eligibility;
- Annual recertifications;

- Resident termination from the program process, and
- Project security.

Following the project set-up, Agency staff may determine that revisions are to be made to the proposed documents to better meet the Agency's reporting and security requirements.

Note: Any additions or revisions made by the Borrower or Management Company to the approved reporting documents must be submitted to the Agency staff for review and approval prior to the Borrower and/or Management Company implementing the additions or revisions at the Project site.

The following documents may be used as a reference or a reporting document to meet the regulatory requirements:

- Management Plan (Exhibit 2);
- Resident/Applicant Wait List (Exhibit 3);
- Resident Lease Agreement (Exhibit 4) which must be in compliance with the Prohibited Lease Terms (Exhibit 5), and
- Certification and Verification forms.

2.2 Project Compliance Transition

Prior to the Borrower or Management Company beginning the lease-up process and after the Agency staff has approved the proposed reporting documents the Agency staff will meet with the Borrower and/or Management Company to review the regulatory agreement, reporting requirements, compliance violations and actions.

A. Prepare Records and Complete Documentation

This transition includes training on how to prepare records and complete documentation for the assisted residents as follows:

- File Organization for Resident Records (Exhibit 6);
- Use of income verification documents to determine the annual income;
- Calculate anticipated annual gross income;
- Household Composition form (Exhibit 7);
- Determination of Eligibility form (Exhibit 8), and
- Unit Status Report (Exhibit 9).

B. The SHRA Income and Rent Limits

The Agency staff will provide and explain the SHRA Income and Rent Limit table (Exhibit 10). On an annual basis (in February or March), the Agency receives maximum program income and rent limit schedules from HUD. Upon receipt the Agency will complete any necessary calculations for projects' specific maximum income and rents.

The Agency will forward a new SHRA Income and Rent Limit table charting the various income and rent limit requirements for local, state, and federal funding sources to the Borrower and/or Management Company. Additionally, the project's current income and rent levels will also be confirmed during the transition.

C. Exit of Project Compliance Transition

After the transition is completed, the Borrower or Management Company may begin lease-up.

Periodically, throughout the term of the lease-up, Agency staff may contact the Borrower or Management Company to determine the project's occupancy status.

2.3 Project Closeout Monitoring

After completion of the construction phase, the following steps are to be taken to document the eligibility status of the applicants for occupancy of the newly rehabilitated or constructed units.

A. Resident Application

The Borrower or Management Company shall review the application and lease agreement for completeness and accuracy.

Each household shall complete an application for occupancy.

Each household shall complete a written lease agreement that complies with the rules and regulations of the Human Rights and Fair Housing Commission of the City and County of Sacramento and the Agency's funding programs.

In the case of an applicant for occupancy is not eligible, the Borrower or Management Company shall provide the applicant with a written Notice of Non-Eligibility form (Exhibit 11).

B. Income Verification and Calculation Procedures

The Borrower or Management Company must determine the amount of a household's gross annual income before the household is allowed to move into the Agency assisted unit and at least annually thereafter.

The Borrower or Management Company must include the anticipated annual gross income of the head, spouse or co-head, and all members of the household 18-years of age or older, including emancipated minors (see Income Inclusions and Exclusions, Exhibit 12).

- Income source documents are to be reviewed to determine the following:
 - If the applicant's income applies;
 - The source of the applicant's income;
 - How often the applicant is paid;
 - The amount of hours the applicant works; and
 - The rate of pay for the applicant.
- Income verification documents are valid for up to 120-days prior to occupancy and shall be provided through third-party verification or directly from the household members.
- If there are questions concerning discrepancies with the income verification documents, the Borrower or Management Company may utilize a Telephone Communication Record form (Exhibit 13). The purpose of this form is to explain discrepancies between the various income verification forms (e.g., the hourly rates do not match on the verification and pay stubs) and/or use in place of the Employment Verification form in the case of the employer not completing the employment income verification form.

Reference the reporting requirements below: Employment Verification form and Income Calculation Procedures, Documentation Procedures section.

Note: The Telephone Communication Record form will not be accepted to verify to following income: Self-Employment/Independent Contractor/Own Business.

- The Borrower or Management Company must include the following individuals that are not living in the unit when determining the household size for the income limits:
 - Children temporarily absent due to placement in a foster home;

- Children in joint custody arrangements who are present in the household 50% or more of the time;
 - Children who are away at school but who live with the household during school recesses;
 - Unborn children of pregnant women;
 - Children who are in the process of being adopted;
 - Temporarily absent household members who are still considered household members (e.g., a household member that is on an assignment elsewhere);
 - Household members in the hospital or rehabilitation facility for periods of limited or fixed duration; and
 - Persons permanently confined to a hospital or nursing home; the family decides if such persons are included when determining household size for program income limits and the income received by these persons must be included in calculating household income.
- Income from Foster children, foster adults and live-in aides is excluded and should not be on the lease agreement; see Definition of Terms for foster children, foster adults, and live-in aides.
 - The Borrower or Management Company must verify all assets through third-party or source documents to verify the value of the assets and the income they generate.
 - SHRA Income Calculation Sheet

The Borrower or Management Company shall calculate the household income using the SHRA Income Calculation Sheet (Exhibit 14) workbook.

There are six (6) sheets available for each household. Typically, each sheet is for one household member with income; however, if there is more income to report than the space provided, use one (1) of the six (6) sheets provided within the same workbook. If you need more sheets than the workbook provides, please contact one of the Agency's Portfolio Management Analysts.

Note: Machine calculation tapes are not accepted in place of the SHRA Income Calculation Sheet.

- Income verification documents include but are not limited to the following:
 - Employment Verification form (Exhibit 15);
 - Two (2) Employee Pay Stubs;
 - Self-Employment/Independent Contractor Certification form (Exhibit 16);
 - Federal and State income tax returns;
 - W2 and 1099 Statements;
 - Anticipated Income Certification form (Exhibit 17);
 - Recurring Cash Contributions Verification form (Exhibit 18);
 - Non-Recurring Contributions Certification form (Exhibit 19);
 - No Income Certification form (Exhibit 20);
 - Unearned Income (e.g., Social Security Benefits; Public Assistance, Veterans Benefits, Pension or Annuity statements, etc.)
 - Alimony (copy of court order);
 - Child Support award statement;
 - Asset Verification form (Exhibit 21);
 - No Assets Certification form (Exhibit 22);
 - Bank statements, stock/bond certificates, mortgage note, income tax return certificates of deposit (verifications of asset income);
 - Student Status Verification form (Exhibit 23); and
 - Student Financial Aid-Educational Assistance Verification form (Exhibit 24).

- Employment Verification form and Income Calculation Procedures

1. Documentation Procedures

The Borrower or Management Company shall document a minimum of two (2) attempts (i.e., dated fax receipts, dated annotation in file notes or on the Employment Verification form, etc.) in obtaining a completed Employment Verification form and two (2) consecutive pay stubs. There must be a minimum of seven (7) calendar days in between each attempt to collect verification of employment income.

In the case of the employer not completing the Employment Verification form and Owner/Management has documented at least two (2) attempts to collect employment income verification, a

Telephone Communication Record is to be used in place of the Employment Verification form.

2. Calculation Procedures

Once all sources of income are known and verified, the Borrower or Management Company shall apply the following income calculation procedures (using the SHRA Income Calculation Sheet):

- Employment Verification Regular Income Calculation

The amount per hour multiplied by average number of hours worked per week, including overtime, bonus, commissions, and tips, multiplied by 52 weeks in the year. Or, gross *regular* income amount multiplied by the number of pay periods in the year.

- Employment Verification Year-to-Date (YTD) Calculation

The amount of projected 12 month or year-to-date income indicated by the employer is to be calculated by dividing the YTD amount by the number of weeks worked during the year and multiplied by 52 weeks.

- Pay Stub Year-to-Date (YTD) Calculation

The total YTD amount indicated by the most recent pay stub is calculated by dividing the YTD amount by the number of weeks worked during the year and multiply by 52 weeks.

On the Employment Verification form and the pay stub, highlight or circle the earnings that are applied in the income determination on the SHRA Income Calculation Sheet.

- Self-Employment/Independent Contractor Documentation and Calculation Procedures

1. Documentation Procedures

The Agency and IRS views persons receiving income as referenced above as self-employed/independent contractor. You are self-employed/independent contractor if you:

- Carry on a trade or business as a sole proprietor,
- Are a member of a partnership, or
- Are in business for yourself in any other way.

In accordance with the Internal Revenue Service (IRS) Publication 17; a person with net earnings from self-employment of \$400 or more each year is required to report their earnings on a Schedule C and pay self-employment tax by filing a Schedule SE attached to their Form 1040.

The Borrower or Management Company shall document Self-Employment/Independent Contractor income as follows:

- Self-Employment/Independent Contractor Certification must be notarized;
- Copies of Federal and State income tax returns for the immediate preceding calendar year; and
- The most recent Profit and Loss Statement(s).

Note: The method indicated above relates to a self-employment/independent contractor, (i.e., babysitter, nail beautician, day labor) which in many cases are individuals receiving paychecks or cash for their services rather than a pay stub.

A paycheck is not an acceptable form of income verification; therefore, it is necessary to use the above referenced documents to verify this income. Residents who are independent contractors and work sporadically throughout the year are to be informed of this verification requirement at move-in.

2. Calculation Procedures

The highest annualized amount of Net Profit Income determined by the above three (3) methods is to be used as the qualifying annual income amount.

- Net Income from a Business Profession Documentation and Calculation Procedures

1. Documentation Procedures

The Borrower or Management Company shall document Net Income from a Business as follows:

- Copies of Federal and State income tax returns for the immediate preceding calendar year, and
- The most recent Profit and Loss Statement(s).

2. Calculation Procedures

The highest annualized amount of Net Profit Income determined by the above two (2) methods is to be used as the qualifying annual income amount.

- Anticipated Income Certification Documentation and Calculation Procedures:

The Anticipated Income Certification form is used for all adult members that are not employed at the time of certification, are not receiving unemployment benefits/other benefits as a result of non-employed status, and anticipates earned and/or unearned income in the next 12 months.

1. Anticipated Employment or Self-Employment/Independent Contractor Income Documentation Procedures

The Borrower or Management Company shall document anticipated employment or self-employment/independent contractor income as follows:

- Anticipated Income Certification form;
- Employment Verification form or Self-Employment/Independent Contractor Certification form (*End Dates* must be indicated on form);
- Copies of Federal and State income tax returns for the immediate preceding calendar year; and
- Three employment advertisements on the type and location of anticipated employment, and the advertisements must be from three different employers.

2. Anticipated Employment or Self-Employment/Independent Contractor Income Calculation Procedures

The Borrower or Management Company shall calculate anticipated employment income by applying the highest annualized income calculation of the following:

- The amount the household member declares on the Anticipated Income Certification form;
- The employment income earnings from the past year or the self-employment/independent contractor net profit amount prior to the certification;
- Income earnings or net profit from the Federal and State income tax returns; or
- The highest wage among the three employment advertisements.

3. Anticipated Unearned Income Documentation Procedures

The Borrower or Management Company shall document anticipated unearned income as follows:

- Anticipated Income Certification form, and
- Benefit Award Letter (e.g., SSA, DHA, etc.)

4. Anticipated Unearned Income Calculation Procedures

The Borrower or Management Company shall calculate anticipated unearned income by applying the highest annualized income calculation of the following:

- The amount the household member declares on the Anticipated Income Certification form, or
- The amount indicated in the Benefit Award Letter.

- Anticipated Social Security Benefits with COLA rate Calculation Procedures

In the event a certification or annual recertification is effective during the fourth quarter of the calendar year (i.e., October, November, or December), the monthly income on the statement for the current year must be multiplied by the Social Security Administration (SSA) published COLA percentage rate for the upcoming year and annualized to determine the total anticipated annual gross income.

Note: There must be documentation in the file verifying the increase percentage amount. Go to www.ssa.gov to locate the COLA percentage rate published by SSA around October and November each year.

- Asset Income Calculation Procedures

The Borrower or Management Company must include the greater of the income from the assets or the imputed value of the assets (for asset cash value over \$5,000), to establish the total annual income. To determine the imputed value of the assets, multiply the total net family assets by the interest rate specified by HUD, currently two percent (2%).

Note: Asset Income from minors must be included.

C. Resident Lease Agreement for All Programs - Occupancy

- The resident lease agreement may not contain any prohibited terms, see Prohibited Lease Terms;
- The initial term of the resident lease agreement between the resident and the Borrower or Management Company of rental housing assisted with Agency funds must be for at least one year;

Note: A written mutual agreement between the resident and the Borrower or Management Company may be completed to terminate the initial term of the lease.

- The resident lease agreement shall include provisions to ensure that the residents are required to complete an annual recertification and complete any resident eligibility forms as required by the Agency and failure to cooperate with the annual recertification process may disqualify the unit as an Agency assisted unit and may be grounds to terminate the lease agreement; and
- Each lease pertaining to an Agency assisted unit shall contain a provision to the effect that the Borrower has relied on the income certification and supporting information supplied by the resident in determining qualification for occupancy of the Agency assisted unit, and that any material misstatement in such certification (whether or not intentional) may be cause for immediate termination of such lease.

D. Resident Files

- Eligibility documents are to be organized in a file and labeled accordingly, see the example of File Organization for Resident Records.
- Each file shall include the following eligibility documents:

- Resident application form;
- Resident lease agreement;
- Lease addendum/addenda (if applicable);
- Household Composition form;
- Determination of Eligibility form;

Note: The Agency will accept the Tenant Income Certification (TIC) form in place of the Agency Determination of Eligibility form, at projects with joint Agency and Tax Credit programs, for the purpose of move-in certifications and annual recertifications.

- Resident certification and verification documents;
- Income and asset source documents; and
- Income calculation tapes.

E. Closeout File Review

- Approximately thirty-days in advance, the Agency will provide the Borrower or Management Company a written notification of the closeout file review that will take place at the Project site; and
- One-week prior to the closeout file review, the Borrower or Management Company will submit the Unit Status report with the information from the eligible resident files, and copies of the Household Composition forms to the Agency.
- The Agency staff will review the information submitted on the Unit Status Report and enter it into the Agency's Portfolio Management Database.
- Agency staff will randomly select approximately twenty percent of the Agency-assisted reported on the Unit Status Report and will proceed as described in Section 3.3 Compliance Monitoring Review of this manual.
- After reviewing the information in the closeout review forms, and the notations made during the onsite monitoring, Agency staff will prepare a letter to the Management Company and/or Borrower recognizing file documentation compliance and property management compliance, as well as, outlining any corrective actions that must be taken.
- With regards to the corrective actions, the Management Company or Borrower must submit a letter of corrections to the Agency that will

identify the specific procedures. The due date of the corrections will be indicated on the letter prepared by the Agency, usually within thirty days of receiving the letter.

2.4 Ongoing Certifications

Throughout the regulatory period, for all new move-ins of Agency assisted units, the Borrower shall apply the resident selection procedures and eligibility documentation requirements as listed in the approved Management Plan and by the regulatory requirements. If an eligible applicant is approved for an Agency assisted unit and one is not available, they are to be placed on a resident wait list.

A. Resident/Applicant Wait List Selection

- As Agency assisted units become available, existing and eligible residents on the Resident Wait List shall be offered the available unit first and then to eligible applicants on the wait list in the order of the time and date they were placed on the list.

B. Resident/Applicant Wait List Record

- The wait list should be organized to indicate the following information:
 - Appointment Number/Application number (if applicable);
 - Date of application receipt;
 - Time of application receipt;
 - Date placed on the wait list;
 - Time placed on the wait list;
 - Head of household name;
 - Head of household telephone number;
 - Head of household mailing address;
 - Household Family Size;
 - Household total gross annual income
 - Preferences of very low, low, or moderate income unit;
 - Unit Size; and
 - Comments.

C. Active Resident Wait List Purge

- An Active Resident Wait Lists shall be purged one time per year or two years maximum.

- For projects with Historical Wait Lists (e.g., a record of all applicants since the commencement of the wait list) shall be maintained separate from the Active Resident Wait List.

2.5 Annual Recertifications

A. Recertification Schedule

- On an annual basis, the household income and composition for residents occupying Agency assisted units shall be recertified. In most instances, the resident's income should be examined on the 12-month anniversary date of the initial income evaluation. The date of the resident's initial evaluation (move-in date) is known as the effective date. This date is to be used annually to determine when the residents' annual recertifications are due. The following should be used when conducting recertifications:
 - Residents should be notified of the review no more than 120-days prior to the effective recertification date.
 - If the resident *refuses* to supply the required information, the Borrower or Management Company must issue the resident a notice of intent to remove them from the assistance program. The notice must clearly advise the resident that the assistance (loan program rent) will be cancelled unless the resident meets with the Borrower or Management Company and supplies the information within 30 calendar days of the date of the notice.

B. Improper or Inaccurate Recertification Information

- In cases where the Borrower or Management Company discovers that a resident has provided inaccurate or incomplete information prior to admission or at the time of the annual recertification, the following will be completed:
 - Obtain additional information from other persons or agencies;
 - Use other methods to verify either the resident's information or the conflicting information; and
 - Meet with the resident and discuss the conflicting information.
- Upon conclusion of the resident providing incorrect or fraudulent information, the findings must be documented in writing. Furthermore, the resident must be notified specifying what information is incorrect or fraudulent. Additionally, the resident has 30 calendar days to meet with

the Borrower or Management Company and discuss the allegations or provide the corrected information. In the event that the resident does not respond, the Borrower or Management Company may proceed with the termination procedures.

Note: Please be advised, the Agency enforces Title 18, Section 1001 of the U.S. Code.

2.6 Additions to the Household

In the case of a resident adding new member(s) to the household, all new household members must complete the required income certification, including the verification of income and assets.

- Unit Occupied for less than one year:

In the case of a resident occupying the unit for less than one year, the existing resident must recertify their income, and both the existing and new members gross annual income may not exceed the qualifying program limit.

- Unit Occupied for more than one year:

In the case of a resident occupying the unit for more than one year, the income from the new member(s) must be in compliance with the Very-Low, Low or Moderate income limits. The total household (existing and new members) gross annual income may not exceed the 140% program limit.

2.7 Over-Income Residents

- Once the Borrower or Management Company has completed the annual recertification process and determines the resident's income exceeds 140% of the income limit that initially qualified them to live in the unit, the resident is over-income. If this event occurs, the resident will be given written notice to move within 3 months/90-days.
- If the resident can be accommodated at the current project, they should be given priority to the next available unit.
- If these provisions conflict with the regulatory provisions of other funding sources the most restrictive covenant prevails (with the exception of the Agency HOME Program, see below).

- Agency HOME units continue to qualify as affordable housing despite a temporary noncompliance caused by increases in the incomes of existing residents.
- Agency HOME residents must pay the lesser of the amount payable by the resident under the State or local law or 30 percent of the family's adjusted income as rent, except for residents of Agency HOME assisted units that have been allocated low-income housing tax credits by a housing credit agency pursuant to section 42 of the Internal Revenue Code of 1986 (26 U.S.C. 42) must pay rent governed by section 42.
- Agency HOME residents who no longer qualify as low-income are not required to pay an amount that exceeds the market rent for comparable, unassisted units in the neighborhood.

2.8 Rent Increase Rules during the 3-month Written Notice

- Where state or local law imposes rent controls, the rent control applies.
- For projects that set their rents below the maximum allowable rent levels, subsequent rent increases can not exceed 5% annually and rent increases must be based on a market survey.

2.9 Rent Increase Rules

- For a joint Agency and Tax Credit fund project, the most restrictive rule applies (with the exception of the HOME Program as indicated in Section 2.7).
- Projects in which 100% of the units are Agency assisted, the Borrower or Management Company must apply one of these rent options for the Agency assisted unit occupied by the over-income resident (with the exception of the HOME Program as indicated in Section 2.7):
 - Resident pays the restricted rent; or
 - Resident pays 30 percent of their adjusted gross income for rent and utilities; or
 - Resident pays the market rent of an unassisted unit of comparable size and amenities in the same neighborhood.

- Projects in which 100% of the units are not Agency assisted, the Borrower or Management Company must apply the lesser of one of these rent increase options for the Agency assisted unit occupied by the over-income resident (with the exception of the HOME Program as indicated in Section 2.7):
 - Resident pays 30 percent of their adjusted gross income for rent and utilities; or
 - Resident pays the market rent of an unassisted unit of comparable size and amenities in the same neighborhood.

2.10 Resident Lease Agreement Renewal and Amendment to the Lease Agreement

- An increase or decrease in income and/or family size may change the eligibility status and rent payment for the resident in an Agency assisted unit.
- The Borrower or Management Company may not increase the rent during the term of the lease is still in effect.
- The Borrower or Management Company shall:
 - Provide the resident with a written notice of a rent increase no less than 30-day notice prior to the effective date of the rent increase or a 60-day notice if the rent is increased by 20% or more.
- The Borrower or Management Company shall not:
 - Misrepresent the affordable program rent as a discounted rent or rent with concessions.
 - Impose “Excess” utility charges: Utility charges normally paid by owners – such as water, sewer, and garbage collection – may not be passed through to residents as an add-on to their contracted rent.
 - Require payment of rental insurance premiums as a condition of occupancy. If owners require renters’ insurance, the policy premium must be deducted from the resident’s rent. The owner may not add the insurance premium to the resident’s initial or subsequent lease agreements.

2.11 Termination of the Resident Lease Agreement

- The Borrower may not terminate the resident lease agreement or refuse to renew the lease of a resident of rental housing assisted with State, Federal, or Local funds except for serious or repeated violations of the terms and conditions of the lease; for violation of applicable Federal, State, or local law or for other good cause.
- To terminate or refuse to renew tenancy, the Borrower or Management Company must serve written notice to the resident specifying the grounds for the action. A thirty day notice is issued if the resident has resided at the project for thirty days or less, and a sixty day notice is issued for residents residing at the project for one year or more.

2.12 Annual Housing Quality Standards (HQS) Inspections

- A Borrower and Management Company of rental housing assisted with Agency funds must ensure that the project is in compliance with the applicable property standards as outlined in 24 CFR 92.251 of the code, including Federal, State and local housing quality standards and code requirements.
- The Agency will conduct annual inspections of Agency assisted units and the projects' exteriors to ensure that all assisted projects are maintaining the HQS standards established by the local jurisdiction.