Seattle
Office of Housing

Affordable Housing Incentive Programs Compliance Manual

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Chapter 1. Introduction

The following guidance applies to the City of Seattle Affordable Housing Incentive Programs ("Incentive Programs"): the Multifamily Tax Exemption program (MFTE), Incentive Zoning (IZ), and Mandatory Housing Affordability (MHA). It also applies to site-specific development agreements or other contractual arrangements that require property owners to produce and operate income and rent restricted rental units.

Compliance Basics

When the owner ("Owner") of any residential real estate asset ("Property") participates in any of the Incentive Programs, the Owner is obligated to provide a certain number of affordable housing units for a specific period of time. For this manual, affordable housing is generally defined as any rental unit subject to maximum limits on tenant incomes and rents. Specific income and rent restricted rental housing units within a given Property are termed "Designated Units."

The Office of Housing (OH) monitors all property owners' compliance with their affordability obligations throughout the contractual term of affordability. An Owner's obligation to provide income and rent restricted units takes effect as soon as lease-up begins and continues until the affordability obligation under any executed covenant, contract, or agreement expires for all Designated Units within the Property. The Office of Housing's program staff ("Program Staff"), who assist developers enrolling in the Incentive Programs, and asset management staff, who provide ongoing compliance monitoring, work closely to ensure that the obligation is met throughout the life of any governing documents. In some cases, affordability requirements for a single Designated Unit may be set under multiple Incentive Programs with different terms. In these cases, the Compliance Period continues until the longest-lasting obligation expires, as discussed later in this chapter.

The heart of the compliance monitoring process is an annual certification process. Most certification work is carried out via an annual report and supporting documents that the Owner or their designee submits annually to the Office of Housing. The monitoring process also includes periodic audits, such as site visits and reviews of tenant files and other documentation. **The OH website provides links to most of the forms referenced in this manual. Unless another website is identified in the text, please use this link[1] to obtain the latest copies of all forms and any supplementary guidance.**

Governing Documents

The fundamental document establishing affordability and other Owner obligations is a contract, covenant, or other form of agreement signed by the Owner and a representative of the City of Seattle. These agreements are recorded by the King County Recorder's Office and generally run

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[1] https://www.seattle.gov/housing/property-managers/mfte-and-iz-compliance

with the land. This means the obligations will continue even if the original Owner sells the Property or otherwise transfers ownership.

The type of agreement varies by program and is executed at varying stages of the development process. Most agreements track back to and cite affordability provisions established under the Seattle Municipal Code or via ordinance. On occasion, the Director of Housing issues rules (Director's Rules) to interpret Code or ordinances and establish supporting policies. OH also periodically issues guidance to interpret or clarify statutory requirements. Guidance and standard procedures are typically documented in manuals such as this. Overarching state law such as RCW 84.14, which authorizes local governments to establish MFTE programs, may also apply.

Compliance with Incentive Program requirements does not relieve any Owner responsibilities under fair housing, landlord-tenant, or other overarching law. The Office of Housing neither monitors compliance nor enforces these provisions; however, OH may refer questions to other City offices as appropriate. Such referrals may include the Seattle Office for Civil Rights on matters of fair housing and the Seattle Department of Construction and Inspections (SDCI) on matters of landlord-tenant law.

Transition to Monitoring

The Office of Housing's Program Staff for the Incentive Programs are responsible for reviewing and approving applications, executing agreements and other documents, and carrying out other prerequisites for a Final Certificate of Tax Exemption under MFTE or land use permits, building permits, and/or certificates of occupancy under other Incentive Programs. Program Staff work closely with staff from OH's Asset Management Unit to ensure a smooth transition of oversight responsibilities as a Property moves from the development phase to ongoing operations.

For the MFTE program, each Property will be assigned an ("Asset Manager") from the Asset Management Unit upon the execution of the Final Certificate of Tax Exemption. The Asset Manager will continue to ensure that the Property is meeting all its obligations until all governing agreements expire ("Compliance Period"). The alignment of the Final Certificate of Tax Exemption with the start of the Compliance Period has implications for the lease-up period and the timing of the Owner's access to the tax exemption benefit.

- Lease-Up: For some projects, the Final Certificate of Tax Exemption may be issued after lease-up has begun. Program Staff and the pending Asset Manager will work together to ensure that pre-leasing activities and the lease-up process support program-compliant operations for the duration of the Compliance Period. More details in Chapter 2.
- Tax Exemption Benefit: Regardless of the timing of the Final Certificate of Tax Exemption's execution, the tax exemption benefit to the Owner attaches to the calendar year rather than the leasing cycle. This may mean that the Compliance Period begins prior to the calendar year when the Owner first realizes the tax exemption and extends through any leases in effect upon the exemption's expiration.

For other Incentive Programs, the handoff and the start of the Compliance Period typically occur as lease-up commences. As with MFTE, the Compliance Period extends through the expiration of any affordability obligation under the relevant program agreement(s).

Program Overlap

Designated Units are considered "overlapping" if a single unit is regulated by more than one Incentive Program. Some programs prohibit overlapping units. MHA, for example, prohibits Owners from using the same unit to satisfy their obligations under both MHA and MFTE. Some Designated Units' affordability obligations under Incentive Programs (most commonly MFTE) can also overlap with separate obligations established under various public subsidy programs. In the cases where overlapping units are permitted, the unit must satisfy the most restrictive requirement in effect at the time.

Example: *A MFTE studio, regulated at 65% AMI, is also a Designated Unit under IZ, regulated at 80% AMI. This unit must be income and rent restricted at 65% AMI for the duration of the 12-year MFTE Compliance Period. Upon expiration of the MFTE agreement, the restriction on the unit escalates to 80% AMI for the remainder of the 50-year IZ Compliance Period.*

Chapter 2. Procedures for Initial Lease-Up and Filling Ongoing Vacancies

The Office of Housing's Asset Management Unit will start monitoring compliance as soon as a property initiates the lease-up process. Leasing staff should make all efforts to lease Designated Units to income-qualified households as soon as lease-up begins. This ensures that Designated Units are appropriately leased throughout the entire Compliance Period.

Pre-Lease Inspections

Office of Housing Program Staff typically conduct pre-lease inspections for Properties participating in any Incentive Program. For some programs, including MFTE, the inspection is required to visually confirm that the proposed selection of Designated Units meets the requirements for type, comparability, and distribution, as well as finalizing the roster of Designated Units.

To schedule a pre-lease inspection, Owners (or their property management staff – "PM Staff") should contact the OH Program Staff they have been working with. This must happen at least 45 days before any leasing activities begin.

- For MFTE, PM Staff should provide a proposed list of Designated Units to the MFTE Program Staff. Program Staff will provide an Excel template for use in designating units. Proposed designations will be reviewed for consistency with OH guidance on comparability to the market-rate units, appropriate distribution throughout the building, and proper designation of unit types.
- Incentive Zoning and MHA performance units are designated in the housing covenants or agreements recorded prior to the issuance of the building permit. While the final unit designation may differ from the original due to subsequent changes to the number of units, breakdown of unit types, or unit features, any alternate roster of Designated Units will be subject to OH inspection and approval and may necessitate an amendment to any governing agreements.
- The timing for identifying Designated Units will vary for incentive projects developed under other types of standalone agreements.

The specific units selected for income and rent restriction must remain Designated Units throughout the entire Compliance Period, with exceptions only under the "next-available rule," described in Chapter 4.

Initiating Lease-Up

Owners or PM Staff must notify OH Program Staff as soon as they initiate pre-leasing activities.

- For MFTE projects, pre-leasing activities, such as affirmative marketing for Designated Units, closely follow the inspection. During the inspection and as needed thereafter, OH Program Staff work with Owner/PM Staff to respond to general questions regarding the lease-up of Designated Units, affirmative marketing, and compliance training opportunities. Following execution of the Final Certificate of Tax Exemption Program

Staff will notify the Owner/PM Staff of their assigned Asset Manager. The Asset Manager will support any remaining lease-up activities and all compliance matters throughout the Compliance Period.

- For other Incentive Programs, OH Program Staff's handoff to the designated Asset Manager will usually occur when pre-leasing activities begin. Owners or PM Staff should notify Program Staff as soon as they initiate general advertising or other lease-up activities in order to receive an Asset Manager assignment. The Asset Manager will advise on affirmative marketing and other lease-up considerations for Designated Units.

Affirmative Marketing at Lease-Up

Affirmative marketing helps to ensure that all community members have access to a range of housing choices regardless of their race, color, religion, sex, national origin, familial status, disability, or other protected class status. Affirmative marketing actively reaches out to community members who may not know about vacancies, feel welcome to apply, or have traditional paths to access. Affirmative marketing also helps Owners rapidly lease Designated Units by directing advertising to intermediaries who can identify a pool of income-qualified tenants.

Owners or PM Staff should conduct affirmative marketing at least two weeks prior to initiating any advertising or marketing efforts that target the general public. The steps are as follows. All referenced affirmative marketing forms or resources are available here.[2]

1. **Complete the Special Outreach for Affirmative Marketing form**. This form includes information on the number of Designated Units at the property and the income and rent restrictions on those units, leasing, and tenant selection criteria, and how the property intends to advertise vacancies.
2. **Identify three community-based organizations** to encourage applications from households who otherwise might be unlikely to apply for housing at the property. A list of approved Community-Based Organizations for Affirmative Marketing is available on the OH website. Supply each organization with information about vacancies and the leasing process using the Special Outreach for Affirmative Marketing form.
3. **Provide notice of the vacancies to the Seattle Housing Authority** (SHA) by e-mailing the Special Outreach for Affirmative Marketing form to: LeasewithHCV@seattlehousing.org. The Seattle Housing Authority will share rental unit information with prospective tenants enrolled in SHA's Housing Choice Voucher program and direct eligible voucher holders to the participating properties for application.
4. **Document all efforts** using the Affirmative Marketing Lease-Up Report. Note this report requires records of your email correspondence. The Affirmative Marketing Lease-Up Report is a required attachment of the Final Certificate application for MFTE projects, which is submitted immediately before projects are given final approval to participate in

[2] http://www.seattle.gov/housing/housing-developers/multifamily-tax-exemption

the MFTE program. For MHA performance projects, the Affirmative Marketing Lease-Up Report must be submitted at the time of inspection.

Owners or PM Staff should record dates and retain documentation demonstrating that special outreach to community-based organizations and SHA occurred at least two weeks prior to general marketing. The documentation should be available for OH to review upon request.

Lease-Up Report

Owners or PM Staff must submit a lease-up report to each Property's Asset Manager. The process and due dates vary slightly by program.

MFTE Projects

The Lease-up Report uses the same reporting form as the Annual Property Compliance Report and will contain the same information. This report can be found on the Incentive Program Compliance page. The due date depends on when MFTE units are fully leased:

- The report is due within two weeks of completing lease up of MFTE units. However, if 100% of MFTE units have not been leased-up by January 15th of the first year of Tax Exemption, the report is due no later than January 31st of the Tax Exemption Period regardless of the percentage of MFTE units that have been leased.

All other Programs

- The Lease-up report should be filed with the Office of Housing within 90 days of issuance of the temporary certificate of occupancy for the multifamily housing, or permanent certificate of occupancy if no temporary certificate of occupancy is required, or SDCI final building permit inspection if no certificate of occupancy is required.

Filling Vacancies

Extended vacancies of income and rent restricted rental units exacerbate Seattle's existing shortage of affordable housing. To ensure that Incentive Programs achieve their intent, OH expects owners to conduct good faith efforts to promptly fill any vacant Designated Units throughout the Compliance Period. Using periodic audits and the annual certification process, OH Asset Management Unit staff will review the frequency and duration of vacancies throughout the year to determine if the property is making a good faith effort to lease Designated Units. Good faith efforts include:

- Lowering the asking rent
- Offering one-time or ongoing rent concessions
- Affirmative marketing through direct advertising to community partners on the list of *Community-Based Organizations for Affirmative Marketing*.[3]

[3] https://www.seattle.gov/housing/housing-developers/multifamily-tax-exemption#affirmativemarketinginformation

- Listing vacancies with the Housing Connector.[4]
- Developing and tapping a waiting list for Designated Units.

Owners or PM Staff should communicate any 45-day vacancies to their Asset Manager. These notifications should come in writing under the subject line “Extended Vacancy.” The notification should indicate the timeline and number of denied/canceled applications and any good faith actions taken to identify income-qualified tenants. The Asset Manager will use this information to help the Owner/PM Staff develop an action plan and boost communications with agencies seeking available units on behalf of their clients.

In the case of multiple vacancies exceeding 45 days or more, Owners or PM Staff are encouraged to replicate the outreach procedures required at lease-up, including special outreach to three community-based organizations and notice to SHA. Multiple extended vacancies and supplementary efforts to fill units should be documented using the Affirmative Marketing Supplemental Report[5] and submitted to the Asset Manager as soon as a second vacancy lasting more than 45 days occurs. Efforts to lease vacant units should also be noted in the property’s annual certification report.

ADA Units and ADA Accommodations

Projects may have up to one ADA assigned unit for every 10 designated units. If an applicant makes a reasonable accommodation request for an ADA assigned unit and the project does not have an ADA assigned designated unit available, the project may approve the accommodation request and switch the designated unit to the new ADA assigned unit. The property shall communicate the reasonable accommodation and proposed unit swap to OH prior to execution.

Leases

Tenants occupying Designated Units should be treated the same as those in market-rate units in most regards outside of income and rent limits. The Office of Housing expects the lease for Designated Units and market-rate units to be identical, with exceptions for rent charged and sections addressing lease provisions specific to Designated Units. Since 2020, special provisions for Designated Units are required to appear in a separate lease rider rather than in the lease itself.

Special provisions appropriate for Designated Units address the following topics.

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[4] https://www.housingconnector.com/

[5] https://www.seattle.gov/housing/housing-developers/multifamily-tax-exemption#affirmativemarketinginformation

Housing Costs
All leases should include the following disclosures related to move-in, one-time, and recurring housing costs. All fees and charges must be in writing in the lease rider, or, absent a lease rider, the lease itself or a notice on company letterhead.

- All move-in, one-time, and recurring fees, and whether they are refundable or non-refundable, required, or optional, consistent with rules described in Chapter 6.
- All utilities paid for by the tenant and the method through which they are expected to pay (e.g., directly or through a third party). Common area utility expenses may not be included when properties bill back for utility expenses.
- Whether renter's insurance is recommended, required, or not required as a condition of occupancy. As noted above, if renter's insurance is required the rent for a Designated Unit must be adjusted accordingly, regardless of who collects the premium. When renter's insurance is required but not offered by the owner, landlords can use a standard adjustment. This is based on the average cost to maintain renter's insurance as cited by the Office of the Insurance Commissioner for Washington State. For the current adjustment amount please refer to the OH website.
- Any other month-to-month lease fees required for occupancy.
- The final monthly rent amount, adjusted to reflect the utility estimate and deductions for recurring fees.

Holding Deposits
Holding Deposits are not required for MFTE or other types of Incentive Program units. However, if an Owner/Property Manager desires to charge one, it may do so under the following conditions:

- Holding Deposits of $100 or more must be fully refundable if the applicant cancels their application for any reason or if they are determined to be ineligible.
- Holding Deposits less than $100 may be non-refundable if the applicant cancels their application or becomes non-responsive. Non-responsive is defined as not responding to a request for documents or clarification for 3 days.
- Refundable Holding Deposits must be returned within 21 days of the date the applicant was declared ineligible or non-responsive.
- If the approved applicant signs a lease, the Holding Deposit must be applied towards their security deposit.

Recertification and Requalification
Depending on the Incentive Program, annual income recertification and/or situational income requalification may be required. The specifics of recertification and requalification are described in Chapter 4.

- Disclosure of annual income recertification requirements.
- Disclosure of income requalification requirements triggered by tenant actions.

Prohibition on Subleases

- A prohibition on subleasing, including short-term rentals such as Airbnb.

Audit

The full lease, lease rider, and alternate program-specific addenda must be signed by the tenant and Owner before the tenant occupies a Designated Unit. All documentation must be made available to OH upon request and within a reasonable timeframe.

Owners or PM Staff should anticipate that OH staff will review the form of lease and specific items required for Designated Units throughout the life of the Compliance Period.

Chapter 3. Eligible Tenants

Qualifying prospective tenants for occupancy of Designated Units is an essential part of the leasing process, both at the point of lease-up and at unit turnover. This chapter addresses special eligibility considerations. Income qualification procedures are covered in Chapter 5.

Household Composition – Occupancy Guidelines

Because the demand for family-sized income- and rent-restricted units far outpaces supply, Owners or PM Staff should apply a minimum occupancy standard to larger units, such that resident households consist of at least one person per bedroom. (A pending birth or adoption can count toward the household size.)

Occupancy Guidelines, effective 2020

Studio	One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom
One Person Minimum	One Person Minimum	Two Person Minimum	Three Person Minimum	Four Person Minimum

Incentive Programs have no maximum occupancy standard beyond that of local building code. Following the date of move-in, a change in household composition will not necessitate remaining household member(s) to change units or move out, subject to ongoing income eligibility as discussed in Chapter 4.

Employees

While Owners can choose to offer on-site managers reduced rents as part of a compensation package, any unit designated for occupancy by an on-site manager cannot count towards the required number of Designated Units. No manager unit can be used to satisfy a property owner's obligation to provide a minimum number of Designated Units.

Other staff employed by the Owner or property management firm are eligible to occupy Designated Units, so long as they meet all qualification criteria, and the unit is not a condition of employment. However, rent discounts are a common add-on in company compensation packages and must be accounted for in tenant income and rent level.

- **Income**. Any compensation in the form of rent discounts or other credits against housing costs must be included as part of the tenant's income, with the discount or credit appearing as a separate line item along with wage income during the income certification process.
- **Rent**. The amount of the discount or credit shall not be the mechanism for achieving the restricted rent level. Any discount or credit availed to staff must drive rents below the affordable rent level required under the Incentive Program.

Students

Households with full-time adult students who meet certain eligibility criteria may qualify for Incentive Program housing. As with all other MFTE/IZ/MHA applications, uncorroborated statements of zero income will not suffice for the qualification process.

“Student” refers to individuals who are 18-years or older and are attending post-secondary institutions. “Full time” is determined by the educational institution and is usually listed on the registration documents.

Qualifying a Student

Undergraduate Students

To qualify as a full-time undergraduate student, the applicant must be receiving need-based financial aid or need-based loans as awarded through the Free Application for Student Aid (FAFSA) or Washington Application for State Financial Aid (WASFA).

To verify a qualified undergraduate student:

1. **Verify Enrollment Status.**
   The student must provide a copy of their registration confirming their current enrollment. If not accessible online, the student should visit their Registrar’s Office. The Registrar’s Office determines whether the student is full-time or part-time, not credit hours, as each institution’s criteria may differ.
2. Verify Receipt of Need-Based Financial Aid.
   a. The student must provide a copy of their Student Aid Report (SAR) or FAFSA Submission Summary showing they qualify for need-based financial aid or need-based loans. The SAR or FAFSA Submission Summary is generated after a student completes the FAFSA or WASFA. This document will list any grants and subsidized loans the applicant qualifies for.
   b. The student must provide a copy of their Financial Aid Award letter issued from their educational institution showing they have accepted one or more need-based financial aid awards. If the student does not have their award letter, they should visit their school's Financial Aid Office or online system.

If both 1 and 2 are true, then proceed to part B and the standard income and asset verification.

Graduate and PhD Students

Graduate/PhD students can qualify in one of two ways:

1. Provide their previous year’s accepted IRS tax return, demonstrating their independent tax filing status.
2. Complete the FAFSA or WASFA showing their eligibility for need-based aid or need-based loans.

The student must provide a copy of their Student Aid Report (SAR) or FAFSA Submission Summary showing they qualify for need-based financial aid or need-based loans. The SAR or FAFSA Submission Summary is generated after a student completes the FAFSA or WASFA. This document will list any grants and subsidized loans the applicant qualifies for.

Graduate students often come with additional fellowships or stipends, which are not typically need-based in nature. OH considers these income sources to be non-exempt and must be included in the household's projected income calculation.

If 1 or 2 are true, then proceed to part B and the standard income and asset verification.

International Students (Undergraduate and Graduate)

International students can qualify if they:

1. Receive need-based financial aid through the Washington Application for State Financial Aid (WASFA).
    a. The student must provide a copy of their Student Aid Report (SAR) showing they qualify for need-based financial aid or need-based loans. The SAR is generated after a student completes the WASFA. This document will list any grants and subsidized loans the applicant qualifies for.
    b. The student must provide a copy of their Financial Aid Award letter issued from their educational institution showing they have accepted one or more need-based financial aid awards. If the student does not have their award letter, they should visit their school's Financial Aid Office or online system.
2. Provided their I-20 Certificate of Eligibility for Nonimmigrant Student Status and F1 or J1 Visa showing their family and/or government financial contributions.

If both 1 and 2 are true, then proceed to part B and the standard income and asset verification.

Examples of Aid

Common forms of need-based aid

- Federal Pell grants
- Federal subsidized loans
- TEACH grants
- GI Bill or other Veterans Benefit
- State grants
- Grants or scholarships issued by the educational institution based on financial need
- Federal or State Work Study

Not considered need-based aid

- Stipends
- Fellowships

- Unsubsidized loans
- Non-work study campus jobs
- Residencies
- Graduate Service Appointments
- Employment in exchange for financial award
- Foreign government support for schooling in the United States (International Students)

Calculating Student Income

All student applicants (undergraduate, graduate, and international) must complete the Student Status Certification form and declare any financial aid awards, grants, loans, and their expected family contribution. Owners or PM Staff should note the anticipated graduation date and project wages if graduation is within the following 12 months.

Exempt and non-exempt income should be totaled at the bottom of the Student Status Certification. Need-based aid and loans are exempt from the income calculation. Any monies received that are not listed on the financial aid award letter will be considered non-exempt and should be listed on the Tenant Income Certification form (TIC) and Income Declaration form (ID) and included in the income calculation.

Gifts or monies received from family or any other community organizations not connected directly to the financial aid office must be counted in full towards the total household income.

Graduate students often receive fellowships that are merit based, but generally not need based. Fellowship funding is usually discretionary and is therefore non-exempt and counted in full as income.

Graduate students qualifying via a tax return may not necessarily have aid or loans but are still required to complete the Student Status Certification.

Appendix A has several examples of exempt vs. non-exempt income sources, and an example of calculating student income.

If Owners/PM are unsure how to categorize the different income streams listed on the financial aid award letter, they should clarify with the school's financial aid office or OH.

The Office of Housing's current student status policy took effect on November 1, 2020. Students already residing in one of the Incentive Programs units will be vested under the previous compliance guidelines. Students residing in a Designated Unit prior to November 1, 2020 and who must recertify their income due to a change in the household composition will not be vested and must follow the current compliance requirements. If there has not been a change to household composition and the property does require annual recertification (MFTE P5+, MHA) the household will be recertified under the compliance guidelines used at move-in.

Guarantors

Guarantors are not included towards the household size nor is any of the guarantor's income included in the certification of the household.

Rent Subsidy Recipients

Prospective tenants who receive any kind of rent subsidy for low-income households are eligible and encouraged to apply for Designated Units in any Incentive Program.
Applicants should be screened like any other tenant regardless of subsidy status; however, the income-to-rent ratio should be determined using the following method and example.

Example rent subsidy calculation

Gross Monthly Rent (85% 2bed)	$1,918
Minus Monthly Subsidy (confirmed by tenant provided subsidy award letter)	- $1,586
Tenant Responsibility Portion	**$332**
Tenant responsibility times 2.5 = minimum monthly income needed	*($332 x 2.5) $830 minimum monthly income needed*

The most common housing subsidies include federally funded Housing Choice Vouchers, administered by SHA, and Shelter-Plus-Care, Rapid Rehousing, and HEN, all administered by local nonprofit organizations.

None of these publicly funded subsidies should be considered income for the purpose of income eligibility calculations. However, these amounts should be included in the tenant file and included on page two of the TIC for informational purposes and reported to the OH as part of the annual reporting process.

Household Demographics

In 2020, OH began collecting demographic information for households residing in units governed by Incentive Programs, consistent with other assistance programs. This information is used to help ensure our programs are accessible to all members of the community. Each household must complete a Resident Demographic Form prior to move-in. There is no penalty for tenants who do not wish to provide the requested information, however all adults (18 years or older) must sign and date at the bottom of the form to confirm that the option to disclose was made available. Household demographic data will be reported during the Annual Property Certification Report. Signed Resident Demographic Forms must be kept on file for review during on-site audits for all households that moved into Incentive Program units on or after the start of 2020. Properties that leased on or after the start of 2020 must have a signed Resident Demographic Form on file for every household living in a Designated Unit.

Subleases

Designated Units are intended for residential use by the income-eligible household only. As noted in Chapter 2, Incentive Program lease riders for these units must include a prominent prohibition on subleases to a substitute tenant. Renters appearing on the lease for Designated Units are expected to maintain permanent occupancy in their leased units with exceptions made only short-term absences such as vacations. Short-term rental (e.g., Air BnB) of Designated Units are also prohibited.

Chapter 4. Income Certification, Annual Recertification, and Tenant-Driven Requalification

The Owner has the ultimate responsibility for renting Designated Units to income-eligible occupants. Households are deemed income-eligible if the household income is equal to or lower than the amounts OH publishes on its website. The maximum income for prospective tenants is a function of the required percentage of Area Median Income (AMI) for the Designated Unit that the household seeks to move into ("Affordability Classification") and household size. Note that specific income limits under identical Affordability Classifications can vary by program, so it is important to select the correct schedule for each Incentive Program.

Income eligibility is calculated on a prospective basis, subject to a 12-month income projection period. Initial certification occurs at the point of occupancy and tenant households must be income-qualified prior to executing a lease. The certification process must account for income from all sources, though the qualification process may exclude some income sources (e.g., a public subsidy such as a Housing Choice Voucher) when determining whether a household's income meets the income-eligibility standard. A household's income must be certified using source documentation to verify all amounts anticipated to be earned over the income projection period.

Households must be income-qualified for residency at move-in and, for certain properties, annually throughout their tenancy. Certain tenant actions, such as a change in the adult household composition or requested unit transfers, will also trigger income requalification.

As noted in Chapter 2, lease riders for Designated Units should clearly disclose requirements for annual income recertification when applicable and circumstances that would trigger requalification.

This chapter provides step-by-step guidance on how to conduct an income certification at move-in and whenever an action triggers recertification or requalification. All income eligibility forms can be found on the OH website. We encourage property management to use documents directly from the website to ensure the newest version is being used.

Digital Signatures

OH allows verifiable E-Signatures utilizing digital signature software, such as Adobe Sign and DocuSign, on all income/asset certification forms and riders. Wet signatures are still required on all affidavits and notarized forms. Typed in signatures and initials using Word/Pdf are not accepted.

Income Projection Period

The income projection period is the 12 months following the anticipated initial lease start date. Current income amounts will be projected forward over the 12-month period unless there is verifiable evidence of an anticipated change, such as a raise, change in position, cost of living adjustment, etc. If there is a history of receiving income (bonuses, tips, commissions), this will be projected forward if it can reasonably be anticipated to continue, even if the employer cannot guarantee it will be received. Lapses in income resulting from voluntary leave, medical leave, or a voluntary reduction in hours will not be taken into consideration in the income calculation; income will be annualized as though it will be received.

<u>All households applying to lease Designated Units must be certified as income-eligible prior to signing a lease</u>. Income certification and qualification must be conducted no more than 120 days prior to the initial lease start date to be considered valid. Certifications occurring more than 120 days in advance of the lease start date are no longer considered valid projections and will not be accepted. Households may not sign a lease for a Designated Unit based on a partial or preliminary income certification. Properties that complete income certifications after signing a lease, or that base eligibility on a certification older than 120 days, will receive compliance findings and may jeopardize their participation in the program. See Chapter 7 for more information.

Initial Occupancy – Income Certification Process

There are four steps for the initial income certification process. All should be completed prior to the tenant signing the lease.

1. **Income Disclosure**. Adult applicants disclose all income and assets anticipated to be available to the household for 12 months following the lease start date.
2. **Income and Asset Verification**. Property obtains income and asset documentation to verify all sources disclosed by applicants on the ID.
3. **Income Calculation**. Property calculates total household income based on verified documentation (and not applicant's self-disclosed amounts).
4. **Eligibility Determination**. Property compares total household income to income cap for household size/unit type and makes eligibility determination.

Each of the above steps is described in detail below.

1. **Income Disclosure form (ID)**. Owner will obtain an ID for the applicant, to be completed by each adult household member. The ID is the applicant disclosure of all anticipated income sources and assets available to the household over the twelve months following the anticipated initial lease start. The ID must be completed even if no income sources are anticipated to be available to an applicant. The applicant also agrees to notify the project in the event of any changes to their declared household income. To be accepted, the property must ensure the following:
    - The ID must be completed in full to be considered a valid disclosure. Each income and asset source must have a "Yes" or "No" response. If a "Yes" response, the associated gross annual income or asset value must be entered.
        - If an applicant has an asset with a current value of $0, the applicant should answer "Yes" and enter $0 for the value. It is not acceptable to leave a field blank.
    - Gross annual income (before taxes) will be reported in all instances except for self-employment income where the net income earned from the business will be used.

    - Applicants may not omit information on bonuses, tips, and commissions on account of them not being "guaranteed" by an employer. If there is a history of receiving income from any of these sources, they must be disclosed.
- The Owner is responsible for ensuring the ID provides the requested information. For example, if the applicant enters "$15.00" as the gross annual income from employment, a clarification should be requested. It should not be assumed that $15.00 is the hourly wage or that employment is full-time.
- The property and the applicant(s) will sign the ID prior to collecting any income or asset documentation. Once complete and signed, move on to step 2.

2. **Income and Asset Verification**. <u>The Owner/PM Staff must request documentation to support all amounts disclosed on the applicant's ID form</u>. Each income source disclosed by the applicant must be supported by documentation. The documentation will be the basis for the final household income calculation.
    - Employment income must be verified by the property Owner/PM Staff using one the following verification options.
        - Utilizing The Work Number or other subscription-based services that verify employment and income information.
        - Three months of the applicant's most recent consecutive paystubs. If paystubs are not available due to the applicant having recently started the position, management may then document income through an employment offer letter.
        - Verification of Employment Form (EV), sent directly to the employer, and returned to the Property directly by the employer. Office of Housing recommends obtaining at least one current paystub to supplement the information provided by the employer. If returned incomplete, a written clarification must be requested from the employer.
    - All forms of unearned income (Social Security, child support, alimony, unemployment benefits, etc.) must be verified. The City of Seattle has expanded fair housing protections for renters who use alternative sources of income and subsidies to pay for housing costs. Subsequently, prospective tenants who otherwise qualify for the program cannot be denied housing because their income comes from unemployment insurance, even if that is their only source of income.
    - All assets must be verified. Only the income earned from assets in the form of interest, dividends, or other recurring distributions will count as income, not the value of the asset (e.g., the interest on a savings account would count as income, not the current account balance or withdrawals). Once all income for all sources is verified, move on to step 3.
        - Office of Housing is no longer accepting the "Under $5,000 in Household Assets Certification Form" for income qualification under the Incentive Programs.

3. **Income Calculation**. The Owner/PM will calculate the total gross household income based on the verified income documentation and enter this information into the TIC.

- Move-in household income is always based on current income, annualized, and projected forward for the next 12 months after the initial lease start date. Any verifiable anticipated changes, such as raises, seasonal employment, cost of living adjustments, bonuses, etc. must be incorporated into the 12-month projection.
- When calculating the total household gross income, add all income (regardless of earned, unearned or from assets) in exact amount down to the cent, then round only the final gross amount. If 49 cents and below, round down, if 50 cents and above round up to next dollar.
- All income calculations will be documented by the Owner/PM Staff and retained on file for review during an audit. Owners/PM Staff may choose whether they use the City-published income calculators or their own (calculator tape, management company calculation sheets, etc.) however, the inputs must be shown, and the formulas must be identical to those required by OH. Once the TIC is complete with all documentation and calculations supporting a final household income figure, move on to step 4.

4. **Income Qualification/Eligibility Determination**. If the total household income calculated in the TIC is at or below the maximum income limit for the unit, the household is eligible. Both the applicants and property must sign the TIC. Once the TIC has been completed, the household deemed eligible, and signed by both parties, the applicant may sign a lease for a Designated Unit.
    - The TIC signature and the lease start date should be the same. The lease start date must be no later than 5 –days after TIC signing.
    - If the TIC demonstrates that the household income is too high to qualify, refer to the following section on ineligibility.

Further detail on verifying and accounting for income and asset information appears in Chapter 5 and Appendix A.

Ineligibility: Disqualifying Households at Move-In

When an Owner denies an ineligible applicant, a notice of the determination should be provided to the applicant and all income certification documentation collected should remain on file. The Owner or PM Staff should:

- Provide written notice of adverse action (RCW 59.18.257) to the applicant; explain why they were determined ineligible for the unit.
- Provide the final income calculations from the TIC to the applicant and explain the calculations if requested.
    - It is not appropriate to send the applicant to OH to explain the calculation conducted by the property. If there is an area of contention, the Owner/PM Staff should contact OH directly with a specific compliance-based question.

- Establish basic grievance procedures allowing applicants to clarify income or otherwise provide context that they believe may impact their ineligibility determination.
    - Grievances must be based on clarification of an applicant's income that may impact the eligibility determination. Clarifications should never be understood as allowing an exception to established program rules. The Incentive Programs do not allow for exceptions to the income eligibility criteria or methods under any circumstance, including but not limited to financial hardship, medical expenses, wage garnishments, need for emergency housing, provided notice to current landlord, etc.

Example*: The Owner determines the applicant is ineligible based on full-time employment income entered into the Employment Verification form by an employer. Upon reviewing the TIC, the applicant notes that they only work part-time, not full-time, and the employer made a mistake. To resolve, the Owner requests written clarification from the employer as to future amounts anticipated and may request further support for part-time hours by obtaining paystubs and/or employment offer letter. Applicant is confirmed to work part-time and is determined income-eligible based on documented clarifications under existing program rules that clearly establish the need for a correction to original calculation.*

Income Recertification and Requalification

Three events can trigger a required income recertification or requalification.

- **Scheduled annual recertification**. Some Incentive Programs require annual income recertifications. Below are the move-in and annual recertification requirements by program.

	MFTE P3	MFTE P4	MFTE P5	MFTE P6/P6X	MHA	IZ
Move-in Certification	Yes	Yes	Yes	Yes	Yes	Yes
Annual Income Certification	No	No	Yes	Yes	Yes	See Covenant

Annual recertification requirements for Designated Units regulated under development agreements or other standalone arrangements will vary depending on the terms of the governing agreements between the Owner and the City of Seattle.

1. **Requalification due to change to household composition**. An increase in the number of adult household members after move-in requires a new certification to be completed. Limited exceptions apply and should be discussed with staff from OH's Asset Management Unit.

2. **Requalification due to transfer between certain Designated Units**. Designated Units within a single Property often have different Affordability Classifications. Tenants wishing to move between Designated Units of different Affordability Classifications must be income-requalified prior to moving into the desired Designated Unit. If the household does not qualify for the requested unit's Affordability Classification, the household must be given the option to remain in the original unit.

Scheduled Annual Income Recertification Process

For Properties subject to annual income recertification, Owners or PM Staff should take the following four steps to income-requalify existing tenants in Designated Units.

1. Determine the recertification effective date.
2. Determine the Recertification Cap. The Recertification Cap is the maximum income that a Designated Unit's <u>existing</u> tenant household can earn to continue occupying an income and rent restricted unit at the Property.
3. Complete income recertification. The recertification process is similar to the initial certification. The Office of Housing does not allow Incentive Program tenants to self-certify at this time.
4. Eligibility determination. If the total household income calculated in the TIC is at or below the Recertification Cap for the unit, the household is eligible for the program. All information will be entered by the property into the TIC. The applicants and property must sign the TIC prior to signing a lease for it to be effective.

Each of the above steps is described in detail below.

1. **Determine the recertification effective date**. The recertification effective date is the anniversary of the <u>initial lease start date</u> for as long as the tenant remains in the unit (or the Compliance Period expires). The Owner or PM Staff may income-recertify households at any point within the 120-day period prior to the recertification effective date for that household.
        - The certification can be completed at any point in the 120 days prior to the recertification effective date and is an income projection of the 12 months after the recertification effective date.
        - At the Owner's option, the recertification effective date may be moved forward to the 1st of that month.
    - The recertification effective date determines when the recertification is required to be completed each year. The end of a lease term does not dictate when an annual recertification is required.
    - **Example**: If the initial lease commenced on 8/25/2019, the first recertification effective date is 8/25/2020. The Owner can opt to use 8/1/2020 as the recertification effective date instead, but not 9/1/2020. The income recertification can be completed at any point in the 120-day period prior to either 8/25/2020 or 8/1/2020.

2. **Determine the Recertification Cap**. The Recertification Cap varies by Incentive Program. Tenants continue to be income-eligible for a Designated Unit if the household annual income calculated at annual recertification falls within the Recertification Cap established under the relevant Incentive Program. If their income exceeds the Recertification Cap, they are no longer eligible for rent restrictions under the applicable Incentive Program and a new Designated Unit must be selected. The Recertification Cap for specific Incentive Programs are as follows.
    - MFTE Programs 5 and Beyond. Tenants in Designated Units are no longer eligible for program participation when their household income exceeds 1.5x the income limit applicable to their household size. applicable to the unit on the recertification effective date, taking into account the income limit for the household's size under the appropriate Affordability Classification upon the recertification effective date.
   - A household's eligibility to remain in the unit, subject to the 1.5x Recertification Cap, does not alter the base Affordability Classification for the Designated Unit.
    - Mandatory Housing Affordability Performance**.** Tenants in MHA Performance units are determined income ineligible depending on the recertification % AMI (see below), which is based on the square footage of the unit.
        - For units with net unit area of 400 square feet or less with an income limit set at 40% AMI, the household is ineligible once income exceeds the 60% AMI limit effective upon annual recertification.
        - For units with net unit area greater than 400 square feet with an income limit set at 60% AMI, the household is ineligible once income exceeds the 80% AMI limit effective upon annual recertification.

    A household's eligibility to remain in a unit, subject to the Recertification Cap of 60% AMI or 80% AMI, does not alter the base Affordability Classification for the Designated Unit. The units will remain at their initial 40% AMI or 60% AMI designation for the purpose of income-qualifying new tenants throughout the full Compliance Period.
    - Incentive Zoning**.** Designated Units regulated under Incentive Zoning may or may not carry an annual recertification requirement. The Owner/PM Staff should review the Property's Housing Bonus Covenant (available online through the King County Recorder's Office website or from OH) to determine annual recertification requirements.

3. **Complete income recertification**. Annual income recertifications should follow steps 1-3 of the move-in income certification described earlier in this chapter. The income recertification is valid only if completed within 120 days prior to the recertification effective date. This is intended to capture anticipated income earned over the 12 months after the recertification effective date.
    - The annual income recertification requires a new and current ID income disclosure, new and current income and asset documentation, and an updated TIC based on the newly obtained information. Prior income verification documentation (employment

verifications, bank statements, etc.) cannot be reused, even if the income sources are the same.
    - OH recommends starting the income recertification process at least 120 days before the recertification effective date.
- Tenants who do not respond to the Owner/PM Staff's requests to provide required recertification documents may be issued a lease violation if the property is unable to complete recertification by the effective date (anniversary of initial lease commencement). This assumes that the Owner/PM Staff has included appropriate disclosures in the Incentive Program lease or lease rider and has provided adequate notice to the tenant of the requirement to recertify income eligibility. Owners or PM Staff should retain all communications with the tenant regarding the annual recertification process.
- Seattle Housing Authority voucher holders may not provide their SHA Calculation Summaries in lieu of other income and asset verification but rather must complete a full Income Declaration and supply all income and asset verification documents as needed to complete the recertification.

4. **Eligibility determination**. The annual recertification will lead to one of two outcomes.
    - Within the Recertification Cap. If the household's total annual income at recertification is at or below the Recertification Cap, the household will remain in the program and continue to pay the restricted rent. The rent restriction will remain in place until the household moves out, fails an income recertification, or reaches the end of a lease term following the conclusion of the Compliance Period.
    - In Excess of the Recertification Cap. If the household's total annual income at recertification exceeds the Recertification Cap, the household is entitled to remain in the same unit but should be issued a 180-day notice of rent increase. The Owner/PM Staff shall immediately notify their Asset Manager and designate the next available unit of the same type as a Designated Unit. At that point, the now-ineligible household will no longer occupy a Designated Unit. See the "Next Available Unit" section appearing later in this chapter for more detail on this process.

Calculation Examples for Annual Recertification

Sample Recertification Calculation, MFTE Program 5

Tenant A is a one-person household applying for a 75% AMI 1-bedroom unit at a building participating in MFTE Program 5. The lease will commence on 7/15/2017, so the move-in maximum income is $50,400 (2017 Schedule). The household income certifies at $45,000, is deemed income-eligible at move-in, and signs a lease. The first annual income recertification must be completed no later than the recertification effective date of 7/15/2018. The property management can bump the date back to the first of the month at their option, in this example 7/1/2018. The annual income recertification can then take place at any point in the 120 days prior to the adjusted recertification effective date of 7/1/2018.

The 75% AMI one-person income limit for 2018, applicable at the time of the annual income recertification, is $52,650. The income Recertification Cap for annual recertification is 1.5x that amount, or $78,975.

If the applicant obtains a new job since move-in and is determined to have an anticipated household annual income of $70,000 upon recertification, they are still eligible. However, if the income earned was $80,000 on recert, the household is now ineligible due to exceeding the 1.5x income limit effective at recertification. If the tenant is ineligible, the property must contact OH for approval of the next available comparable unit of the same type and size, which will be designated immediately upon vacancy. Once this occurs, Tenant A will revert to market-rate at the next available opportunity (lease renewal or month-to-month status) once the required written notice of a rent increase is provided by Seattle Landlord-Tenant law.

Sample Recertification Calculation, MHA Performance Option

Tenant B is a one-person household applying for a 385 square foot MHA studio unit. The unit is rent/income restricted at 40% because it is less than 400 square feet in net area. Based on a lease commencement date of 6/25/2017, the 2017 income and rent schedule applies and the move-in maximum income is $26,880. The household income certifies at $25,000 so is deemed income-eligible and allowed to sign a lease. The first annual income recertification must be complete no later than the recertification effective date of 6/25/2018. The property management can move the date forward to the first of the month at their option and does so in this example to 6/1/2018. The income recertification can then take place at any point in the 120 days prior to the adjusted recertification effective date of 6/1/2018.

In MHA, ineligibility limits at recertification are based on the unit AMI restriction. A 40% AMI unit will have a 60% AMI ineligibility restriction and a 60% AMI unit will have an 80% AMI ineligibility restriction. As this example is an annual recertification, the 2018 60% AMI 1-person income maximum of $42,150 is applicable.

If the applicant obtained different employment since move-in and earns $38,000 upon recertification, the household is still eligible. However, if the income earned was $45,000 upon recertification, the household is now ineligible. If the tenant is ineligible, the property must contact OH for approval of the next available unit of the same type (a studio in this case), which would be designated immediately upon vacancy. Once this occurs, Tenant B would revert to market-rate at the next available opportunity (lease renewal or month-to-month status) once the required written notice of a rent increase is provided. MHA requires a 6-month notification period once the affordability designation has transferred before a rent increase can take effect.

Notice of Ineligibility Upon Recertification

<u>An income ineligibility determination upon recertification does not provide justification for an eviction</u> and does not necessitate transferring the household to another unit. An ineligibility determination does not confer a right to the Property to increase the rent during a fixed term

lease and all applicable law related to notification requirements must be followed when the Owner intends to increase the rent.

The Owner may increase the ineligible household's rent to market-rate only upon designating the next available comparable unit as a replacement Designated Unit. Once the new Designated Unit is in place and the income-ineligible tenant's fixed-term lease is approaching expiration, Owners or PM Staff must provide required written notice of a rent increase as follows.

- MFTE Program 5 and Program 6 and Incentive Zoning units: Follow standard notification periods for rent increases in the City of Seattle: 180 days written notice for an increase in periodic or monthly rental rate (SMC 7.24.030A).
- MHA Performance Option: Upon the transfer of the affordability restriction to a new Designated Unit (i.e., the day it becomes vacant or is leased to a new income-eligible occupant), the Owner shall give the ineligible household six months' notice prior to any rent increase (SMC 23.58C.050.C.6.f.).

Tenant-Driven Actions that Trigger Income Requalification

Separate from scheduled annual income *recertifications*, two circumstances can trigger income *requalification*:

1. A change in the adult household composition.
2. A tenant's elective move to a Designated Unit of a different Affordability Classification.

Some limited exceptions apply, discussed below.

The 1.5x Recertification Cap does not apply to income requalifications triggered by tenant actions. Instead, use the current income limit for the Designated Unit as if the household were a new move-in.

Timing the Requalification

Unless an exception applies (see below), Owners or PM Staff must complete income requalifications for households in Designated Units prior to the change in household composition or a unit transfer. The date of the change to the household's composition or the date of the unit transfer will be the household's new income certification effective date. If the Owner is required to complete annual income recertifications, the first recertification will be due on the anniversary of this date.

- **Example**: Household AB is determined to be income-eligible and moves in on 4/1/2019. The household intends to add household member C on 10/1/2019. The Owner will complete an income requalification for ABC based on the 3-person income limit effective 10/1/2019 and only make the change if the household is eligible. The new recertification effective date will be 10/1 each year going forward.

Conditions Triggering Requalification - and Exceptions

Type of Change	Requalification Required	No Requalification Required

Change to Household Composition	• Add adult
	• Change adult
		• Changes to the number of minors living in the unit
		• Changes due to:
		  ○ A restraining order, stalking or domestic violence situation involving household member
		  ○ Death, illness, or disability of a household member
		  ○ Call of household member to military service
		  ○ Divorce or legal separation

Transfers between Designated Units	• Transfers between Designated Units of different Affordability Classification • Transfers between Designated Units regulated under different Incentive Programs	• Transfers between Designated Units of identical Affordability Classification • Transfers between Designated Units when triggered by reasonable accommodation under the Americans with Disabilities Act

Examples

- Addition of an adult household member
    - Income-eligible household member A requests the addition of new household member B. An income requalification of household AB at the current income maximum for the unit is required prior to making the change.
- Change of adult household member
    - Income-eligible household AB wants to release B from the lease, adding adult household member C. An income requalification of household AC at the current income maximum for the unit is required prior to making the change.
- If a household requests the removal of an adult household member 12 months after the initial lease commencement, an income requalification is not required. However, any addition of a new adult household member will require an income requalification.
- Transfer between Designated Units of different bedroom types.
    - Household AB requests a transfer from a 1-bedroom 75% AMI unit to a 2-bedroom 85% AMI unit, or a transfer from a 1-bedroom at 75% AMI unit to a

65% AMI studio unit. An income requalification is required in both cases prior to making the change.
    - Household AB requests a transfer from an open 1-bedroom MFTE unit to a 1-bedroom MFTE unit. If the original open 1-bedroom is classified as a 65% AMI studio, income recertification is required. NOTE: If the original open 1-bedroom was classified as a 75% AMI 1-bedroom, then no income requalification is required.
- Transfer between Designated Units of the same bedroom type, including transfers between Incentive Programs and special considerations for open 1-bedrooms.
    - Household AB requests a transfer from an open 1-bedroom classified as a 65% AMI MFTE studio to an open 1-bedroom classified as a 75% AMI MFTE 1-bedroom. Requalification is required.
    - Household AB requests a transfer from an MHA studio regulated at 60% AMI to an MFTE studio unit regulated at 65% AMI. Requalification is required.
    - Household AB requests a transfer from an MFTE 1-bedroom regulated at 75% AMI to an MHA 1-bedroom regulated at 60% AMI. Requalification is required.
    - Household AB requests a transfer from an IZ 1-bedroom regulated at 80% AMI to an MFTE 1-bedroom regulated at 75% AMI. Requalification is required, despite the units having identical income limits.[6]

Determination of Ineligibility

If a tenant's requested change to household composition or move to another unit would cause the household to become ineligible after the change is made, the household can elect to not make the change and remain in the existing Designated Unit. If the household chooses to proceed with the change and convert to a market-rate lease, the Owner/PM Staff must designate the next available unit of the same type and size as a replacement Designated Unit following the procedures described in the "Next Available Unit" section of this chapter.

The Office of Housing does not approve changes of household members or unit transfers; OH only establishes the point at which income requalification is required to determine continued program eligibility. Income-eligible occupants who do not report household changes (including additions, changes, subleases, use of unit or room for Airbnb, etc.) to Owners or PM Staff will forfeit their eligibility for a Designated Unit and should be removed from the program at the next available opportunity. References to prior program rules, or unfamiliarity with the current program rules, will not be the basis for an exception so long as the Incentive Program lease rider discloses such requirements.

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[6] Owners or PM Staff should pay special attention to income limits for MFTE one-bedrooms. Because MFTE assumes 2-person occupancy of a 1-bedroom, the income limit associated with a 75% AMI Affordability Classification under MFTE roughly equates to the income limit associated with an 80% AMI unit under any other Incentive Program.

Designating "Next Available" Replacement Units

When the annual recertification process or an unscheduled requalification identifies an over income household and the tenant wishes to remain in place as a market-rate tenant, the Owner/PM Staff must designate the next available market-rate unit of equivalent type as a replacement Designated Unit.

The replacement unit must be of a comparable size and type as the previous Designated Unit and be regulated to the same (or lower) income and restrictions as the previous Designated Unit. The Owner/PM Staff must lease this replacement unit to an income-eligible household as soon as practicable. The newly designated and previously market-rate unit effectively replaces the now-ineligible household's unit as one of the required Designated Units.

The initial roster of Designated Units is reviewed by OH staff to ensure comparability and distribution prior to leasing. Designated Units under the IZ and MHA programs are listed in each project's recorded Housing Covenant. MFTE units for projects approved in the fall of 2019 and later are listed in each project's Final Certificate of Tax Exemption. MFTE units for older projects are considered approved as listed in each project's most recent approved Annual Report.

Deviations from the original roster are allowable only when triggered by the need to identify a next-available replacement unit due to the recertification or requalification process. Office of Housing staff should be notified in writing and will respond to confirm that the next available unit is an appropriate substitute. The Owner/PM Staff may be asked to provide a record of any unit changes approvals when their Annual Report is being reviewed or during the audit process.

Chapter 5. Verifying & Calculating Income and Assets

The process for income and asset verification and projection for eligibility review is the same for all Incentive Programs. Each program may employ different Affordability Classifications and income limits, but the income qualification and eligibility certification procedures remain the same.

Overview – What Is Income?

Income is the sum of all gross amounts (before any taxes or deductions) either through direct income or payments on the behalf of all members of the household from a source outside of the household. The total household income used for Incentive Programs is the projected or anticipated income for the 12 months or 365 days after lease commencement. All sources of income must be verified before initial occupancy as well as annually for MHA, MFTE Program 5 and subsequent MFTE programs, and certain IZ properties.

Verification Process

For each source of income listed on the ID form, a corresponding verification must be in the file. All verifications must be dated within 120 days prior to the initial lease start date. If a verification is older than 120 days, new verification must be obtained.
Office of Housing allows for three different verification options when verifying income. Owners or PM Staff may choose one of the below options when verifying income.
The Incentive Programs allows for three different verification options:

Option 1: The Work Number

- Some employers will only provide income verification via The Work Number. It is not required, but encouraged, for PM staff to purchase a subscription to this service to verify employment.

Option 2: Tenant-Provided Documents

These are source documents provided by the applicant or tenant such as:

- 3 months of current and consecutive pay stubs from current employment
- New hire letter if employment is recent or projected and paystubs cannot be obtained
- Award letters verifying current year award for Social Security, SSI, pensions, life insurance and other monthly recurring benefit income
- 3 months of current and consecutive bank statements, savings, and checking
- 3 months' worth (generally quarterly) of statement from investments (401K, bonds, IRA, etc.) that state the YTD earnings from the investment
- Court ordered child support documentation
- Section 8 Calculation Summary
- Self-Employment applicants and tenants must complete the Self-Employment Verification form and provide either the most current IRS tax return or Profit or Loss statement if the business is new.

- This includes Uber, Lyft, Post Mates, Wag, etc. People who provide services through these companies are considered independent contractors and therefore should be filing as a business.
    - If a household does not file tax returns for their self-employment earnings, review bank statements where payments are made for the past 3 months and annualize. In this instance, the household should also complete the Self Employment Affidavit form.

Option 3: 3rd Party Verification Forms

Forms are available on the OH Affordable Housing Incentive Program Compliance website for Owners or PM Staff to obtain third-party verification forms. They include:

- Employment Verification
- Public Assistance
- Child Support
- Unemployment Verification

Forms must be sent directly from property management and may not be "hand-carried" by the applicant or tenant. Forms need to be reviewed for:

- Full information, including YTD, anticipated raises, etc., completed by a person at the agency or institution that has the authority to release the requested information. Any questions not answered should be followed up on by the PM Staff and appropriately documented.

Verification of Common Types of Income and Assets

Detailed procedures for verifying and calculating common types of income and assets appear in Appendix A of this Manual.

Chapter 6. Rent Restrictions

All Designated Units are subject to maximum gross rent limits as published by OH here. The Office of Housing sets no minimum rents. The maximum monthly rent for a given type of unit (e.g., one-bedroom vs two-bedroom) is generally set to 30% of the maximum allowable income for a presumptive household residing in that unit. This maximum income limit depends on an assumed number of household members that would typically occupy a unit of that type.

Rent limits geared towards a certain percentage of median income may vary by program due to differing program requirements and occupancy assumptions. Therefore, property Owner/PM Staff should be careful to select the correct program when identifying the maximum gross monthly rent limit. In cases where a single unit is governed by multiple programs, the maximum gross rent should match the limit of the most restrictive program.

The published rent limits apply to gross rent, inclusive of any mandatory recurring fees and utility costs or allowances.

Treatment of Mandatory Recurring Fees

Rent is any amount that a tenant is required to pay for occupancy of a unit. For example, if the standard form of lease requires renter's insurance as a condition of occupancy, the insurance premium must not drive monthly housing costs above the maximum gross rent limit. The same is true for any other mandatory recurring fees or charges, including utility costs, the King County sewer capacity fee and required utility billing administrative fees.

Month-to-month leases are permitted for Designated Units. If a month-to-month lease is the only lease term offered, any additional month-to-month fee is considered mandatory and must be deducted from the maximum rent limit. If an owner/PM offers multiple lease term options, any additional month-to-month fee is considered an optional fee and does not have to be deducted from the maximum rent limit. However, this fee will still count towards the Seattle Department of Construction and Inspections Economic Displacement Relocation Assistance (EDRA) program.

Failure to incorporate required renter's insurance and the Sewer Capacity Charge are the most common errors in calculating rents. Should OH staff determine that the property owner has charged a gross rent that exceeds the maximum allowable, reimbursements will likely be required for the property to reestablish compliance.

Fees for Optional Services

Fees for optional services or amenities are not counted towards the maximum rent for Designated Units. An optional fee is one that the tenant has the right to reject and that is not necessary for the tenant's safety or the unit's basic functionality. Optional fees may include pet rent, parking, storage and month-to-month fees as noted above.

Restrictions on One-Time or Up-Front Charges

The Office of Housing limits up-front fees and deposits* charged to Income Eligible Occupants.

- Security deposits and cleaning fees, if any, must be refundable and, collectively, must not exceed the Designated Unit's monthly restricted rent, net of any fees or recurring charges.
- Fees for applications, transfers, pets, parking, storage, and amenities are allowed so long as a uniform fee schedule applies to all units in the building.
- Fees for credit checks are allowed so long as a uniform fee schedule applies to all units in the building.
- No applicant for a Designated Unit may be charged fees for income verification or reporting requirements.
- No other fees may be charged to Eligible Households without prior written approval by the Office of Housing. Administrative fees and move-in fees are prohibited.

*Owners or PM Staff should also consult overarching City requirements here.[7]

Rent Concessions

If rent or any other type of concessions are offered to unrestricted units, these concessions must also be available to Designated Units. There are no regulations regarding whether they must be offered as a one-time move-in special or if they may be broken down over an extended period of time. The rule of thumb is if it is available to unrestricted tenants, it must be made available to all tenants.

Utility Estimates

When property owners pay all utility costs on behalf of the tenants with no subsequent bill-backs, no rent reduction via utility estimate is required.

When tenants of Designated Units are expected to pay for any portion of their utilities, the applicable utility estimate must be deducted from the gross rent schedule. Utility estimate schedules are prepared by SHA and updated approximately every two years. SHA publishes the schedule here.[8] The deduction is required in all cases where tenants in Designated Units must pay out of pocket for utilities, including arrangements where utility charges are assessed through a third-party billing service. The utility estimate will be received by the tenant as an adjustment to the maximum rent chargeable.

> ***Example**: If a tenant moves into a studio unit on July 1st, 2019 and they are expected to pay for all utilities, the maximum rent charged would be $1,020 (max rent) - $125 (2019 utility estimate) = $895 maximum contract rent.*

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[7] https://www.seattle.gov/rentinginseattle/renters/moving-in/move-in-costs
[8] https://www.seattlehousing.org/housing/housing-choice-vouchers/renting-with-a-voucher/utility-estimates

When SHA updates the utility estimates, the Office of Housing will strive to notify all property management contacts as soon as possible. It will also post the updates on its website. Furthermore, OH recommends Owners or PM Staff check the SHA website at least once every 90 days to see if SHA has posted updated estimates. Updated estimates must be implemented immediately after the posted effective date for new lease agreements and within 90 days for existing lease agreements. Utility estimate increases may require an adjustment (decrease) to rents, even if mid-lease. So long as both parties agree, the adjustment presents no conflict with landlord-tenant law.

Special note on Ratio Utility Billing: Ratio Utility Billing is when a building takes the total utility bill and back bills tenants by either the number of occupied units or the number of leaseholders in a unit. If a building chooses to use this method, the denominator must remove any utility fees from common areas and/or commercial space usage. Buildings that charge for common area and/or commercial space utilities may be required to reimburse tenants, regardless of the Utility Estimates used.

Special note on King County Sewer Capacity Charge: The Sewer Capacity Charge does not meet the definition of a utility consumed by the tenant and is therefore not covered by the utility estimate. While the fee may be passed on to the tenant, it must be deducted from the maximum gross rent in addition to any required utility estimate adjustment. The Sewer Capacity Charge is separate from wastewater treatment, which is usually billed by the gallon and covered by a corresponding utility estimate if charged to the tenant. More information about the Sewer Capacity Charge can be found on King County's website.

> ***Example**: If the maximum rent allowable under MFTE is $1,020 (max rent) - $125 (utility estimate) -$35 (Sewer Capacity Charge), the rent that can be charged is $860.*

Required Disclosures

To ensure transparency around rent-setting practices, lease documents for Designated Units should include a separate section or standalone lease addendum. Required rent-related disclosures appear in the "Leases" section of Chapter 2.

Rent Increases Upon Lease Renewal

The City-published rent limits effective at the anticipated first day of occupancy shall establish the gross maximum rent that can be charged for a given Designated Unit throughout the term of the lease. Upon lease renewal, and subject to any other requirements pursuant to Seattle's landlord-tenant laws, the Owner may adjust the rent to the maximum effective limit, provided that the limit has increased. In cases where the US Department of Housing and Urban Development (HUD) reports a reduction in the area median income and the OH-published income and rent limits decrease as well, Owners shall reduce rents accordingly upon lease renewal.

Owners or PM Staff should be aware that maximum allowable MFTE rents may vary between different versions of the program. Year-over-year rent increases for properties participating in MFTE Program 6 are limited to no more than 4.5%. In cases where the 4.5% increase is less than the published rents for other program iterations, OH will publish a separate income and rent chart for properties participating in MFTE Program 6. In cases where the published rents reflect an increase of less than 4.5%, the published chart shall apply to all properties regardless of program version.

Chapter 7. Compliance Activities

Office of Housing Asset Management Staff will monitor compliance through the expiration of the income and rent restrictions established under any recorded agreements. This chapter describes the major activities that occur throughout the Compliance Period. While monitoring activities will cease at the end of the Compliance Period, leases that are still in effect at the conclusion of the Compliance Period must be honored until the lease expires.

For units subject to multiple overlapping incentive programs, the Compliance Period will extend to the expiration of the program with the longest term, with income and rent restrictions adjusted, as necessary.

Compliance requirements – annual reporting, site visits, and file audits – will be in effect throughout the Compliance Period.

Annual Property Certification Report

Owners or PM Staff must submit the Annual Property Certification Report to OH each year by January 31. This report covers all rental activity at the property throughout the calendar year (January 1 to December 31), and the information presented must be verifiable by the tenant files located on-site.

OH will review each Annual Property Compliance Report and make a subsequent determination of compliance. Areas OH takes into consideration when reviewing the reports include:

- Designated Units aligning with the most recent OH-approved unit mix
- Initial household incomes certify at or below the corresponding limit
- At recertification, household annual incomes certify at or below the applicable income limit
- Total Monthly Housing expenses, inclusive of any mandatory fees, is at or below the applicable maximum gross rent amount
- Correct utility estimates are applied
- Demographic data for households has been collected
- Extended vacancies have been reported and addressed. The Affirmative Marketing Supplemental Report has been completed.

The Property will receive a Performance Letter detailing any findings, areas of concern, and any necessary follow-up actions.

When OH determines the submitted report and/or corrective actions taken are satisfactory, OH will issue an annual Certificate of Compliance.

If OH is unable to complete a review of the submitted report, it will not issue a new Certificate of Compliance. OH will however continue to consider the project to be in compliance until it reviews a subsequent Annual Property Compliance Report. In these instances, the status of the residential property tax exemption will remain unchanged.

Site Visits, Audits, and File Review

The Office of Housing will schedule the first on-site tenant file review within the first six months of the Compliance Period. The primary purpose of this initial file review is to ensure that new properties are correctly qualifying and documenting income-eligible households. OH will work with the landlord to correct any deficiencies related to:

- Tenant backup documentation
- Inconsistencies with submitted annual report
- Incorrect income verification determinations

OH will place projects on a review cycle based on the level of compliance and accuracy of the annual report and results from the initial on-site file review. Typically, this is conducted once every three years. Criteria for determining more frequent file reviews includes:

- Failure to submit the Lease-up Report
- Lease-up Report does not reflect tenant files
- Failure to income-qualify or income-verify households in Designated Units
- Tenant files missing required supporting documentation
- Failure to properly designate and lease the appropriate number of Designated Units
- Evidence of unapproved unit swaps
- Total Monthly Housing expenses, inclusive of any mandatory fees, greater than the applicable maximum gross rent amount
- Other criteria as determined by OH

Interim Site Review

If issues arise during the year, an interim on-site review or request for tenant file documentation may be required as often as OH staff deem necessary.

What Is in a File

The tenant income certification files are reviewed by OH Asset Management staff and State Auditors during a file audit. Files will consist of mandatory forms as well as situational forms. The file given to the Asset Manager should consist of final iterations of documents only.

Mandatory Forms for Every File

1. Tenant Income Certification (TIC)
2. Calculation Worksheet
3. Income Declaration (ID)
4. Demographic Form
5. Lease Rider

Situational Corresponding Documentation

1. Income
   a. Wage information
   b. Self-Employment information
   c. Non-employment/Unemployment information
   d. Gift information
   e. Fixed Income
      i. Social Security
      ii. Public Assistance
      iii. Child Support
   f. Student Income Information
2. Assets
   a. Checking and Savings
   b. Retirement Accounts
   c. Stocks/Bonds/Investments
   d. Real Estate
3. Student Status
4. Reasonable Accommodation Approvals (only if the reasonable accommodation is in direct relation to an Incentive Program policy or regulation)

File Set Up Best Practices

The goal of an audit is to have the auditor agree with and understand your calculations, agree with who was approved to move in or who was denied, and exit your building with no follow up questions or concerns. The file is the "story" of your tenant. It should be readable and points should easily connect so that anyone reading it will come to the same conclusion.

- Follow the outline above when setting up a file. This ensures consistency for auditors so that they can easily locate information and reduce missed information.
- Do not include co-signer information in the tenant income certification packet. Co-signer/guarantor information should be clearly labeled and kept separately.
- Consider labeling/tabbing specific forms, highlighting specific figures, or adding explanatory notes on forms. If an auditor has a question, it will generate a follow up.
- Consider having one person complete the packet review and another person construct the packet. The second set of eyes helps to ensure anyone who does not know the file can easily follow the story.
- Many properties have a company policy that every version of every form should be kept. In this case, those copies should be held separately or at the end of the packet behind a "Drafts" notification. Unfinalized documents lead to miscalculations and unnecessary audit findings.
- It is a good idea for Owners or PM Staff pre-audit their own files. This helps to ensure that you identify missing documentation prior to the arrival of an auditor. Make sure that page two of the TIC matches your lease and ledger.

- After the purchase of a building or the change in management company, the Owner/PM Staff should audit files for completion and accuracy. A pre-audit that identifies missing items is easier to complete than a City audit that has strict timelines for tenant-provided data.

Rounding

When entering financial figures into the TIC, apply standard rounding practices so that whole numbers are being used on the final figure.

Scope of Review

On-Site Review Scope

- For the initial lease up file review, all tenant files will be reviewed.
- For cyclical on-site reviews, a minimum of 30% or 15 current tenant files will be reviewed, whichever is higher. For properties with fewer than 15 units, all tenant files will be reviewed. The Office of Housing may review more files at their discretion.
- Interim on-site file review does not require a minimum number of current tenant files to be reviewed.
- In cases where a percentage of units are reviewed, a representative sample of units will be chosen by OH staff through a random selection of unit types (studio, 1-bedroom, 2-bedroom, etc.).

On-Site File Compliance Review: Designated Units

Owners or PM Staff must have the following documents available during the on-site review:

- All current resident files including:
  - Signed ID that demonstrates the household has declared all sources of income.
  - Income verification forms supporting the income disclosed on the ID.
  - Signed TIC showing all final figures from the income verification process, including calculations. Properties may use the income calculation sheet available in the TIC workbook or their own tools, but notes should be added for clarity when needed.
- All current resident leases.
- Copy of current lease template used for market-rate tenants and addendums given to residents.
- Copy of Special Outreach for Affirmative Marketing form if there are multiple extended vacancies and property has Affirmative Marketing requirements.
- All files for applicants who were denied (did not income qualify or were otherwise denied).
- OH approved forms, unless the certification predates 10/1/2015. Prior to this date, OH allowed properties to use WSHFC compliance forms.

The on-site tenant file compliance reviews will focus on the following areas:

- Completeness and accuracy of TIC:
    - All income and assets in the ID and any additional sources identified during the income certification process recorded.
    - Part V. Determination of Eligibility complete and accurate.
    - All data fields in Part VI. Rent are complete and accurate including current utility estimate and all mandatory fees.
    - Utility Estimate in accordance with SHA's published Utility Estimate Schedule
    - Calculations of maximum rents, including utility estimate and any mandatory fees deducted.
- Completeness of ID.
- Required household income and asset verification.
- Alignment between actual Designated Units and those listed on the Annual Compliance Report.
- Satisfactory verification supporting stated utility estimates.
- Mandatory fees accounted for in rent calculations.
- Data in most recent report (Lease-up or Annual) matches tenant files.
- Annual reports submitted to OH should reflect data reported in the TIC.

Non-Compliance

The Office of Housing will notify the Owners or PM Staff of any instances of non-compliance identified during an Annual Report review or site visit. The notification will include steps to bring the property back into compliance, such as corrective actions and requirements that the Property demonstrate its deficiencies have been rectified by a certain due date.

Below are specific examples of non-compliance and the corresponding corrective actions required by OH:

<u>Tenant household ineligible at move-in.</u>

Approving an over-income household to move into a "restricted" unit automatically triggers OH's Next Available Unit rule, which requires an additional, comparable unit to be newly restricted.

Even after that new unit is designated, the unit occupied by an over-income household must continue to be treated as restricted until that household's tenancy ends. Efforts, active or passive, to coerce the household to vacate the unit are strictly prohibited. The property owner must immediately provide OH's notice of the ongoing restrictions and terms to the over-income household.

The following is required until the over-income household's tenancy voluntarily ends:

- Monthly housing costs must remain at or below the applicable % AMI limit
- Income recertification must be completed annually for that tenant household

- Annual property certifications must reflect as “restricted” both the unit occupied by the over-income household and the additional, comparable unit newly designated according to the “next available” rule and include all information required as such
- Ledgers must be submitted to OH proving that the over-income household’s rent is at or below the amount allowed per the applicable % AMI limit

Under no circumstances may a unit’s status change from restricted to market without prior approval by OH. That approval is conditioned on full compliance with recorded regulatory agreement(s).

OH may approve a specific restricted unit to lease at market rent after it is vacated or upon renewal of the lease, if applicable, provided that:

- The number of units leased at restricted rents *exceeds* the minimum required per the recorded agreement(s); and
- One of the following applies:
  - An over-income household has notified the property manager of their voluntary intent to vacate a restricted unit; or
  - The annual income of a tenant household that was over-income at move-in is determined by the property manager and OH to exceed the recertification limit for a restricted unit.

Missing or incomplete household income certification documentation.

Missing or incomplete income certification documentation for a tenant household in a “restricted” unit automatically triggers OH’s Next Available Unit rule, which requires an additional, comparable unit to be newly restricted.

Even after that new unit is designated, the unit occupied by a household for whom satisfactory income certification documentation has not been provided must continue to be treated as restricted until the date on which that household’s tenancy ends. Efforts, active or passive, to coerce the household to vacate the unit are strictly prohibited. The property owner must immediately provide OH’s notice of the ongoing restrictions and terms to the unit’s tenant household.

The following is required until the household without satisfactory income certification voluntarily ends their tenancy:

- Monthly housing costs must remain at or below the applicable %AMI limit.
- Income recertification must be completed annually for that tenant household.
- Annual property certifications must reflect as “restricted” both the unit occupied by the uncertified household and the additional, comparable unit newly designated according to the “next available” rule and include all information required as such.
- Ledgers must be submitted to OH proving that the uncertified household’s rent is at or below the amount allowed per the applicable %AMI limit.

Under no circumstances may a unit's status change from restricted to market without prior approval by OH. That approval is conditioned on full compliance with recorded regulatory agreement(s).

OH may approve a specific restricted unit to lease at market rent after it is vacated or upon renewal of the lease, if applicable, provided that:

- The number of units leased at restricted rents *exceeds* the minimum required per the recorded agreement(s).
- One of the following applies:
    - A previously uncertified tenant household has notified the property manager of their voluntary intent to move-out of a restricted unit.
    - Within 12 months of move-in, the annual income of a previously uncertified tenant household is determined by the property manager and OH to be no higher than the limit upon which lease of a restricted unit is conditioned.
    - The annual income of a previously uncertified tenant household is determined by the property manager and OH to exceed the recertification limit for a restricted unit.

If the property fails to respond or make the corrections necessary, OH will issue a Summary of Non-Compliance to the Owner/PM Staff.

For the MFTE program, a failure to cure deficiencies within 30 days of this Summary of Non-Compliance may result in OH notifying the King County Assessor's Office to remove the residential property tax exemption. In the case of cancelation of the exemption, Owners or PM Staff will be required to maintain affordable rents through any tenant's lease term. If Owners or PM Staff elect to increase rents beyond MFTE limits at the end of the lease term due to cancelation of the exemption, they must provide MFTE tenants with sufficient notice that the MFTE agreement is no longer in effect and a resulting rent increase is pending.

Properties with MHA or IZ covenants that are not performing in accordance with the signed agreements may be subject to legal action by the City.

Changes in Ownership/Management

Owners must communicate with OH staff prior to any transfer of ownership or sale. Owners must also notify OH staff in the event of a change in property management companies. Property management companies must notify OH staff of new contact information should a position change.

Record Retention

Owners or PM Staff may establish their own protocols for retaining digital or hard copy files so long as all records can be readily produced for OH review upon request. All records must be kept for at least 7 years after a tenant's application denial or move out.
To eliminate confusion, Owners or PM Staff should build permanent files that include only final documents, not earlier drafts. Prior iterations of documents and extra copies of correspondence should be kept separate from the final income certification file.

Compliance Fees

The Office of Housing will levy annual compliance monitoring fees on MHA and IZ properties. The fee schedule is specified in the governing agreements between the City and the Property Owner. As of 2020, no fees are levied on projects participating solely in the MFTE program or for Designated Units required under the City's Tenant Relocation Assistance Ordinance ("TRAO"). Per-unit fees are levied on Designated Units that are restricted under the performance option for either MHA or IZ.

Annual compliance monitoring fees are payable to OH. The Office of Housing will send invoices to properties by May 1 each year with payment due no later than June 30 of that year.

Publicly Funded Projects

- Properties with Incentive Program agreements and public funding affordability agreements will be monitored at the most restrictive affordability requirement that applies to the Designated Units.
- Properties that have received City of Seattle funding. Properties in the OH loan portfolio will be monitored in accordance with procedures that accompany any other City-funded project.
- Properties that have received financial support from other public funders (e.g., the Washington State Housing Finance Commission (WSHFC)) will be monitored by WSHFC. Publicly funded properties need only complete the WBARS annual report and not the OH Annual Property Certification Report. However, if the public funder determines that a Property is not meeting its requirements, OH will begin monitoring activities to determine if the Property is also not meeting its obligations under the Incentive Program.

Chapter 8. Expiration of Unit Affordability Requirements

Compliance Period

The term of affordability and associated Compliance Period varies by Incentive Program.

- **MFTE**: The affordability term for Designated Units under the MFTE program expires on December 31 of the twelfth year of tax exemption. The requirement to provide Designated Units does not extend for 12 years from the date of initial occupancy, but rather from the first year of the tax exemption.
  Example*: A building receives its Final Certificate of Tax Exemption approval on June 15, 2020, at which point the Compliance Period commences. The tax exemption period will not start until January 1, 2021. The obligation to provide Designated Units will extend until December 31, 2032, absent an earlier affirmative decision by the Property to no longer receive the exemption*.
- **IZ**: The affordability term for Designated Units under the IZ performance option expires 50 years after the latter of the Property's Certificate of Occupancy or execution of the Bonus Covenant.
- **MHA**: The affordability term for Designated Units under the MHA performance option expires 75 years after the building receives its Certificate of Occupancy.
- **Standalone Agreements**: Affordability terms will vary under other programs, standalone development agreements, etc. In all cases, the agreement(s) establishing the affordability obligation will govern the term.

Program Extension

The City of Seattle began allowing expiring MFTE P3 projects to extend for an additional 12 years. To extend, the project must recertify all existing MFTE households to determine their new eligibility level. This recertification may result in the following:

- **The household qualifies at a lower income level and is moved to the P6 program.** The P6 program has lower rent and income limits. The household is now considered a P6 household for the duration of its tenancy and cannot ever return to P3.
- **The household does not qualify for the lower P6 level but is still low enough to remain a P3 household.** The household remains a P3 household unless, at a future recertification, it certifies at an income level low enough to move to the P6 program. At that point, the household will be considered a P6 household for the duration of its tenancy and cannot ever return to P3.
- **The household is over-income for P3 or the household refuses to certify.** In these instances, the household is now considered ineligible. The project will notify the household, the unit will turn to Market and the project will apply the Next Available Unit rule.

  <u>Example #1.</u> *Unit 101 recertifies at the P6 income level. Effective Jan. 1 the unit must have new P6 rent limits in place. Unit 101 recertifies annually and will continue to remain eligible so long as their income remains below 150% of the P6 max limit.*

Example #2. *Unit 201 recertifies at the P3 income level. P3 rent limits remain in place. Unit 201 recertifies every year at the same income level. When the P3 household in Unit 201 vacates, the next eligible household must qualify under P6 income limits.*

Example #3. *Unit 301 recertifies at the P3 income level. P3 rent limits remain in place. At the next recertification, Unit 301's income has fallen enough to qualify for a P6 designation. At the lease anniversary, the unit must have new P6 rent limits in place. Unit 301 continues to recertify annually and will continue to remain eligible so long as their income remains below 150% of the P6 max limit.*

Expiration

Prior to expiration, OH will alert project owners of any extension opportunities. If no opportunities are available or if the owner elects not to extend, property managers will need to do the following:

- Contact the Seattle Department of Construction & Inspections (SDCI) notifying them of the change in program and to determine if there will be any Tenant Relocation Assistance Ordinance (TRAO) requirements.
- Provide notice to tenants in Designated Units regarding the end of the program and their options for remaining in their unit, including whether TRAO assistance will be available. If TRAO assistance is available, Owner/PM Staff shall provide information on how to apply for it.

Affordability Terms vs Effective Leases

Property managers must plan for the expiration of the Program affordability period. Property Managers must:

- Honor the rent as stated in the signed lease for tenants in Designated Units. In no case may the expiration date of an affordability term supersede terms of an effective lease.
- Provide notice of an increase in rent pursuant to the local and state laws or requirements.

Change of Use

Demolishing or converting a Property to nonresidential use does not absolve the Owner from meeting Incentive Program requirements, which typically run with the land. Owners or PM Staff must notify their Asset Manager of any planned change of use to determine follow-up actions in accordance with governing Code and program agreements. Owners or PM Staff must contact SDCI to determine if a Change of Use license is required.

As with expired term projects, a change of use may trigger TRAO. Owners or PM staff will need to contact SDCI to determine if this is the case.

Final Report

Following the expiration of any Incentive Program, including standalone projects with affordability requirements subject to development agreements or other instruments, the Property must complete a final Annual Property Certification Report. This report is due no later than January 31 of the year following the expiration.

OH will review the report and issue a final Certificate of Compliance that will serve to close the compliance period and sunset the residential property tax exemption period. Should the owner wish to update any title report or other documents mentioning the expired tax exemption, it will be at the owner's expense.

Appendix A. Income and Asset Verification and Calculation

This appendix to the Affordable Housing Incentive Program Compliance Manual inventories the common types of income (Section 1) and assets (Section 2) and explains how Owners or PM Staff should verify and account for each to determine a prospective tenant's eligibility.

Section 1. Income

Below are several common categories of income. Sections 1 and 3 of the HUD occupancy Handbook 4350.3 are used as a guide, but OH has the final decision on what is considered income for the Programs and what verification is required to determine eligibility.

When calculating income, Owners or PM Staff will use a combination of previous, current, and anticipated activity to project expected income amounts. This includes a review of income received over the prior 3-month period to confirm/predict if recent income should be anticipated.

Wages

This is the most common form of income. Wages are funds received in exchange for labor from an employer. A person earning wages typically has taxes taken out by their employer and receives a W2 at the end of the year. When determining wages, you will include all regular wages, premium pay, tips, shift differential, overtime, training, and bonus pay.

Office of Housing allows for three different options when verifying income from wages:

- Verification Option 1: The Work Number
  - The Work Number is a paid service that is dependable, quick, and thorough, which makes it an excellent source for wages information. OH strongly recommends this option to collect wages information from which to base income calculations.
- Verification Option 2: 3rd party verification.
  - Complete Verification of Employment obtained directly from the applicant's Verification employer.
- Verification Option 3: Source Documentation
  - Three months of sequential paystubs.
  - Verifiable offer letter.

Owners or property managers may choose whichever option they prefer. All three verification options are acceptable.

When determining income for regular fulltime employment, the following figures are used:

- Hourly wages by 2080
- Weekly wages by 52
- Bi-weekly wages by 26
- Semi-monthly by 24

- Monthly wages by 12

The Tenant Income Certification Excel (Tabs 2-4) workbook offers three different methods of projecting income.

- Annualized Periodic Income: Complete this table with the information obtained through the 3rd Party Employment Verification. There are lines to input any commission, tips, or raises. This can also calculate annual income from monthly sources such as Social Security or gift income.
- Annualized Periodic Income by Paystub: Complete this table when an applicant supplies three-months of current and consecutive paystubs. Pay Period Length is required to indicate whether the income is paid weekly, bi-weekly, bi-monthly etc.
- Annualized Year to Date (YTD) Income: Complete this table when YTD is obtained via 3rd Party Employment verification OR when paystubs are available, and it is verified that income began on or before January 1 of the given year.

All tables should be as complete as possible with the verification received. For instance, if 3rd Party Employment Verification was received, tables 1 and 3 should be completed and the highest calculation used as the annual income.

Annual/Projected Increases (Raises)

A pay raise that the applicant will receive within the certification year must be included when determining income. If an employer indicates a possible range (e.g., 2-4%), the highest amount (4%) would be used to project the increase.

A Cost of Living Adjustment (COLA) is received by many employees in the public sector such as teachers, police, nurses and medical staff, City and government staff, postal carriers, etc. COLAs often range between 2 to 4% and are effective on the 1st of the year.

Overtime

If an employer indicates on EV that the applicant works overtime and a range of hours is given (e.g., 3-5 hours per week) and efforts to clarify with the employer fail, apply the highest amount (e.g., 5 hours) to calculate annual income. Overtime is also listed on pay stubs.

- Verification: Overtime should be confirmed via the EV and/or paystubs.

Bonuses and Commissions

If an employer or pay stub indicates that the applicant receives bonuses or commissions, determine the frequency of these sources and annualize.

- Verification: Employers may report bonuses or commissions on EV. If this information is not available from the employer, review three-months of current and consecutive paystubs OR use projected bonuses or commissions available on the annualized income calculation tool of the TIC.

Tips
Income received from employment including but not limited to, service or gaming industries. If an applicant works in an industry that generally uses a tip model such as food service, tips must be factored in unless the applicant can provide official documentation from their employer (preferably the HR department or employee handbook) stating explicitly that their position does not receive tips or patron gifts.

- Verification: Employers may report tips on the EV. If this information is not available from the employer, review three-months of current and consecutive paystubs for tips information OR use projected tips available on the annualized income calculation tool of the TIC.

Year-to-Date
When the YTD amount is included on a complete and accurate EV, you can annualize wages. You can also annualize wages with the YTD number on a most recent pay stub, so long as you can correctly identify the YTD start date.

The YTD start date is the first day of the first pay period of the year (do not assume Jan. 1 when paychecks are biweekly). If the applicant was not working with the employer at the beginning of the first pay period of the year, the YTD start date will be first day they began working for the employer. In this case, the applicant can provide their first pay stub of the year where the gross wages for the pay period are the same as the YTD amount.

New Job
If an applicant does not have a current job, or has been hired but not started yet, collect an offer letter, and use the information in the letter to project income. This letter must include the start date, pay rate, and hours worked per week. Factor in any commission, bonuses, etc. whenever possible.

Example
An Employment Verification form **has been** received for an applicant with the following information:

- First Date of Employment: 11/1/2019
- Current Gross Wages/Salary: $20/hr.
- Average Hours Worked per Week: 30-35
- Frequency: Per Hour
- Year to Date Earnings: $10,045, From 1/1/2020 to 3/15/2020
- # of Pay Periods included in YTD: 5
- Overtime: $0
- Shift Differential: $0
- Commissions, Bonus, Tips: $1200 per month
- Included in YTD above: Yes
- Raises anticipated in the next 12 months: 3%, effective 11/1/2020

- Participates in 401(k): No
- Can Access 401(k): No

With this information you can now utilize both the Annualized Income calculation and the YTD Income calculation methods. Once you have completed both, enter the higher of the two in the TIC.

1.) Annualized Periodic Income	Hourly Rate	Gross weekly rate	Gross bi-weekly rate	Gross bi-monthly rate	Gross monthly rate	Gross quarterly rate	Gross yearly rate	# of hours per week	# of weeks per year	# of months per year	Annual Total
Base Pay	$20.00							35	52		$36,400.00
Overtime	$30.00							0	52		$0.00
Annual											$0.00
Monthly rate										12	$0.00
Bi-monthly rate									24		$0.00
Bi-weekly gross									26		$0.00
Weekly gross									52		$0.00
SSI/Pension Cola Increase											$0.00
Raise 01/01/23 03/15/23								35	10.43		$0.00
Raise on OT (hrly raise x 1.5)	$0.00							0	10.43		$0.00
Shift Differential									52		$0.00
Bonus, commissions, tips per month					$1,200.00					12	$14,400.00
Bonus, commissions, tips bi-monthly									24		$0.00
Bonus, commissions, tips bi-weekly									26		$0.00
Bonus, commissions, tips per week									52		$0.00
Bonus, commissions, tips quarterly										4	$0.00
If in industry that tips, but tip amounts were	Industry									*Subtotal*	*$50,800.00*
not disclosed or verified by employer: ----->										*Imputed Tips (if applicable)*	*0*
										Annual Total	*$50,800.00*

As a final reminder, you should always complete as many calculations as the information provided will allow, and no less than two, and always use the highest of all calculations on the TIC.

Self-Employment

Self-employed individuals file a tax return in order to report their income.

Net income from applicant's business is used for the final income projection. This includes freelancing contractors, taxi and ride share drivers, etc.

- Verification: The applicant must complete the Self Employment Form.
- **If the business is established**, the applicant must provide the previous year's tax return, including Schedule C (Profit and Loss) of the tax return. If the previous year's return has not been filed, the prior year's return will suffice so long as it isn't after April 15, unless the applicant can provide proof they have filed for an extension. For example, if it is May 1, 2023, and the 2022 tax return has not been filed, the 2021 tax return will suffice only if the applicant can prove they have filed for an extension for the 2022 return.
- **If the business is new**, a Profit and Loss statement should be obtained. This form is available on the IRS' website and can be completed by an applicant or their CPA.

When determining **net** income, use best judgement on deductions. It would be *reasonable* for a taxi driver to deduct vehicle depreciation. It would not be *reasonable* for a credit repair specialist who works from home to deduct vehicle depreciation, as their business does not require the use of a vehicle.

Note: It is not required to review business account bank statements unless there is concern for fraud/accuracy or there are significant transactions between business and personal accounts.

Contract Work

Contractor pay is a sum of income paid for completing a specific job or series of jobs. A person who is a contractor will receive a 1099 form at the end of the year for tax purposes. Income reported on a 1099 is gross income. It is up to the person to take care of all their own expenses and taxes.

- Verification: An individual who is a contractor will complete the same process as a person who is self-employed, including providing a profit and loss statement.

  Example: *A household member is an Uber driver who makes $5,000 in gross monthly income and the business has monthly expenses of $1,000 (gas, car washes, oil changes). The expenses are deducted from the monthly gross amount and the net income of $4,000 is used as the actual monthly income.*

Seasonal Employment

Applicants employed in seasonal work such as construction, tax preparation, etc. and may collect unemployment benefits during their off months.

- Verification: If the applicant is currently not employed at their seasonal employment, the non-employment form should be completed. Income should be projected by the applicant using data from their past seasonal employment or market averages. If the household is receiving unemployment, obtain a pay statement or award from the Washington Employment Security Department (ESD).

Unemployment

Weekly income from the state Employment Security Office after the loss of employment. As individuals may apply for appeals and extensions, the weekly benefit amount shall be multiplied by 52.
Verification: Complete the Verification for Unemployment. If ESD does not respond, you may accept a print off from the applicant's Secure Access Washington (SAW) account.

> ***Example****: An applicant receives unemployment benefits totaling $567/week. Total unemployment income for the year will be $29,484 ($567 x 52 weeks). Utilize the Annualized Periodic Income section on the TIC Income tab to perform the calculations and include in the certification file.*

Gift Income

Recurring gift income is countable and applied to the annual gross income for the household. This includes monetary gifts from friends and family members. Gift income received from the same source three times or more within a year will be categorized as recurring income.

Nonrecurring, temporary, or sporadic gift income is not counted and applied to the annual gross income for the household. Examples of nonrecurring gift income would be graduation and birthday gifts.

Households declaring gift income must submit a signed Gift Income Form as verification. Gift income identified while reviewing the 3-months of bank statements should be annualized separately (multiply by 4). When the 3-month bank statement lookback annualizes more gift income than the Gift Income Form, use the amount based on the 3-month lookback.

In cases where annualized gift income is the only factor pushing a household's income over the cap <u>AND</u> the household believes their actual gift income is less than the annualized amount, the household may provide an additional 3 months of statements with gift income identified for the Owner/PM Staff to include in the annualization (multiply by 2).

- Verification: A signed and complete Gift Affidavit outlining the amount and frequency of the gifts.

  Example: *The applicant declares gift income on their IDF, and the Gift Income Form states their parent provides them with $1,000 per month, totaling $12,000 per year. The 3-month lookback shows gifts totaling $5,000 ($1,750 in June, $1,750 in July and $1,500 in August). Annualized, this amounts to $20,000 ($5,000 x 4 = $20,000). Take the $20,000 and enter it in Part III of the TIC as Other Income.*

No Longer Receiving a Gift

If an applicant has historically/recently received gift income, that income will be counted going forward unless a full 3-month period has passed without receiving that gift. If an applicant's gift income puts them over the income threshold for a particular unit, the applicant must discontinue the gift and wait 6 months if they wish to reapply. If an applicant states they will cease receiving a gift solely to qualify for a Designated Unit, they must wait 6 months before reapplying without the gift income.

Student Income

Students often have a variety of income sources to support the cost of their education and/or living expenses. Below are exempt and non-exempt student income sources:

Exempt Student Income (document in file but do not include in income projection)	**Non-exempt Income (include in income projection)**
• Pell Grant, state need grant • Subsidized & unsubsidized loans • Earnings from work study • GI Bill funding	• Support from family members, including paying rent • Government support received by International Students

	• Regular earnings from employment that is not work study • Stipends that are not a part of the financial aid award package

- Verification: Applicant completes the *Student Status Certification* and provides the following:
    - FASFA or WASFA worksheet for the current school year (during the summer months the coming school year)
    - Registration/Class Schedule detailing tuition and fees charged
    - Financial Aid award letter from school of attendance
  - F1 in cases where student is international student
- Recording: Non-Exempt income should be recorded on page 1 of the TIC. Exempt income should be documented to the file but is not listed as income on the TIC.
  -

  Example: *An international student provides their required F-1 or J-1 award letter. The letter shows $51,056 in "Personal funds". This amount should be counted in full towards the household's income.*

TANF & ABD

Monthly income to support low-income families administered by Washington State Department of Social and Health Services (DSHS).

- Verification: Send **Public Assistance Verification** to DSHS. After two documented attempts obtain DSHS letter of award addressed to applicant.
- Food Assistance is exempt and not counted towards income.

  Example

- Household member receives TANF maximum amount of $363 per month for a family of two. $363 x 12 = $4,356 annually.

1. Household member receives $197 of ABD per month. $197 x 12 = $2,364 annually.

In both cases, utilize the Annualized Periodic Income section on the TIC Income tab to perform the calculations and include in the certification file.

Seattle Housing Authority Section 8 Voucher Holders

OH allows the Calculation Summary to be used in lieu of all other income verification documents.[9]

- Verification: Section 8 Calculation Summary form. Must be no older than 120 days from the lease start date. Property must contact Case Manager to confirm the Calculation Summary is current and correct. If the household has provided SHA with an update, the property will require SHA to provide an updated Calculation Summary to the applicant for verification.

Transfer income totals, not including any noted deductions, from the Calculation Summary into Part III of the TIC. If assets have been included on the Calculation Summary, transfer those amounts into Part IV of the TIC.

Social Security

Monthly income from the Social Security Administration (SSA), including pension, disability, SSI, survivor benefits. This includes benefits for minors.

- Verification: Current year's award letter issued from Social Security Administration stating gross monthly benefit.

  Example
  Household member receives $783 per month in SSI. Move-in date is October 1, 2020.
  Calculate income from Move in Date to end of year (3 months) $783 x 3 = ***$2,349***
  Apply Cost of Living Adjustment (COLA) of 3% to determine payment as of 1/1/21, $783 x 1.03 = $806.49, rounded to $806 for all months in 2020.

  There will be 9 months of receiving $806 (1/1/21 - 9/30/21), therefore $806 x 9 = ***$7,254***
  Add the 2019 projected amount and the 2020 projected amount during the certification year, $2,349 + $7,254 = $9,603. Utilize the Annualized Periodic Income section of the TIC Income tab to calculate and include in the certification file.

Pensions

Monthly income from employment related retirement pensions, disability or death benefits, or other similar periodic income, including Veterans Admin benefits (disability or retirement)
Verification: Current monthly benefit statement or current year award letter stating gross monthly benefit.

> ***Example****: The Household member receives $1,645/month from their pension.*
> *Pension $1,645 x 12 = $19,740.*

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[9] This is for initial certification ONLY. The Calculation Summary may not be used in lieu of income and asset verification documents for recertifications.

Utilize the Annualized Periodic Income section of the TIC Income tab as such to calculate and include in the certification file.

Alimony and Child Support

Monthly or other recurring income for the care of a child or continued support from a former spouse.

- Verification: One of the following:
- Alimony: Separation Agreement/Divorce Decree with amount of Alimony OR notarized letter from former spouse paying support
- Child Support: MFTE/IZ *Child Support Affidavit*
- AND print out from DSHS/Office of Support Enforcement OR notarized letter from parent paying support.

Example: *An applicant reports receiving child support directly from the non-custodial parent. The non-custodial parent provides a notarized statement that they provide $400 in monthly support.*
$400 x 12 = $4800 annually.

Utilize the Annualized Periodic Income section on the TIC Income tab to perform the calculations and include in the certification file.

Military Pay

Military income is paid on a semi-monthly basis. The Leave and Earnings Statement (LES) verifies Base Pay, Basic Allowance for Subsistence (BAS) and Basic Allowance for Housing (BAH). Base Pay and BAH are included as income. BAS is considered exempt income but should be entered on the 3rd page of the TIC.

Non-Exempt Income (Count on Page 1 of TIC)	**Exempt Income (Record on Optional Page 3 of TIC)**
• Basic Pay • Basic Allowance for Housing (BAH) • Family Separation Allowance	• Basic Allowance for Subsistence (BAS) • Clothing Allowance • Dislocation Allowance (DLA) • Family Subsistence Supplemental Allowance • Combat Pay

- Verification: Two consecutive LES statements showing gross pay. If receiving other income, two consecutive statements to verify gross income.

Example: *The LES provided by the applicant shows a Base Pay of $2,247.30, BAS of $294.43 and BAH of $1725.00, each paid semi-monthly.*

- *Base Pay $2,247.30 x 24 = $53,935.20.*
- *BAS $294.43 x 24 = $7061.76 This income is exempt and will not be recorded on the TIC or used for eligibility determination.*
- *BAH $1750 x 24 = $42,000.*
- *Annual Base Pay + Annual BAH = $95.935.20.*

Helpful hint: The Annualized Periodic Income section of the TIC Income tab is helpful to calculate this income. Use it and include in the certification file.

Selling of Goods

Income received by selling goods and not being considered self-employed. If the applicant reports selling goods to the IRS as a business, they are considered self-employed. See Self Employment section above.

- Verification: Deposits made into the applicant’s checking, savings, or other digital forms (like Venmo, PayPal, or Cash App).

Venmo, PayPal, and Cash App

Applicants are not required to provide three months of statements for mobile payment apps such as Venmo, PayPal, or Cash App, **unless** they are receiving income from these sources for self-employment purposes, or they do not have any other method of banking.

The following requirements only apply to applicants who are receiving income from these sources for self-employment purposes or do not have any other method of banking:

Deposits on these platforms should be counted and projected forward unless the applicant can provide supporting documentation to show that this is not the case. The account statements often show what the payment is for. Applicants may also include receipts connecting payments to repayments.

- Verification: Three consecutive months of statements from each source, reviewed for recurring deposits that should be included as income. Applicants should provide explanations and any supporting documentation for deposits larger than $300 that are claimed to be repayments (rent splitting, vacation splitting, etc.)
- Owner or PM Staff should use their best judgement when deciding what is considered income. If statements show recurring deposits under $300 or other deposits that look like income, Owner/PM Staff can request explanations as they see fit.
- To calculate income, annualize anything identified as income.

Exception: Any cash app that exclusively transfers funds from existing accounts and does not hold a balance should not be included in the TIC. Zelle is an example of this type of app.

Rental Income

Monies received for rent of a property owned or co-owned by applicant. This includes money given directly to the applicant or directly to the mortgage holder of the residence.

- Verification: Applicant completed Real Estate Valuation form and IRS Form 1040 with Schedule E (Rental Income) and a statement from lessee or a copy of the Lease Agreement.

The Real Estate Valuation form has embedded formulas and includes instructions on where to input data into the TIC.
Rental Income will need to be extracted from the Schedule E to be entered into Part III of the TIC as Other Income.

Employee Rent Concessions

Monthly discounted rent for employees of the owner or property management company. As rent discounts are a common add-on in company compensation packages, employees who lease a Designated Unit must include any rent reduction, discount, or credits towards their overall income calculation. This monthly discount shall be a separate line item listed with wage income. See Chapter 3 regarding the administration of these units.

- Verification: Rent ledger for applicant-employee that demonstrates the monthly discount in rent. This is included as income.

  Example: *The Household member receives $700/ month in rent credit. Rent Credit $700 x 12 = $8,400.*

Utilize the Annualized Periodic Income section of the TIC Income tab to calculate and include in the certification file.

Income Changes – Recent Changes to Income

Applicants may not lower their hours and/or quit their jobs to income qualify for a rent restricted. If an applicant is found to have affected their income solely for the purpose of income qualifying for the Affordable Housing Incentive Programs, they may not reapply for the program for a minimum of 6 months.

Changes in income are found by looking at income for the prior 3 months. If there is a question or concern about hours worked and/or additional employment contracts, Owners or PM Staff may request a statement from the Employment Security Office, which notates hours claimed to the State for employment/wage/tax purposes.

Trusts: When the Applicant is the Beneficiary.

- Verification. Disbursement statement.

Utilize the Annualized Periodic Income section of the TIC Income tab to calculate and include in the certification file.

***Example**: The applicant provides a statement that shows they receive $1,500/month from their trust.*

$1,500 x 12 months = $18,000.

Utilize the Annualized Periodic Income section of the TIC Income tab to calculate and include in the certification file.

When the applicant is the grantor of a trust, please refer to page 66.

Additional Income Information

Live-in Aid

If the Owner/PM Staff approves a Reasonable Accommodation for a Live-in Aid or the Housing Authority approves a Live-in Aid for a voucher holder, the aid's income should not be counted. It is the building's responsibility to screen potential live-in aids.

Income from Minors

Wages from minor shall be exempt and not counted toward household income. However, TANF, Social Security, Trust disbursements, etc. shall be counted toward household income.

- Verification: See each individual example above.
- Recording: Non-Exempt income should be recorded on page 1 of the TIC. Exempt income should be recorded on the Optional Page 3 Exempt Income form for the TIC.

Foster Care Income

Foster care income is public assistance in return for the care of a child in the foster system.

- Verification: Complete a *Public Assistance Verification* and submit to DSHS or the private agency providing services
- Recording: Non-Exempt income should be recorded on page 1 of the TIC. Exempt income should be recorded on the Optional Page 3 Exempt Income form for the TIC.

Income from Temporarily Absent Family Members

Owners must count all income from family members approved to reside in the unit, even if some members are temporarily absent. If the owner determines that an absent person is no longer a family member, the individual must be removed from the lease and household composition.

If the spouse or a dependent of the person on active military duty resides in the unit, that person's income must be counted in full, even if the military member is not the head or spouse of the head of the family. The income of the head, spouse, or co-head will be counted even if that person is temporarily absent for active military duty.

Lump Sum Receipts

Lump sum amounts are generally not included as income but are treated as an asset. This includes, but is not limited to, inheritances, one-time lottery winnings, insurance settlements, or lump sums due to a delay in certain benefits, e.g., Unemployment or Social Security.

However, if the income is expected to continue for any reason besides the one-time pay out, it should be considered income.

- Obtain 3 months of bank statements if the lump sum has been deposited and consider it an asset.

Zero Income

Any adult that claims to have zero/no income, even if another household member does have income, must complete a *Non-Employment Affidavit*. The household member must indicate their current situation, how they are planning on covering living costs, and their plan for income within the compliance period. This form must be completed when an applicant indicates they are living on savings.

If there is a concern that the plan is not *reasonable*, Owners or PM Staff may not approve a file until the applicant can provide an adequate and reasonable scenario on how they will cover living arrangements.

If an applicant indicates they are currently not working but plan on obtaining a job, current wage statistics for the area must be imputed and counted towards household income. Current occupation projections for the prior year may be found at https://esd.wa.gov/labormarketinfo/occupations. Owners or PM Staff should obtain a print off to be used for verification and calculation purposes. The median income projection will be the figure used in income calculations.

If an applicant completes a *Non-Employment Affidavit* stating they have no intent to obtain employment within the next 12-month period and later is found to have obtained a job within 90 days, Owners or PM Staff may determine that the applicant manipulated their paperwork in order to qualify for the program. In this case, Owners or PM Staff may take action to convert the unit to market-rate or follow other procedures used for dealing with fraudulent files.

Section 2. Assets

Assets are items of value that may be turned into cash. While OH does not count the value of the asset when determining a prospective renter's eligibility for a Designated Unit, nor are there limits on asset values. Any income generated the from assets will be counted towards the overall household income.

Types of income include:

- Interest: Money generated at a particular rate for the use of money lent, or for delaying the repayment of a debt.

- Capital Gains: A profit from the sale of property or an investment.
- Dividend: The distribution of profits by a corporation to its shareholders. When a corporation earns a profit or surplus, it is able to pay a proportion of the profit as a dividend to shareholders.
- Equity of real estate: The difference between the fair market value of the property and the amount of money you owe on the mortgage. It can also be income generated from renting real estate.
- Disbursements: The payment of money from a fund.

There are two ways to calculate the income from an asset and OH requires the greater of the two to be included in the TIC.

Current vs. imputed:

- Current income earned from assets reflects the actual realized gain from an asset. This is most easily calculated on bank or credit union accounts, such as checking and savings or money market accounts that explicitly state the rate of return on the monthly statement.
- Imputed amounts are calculated based on the HUD passbook rate. The current rate is .45%, but this may change. Owners or PM Staff must look at both the current and actual gains as well as the imputed gains.
- The Owner/PM Staff should use the higher of the current or imputed income to calculate income from assets.

When recording assets on the TIC, Owners or PM Staff will record the <u>cash value</u> (total current value less penalties and costs to liquidate) in Part IV. If the applicant cannot/does not provide documentation as to the liquidation penalties, the total value will be used.

Below are common types of assets and the required verification for each. This is not an exhaustive list.

Checking Accounts

Asset held with a financial institution that can receive deposits and withdrawals. Generally, has low or no interest earnings.

- Verification: Three months of current and consecutive statements prior to move-in. Owners or PM Staff should review for any deposits and obtain further verification for any deposit over $300.
- Any deposits over $300 that are income (recurring gifts, self-employment, etc.) will need to be annualized and included in the TIC. (See Gift Income and Self Employment)
- To calculate income, record the current value in Part IV of the TIC.
- If the checking account bears interest, annualize actual interest earned.

Savings Accounts

Asset held with a financial institution that can receive deposits and account owners can withdraw from the account.

- Verification: Three months of current and consecutive statements prior to move-in. Owners or PM Staff should review for any deposits and obtain further verification for any deposit over $300.
- Any deposits over $300 that are income (recurring gifts, self-employment, etc.) will need to be annualized and included in the TIC. (See Gift Income and Self Employment)
- To calculate income, record the current value in Part IV of the TIC.
- If the savings account bears interest, annualize actual interest earned.

Stocks/Bonds/Treasury Bills/Certificates of Deposit/Money Market Accounts

The primary income from these assets is interest and dividends. Income can also be earned from the sale of stocks or bonds for profit.

- Verification: Three months' worth (generally quarterly) statement that show the value of the asset. When possible, obtain a completed Annuity, Stock and 401(k) Verification from their stockbroker as to the new amount a family or household would receive if they liquidated the asset, less any penalties/fees for early withdrawal.
- First calculate the value of the asset. This can be done using the value of the account on the statement. If the applicant provides a statement quantifying any penalties or fees to liquidate, deduct this amount and enter the net amount in the TIC.
- Next, calculate the income from the asset by annualizing any dividends, disbursements, or other payments noted in the statement.
  Example
  A household provides a quarterly statement valued at $50,000. The statement shows dividends totaling $250. No other statement related to liquidation expenses is provided. Enter $50,000 as the cash value in Part IV of the TIC. Then enter $1,000) $250 x 4 quarters) as the Annual Income from Asset amount.

Online Financial Accounts

The following requirements only apply to applicants who are receiving income from these sources for self-employment purposes or do not have any other method of banking.

Including but not limited to: Peer lending, real estate investing, robo investing, crypto currency (Venmo, Pay Pal, Fundrise, Lending Club, Robinhood, Acorn, Stash Cash, Apple Pay, Etc.)

- Verification: Each of these accounts provide a monthly or quarterly statement. These statements can be found by accessing the desktop version of these apps. Owners or PM Staff should review for any deposits and obtain further verification as needed.
- To calculate income, annualize anything identified as income.

Retirement Accounts

Generally, retirement accounts are not accessible until age 59.5 years old; however, many withdraw from most of these accounts early with a 10% penalty. Early withdrawal may also require a hardship claim. If an account is accessible with or without a fee, even if it requires a hardship claim, it must be counted as an accessible asset.

- Types of accounts:
  - 401K: For for-profit company employees. Money can be borrowed against, taken out, or reinvested.
  - 403B: For public employees and tax-exempt organizations. Money can be taken out for certain reasons, and usually with a penalty. If accessible even through a hardship claim, it must be counted towards the total assets.
  - IRA: An account that allows a person to direct their own retirement funds.
  - KEOGH: A retirement plan for self-employed individuals.

Pension: A retirement plan that provides a monthly income after retirement.

- Verification: Obtain the most recent consecutive statements covering a three-month period. Review to ensure that no disbursements have been withdrawn. Keep the most recent in the file. Statements should reflect gains from the previous statement period to the next. If the applicant does not provide documentation of penalties, withdrawal fees, or restrictions, count the full value. To calculate income, apply the same protocol as you would a Stock/Bond/etc. above.

Trusts: When the Applicant is the Grantor.

A trust is a legal arrangement regulated by state law in which one party holds property for the benefit of another. A trust can be cash or other liquid assets, or real or personal property that can be turned into cash. There are two types of trusts, revocable and irrevocable.

- Revocable Trusts: The grantor of a revocable trust can change this type of trust as often as they wish and therefore has access to this asset at any time. When an applicant grants this type of trust for another, it is considered an asset and should be included in Part IV of the TIC.
- Irrevocable Trusts: This trust agreement allows an individual to permanently transfer the asset during their lifetime to someone else. Trust which are irrevocable by or under the control of any member of the household are not considered assets and should not be included in Part IV of the TIC.

To calculate income, apply the same protocol as you would a Stock/Bond/etc. above.

As long as the trust exists, the actual income distributed to the household from such a trust must be included as income when determining eligibility. If not, income is distributed to the household then do not count income from the trust.

- Verification: Obtain a copy of the trust document.

Life Insurance

There are multiple types of life insurance policies. In most cases, the applicant has access to the money in the policy, as it will pay out to their beneficiary after their death. Universal Life insurance, however, builds a “cash value” that may be withdrawn. Policies must be reviewed to see if they are Term or Whole Life, or Universal Life.

- Verification: For Whole life and Universal Life policies only: Utilize the Insurance Verification form to determine the asset value and impute income.

Real Estate Owned

The value of the real estate is included as an asset, minus any unpaid balance on loans and reasonable costs incurred to sell the asset (broker fees, penalties, etc.)

- Verification: Household must complete the Real Estate Valuation Form and supply any additional information as directed by the form.

Personal Property/Collectibles Held as Investment

This is for actual goods that are obtained and retained as an investment, such as gems, jewelry, coin collections, antique cars, etc. Personal items, such as a household’s wedding ring, would be considered personal jewelry and are <u>not</u> included as assets.

- Verification: Insurance valuation of the personal property/collectible held as an investment OR current market-rate for given item. Impute increase in value.

Annuity

A fixed sum of money paid to someone on a yearly basis.

As an investment, the regular annual payment shall be counted towards the annual income, as well as the interest earned on the total amount.

- Verification: Obtain the annuity contract.

Cash on Hand/Funds Not Held in a Financial Institution

Monies not kept in a financial institution but are available to the applicant.
Verification: Have applicant complete Cash on Hand Affidavit for amounts greater than $1,000.

Assets Disposed of for Less than Fair Market Value

Applicants who dispose of assets for less than fair value have, in essence, voluntarily reduced their ability to pay for housing. This is viewed similarly as someone who changes their income to qualify for the program. Any assets found to have been sold for less than fair market value should be included in the annual income projection. To determine the amount used, determine the market value of the asset, and reduce by the actual sale price. The difference should be listed on the TIC as Other Income.

Transactions Found in Statements

All applicants are required to submit three current and consecutive months of statements for every asset account for verification and documentation purposes. While reviewing statements, any and all deposits coming in must be noted and identified, as well as coincide with the information listed on the Income Certification. If while reviewing these statements an applicant is found to have deposits that do not match what is disclosed in the Income Certification, they must be counted as income unless:

- Any given amount is less than $300.
- The deposit is from the US Treasury in the form of a tax return.
- The applicant can match transactions to receipts for dinners/purchases made as a group and the incoming transactions are from group purchase members.

The applicant is self-employed. Review the profit and loss statement. Some deposits may be business-related and thus business-related expenses are applicable. If deposits project out to be higher than receipts disclosed during the Self-Employment income verification process, review the information disclosed with the applicant again.

Withdrawal of Cash or Assets from an Investment

Total any asset disbursement payments over a three-month period and then annualize (multiply by 4). The entire amount of asset disbursements should be counted as income and entered in Part III of the TIC.

Joint Assets

If an applicant is named on an asset account and they have access to the account, the account in its entirety should be counted.

Appendix B. Abbreviations and Defined Terms

Common terms used throughout the manual are defined below. Please note that these definitions are *specific to this manual* and do not necessarily align with the terms' usage in other contexts or documents.

Affirmative Marketing: A plan for marketing available affordable housing units in a project to ensure compliance with the MFTE/IZ/MHA programs and federal, state, and local fair housing laws governing the prohibition of discriminatory housing practices.
Affordability Classification: The maximum income and associated rent threshold assigned to any household occupying given Designated Unit, expressed as a maximum percentage of the area median income.
Affordable Housing: Any rental unit subject to upper limits on tenant incomes and rents. Also known as income- and rent-restricted housing.
Annual Income Certification: Income and asset certification for the entire household that must be completed annually, effective on the date of the household's anniversary date. May also be referred to as "Recertification."
Annual Property Certification Report: Information on units, rents, incomes for affordable housing residents, and more as determined by OH, required to be submitted to OH annually. Reports are due January 31 for the period of January 1 – December 31 of the previous calendar year.
Area Median Income (AMI): The median income for the metropolitan statistical area in which an affordable housing unit is located. This is published by the U.S Department of Housing and Urban Development (HUD) and is the basis for all of OH's published rent and income limits.
Certification Period: The 12-month or 365-day period commencing on the initial lease start date. This is the period used for projecting income on an initial income certification.
Compliance Fee: Annual fees due to OH for units under certain Incentive Programs.
Compliance Period: The period of time a building must follow all applicable criteria outlined in the executed agreements and covenants pertaining to the Incentive Programs.
Designated Unit: A residential unit subject to income- and rent-restrictions under one or more of the Incentive Programs.
Eligible Household: A household that has completed an initial income certification and has been determined to have an income no greater than the applicable income limit. The household shall remain eligible until determined otherwise.
Gross Income: The gross amount (before taxes or deductions) of wages, salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation received from an employer.
Household: The combined total of individuals who reside in the residential unit.
Incentive Programs: City of Seattle programs that provide a property tax exemption, opportunities to build more intensively, or other distinct opportunity to real estate developers in conjunction with an obligation for developers to support the production of affordable housing within the City.
Incentive Zoning (IZ): Land use programs under which developers of commercial or residential properties could tap extra (or "bonus") height and/or floor area when contributing to

affordable housing production either through payment to OH or an on-site or off-site performance option. In 2020, Incentive Zoning for affordable rental housing production was replaced with Mandatory Housing Affordability.

Income Certification (IC): Application completed by the applicant for consideration of eligibility of an income and rent restricted affordable housing unit. This form is completed by the applicant household and reviewed by the Owner/PM Staff.

Initial Income Certification: Income and asset certification for the entire household that must be completed before a lease for a Designated Unit can be signed.

Lease Rider: Disclosures and other information differentiating a Designated Unit lease from the form of lease for market-rate units. This is a required document that is part of the designated unit's lease package.

Mandatory Housing Affordability (MHA): Land use programs, codified at SMC 23.58B and SMC 23.58C, that provide contributions to affordable housing production. MHA offers developers payment and performance options. Performance Options appear as designated units specific to the project's MHA covenant.

MFTE: Multi-Family Tax Exemption, codified at SMC 5.73.

Non-Compliance: A failure to observe or perform any covenant, condition, or term of any agreement between the Owner and The Office, or failure to meet the requirements of SMC that governs the program.

OH: The Seattle Office of Housing.

Owner: The legal owner of record for a Property participating in an Incentive program. The Owner holds sole responsibility for upholding the agreements that establish the Owner's and the City's mutual rights and responsibilities.

PM Staff: Property management staff. As used in this manual, can include leasing agents or any other personnel employed or contracted by the Owner for the purposes of day-to-day administration of a Property.

Property: The entire real estate asset, inclusive of building and land, that participates in a City Incentive Program.

SDCI: The Seattle Department of Construction and Inspections.

SHA: Seattle Housing Authority.

SMC: Seattle Municipal Code.

SOCR: Seattle Office for Civil Rights.

Subsidy: Ongoing or time limited financial support from a federally or locally funded agency in the form of monthly rental payment (either rent in its entirety or a partial payment towards rent). Common forms of subsidy are the Housing Choice Voucher (Section 8) or HEN (Housing & Essential Needs), among others.

Tenant Income Certification (TIC): Form completed by a property's property management staff and signed by the household. Details the household's total income, determination of eligibility, and gross rent.

TRAO: The City's Tenant Relocation Assistance Ordinance.

The City: The City of Seattle.

WSHFC: Washington State Housing Finance Commission.