

MaineHousing Management Handbook

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MaineHousing’s Accounting Manual ([Word format](#)) ([pdf format](#))

MaineHousing’s Low Income Housing Tax Credit Manual ([Word format](#)) ([pdf format](#))

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Intro / Background

Purpose

This handbook is designed to assist owners and managers of multi-family housing properties financed by the MaineHousing.

Some common lending programs include:

- Section 8 New Construction/Substantial Rehab Program
- Rental Loan Program
- Low Income Housing Tax Credit Program
- Statewide Housing and Rehabilitation Program (SHARP)
- Rental Rehabilitation Program
- New Lease Program
- Supportive Housing Program

Role of MaineHousing's Asset Management Department

[MSHA's Asset Management Division](#) was created to oversee the health of MaineHousing's Multifamily Loan Portfolio and to ensure compliance with the terms of the various loan documents in effect. MaineHousing also serves as Contract Administrator for the U.S. Department of Housing and Urban Development (HUD) for over 250 Section 8 Housing Assistance Payments (HAP) contracts in Maine. In this role as Contract Administrator, the Asset Management Department has certain responsibilities to HUD for project monitoring and oversight.

The Asset Management staff also provides training and technical assistance, as needed, to affordable housing owners and managers.

Different Funding Sources Dictate Compliance Obligations

MaineHousing has used several different sources of funds used to finance properties in its Multifamily Portfolio. Some of these sources are from the federal government and some are from the state government. Each source has different compliance requirements and obligations. Having an understanding of the source of funds used in your property's financing is useful in helping to understand the degree of monitoring Asset Management must perform.

Some common funding sources include:

- Mortgage Revenue Bonds
- 501(c)(3) Bonds
- Federal HOME Funds
- State HOME Funds
- Low Income Housing Tax Credits
- State General Obligation Bond Funds
- Stewart B. McKinney Homeless Assistance Grants

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Importance of Loan Documents

This handbook can only address general project requirements as each project is unique. It is critical to read and become familiar with all of the project loan documents. These documents contain the specific compliance requirements of your property.

Some common loan documents include:

- Promissory Note
- Regulatory Agreement
- Mortgage & Security Agreement
- Rehab Escrow Agreements
- HAP Contract
- Financial Assistance Agreements
- Commitment Letter

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Annual Financial Statements

When are the Annual Financial Reports due?

1. The AFR must be submitted by the owner for each fiscal year ending, after MaineHousing's mortgage closing. Two copies of the report must be submitted to the Asset Management Department of MaineHousing.
2. Generally, the AFR must be submitted within sixty (60) days following the close of each fiscal year of the development. Please refer to your individual project's loan documents.

General Requirements?

Preparation

1. Financial statements contained in the report must be based on data obtained from separate books and records established for and relating solely to the entity.
2. Financial statements and supporting schedules related thereto must be prepared consistent with the formats contained in these requirements.
3. The financial statements and schedules must be audited in accordance with GAAP (generally accepted auditing standards) and GAGAS (generally accepted government auditing standards), if applicable, by an Independent Certified Public Accountant with the purpose of expressing an opinion thereon. There must be no limitations placed on the scope of the examination.
4. The Certified Public Accountant shall be selected by the owner and be acceptable to the MaineHousing.
5. With the exception of Schedule 3 - Statement of Receipts and Disbursements, Development Operating Fund, the financial statements contained in the annual report must be prepared on the accrual basis of accounting.
6. Comments on and explanations of significant "other" items not fully explained by the title or description of the accounts must be made a part of the report.
7. Notes to financial statements must include notes relative to the Mortgagor organization and policy changes affecting the preparation of financial statements and account balances, as well as significant accounting policies that have been followed in the preparation of the financial statement.

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Notes to the financial statements shall include all disclosures required by GAAP and GAGAS standards. In addition, the notes shall include the following:

Long Term Debt:

Date Incurred
Original Amount
Purpose
Creditor

Short Term Debt:

Creditor
Interest Rate

Accounts Receivable, Loans Receivable and Notes Receivable other than Tenant Receivables:

Name of Debtor
Original Amount
Terms of Repayment

8. The following financial statements and schedules are to be included in the annual financial report as submitted by each owner:

Exhibits and Accompanying Notes Thereto

<u>Description</u>
A <u>Comparative Balance Sheets</u>
B <u>Comparative Statements of Operations and Partners Equity</u>
C <u>Comparative Statements of Changes in Financial Position</u>

Schedules

1 <u>Comparative Statements of Rental Operations Expenses</u>
2 <u>Comparative Statements of Other Operating Income and Expenses</u>
3 <u>Statement of Receipts and Disbursements - Development Operating Fund</u>
4 <u>Statement of Restricted Cash Reserves and Escrows</u>
5 <u>Statement of Surplus Cash Calculation</u>
6 <u>Statement of All Cash Accounts</u>

Also, the IRS compliance certification required by the Financial Assistance Agreement must be filed in a timely manner with MaineHousing. Certification requirements are provided to prospective Mortgagees at the time MaineHousing issues its Notice to Proceed; additional copies will be furnished upon request.

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9. Comparative Statements Waiver:

The requirement for comparative statements for the first year filing under these requirements is waived.

10. Management Letter:

If generated by the Certified Public Accountant as a result of audit, should be made available by the owner to the Authority by submitting a complete copy of the management letter as soon as it is available.

What are the contents of the Annual Financial Statements?

1. ACCOUNTANT'S REPORT: A Certified Public Accountant must examine the books and records of the mortgagor and must furnish an opinion on the annual financial report. The accountant may be requested by MaineHousing to justify any material departure from the following language:

“We have audited the accompanying Balance Sheet of (Partnership Name) as of December 31, 20XX and 20XX and the related Statements of Operations and Partners' Equity and Changes in Financial Position for the years then ended. These financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these statements based on our audit.”

“Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.”

“In our opinion, the aforementioned financial statements present fairly the financial position of (Partnership Name) at December 20XX and 20XX and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.”

“The examinations referred to above were directed primarily toward formulating an opinion on the financial statements of (Partnership Name), taken as a whole. The supplementary data included in Schedules 1 through 6 are presented for supplementary analysis purposes and are not necessary for a fair presentation of the financial position and results of operations and changes in financial position of

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(Partnership Name). The supplementary data have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, are stated fairly in all material respects only when considered in conjunction with the financial statements taken as a whole.”

Date _____

2. Mortgagor's Certification. The annual financial report must be accompanied by a certification by the mortgagor when the development is owned by an individual; by at least one, preferably two, partners when it is owned by a partnership; or by at least one, preferably two, officers when it is owned by a corporation. The following language shall be used:

“I/we hereby certify that I/we have examined the accompanying financial statements and supplemental data of (mortgagor's name) for the fiscal year ended _____ and, to the best of my/our knowledge and belief, the same are complete and accurate.”

What Exhibits and Schedules are needed?

1. [Exhibit A, Comparative Balance Sheets](#) - Must contain comparative information with the current year for at least one (1) preceding year. The format and account classifications should follow, insofar as possible, those contained on Exhibit A. Classifications on the statements which are not applicable may be deleted.
2. [Exhibit B, Comparative Statements of Operations and Partners Equity](#) - Must contain comparative information with the current year for at least one (1) preceding year. The format and expense account classifications should follow those illustrated on Exhibit B. The statements shall include no less detail than that shown in Exhibit B. They must be prepared on the accrual basis and must segregate income and expense between Rental Operations and other operating classifications. As stated previously, these statements must be prepared on the accrual basis of accounting.
3. [Exhibit C, Comparative Statements of Changes in Financial Position](#) - Must contain comparative information with the current year for at least one (1) preceding year and component information as illustrated on Exhibit C, effecting changes in financial position with regard to working capital. This statement shall include no less detail than that shown on Exhibit C.
4. [Schedule 1, Comparative Statements of Development Rental Operations Expenses](#) - Must contain comparative information with the current year for at least one (1) preceding year. Must contain detail of the expenses reported on Exhibit B. The format and expense account classifications should follow those illustrated on Schedule 1. The statements shall include no less detail than that shown on Schedule 1. Account numbers and titles that are not applicable may be deleted.

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5. [Schedule 2, Comparative Statements of Other Operating Income and Expenses](#) - Contains comparative information with the current year for at least one (1) preceding year. Contains a detail of “Other Operating Income and Expenses” as reported on Exhibit B. The statement shall include no less detail than that shown on Schedule 3. Examples of some other operating expenses are as follow:
 - a. Construction Period Costs: All costs paid or incurred that benefited the construction period.
 - b. Unallowable Costs: As set out in the Mortgage and Security Agreement and other related documents, i.e., the cost of goods or services that are not operating expenses as outlined in this Handbook, late fees, bank overdraft charges..
 - c. Other Partnership or Corporate Costs: Expenses paid or incurred that are not related to or necessary for the direct rental operation of the development as a housing facility.
6. [Schedule 3, Statement of Receipts and Disbursements - Development Operating Fund](#) - The statement shall include no less detail than that shown on Schedule 2. It shall be prepared on a cash basis and shall include all receipts, i.e., Rental income, concessions, commercial property, advances by owner, releases from restricted cash reserves and escrows, tenant security deposits, etc. It shall also include all disbursements, whether by check or in cash. Transfers to and from restricted cash reserves and escrows should agree with Schedule 4. The fund cash balance at year-end must be broken down between petty cash, specific unrestricted reserves and development operating account balances.
7. [Schedule 4, Statement of Restricted Cash Reserves and Escrows](#) - This statement generally includes no less detail than that shown on Schedule 4. It shall include all restricted cash reserve and escrow accounts.
 - a. Tax & Insurance Reserve: The amount required in this account at the end of the fiscal year is the amount which, together with future monthly deposits, will equal the estimated or actual real estate taxes and insurance due on or about 15 days prior to when such items are payable without interest or penalty. With respect to insurance, the policy anniversary date is considered to be the due date. For taxes, the due date without penalty is that date specified on the property tax bill. Following is a typical example of the funding calculation when certain assumptions are made.
 - (1) Assumptions
 - Project Fiscal Year End is 12/31/2008
 - Property taxes, most recent bill is \$12,000 for the year and is payable without penalty on or before April 5, 2009. Monthly funding is \$1,000 ($\$12,000 \div 12$ months).
 - Property Insurance, annual premium is \$2,400 and the policy anniversary date is 6/18/2009. Monthly funding is \$200 ($\$2,400 \div 12$).

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Note: Reserve Funding Calculations

If the policy date or due date is prior to the 15th of a month, then that month is not included as a required funding month. When the payment date is after the 15th of the month then that month is included as a required funding month.

(2) Required Balance @ 12/31/2008

(a) Property Taxes

Per item #1A above, funding would have to begin in April to fully fund the escrow by March 2009, therefore April through December = 9 months required funding by 12/31/08 or 9 mo. at \$1,000/mo.

Amount required 12/31/2008	\$9,000.00
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(b) Property Insurance

Per item #1A above, funding would have to begin in July to fully fund the escrow by June 2009, therefore July through December = 6 months required funding by 12/31/2008 or 6 mo. at \$200/mo.

Amount required 12/31/2008	\$1,200.00
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Total Required Balance (T & I Escrow 12/31/2008)	\$10,200.00
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b. Replacement Reserve: The amount required in this account at the end of a given fiscal year should be arrived at as follows:

(1) Assumptions

- Project Fiscal Year End is 12/31/2008
- % to be applied to total annual contract rents per Mortgage and Security Agreement is 4%
- Gross potential annual rent is \$200,000.

(2) Required Balance @ 12/31/2008

(a) Required balance 12/31/2007	\$31,075.00
(b) Required deposits for year - 4% of \$200,000	+\$ 8,000.00
(c) Withdrawals authorized by MSHA during year	- \$ 4,200.00
(d) Actual interest earned on account during year	+\$ <u>2,790.00</u>

Total required balance @ 12/31/2008	\$37,665.00
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8. Schedule 5, Statement of Surplus Cash Calculation - The cash section of the statement represents cash resources on hand and in banks at balance sheet date (including

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unrestricted reserve and escrow funds). The current obligations section of the statement represents the following:

- a. All sums due or currently required to be paid under the terms of any mortgage or note. (Such sums do not include mortgage principal payments or restricted reserve or escrow deposits due on the first day of the month following the end of the fiscal period. However, any mortgage interest that accrued during the last month of the fiscal period must be included.)
- b. A deficiency in funding or (excess funding) of the restricted reserve and escrow accounts; and
- c. Other current obligations of the development at the balance sheet date that benefited the period as of or prior to that date and which will be paid in a subsequent period; and
- d. Deferred income that applies to a period subsequent to the balance sheet date; and
- e. Delinquent or (Excess) transfers to the tenant security deposit escrow; and
- f. Other items that appropriately reflect current obligations at balance sheet date and are not included in items a. thru e. above.

The Adjustments to Surplus section represents prepaid expenses (except taxes and insurance) that will be applied in a subsequent period (not requiring cash) and receivables within 30 days due as of the Balance Sheet date and that apply to the current period.

The format and account classification should follow the illustration on Schedule 5 and the Statement shall include no less detail than that shown on Schedule 5.

9. [Schedule 6, Schedule of All Cash Accounts](#) – Listing of account name and number, institution where held, type of account (checking, savings, CD, etc.), interest rate, maturity date (if applicable), signatory controls (sole, either/or, MaineHousing sole) and account balances of year-end. This schedule must reconcile to all cash accounts on the Balance Sheet.

Explanatory Note: All references to HAP within the Annual Financial Report refer to the Housing Assistance Payments Program of the Department of Housing and Urban Development. Not all properties financed through MaineHousing include these accounts. It is presented for informational and placement purposes in the event HAP or other federal subsidies do apply to a subject property.

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Budget Process

What is it?

The budget process is a financial planning tool for Property Management staff that also enables MaineHousing to effectively monitor the ongoing financial health of a given project.

The budget process also provides an opportunity for the owner or management entity to request withdrawals from restricted reserve funds or proposed increases in rents in the case of RLP (Rental Loan Programs) projects.

The budget is used to estimate the financial operations of a project for the upcoming fiscal year. As a planning and financial control aid, the budget process involves: (1) establishing performance objectives; (2) comparing actual performance against objectives; (3) determining reasons for deviations from objectives; and (4) taking corrective action to improve performance. Since the annual budget must be submitted prior to the close of the current fiscal year, expenditures for the last two or three months of operation must be estimated. Estimates should be verified for reasonableness by comparing them to the prior year's actual experience for the estimated months.

Who must submit a budget?

Overseers of Section 8 and large RLP projects with MaineHousing as lender are required to submit a budget annually.

Other Projects with [Loan Documents](#) that require a budget must also submit the budget and related documentation.

What is the submission criteria?

The completed Development Annual Budget Worksheet ([Excel format](#)) ([pdf format](#)) must be submitted. Click here for further details on this worksheet ([Word format](#)) ([pdf format](#)).

For projects with Resident Services, the Resident Services Addendum ([Excel format](#)) ([pdf format](#)) must also be submitted. This schedule is used to record the detail of income and expenses associated with providing resident services for the project. Total Resident Services Expenses needs to be forwarded to Schedule A, line #37 and Total Resident Services Income to line #49.

Submissions should be accompanied by a narrative explaining any significant increases, requests for use of restricted reserves, new line items, detail for expenses included in Other Administrative Expenses – Line 6, and deletion of line items from previous budgets.

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When are budget submissions due?

The majority of projects required to submit a budget annually must follow the following submission deadlines.

- **RLPs:** 60 days prior to the beginning of the project's new fiscal year.
- **Sec. 8:** 30 days prior to the beginning of the project's new fiscal year.
- **Extensions:** Extensions may be requested in writing or by email to the Asset Manager. Approval is contingent upon acceptable reasons for the request and must be sent prior to the due date of the submission.

Owner/managers should review the project [Loan Documents](#) to verify specific submission guidelines.

What is MSHA's intent when reviewing the budget?

The Budget is first reviewed to ensure it is complete. Line items are reviewed generally to ensure that only allowable project expenses are charged to the budget. Items that are typically called out in a budget as unacceptable include:

- fees to management other than the approved management or incentive fees
- services or materials not allowable for the project
- fees for services or materials not related to the project
- Management expenditures that should be paid from the management fee

Other items reviewed include:

- Mortgage Principal and Interest
- Real Estate Taxes and Insurance
- Operating income and expenses
- Anticipated capital needs
- Funding of escrows at required levels
- Disbursements of escrow funds appropriately and with prior MaineHousing approval, when required
- Rental income projections
- Services and amenities
- Management/incentive fees

Annual Budget Report

Following the review of the budget, MaineHousing will respond to the management entity with an Annual Budget Report ([Word format](#)) ([pdf format](#)) which summarizes if the budget is acceptable.

The Annual Budget Report also indicates the amount of management fee approved, outlines the types and amounts of approved fixed asset transactions (contingent on MaineHousing review and approval of bids and specifications prior to commencement of proposed work).

The Annual Budget Report may request additional information not contained in the original budget submission.

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Budget activities will be reviewed at the time of the Management and Occupancy Review conducted by Asset Management staff to ensure compliance.

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Owner / Tenant Certification

(Rent-Restricted Programs not including the Low Income Housing Tax Credit)

What is it?

- Annual certification to MaineHousing that the owner is renting to the targeted number of households that are at/below specific income levels and that the rent charged those households does not exceed the maximum rent amount allowed.

Who does it generally apply to?

- Typically, properties financed under MaineHousing's Rental Loan Program, SHARP, New Lease, and some Supportive Housing programs are required to submit this report. However, please review [legal documents](#) to verify project specific occupancy requirements.

What is the Purpose?

- To verify that the intended number of eligible households are benefiting from the program as required in the loan documents.

General Requirements

- Project loan documents will describe the specific number of units that must be rented to households at/below specific income levels. They will also describe the maximum rent levels that can be charged and other occupancy requirements.

What is the Process?

- Each owner/manager must establish and certify on the Tenant Income Certification form that the household was income eligible at the time of move-in or income recertification:
 - LIHTC, Fed Home, RLP, SHARP, New Lease Tenant Income Certification
([Word format](#)) ([pdf format](#))
- Once the household is determined to be eligible, the owner/manager may not charge rent in excess of allowable limits:
 - 2008 FedHOME Income & Rents ([pdf file](#))
 - 2008 Non-FedHOME Income & Rents ([pdf file](#))
- Annually, the owner/manager must submit an Owner Certification of Occupancy form to MSHA:
 - Multi-Family Programs Owner Certification ([Word format](#)) ([pdf format](#))
- Submission is due the 1st day of the month but no later than the 15th day, corresponding to the last number of the project account number. (e.g., Project RLP-321 is due in January; Project RLP-422 is due in February, Project RLP-110 is due in October).
- Once received, MaineHousing's Financial/Operations Assistant will review the submission for completeness, accuracy and compliance with program requirements.
- A letter will be e-mailed to the owner/manager detailing the results of our review.

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Owners Certificate of Continuing Program Compliance Form

(Supportive Housing Program, Special Needs Housing)

What is it?

- An annual report provided to MaineHousing certifying that the owner is continuing to rent units/beds in the project to the targeted population as identified in the project loan documents.

Who does it generally apply to?

- Owners of properties that participate in MaineHousing programs providing housing for special need populations. Properties financed with Federal Home Funds or Tax-Exempt Bonds are ineligible to use this form.

What is the Purpose?

- To certify the owner's continued compliance with the occupancy and rent requirements contained in the loan documents.

What is the Process?

- Annually each owner/manager must certify that the residents meet published income eligibility requirements and/or any population targeting requirements.
 - Depending on the type of funding source in the project it may be necessary to complete a Tenant Income Certification Form for each resident. Please verify this need with your Asset Manager.
 - Tenant Income Certification form ([Word format](#)) ([pdf format](#))
- Once the applicant/resident is determined to be income/program eligible, and if the project is rent restricted, the owner/manager may not charge rent in excess of allowable published limits.
 - 2008 Non-FedHome Income & Rents ([pdf file](#))
- Annually, the owner/manager must submit a completed "Owner's Certificate of Continuing Program Compliance" Form to MaineHousing:
 - Owner's Certificate of Continuing Program Compliance ([Word format](#)) ([pdf format](#))
- Submission is due no later than the 15th day of the month; corresponding to the last number of the MaineHousing project number. (e.g. Project SHP-321 is due in January; Project SHP-422 is due in February, project 520 is due in October).
- Once received, MaineHousing will process the submission for timeliness, completeness, accuracy and compliance with program requirements.
- A summary of the review will be emailed by MaineHousing to the owner/manager detailing the results of our review.

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Annual Certification Of Continued Project Operation Supportive Housing SuperNOFA Program

Background

In September 1996, the Housing and Urban Development Administration (HUD) awarded a reservation of \$1,486,000 of funding under the Stewart B. McKinney program for the purpose of developing transitional housing in the State of Maine. This award was the product of a collaboration of community based service providers and the MaineHousing (MH) acting in concert to respond to HUD's 1996 Notice of Funding Availability for McKinney funds (SuperNOFA). Grantees that received Supportive Housing Program funding for new construction, acquisition, or rehabilitation are required to operate their facilities for 20 years.

What is it?

The Annual Certification of Continued Project Operation ([Word format](#)) ([pdf format](#)) is a certification that the facility that received assistance for acquisition, rehabilitation, or new construction from the Supportive Housing Program has operated as a facility to assist homeless persons. This also certifies that the grant is still serving a certain number of people at the facility and that all of the requirements of the grant agreement are being satisfied, following the Supportive Housing Program regulations.

Who must submit this certification?

Grantees who received McKinney funds under HUD's 1996 SuperNOFA.

What is the submission criteria?

The completed Annual Certification Form must be submitted to MaineHousing's Asset Management Department. Grantees were required to submit an Annual Progress Report to MaineHousing for the first year of operation after completion of rehab. MaineHousing then forwarded this report to HUD. For 19 years thereafter, the Grantee is required to submit an Annual Certification of Continued Project Operation.

When is the submission due?

The first day of the month following the project's operation year end.

What is MSHA's intent when reviewing the submission?

MaineHousing reviews the submission for completeness and it is then forwarded to HUD.

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Section 8 Renewal Guidance

Background

Section 8 projects with an expiring Housing Assistance Payment contract are eligible to renew these contracts for 1-20 years with options for annual increases or subsequent renewals.

The MAHRA – Multifamily Assisted Housing Reform and Affordability Act of 1997 permits HUD to renew expiring contracts and base Section 8 contract rents on market rents rather than the FMR standard, attempts to preserve low-income housing by making rents comparable and reduces the number of projects choosing to opt out of Section 8 contracts. Although contracts are executed for a variety of terms, the renewal contract has specific language that provides funding subject to the availability of sufficient budget authority appropriated by the Congress annually.

Owners should be aware of the date of expiration of all contracts and can contact MSHA to confirm the date. MSHA will contact owners one year before expiration to give them an opportunity to complete the appropriate documentation required to renew the contract.

Renewal Types

Projects that are eligible to renew under MAHRA are in one of the following three categories:

Initial Renewal

The initial renewal is the first renewal of the project’s HAP under the rules established by MAHRA. ***This is the critical year when an owner must decide which option is the best choice*** for the project and the length of the contract that is most beneficial. Note: if an owner chooses option 1 or 2 they cannot go back later and renew under option 4. The initial renewal under option 4 is subject to a rent calculation that is the lesser of the budget requirements or the OCAF (Operating Cost Adjustment Factor that is published annually effective February 11). This is known as the “lesser of” test and is only done at the initial renewal. Thereafter, an owner can typically choose either the OCAF or the budget as a basis for an increase. Click here for [Initial Renewal Instructions](#).

Multi-year Adjustment

The multi-year adjustments may be made by either application of the published OCAF or by budget-based adjustment if applicable. Click here for [Multi-year Renewal Instructions](#).

Subsequent Renewal

The subsequent renewal is the renewal of the expiring contract after an initial renewal under MAHRA. A new contract is executed. Click here for [Subsequent Renewal Instructions](#).

Contract Terms

Most contracts are renewed for 1-5 years (depending on the option chosen – for example, Mark-Up-to-Market requires a 5 year commitment). As a contract administrator MSHA can process a renewal for up to 5 years without HUD’s approval. Renewals are always subject to available HUD funding.

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Once a project is renewed, MaineHousing will continue to track the renewal expirations and anniversary dates and will send reminders to owners outlining the eligible renewal option.

Renewal Options

The HUD document that explains the renewal process is the Section 8 Contract Renewal Guide – Published in 2001 and can be found on HUD’s website:

<http://www.hud.gov/offices/hsg/mfh/exp/guide/s8guide.cfm>. There are 6 basic options which are explained in the Guide in great detail. Submissions must be sent to MaineHousing within 120 days of expiration date.

The following is a summary of the renewal options:

- Option 1. Mark-Up-to-Market (All for-profit projects are eligible to choose this option)
 - Rent Comparability Study is to be performed by independent appraiser and by HUD
 - Rent Comparability Study must be performed every 5 years
- Option 2. Other Contract Renewals with Current Rents at or Below Comparable Market Rents
 - Rent Comparability Study is to be performed by independent appraiser
 - Rents are subject to either the budget-based or OCAF approach but cannot exceed the comparable market rents
- Option 3. Referral to the Office of Multifamily Housing Assistance Restructuring (OMHAR)
 - Rents exceed comparable market rents
 - Will be referred to OMHAR to reduce rents and restructure the mortgage, or just reduce rents
- Option 4. Renewal of Projects Exempted from OMHAR (most of the 202/8, State Housing Financed, and RD and conventional financed properties are eligible to renew under this option)
- Option 5. Renewal of Portfolio Reengineering Demonstration or Preservation Projects
- Option 6. Opt Outs

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INSTRUCTIONS FOR INITIAL RENEWALS

Listed below each option is the required documentation that must be submitted to MaineHousing. All documentation must be submitted 120 days prior to the contract expiration.

Option 1: Mark-Up-To Market

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ Rent Comparability Study
- ✓ Completed Rent Schedule (*form HUD 92458*)
- ✓ Eligibility worksheets (see Section 8 Renewal Guide for more information)

Option 2: Contract Renewals for Other Projects with Current Rents At or Below Comparable Market Rents

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ OCAF Worksheet
- ✓ Rent Comparability Study
- ✓ Budget and narrative (*form HUD-92547A or form RD 1930-7 for Rural Development Projects*)
- ✓ Completed Rent Schedule (*form HUD-92458*)
- ✓ Certification of Purchasing Practices & Reasonableness of Expenses (*Attachment 5*)

Option 3: Referral to OMHAR

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ See Renewal Guide for additional OMHAR requirements

Option 4: Renewal of Projects Exempted from OMHAR

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ OCAF Worksheet (*Attachment 3B*)
- ✓ Budget and narrative (*form HUD-92547A or form RD 1930-7 for Rural Development Projects*)
- ✓ Rent Comparability Study (**for FHA Insured only**)
- ✓ Completed Rent Schedule (*form HUD-92458*)
- ✓ Documentation of 60 Day Notice to Tenants for Rural Development Projects: USDA-Rural Development Projects require a 60 day notice to tenants of proposed gross rent and utility allowance changes with a 20 day tenant response period. Another tenant notice, no less than 30 days prior to the implementation of the new rents, is also required. For additional information, see your RD Project Manager.
- ✓ Certification of Purchasing Practices & Reasonableness of Expenses (*Attachment 5*)

Option 5: Portfolio Reengineering Demonstration or Preservation Projects

- ✓ HUD is no longer processing initial renewals under the Portfolio Reengineering Demonstration Program (no submission to MaineHousing required)

Option 6: Opt-Outs

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ Documentation of one-year notification to tenants
- ✓ Owner certification of honoring tenants rights to remain at the property as long as it continues to offered for rental housing.

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INSTRUCTIONS FOR MULTIYEAR ADJUSTMENTS/RENEWALS

Listed below each option is the required documentation that must be submitted to MaineHousing. All documentation must be submitted 120 days prior to the contract expiration.

Option 1: Mark-Up-To Market

- ✓ Letter from Owner requesting Multiyear Adjustment/Renewal
- ✓ OCAF Worksheet (*Attachment 3B*)
- ✓ Rent Comparability Study (*if RCS is 5 years old a new RCS must be conducted*)
- ✓ Completed Rent Schedule (*form HUD 92458*)

Option 2: Contract Renewals for Other Projects with Current Rents At or Below Comparable Market Rents

- ✓ Letter from Owner requesting Multiyear Adjustment/Renewal
- ✓ OCAF Worksheet (*Attachment 3B*)
- OR
- ✓ Budget and narrative (*form HUD-92547A or form RD 1930-7 for Rural Development Projects*)
- ✓ Rent Comparability Study (*If RCS is 5 years old a new RCS must be conducted*)
- ✓ Completed Rent Schedule (*form HUD-92458*)
- ✓ Certification of Purchasing Practices & Reasonableness of Expenses (*Attachment 5*)

Option 3: Referral to OMHAR

- ✓ See Renewal Guide for additional OMHAR requirements

Option 4: Renewal of Projects Exempted from OMHAR

- ✓ Letter from Owner requesting Multiyear Adjustment/Renewal
- ✓ OCAF Worksheet (*Attachment 3B*)
- OR
- ✓ Budget and narrative (*form HUD-92547A or form RD 1930-7 for Rural Development Projects*)
- ✓ Rent Comparability Study (**for FHA Insured only**)
- ✓ Completed Rent Schedule (*form HUD-92458*)
- ✓ Documentation of 60 Day Notice to Tenants for Rural Development Projects: USDA-Rural Development Projects require a 60 day notice to tenants of proposed gross rent and utility allowance changes with a 20 day tenant response period. Another tenant notice, no less than 30 days prior to the implementation of the new rents, is also required. For additional information, see your RD Project Manager.
- ✓ Certification of Purchasing Practices & Reasonableness of Expenses (*Attachment 5*)

Option 5: Portfolio Reengineering Demonstration or Preservation Projects

- ✓ Letter from Owner requesting Multiyear Adjustment/Renewal
- ✓ OCAF Worksheet (*Attachment 3B*)

Option 6: Opt-Outs

- ✓ Not applicable - Owner will only be eligible to Opt-Out at the final expiration of the contract.

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INSTRUCTIONS FOR SUBSEQUENT RENEWALS

Listed below each option is the required documentation that must be submitted to MaineHousing (MH). All documentation must be submitted 120 days prior to the contract expiration.

Option 1: Mark-Up-To Market

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ Rent Comparability Study
- ✓ Completed Rent Schedule (*form HUD 92458*)
- ✓ Eligibility worksheets (see Section 8 Renewal Guide for more information)

Option 2: Contract Renewals for Other Projects with Current Rents At or Below Comparable Market Rents

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ OCAF Worksheet
- ✓ Rent Comparability Study (If RCS is 5 years old a new RCS must be conducted)
- ✓ Budget and narrative (*form HUD-92547A or form RD 1930-7 for Rural Development Projects*)
- ✓ Completed Rent Schedule (*form HUD-92458*)
- ✓ Certification of Purchasing Practices & Reasonableness of Expenses (*Attachment 5*)

Option 3: Referral to OMHAR

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ See Renewal Guide for additional OMHAR requirements

Option 4: Renewal of Projects Exempted from OMHAR

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ OCAF Worksheet (*Attachment 3B*)
- OR
- ✓ Budget and narrative (*form HUD-92547A or form RD 1930-7 for Rural Development Projects*)
- ✓ Rent Comparability Study (**for FHA Insured only**)
- ✓ Completed Rent Schedule (*form HUD-92458*)
- ✓ Documentation of 60 Day Notice to Tenants for Rural Development Projects: USDA-Rural Development Projects require a 60 day notice to tenants of proposed gross rent and utility allowance changes with a 20 day tenant response period. Another tenant notice, no less than 30 days prior to the implementation of the new rents, is also required. For additional information, see your RD Project Manager.
- ✓ Certification of Purchasing Practices & Reasonableness of Expenses (*Attachment 5*)

Option 5: Portfolio Reengineering Demonstration or Preservation Projects

- ✓ At the end of the 5 year term the owner will be eligible to renew under Option 1 or 2. See above for requirements.

Option 6: Opt-Outs

- ✓ Contract Renewal Request Form (*Attachment 3A-2*)
- ✓ Documentation of one-year notification to tenants

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- ✓ Owner certification of honoring tenants rights to remain at the property as long as it continues to offered for rental housing.

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Utility Allowance Review

MaineHousing has issued an Energy Cost and Utility Allowance Determinations Rule (Chapter 5 of MH Independent Agencies Rules) to guide our procedure for implementing and adjusting utility allowances.

As part of the utility allowance review process, it is the goal of MaineHousing to achieve a baseline that accurately reflects reasonable consumption of utilities for each unit, by an energy conservative household of modest circumstances.

It is hoped that a baseline, as determined by an energy audit (if available) and/or 3 to 4 years of actual data, can be established and remain in effect for a period of years, thus alleviating the need to revise the baseline each year. By using a 3 or 4 year average, the influence of an abusive or overly conservative tenant is minimized and a reasonable allowance is determined and implemented.

Federal regulations require that the owner conduct an annual analysis of the project's utility allowances. The HAP Contract Administrator is given the responsibility for approving any new or revised utility allowances.

Annual Review of Utility Allowances

The following are instructions for completing the annual review of tenant utility allowances as required by the MaineHousing Utility Allowance Rule (9/2000). It is the responsibility of the owner/manager to review annual consumption and calculate new allowances as appropriate. MaineHousing must review the owner/manager's recommendations and approve the allowances.

Please note that these instructions relate primarily to the review of electrical allowances. If your tenants have allowances for oil, gas or other utilities, you will need to modify the form to reflect gallons or other units of energy used. The review process, however, remains virtually the same.

Authority staff is available to assist and instruct the owner/manager at any time during the review process.

1. Timing Of And Criteria For Submission For MSHA Review And Concurrence

Timing of Submission

The owner/manager must submit the Utility Allowance Consumption Sheet ([Excel format](#)) ([pdf format](#)) and Utility Allowance Summary Sheet ([Excel format](#)) ([pdf format](#)) recommending revised allowance amounts, along with an explanation of any assumptions, changes and projections, to MaineHousing 60 days prior to the effective date of the utility allowance change (which usually coincides with the anniversary date of initial implementation).

MaineHousing will in turn notify the owner/manager of approval at least 35 days prior to the effective date, in order to allow for the required 30-day written notice to the tenants. The 30-day

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notice to the tenants must include the amount of the new allowance, if appropriate, an explanation of the manner in which the allowance was derived and provide opportunity for tenant comment.

MaineHousing may waive the 60-day submission requirement upon receipt of a written request by the owner/manager outlining an acceptable reason for the delay. Acceptable reasons may include:

1. Delays caused by the utility company, provided that the data was requested from the utility company at least 90 days prior to the anniversary, and the Authority is notified of the delay 7 days prior to the required date of submission.
2. Delays caused by MSHA not relating to timely submission or resubmission of complete data by the owner/manager.
3. Unavailability of a full year's usage but only for the first year in which the allowance was implemented.

2. Obtaining Data

In order to conduct a complete review, the owner/manager must obtain from the utility supplier, the most recent twelve months actual usage for each unit in the development, per month.

When the utility allowance is implemented or when a tenant moves in, tenants must sign a form authorizing the utility company to release usage information (see sample Utility Allowance Release Authorization Form ([Word format](#)) ([pdf format](#))). (It is often helpful to owner/managers if the release form also gives authorization for notification to the manager in the event a tenant is in arrears and receives a "shut-off notice.") When tenants move out, the owner/manager should either retain the release form for use when the review is completed, or, as some utility companies require, request the utility company to provide consumption information when the tenant receives the last electric bill.

Consumption information can then be obtained by submitting the Utility Allowance Consumption Sheet ([Excel format](#)) ([pdf format](#)) to the utility company. Many companies do not require releases so you should check with the local power company to be sure. A less reliable alternative is to request copies of bills from tenants.

Other information which should be used to complete the annual review is prior years' actual consumption and the current rates from the appropriate company, including rates for electric heat customers, if offered.

3. Review Of Consumption

- A. Actual monthly consumption per unit
Sections I and II on the Utility Allowance Consumption Sheet
([Excel format](#)) ([pdf format](#)).

The most comprehensive approach to reviewing monthly consumption per unit is to LIST THE UNITS ON THE UTILITY ALLOWANCE CONSUMPTION SHEET BY THE BASELINE GROUP of the past year.

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The owner/manager reviews individual consumption and identifies those months, which appear to be significantly lower than the monthly consumption of similar units or show unusual fluctuations for the time of year. If consumption is low due to vacancy or temporary absence of a tenant (illness, vacation), an adjustment must be made to project a full year's usage, using the charts provided by the electric company which identify the monthly percentage of total annual usage (please refer to the Utility Allowance KWH Projection Chart ([Word format](#)) ([pdf format](#))). (If electricity is provided by another company, that company may be able to provide a similar chart or advise as to the applicability of CMP's or Bangor Hydro's breakdown to that area). For example:

Unit #6 (electricity provided by CMP) is all electric and was vacant for all or part of the months of August and September, thus using little or no electricity for 8.2% of the year. A full years usage is projected by dividing the total actual usage for the other 10 months by .918 (the remaining 91.8% of the year.)

Please note that the less actual usage data available, the less accurate the projection. If less than 75% of the year's usage is available, that unit should not be used in calculating the allowance.

B. Average monthly consumption per unit

Section III on the Utility Allowance Consumption Sheet ([Excel format](#)) ([pdf format](#)).

Average monthly consumption is calculated by simply dividing the total annual consumption or projected annual consumption total (Section II), by 12, for each unit. The exceptions, as mentioned above, are those units for which less than 75% of the annual usage is available.

C. Baseline Comparisons

Sections IV through VII on the Utility Allowance Consumption Sheet ([Excel format](#)) ([pdf format](#)).

The baseline is the number of KWH's upon which the current allowance is based, for each unit. This information is found on the most recent Utility Allowance Summary Sheet ([Excel format](#)) ([pdf format](#)) in effect.

There are two methods for calculating the baseline. The first method used to establish a baseline when an owner is converting from owner paid to tenant paid utilities may require an energy cost estimate by an architect, engineer or qualified energy auditor, in accordance with the MSHA Energy Cost/Utility Allowance Rule (9/2000). The other method is to average actual consumption over a number of years. A baseline often reflects a combination of these two methods.

It is generally accepted that the average of three or four years of actual consumption provides an adequate baseline. The first year of consumption after a utility allowance is implemented, however, is not necessarily representative of future consumption, and should be scrutinized carefully before adjustments to the baseline are recommended.

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The purpose of establishing a baseline is to attempt to define a reasonable consumption level for each unit, given its individual size, design and location and to eliminate fluctuations in consumption caused by individual usage patterns.

Column IV on the Utility Allowance Consumption Sheet ([Excel format](#)) ([pdf format](#)) is used to record the number of KWH/month upon which the current allowance for that unit is based (the baseline). Column V, is used to record the difference (plus or minus) between the monthly baseline figure and the actual monthly average figure for that unit. This spreadsheet is a tool to guide the owner/manager in making a recommendation to adjust the baseline for units that are either inappropriately grouped or need a baseline adjustment due to energy improvements. The MSHA Energy Cost/Utility Allowance Rule requires that the owner/manager undertake an examination of the current baseline calculation annually. When this occurs, Columns VI and VII must be completed.

Enter in Column VI 10% of the figure listed in Column IV. For those units where the figure in Column V is greater than the figure in Column VI, over or under, enter a "+" or "-" in Column VII, respectively.

4. Owner/Manager Submission To MSHA Recommendations As Result Of Review Process

With submission of the Utility Allowance Consumption Sheet ([Excel format](#)) ([pdf format](#)), the owner/manager must attach a narrative describing:

- (1) any known reasons for the variances on those units which were flagged, including information on recent energy improvements, the owner/manager's personal knowledge of temperature settings above or below reasonable levels, whether the tenant is generally conservative, the presence of washers, dryers, freezers, air conditioners or other extra appliances, or factors such as the design, location or physical condition of the unit, and
- (2) recommendations for maintaining, increasing or decreasing individual baselines, which may include calculations of 3 to 4 years' actual usage if owner/manager is utilizing averaged annual usage as a baseline. Recommendations should include actual figures and calculations used in determining a revised baseline.

5. Calculation Of Dollar Amount Of Allowance

The Utility Allowance Summary Sheet ([Excel format](#)) ([pdf format](#)) is used to calculate the dollar amounts of the allowance and new gross rent figures. The owner/manager should fill in the correct rate, and fuel adjustment (if applicable) and also modify the form for allowances based on oil, gas or other utilities.

The form is self-explanatory. The owner/manager calculates the amount of the allowance for each baseline. Where the owner/manager's review has resulted in recommended changes to the baseline, this form should be completed utilizing the recommended revised baseline figures. Baseline figures are multiplied by the current utility rate and appropriate tax. If the owner/manager does not

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recommend a change in any of the baselines, however, and the utility rate has increased by less than 5% (10% if utility allowance does not include heat), the previously approved allowances should be used. Additionally, whenever the utility rate changes by 10% or more or 5% when the utility allowance includes the cost of heat, the owner/manager must recommend adjustments.

The bottom Section of the form summarizes the allowances and gross rent figures for various bedroom sizes. MSHA uses this information in executing the amendments to the HAP Contract.

6. MaineHousing Review And Concurrence

Upon receipt of the owner/manager's submission, MaineHousing will review the materials for completeness. Any incomplete submission will be returned with a description of corrections or additional information needed.

MaineHousing's concurrence with the owner/manager's recommendations or approval of other amounts will be confirmed via the signature on the bottom of Summary Sheet and a copy sent to the owner/manager.

Should MaineHousing not accept the owner/manager's recommendations, MaineHousing will provide the owner/manager with details of how the approved baselines were determined.

7. Notification To The Tenants Of Utility Allowance

Upon notification to the owner/manager by MaineHousing confirming the allowance amounts, the owner/manager must provide the tenants with a 30-day written notice of the new allowances. Such notice shall include the new allowance amount, the effective date of such change, a brief description of how the allowance was calculated and a request for comments by the tenant. (See sample Utility Allowance Notification ([Word format](#)) ([pdf format](#))). We have also included a Tenant Information Sheet ([Word format](#)) ([pdf format](#)) on how utility allowances work which can be provided to tenants. Should the tenant(s) submit comments to the owner/manager, he/she must review the comments to determine if further adjustment is warranted and respond to the tenant(s) commenting. Should a further adjustment be necessary, the owner/manager should submit a written request, to MaineHousing along with copies of supporting documentation, including copies of the tenant comments.

Conversion to the Utility Allowance System After Initial Occupancy

Full instructions for conversion to a utility allowance after initial occupancy are provided on pages 2 and 3 of the Utility Allowance Rule (9/2000).