

# 2022 and 2023 QUALIFIED ALLOCATION PLAN

Submitted on [date] by:



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FIRST DRAFT

# I. Introduction

The federal Low-Income Housing Tax Credit (LIHTC) program was established by the Tax Reform Act of 1986 and codified in Section 42 of the Internal Revenue Code of 1986, as amended (I.R.C. § 42), to encourage construction and rehabilitation of low-income rental housing. The Arizona Department of Housing (ADOH) is the agency responsible for allocating LIHTCs. I.R.C. § 42(m) requires allocating agencies to allocate LIHTCs pursuant to a Qualified Allocation Plan (QAP). ADOH has adopted this QAP for 2022 and 2023 to administer LIHTCs, state tax credits (STC), and private activity bond volume used for rental housing (Bonds).

The amount of LIHTC available through this QAP will be the annual ceiling adjusted by the amount already allocated, forward committed, returned, carried over from the previous year, and any from the national pool. ADOH will issue an information bulletin listing the projected amount of LIHTCs.

## A. Public Input and Drafting Principles

ADOH conducted 10 online focus groups with 115 attendees, a large general session at the Annual Conference, an official public hearing, and actively solicited written comments. In addition to considering input from interested parties, the following principles guided ADOH in drafting the QAP:

- equal distribution of resources across the state;
- need to sustain long-term partnerships;
- responsibility to low-income households;
- transparency throughout the process;
- efficient use of time for all parties; and
- selection criteria reflecting
  - aspects already in place or within a developer's control,
  - how proposals differ in consequential ways,
  - limits on incentives to make problematic choices.

## B. Amendments and Clarifications

ADOH may amend the QAP following a posted notice on its website, a public hearing, and email notification sent to all applicants (the last for amendments after the submission due date). ADOH also will periodically post written clarifications to the QAP to elaborate or provide guidance on how to interpret QAP text.

## C. Use of Discretion

In the process of administering the LIHTC, tax-exempt bond volume, and state low-income housing tax credit, ADOH will make decisions and interpretations regarding the QAP and applications. Unless otherwise stated, ADOH is entitled to the full discretion allowed by law in making all such decisions and interpretations. ADOH may amend, modify, or withdraw QAP provisions that are inconsistent or in conflict with state or federal laws or regulations. In the event of a major:

- weather-related disaster,
- disruption in the financial markets,
- change in resources available, or
- other unforeseen, consequential circumstance,

ADOH may disregard any section of the QAP, including point scoring and evaluation criteria, that interferes with an appropriate response.

## II. Application/Award Process and Fees

Unless otherwise indicated, the criteria in this QAP Section II apply to all applications, including those for 4% LIHTCs and Bonds.

### A. Identifying the Applicant

Each application must identify one individual or validly existing entity as the Applicant. An entity may be a corporation (including nonprofits), limited partnership, or limited liability company. The Applicant will:

- execute the application,
- receive ADOH communications, and
- exercise sole authority to make decisions (ADOH will not consider agreements regarding the relative rights of joint venture parties).

If the application receives an award, the Applicant must become a managing member or general partner of the ownership entity.

### B. Application Requirements

ADOH will specify the form, manner, and process of receiving applications and may require the submission of information, letters, and/or representations before or after submission deadlines. Applicants must comply with all such instructions to the same extent as QAP requirements.

### C. Application/Award Schedule

ADOH may deem an application ineligible for failure to meet a deadline. The schedule may change to accommodate weather events or other circumstances affecting the logistics of submissions.

#### 1. State Tax Credits

ADOH will accept STC applications once the 2022-2023 QAP is adopted.

#### 2. 4% LIHTC and Bonds

ADOH will accept applications for 4% LIHTCs and Bonds under the 2022 QAP on an ongoing basis after the 2022 -2023 QAP is adopted.

### 3. 9% LIHTC

Applications Due	Friday, April 1, 2022
Reservation Announcements	Thursday, June 1, 2022

#### D. Curing Errors and Omissions

ADOH will determine how to address erroneous, omitted, or outdated information. Possibilities include:

- contacting the Applicant;
- asking third parties with relevant knowledge;
- making a change and informing the Applicant;
- charging a fee of up to \$1,000 per application; and/or
- determining the application is ineligible.

Applicants may request that ADOH waive specific requirements of this QAP. Requests must be submitted with the Application and be supported by a detailed narrative explanation sufficient to permit ADOH to determine that the waiver: 1) is consistent with federal requirements; 2) is necessary; and 3) does not adversely affect the project feasibility.

#### E. Acknowledgement and Consent from Local Government

ADOH will notify the Local Government where the project is located and request that it provide a letter of acknowledgement and consent to the project pursuant to A.R.S. §35-728(C). The Local Government will be required to respond to ADOH within thirty (30) calendar days from the date of the letter. An Application will not be deemed automatically ineligible in the event that the Local Government either fails to provide the letter or otherwise indicates that the proposed project is unfavorable. ADOH will determine whether the reason or basis for local opposition conflicts with A.R.S. §35-728(C), and/or whether the objectionable characteristic(s) can be mitigated, before determining that a project is ineligible for an award. Any allocation conditional in the event that the Local Government denies consent and the allocation is the subject of review by a court or tribunal of competent jurisdiction.

#### F. ADOH Fees

All fees are non-refundable:

Application Fee: \$5,000 for each Application

Reservation Fee 9% LIHTC: ten percent (10%) of the annual LIHTC allocation. Eight percent (8%) of the ten percent (10%) Reservation Fee is due and payable within 30 days of Reservation letter with the remaining two percent (2%) of the ten percent (10%) Reservation Fee due and payable at final allocation and prior to issuance of Form(s) 860g.

Reservation Fee 4% LIHTC: ten percent (10%) of the annual LIHTC allocation. Eight percent (8%) of the ten percent (10%) Reservation Fee is due and payable within 30 days of Determination of Qualification letter with the remaining two percent (2%) of the ten percent (10%) Reservation Fee due and payable at final allocation and prior to issuance of Form(s) 8609.

Reservation Fee STC: ten percent (10%) of the annual STC allocation. Eight percent (8%) of the ten percent (10%) Reservation Fee is due and payable within 30 days of Determination of Qualification letter with the remaining two percent (2%) of the ten percent (10%) Reservation Fee due and payable at final allocation and prior to issuance of STC eligibility letter.

Underwriting Fee: \$1,500 for each full underwriting

Technical Review Fee: \$500 for each technical review

Subsidy Layering Fee: \$1,000 for each subsidy layering

Administration Fee: \$1,500 for each material changes or action prompting additional administrative review

Late Fee: \$250 per day for information received after the carryover allocation and ten percent (10%) test deadline specified in the ADOH reservation letter.

Compliance Monitoring Fees (annual):

\$75 per low-income unit part of multifamily buildings

\$85 per low-income unit not part of multifamily building

\$140 per low-income unit for buildings in which the owner has elected average income

Reimbursement for Cost Estimator: Applicants with projects involving rehabilitation or adaptive re-use are responsible for the cost of the independent cost estimator.

Reissuance of Form 8609: \$250 fee for each 8609 form that is re-issued after it is signed and issued to the owner. If 8609 forms for the entire project are necessary, the fees shall not exceed \$2,500.

### **III. 9% LIHTC and STC Limits, Set-Asides, and Award Adjustments**

ADOH will award 9% LIHTCs from Arizona's 2022 and 2023 ceilings following the limits and set-asides below. The awards also may include forward commitments.

## A. Limits on Awards

The maximum award of federal 9% LIHTCs

- per application is \$2,000,000;
- in each of the 12 Rural / Balance of State counties is one; and
- per Principal is no more than the lesser of one Rural and one Metro project or \$3,500,000.

ADOH may exceed the county limit if there are insufficient eligible applications.

The maximum award of STCs per application is \$1,000,000.

## B. Rehabilitation Set-Aside

ADOH may make up to three (3) 9% LIHTC awards to applications proposing the rehabilitation of existing occupied housing or hotel conversions. These properties may be located in any county.

## C. New Construction Set-Aside

ADOH will make awards applicants proposing to construct new housing (including adaptive re-use).

### 1. Rural / Balance of State

ADOH will make three (3) 9% LIHTC awards in the 12 Rural counties (if there are sufficient eligible applications).

### 2. Metro

ADOH will award the remaining 9% LIHTCs to applications in to Maricopa, Pima, and Pinal Counties.

## D. Award Adjustments

If necessary, ADOH will adjust the outcomes to ensure awarding at least the amounts below. Specifically, 9% LIHTCs that would have been awarded to the lowest ranking application(s) that do(es) not meet the criteria instead will be awarded to the next highest-ranking application which does. ADOH may make such adjustment(s) in any set-aside.

### 1. Tribal

Two (2) awards to applications where the subject real estate is located entirely on tribal land.

Tribal land means, all lands within the exterior boundaries of any land formally designated by the federal government as a Tribal reservation or land set apart by the federal government for a Tribe's use such as pueblos and tribal trust lands but it does not include land that the Tribe acquired legal title through non-federal designation or award, unless (a) the tribe has obtained a federal public law stating that the Tribal members who reside in a particularly named area shall be considered (without any fiscal year limitation) for the purposes of the United States Housing Act of 1937 or such other federal housing

law as residing on an Indian reservation or other Indian area; or (b) the tribe has acquired the land under Public Law 99-503 that provided for the replacement of certain lands within the Gila Bend Indian Reservation, the Secretary of the Interior holds such land in trust for the benefit of the tribe, and such land is deemed to be a Federal Indian Reservation for all purposes. The Project must be wholly located in the particular area stated in the federal public law to be considered to be tribal land.

## 2. Nonprofit

Ten percent (10%) of LIHTCs to one or more applications involving a tax-exempt organization (nonprofit) which:

- is the listed Applicant;
- has fostering of low-income housing as one of its exempt purposes;
- becomes a managing member or general partner of the ownership entity; and
- materially participates, as defined under federal law, in the acquisition, development, ownership, and ongoing operation of the property for the entire compliance period.

## 3. Choice Neighborhoods

One (1) award to an application designated as a Choice Neighborhoods project by a public housing authority implementing a HUD Choice Neighborhoods implementation grant.

## E. Innovation or Unique Opportunities

ADOH may award LIHTCs to an application outside the QAP selection criteria based on one or more of the following considerations:

- unique construction methods;
- innovative approach to development;
- scale of community impact;
- regional distribution;
- unique funding/leveraging opportunities; and
- disaster recovery response.

The award counts towards the limits of the applicable set-aside(s).

## F. Recycled Allocations and Forward Commitments

An ownership entity returning a valid allocation of 2020 tax credits between October 1, 2021 and December 31, 2021 will receive an allocation of the same amount of 2022 LIHTCs if:

- the project's design is the same as when awarded (other than changes approved by ADOH);
- the ownership entity pays a fee equal to the original allocation fee amount; and
- none of the Principals for the returned project are part of a 2022 application.

The project must place in service in 2023. For returns made in 2023, adjust the years accordingly.

ADOH may make a forward commitment of the next year's LIHTCs in an amount necessary to fully fund project(s) with a partial award or to any application meeting QAP requirements. ADOH may elect to award and/or carry forward LIHTCs received after the application cycle ends.

## IV. Threshold Eligibility

Unless otherwise indicated, the criteria in this QAP Section IV apply to all applications and properties, including those for or with 4% LIHTCs and Bonds and STCs. ADOH may determine eligibility by contacting third parties.

### A. All Properties

Applications must meet the applicable underwriting standards in QAP Section VI. Properties must be designed and constructed in accordance with Exhibit A and applicable federal and state requirements for accessibility by persons with disabilities, including the Americans with Disabilities Act (42 U.S.C. § 12101 et seq.) and Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. § 794).

#### 1. APPLICANT EXPERIENCE

##### DEVELOPER AND OWNER

The Applicant must:

- have been listed in an awarded application(s) as a developer (may be a joint venture), and
- be serving as a managing member or general partner in the ownership entity,

for at least one LIHTC property in Arizona or three in other states. The Applicant's involvement may be through sole ownership of a single purpose LLC or limited partnership.

##### PROPERTIES

The LIHTC property or properties must:

- have been placed in service between January 1, 2016 and December 31, 2020, and
- not be in material noncompliance with any applicable affordable rental housing program requirements.

#### 2. PRINCIPALS

##### DEFINITION

Principals include the Applicant and any individuals or entities:

- listed as a developer;
- listed as a member/partner of the eventual ownership entity (excluding LIHTC equity providers);
- receiving more than \$20,000 for consulting or providing a guarantee;
- who are immediate family members or affiliates of the foregoing.

Applicants must disclose all consultants and interested parties.

## DISQUALIFICATION

ADOH may disqualify an application based on a Principal:

- making misrepresentation or providing materially false information in an application;
- not having closed LIHTC equity on a property awarded in 2021 or before;
- allowing an affordable rental housing property to enter into foreclosure;
- being removed from an LIHTC ownership entity by an equity investor or ADOH;
- not being in good standing with any affordable rental housing program administrator or the State of Arizona;
- has been a debtor in a bankruptcy within the past ten (10) years;
- has been a party in a civil, administrative or criminal matter which resulted in an adverse fair housing settlement, an adverse civil rights settlement, or an adverse federal or state government proceeding and settlement against that party or a pattern of adverse civil proceeding and judgments against that party as evidenced by three (3) or more adverse judgments within the previous five (5) years;
- has been found to be directly or indirectly responsible for any other project within the past five (5) years in which there is or was uncorrected noncompliance with state or federal rules, regulations or standards;
- has outstanding compliance issues with HUD or ADOH;
- has ADOH compliance fees that are due and remain unpaid as of the Application Deadline;
- being debarred from any federal housing program;
- has more than two (2) full years of HUD's NAHASDA Funds in the LOCCS Balance.

## 3. LIHTC MANGEMENT EXPERIENCE

The proposed management agent entity must be:

- a management agent for at least three LIHTC properties in Arizona or six LIHTC properties in other states, and
- considered in good standing with all affordable rental housing program administrators.

Applications may list two management agents so long as one meets the requirements above. The eligible entity must remain in the lead role for at least two years after the last building places in service.

## 4. SITE CONTROL

### Non-Tribal

Applications must include documentation of either current ownership or the legal ability to purchase the real estate for the proposed property (may be a long-term ground lease) that is:

- in the name of the Applicant, Principal, or an affiliated entity, and
- valid through at least one month after the anticipated award date.

### Tribal

For projects located on Tribal Land, where the Applicant has not yet entered into a lease agreement, Applicant must establish legal control of the property by submitting: 1) an agreement between the

ownership entity and the Tribe to enter into a lease of specific real property for a term at least equal to the duration of the LURA, 2) a resolution of the Tribe (or TDHE as applicable) authorizing the Tribe (or TDHE) to enter into the submitted agreement. The agreement to enter into a lease must also specify a rental amount and provide that the Tribe (or TDHE) will execute the LURA.

For projects located on Tribal Land where the Applicant has entered into a lease agreement, attach evidence that the Tribal land has been leased and all necessary approvals from the Tribe, the Bureau of Indian Affairs, and other governmental approvals (as applicable) have been secured. The lease must specify the specific real property being leased, a specific rental amount, a term equal to or longer the duration of the LURA, and that the Tribe (or TDHE) will execute the LURA.

For Tribal leases only, ADOH may consider the length of the lease to be the original term of the lease plus the term of any option to renew, provided that the option to renew is held solely by the Applicant. For off-reservation Tribal Lands that are established by a federal public law, Applicant must also submit documentation of the federal public law that establishes that the property qualifies as Tribal Land.

## **5. MARKET NEED**

Applications must include a study prepared by a market analyst on ADOH's approved list, unaffiliated with any Principal, who has experience with multifamily rental housing. Market studies must show adequate demand for the property and meet the most recent Model Content Standards adopted by the National Council of Housing Market Analysts.

## **6. FUNDING SOURCES**

Applications must include documentation of a legally binding commitment for all funding sources, other than ADOH loans and LIHTC equity. The commitment letters must comply with QAP Section VI(A)(5).

## **7. AVERAGE INCOME MINIMUM SET-ASIDE**

Applications must indicate the property's minimum set-aside, which cannot change after submission. Projects electing the average income minimum set-aside may not:

- contain market-rate units or
- propose average designations exceeding 60% of area median income (AMI) for any bedroom type (a pro-rata distribution).

ADOH may waive the foregoing, if necessary, for a rehabilitation application to better fit the household incomes of in-place tenants.

For projects with more than one building, the ownership entity must select that each building is part of a multiple building set-aside on line 8b in Part II of IRS Form 8609.

## 8. PERSONS WITH DISABILITIES AND LEASES

The ownership entity and management agent will:

- expressly include reasonable accommodations in the application for tenancy;
- not ask applicants/residents for medical or other protected information unless legally necessary and only to that extent (e.g., processing reasonable accommodations);
- use standard leases with the same rights available to, and responsibilities expected of, all households, including duration of tenancy (cannot be transitional);
- ensure participation in any supportive services is entirely voluntary (not a formal or implied condition of occupancy); and
- not give a preference based on either disability type (actual or perceived) or being a client of a particular provider.

The management agent will offer units with accessibility features first to existing tenants or applicants on the waiting list who may benefit from such features before otherwise qualified applicants. Offers must respond only to individuals' voluntarily stated preferences, not presumptions based on perceptions of medical circumstances.

## 9. PUBLIC HOUSING AND HOUSING CHOICE VOUCHER (HCV) WAITLIST

At least one month prior to commencing lease-up, the management company will inform the local public housing authority and Housing Choice Voucher administrator of accepting their referrals.

## 10. NO SMOKING

Properties must enforce a no smoking policy (including electronic smoking devices) in all common and individual living areas in all buildings and offer a designated smoking area outdoors on site.

## B. Rehabilitation

### 1. SCOPE OF WORK AND CNA

Applicants must submit a detailed Capital Needs Assessment (CNA) conducted by an independent third-party expert and a specific scope of work addressing all units.

### 2. MINIMUM PER UNIT

Buildings must require an average of at least \$25,000 per unit in rehabilitation hard costs, as determined by the CNA and ADOH's assessment.

### 3. RELOCATION

The Application must include a relocation/displacement plan, including a projected budget and an explanation of efforts to mitigate the impact on residents. For developments also using federal funds, the ownership entity must comply with the Federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.

## 4. INCOME AND RENT TARGETING

Properties will comply with the more restrictive of the:

- elected LIHTC minimum set-aside, or
- applicable requirements of any other affordable rental housing program.

## C. New Construction

### 1. INCOMPATIBLE USES

#### HALF MILE

ADOH may determine an application is ineligible due to the site being within 0.5 miles of the following:

- airport;
- chemical or hazardous materials storage/disposal;
- commercial junk or salvage yards;
- industrial or agricultural activities generating odors or pollution;
- landfills currently in operation; or
- wastewater treatment facilities.

#### NEARBY

An application may be ineligible if the site is adjacent to, or across a street from, any of the uses listed above or the following:

- adult entertainment establishment;
- distribution facility involving trucking;
- electrical utility substation;
- factory or similar industrial operation;
- jail or prison;
- source of excessive noise; or
- other factors which create an environmental justice concern, creating undue adverse environmental impact.

### 2. SITE

An application may be ineligible if the site

- has any portion on a 100-year flood hazard area, or
- is in, or would have an impact on, a wetland.

### 3. ZONING

Applications must include documentation that all necessary

- legislative land use authorizations (rezoning),
- quasi-judicial approvals (conditional or special use permits), and
- variances from administrative requirements

are in place for the proposed property. ADOH may allow extension of up to thirty days from application submission.

#### 4. CONNECTIONS

Applications must include documentation that:

- all necessary utilities are currently available or connections are possible, and
- the proposed property has or will have access to a publicly maintained road.

ADOH may allow Tribal properties more time to meet this requirement.

#### 5. INCOME AND RENT TARGETING

The average income and rent restrictions of the low-income units (not including any units set aside for employees) must be 50% or lower.

#### 6. MINIMUM SCORE

Applications must have a minimum total score of 90 points.

## V. Selection Criteria

ADOH will make awards using the following selection criteria for STCs, Bonds, and 9% LIHTCs.

### A. State Tax Credit

ADOH will make awards of STCs in the order of complete application submissions (contains only de minimis errors or omissions) and based on the following factors:

- projects using 4% LIHTCs and Bonds
- Rural / Balance of State projects using 4% LIHTCs or 9% LIHTCs (one project)

In the event of inadequate eligible applications for STCs using 4% LIHTCs and Bonds, ADOH may make more than one award to 9% LIHTC Rural / Balance of State application(s).

### B. 4% LIHTC and Tax-Exempt Bonds

ADOH will make awards of 4% LIHTC and Bonds to complete application submissions (contains only de minimis errors or omissions) using the following criteria in descending order of importance.

- requesting STCs;
- participating in the HUD RAD conversion process;
- include federal project based vouchers.

Applicants must provide a bond inducement resolution (or preliminary resolution) and an application for the 4% LIHTCs with accompanying documentation. ADOH will make decisions within no more than 30 days of a properly documented submission (other than in April and May).

## C. 9% LIHTC Rehabilitation

ADOH will make awards based on its evaluation of the factors below. Each factor will result in an application having a higher priority and is listed in declining order of significance:

- LIHTC resyndications;
- Requiring more rehabilitation work, based on ADOH review;
- A greater percentage of units with project-based rent assistance;
- Properties identified by a local government as in need of rehabilitation for community revitalization purposes;
- The Applicant's experience as a LIHTC property owner (if applicable).

Implementation of this subsection will not involve point scoring; ADOH will apply these selection criteria to the applications.

## D. 9% LIHTC New Construction

ADOH will score 9% LIHTC new construction applications which meet threshold requirements.

### 1. APPLICANT'S AND PRINCIPALS' EXPERIENCE

**Maximum of 30 points.**

#### IN-STATE

ADOH will award 5 points for each Arizona LIHTC property (including 4% LIHTCs and Bonds) placed in service between January 1, 2011 and December 31, 2020 for which the Applicant:

- was listed in the application(s) as a developer (may be a joint venture), and
- served as a managing member or general partner in the ownership entity, and
- remained in good standing with ADOH throughout the development.

#### OUT-OF-STATE

ADOH will award 10 points if the Applicant:

- placed 5 properties in service in states other than Arizona between January 1, 2012 and December 31, 2021,
- was listed in the applications as the developer (may be a joint venture),
- served as a managing member or general partner in the ownership entity, and
- remained in good standing throughout the development.

### 2. SUPPORTIVE HOUSING

**Maximum of 30 points.**

Applications may not earn points in both subsections below.

## SECTION 811 PARTICIPATION

ADOH will award points based on projects the Applicant commits to accept a contract for HUD 811 rental assistance, including

- 15 for the subject of the application, and
- 5 for each additional existing eligible Arizona project.

The contract(s) would only occur upon ADOH request. The Applicant must have authority to bind the ownership entities and the projects would need to accept assistance for at least 10% of the units.

## RENTAL ASSISTANCE

ADOH will award points using the following matrix to projects committed to targeting 15% of units persons with disabilities, persons experiencing homelessness, victims of domestic violence and youth existing foster care using one of the listed forms of rental assistance:

Federal Project Based Vouchers	20 points
Operating Reserve for Tenant Based Rental Assistance	10 points
Other Rental Assistance (rapid rehousing, AHCCCS, emergency housing vouchers)	10 points

The targeting will be pursuant to a plan approved by ADOH before commencing lease-up. Among other terms, the plan will include an agreement by the ownership entity to hold open the required number of units for persons with disabilities or the homeless for the following periods:

- 90 days after certificate of occupancy
- 10 days during operations.

ADOH will post a template plan on its website and coordinate with human services agencies to establish process for referring potential tenants.

## 3. PROXIMITY TO AMENITIES

**Maximum of 30 points.**

### MEASUREMENT

Applicants may provide documentation of the driving distances calculated by Google Maps for the listed eligible amenities. Routes must be drivable as of the application deadline. The measurements will be between the points closest to:

- the site entrance, to or from
- the amenity entrance.

For scattered site properties or properties with multiple buildings, the measurement will be from the location with the longest distance(s).

### ELIGIBLE AMENITIES

The eligible amenities below must be open to the general public and operating as of the application deadline:

1. Grocery – includes the following stores: AJ’s Fine Foods, Albertsons, Bashas’ Grocery Stores, Costco, Fry’s Food and Drug, Food City, IGA, Los Altos Ranch Market, Safeway, Sam’s Club, Sprouts Farmers Market, Walmart Supercenter, Walmart Neighborhood Market, Whole Foods Market, Natural Grocers, Trader Joe’s, and WinCo Foods (ADOH may consider additional locations upon request).
2. Shopping – Target, Super Target, Big Lot’s, Dollar General, Dollar Tree, and Family Dollar (ADOH may consider additional locations upon request);
3. Second Grocery or Shopping – include second location from the lists above;
4. Pharmacy - selling non-medical general merchandise (not including pharmacies in hospitals)
5. Medical Facility – includes hospital, urgent care business, or general/family medical practice (does not include specialists or clinics within pharmacies);
6. Bus or Transit Stop - at a fixed location served by a public transportation system six days a week;
7. One of the following:
  - Community Center - owned and operated by a local government with scheduled activities,
  - Public Park - operated by a local government listed on its map or website containing playground equipment and/or walking trails,
  - Library - operated by a local government open at least five days a week;
8. Either of the following:
  - Senior Center - with scheduled activities operated by a local government (age-restricted projects)
  - School - non-alternative public elementary, middle or high school (family, open occupancy projects)

The same establishment or location may count under multiple categories, other than second Grocery or Shopping.

## SCORING

ADOH will:

- separate Metropolitan and Rural;
- compile the total mileages to eligible amenities;
- add the distances and sort the total amounts in ascending order;
- award the maximum points to the application with the lowest total mileage, and
- award points to the remaining applications based on their percentage of the lowest.

## 4. OPPORTUNITY AREAS (OPPORTUNITY 360)

**Maximum of 20 points.**

Applications may not earn points in this subsection and CRP. In the event an application is eligible under both subsections, ADOH will award whichever amount is higher.

Applicants may submit an Adobe .PDF of the “Community Dashboard” for the property site from

<https://www.enterprisecommunity.org/opportunity360/measure>

ADOH will:

- separate Metropolitan from Rural,
- compile the Education, Health & Well-Being, and Economic Security Index results,
- add the three and sort the total amounts in descending order,
- award the maximum points to the application with the highest total, and
- award points to the remaining applications based on their percentage of the highest.

Applications without a valid dashboard submission will receive Index results of zero.

## 5. RESIDENTIAL CHARACTER

**Maximum of 10 points.**

ADOH will award one point for each house, apartment, or other residential unit

- within a 0.5 mile radius of the proposed property, and
- occupied as of the application deadline.

## 6. COMMUNITY REVITALIZATION PLANS

**Maximum of 15 points.**

Applications may not earn points in this subsection and the Opportunity360 subsection. In the event an application is eligible under both, ADOH will award whichever amount is higher.

### CRP CRITERIA

ADOH will award 10 points to applications meeting the criteria below.

- As of the application deadline, a local government formally adopted a plan to revitalize a defined geographic area (CRP) containing the proposed site. A standard land use or comprehensive plan is ineligible unless it contains a specific revitalization component.
- The local government certifies that no Principal initiated the CRP being adopted (other than a public housing authority or a related entity).
- Completing the property proposed in the application would contribute to one or more of the CRP's stated goal(s).
- The local government has made or is committed to making specific investments in non-housing infrastructure, amenities, or services beyond developing the proposed property. A Neighborhood Revitalization Plan will qualify if it meets the above criteria.

### QUALIFIED CENSUS TRACTS (QCT) OR REQUEST FOR PROPOSALS (RFP)

ADOH will award an additional 5 points for each of the below criteria:

- defined geographic area includes any portion of a Qualified Census Tract (as of 2021 or 2022), or
- local government selected one of the Principals using a request for proposals/qualifications process.

## 7. BELOW MARKET LOANS AND LOCAL SUPPORT

**Maximum of 15 points.**

ADOH will award up to 15 points for meeting the following criteria.

### LOCAL GAP FINANCING

Loans committed from any of the following sources will receive 10 points.

- Community Development Block Grant;
- HOME Investment Partnership (from a non-ADOH source);
- Native American Housing Assistance and Self Determination Act;
- Established local government housing programs;
- Public Housing Authority resources;
- Charitable organizations registered in Arizona.

For scoring purposes, ADOH

- may disregard a source affiliated with a Principal (excluding tribes and public housing authorities);
- will reduce the amount from a local government by the cost of any land to be sold to the ownership entity by that local government.

The source(s) must be listed as a loan with terms no more demanding than those currently used under ADOH's gap financing programs.

ADOH will calculate the total amount of qualifying funds committed per unit (excluding one for an employee/manager) and award points based on the matrix below.

	Sources/Unit	
Points	Metropolitan	Rural
15	\$20,000 or more	\$15,000 or more
10	\$15,000 - \$19,999	\$10,000 - \$14,999
5	\$10,000 - \$14,999	\$5,000 - \$9,999

### HISTORIC

ADOH will award 5 points if the property will be eligible for the historic rehabilitation tax credit.

### LAND LEASE

ADOH will award 5 points for projects with land owned by a unit of local government with a land lease structure with the Applicant at the time of application. Land lease demonstrates no more than \$1,000 in cost line-items for land and buildings. The local government must not have purchased any portion of the real estate from a Principal.

## **FEE WAIVER**

ADOH will award 5 points for projects with a local government committed to waiving impact fees, utility fees, or other fees totaling at least \$50,000.

## **OTHER**

Applicants may request that ADOH approve another form of support prior to application deadline. The request must include relevant documentation.

## **8. UNDERSERVED AREAS (RURAL/BALANCE OF STATE)**

**Maximum of 10 points.**

An application may not earn points in this subsection and the Subsequent Phase subsection. ADOH will award 10 points to applications in the following counties, which have not received a 9% LIHTC award in the last 7 years:

- Gila
- Greenlee
- Apache
- La Paz
- Santa Cruz

## **9. SUBSEQUENT PHASE**

**Maximum of 10 points.**

ADOH will award 10 points if the building(s) proposed in the application:

- was/were always planned as part of a phased development;
- is/are the second or third phase; and
- is/are within .25 miles the previous phase(s).

The earlier phases must have:

- less than 5% physical vacancy for 12 months before preliminary application, and
- waitlists representing at least 50% of what would be the proposed phases' units.

ADOH may require documentation that land was paid for only once.

An application may not earn points in this subsection and the Underserved Areas subsection.

## **10. SENIOR AND FAMILY**

**Maximum of 10 points.**

## SENIOR HOUSING WITH SERVICES

Senior developments that commit to at least three of the following will receive 10 points.

- garages or covered parking,
- accessible units above the minimum required,
- community building or room,
- fitness room with equipment,
- walking path and outdoor seating area,
- community garden,
- adjacent to a senior center or community center with regular programming,
- regular transportation or on-site bus stop, or
- structured recreational or educational programs.

## THREE OR MORE BEDROOMS

Applications proposing a family property with at least 25% of units containing three or more bedrooms will receive 10 points.

## HOMEOWNERSHIP CONVERSION

Applications proposing the following will earn 10 points if on tribal land, 5 points elsewhere:

- single family units or townhomes on separate lots,
- either on tribal land or qualifies for the nonprofit set-aside,
- a Principal has experience with affordable homeownership,
- includes a comprehensive plan for conversion to ownership by the tenants after 15 years, and
- will have no common property requiring a homeowner association post-conversion.

Purchasing a unit must be optional to the tenant household and not be a condition of continued occupancy. The ownership entity will remain responsible for leasing and managing all units pursuant to the Declaration of Land Use Restrictive Covenants for 30 years or until each is converted.

## 11. ENERGY EFFICIENCY

**Maximum of 10 points.**

ADOH will award 10 points to applicants committing to obtain one of the following certifications:

- 2020 Enterprise Green Communities
- Leadership in Energy & Environmental Design (LEED) – silver or higher
- ICC 700 National Green Building Standard (NGBS) – silver or higher

## 12. QUALIFIED CONTRACT WAIVER

**Maximum of 10 points.**

Applicants will receive 10 points for waiving the option to request a qualified contract.

### 13. TIEBREAKER

In the event more than one application earns the same total number of points, and there are not enough LIHTCs remaining for all, ADOH will make awards based on which projects have offered the longest extended affordability period.

## VI. Underwriting Standards

ADOH reserves and allocates LIHTC at the minimum level needed to realize projects' financial feasibility throughout the end of the extended use period.

ADOH will conduct a full underwriting process a minimum of two (2) times:

- prior to issuing a binding reservation;
- at submission of documents requesting a Form 8609.

ADOH will complete technical reviews a minimum of two (2) times:

- prior to admission of the equity investor/partner into the ownership entity;
- prior to acceptance of 10% test.

Technical reviews will include certification that sources, uses and equity interest and ownership have not changed since reservation.

ADOH may request updated information at any time. Upon an increase in funding sources, ADOH may reduce the LIHTC allocation and/or gap financing.

### A. All Properties

Applicants must correctly complete and submit all required application forms.

#### 1. PRO-FORMA

Applications must:

- use a 10% vacancy rate;
- trend rent increases by 2% and expenses by 3%;
- demonstrate a Debt Service Coverage Ratio (DSCR) not greater than 1.20:1 or less than 1.10:1 at loan maturity.

ADOH will assess the DSCR without regard to any deferred developer fees or funds paid to members/partners (e.g., distributions, asset management fees, loan payments).

#### 2. OPERATING EXPENSES

ADOH will base the minimum operating expenses for rehabilitation applications on the property's current operations, as may change resulting from physical improvements.

The minimum for new construction is \$4,700 per unit per year, excluding real estate taxes and reserve payments. ADOH will require waivers for an operating budget that is more than \$100 per unit per year higher or lower than this standard. Applicants may request a lower amount by including documentation of comparable properties. Applications may add up to \$180 per unit per year without a waiver if the project includes WiFi service. ADOH may allow an increase in operating expenses for supportive services.

### 3. REQUIRED RESERVES

The requirements in this subsection do not apply to properties with USDA-Rural Development (RD) rent assistance.

#### LEASE-UP

Owners must deposit a minimum of \$300 per unit. The management agent will use these funds to pay rent-up expenses. Any amount remaining when the property reaches 93% occupancy must be transferred to the replacement reserve account, operating reserve account, or to pay capital costs including deferred developer fee.

#### OPERATING

The operating reserve must equal at least four (4) months of operating expenses and debt service.

#### REPLACEMENT

All developments must fund an annual replacement reserve of a minimum of \$250 per unit for new construction projects for older persons and \$350 for all other project types, increased annually by 3%.

### 4. EQUITY PRICING

ADOH will conduct a survey of federal and state LIHTC equity providers to determine appropriate pricing assumptions and will announce the results no later than two months prior to the application deadline. The results will be a range (minimum-maximum) and may vary based on property type, size, and/or geography.

### 5. COMMITMENT LETTERS

Applications must include commitment letters indicating the following for all permanent loans:

- amount,
- term and amortization (minimum of 15 years),
- fixed interest rate,
- fees charged,
- reserve requirements,
- anticipated lien position, and
- the election of the average income is acknowledged and affirmed, if applicable.

If the ownership entity will assume a loan, the application must include a letter from the lender stating the loan can be assumed and details of the terms/conditions.

## 6. BASIS BOOST

ADOH will allow for a statewide 30% increase in eligible basis.

## 7. APPRAISALS

Applicants must submit a real estate “as is” appraisal that is:

- dated no more than six months from the application deadline;
- prepared by an independent, state certified appraiser; and
- complies with the Uniform Standards of Professional Appraisal Practice.

Appraisals for properties with existing structures not to be demolished must break out the land and building values.

## 8. DEVELOPER FEES

### TOTAL

Applications must list developer fees between a minimum of \$200,000 and maximum of:

Percent of Total Eligible Basis	
Units	Percent Allowed
1 - 30	Seventeen percent (17%)
31 - 60	Fifteen percent (15%)
61+	Fourteen percent (14%)

These totals are inclusive of any consulting fees.

### DEFERRED

ADOH will ensure that deferred developer fee amounts are sustainable and can be repaid by project cash flow within fifteen (15) years. 9% LIHTC applications may not show more than half of the developer fee as deferred, and any amount over \$2,500,000 must be deferred.

## 9. CONTRACTOR AND OTHER FEE MAXIMUMS

Contractor fees cannot exceed:

- General Requirements – 5%
- Builder’s Overhead – 2%
- Builder’s Profit – 5%

Architectural and engineering fees cannot exceed:

Units	Per Unit
1 - 30	\$9,000
31 - 60	\$8,000
61+	\$7,000

## B. Rehabilitation Development Costs

ADOH will determine the appropriate amount for each line item based on the:

- appraisal,
- applicant's proposed amounts,
- Capital Needs Assessment, and
- staff's professional judgement.

Maximum contingency is 10% of rehabilitation hard cost line-items.

## C. New Construction Development Costs

Underwriting standards for new construction proposals will apply to both new construction and applicable adaptive reuse projects.

ADOH will evaluate applications according to the criteria below.

ADOH will:

- determine applications show development budget amounts outside the standard deviation, and
- require all such Applicants to provide explanations.

Inability to explain the costs may result in disqualification of the application.

Applicants will propose costs for the non-vertical components. ADOH will determine the appropriate amount for each based on:

- comparisons with other applications,
- recently submitted cost certifications,
- input from third parties, and
- staff's professional judgment.

Maximum contingency is 7.5% of new construction hard cost line-items.

## D. ADOH Gap Financing

A separate Notice of Funding Availability (NOFA) describing the terms and conditions of any ADOH Gap Financing that becomes available will be announced via Information Bulletin.

## E. Subsidy Layering Review

If applicable, ADOH will perform a Subsidy Layering Review (SLR) in conjunction with the underwriting. If the financial projections, including but not limited to expenses and income, later change from that used when the original SLR was performed, resulting in over-subsidization and/or above market expenses that are not otherwise reasonably justified, ADOH will notify the appropriate HUD contact.

## VII. Post-Award and Compliance

At any time between award and issuance of the Form(s) 8609, ownership entities must have written approval from ADOH prior to any of the following material changes:

- changing the anticipated or final sources (amount, terms, or provider), including equity;
- increasing the anticipated or final uses by more than two percent (2%);
- altering the designs ADOH approved, including amenities, site layout, floor plans and elevations;
- starting construction, including site work; or
- increasing rents for low-income units.

Failure to comply with a requirement of this subsection may result in a fine of up to \$25,000, revocation of the LIHTC reservation or allocation, future disqualification of any Principal involved, or other recourse available.

### A. Carryover Allocation

The ownership entity must have control of the real estate, in the form of a recorded deed or a long-term lease, before executing the carryover allocation agreement. ADOH may make additional requirements prior to completing a carryover allocation, including but not limited to:

- evidence of construction loan closing;
- owner certification that construction or rehabilitation has started; and/or
- owner certification of all sources of financing.

### B. Closing and Cost Certification

To obtain Form(s) 8609, owners must provide ADOH with the following:

- a copy of the recorded title in first position to the real estate of the property in the owner's name;
- recorded mortgage for permanent financing;
- complete copies of Limited Partnership or Limited Liability Company documents showing ownership entity and terms of investment;
- owner certification of all sources of financing (ADOH Form);
- owner certification of total development cost, qualified basis for LIHTCs, and placed-in-service date (ADOH Form);
- itemized contractor general requirements, certified by owner;

- at ADOH's request, a legal opinion certifying that each building has been placed-in-service and that the development is in compliance with I.R.C. § 42, and acquisition credit requirements (if applicable);
- a Certificate of Occupancy issued by the local governing body for each building or by the architect if the jurisdiction does not issue;
- an opinion by a Certified Public Accountant regarding the development's eligibility for LIHTCs;
- a Land Use Restriction Covenant executed by the owner and ADOH, and recorded at the Register of Deeds in the county where the property is located as a first lien on the property;
- an energy audit conducted by a ADOH certified home energy rater;
- Certification of Rents and Basis (ADOH form); and
- currently dated Certificates of Good Standing issued by the Arizona Corporation Commission for the ownership entity and the general partner or managing member entity that are within sixty days of submittal to ADOH.

ADOH will not allow multiple BINs for a single building.

### **C. Compliance Monitoring**

Ownership entities and property management companies must use ADOH's Compliance Manual Low Income Housing Tax Credit Program.

The ownership entity will:

- allow ADOH and/or its designee to audit any property during the compliance period (includes a physical inspection and review of records);
- submit the Annual Owner's Certification of Continued Program Compliance along with other annual reporting requirements annually;
- submit required state forms prior to changes in management companies and/or ownership;

An individual with responsibility for the project must attend ADOH Compliance Training at a minimum of every five (5) years.

# Exhibit A

## ADOH Year 2022-2023

### QAP Mandatory Design Standards

#### I. GENERAL DESIGN

- A. The building design should be appropriate and integrated into the topography and neighborhood.
- B. Project amenities should be shown clearly on the plans and fully described within the narrative portion of the application package.

#### II. BUILDING CODE STANDARDS

All projects MUST meet or exceed the most recent local building codes.

#### III. SITE, LOCATION AND NEIGHBORHOOD

##### A. *Smart Site Location – Protecting Environmental Resources*

New construction shall not be located within 100 feet of wetlands, critical hillside areas as defined by local jurisdiction, land identified as habitat for threatened or endangered species, land previously used as public park land, land identified as prime farmland, or land with an elevation at or below a designated 100-year floodplain (dark shaded A zone of a Flood Insurance Rate Map (“FIRM”) map). Projects on parcel(s) of land that include a floodway (crosshatched in the A zone of a FIRM map) are not eligible for ADOH Gap Financing, regardless of whether improvements are only outside the floodway.

##### B. *Walkable Neighborhoods – Sidewalks and Pathways*

Site plans shall demonstrate that the project is connected to the pedestrian grid. Site plans shall describe sidewalks or other all-weather pathways within a multifamily property linking residential development to public spaces, open spaces and adjacent development (where permitted). Sidewalks shall meet local, State and Federal accessibility guidelines.

##### C. *Environmental Remediation*

Project sponsors shall conduct a Phase I Environmental Site Assessment before executing the carryover agreement and provide a plan for abatement if necessary.

##### D. *Erosion and Sedimentation Control*

Project plans and specifications shall implement EPA’s Best Management Practices for erosion and sedimentation control during construction and refer to EPA documents for Storm Water Management for Construction Activities.

## IV. INTERIOR DESIGN

All residential dwelling units must meet minimum Residential Floor Area ("RFA") requirements. Both the minimum and maximum RFA below exclude any Balcony, Porch, Deck or patio that may be attached to the Unit for the tenant's use. Any Balcony, Porch or Deck in excess of 100 square feet shall be excluded from eligible basis.

Unit Size	Minimum RFA	Maximum RFA
Efficiency	380 net square feet	585 net square feet
1 bedroom	575 net square feet	735 net square feet
2 bedrooms	800 net square feet	973 net square feet
3 bedrooms	1,050 net square feet	1,243 net square feet
4 bedrooms	1,200 net square feet	1,360 net square feet
5 bedrooms	1,350 net square feet	1,700 net square feet

- A. The minimum bedroom size is 100 net square feet.
- B. Kitchens must be equipped with pantries.
- C. Other features which must be provided include:
  - Linen closets or cabinet.
  - General storage for items such as, suitcases and sport equipment. (This may be an interior guest closet or located outside each unit, and shall not be shared with a gas water heater.)
- D. Garages and Carports attached to a unit are limited to 300 net square feet for a two- or three-bedroom unit, and 600 net square feet for a four- or five-bedroom unit.

## V. EXTERIOR DESIGN

- A. Building design shall incorporate durable low maintenance exteriors that are appropriate to the climate and surrounding areas.
- B. Plans shall include a complete landscape plan, designed by a licensed landscape architect which maximizes existing natural features or otherwise enhances open space. Wherever possible native plants should be used. Landscape plans shall also detail a complete automated irrigation system and scheduling as necessary to maintain the landscaping.
- C. Project must use xeriscaping. Internally located lawn areas of minimal size are permitted for specific uses, such as play areas. Firewise® design principles are recommended in areas susceptible to wildfires.
- D. Trash/Recycle removal areas must be screened.
- E. Buildings and dwelling units must be individually marked with visible, contrasting, identifying devices as required by local police, fire and other emergency services to minimize their response time. The building identifying devices must be appropriately lit from dusk till dawn, while observing dark sky lighting strategies.

## VI. LARGE UNIT DESIGN (applicable to units which have three or more bedrooms)

- A. The areas of common spaces of units, living area, kitchen, dining, etc., shall increase in proportion to the number of bedrooms.

- B. Three-bedroom units must have at least 1.75 baths. Four and five-bedroom units must have at least 2 full baths.

## VII. ON-SITE PLAYGROUND AREAS

- A. Recreational facilities must be provided for different age groups. For example, sandboxes within sight of units for children under 5, "tot lots" for ages 5 to 12, and a sport court, pool, or area in the clubhouse for ages 12 and older.
- B. Play areas and playgrounds for children should be located away from areas with high volume automobile traffic, and situated so that the play area is visible from the maximum number of dwelling units possible for safety.
- C. Designated play areas and playgrounds are considered "common areas", and must be on an accessible route in accordance with applicable accessibility codes. Equipment must also meet accessibility requirements.
- D. A bench must be provided at play areas and playgrounds to allow a child's supervisor to sit and rest comfortably. All benches must be anchored permanently, must be on an accessible route, must be weather resistant, and must have a back.
- E. A "warning" sign must be posted to advise residents and guests that using a playground is at their own risk. The sign must be posted at a visible location, and use contrasting colors for better visibility.

## VIII. COMMON AREA FACILITIES

### A. *On-Site Laundry Facilities*

There must be a minimum of one washer and one dryer per twelve dwelling units if washer/dryer hookups are not available in each dwelling unit. If hookups are available in each dwelling unit, there must be a minimum of one washer and one dryer per twenty dwelling units. If in addition to washer/dryer hookups, Applicant provides washers and dryers in each unit, a common washer and dryer facility is not required.

- A "folding" table or countertop must be installed in common laundry facilities.
- The laundry room must have an interior or exterior window and adequate entrance lighting, which must be on from dusk to dawn to assist in greater security during evening hours.

### B. *Community/Office Space*

All developments must have a community room on site.

All developments consisting of twenty (20) residential dwelling units or more must have a site office of at least 200 square feet (inclusive of accessible toilet facility) and a maintenance room of at least 100 square feet. Single-family projects are exempted from this requirement if the Applicant provides evidence that the Project is part of a phased development, for which such facilities exist in prior phases of the development.

## IX. NEW CONSTRUCTION

### A. *Site Work*

1. A geotechnical investigation report by an Arizona Registered Engineer is required.

2. Site drainage must conform to the recommendations of the geotechnical investigation report or the following minimum slopes whichever is more restrictive:
3. Minimum slopes required for proper drainage are:
  - Slopes away from foundations: 5% first 10 feet (6 inches in first 10 feet).
  - Design slopes on paved areas should be sufficient to prevent ponding.
  - Exterior grade adjacent to buildings should be shown a minimum of 6-8 inches below the top of slabs on grade.

**B. Foundation and Slabs**

Slab on grade foundations shall be designed by an Arizona Registered Structural Engineer per the geotechnical report recommendations.

**C. Frame Construction**

- The framing system will be dictated by the methods selected to meet the International Energy Conservation Code requirements, sound barrier requirements, and engineer's specifications. Exterior walls should be designed to achieve a thermal resistant value per local code or better.
- Floor-ceiling truss assemblies must be fabricated in the State of Arizona.

**D. Roof**

Roof Sheathing shall be called out on the Structural Roof Framing Plan. Required: minimum ½-inch exterior grade plywood or ½-inch exterior grade OSB (oriented strand board). All sheathing must be gapped 1/8-inch on the edges and ends.

- Pitched Roof: Roofing systems must have a minimum life of 30 years, a 10-year material and labor warranty, and be installed per manufacturer's specifications with wood truss framing, and a minimum slope of 3:12.
- Low-Sloped Roof: Low-Sloped roofs must have a minimum 3/8"/1' slope and have a minimum rated life of 20 years and a 10-year material and labor warranty.

**E. Electrical**

Install ENERGY STAR qualified light fixtures or LED light bulbs in all interior unit fixtures and use ENERGY STAR or LED light bulbs in all common areas and outdoors.

**F. Plumbing**

1. Durable fixtures for bathroom sinks, toilets, tubs/shower, and surrounds.
2. Mandatory water conservation devices shall include the following maximum flow rates:

Fixture	Maximum Flow Rate
Toilets	1.1 GPF
Showerheads	1.75 GPM
Kitchen faucets	2.0 GPM
Bathroom faucets	0.5 GPM

3. All accessible clothes washers must be front loading or horizontal axis. All other washers shall be rated Tier 2 or greater by the Consortium for Energy Efficiency ("CEE").
4. No plumbing shall be permitted directly in exterior framed walls in cold climates where the exterior temperature goes below 32° F. Projects located in warmer climates where the temperature occasionally could reach 32° F should ensure that there is adequate insulation to prevent pipes from freezing, or run plumbing through interior walls only.

**G. Doors**

1. Interior: Paint grade pre-hung hollow-core interior doors with residential grade finish hardware or better with universal design handles throughout.
2. Single cylinder deadbolts and eye viewers are required on all entry doors to residential units in compliance with accessibility codes.

**H. Floors**

1. Floor base must be provided and must be painted or pre-finished;
  2. In wet areas, use materials that have smooth, durable, cleanable surfaces. Do not use mold-propagating materials such as vinyl, wallpaper, or unsealed grout.
  3. All carpets must be Green Label Plus ("Green Label Plus") certified by the Carpet and Rug Institute.
  4. Water resistant floor coverings or concrete must be installed under hot water heaters.
- I. *Walls & Ceilings*  
Painted with zero-VOC paint coatings as defined by Green Seal or similar; use 5/8" gypsum board throughout; moisture resistant at substrate for tiled areas at water closet; glass mat water-resistant gyp board or cementitious backer unit for wall tile at tubs and showers; type 'X' or "C" at areas required by prevailing building code.
- J. *Appliances*
  1. Refrigerator, disposal, dishwasher, range/oven, exhaust hood above range, microwave. For rehabilitation Projects only, if microwave is also the range hood AND recirculates the air, it must include a carbon filter. All new construction Projects are required to have the exhaust hood above the range vented to the outside (See X.5(a) above).
  2. All Appliances where ENERGY STAR rating is available shall be ENERGY STAR (e.g. clothes washers, dishwashers and refrigerators).
- K. *Cabinets*
  1. Cases: Solid wood, MDF or particleboard with durable laminate; (see R.5.g below for additional requirements)
  2. Countertops: durable laminate at a minimum.
- L. *Exterior Stairs, Entrance Landings, and Balconies.*  
Minimum precast concrete or cast in place treads on painted steel framing with painted steel guardrails and handrails or a system of equivalent or greater durability and quality.
- M. *Irrigation*
  1. If irrigation is necessary, use recycled gray water, roof water, collected site run-off, water from a municipal recycled water system, or a highly efficient irrigation system including all of the following: system designed by licensed landscape or irrigation professional; plant beds with a drip irrigation system; separately zoned turf and bedding types; a watering zone timer/controller; and rain sensor.
  2. For existing landscape on rehabilitation projects, which is not being replaced with non-turf or artificial turf, install a recycled gray water, roof water, collected site run-off or water from a municipal recycled water system for the irrigation system.
- N. *Exterior Fencing*  
Fence the property (masonry preferred) to limit access of non-residents, as appropriate and required by the Local Government. Gates are not required unless specified by the Local Government or needed to provide access from one property to the other for services, etc. Installed fencing and gates shall be designed for permanent use. Construction chain link fencing and padlocks shall be removed upon certificate of occupancy.
- O. *Exterior Finish*  
Select a finish material that will withstand extended weathering in the Project location.
  - Desert and mountain localities: at a minimum three-coat cement stucco with metal expansion joints, or 3/8 inch, fiber-reinforced stucco on wire lath, on 1-inch foam insulation.
  - Mountain localities at higher elevations; various siding products (cementitious board or vinyl) may be substituted for stucco if warranted by the manufacturer for a minimum of 30 years.
- P. *Site Lights*

1. For security purposes, provide adequate site lighting, especially at the rear of the buildings and for walkways, parking, corridors and stairways. Adhere to dark sky design strategies and minimize light trespass to adjacent properties (0.5 fc at property line) confirmed by a photometric study.
2. Install daylight sensors or timers on all outdoor lighting.

Q. *Bathrooms*

1. Tiled tub and shower wall areas require a cementitious wall board or glass mat water-resistant gyp board.
2. Durable toilet accessories must include a medicine cabinet with a mirror and towel bar.

R. *Energy Conservation*

New construction buildings must achieve a HERS Index of sixty-five (65). Buildings being rehabilitated must achieve a HERS Index that equates to a fifteen percent (15%) reduction in energy usage over the existing building condition. (See QAP Section 2.g(N) for further details.)

1. *Insulation:*

Insulation must be installed so that there are no gaps, voids, air intrusion or compression of the insulation. The insulation and a rigid air barrier (e.g. gypsum board) must be continuously in contact and aligned in all cases. Slab edge insulation shall be installed in accordance with the IECC 2012 or later requirements. Measured envelope leakage shall be less than or equal to one (1) CFM<sub>50</sub> per ft<sup>2</sup> of CFA (Conditioned Floor Area) or later requirements.

2. *Minimum HVAC efficiencies by Energy Code:*

- AC: 14 SEER
- Heat Pump: 14 SEER and 8 HSPF
- Combustion furnace: 80% AFUE in IECC Climate Zones 1 and 2; 90% AFUE in IECC Climate Zones 3 and higher.
- Size heating and cooling equipment in accordance with the Air Conditioning Contractors of America Manual, Parts J and S, ASHRAE handbooks, or equivalent software.

Electric resistance heating can be used only if the Owner documents, in accordance with IECC Section R405 Simulated Performance Alternative approach, that the utility costs for the structure are equal to or less than the IECC standards design of like architectural characteristics. The analysis will be completed utilizing a combustion furnace for the standard design with an efficiency value of 80% AFUE. If utilized in climate zones 3 and higher, the RESNET energy modeling must confirm that it meets the minimum IECC 2012 requirements.

3. *Air Distribution Systems:*

- a. All joints in the air distribution system shall be sealed with duct mastic or approved equivalent to comply with IBC, IRC or IMC.
- b. For duct systems located outside the conditioned envelope, leakage to outdoors shall be less than or equal to 2 CFM per 100 ft<sup>2</sup> of conditioned floor area (CFA) or a total leakage less than or equal to 4 CFM per 100 ft<sup>2</sup> of CFA when tested at a pressure differential of 25 Pa across the entire system, including the manufacturer's air handler enclosure. If the air handler is not installed, leakage to outdoors shall be less than or equal to 1 CFM per 100 ft<sup>2</sup> of CFA or a total leakage less than or equal to 3 CFM per 100 ft<sup>2</sup> of CFA (for rooftop air handlers).
- c. If the entire system, including the manufacturer's air handler enclosure, is located entirely within the building thermal envelope, duct leakage testing is not required.
- d. Airflow to each room will match design airflow calculations to within +/- 10%.

4. *Room Pressure:*

Under normal operating conditions, an air handler cannot create a differential pressure greater than +/- 3.0 Pascals between a room and any area outside the room, anywhere in the Unit.

5. *Indoor Air Quality:*

- a. Exhaust hoods above ranges must be vented to the outside. Install power vented fans or range hoods that exhaust to exterior.
- b. Install ENERGY STAR – labeled bathroom fans that exhaust to the outdoors and are connected to a switch or timer.
- c. Clothes dryers must exhaust directly to the outdoors.
- d. Unvented combustion appliances (fireplaces, heaters or gas logs) are not allowed.
- e. A carbon monoxide detector, hardwired, shall be installed in all Units with an attached garage or with any combustion appliance located in the conditioned space.
- f. Applicant must install a ventilation system for the dwelling unit, providing adequate fresh air per ASHRAE 62.1-2007 for buildings over three stories, or ASHRAE 62.2 for single family and low rise multi-family.
- g. All particleboard and MDF must be certified compliant with ANSI A208.1-2009 Particleboard and ANSI A208.2 -2009 MDF for Interior Applications. All adhesives shall comply with Rule 1168 of the South Coast Air Quality Management District and be zero VOC products. Caulks and sealants must comply with Regulation 8, Rule 51 of the Bay Area Air Quality Management District and be zero VOC products.
- h. All interior paints and primers must be rated zero VOC.

## **X. SENSORY IMPAIRED UNITS.**

In the event ADOH awards federal funds, two percent of units must be equipped for the sensory impaired.

- A. Lighted switches for garbage disposal, range fan, and bathroom fan. Both visual and audible notification for doorbell and fire alarm.
- B. Construction materials and techniques that minimize vibration and improve sound control.
- C. Open sightlines in community rooms, meeting areas, landings, stairwells, and other building areas to remove visual communication barriers.
- D. Specialized lighting design and window placement that minimizes glare in order to facilitate communication in American Sign Language. Light fixtures are selected for their glare reducing design and located differently to minimize glare that can interfere with seeing hand motions or reading lips. Windows on the west and south facing walls that receive the most direct sunlight are sized and spaced differently. Exterior awnings help prevent glare and background colors are chosen to provide contrast to aid communication in sign language.
- E. Loop amplification system in the community room and the management office designed for tenants with hearing aids. Loop systems that work together with hearing aids to help hard of hearing people hear better, especially in group settings. For example, a loop system could help a hard of hearing individual clearly hear a speaker giving a presentation to a large group. Installation of a loop system involves additional wiring inside building walls. Visual emergency indicators in elevator. Emergency situations are made more stressful by a lack of information and the absence of any indication that help is on the way. The elevators modified to provide information to deaf individuals trapped in a malfunctioning elevator. Lighted buttons can be pressed from outside the elevator to signal to those inside that assistance is on the way. The interior emergency button triggers a visible response to indicate that a request for assistance has been received.

- F. Wider hallways and larger community rooms and elevator lobbies. Spacing requirements between individuals are greater when communicating in American Sign Language as compared with speaking.
- G. Community Room furnishings which are designed and functional for deaf persons. Tables, for example, are rounded rather than rectangular to allow all persons seated at the table to see each other more easily during conversations. Accessibility features for residents with mobility impairments and physical disabilities are located throughout the building. Handrails are located on both sides of common hallways, automatic door openers have been installed at main entrances to the building, and washers and dryers are front loading.

## XI. REHABILITATION PROJECTS

Applications must propose a scope of work appropriate to the building(s), as reflected in the Capital Needs Assessment.

All Additions, must comply the minimum new construction design standards latest local building and energy code as well as meeting the standards in 24 CFR 5.703 and 24 CFR 5.705 (Uniform Physical Conditions Standards or "UPCS").

- A. HVAC replacements and new installations shall include:
  1. Sealing of all accessible duct connections including the drywall to boot connections with duct mastic or approved equivalent.
  2. Installation of new duct systems that comply with the new construction Energy Conservation Air Distribution Systems standard.
  3. Room Pressures shall comply with the new construction Energy Conservations standard.
- B. Insulation must be installed such that there are no gaps, voids, compression or wind intrusion of the insulation. The insulation and air barrier (e.g. gypsum board) must be continuous and aligned in all cases.
- C. Common areas must be handicap accessible.
- D. Upgrade site and exterior dwelling lighting, landscaping/fencing.
- E. Installed exterior finish material must withstand extended weathering (minimum 10 year performance) in the Project's location.
- F. Porches or other aesthetic features must be used to enhance the exterior quality and interest of the Project.
- G. Perform an energy analysis of the existing building condition, estimate costs of improvements, and implement measures that will improve building energy performance by a minimum of 15 percent from pre-renovation figures. A Residential Energy Services Network ("RESNET") certified Home Energy Rater ("HERS Rater") in good standing with RESNET must evaluate the building to establish a HERS Index for the existing building condition, then prepare an energy improvement report which identifies cost-effective energy improvements that achieve a minimum of fifteen percent reduction in energy usage over the existing building condition. The weighted average HERS Index that equates to a fifteen percent reduction, excluding the use of renewable energy, will be required by ADOH. The sampling of units selected for the analysis must be representative of each of the unit types for the Project, and be in accordance with Chapter 6 of the RESNET National Home Energy Rating Standards. All work must be completed to the Department of Energy Standard Work Specifications. The Arizona Weatherization Program Field Guide provides the critical details for this standard and may be downloaded from the ADOH website.

- H. Where applicable, use energy-efficient related products to replace inferior ones, including insulated windows and doors, and adding additional insulation.
- I. Improve heating and cooling units, plumbing fixtures, water heaters, toilets, sinks, faucets and tub/shower units, especially with use of water conserving equipment and systems.
- J. Improve quality of interior conditions and fixtures, including carpet, vinyl, interior doors, painting, drywall repairs, cabinets, appliances, light fixtures and mini-blinds.
- K. Upgrade bathrooms and kitchens. Refer to Section IX – New Construction – for all categories that apply.
- L. For properties built before 1978, use lead-safe work practices during renovation, remodeling, painting and demolition.
- M. Complete a Phase I Environmental Assessment for all projects and a Hazardous Materials Study (asbestos and lead paint) for projects built before 1980. The minimum square footages in Section IV Interior Design are only applicable to rehabilitation where the Applicant is changing the structure of the unit to change the number of bedrooms in the unit or otherwise change the exterior footprint of the unit.
- N. Capital Needs Assessment Requirements
  1. The CNA report must be prepared by a qualified professional (architect or engineer) who has no financial interest in the Project and no identity of interest with the Developer. A “qualified professional” is a licensed professional architect or engineer, who can substantiate a minimum of five (5) years’ experience providing CNA reports in accordance with ADOH standards, and who performs the assessment and supplies ADOH with their professional opinion of the property’s current overall physical condition. The preparer must insert Form 21 from the Low Income Housing Tax Credit Application in the front of the CNA certifying that it meets these requirements. CNAs must conform to each of the requirements in this Section XI(M). The CNA must include the identification of significant deferred maintenance, existing deficiencies, and material building code violations that affect the property’s use and its structural or mechanical integrity. Furthermore, the CNA must examine and analyze the following building components:
    - a. Site, including topography, drainage, pavement, curbing, sidewalks, parking, landscaping, amenities, water, storm drainage, gas and electric utilities and lines.
    - b. Structural systems, both substructure and superstructure, including exterior walls and balconies, exterior doors and windows, roofing system and drainage.
    - c. Interiors, including Unit and common area finishes (carpeting, vinyl tile, interior walls, paint condition, etc.), Unit kitchen finishes and appliances, Unit bathroom finishes and fixtures and common area lobbies and corridors.
    - d. Mechanical systems, including plumbing and domestic hot water, HVAC, electrical and fire protection.
    - e. Elevators (if applicable).
    - f. Provide building life cycle study that lists each building component, the base cost and opinions of probable cost immediately (critical repair item), within two (2) years, and within ten (10) years along with an analysis of the reserves for replacement needed to fund long-term physical needs of the Project, accounting for inflation, the existing reserves for replacement balance and the expected useful life of major building systems.
  2. The CNA must also include the following major parts:
    - a. All health and safety deficiencies or violations of Uniform Physical Conditions Standards (“UPCS”) under 24 CFR 5.705, requiring immediate remediation. If the Project has tenants, these repairs are to be made a first priority.

- b. Repairs, replacements, and significant deferred and other maintenance items that need to be addressed within twenty-four (24) months of the date of the CNA. Include any necessary redesign of the Project and market amenities needed to restore the property to the standard outlined in the Qualified Allocation Plan and this Exhibit D.
- c. Repairs and replacements beyond the first two (2) years that are required to maintain the Project's physical integrity over the next twenty years, such as major structural systems.
3. The professional preparing the CNA report must:
  - a. Conduct site inspections of a minimum of thirty-five percent (35%) of all Units. Units must be randomly sampled but must also include a pro-rata portion of each type of Unit while taking into consideration the Unit size mix, e.g., one- bedroom, two (2) bedroom, etc. All vacant Units must be inspected.
  - b. Identify any physical deficiencies as a result of 1) visual survey; 2) review of pertinent documentation; and 3) interviews with the property owner as of the date of the CNA, management staff, tenants, community groups, and government officials.
  - c. Identify physical deficiencies, including critical repair items, two (2) year physical needs, and long-term physical needs. These must include repair items that represent an immediate threat to health and safety and all other significant defects, deficiencies, items of deferred maintenance, and material building code violations that would limit the expected useful life of major components or systems.
  - d. Explain how the Project will meet the requirements for accessibility to persons with disabilities. Identify the physical obstacles and describe methods to make the Project more accessible, and list needed repair items in the rehabilitation plan.
  - e. Prepare a rehabilitation plan, addressing separately all two (2) year and long- term physical needs.
  - f. Conduct a cost/benefit analysis of each significant work item in the rehabilitation plan (items greater than \$5,000) that represents an improvement or upgrade that will result in reduced operating expenses (e.g., individual utility metering, extra insulation, thermo-pane windows, setback thermostats). Compare the cost of the item with the long-term impact on rent and expenses, taking into account the remaining useful life of building systems.
  - g. The assessment must include a site visit and physical inspection of the interior and exterior of the units and structures, as well as an interview with available on-site property management and maintenance personnel to inquire about past repairs/improvements and an examination of invoices, contracts or work orders relating to the repairs/improvements over the last twenty-four (24) months, pending repairs, and existing or chronic physical deficiencies. Any information from the interview must be included in the CNA. The assessment must also consider the presence of hazardous materials on the site.

## **XII. HOUSING FOR SENIORS**

Projects that are intended to serve 80% or more senior individuals must consist of single story buildings or multi-level buildings with elevators serving all levels of the building.

Minimum 6'-0" and maximum 10'-0" corridors for senior and deaf population projects.

# Exhibit B

## Appraisal Requirements for Projects Involving Acquisition

**New Construction.** A land only Appraisal of real property that is not subject to a lease must be provided as part of the Application submittal.

**Acquisition/Rehab or Adaptive Re-use.** The Appraisal must include separate values for the land and the buildings, allocated in accordance with Section 7.1(C)(4)(a)(i)(3) of this Plan. Projects with Single-Family detached homes must include a separate valuation and inspection of at least twenty-five percent (25%) of each unit type and condition in the Appraisal. If an additional appraisal is required under Section 2.9(G)(2) below, ADOH shall randomly select the units for inspection from lists of each unit type.

**Tribal.** Projects on tribal land may submit cost-based appraisals utilizing the appraisal guidebook published by U.S. Department of Housing and Urban Development, Valuation Analysis for Single Family One (1) to Four (4) Unit Dwellings, Directive 4150.2, including an estimate of depreciation on improvements using an economic age-life method of estimating depreciation using the following assumptions:

- The total Economic Life shall be forty-five (45) years for framed houses and fifty (50) years for masonry houses based upon Marshall and Swift life expectancy estimates for a low cost house. Improvements with an Actual Age greater than the applicable forty-five (45) or fifty (50) years in the preceding sentence are not eligible for an Acquisition/Rehabilitation Project unless they have undergone sufficient rehabilitation within the applicable past forty-five (45) or fifty (50) years bringing them to a condition that otherwise demonstrates that the improvements should not be demolished and re-constructed.
- ii. The Effective Age should be the Actual Age of the improvements, unless documented improvements have been made to reduce the Effective Age. However, the lack of typical maintenance may increase the Effective Age of the improvements. Documentary evidence of the improvements (such as proof of payment of invoices) shall be included in the Appraisal.
- iii. The Replacement Cost estimate shall be taken from the most recently published Marshall and Swift's Residential Cost Handbook.

**Appraisal Validation.** In the event that the Appraisal submitted with the Application is not acceptable to ADOH in its sole discretion, ADOH will select a second appraiser who will provide an Appraisal at the Applicant's expense to determine whether the valuation provided in the Applicant's submitted Appraisal is reasonable and use the lower value of the two appraisals in its Application stage underwriting. If the appraiser requests further information, ADOH shall request such documentation from Applicant. ADOH shall be present during all inspections of the property pursuant to the second Appraisal.