HOME Investment Partnerships Program Rental Compliance

Part 1

Les Warner: Let's go ahead and get started. So, this is our HOME Rental Compliance training. This is based on the Building HOME training that some of you may have participated in. And so, you will find that this will be a repeat of some of that material for you, but we have more time to be able to go in a little bit more depth on this.

Unlike Building HOME, we will not be going into all of these basics, all of the HOME requirements, but we'll be focusing today and tomorrow specifically on the responsibilities for both the participating jurisdiction of overseeing their investment of HOME dollars in rental, but also, in looking at the actions that a property manager would need to take during that timeframe.

So, our sessions are going to be today. We have a two-hour session. Tomorrow at the same time, we will do the second half of this training and then on Thursday, from 1:00 to 2:00 Eastern Standard Time, we'll have an office hours session. So, we'll revisit some of the issues that you may still have questions on.

I'll be able to go into further depth on some -- particularly, if you have project-specific questions that you might want to be able to discuss. So, a link that was sent to folks for these slides -- and there is a slide handout version, which will have three slides per page if you'd like to be able to take notes and that may be helpful for folks to be able to work from as part of this training.

Let's see, so, let's talk about the system itself. So, on your screen, on the top right-hand side, you will see a Q&A box. If you have questions about the topic that we're talking about, you can click on the Q&A, it will open up to allow you to type in a question.

And so, Kris is going to be working with me today and trying to field those questions and from time to time, I'll be stopping to ask Kris if there are questions that we should be talking about on this. So, you'll see questions being asked and answered on the side of your screen.

If you're having technical issues, like I was just a minute ago, you can click on the chat box and Chantel is handling the WebEx system itself and will be able to try to field any issues that you might be experiencing during the training.

So, I said the theme is based on the Building HOME rental sections, but because it is not tied into the Building HOME series, folks were not required to participate in all four sessions. And so, we hoped that we have some additional PJ staff and also, property managers and CHDOs that would be able to participate in this.

These sessions are being recorded and they and the slides will be posted upon the completion of this training. And so, over time as you have staff, or you have property managers and some of the HOME-funded properties that might need this training, this will be there as a resource for you to use over time.

So, let's talk a little bit about what we're going to be covering in today and tomorrow. So, first, we're going to talk about just a few of the HOME requirements that impact the project during the long-term affordability period. Now, as I mentioned, we're not going to be going into all of the HOME requirements that impact rental projects.

So, for those of you that might not be more familiar with the HOME program, you may want to utilize the Building HOME training, which is also, now posted on the HUD Exchange and that takes you into all of the HOME requirements, including the front-end actions that a PJ would be doing in making a decision about funding a HOME rental project, the eligibility of costs, making that commitment of funds and completing their underwriting, their subsidy layering and market study review as part of that process.

So, we're not going to be talking about those functions today, but really looking at once that property has been funded and is being placed in service and then the actions that need to be taken to maintain compliance throughout that affordability period.

We're going to spend some time talking about written agreements, deed restrictions, so, how we're going to be able to enforce the requirements and frankly, also, how we are conveying to all of our partners what those requirements would be and what they're restricted to during that affordability period.

We'll talk a little bit about income limits, the income determination, so, how we're going to determine eligibility for tenants not only at initial occupancy, but also, over the life of that project. And as part of that, then we'll also, move into talking about HOME rents, how we determine affordability, utilities that are part of that and how those calculations are made.

And once we've kind of laid out those basic parameters, we're going to spend some time talking about throughout that affordability period, as incomes change, as rents are adjusted over time, the actions that will need to be taken by both the PJ on oversight of the project, but also, particularly, by the property manager who's going to be ensuring that that project is going to remain in compliance throughout that affordability period.

We'll talk some about marketing and tenant relationships and then also spend some time talking about unit quality inspections. So, we're not only going to be talking about affordability and the tenant, but also, the condition of those units, who they need to be maintained and their requirements on inspections and oversight on that.

As part of that, we'll also, then be talking about monitoring. So, Chantel, I think we have a poll -- and what we want to know is of the folks that are participating in this training, how many of you represent a HOME participating jurisdiction that's providing the HOME funding to rental projects?

How many of you might be CHDO staff? How many of you are property managers working with a HOME property? Or all of you that don't see yourself represented in A, B or C, please use the D as your category. If you would vote now.

Chantel Key: The poll will be closing in about 15 seconds.

Les Warner: Chantel, you can probably close it down. Looks like you have. Great. So, the vast majority of you are from a HOME PJ. So, you're providing the funding and dealing with the long-term oversight. We have some CHDO folks participating and then also, some HOME property managers, which is great.

We're really going to be focusing on both of those roles as we go through this training. So, we're going to start out by talking about a few rules, specific rules that will apply as part of our long-term affordability. So, we have our program rule and the reason we're going through this is these have an impact when you're thinking about who's actually eligible to occupy the unit.

We need to understand some of the rules that will apply and would be included in your rent-up requirements and within your written agreement. So, the program rule applies for all of the funding that the PJ is providing, and it actually covers both rental projects and tenant-based rental assistance.

Essentially, what it's saying that of your assisted households at initial occupancy, we're going to target this a bit lower. And so, 90 percent of our household at initial occupancy are required to have incomes at or below 60 percent of area median income and that's for initial rent-up only. Now, that's the HOME rule is limiting it to initial occupancy.

You, as the PJ, may have made a decision that you actually want to keep that in place throughout the affordability period. So, we know that HOME requires overall that all of the beneficiaries that are being provided rental assistance under the HOME program have to be at or below 80 percent of area median income.

Now, we're going to be talking, later in this project, in this webinar, about certifying their income both at initial occupancy, but also, during that long-term compliance period. So, at initial occupancy, 90 percent are going to be targeted at 60 percent or -- and below.

So, you, as a property manager, as a PJ, need to think about what's the rule going to be and have that make sure, if you're the property manager, that you're looking carefully at your written agreement. In some cases, your written agreement will say that at initial occupancy, you're going to be held to the 60 percent rule.

And then after initial occupancy, subsequent tenants who are moving in would be allowed to have incomes going up to the 80 percent area median income. But it may be that the PJ has made the decision of because the compelling need for affordable housing, it's more challenging if you have an income at 60 percent or below.

So, there are many PJs who have made the language within their funding agreement hold this throughout the funding period. So, really important, the project manager that's dealing with rent-up or properties to know what has been applied to this particular project and utilize that when thinking about who's going to be eligible to live in those units.

So, the program rule really covers at initial occupancy. Now we're going to talk about the project rule. So, for HOME projects that have five or more HOME-assisted units, we have sort of a second level of affordability requirement that there's a minimum set aside of 20 percent of the units have to be occupied by households at or below 50 percent of area median income.

So, we're trying to make sure that out of the possible tenants who are seeking affordable housing, that we're going to set aside some units that are targeted lower. So, we're targeting for households at 50 percent or below.

Now, the project rule itself is setting this minimum at 20 percent of the units, but you, as the PJ, in thinking about for the PJ service area or for the particular market, that the funded project it is in you may have decided to make additional units be targeted lower. And so, that would be very specifically called out within your written agreement.

So, as a property manager, know that there's project rule in place that would impact projects that have five or more units, but it may be that you have more restrictive requirements that have been in place by the PJ.

So, as you are renting up the unit at initial occupancy for those set aside units at 50 percent or below, then we're going to need to make sure that we check to make sure that our household has the appropriate income level to qualify to be placed in that what we're going to be calling a low HOME unit.

And these more affordable units are going to then have a lower rent. So, they're going to have the low HOME rent level and we'll be talking later within this training about the specifics of the rent schedules and how that's going to be in place. So, the project rule is for 20 percent of units, could be higher for projects that have 5 or more HOME-assisted units.

The balance of those units is not restricted under the project rule. And so, they could go to households up to 80 percent of your area median income.

As we mentioned on the prior slide talking about the program rule, could be that there are some project-specific rules that are going to change what you're able to do over the life of that project based on what was negotiated for that particular project and the market in which it was funded.

So, keep in mind we also, under the current HOME rule, have a requirement about getting these HOME-assisted units in service and as income-eligible tenants in place.

So, if you are a property manager with a new HOME project, just know that the PJ has a requirement from HOME that they must make sure that the HOME units have been occupied by these eligible tenants within 18 months of that project completion.

And actually, HUD will be looking at those projects after six months from the -- when the project is placed in service to check to see whether those HOME units have not been rented up. And so, if during that initial six months they've not been rented, I may be asking the PJ about the marketing strategy, what steps are being taken to make sure that you will meet that 18-month deadline.

So, because of this, it's really critical that as those units are being rented up, that initial occupancy, that you're collecting the information from the property and it is being entered into IDIS.

So, on this, the PJ themselves needs to be thinking about what's our process going to be, how will we be receiving reporting from that property as the units are being rented up, what will the frequency be of that reporting?

And since in this initial period, within six months, we're going to be asked about the status of that, we may want to have more frequent reporting coming from that property during that initial rent-up phase. Also, the PJ is going to have to think about what's my internal process once I actually get this information in-house.

So, if I have a property manager that sends, let's say, a monthly report of the rent-up of the HOME units, the PJ needs to think about who do they go to, how quickly will I be reviewing these and then that your [inaudible] day are actually entered into the IDIS system. And this is one of those times where making sure that that happens rather quickly will be really critical.

So, as a property manager, know that in this initial rent-up phase, you may be asked for more frequent reporting on this, because the PJ is trying to make sure that they actually meet this requirement. If the PJ fails to rent-up, those HOME units, during this 18-month time period, the PJ essentially doesn't have an eligible use of the HOME funds and would have to repay funding.

So, based on the number of units that were not occupied during that time period, there would be a calculation of the percentage of the overall HOME funds in that project that that project represents, and those funds would have to be repaid.

So, we're trying to make sure we get those units rented up, that we collect the information and report that into IDIS to make sure that that has been completed.

So, at this point, this is kind of when we're looking at that handoff between our PJ, oftentimes we have sort of what I would call a front-end staff who is reviewing projects, maybe completing the underwriting the subsidy layering and funding those projects.

In some cases, that same development team at the PJ will also, be responsible for oversight of that project during the construction period, but oftentimes, at the point that construction has been completed, there's the handoff of that project to the long-term compliance [inaudible].

So, the PJ may need to think about when does that handoff happen, how do we communicate all of the information that's going to apply to this project? And one of our key tools in being able to do that is having good written agreements that contain quite a bit of information.

Kris, I'm going to pause here for just a moment. Are there questions, before we move into written agreements, that we might want to revisit?

Kris Richmond: Can you hear me okay? Les, can you hear me?

Chantel Key: We can hear you, Kris.

Kris Richmond: Okay. So, the questions that have come in have been really about the program rule and how it relates to the project. And people keep asking the project by project how do we meet the program rule. And so, I'm just reminding them that the program rule is your entire rental and TBRA households for an annual allocation at initial occupancy.

So, if you have a project that doesn't specifically line up with the program, you need to look at all of your -- all of the households you've assisted in that annual allocation to see if you've met that program rule. It doesn't have to be specifically project by project for the 90/60.

Les Warner: Okay. And there are a lot of PJs who have said, I don't want to have to worry about this calculation. So, there are many PJs that have said, I'm simply going to require that all of my rental projects and my tenant-based rental assistance, at initial occupancy, is going to be restricted to households at 60 percent or below.

And so, in that way, they don't have to kind of project on what units are actually going to come online during this time period and will I stay in line with that 90 percent?

And really, what we're doing with this initial occupancy restriction is really giving a first shot for rental of those units to households that have a little bit lower income and would be having a little harder time being able to probably get affordable housing within that market. So, there are some options for how the PJ might deal with them.

So, let's jump into our written agreements. So, the written agreement is where we're kind of memorializing what has been negotiated as part of our funding agreement.

So, the -- you know, we had a developer, we've had a CHDO that's requested HOME funding for a rental project and the PJ has gone through their process of underwriting and cost allocation to determine what the amount of subsidy is that's going to be provided.

And as part of that, they're designating the number of HOME-assisted units, setting the number of low HOME units, which we're going to be talking a little bit more about.

So, that written agreement is where all of that information is really captured, and this would include not only what the HOME program requires, but it may be for that specific project or for the PJ's programs that you've also, included some additional project or program-specific rules. All of that needs to be captured within that written agreement.

And this really will be the go-to document for an auditor, for any kind of monitoring that's going to be done over the life of that project. This also, should be a document that that property manager has and is able to review to check and see specifically what's been put in place for this particular project.

So, it really becomes a reference document and a way of communicating. When you think about it, when we have up to a 20-year affordability period, it may be that the project that you were funding today or that you were beginning to manage will be managed by someone else at the end of that affordability period.

And so, making sure that that information is really clear in that agreement becomes really important. And this is a living document.

So, if there are changes to that project, let's say that there is a need for -- maybe there's a cost overrun and at some point, there's a need for some additional funding to be put into that project, the information that is captured in that agreement needs to be updated.

And that may mean that the PJ needs to go back and redo its underwriting, its subsidy layering at the cost allocation process and may need to update that agreement and then make sure that that is appropriately captured with that agreement and that all of the partners are aware of those changes for that.

So, things that are included in that written agreement that are so, critical for folks to be able to understand is the number and type of HOME-assisted units. So, the PJ, in funding that project, is going to go through what we call a cost allocation process and they're going to be defining not only the number of HOME-assisted units, but they'll be also, breaking that out by bedroom size.

In some cases, we might have that go a step further. If we had a project where we had something different -- differences in either size or amenities on our HOME-assisted units, it might be that we would have a two-bedroom townhouse listed in our written agreement and a two-bedroom garden style apartment, because one of those units has a lot more, let's say, square footage than the other.

And so, that written agreement should be very specific on which are my HOME-assisted units, how many that break out between the low HOME and the high HOME. It would also, be here that you would designate about whether you were going to use fixed or floating. We'll be talking a little later in this training about those specifics of what we mean by if they're floating units.

Also, that written agreement would list the rent limitations that are going to be in place. Now, keep in mind, for many of you, some of your rental projects are going to be pretty complicated in the funding structure for this. So, you may have low-income housing tax credits and HOME funds as part of that.

Some of you may, as part of compliance, also, have other funds, such as the NSP, Neighborhood Stabilization Program, funding within the same project. And so, in some cases, PJs have taken to kind of charting out within their written agreement. So, it's very clear you may have some units that are HOME units, some units that are HOME and tax credit units.

We might have some units within that project that are going to be market rate. And so, whatever can be done within that written agreement to make that as clear as possible, not only for PJ staff, but also, for the property manager, would have to decide when there's an available unit who is actually eligible to live there will make for a more successful written agreement.

Also, that property, the affordability period that's going to be in place, would be part of that written agreement, the affirmative marketing plan and in some cases, we will have an affirmative marketing plan that will be for all of the PJ's funded projects. In some cases, it'll be a property-specific affirmative marketing plan.

And so, that would become part of or referenced in that written agreement as part of the process. We'll be talking a little bit later about the two definitions of income and this, again, would be something that would be identified within that written agreement and then all of the enforcement provisions.

So, we're going to be talking about the fact that there'll be a deed restriction or a land covenant in place, there may be language about the steps that the PJ can take as part of their enforcement of the written agreement. Other things that would be included, we're going to be spending quite a bit of time talking about how we determine do we actually have an income-eligible household.

And that's both at that initial certification when we have someone that moves into a unit, but also, over the life of that project for the annual recertification that are going to be done and then also, some language about how we're going to deal with over-income tenants. And we'll spend quite a bit of time in the second half of this training going into more detail about that.

Let's mention a little bit about the lease requirements. So, for those of you that are new to the HOME program or maybe you're a property manager and you've not gone through the more detailed HOME rental training, the HOME program has some lease provisions that are not allowed and essentially, they are lease provisions that would require the tenant to give up some of their rights.

And so, the PJ needs to think about how will you ensure that you're maintaining compliance with these lease requirements. You have a couple of options. You could provide a standard lease and require that your HOME-funded properties use those. And so, that would be something that would be defined within the written agreement.

You might, within your written agreement, spell out the lease requirements that are not allowed and require, within that written agreement, that those not be incorporated in any of your funded project leases.

The third option would be to create an addendum, which 3essentially would become an attachment to any lease that a property was utilizing and that addendum would essentially say if any of the following provisions are included within this attached lease, they are null and void, they are not allowed under the HOME program.

And so, calling out how you're going to deal with that would be something you're going to want to include within that written agreement.

You also, know that we have property standards that have to be met and not only property standards at the point that we complete the project and are designated within IDIS, which is our reporting system to HUD, that our property has been completed, it's ready to be placed in service and it meets all those applicable property standards, but also, over the life of the property, we also, have some ongoing property standards that need to be met.

And those would be spelled out within that written agreement. You also, have to think, at this point, about the files, having access to those files, having access to be able to inspect units. So, as part of the ongoing compliance, the PJ needs to be able to monitor the project, but HUD, the HUD inspector general, they also, need or want to access both files on units.

So, that written agreement should spell out the access to the files on the units, but also, about the -- you know, who's going to control those records, where they will be stored, also, language about security of those. One of the key parts of the written agreement also, is adding some language about the reports that you're going to be requiring.

So, we'll be talking a little bit later -- in the Building HOME series, we'll talk in a little more detail about some of these annual reports. So, we need the rent and occupancy report to let us know are our units occupied, the incomes of those households, the rent and utilities that are being charged so, we're able to track compliance.

But we also, are going to be requiring some reporting, a certification from the owner about the condition of those units, the affordability period and you may be collecting some financial reporting.

You might be asking questions about deposits that are being made into our operating and maintenance reserves or addressing vacancy rates or other things that are occurring on that property. So, that written agreement would be outlining what your reporting requirements would be, may be citing the timing on that, the form that you would be requiring them to use.

And then of course, recordkeeping is really important to us, making sure that they're maintaining the needed files to be able to document compliance. Those are a few things that are really optional with written agreements.

So, the HOME rule that was updated in 2013 clarified that when we had a CHDO project, that it had to remain as a CHDO project with a certified CHDO throughout the affordability period.

And so, PJs may want to think about adopting language within their written agreement, particularly for a CHDO project, that would allow the PJ the ability to review and approve any transfers of ownership during that affordability period. And really, this is to make sure that that subsequent owner is going to qualify as a CHDO and will be able to keep that project in compliance.

You also, might have some standard language in place about default provisions and giving some additional [inaudible] for when there is a noncompliance that occurs. That might include things like being able to approve if there are changes on property managers over that -- over time for that project.

And then of course, budget reviews, financial reporting that you would expect to be able to see. As part of this, there are some financial oversight requirements that PJs have in place, particularly for projects with 26 or more units, but really, as a best practice for all projects.

And so, the PJ may also, consider, as I mentioned, some of this standard information that you would be collecting from projects about their financial status, things like the reserves, disbursements that have gone out, any changes on management or ownership, those sorts of things.

So, that -- those are things that could be included as an option within those written agreements. One thing I will also, mention -- well, I think I will hold that for our next slide. So, we're now going to be talking about our units and the affordability period.

So, within our written agreement, of course, they're going to be describing those HOME units, determining which of those units are going to then fall under the HOME requirements, which might be unrestricted. It may be market rate units. And we're going to determine the number and that breakout of units using our cost allocation process.

And there was a notice that was recently provided, which provides the PJ with some standard process. So, all of that would be captured within our written agreement. And then our affordability period is going to be based on our HOME units and looking at that average investment per unit.

And so, we have some minimum numbers on that, but we may have, as part of our funding process, been able to negotiate and have more units designated as HOME units than what those minimum requirements might be throughout that process. So, we have minimum affordability period things that are going to be set by the HOME program.

For rental, if it's rehabilitation, it's going to be 5, 10 or 15 years based on our investment in those units, but for new construction, it would be an automatic 20-year affordability period. And as a property manager, as a PJ, try to make sure that throughout that affordability period, we're going to maintain that same mix of units throughout the project period.

So, here's our chart that shows the calculation of that affordability period. These are the minimum standards that are in place. If you are just doing refinancing of rental housing as part of your projects, there's a minimum of a 15-year affordability period for that also. The bullet point at the bottom here is really important.

So, the payoff of that HOME assistance anytime during that affordability period doesn't make the affordability requirements go away. It still is a HOME-assisted project.

So, for instance, if I provided my HOME assistance in the form of a construction loan and when my project was completed and when they closed on permit financing, if they actually pay off that construction loan, and so, all the HOME funds have been paid back, that doesn't make the affordability period go away, it doesn't mean that we don't have long-term compliance.

So, really important to keep that in mind as part of our process. So, I wanted to also, mention here that in some cases, PJs, in looking at the investment that they're making in a particular project in a market, have felt like they wanted to designate longer affordability periods. And so, let's say we're just doing a major rehab on a project.

So, we're more than $40,000 per unit. And so, the HOME calculation would have us with a 15-year affordability period. The PJ might decide, based on its investment, that they really wanted to see that project remain as affordable housing for a longer period of time. In the past, we had many PJs that said, I'm going to set this --

Maybe they're going to set the affordability period at 30 years and they designated the HOME affordability period as 30 years. One of the things that we know about the HOME program is that you generally are not able to add additional HOME funds to a property during its affordability period.

So, if I set my HOME affordability period at 30 years and that property, let's say in year 25, really needs a reinvestment of funding to deal with some of the deterioration of some of the systems, if it's during that affordability period, even the fact that you designated a longer than the minimum period, it blocks you from being able to make that additional investment.

It also, means that you are held to all of the monitoring requirements and compliance requirements for that longer designated period.

So, what has become, I would say, a best practice for the HOME program is that a PJ, if they want to set a longer affordability period, will set, within the HOME written agreement, the minimum standard for their HOME affordability period. Once that has been completed, the PJ may have in place, as part of your funding agreement, an extended use affordability period.

So, if we want a 30-year requirement, we would have a 15-year HOME affordability period and then we would have the PJ's own extended use requirement for the second 15-year term to bring us up to 30 years.

In that case, once the 15 years that's required under our HOME affordability period has been completed, those restrictions about being able to reinvest in the property would go away. Also, that designation as a HOME unit and having to follow specifically the HOME long-term compliance requirements would also, go away.

And that might give the PJ not only a little relief on some of the oversight requirements, but also, provide a little flexibility if you're in that extended affordability period, there were some risks to that project and the PJ needed to be able to negotiate and intervene during that time period.

Kris, that kind of brings us to the end of designating affordability period and written agreements. Are there some questions that have come through that it might make sense to talk further about?

Kris Richmond: Yeah. There's been a couple questions, one that just came up that I thought was interesting saying, how do you distinguish between a SRO, Single Room Occupancy, and a group home for the affordability period? And go ahead.

Les Warner: So, it raises an issue that we probably don't go into any detail within this training, but the background on this -- so, a single room occupancy unit could be a standalone rental unit, but it also, might be that the tenant is actually renting a room within, let's say, a single-family home and they may be sharing a kitchen, or they might be sharing both cooking and sanitary facilities.

So, depending on how that unit has been designated by the PJ is going to have two different rent systems in place. For a single room occupancy unit, we're going to be looking at the zero-bedroom HOME rents. For a group home, we're going to be looking at fair market rents and then essentially prorating that across the number of tenants within the unit.

So, very different rent schedules and designation. So, it'd be very important, within that written agreement, to call that out and say, I'm funding an SRO project that contains the specific number of units and be able to call out the rent schedule that will apply for that project, same sort of thing if we were funding a group home so, that it's very clear what that designation is and will tell the property manager, will tell the PJ's compliance staff over time what they should expect to see when they monitor that property, what rent requirements are going to apply over the life of that project. That's a great question.

Kris Richmond: Yeah. But I think it's another -- it might be before the rents. How do I figure out what the affordability period is? And so, I guess it depends on how much per unit if we're doing rehabs.

Les Warner: Yes. If we're doing rehab, again, it's going to be that average per unit and if we are doing new construction, then it's an automatic 20-year affordability period. Anything else?

Kris Richmond: Somebody was asking if they extended for the affordability period and it needs more money, they want to know why they can't put more money into the project if they extend it.

Les Warner: So, the HOME program itself has set up minimum standards on affordability and the requirement for the PJ, as part of the underwriting, is to make sure that when they fund that project, it's going to be sustainable for that affordability period. And so, as part of your underwriting, you're making sure --

Let's say we have a property that's being -- an existing property that's going to be rehabbed, we're making sure that that property either has systems and materials in place that are going to hold up for that designated affordability period or we have maintenance reserves in place that as things need to be replaced are going to be covered.

So, for instance, if water heaters have to be, on average, replaced every 10 years, then we would need to make sure that we're going to have reserves in place to be able to cover that.

So, that's -- because that requirement is in place up front, the PJ then is held to you're not allowed to put additional funding in during that time period, because you underwrote this and funded this in a way to make sure that it was going to be sustainable.

So, what I was raising was if you have -- if you're using longer HOME affordable periods, then what would be the minimum requirement, here's where you can get into a situation where you might have systems that simply have aged enough that they need to be replaced and you've blocked yourself from having this option of adding some additional funding to that project if you extended your HOME-designated affordability period to a longer period.

And as I mentioned, if you were to use your own extended affordability period rather than extending the HOME affordability period, that would allow you to complete the HOME affordability period at whatever that minimum standard was and then you would have the flexibility to be able to reinvest, if needed, in that project.

Kris, I think it makes to go ahead -- I'm going to move ahead on this. So, I want to talk a little bit about designation of units, whether they're going to be fixed or floating. And so, this applies to each of our HOME-assisted units within a project. So, I mentioned using our cost allocation process.

We're going to be deciding, based on the investment and also, based on our maximum subsidy per unit -- we're going to designate a specific number of units and that's going to be broken out by size of units within that property that are going to be our HOME units throughout that affordability period.

And so, we have a couple of ways we can maintain that. If we do fixed units, we're simply going to designate specific units and say, these same units are always going to be our HOME units throughout the affordability period.

Probably a little bit simpler to be able to track, but you'll see, when we get into our long-term affordability and managing that unit mix, with fixed units, we oftentimes will have to wait a little longer to get out of temporary noncompliance issues where we have a tenant income on -- over what that restriction was.

The other option for the PJ is to designate floating. And so, in this way, we would designate that we have a certain number of two-bedroom, certain number of three-bedroom units, but they can float amongst comparable units in that project.

So, at any given time during that affordability period, we're going to have those same number of HOME units, but it might be different two-bedroom units over time [inaudible] originally as we are recertifying incomes and need to re-designate units to stay within compliance.

So, that's something that the PJ needs to make a decision about on the front end of the project that would be designated within that written agreement. I would say that for the most part, we tend to see more projects designating floating units.

I think it makes it quicker to be able to resolve noncompliance issues over time because of the ability to switch amongst units within that property. It is probably a little more complicated for a property manager to understand.

And so, I think you sometimes see where you have small projects and maybe you have a nonprofit that is managing their own units and has less property management experience that the PJ might decide, on that particular project, let's make this a fixed unit so, it's very easy for that property manager to understand which of my units are going to be my HOME units.

So, as part of that written agreement, what we're really trying to communicate to that property manager and maybe many property managers over the life of that project for them to know how many HOME units do I have, which ones are they so, they can figure out who's eligible to move into these units when we get into our income certification over the life of that project, understanding what actions am I required to take when I have a tenant that has gone over income.

Let's talk a little bit about project-based assistance and then I think we'll take a short break and come back to finish up today's section. So, the HOME program itself does not allow HOME funds to be used to create a project-based assistance. So, project-based assistance is where we have funding that will complete the gap for a tenant.

Typically, we see where the tenant's going to be paying only 30 percent of their household income and that project-based subsidy will make up any gaps.

So, if I have a household that has an income at, I don't know, 40 percent of area median income and the high HOME rent is based on what would be affordable for a household at 60, then the tenant's only going to pay what is defined as affordable, the 30 percent and that project-based subsidy is going to cover the rest of that, which is great since we don't have a lot of housing that is targeted and made affordable to our sort of lower income ranges.

But HOME has said you can't use the HOME funds themselves to be able to do that. You may have the ability to use other sources of funds to provide a project-based subsidy. So, it might be HUD funding, might be another source.

So, generally, when we have a combination of funding in our properties, we're always going to be talking about whatever the more restrictive requirement is what's going to apply. And so, our HOME units we are going to normally say you're restricted to whatever that HOME rent, whether it's the high or the low HOME unit.

In the case of project-based assistance, the HOME program has given a little bit of additional flexibility, but within a particular restriction. So, in a case where we have project-based subsidy that's in combination with one of our low HOME units, not our high HOME units -- and so, it's low HOME unit and this unit's going to receive project-based subsidy, federal or state.

This is not covering our HOME tenant-based subsidy. And in this case, our tenant is very low income. So, they're at 50 percent or below and they're not paying more than 30 percent of their adjusted income.

So, in this limited circumstance, in a low HOME unit, the HOME program is allowing the owner to exceed that low HOME rent and actually charge up to whatever our project-based limit would be.

And so, let's say, for example, my low HOME rent is $600 a month and my project-based assistance contract allows that unit to charge up to $700 a month, if we meet this criteria, so, a low HOME unit, it's a project-based subsidy, we've got a household at 50 percent or below and they're not paying more than 30 percent, it allows the property to actually charge that higher rent, because it has no impact on the tenant.

They're still only paying 30 percent of their adjusted income. So, that's one of the exceptions where there's some additional flexibility on the rent levels that can be combined on this or charged. So, the thing to keep in mind is that when we have a project-based subsidy, this only can be done in combination with low HOME units.

And we know that the project rule requires that at least 20 percent of our units, if we have a project with five or more HOME units, are going to designated as low HOME units.

If you, as the PJ, have a project that is going to receive project-based subsidies for more than your designated minimum low HOME units, you may want to designate units as low HOME to allow that project to be able to take advantage of this and be able to go charge that higher contract-based subsidy for this, but just keep in mind, it's only in combination with the low HOME unit.

And so, you may need to, and when you make that unit designation, adopt -- or designate some additional units to be able to take advantage of that flexibility. So, according to my clock here, it is two minutes after the hour. I'm going to suggest that we take a 10-minute break and be back at 12 after.

[break]

Folks, we're going to go ahead and get started with the second half of our -- today's training. So, we finished our first section talking about when we combine our HOME funds with project-based subsidies. Now we're going to switch into kind of finishing up affordability and begin to talk about incomes.

So, just to mention, since I'm going to presume, that many projects that you are dealing with at either of the PJ or at the property manager point are going to be combinations of HOME funds with other funding sources and one of those we see very commonly is the low-income housing tax credit program.

And of course, that funding source has its own affordability period requirements. So, we talked about the HOME affordability period is going to be 5 to 20 years and that really depends on the type of activity and whether it's new construction or not. The tax credit compliance period is going to be based on the state's own plan.

So, there's a base compliance period of 15 years that's going to be in place for everyone, but in some cases, that's going to end at that time period for a lot of other tax credit programs. There's going to be at least another 15-year as part of that compliance period. And so, we also, see that states are imposing longer rules.

So, if you were working with a property that included both HOME and low-income housing tax credits, keep in mind that you need to comply with both of those requirements.

If the HOME program requirements had a 15-year affordability period in place and your tax credits had a 30-year affordability period, once the 15-year had been completed for the HOME program, unless the PJ has put additional requirements in place, those requirements would fall away, and it would now simply be a low-income housing tax credit project as part of that.

So, keep in mind we're going to have a layering of different funding sources and that may have an impact on the types of requirements that are going to apply. So, the way we're going to be able to control and make sure that that project actually completes that affordability period it's going to be by putting some restrictions in place.

So, the HOME program for rental is requiring that there needs to be a deed restriction or land covenant that's going to be placed on the title of that property. And so, regardless of whether that property might be sold or transferred, that those restrictions would stay in place. So, any subsequent owner would need to still comply with those same requirements in place.

So, it's really key that the PJ make sure that that deed restriction or land covenant has been put in place on that property to ensure that you're going to have a HOME eligible property. So, we're going to switch gears now and be talking about during that affordability period, how we're going to maintain affordability as part of this.

So, we're going to be talking about income restrictions, about how we're going to document those and then also, talking about rent limitations and how that's going to change over the life of that property. So, the HOME program allows for two definitions of income, the Section 8, oftentimes called the Part 5 methodology and then also, the IRS adjusted gross income or the 1040.

So, you, as the PJ, need to make a decision on which one of these definitions are you going to use and really, what the definition is doing is saying these are -- under our definition, it will define what we're going to count as income, what we're not going to count as income and that's different between what Section 8 is looking at.

There also, has an asset test as part of Section 8 and then IRS is making some adjustments based on the 1040 long form and the adjustments that are allowed under that definition.

And so, that written agreement needs to clearly identify which definition is going to be used, we need to make sure that all the folks that are going to be both taking initial certifications and those subsequent annual reverifications, that they know which definition am I using, what's going to be counted as part of that.

So, the PJ has to select one of those definitions for each of its programs. So, it can't be that some of my rental projects I choose to use the 1040, others I'm going to use Section 8.

And I will mention that because the low-income housing tax credit program utilizes the Section 8 definition, we tend to see rental housing and PJs choose to use Section 8, because it's the more common methodology and it lines up with what those other funding sources are going to be using.

So, we're using our definition to determine what are we going to count as income and then we're projecting that income forward for the next 12 months.

That's -- we're going to be doing that each time we determine whether someone is eligible to move into a HOME unit and we're going to also, be using that same definition when we determine ongoing throughout that affordability period whether they -- you know, what their income is and how that impacts the rent they should be charged, how we designate that unit.

I will mention there is an income calculator on our website, which will walk you through that process. It will help you document those requirements. It -- and there's something that it is not -- it's not saved on the calculator, but it allows you to be able to print that out and drop that in the file. So, that is an often for folks to use.

We just, within the last week or so, completed a determining income training for the HOME program. Those sessions were recorded and will be posted shortly on the HUD Exchange.

So, if you need -- we're going to briefly cover income, but if you need a more detailed training, I would recommend that as soon as those are posted, that you utilize those posted determining income trainings to strengthen your knowledge and that may be something that you refer property managers and new staff to make sure that they're up to speed on this.

So, we have a couple of particular [inaudible] that are particularly important for the HOME program. We talked earlier about the project rule and the program rule and making sure that we were going to be in compliance. So, when we have a very low-income person, that income requirement is at 50 percent area median income.

And so, we mentioned our low HOME units, that's going to be the maximum income for those units. The rest of our units are able to go up to the 80 percent Area Median Income requirement, but keep in mind that we talked about with the program rule, that at initial occupancy, at least 90 percent of our households, if maybe not all of them, will be required to be at 60 percent AMI.

So, we have different income levels that we're working with. So, that initial occupancy is the program rule, but we then talked about the project rule with this designation of 20 percent of our units if we have 5 or more HOME units. That's something that goes for the entire affordability period for that project.

And of course, the PJ, the developer, as they propose the project, may be targeting units lower than that to try to meet the housing needs for that local population. And so, your written agreement may have more specific requirements in place on that. So, for at initial occupancy, our new tenants can never have an income greater than 80 percent of median income.

Over the life of that project, we may have households that, when they initially rented, they were in compliance with this 80 percent requirement, but their incomes may have gone up over time. That's okay and we're going to be talking about the steps or the adjustments that we would make to accommodate that.

But keep in mind we are never going to kick someone out. We're never going to say, sorry, you are now over 80 percent income or you're over the 50 percent requirement for low HOME and require those folks to move. We're never going to do that, but we are going to be taking some actions on adjusting rents and we may be adjusting the designation of that particular unit.

And we're going to be talking about that throughout this training. So, as I mentioned, some projects may have an extended use period.

And so, once the HOME requirements have been met, those would fall away, it would no longer be a HOME project and whatever that extended use or other funding sources requirements would be would be what would apply after that affordability period has been met.

So, for income targeting, again, on the front end of that project, we're going to be making a designation on what those requirements will be making sure that the project will be in compliance with our HOME rules, but it also, might be that we've targeted those units more specifically to that little housing need.

And we mentioned about the program rule and about initial occupancy versus over the life of the project. So, HOME provides income limits, and this is going to be based on a household. So, that's everybody that occupies that unit. They aren't necessarily going to be family members.

So, for instance, if Kris and I were sharing a HOME unit, we would calculate the total of our income for both of us even though we would not be related family members in any way.

HUD is going to issue those income limits on an annual basis and they're going to be a little different based on the jurisdiction, based on the household size and they may go up or down over time.

So, that's something that the PJ, when those annual limits come out, is going to be responsible for making sure that they provide updates to all of their owners and managers to make sure that as you are making decisions about who can occupy a unit or recertifying folks, that you're using those current income requirements.

And on each one of those for both the income and the rent, there will be, on that notice, an effective date on that. So, you might -- either you get the new income information at the beginning of July, but maybe the effective date would be the middle of July. So, you will need to pay attention to the effective date on those.

And essentially, the income limits are provided based on person -- number of persons in that household and they're broken out by our different categories of 30 percent, very low is 50 percent, the 60 percent and then low-income, which is our 80 percent area median income. These are not something you have to calculate yourself.

These are provided to you by HUD on an annual basis. For larger households that go beyond eight persons, there is a calculation that has to be done. It can be done manually based on these rules, but also, the income calculator will also, make that calculation for larger households if that is needed.

So, let's talk a little bit about what are we actually using as income. Are we counting everything, are we making some adjustments? So, the first part of this is really looking at what is my definition of it? And for our Section 8 income definition, we're going to be looking at the gross income for that household.

We may also, be imputing some additional income from assets that that household has. If we are using the 1040 income definition, then we're going to be following the current year's IRS definition on that. And so, for instance, some of my income is set aside out of each paycheck for a health savings account and that, under the 1040 IRS methodology --

That income that I set aside for the health savings is not counted as part of my income. So, depending on which method or definition was being utilized, it would make a difference on which -- what my actual calculated income was going to be. So, there are some times where we're going to make adjustments on income.

This is for elderly, disabled or households with dependents. We're going to be using adjusted income when we have an over-income tenant and we're going to determine what is the rent that we're going to be charging. It's also, something that's used under tenant-based rental assistance.

If you were involved in uniform relocation where we had someone that was displaced, we would also, use an adjusted income, but generally, we're going to be using gross income and it's going to be based on what your income definition would actually count. So, income verification, very important to be able to document.

Do we actually have an income eligible tenant? So, at initial occupancy, every tenant will have to have a full income determination done utilizing source documentation. The HOME program now requires a minimum of two months of source documentation. That will be things like [inaudible] statements, interest statements, those sorts of things.

You, as the PJ, might've set a longer minimum standard on that, but at least two months of source documentation. And there's a timing issue on this. We want to make sure that that information that we're using to calculate is actually current. So, our income verification is good for six months.

After that, you would have to revisit that, make sure that you have current income documentation.

So, for instance, if I had a rental project that had a waiting list and if my process was to check whether a household was going to be income eligible at the point I put them on a waiting list, once a unit comes available and they are the next tenant in line, I'm going to need to check if that income certification that I did is older than six months.

I'm going to have to do a new verification, collect new source documents to make sure that I'm projecting forward what their actual current income is versus something that was collected some time ago. So, that needs to be in every file for every initial occupancy.

But throughout the life of that project here at the HOME affordability period, we're also, going to be annually recertifying their income. Now, here's where the HOME program allows a little bit more flexibility. So, we could do source documentation every year, but we also, could choose, in our other years, to use a written statement.

So, a self-declaration from that household. Or we also, might have a household that has been found eligible by another program.

So, for instance, if they were getting a project-based subsidy and the program that was providing that subsidy had determined that they were income eligible for that assistance, which makes them, by definition, eligible for the HOME program, we could always use that. So, we have -- at initial occupancy, we're always going to be doing source documentation.

But we also, at every sixth year of the project, will have to do source documentation for all tenants. Now, there's been some confusion over the years where folks thought this meant that it was six years from when the tenant moved in. It is not. It's based on six-year anniversary for the affordability period.

So, if I have a project that has a 20-year affordability period, that means the 6th, 12th and 18th year I would have to make sure that I do full source documentation for all tenants.

They might've just moved in the year before and I did source documentation at that point, but if the next year is the sixth year of the affordability period, I'm, again, going to have to do source documentation for that. That might be something that some PJs will need to look back at their written agreement and make sure you've captured that requirement correctly for your properties.

So, we mentioned that the low-income housing tax credit program is using the Section 8 definition of income. It has a different methodology on how it allows tenants to certify their assets. Keep in mind that the low-income housing tax credit definition is a little bit different than what the HOME program is.

And so, we're going to have to follow the HOME program's more stringent rules on our asset income if we have a HOME unit that also, is assisted with low-income housing tax credits. Keep in mind that when we got two programs and we have two different sets of rules, we're going to have to use the more restrictive.

So, in this case, we're going to use the lowest income limitations that apply, whether it's HOME or low-income housing tax credit be what we use for our eligibility calculation. Let's talk a little bit about our HOME rents. So, we mentioned before, when we talked about the program rule, about designating units that were going to be our low HOME units.

So, we're designating those low HOME units for households at 50 percent and below. So, we want those rents to be lower to be more affordable. And so, the HOME program has essentially a rent schedule of limitations, rent limits, that are broken out between high and low HOME rents and that sets what that maximum rent is going to be.

That's provided to you by HUD annually and it's by bedroom size. We mentioned -- Kris was mentioning the Single Room Occupancy units, SROs. Those would be using the zero-bedroom HOME rent limits. Keep in mind that that maximum rent is including any tenant paid utilities.

So, we're going to be talking a little bit about utility allowance schedules and we're essentially using those to determine what's that out-of-pocket utility payment going to be for that tenant and we have to reduce from what that HOME maximum rent is -- we have to reduce it by that amount of tenant paid utilities.

So, for instance, if I had an $800 HOME maximum rent and our utility allowance schedule was projecting that that renter was going to pay $100 a month in tenant paid utilities, that means that the maximum lease rent that we can actually charge is going to be reduced by that.

So, it's going to be $700 instead of $800, because we have those tenant paid utilities that we have to make that adjustment for. So, that contract rent that's on the lease can never exceed what that maximum rent calculation is when we back out those utilities.

So, that's one of the things that the PJ, on an annual basis, is part of the monitoring, is part of their review of rent and occupancy reports and also, rent schedules is going to be reviewing that to make sure that projects are using that properly. If we have a special unit type, such as single room occupancy or group homes, we may be using a different rent schedule on that.

And the PJ is going to need to make sure that that is being done correctly. Now, keep in mind the HOME program cannot require an owner to accept rents that are lower than what that initial rent was when the project was funded. So, the PJ will want to include, in that written agreement, what those initial rents are at the point that we fund that project.

So, for instance, if I have $800 and $700 rents when I initially fund that project, if average income goes down in my service area, and so, my rents, which are based on incomes -- if I see my rents go down over time, so, maybe my HOME maximum rents go down to $750 and $650, we cannot require the owner to lower their rents below what those initial rents were when we funded that project.

The reality may be that if that owner says, no, I'm going to keep it at $800 a month, if that local market has generally gone down, it may be that now you can't rent that HOME unit, because the rent just isn't really competitive in the market, but the HOME program itself will not force the owner to lower the rents below what those initial rent levels were.

So, here's just a chart providing an example. So, our efficiency of zero-bedroom unit and then guide bedroom size, you'll see that the rents go up based on the size of the unit. And those are broken down between low HOME and high HOME rents.

In some cases, they might be the same. So, for instance, when we look at efficiency and one bedroom, we see that the high and the low HOME rents are exactly the same. It's because they're calculated a little bit differently on that. The chart will also, provide you what the fair market rent is.

And so, in the case of a group home, the way we're going to be setting our rents is using the fair market rent and then prorating that across the number of tenants that we have in that group home. So, different methodology. And again, your written agreement and we would want to spell that out. So, let's switch gears and talk a little bit about utilities.

We know that's part of our calculation on figuring out what that lease rent is actually going to be for that tenant. So, when HUD publishes our HOME rents, we know that that includes any tenant paid utilities. And so, you're going to have to be able to project what those tenant paid utilities will be and back those out, subtract them out to determine that lease rent.

So, each PJ is required to determine what the utility allowances will be, the schedules that are going to be used for making a determination.

And your requirements allow you to either use the HUD utility schedule model, but also, if you were to look at the HOME [inaudible] volume 13, number 2, which I believe was reissued in August 2016, it also, provides you some other models to be able to use for additional models to be able to use on that.

And really, what we're trying to accomplish here is get to a project-specific methodology. So, we want to make sure that if we build a more energy efficient project, that our -- we're going to be projecting lower utility costs that that tenant is going to incur than we might on -- maybe we had an older project that was not as energy efficient, that property would have higher utility usage.

And we want to get our utility allowances to line up with what we really expect for each individual project.

In the past, we had been using the public housing utility schedules and the issue with that was that essentially, that's based on what's recorded as utility usages for the public housing portfolio, which doesn't necessarily line up with what we would expect with the HOME-funded project utility usage.

And so, that change has been implemented and use. The PJ needs to make sure that you are annually making that determination of what those utility allowances will be for projects. We talked a little bit about this, but let's just revisit this. So, for group homes, which is sort of one of our special categories, this is where we have two or more persons that are sharing a unit.

And this might be -- you might think in terms of if we had, let's say, an existing single-family home, that we maybe have three folks who are going to each have their own bedroom and maybe they'll have individual baths, but they're going to be sharing some part of that bath. So, common living areas that may be sharing the kitchen, it might be sharing bathrooms.

And so, we're not going to use the HOME rent schedule, which is based on number of bedrooms, we're going to look at that unit as a single unit. And so, we're going to look to the HUD fair market rents that are listed and then we're going to prorate that based on the number of tenants.

So, we're really treating this as a single unit and then dividing those costs across the tenants or the group that is occupying that unit. We also, mentioned earlier Single Room Occupancy units, SROs. So, this is where we have a single room. It might have both its own bathroom and cooking facilities, but it might be that they have one or the other and then share with other folks.

So, the -- our rents are going to be adjusted a little bit based on what that unit looks like and the kind of facilities. So, the rents are going to be capped at that applicable HOME rent. And so, if we have a unit that has its -- it doesn't have food or sanitary on its own, so, it's sharing, then we're going to use 75 percent of the zero-bedroom HOME rate.

If they have both, then we're going to use the HOME efficiency unit rent schedule that we utilized. So, if you're having to share, they don't have all of those amenities themselves, we're not going to charge them the full rate on that. For a combination with HOME and low-income housing tax credit, so, both programs are going to have rent limits.

Both programs are going to have utility allowances that need to be backed out to determine what that maximum rent is that we can actually charge that tenant. And so, for a property manager, you're going to have to pay attention to both program requirements and then take whatever the more restrictive program limits would be in place.

And of course, the limits change over time with both programs. So, that's going to be something, on an annual basis, to be looking at to make sure that you know which of those is going to be more restrictive.

As I mentioned, many PJs are choosing, as part of their written agreement, to include some detailed charts to try to help property managers be able to figure out specifically how that unit mix may work, because you may have some units that are just tax credits, some units that are HOME only and then some units that actually have been designated as both a tax credit unit and a HOME unit.

So, in those particular units, you're going to have to be doing that comparing under both programs and taking the more restrictive of the two where your tax credit alone will only follow tax credit and your HOME units without tax credit designation will only follow the HOME requirements.

So, it makes it a little complicated for a property manager to make sure that they know specifically what those requirements are they are going to be applying. Kris, are there questions that we should try to address at this point?

Kris Richmond: We've had a whole discussion about unborn children. There were a lot of people that were at your other webinar, which I was not on. So, we've had a lot of discussion. So, they want to know if they can count them or not. I initially said no, but then I had a whole bunch of people say, they said they could.

And then I had somebody who clarified that said, it's really up to the PJ to decide. So, since I wasn't on that webinar and didn't hear the most recent guidance, maybe you could clarify that.

Les Warner: So, you wouldn't think unborn children would be such a big topic, but it -- the PJ can set that policy in place. I think a lot of folks have tried to avoid that and say, we're not trying to make that determination, so, we're not going to count them, but it's allowable.

You would simply need to have a policy in place in determining when you're going to count them and then make sure you applied that equally for everybody that's involved.

Kris Richmond: Great. The SRO discussion has also, come back up again. And so, a couple related questions, but from different people. One wanted to know, how do you know if a project's an SRO or a group home?

And then the other person wanted to know, how are they -- how are SROs classified with respect to the high and low HOME units if they don't have food prep or sanitary facilities? Are you able to speak to that a little bit?

Les Warner: Yeah. So, one of the things to keep in mind, so, in some communities, you will have -- as part of your zoning code, you will have a definition of what you consider under zoning to be a group home versus a SRO. So, what HUD has said is that if you have that language locally, that you need to be in compliance with that.

So, generally, you, as the PJ, are going to make that designation. Am I going to -- when I fund this project, am I going to consider this to be an SRO? And so, I'm going to follow the SRO designation. If I am working with a -- if I designate it as a group home, then I, of course, know that I'm going to use a different calculation on those rents.

And so, that's something that upfront you, as the PJ, need to make that designation, but just know that that's something that you need to be consistent with whatever your local zoning is. So, the part of the question about low HOME and does that apply, it doesn't apply to group homes, but it does apply to SROs. Anything else?

Kris Richmond: Oh, let's see, there's been a lot of questions. I've just been answering them nonstop.

Les Warner: Well, then I'm going to suggest we go ahead, complete the slides that we're going to handle for today just so, we make sure we kind of stay on pace and then depending on where we are timewise, we might revisit a couple of those.

Kris Richmond: That sounds great.

Les Warner: All right. So, we talked about the HOME and low-income combination on rents. So, we want to talk a little bit then about what are the things that the PJ needs to think about in terms of rent.

So, the PJ is required, when those new rent schedules come out and with HOME, the income and the rents are going to come out at the same time, because they're -- the rents are based on the new income requirements. So, when those come out, the PJ needs to get those to the owners and managers.

So, notify them that they're available. It might be posted on their website, it might be a link that's provided, but the PJ is responsible for notifying their projects and their portfolio when those new limits come out. And they also, annually need to review and approve the rents that that project is proposing to utilize.

So, let's say if my rent schedules came out, let's say, in July, I would have a process annually where my projects are then going to submit a proposed schedule of rent. So, if my maximum high HOME rent for a 3-bedroom unit went up from $800 to $850, that project might be saying, I'm going to raise the rent to $850.

But they might be coming to the PJ and saying, I'm only going to raise it to $825, because I think in this particular market, $850 is not going to be competitive. So, the PJ is going to be reviewing what's been proposed by that project and then approving those before they're utilized.

Keep in mind as a PJ, thinking about when you underwrote that project, you are projecting how the rent income was going to rise over time and you also, were making some projections about what you had thought the expenses were going to be order the life of the project and that's how you determine how much subsidy that project needed.

So, all of your underwriting was based on rents going up by, let's say, 2 percent per year, if you have a project that chooses not to raise rents over time, that may cause you, for that project over time, to not be financially stable anymore, because the income that you have projected that would be available is actually not coming in, because they've chosen not to raise rents.

So, there is a process where that PJ needs to consider is what the project is proposing -- is that reasonable? Will that work for that market? But also, how does that impact the financial stability of that project? Along with that, you'll be looking at the proposed utility schedules on that.

So, once that's been approved, then the property manager would begin to put those into place as they are doing their annual recertification for tenants and signing new leases and setting new rent schedules in place for each of those individual households. But the PJ annually needs to have this process in place where they're going to review and approve.

So, some things to think about in trying to monitor the incomes and the rents, I think most PJs will come up with some kind of a standard reporting form. There is, on the last slide in your packet that we'll see tomorrow at the end of the session, a guide for owners under rental compliance guide that actually has a sample form within that guidebook that you can choose to use.

And you at least need to have an annual reporting. You might, as a PJ, choose to have quarterly or semi-annual reports that would come into use that would show [inaudible] occupancy.

So, you'd be able to track the current status of each of your projects, make sure that they've continued to have income eligible tenants in those units, that they're following the approved rent and utility schedules and making those calculations correctly. The PJ would use those as a way to do a remote or desktop monitoring.

If they saw things on that report that appeared to be an error, the PJ then, of course, would be contacting the project and asking for additional information. As part of the oversight and monitoring, the PJ is then going to be looking at those income certifications.

So, they're getting reports that show them what rents are being charged, what household incomes are, but they're going to be also, sampling those income certifications to make sure that that property manager is correctly calculating, that they're using the right limits for that.

And so, that would be part of an onsite review to essentially verify what you're seeing in reports that are coming across your desk.

So, during that affordability period, I mentioned, as we talked about written agreements, the PJ has to make sure that that owner of the property continues to manage that in a way so, we still are in compliance with all those requirements in the written agreement. So, we need to make sure that we still have the same number of required HOME units.

We talked about this breakout between high and low HOME units, which may be required of these. We need to make sure that those leases are protecting the rights of the existing tenants. We'll also, be talking tomorrow about the student rule, about VAWA, Violence Against Women Act, which has -- applies in some ways on protecting the rights of tenants.

And we're going to be spending really the second half of this training really talking about over time as incomes change for those tenants, how will we be making adjustments on rents, on unit designations to try to keep this project in compliance.

And so, our designation within that written agreement about whether the unit is fixed or floating becomes really critical, because you'll see tomorrow when we walk through each of these decisions when we have changes over time in income, that depending on whether the unit has been designated as fixed or floating, will, in many cases, make a difference on what actions we have available to us to bring that property back into compliance with our unit mix.

So, within our unit mix over the life of that project, we need to maintain that same number of HOME and non-HOME units. Those are laid out within that written agreement. So, if we designate that there are 10 HOME units, over the life of that project, we're never going to require additional units to be designated or restricted as HOME units.

But we also, would not drop below that minimum requirement of 10 HOME units. And as we mentioned before with fixed and floating, those 10 specific units that are going to be our HOME units, if it's a floating project, they may be different units over time, but we're always going to meet that 10-unit requirement on that.

Also, we have, if we have a designation of low and high HOME units, that mix or that proportion between which of these units are low HOME units and charging that low HOME rent, restricting incomes to 50 percent or below is going to need to be maintained also.

And again, that's going to be called out within our written agreement and we're going to be working, as we do our reverification, to make sure that we stay in compliance with that. So, as I mentioned before, we are never going to require a tenant to move out of that project when their income raises.

So, it's great that they are seeing an increase in their income. We don't necessarily hope that people will stay low income, but we're going to make some adjustments then, depending on a unit designation, on their rent that's going to be charged to that tenant over time based on their increase in income.

And we'll be talking tomorrow that depending on the -- whether it's a high or low HOME unit and whether it's fixed or floating, we may actually switch out their unit designation and maybe we'll designate another one of our units in our projects as our low HOME unit and change the designation on this existing tenant's unit to have high HOME unit and change that rent also.

But we're always going to be maintaining this unit mix. And so, really important for property managers to understand what are the requirements, what are the numbers that we need to maintain in this breakout on this. We will talk in more detail about our rent increases over time.

For our HOME units where we have somebody that does not exceed, doesn't go over income, we're always going to be following our HOME income requirements, but in the case where we have a tenant that actually goes over income, so, they go over 80 percent area median income, we're actually going to be raising their rent over and above what our HOME requirements are.

We're not going to require them to move out, but we are going to make some adjustments to the rent that they're actually being charged. So, as we mentioned, over time, those rents are going to change, HUD is going to issue those on an annual basis. The property is going to be reverifying income on an annual basis.

And so, as those leases are renewed, we're going to be making decisions about how this unit is going to be designated, what the appropriate rent is going to be charged for this household and of course, it's going to follow our approved schedule of rents and utility allowances. And we'll talk more about the substitution of a low to a high unit.

Essentially, we're not able to change a low HOME unit designation until we find a replacement for that. We'll go over that in much more detail tomorrow. We'll also, be talking about when we have over income individuals, about raising rents for them.

And this idea that you will have times where your project is going to be in what we would call temporary noncompliance where you're waiting for that opportunity to make that next adjustment.

And the key here is for the property manager, to understand when they can make those adjustments and to understand the timing and requirement on that and for the PJ to be able to determine is that property actually taking those actions when it's required, do they understand those requirements.

And these are the changes that we're going to focus on tomorrow for changes over time. Kris, we're at 2:59.

So, I think I'm going to end for today and we will pick up first thing tomorrow in our session talking about fixed and floating units and begin to talk about those changes that are going to occur over time as we have our rent schedules changed, as we have our income verifications and recognize when we have to make adjustments.

So, thank you, everyone for participating. We will be back tomorrow at the same time to do the second half of this training and then keep in mind, on Thursday, we will have a one-hour office hours session to be able to address questions. Thanks, everybody for participating.

(END)