



# Arizona Department of Housing

## State Housing Fund

### HOME Investment Partnerships Program & State Housing Trust Fund FY 2007 Program Summary and Application Guide

DESCRIBING POLICIES & FUNDING AVAILABILITY FOR PROJECTS AND PROGRAMS  
TO BENEFIT LOW-INCOME HOUSEHOLDS, INCLUDING:

#### FUNDING FOR:

- The development of:
  - Homeownership Units
  - Rental Units (Permanent and Transitional)
  - Emergency Shelters and Temporary Housing Units
- Owner-Occupied Housing Rehabilitation Programs
- Owner-Occupied Housing Emergency Repair Programs

AND A DESCRIPTION OF OTHER SPECIAL FUNDING OPPORTUNITIES



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**The State Housing Fund  
State FY 2007 Program Summary and Application Guide**

The Arizona Department of Housing (“Department”) combines Federal HOME resources from the U.S. Department of Housing and Urban Development with State resources from the State Housing Trust Fund into a single housing program called the State Housing Fund. This Program Summary and Application Guide is intended to serve as a tool for applicants wishing to apply for funding from the State Housing Fund beginning July 1, 2006 through June 30, 2007.

The FY 2007 Program Summary and Application Guide works in conjunction with the following documents:

- **FY 2007 Notice of Funds Available for Arizona State Housing Funds**
- **FY 2007 Application for the Development of Homeownership Units**
- **FY2007Application for Owner-occupied Housing Rehabilitation Programs**
- **FY 2007 Application for the Development of Rental Housing, including: Permanent Housing, Transitional Housing, Emergency/Temporary Housing**
- **Amendments to the above document**

All of the above documents and amendments are available from the Department’s website at [www.housingaz.com](http://www.housingaz.com)

Questions regarding this Summary, other housing program questions or requests for electronic or paper formats of the above documents should be referred to the contact person listed in Section 1.16 according to each one’s area of responsibility.

**This document expires June 30, 2007**

*Title II of the Americans with Disabilities Act prohibits discrimination on the basis of disability in the programs of a public agency. Individuals with disabilities who need the information contained in this publication in an alternate format may contact Housing (602) 771-1000 or our TTY number, (602) 771-1001 to make their needs known. Requests should be made as soon as possible to allow sufficient time to arrange for the accommodation.*

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**A Note from the Director Regarding the FY 2007**  
*State Housing Fund Program Summary and Application Guide*

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Record population growth and low mortgage rates have, in part, fueled the State's housing market over the past few years, leading many of the communities throughout Arizona to witness several years of record-setting residential building permits. In 2005 alone, 100,524 building permits were issued within our State.

Those of us who have been in the housing industry for any length of time can attest, however, that market conditions for housing can change, sometimes practically overnight. The conditions that led to a skyrocketing housing market in the summer of 2005 have given way to slower sales, fewer building permits, and rising interest rates -- affecting the affordability of everything from homeownership opportunities to rents. What will happen to the housing market over the next year is anyone's guess.

One thing we can bank on, however, is a continued need for more affordable housing units and programs to maintain already affordable units. While market conditions change, some things remain unchanged and unquestionable: the need for financial resources, like HOME and the Housing Trust Fund, to help meet those needs.

We are pleased to present the *FY2007 State Housing Fund Program Summary* which outlines these important resources, how to apply for funding and the requirements for utilization. We hope our partners will find this a useful tool.

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Sheila D. Harris, Ph.D.  
Director  
Arizona Department of Housing

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## CHAPTER 1. GENERAL STATE HOUSING FUND OVERVIEW

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The purpose of this Chapter is to provide potential applicants with guidance regarding the general requirements of the State Housing Fund for all activities.

### 1.1 The State Housing Fund

The State Housing Fund is a combination of Federal HOME and State Housing Trust Fund resources administered by the Arizona Department of Housing (the "Department"). Applicants to the State Housing Fund may indicate whether they wish to be considered for funding from either source or may specify only one source. The State outlines its specific goals and objectives for the State Housing Fund in a *Consolidated Plan Update*, which is updated annually and submitted to the U.S. Department of Housing and Urban Development (HUD) by May 15 of each year. This document is available upon request or can be downloaded from the Department's website at [www.housingaz.com](http://www.housingaz.com).

#### 1.1.1 Federal HOME Program

The HOME Investment Partnerships Program (HOME) was created by the National Affordable Housing Act of 1990 (NAHA). The statutory purpose of the HOME program is, ". . . to increase the number of families served with decent, safe, sanitary, and affordable housing and expand the long-term supply of affordable housing . . .". Regulations governing the HOME Investment Partnership Program are published at 24 CFR Part 92 (*Final Rule*, published September 16, 1996. Revised final rule amendments were published October 31, 2002.). Applicants are encouraged to become familiar with Federal regulations. The regulations and corresponding clarification notices can be found at <http://www.hud.gov/offices/cpd/affordablehousing/programs/home/>. When doing so, applicants should keep in mind that the HOME regulations provide for the development of policies and procedures by the Participating Jurisdiction ("PJ"). The PJ for the HOME funds included in the State Housing Funds is the State of Arizona. The Department is the entity of the State responsible for the administration of the HOME funds.

#### 1.1.2 State Housing Trust Fund

Established in 1988 by the Arizona State Legislature, the Housing Trust Fund (HTF) was created to provide a flexible funding source to assist in meeting the housing needs of low-income families in Arizona. Legislation governing the Housing Trust Fund is published at A.R.S. 41-3955 and A.R.S. 44-313. The Housing Trust Fund is funded from a 55 percent allocation of unclaimed property deposits, interest on unexpended funds, loan repayments and recaptured funds. By statute, 36 percent of the annual allocation is specifically designated for use in rural areas of the State.

### 1.2 Eligible Applicants

For FY 2007, eligible applicants are limited to:

- Units of local government, including cities, towns and counties;
- Tribal governments, tribally designated housing entities, and housing authorities;
- Public Housing Authorities;
- Regional Councils of Government;
- Other State Agencies;
- Non-Profit Agencies, including Community Housing Development Organizations (CHDOs);
- Private development agencies.

All applicants must be authorized to conduct business in Arizona.

### **1.3 Community Housing Development Organizations (CHDOs).**

Community Housing Development Organizations (CHDOs) are specially formed non-profit organizations established pursuant to HOME regulations and certified by the Department. The Department is required to set aside 15 percent of its HOME allocation for CHDO sponsored *development* projects. CHDOs may also apply for ongoing programs, such as owner-occupied housing rehabilitation, but in those instances are only eligible to receive funding from non-CHDO resources. An organization seeking a CHDO-designation must have as one of its primary purposes the development of housing in non-urban areas of the State (outside of Maricopa and Pima Counties). *Organizations wishing to apply for funds from the CHDO set-aside must be certified by the Department prior to making application.* CHDO-designation applications and information are available on request.

### **1.4 Eligible Activities**

In general, eligible activities include the following:

- Permanent and Transitional Rental Housing, including LIHTC gap financing; emergency shelter/temporary housing development; operating subsidies for new special needs housing projects.
- Homeownership Housing, including new construction; acquisition/ rehabilitation for resale; self-help.
- Owner-occupied Housing Rehabilitation, including emergency repair.

### **1.5 Terms of Assistance**

Applicants who receive an award of State Housing Fund must provide the funds to the direct beneficiaries in the form of a loan, except for emergency homeowner repair. The terms and conditions of each loan are determined on a project-by-project basis and may be:

- interest-bearing or non-interest bearing;
- amortizing or non-amortizing;
- repayable or forgivable.

All loans are secured by Deeds of Trust and/or other appropriate liens. Additionally, all rental housing projects require the recording of Covenants, Conditions, and Restrictions (CC&Rs). These CC&Rs remain in place throughout the required period of affordability *regardless of the status of the loan or changes in ownership.* Sample copies of the *Declaration of Covenants, Conditions, and Restrictions* are available upon request.

### **1.6 Beneficiary Income Limits**

In most cases, the rule of thumb is that assisted homeowners may not have incomes that exceed 80 percent of the area median income adjusted by family size; assisted renters may not have incomes that exceed 60 percent of the area median income adjusted by family size. Other restrictions may apply. See the appropriate chapter for more information on requirements for a particular activity.

## **1.7 The Department's Role in the Program**

The Department will perform the following functions:

- Design and administer the SHF program.
- Set policies and establish procedures, where applicable.
- Make funding decisions.
- Ensure recipients use funds in conformance with applicable State and Federal regulations, policies, and procedures.
- Maintain proper records and ensure that recipients do the same.
- Provide ongoing technical assistance to recipients.
- Monitor projects for long-term compliance.
- Prepare and submit the State Consolidated Plan and the Annual Action Plan to HUD.

## **1.8 The Applicants Role in the Program**

Applicants who become recipients of State Housing Funds must perform the following functions:

- Design projects and programs that meet local, affordable housing needs.
- Administer projects and programs in compliance with State and Federal regulations, policies and procedures, financial management policies and the written agreement with the Department.
- Maintain proper records.
- Comply with the terms of the contract entered into with the Department.
- Request technical assistance from the Department when needed.
- Maintain long-term compliance for period of affordability.

### **1.8.1 Other Recipient Responsibilities**

#### **1.8.1.1 Insurance**

During the contract period, Recipient shall purchase and maintain in full force the following insurance. All certifications of insurance must provide for a thirty (30) day notice to THE DEPARTMENT of cancellation, non-renewal, or material change. Proof of Insurance from the Recipient shall be provided to the Department prior to execution of this contract and periodic certifications must be furnished at the request of the Department.

The Recipient and its Subcontractor, at Recipients' and Subcontractors' own expense, shall purchase and maintain the herein stipulated minimum insurance with companies duly licensed possessing a current A.M. Best, Inc. Rating of A-, 7, or approved by the Department and licensed in the State of Arizona with policies and forms satisfactory to the Department.

All insurance required herein shall be maintained in full force and effect until all work or service required to be performed under the terms of the contract is completed satisfactorily and formally accepted; failure to do so may, at the sole discretion of the Department, constitute a material breach of this Contract.

The Recipient's insurance shall be primary insurance as respects to THE DEPARTMENT, and any insurance or self-insurance maintained by the Department shall not contribute to it.

Recipient shall not fail to comply with the claim reporting provisions of the insurance policies or cause any breach of an insurance policy warranty, which would affect coverage afforded under

insurance policies to protect the Department.

The insurance policies may provide coverage, which contain deductibles or self-insured retentions. Such deductible and/or self-insured retentions shall not be applicable with respect to the coverage provided to the Department under such policies. The Recipient shall be solely responsible for the deductible and/or self-insured retention, and the Department, at its option, may require the Recipient to secure payment of such deductibles or self-insured retentions by a Surety Bond or an irrevocable and unconditional letter of credit.

The Department reserves the right to request and to receive, within 10 working days, certified copies of any or all of the herein required insurance policies and /or endorsements. THE DEPARTMENT shall not be obligated, however, to review same or to advise Recipient of any deficiencies in such policies and endorsements, and such receipt shall not relieve Recipient from, or be deemed a waiver of the Department's right to insist on, strict fulfillment of Recipients' obligations under this Contract.

The insurance policies, except Worker's Compensation and Professional Liability, required by this Contract, shall name the Department, its agents, representatives, officers, directors, officials and employees as additionally insured.

**Commercial General Liability.** Recipients shall maintain Commercial General Liability insurance with a limit of not less than \$1,000,000 for each occurrence with a \$2,000,000 Products/Completed Operations Aggregate and a \$2,000,000 General Aggregate Limit. The Policy shall include coverage for bodily injury, broad form property damage, personal injury, products and completed operations and blanket contractual coverage. Coverage will be at least as broad as Insurance Service Office, Inc. Policy Form CG 00011093 or any replacements thereof.

Such policy shall contain a severability of interest provision and shall not contain a sunset provision or commutation clause, or any provision that would serve to limit their party action over claims. The Commercial General Liability additional insured endorsement shall be at least as broad as the Insurance Service Office, Inc. Additional Insured, Form B, CG 20101185, and shall include coverage for Recipient's operations and products and completed operations.

**Automobile Liability.** Recipient shall maintain Commercial/Business Automobile Liability insurance with a combined single limit for bodily injury and property damage of not less than \$1,000,000 each occurrence with respect to the Recipient's any auto, all owned autos, scheduled autos, hired autos, non-owned autos assigned to or used in performance of the Recipient's work. Coverage will be at least as broad as coverage code 1, "any auto", (Insurance Service Office, Inc. Policy Form CA 00011293, or any replacements thereof).

**Worker's Compensation.** The Recipient shall carry Worker's Compensation insurance to cover obligations imposed by Federal and State statutes having jurisdiction of Recipient's employees engage in the performance of the work or services; and Employer's Liability insurance of not less than \$100,000 for each accident, \$100,000 disease for each employee, and \$500,000 disease policy limit.

In case any work is subcontracted, the Recipient will require the Subcontractor to provide Worker's Compensation and Employer's Liability to at least the same extent as required of the Recipient.

### **1.8.1.2 Certificates of Insurance**

Prior to commencing work or services under this Contract, Recipient shall furnish the Department with Certificates of Insurance, or formal endorsements as required by the Contract, issued by Recipient's insurer(s), as evidence that policies providing the required coverage, conditions and limits required by this Contract are in full force and effect.

In the event any insurance policy (ies) required by this contract is (are) written on a "claims made" basis, coverage shall extend for two years past completion and acceptance of the Recipient's work or services and as evidenced by annual Certificates of Insurance.

If a policy does expire during the life of the Contract, a renewal certificate must be sent to THE DEPARTMENT fifteen (15) days prior to the expiration date.

### **1.8.1.3 Cancellation and Expiration Notice**

Insurance required herein shall not expire, be canceled, or materially changed without thirty (30) days written notice to the Department.

## **1.8.2 Signage**

For new construction and rehabilitation projects, Recipients must erect a sign at the project site indicating that the project is funded through the Arizona Department of Housing (ADOH) and indicate the sources of funds. The sign must be a minimum size of 24 inches high by 36 inches wide, include a minimum 5-inch high ADOH logo and text printed at a minimum 72 point font. An individual ADOH sign does not have to be provided if Recipient incorporates ADOH information into a larger group sign.

## **1.8.3 Photographs**

For new construction and rehabilitation projects, Recipients are required to provide to the Department before and after photographs of the project in digital or film format.

## **1.8.4 Registration with Social Serve**

For new construction or rehabilitation of rental projects, recipient agrees to register the project with [www.socialserve.com](http://www.socialserve.com) and keep the project listed with [www.socialserve.com](http://www.socialserve.com) for the duration of the period of affordability as indicated in the Conditions, Covenants and Restrictions.

## **1.8.5 Energy Star**

The purpose of the Energy Star partnership is to promote energy-efficient affordable housing stock while

protecting the environment. Applicants constructing, rehabilitating, or maintaining housing or community facilities are encouraged to promote energy efficiency in design and operations. They are urged especially to purchase and use products that display the Energy Star label. Applicants providing housing assistance or counseling services are encouraged to promote Energy Star materials and practices, as well as buildings constructed to Energy Star standards, to both homebuyers and renters.

### 1.8.6 HUD Performance Measures

Recipients shall provide performance measurement data as prescribed by HUD and submit such data to THE DEPARTMENT on an annual basis. The performance measurements shall be incorporated into the Consolidated Plan Update and corresponding Annual Action Plan. The performance outcome shall be reported in the Consolidated Annual Performance and Evaluation Report.

## 1.9 Compliance with Federal and State Requirements

State Housing Funds are subject to a variety of statutes, regulations, policies and procedures; many that must be considered *prior to applying* as the project or program cost, timeline or other key components may be impacted. The most notable of these requirements are:

Davis Bacon Act. Requires that a contract for construction with 12 or more HOME-assisted units pay to all laborers and mechanics not less than the wages prevailing in that locality as predetermined by the Department of Labor. Prevailing wages must be paid on the entire development, not just the HOME-assisted units and the wage provisions must be in the construction contract. HUD Handbook 1344.1 (Federal Labor Standards Compliance in Housing and Community Development Programs) should be used. More information can be found at <http://www.hud.gov/offices/olr/standards.cfm>

Contract Work Hours and Safety Standards Act. Requires that projects with 12 or more HOME-assisted units comply with overtime provisions of the Act. Overtime provisions apply to the entire development, not just the HOME-assisted units and the provisions must be in the construction contract. HUD Handbook 1344.1 (Federal Labor Standards Compliance in Housing and Community Development Programs) should be used. More information can be found at <http://www.hud.gov/offices/olr/standards.cfm>

Conflict-of-Interest. Both Federal and State laws prohibit employees, agents, consultants, officers, or elected officials of entities receiving government funds from obtaining a financial interest or benefit from a government-assisted activity, having an interest in any contract, subcontract, or agreement with respect to any contract during their tenure and for one year thereafter. These requirements are also applicable to persons to whom the above-identified parties have family or business ties. If the Applicant is unsure whether or not a conflict of interest exists, they may request a determination from the Department. More information can be found at <http://www.hud.gov/offices/cpd/affordablehousing/training/web/crosscutting/administrative/conflicttext.cfm>

Equal Opportunity and Fair Housing. Multiple Acts, Orders, and Regulations preclude discrimination. These include: Fair Housing Act (24 CFR 100); Executive Order 12259 (Equal Opportunity in Housing); Title VI of the Civil Rights Act of 1964 (24 CFR 1); Age Discrimination Act of 1975 (25 CFR 146); Section 504 of the Rehabilitation Act (24 CFR 8); Executive Order 11246 (Equal Employment Opportunity). More information can be found at <http://www.hud.gov/offices/fheo/index.cfm>.

Affirmative Marketing. Owners of assisted rental housing or homebuyer developments containing 5 or more units must take actions to provide information and otherwise attract eligible persons from all racial, ethnic, and gender groups in the housing market area to the available housing. Affirmative marketing procedures are included in the Declaration of Covenants, Conditions and Restrictions, if applicable. More information can be found at

<http://www.hud.gov/offices/cpd/affordablehousing/training/web/crosscutting/equalaccess/marketing.cfm>

Environmental Review. In accordance with 24 CFR 50 and 24 CFR 58 (Environmental Review), the environmental effects of each activity carried out with Federal funds must be assessed. Local government entities are responsible for environmental reviews and requesting a release of funds from the Department. Non-profits and other non-governmental entities are responsible for assisting the Department with environmental review and the Department then requests a release of funds from HUD. Completion of the environmental review process is mandatory before taking a physical action on a site or making a commitment or expenditure of funds. Sub-recipients may not enter into contracts, conditional or not, or in any way commit funds until HUD or the Department has approved the Request for Release of Funds (RROF) and related certification unless the activity has been determined exempt. Exempt activities described in 24 CFR 58.34(a)(1)-(11) are activities that generally have no physical impact on the environment. Meeting Environmental Review requirements will take not less than 30 days and generally not more than 120 days, depending upon the type of activity and its location. Projects funded solely with Housing Trust Funds are required to meet the requirements of the State Historic Preservation Act by consulting with the State Historic Preservation Officer (SHPO) including the Tribal Historic Preservation Officer, if applicable. Expenditures incurred or obligated by construction contract prior to the Department's release of funds or consultation with SHPO will not be reimbursed by the Department. Phase I Environmental Assessments are required to be completed on properties for which new construction/change in use is proposed, regardless of whether Federal or State funds are the source of funding. More information can be found

<http://www.hud.gov/offices/cpd/energyenviro/environ/compliance/index.cfm> ( This website is only for the HUD Environmental Review.)

Displacement, Relocation, and Acquisition Provisions of the Uniform Relocation Act. Applicants and recipients are required to notify occupants of housing to be assisted with Federal funds of their rights under the Relocation Act. All voluntary and involuntary acquisitions must also comply with the Relocation Act. Initial notification must take place at the time of initial negotiations and/or the funding application submittal, whichever is earlier. *Applicants wishing to acquire and/or rehabilitate a property that is currently occupied must first contact the Department* to ensure that proper procedures are followed. Applications that include potential relocation that has not been previously discussed with the Department may be rejected. The Department discourages displacement except where a special public purpose is served or where there are no alternatives. Projects funded with Housing Trust Fund are not covered by the Federal URA requirements, however they will be required to submit a relocation plan that addresses how necessary relocation will be managed and must demonstrate that affected residents shall be treated fairly as a result of any relocation. More information can be found at

<http://www.hud.gov/offices/cpd/library/relocation/index.cfm>

Flood Insurance. Section 202 of the Flood Disaster Protection Act of 1973 (42 U.S.C. 4106) requires that Federal funds not be provided to an area that has been identified by the Federal Emergency Management Agency (FEMA) as having special flood hazards unless: the community is participating in the National Flood Insurance Program, *or* it has been less than a year since the community was designated as having special flood hazards, and flood insurance is obtained. The State Housing Fund applies these standards

for projects receiving either Federal or State funds. More information can be found at <http://www.hud.gov/offices/cpd/energyenviron/environment/compliance/index.cfm>

Drug Free Workplace. Recipients are required to certify and maintain a drug free workplace as outlined in the State Consolidated Plan. More information can be found at <http://www.hud.gov/offices/cpd/about/conplan/conplancertifications.pdf>

Lead Safe Housing. Current regulations require that recipients ensure that occupants, homeowners and homebuyers are notified of the hazards of lead-based paint. Additionally, recipients must a) conduct a visual assessment, paint testing, or risk assessment, depending on the activity, and b) conduct lead hazard reduction activities, including paint stabilization, interim controls, standard treatments, or abatement depending on the requirements for the activity type. More information can be found at <http://www.hud.gov/offices/lead/leadsaferule/>.

Some projects are funded exclusively with Housing Trust Funds and therefore not required to comply with the Federal LBP regulation at 24 CFR Part 35. Recipients should consult with the Department for clarification if they are not sure about the source of their funds.

Nevertheless, it is the Department's policy to provide lead-safe housing to all assisted households. If the Department provides assistance for the acquisition or rehabilitation of housing, and no Federal funds are included in the project financing, the following will apply as a matter of policy beginning with projects acquired and/or rehabilitated after January 1, 2002:

1. All units in the project will be subject to visual assessment standards for identification of deteriorated or deteriorating paint surfaces.
2. All rehabilitation, maintenance or other physical work on the painted surfaces will be done using Safe Work Practices, to be certified by the owner of the property or recipient of grant funds, unless the surface has been tested and determined to be LBP-free.
3. Any such work will be subject to visual assessment standards upon completion to ensure that the work has been completed, an intact painted surface restored, and all debris and dust have been removed. Dust wipes are not a requirement, but are recommended where feasible to create documentation of safe work.
4. Rental property owners will be required to have a paint maintenance policy that ensures regular (at least annual) visual assessment and repair/maintenance of painted surfaces using Safe Work Practices.

Asbestos Testing. Pursuant to applicable Environmental Protection Agency (EPA) regulations, recipients must comply with Federal and State requirements to protect affected public members from exposure to regulated asbestos-containing material during facility renovation, demolition, removal, transport and disposal activities. More information can be found at <http://www.epa.gov/asbestos/> and <http://www.azdeq.gov/environ/air/asbestos/> .

Audit Requirements. Audits are required of all governmental and nonprofit recipients according to State and/or Federal guidelines, whichever applies. Governmental entities are held to governmental audit standards outlined in the OMB Circulars when utilizing Federal funds, and are also required to conduct an annual audit per State legislation regardless of sources of income. Nonprofits utilizing Federal funds

must meet Federal guidelines or State guidelines when utilizing State funding. More information on Federal guidelines can be found in OMB Circular A-133 at <http://www.whitehouse.gov/omb/circulars/>. State audit guidelines for governmental entities are outlined at A.R.S. §9-481 and for non-profits at A.R.S. § 13-181.03, which is available online at <http://www.azleg.state.az.us/ArizonaRevisedStatutes.asp>.

Change of Ownership. An applicant must obtain the Department's prior written approval for any kind of change of ownership of the Applicant while an application is pending. Once the Department makes an award of State Housing Fund monies, or makes a Determination, Reservation, or Allocation under the Low Income Tax Credit Program for a Project, transfer of ownership of that Project (sale of ownership of any kind) will constitute an automatic event of default under the loan documents, unless the Department has approved the transfer in advance. Prior approval of transfers of ownership is necessary to ensure that the purchase has knowledge of and the capacity to maintain the affordability restrictions on the Property. The Department may revoke or reverse a Determination, Reservation, or Allocation or reduce the amount of tax credits at any time, absent prior written approval of the transfer by the Department.

The Department bases approval of a change in ownership of an applicant or transfer of ownership of a Project on review of the following documents:

- Buyer's audited financial statement dated no later than one year before the date of submittal to the Department
- Buyer's written acknowledgement or assumption of the duties and obligations set forth in the relevant portions of the loan documents, the Declaration of Covenants, Conditions, and Restrictions, and the Land Use Restriction Agreement.
- Demonstration of experience of the managing agent with affordable or low-income housing projects.

Accessibility Standards. Recipients must adhere to the accessibility standards of the Americans with Disabilities Act, The Fair Housing Act and the Rehabilitation Act, as revised. More information can be found at [www.hud.gov/offices/fheo/FHLaws/index.cfm](http://www.hud.gov/offices/fheo/FHLaws/index.cfm)

## 1.10 General Administrative and Project-Specific Funding

General Administrative funding is made available from Housing Trust Funds to support programs. Administrative funding is limited to 10 percent of the State Housing Funds awarded for housing rehabilitation or emergency repair. Administrative costs are generally those that cannot be linked directly to an assisted housing unit or beneficiary. General administrative costs are always provided to the recipient in the form of a grant.

Example of General Administrative Costs: Your housing rehabilitation specialist returns to the office after having traveled to a rehabilitation site. In the office the specialist compiles information on the current status of the rehabilitation program for a monthly report due to the Department and also completes a “Request for Funds” form in order to request reimbursement for State Housing Funds. While compiling these reports, the specialist calls the Department and spends 15 minutes with the contract specialist discussing the status of the program and seeking advice. These duties and the associated cost of performing the duties are necessary but cannot be directly related to a specific housing unit or beneficiary.

Project-Specific Administrative funding is made available from either Housing Trust Funds or HOME funds for Owner Occupied Rehabilitation and Owner Occupied Emergency Repair, depending upon the source of project or program funding. Project-specific administrative funding is distinguished from general administrative funding in that the duties performed and the costs of performing the duties bear a direct relationship to an assisted housing unit or assisted beneficiary. Project-specific administrative costs are part of the budget for the assisted housing unit or assisted beneficiary and must be reflected in the appropriate unit or beneficiary budget.

Example of Project-Specific Administrative Costs: Your housing rehabilitation specialist travels 10 miles round trip to the site of a home that is to be rehabilitated. While there, the rehabilitation specialist meets with the homeowners and inspects their home, prepares a work write-up, and discusses the program with the homeowners. The duties performed and costs of performing these duties are directly related to providing assistance to a specific housing unit.

### 1.10.1 Maximum General Administrative Requests

Administrative funding requests for individual activities are outlined in the following table.

<b>Activity</b>	<b>General Administrative Limit</b>
Development Projects, including rental and homeownership	Administrative funding for development projects is available only through the developer’s fee. See Section 3.12 of this document.
Owner-Occupied Housing Rehabilitation Programs and Owner-Occupied Housing Emergency Repair Programs	Up to 10 percent of the State Housing Funds awarded.
All Other Activities	The availability of general administrative funding will be defined in the Notice of Funding Availability or similar notice.

### 1.11 Funding Goals

For FY 2007 the Department's funding goals, as more fully described in its *Consolidated Plan Update*, include the:

1. Equitable geographic distribution of resources.
2. Funding a variety of activities to meet varied housing needs.
3. Funding of activities that address the housing needs of special populations.
4. Funding of families with children.

### 1.12 Geographic Funding Objectives

In accordance with 24 CFR Part 92.201(b)(1), and A.R.S. 44-313, the Department seeks to geographically distribute State Housing Fund resources as equitably as possible and according to the following goals. The actual geographic distribution of resources is dependent upon the quantity and quality of applications received. For Housing Trust Funds, at least 55% of committed resources will be committed to non-urban (outside Maricopa and Pima counties) projects and programs. For Federal HOME resources, the geographic funding objectives are:

<b>FY 2007 HOME Geographic Funding Objectives</b>	
<b>Geographic Area</b>	<b>Amount</b>
State Administrative Costs (not for distribution)	\$ 818,992
Statewide CHDO set-aside	\$1,228,488
METRO Area (Maricopa & Pima Counties)	\$1,396,791
CAAG Area (Gila & Pinal Counties)	\$993,143
NACOG Area (Apache, Coconino, Navajo & Yavapai Counties)	\$1,713,134
SEAGO Area (Cochise, Graham, Greenlee & Santa Cruz Counties)	\$724,313
WACOG Area (LaPaz, Mohave & Yuma Counties)	\$1,315,059
<b>SUB-TOTAL</b>	<b>\$ 8,189,920</b>
Set-Asides:	
American Dream Downpayment Initiative Set Aside (FY2006)	82,686
<b>TOTAL HOME AVAILABLE DURING STATE FY2007</b>	<b>\$ 8,272,606</b>

### 1.13 Activity Objectives

In addition to geographic funding objectives, the Department seeks to fund the following activities. The actual distribution of resources will be dependent upon the amount of Housing Trust Funds received and the quantity and quality of applications received:

Activity	State Housing Trust Funds	Federal HOME Funds
Rental Housing, including HOME CHDO set-aside, LIHTC gap financing; emergency shelter development; operating subsidies for new special needs housing projects.	\$ 6,079,200	\$2,948,371
Homeownership Housing, including HOME CHDO set-aside, new construction; acquisition/ rehabilitation for resale.		\$442,256
American Dream Downpayment Set-Asides (Federal FY06)		\$82,686
Owner-occupied Housing Rehabilitation, including Emergency Repair	\$3,218,400	\$3,980,301
Grantee/Recipient Administrative Costs	\$1,072,800	
Homes for Arizonans Initiative	\$4,000,000	
Homelessness Prevention	\$2,500,000	
State Special Projects	\$1,549,600	
HFA Special Initiatives	\$3,000,000	
Tribal Housing Initiative	\$2,500,000	
<b>Totals</b>	<b>\$ 24,120,000</b>	<b>\$ 7,453,614</b>

### 1.14 Activities that Address the Housing Needs of Special Populations

Within the geographic and activity objectives, the Department seeks to allocate 25 percent of funding to projects serving Special Populations.

### 1.15 Maximum Applicant Funding

In general the amount of State Housing Funds that any one applicant, entity or developer may receive during any 12-month period is limited to **\$750,000**. An applicant with proven capacity to complete multiple projects in a timely manner may exceed the **\$750,000** limit provided the additional funding is being used for projects in non-urban areas (areas outside Maricopa or Pima counties). The 12-month maximum for **Emergency Repair will remain \$500,000**. Separate entities with identities of interest are considered one applicant. An identity of interest exists when entities are affiliated or an ownership interest, including but not limited to stock or other equity ownership.

### 1.16 Help with SHF Application and Contact Information

Within the Department there are four program areas that administer all of the activities eligible for funding with State Housing Funds. Additionally the Department employs a full-time Tribal Technical Assistance Coordinator to assist Arizona tribes and applicants wishing to undertake activities on tribal land. Listed below are the contact persons available to provide assistance with structuring an application.

<b>State Housing Fund Application Contact Information</b>		
<b>Program</b>	<b>Activity</b>	<b>Contact Information</b>
<b>Homeownership</b>	<ul style="list-style-type: none"> <li>• Owner-occupied Housing Rehabilitation</li> <li>• Owner-occupied Emergency Repair</li> <li>• Homeownership</li> <li>• Homes for Arizonans</li> </ul>	Kathy Blodgett-LaPorte Homeownership Programs Administrator (602) 771-1021 Fax (602) 771-1029 kathyl@housingaz.com
<b>Rental Housing</b>	<ul style="list-style-type: none"> <li>• Permanent and Transitional Rental Housing</li> <li>• LIHTC Gap Financing</li> <li>• Emergency Shelters and Temporary Housing</li> </ul>	Julie Barrett Rental Programs Manager (602) 771-1032 Fax (602) 771-1002 julieb@housingaz.com
<b>Special Needs</b>	<ul style="list-style-type: none"> <li>• Emergency Funding</li> <li>• Homelessness Prevention</li> <li>• Eviction Prevention</li> </ul>	Vicki Van Dreef Special Needs Program Administrator (602) 771-1024 Fax (602) 771-1002 vickiv@housingaz.com
<b>Technical Assistance and Special Projects</b>	<ul style="list-style-type: none"> <li>• Fair Housing</li> <li>• Pre-Development Loan Program</li> <li>• Technical Assistance available to organizations requiring extra assistance</li> </ul>	Tim Klont Community Education Administrator (602) 771-1092 Fax (602) 771-1002 timk@housingaz.com
<b>Tribal Liaison</b>	<ul style="list-style-type: none"> <li>• All of the above programs undertaken on tribal lands</li> </ul>	Eric Descheenie Tribal Technical Assistance Coordinator (602) 771-1087 Fax (602) 771-1002 ericd@housingaz.com

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## CHAPTER 2. THE FUNDING PROCESS

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There are four, sometimes five steps in the funding process:

1. Completeness review.
2. Threshold review.
3. Financial and Technical review.
4. Funding Committee review and recommendation.
5. In some cases the Department will make a site inspection a part of the funding review.

### 2.1 Completeness and Threshold Review

The purpose of the completeness and threshold review is to ensure that the applicant and application are eligible to receive funding in accordance with Federal and State statutes, regulations and policies. Only applicants and applications that meet all threshold criteria will be considered for funding. Some threshold criteria are common to all activities, while others are activity specific. Activity-specific thresholds are described in the chapter that applies to the activity.

#### 2.1.1 Completeness Review Criteria

1. The application is complete and all appendices are labeled. Application information is in the correct format and order pursuant to the instructions.
2. A Notice of Intent to Apply was received at least 30 days prior to the application deadline.

#### 2.1.2 Incomplete Applications

When an application is missing not more than three material items, the Department will contact the applicant (via standard mail, fax or email), who will be notified that they have a remedy period of five working days during which they may submit the required information. Applications missing more than three items and those that are incomplete upon expiration of the remedy period will not receive further consideration.

### 2.2 Notice of Intent to Apply

The submission of a Notice of Intent to Apply (Notice of Intent) is a pre-requisite to applying for State Housing Funds to do Owner Occupied Housing Rehabilitation, Owner Occupied Emergency Repair, Homeownership and Rental development projects. Activities listed in Chapter 8 do not require a Notice of Intent. The primary purpose of the Notice of Intent is to provide an avenue by which the Department may notify affected units of government of a potential project. Additionally, the Notice of Intent will enable the Department to notify the potential applicant if sufficient financial resources are not available to fund a proposed project or the applicant or project may not meet application thresholds. The Department may also utilize the Notice of Intent to identify technical assistance needs. The Department strongly recommends the applicant include variance requests in the Notice of Intent, especially if the variance request pertains to items that affect the financial feasibility of the proposed project. The Department will respond to variance requests included in a Notice of Intent prior to the application deadline.

### 2.2.1 Instructions for Submitting the Notice of Intent

Email, fax or mail a Notice of Intent to the appropriate Program staff person in the program area for which you are applying.

State Housing Fund Application Contact Information		
Program	Activity	Contact Information
<b>Homeownership</b>	<ul style="list-style-type: none"> <li>• Owner-occupied Housing Rehabilitation</li> <li>• Owner-occupied Emergency Repair</li> <li>• Homeownership Development</li> </ul>	Kathy Blodgett-La Porte Homeownership Programs Administrator (602) 771-1021 Fax (602) 771-1029 kathyl@housingaz.com
<b>Rental Housing</b>	<ul style="list-style-type: none"> <li>• Permanent and Transitional Rental Housing</li> <li>• LIHTC Gap Financing</li> <li>• Emergency Shelters and Temporary Housing</li> </ul>	Julie Barrett Rental Programs Manager (602) 771-1032 Fax (602) 771-1002 julieb@housingaz.com

If mailed, the Notice of Intent must be on the letterhead of the proposed applicant and sent to the Arizona Department of Housing, 1700 W. Washington, Suite 210, Phoenix, Arizona 85007. The Notice of Intent must include the address, phone, facsimile and e-mail address of the proposed applicant. The Notice of Intent must be received not less than **30 days** prior to the application date. Once received, the Notice of Intent will be kept on file for the remainder of the program year and will satisfy the application pre-requisite for subsequent application rounds. Notices of Intent containing variance requests should be submitted no later than **45 days** prior to the application deadline. Applicants are encouraged to request variances as early as possible to plan projects appropriately.

The Notice of Intent should include the following information:

**Project Concept.** In three sentences or less, describe the project concept, for example: “construct six multi-family units that will serve as transitional housing for victims of domestic violence from Coconino County. In conjunction with the transitional housing, provide counseling and social services through the XYZ Social Services Agency.”

**Project Details.** In numbered format, indicate the following:

1. Type of housing. Permanent rental, transitional rental, emergency or temporary housing facility, homeownership development, owner-occupied housing rehabilitation, owner-occupied emergency repair.
2. Street address of project or Program Service Area (City, Town, County).
3. Activity. New construction, acquisition, rehabilitation.
4. Total units in project.
5. Total assisted units in project.
6. Population to be served. Income level and/or special needs population.
7. Development or Program Team Members. Project Manager, Day-to-day Project Coordinator, Architect, Contractor/Builder, Consultants, All Others
8. Estimate the total cost of the proposed project including all funding sources. Identify the amount of funding you anticipate requesting from the State Housing Fund.
9. Variance requests and the reason for request.

## 2.3 Threshold Review

Applications for State Housing Funds that do not meet minimum threshold criteria will not be considered for funding. There are common thresholds that apply to all activities and thresholds that apply to individual activities. Common thresholds are described here, while activity-specific thresholds are described in the Chapter that applies to the activity.

### 2.3.1 Common Thresholds

1. The Applicant (and all of its team members) meets the current and past Expenditure and Performance Requirements, and has no outstanding or unresolved contractual, property, or beneficiary-related compliance issues with **any** Federal programs, or programs of the Department, the Arizona Housing Finance Authority or any other applicable State Agency. Not applicable if the Applicant has never received State Housing funds or other funding from the Department or its predecessors.
2. The Applicant is listed as an eligible party to apply in Section 1.2.
3. The activity or project or property type is eligible to receive funding.
4. State Housing Funds are budgeted for eligible uses.
5. The proposed beneficiaries are eligible.
6. The amount of State Housing Funds invested per unit does not exceed the program limits and is at least \$1,000/unit.
7. All development or rehabilitation will meet, at a minimum, all local building codes, must be properly zoned for the proposed use and meet local ordinances.
8. Prior to making application, both governmental and non-profit applicants must adopt a resolution of their governing board authorizing the submission of an application. A sample resolution is included as **Appendix F**. All applicants, including private for-profit entities, must execute the Applicant Affidavit, Release and Certification Form included in the application.
9. All non-governmental applicants must provide a Certification of Good Standing from the State of Arizona, Office of the Secretary of State. Non-profits must also submit a copy of a recent IRS non-profit designation letter.
10. The Applicant is not included on the Federal Excluded Parties List.

Applicants or applications that do not meet ALL of the threshold requirements will not receive further consideration for funding. The application will be returned to the applicant for resubmission at a later deadline; a list of those threshold items that were not met will be included with the returned application.

### 2.3.2 Expenditure and Performance Thresholds

Applicants that do not meet the following minimum performance and expenditure thresholds will not be considered for funding. Applicants that were found to be in non-compliance with past State contracts will not be considered for funding until all outstanding compliance issues have been resolved and adequate capacity can be demonstrated.

### **2.3.2.1 Recipients with Contracts Originally Entered Into During or Prior to 2004**

- Performance: Scope of Work 100 percent complete and Contract Close out Report received and approved.
- Expenditure Rates: State Housing Funds 100 percent expended or de-obligated.
- Other Activity Eligibility. Not eligible to apply for any activity if not in compliance with above thresholds.

### 2.3.2.2 Recipients with Contracts Originally Entered Into in Calendar Years 2004 and 2005

ACTIVITY	THRESHOLD, VARIANCE CONSIDERATION, OTHER ACTIVITY ELIGIBILITY
Rental and Emergency Shelter Development	<p><b>Performance:</b> Scope of Work 75 percent complete. Project timeline reflects completion within 90 days of application due date. Applicant and project team members in compliance with contract requirements and CC&amp;Rs.</p> <p><b>Expenditure Rates:</b> State Housing Funds 75 percent expended based on requested reimbursement.</p> <p><b>Variance:</b> A Variance may be granted if the applicant has previously demonstrated the ability to complete multiple projects on time and in compliance with regulations, policies and procedures.</p> <p><b>Other Activity Eligibility.</b> May apply for other activities.</p>
Homeownership Development	<p><b>Performance:</b> 100 percent of proposed units under contract Project timeline reflects completion within 90 days of application due date. Applicant and project team members in compliance with contract requirements and CC&amp;Rs.</p> <p><b>Expenditure Rates:</b> State Housing Funds 75 percent expended based on requested reimbursement.</p> <p><b>Variance:</b> A Variance may be granted if the applicant has previously demonstrated the ability to complete multiple projects on time and in compliance with regulations, policies and procedures.</p> <p><b>Other Activity Eligibility.</b> May apply for other activities.</p>
Owner-Occupied Housing Rehabilitation and Emergency Repair Programs	<p><b>Performance:</b> 100 percent of proposed units under contract Project timeline reflects completion within 90 days of application due date. Applicant and project team members in compliance with contract requirements.</p> <p><b>Expenditure Rates:</b> State Housing Funds 75 percent expended based on requested reimbursement</p> <p><b>Variance.</b> A Variance may be granted if the applicant has previously demonstrated the ability to complete multiple projects on time and in compliance with regulations, policies and procedures.</p> <p><b>Other Activity Eligibility.</b> May apply for other activities.</p>

### 2.3.2.3 Recipients with Contracts Originally Entered Into in Calendar Year 2006

ACTIVITY	THRESHOLD, VARIANCE CONSIDERATION, OTHER ACTIVITY ELIGIBILITY
Rental and Emergency Shelter Development	<p><b>Threshold.</b> Not eligible to apply for same activity.</p> <p><b>Variance.</b> A variance may be granted if the applicant has previously demonstrated the ability to complete multiple projects on time and in compliance with regulations, policies and procedures. The current project must be proceeding according to schedule.</p> <p><b>Other Activity Eligibility.</b> May apply for other activities.</p>
Homeownership Development	<p><b>Threshold.</b> Not eligible to apply for same activity.</p> <p><b>Variance.</b> A variance may be granted if the applicant has previously demonstrated the ability to complete multiple projects on time and in compliance with regulations, policies and procedures. The current project must be proceeding according to schedule.</p> <p><b>Other Activity Eligibility.</b> May apply for other activities.</p>
Owner-Occupied Housing Rehabilitation and Emergency Repair Programs	<p><b>Threshold.</b> Not eligible to apply for same activity.</p> <p><b>Variance.</b> A variance may be granted if the applicant has previously demonstrated the ability to complete multiple projects on time and in compliance with regulations, policies and procedures. The current project must be proceeding according to schedule.</p> <p><b>Other Activity Eligibility.</b> May apply for other activities.</p>

### 2.3.2.4 Expenditure and Compliance Threshold Review and Variance Request

If a recipient is uncertain whether they will meet the expenditure and compliance thresholds or is seeking a threshold variance, they should indicate in their Notice of Intent that a review or variance is requested. In all cases, the Department will respond in writing to all requests for a threshold review or variance.

## 2.4 Financial and Technical Review

Applications that meet all thresholds or have received a threshold variance undergo a financial and technical review, often referred to as risk assessment. In selecting projects and programs for funding, the Department evaluates the need, demand, risk and viability of each. Financial and technical analyses determine appropriate costs and the amount of State financing that may be provided, and identify any special considerations or mitigating measures.

This review includes an analysis of information submitted in the application and may vary from activity to activity. The purpose of the financial and technical review process is to assess the risk to the Department of investing in the proposed program or project. The result of the financial and technical review is a written recommendation to the Funding Committee containing the following: summary of project risks; a recommended funding amount; and any suggested mitigating steps that should be considered prior to making an award of funds.

### 2.4.1 Market Demand

The market study included in the application must substantiate that the proposed project will be utilized or purchased by the proposed service population. While “need” is an important consideration for broad based planning, the Department evaluates market demand to determine the probable success of individual projects. Three basic types of market demand formats are possible. If the need/demand analysis submitted with the application is inconclusive, the Department may require the applicant to supplement the analysis, in whole or in part, before the application will receive further consideration. This may include a request for an independent third party market study.

#### Rental and New Homeownership Development

The financial and technical review process assesses the market demand analysis, including data submitted concerning the market area; the target population; occupancy levels and vacancy rates of comparable units; absorption rates for comparable projects recently entering the market; and current waiting lists of potential clients. The review assesses the risk associated with the proposed project, including the risk of economic disruption to projects already offering comparable housing in the market area. If the market study submitted with the application is deemed incomplete, the Department may require the applicant to supplement the study in whole or in part before the application will receive further consideration.

Projects with 11 or more units require a Market Demand Analysis that includes the following information.

- Description of the proposed site(s) and site neighborhood. The site location is to be described using the nearest roadways. Color photographs of the subject site(s) from various vantage points are to be included. Color photographs of adjacent properties and streetscapes are to be included as well. All photographs are to be described (e.g., view of the site, looking northeast from Main Street / view from the site, looking west toward the adjacent single family home). The positive and negative attributes of the site and site neighborhood, and their impact on project marketability are to be discussed.
- The proposed project’s market area must be described and justified. The market area is the smallest geographic area from where the subject development will draw most of its residents. (The market area is not necessarily the same as a service area.) Provide a narrative describing the methodology and rationale used to determine the market area.
- The applicant is to provide a profile of the most likely (prospective) residents, including income range (minimum income required to afford the proposed units to the maximum permitted income), and other demographic characteristics. Indicate other homeownership opportunities available to the targeted population in the market area.
- Note at least three comparable projects near the proposed development, and provide their current prices, occupancy level and initial absorption rate, and amenities in comparison with the proposed development.
- Note the anticipated number of months it will take proposed development to reach stabilized occupancy (to 90 percent). Provide supporting evidence from recently developed projects if available.
- Number of comparable units targeting the same population that are under construction (or rehabilitation) or planned concurrently with the proposed project. Include the number of recently issued building permits or building permit applications for comparable units. Note the name, title, and phone number of the local government official who assisted in this determination.

- Note if applications are currently being accepted, and whether a waiting list or list of individuals who have expressed interest or inquired about the project is maintained. If a list is maintained, note when it was started and for what purpose (i.e., this project or other projects), as well as the number of names or applications that have been collected. Note if there has been any pre-screening of the applicants. If so, note what portion (number and percentage) of the applicants is estimated to be eligible. Of those who are estimated to be eligible, note what portion is estimated to be likely purchasers.

A full market analysis *may not* be required of very small projects (10 units or less) where:

- documentation can be provided that the project's future occupants have already been identified; or
- the project is entirely reserved for a special population in which the future occupants will be drawn from the client list of a social service provider.

In these cases, an abbreviated Market Demand Analysis is required. If an applicant believes a project falls into one of these two categories, they should contact the Department to discuss whether or not they will be required to provide a full market demand analysis for a particular project.

An abbreviated analysis must include the following:

- Documentation, such as a waiting list of pre-qualified individuals, application and letters of pre-qualification, etc. that shows the qualified residents; or
- A letter from the service provider certifying that they have sufficient clientele describing the population and numbers justifying demand to adequately fill the proposed project or a list of pre-qualified individuals.

If all future occupants have not been identified, address efforts being (or which will be) made to aggressively market the project to the target group.

Emergency Shelters and Temporary Housing: In emergency and temporary housing, demand is assessed to ensure that the facility will be used as proposed. The demand analysis will consider occupancy levels of comparable project (s); other planned projects intended to serve the same population; and current waiting lists or number of inquiries. Demand may be substantiated through data that evidences potential clients/tenants are being turned away from existing facilities and the reasons for being turned away. Demand may also be substantiated by a letter (or letters) from service agencies who will refer clients/tenants, and who state the demand exists for the proposed project. Both statistical data and service agency letters should indicate the service area and target population.

Owner Occupied Housing Rehabilitation and Emergency Repair: The market demand is centered on a demographic analysis of the targeted area; the target population and information on the condition of the housing stock and rehabilitation needs. The degree to which comparable programs and services are available to the proposed service area is assessed.

#### **2.4.2 Affordability to Low-Income Households**

Homeownership Projects: The intended target household income in conjunction with the lending environment and interest rates are used to determine probable mortgage amounts in relation to the proposed completed appraised value of the homes.

Rental Projects: The proposed rents and any committed subsidies must be sufficient to cover operating

expenses and debt service throughout the period of affordability without comprising affordability.

Emergency Shelters and Temporary Housing: Since no rent is charged and fees are usually nominal, affordability is presumed. The proposed project must demonstrate financial viability absent cash flow revenue. Nominal revenues and subsidies must be sufficient to pay for operating costs.

Owner Occupied Housing Rehabilitation: Sufficient funds should be invested in each home to meet, at a minimum, the State of Arizona Rehabilitation Standards and local building codes with respect to the items that are to be addressed in the rehabilitation. Lien amounts placed on rehabilitated homes will not be allowed to exceed 100 percent combined loan to value. In some cases reconstruction will be more cost effective than rehabilitation especially for manufactured housing. Manufactured housing replacement is allowed as a rehabilitation expense.

### **2.4.3 Project or Program Team Experience and Ability to Deliver**

The project or program team must demonstrate in the application the following: 1) it possesses the experience and capacity to successfully complete the proposed project or program; 2) it has developed projects or implemented programs of comparable size and complexity for similar populations; and 3) it has the capacity itself or has selected a suitable contractor to manage the project and provide the services necessary to implement the proposed program design. The financial and technical review process will evaluate the development or administration team for experience and ability to deliver the project or program as proposed. This review focuses on the skills, experience and available or potential financing of the team through the evaluation of each individual and the team as a whole.

### **2.4.4 Budget Review**

The budget review process will evaluate cost reasonableness and will consider all sources and uses of funds to determine whether the program is feasible as proposed and can be completed for the budget indicated. The budget review process will evaluate the maximization of private financing, and will include gap and layering analyses. In addition to other financial analysis criteria, these criteria are used to calculate the amount of State funding that may be provided to a program.

For development projects, the review process will analyze both the construction and permanent sources and uses of funds and the project's pro forma to determine whether or not the project may be completed and operated for the costs indicated in the proposed budget. The review will determine that the site is suitable for construction of the proposed use and that all utilities and necessary amenities are available to the site, and that once completed, the project will make available affordable housing to the targeted low-income residents. For homeownership development, the review will evaluate the mortgage-to-construction financing ratios to maximize the extent to which mortgage financing covers construction financing. The cost-to-value ratios are reviewed to ensure that site and construction design both maximizes quality and amenities while reducing overall per unit costs.

#### **2.4.4.1 Cost Reasonableness**

Costs will be assessed as to whether they are reasonable, realistic and customary in light of market conditions in the area. The Department will determine cost reasonableness from, among other sources, data from experience on prior projects in Arizona and consultation with construction cost experts. Failure to comply with cost reasonableness may be the basis for a denial for funding.

#### **2.4.4.2 Maximization of Private Lender Financing:**

If financing is required, the applicant must maximize its lending sources for both construction financing and permanent financing. Loan terms will be taken from the lender's letter of interest or commitment. Exceptions to maximizing of private financing may be made for unique situations where private construction financing is not available based on the absence of cash flow such as for emergency and transitional housing.

Homeownership Projects. There will be no exceptions to the requirement that individual homebuyers maximize their mortgages.

Rental Projects. The Department generally considers reasonable a debt service coverage ratio of 1.2 for projects with less than 50 units and 1.15 for projects of 50 units or more. Loan terms (e.g., interest rate and amortization period) will be taken from the lender's letter of interest or commitment letter.

#### **2.4.4.3 Gap Analysis**

The gap analysis determines the amount of State funding to be provided. The gap is the amount necessary to make the proposed project financially feasible. A gap is defined as the amount by which projected uses of funds exceed projected sources of funds, after adjustments for unacceptable costs, if applicable. The projected sources of funds for purposes of the gap analysis include maximum loan payment on conventional financing, any other loans or grants for which the project receives a commitment, and the developer's contribution (if any).

Note: If firm commitments from all funding sources have not been received at the time of review, the amount of State funds reserved for the project will be tentative until the budget becomes firm. Once the budget is firm, the Department will perform another gap analysis to determine the actual amount of the award.

#### **2.4.4.4 Layering Analysis**

The layering analysis is required by most government resources to ensure that the amount of subsidy from all government sources does not exceed the amount necessary to make the proposed project financially feasible. Layering applies to any loan, grant, guarantee, insurance, payment, rebate, subsidy, credit, tax benefit, or any other form of direct or indirect assistance from governmental entities.

### **2.5 Funding Committee Review and Recommendation**

The Arizona Department of Housing Funding Committee meets every week to discuss and make decisions pertaining to Notices of Intent to Apply, contract awards, contract amendments, contract terms, variances, State Housing Fund budget adjustments and loan terms for existing and proposed projects. The Funding Committee is comprised of Risk Assessors, Program Managers, Administrators, the Assistant Attorney General, Assistant Deputy Directors, Deputy Director the Director, and other staff, as appropriate. Applicants are notified in writing of the results of the Funding Committee decisions.

#### **2.5.1 Competitive Funding**

In the event that insufficient funds are available to fund all applications that are received for a specific activity or in a geographic area, competitive funding criteria may be utilized to make awards. When the competitive funding process is used, applications are awarded up to 50 points according to the following criteria. Only applications that meet thresholds are competitively scored.

### 2.5.1.1 Very-low Income Targeting

Applications earn points based on the proportion of units that are set-aside for lower-income households. Points are awarded based on the number of very low-income units as a percentage of the total program or project. Points are awarded as follows:

Rental Housing and Owner-Occupied Housing Rehabilitation and Emergency Repair		Homeownership Development	
% of total units in project or program targeted to 50% AMI or below households	Points	% of total units in project or program targeted to 60-80% AMI households	Points
80 – 100%	10	80 – 100%	10
60 – 79%	8	60 – 79%	8
40 – 59%	6	40 – 59%	6
20 – 39%	4	20 – 39%	4
5 – 19%	2	5 – 19%	2
4% or less	0	4% or less	0

### 2.5.1.2 Priority Populations Targeting

Applications earn points for setting aside units for priority populations and families with children. Points are awarded based on the number of special needs populations and families with children populations as a percentage of the total program or project. Points are awarded as follows:

Priority Populations		Families with Children	
% of total units in project or program	Points	% of total units in project or program	Points
80 – 100%	10	80 – 100%	10
60 – 79%	8	60 – 79%	8
40 – 59%	6	40 – 59%	6
20 – 39%	4	20 – 39%	4
5 – 19%	2	5 – 19%	2
4% or less	0	4% or less	0

### 2.5.1.3 Project Readiness

Up to 20 points will be awarded to applicant projects that are ready to begin implementation immediately with environmental review requirements up to the Request for Release of Funds completed, land control secured, planning design and permitting complete and all other related upfront issues resolved. The criteria for determining these items will be gauged on the extent to which the items in each applications individual tab attachments are satisfied.

## 2.6 Local Government Notification and Review

The Department is required by A.R.S. 41-3953(I), and 41-3955(H) to seek comment from the governing body of the city, town, county or tribal government when a construction project is proposed. To meet this requirement, the Department will forward a letter to all affected units of government during the

review process. The Department may decline to fund any application to which a unit of local government objects, and will not interfere with any attempt to override the local jurisdiction's planning, zoning or land use regulations. The Department strongly recommends that potential applicants meet with affected units of government prior to submitting a Notice of Intent.

## **2.7 Reservation for Funding**

When an application is recommended for funding by the Funding Committee, a reservation of funds is made and a letter describing the terms and conditions of the funding is sent to the applicant. When funding is contingent upon the applicant, program, or project meeting certain criteria, the reservation of funds will be made conditioned upon the criteria being met. When funding is not contingent upon the meeting of certain criteria, the applicant will receive an unconditional reservation of funds and will be notified of the date by which a contract must be executed. Both conditional and unconditional awards will specify whether Federal HOME, Housing Trust Fund, or both resources have been reserved for the program or project

## **2.8 Applications Held Over for Future Consideration**

If enough funding is not available within the budget at the time applications are submitted to fund all eligible applications for Housing Rehabilitation and Emergency Repair, then eligible applications which are not selected for immediate funding based on a competitive scoring system for this particular activity may be held over by the Department for future consideration at such time as additional funding may become available for the funding of the activity. Applications will not be held beyond the current fiscal year.

## **2.9 Re-submissions**

Applications may be submitted up to three times before they will become ineligible for consideration. Prior to resubmitting a previously denied application, applicants may request guidance regarding those items that resulted in application denial. Technical assistance may be provided by the Department staff to assist the applicant in preparation of an application for funding.

## **2.10 Protest of Funding Committee Decision**

An Applicant may file a protest of the Funding Committee's determinations regarding:

- Award of a loan or grant,
- The amount of the loan or grant,
- Termination of a loan or grant,
- Repayment terms of a loan,
- Eligibility for a loan or grant,

E-mail, fax or mail a written protest to the appropriate Program contact listed at Section 2.2.1 within thirty (30) days following the date of written notification of the Funding Committee decision. If mailed, written protest must be on the letterhead of the proposed applicant and sent to 1700 W. Washington, Suite 210, Phoenix, Arizona, 85007. The written protest must include the address, phone, facsimile and e-mail address of the proposed applicant and a concise statement of the reasons for the appeal, and a concise statement of any remedial actions being requested by the applicant. Written protests shall be considered "filed" on the date of receipt by the Department.

The Director will review the protest and will issue a determination in writing to the applicant within thirty (30) days of the date the protest is filed.

## 2.11 Variance Requirements

In rare instances, the Department may consider allowing variances to one or more of the requirements listed in the application guide and the individual application when doing so would not violate statutory or regulatory requirements. Variance requests can be submitted along with the application. However, the Department strongly recommends that such requests are submitted prior to the application due date and contained in the Notice of Intent. Questions regarding variances can be directed to the program contacts listed in **Section 2.2.1**. Variances pertaining to items that affect the financial feasibility of the proposed project should submit the Letter of Intent **45 days** prior to the application due date. All requests for variances will be responded to in writing.

## 2.12 Application Deadlines and Funding Notification

Until funding is exhausted, applications are accepted according to the following schedule. Not less than 30 days prior to the application deadline, a Notice of Intent to Apply must be submitted:

State Housing Fund Application Due Dates		
ACTIVITY	NOTICE OF INTENT TO APPLY DUE	APPLICATION DUE
Rental Housing Homeownership Housing	July 31, 2006	August 31, 2006
	September 29, 2006	October 31, 2006
	December 29, 2006	January 31, 2007
	March 30, 2007	April 30, 2007
Owner-Occupied Housing Rehabilitation and Emergency Repair.	July 31, 2006	August 31, 2006
	December 29, 2006	January 31, 2007
All Other Activities.	As specified in Notice of Funding Availability or Request for Proposals.	As specified in Notice of Funding Availability or Request for Proposals.

Applications will be considered to be received if one of the following indicates a date and time no later than the application due date:

- U.S. Post Office Postmark
- Fed Ex, UPS, etc., date and time of actual delivery
- Department staff documentation (date-stamp received)

Applications not having the above documentation will be returned to the applicant.

Applications must be addressed to:

**Attn: State Housing Fund  
Arizona Department of Housing  
1700 West Washington Street, Suite 210  
Phoenix, Arizona 85007**

Activities described in Chapter 8. Applications for activities described in Chapter 8 are accepted according to the schedule published in the special Notice of Funding Availability, or Request for Proposals, when issued.

### **2.13 Funding Notification**

The Department will make every effort to make its funding decisions within 60 (sixty) days, depending on the number and complexity of the applications received.

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## CHAPTER 3. HOMEOWNERSHIP PROJECTS

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This chapter describes the requirements of the State Housing Fund for homeownership activities.

For HOME funded projects, completion of the environmental review process is mandatory before taking a physical action on a site or making a commitment or expenditure of funds. Those receiving HOME funds may not enter into contracts, conditional or not, or in any way commit funds until HUD or the Department has approved the Request for Release of Funds (RROF) and related certification. Only exempt activities such as architecture and engineering may continue prior to receiving the approved RROF. Exempt activities described in 24 CFR 58.34(a)(1)-(11) are activities that generally have no physical impact on the environment. Projects which run short of funds may stop all work on the project to apply for HOME funds contingent upon an approved RROF under the following circumstances pursuant to Notice CPD-01-11: 1) Projects that have already received an approved RROF but require additional Federal funds due to a change in project scope; and 2) projects that began work with non Federal funds that had no intention of using Federal funds but which find they need Federal funds to complete the project.

**Note:** An additional \$82,686 in HOME funds have been made available through the **American Dream Downpayment Initiative (ADDI)**. The funds are expected to be available July 1, 2006 and can be accessed using this 2007 Program Summary and Application Guide and completing a 2007 Application for Homeownership. Additional ADDI funding beyond the \$82,686 may be available if all FY 2006 ADDI funds are not committed by June 30, 2006. ADDI regulations are substantially similar to the provisions of this chapter as well as the Department's Homes for Arizonans Initiative. Therefore, no additional process for accessing ADDI funds will be provided.

### 3.1 Eligible Activities

Eligible activities include:

- Infrastructure costs in proportion to the percentage of units made available to eligible beneficiaries in the development.
- New construction.
- Acquisition and/ or rehabilitation of existing structures to be sold to eligible pre-identified beneficiaries.
- Homebuyer subsidies in conjunction with new construction projects, including mortgage buy downs, closing costs, and/or down payment assistance for housing units that are part of an eligible project. Eligible projects are limited to new construction and acquisition/rehabilitation/resale.

### 3.2 Eligible Beneficiaries

All homebuyers assisted through the State Housing Fund must meet the following guidelines:

- Have a household income that does not exceed 80 percent of the area median adjusted for household size. Income must be determined and verified according to Section 8 guidelines. See **Appendix C** for the most recent median income guidelines.
- Must certify that they will use the property as their principal residence throughout the recapture period. Temporary subleases are not allowed.
- Must enter into a mortgage with a lending institution and pay not less than 25 percent or more than 33 percent of their gross income for housing and not more than 41 percent of their gross income for total debt.
- The homebuyer must qualify for a first mortgage that is greater than the proposed SHF assistance level.

- Must contribute a minimum of \$1,000 towards the purchase price. Applicants who reserve assistance for very low-income households (at or below 50 percent of the area median income) may request that households contribute less than \$1,000 toward the purchase price, but in no instance should the family be required to contribute less than \$500. The value of a homeowner's sweat equity may be counted toward this minimum contribution.
- May not also receive assistance through the Department's Homes for Arizonans Program.

### **3.3 Eligible Forms of Ownership**

Eligible beneficiaries must take ownership in one of the following forms:

- Own a condominium.
- Fee simple title to the subject property, or
- A 99-year leasehold on the property.
- On tribal lands, a leasehold on the property for not less than 50 years.

The ownership interest may be subject only to mortgages, deeds of trust or other debt instrument approved by the Department.

### **3.4 Eligible Property and Unit Types**

The property may be one of the following types of residences:

- Single-family unit;
- Town-home unit;
- Condominium unit;
- Manufactured housing, but only if the unit:
  - is situated on a permanent foundation, as evidenced by certification, and is connected to permanent utility hook-ups;
  - is located on land that is held in fee-simple title, or leasehold equal to or greater than the "recapture period";
  - meets the construction standards of 24 CFR 3280 if produced after June 15, 1976; or
  - meets applicable local and/or State codes if produced prior to June 15, 1976; and
  - meets all other requirements of this section.

### **3.5 Ineligible Properties and Units**

State Housing Funds cannot be used to establish a down payment and closing cost assistance program to assist buyers with the purchase of existing homes (the Homes for Arizonans Initiative is specifically intended for this purpose).

All properties and units not specifically defined as eligible are considered ineligible.

### **3.6 Acquisition of Land/Buildings Currently in Use by Renters**

Properties that are currently occupied by renters, including businesses, are subject to the Uniform Relocation Act. Contact the Department prior to applying. The Department discourages displacement except where a special public purpose is served or where there are no alternatives.

### **3.7 Required Property Standards**

All properties must meet the following standards prior to occupancy and throughout the period of affordability:

New Construction

- State and Local code requirements; and
- Model Energy Code; and
- Handicapped accessibility requirements of the Fair Housing Act and Section 504 of the Rehabilitation Act; and
- Site and Neighborhood Standards per 24 CFR Part 983.6(b).

Rehabilitation

- Local written rehabilitation standards; and
- State and Local code requirements; and
- Handicapped accessibility requirements of the Fair Housing Act and Section 504 of the Rehabilitation Act where applicable.

Building Acquisition

State or local Housing Quality Standards and code requirements

Manufactured Housing

All new manufacturing housing must meet the construction and safety standards of 24 CFR 3280.

**3.8 Eligible Investments**

State funds may be used for acquisition, on-site infrastructure, construction and rehabilitation costs during the development phase. Funds remaining with the unit to ensure the unit is affordable to the beneficiary are considered a permanent subsidy to the beneficiary and must be secured by a promissory note and deed of trust. State funds budgeted for down payment and closing cost assistance must also be secured by a promissory note and deed of trust and will only be provided at closing. In all projects, the actual assistance to the homebuyer will vary from buyer-to-buyer based on income, debt and other factors.

**3.9 Mixed-Income Projects**

Projects that include both State-assisted units and market rate or non State-assisted units may utilize State Housing Funds only for those units that are State-assisted.

**3.10 Eligible Expenses**

**3.10.1 Eligible Infrastructure Costs**

State Housing Funds may be utilized only for reasonable and customary hard and soft costs that are directly attributable and traceable to the development of homeownership opportunities for low-income households. Infrastructure costs include:

<b>Hard Costs</b>	<b>Soft Costs</b>
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<ul style="list-style-type: none"> <li>▪ Site preparation or improvement, including lot clearing and demolition</li> <li>▪ Utility line installation</li> <li>▪ Street paving</li> <li>▪ Sidewalk paving</li> <li>▪ Water retention basins</li> <li>▪ Curbs and curb cuts</li> </ul>	<ul style="list-style-type: none"> <li>▪ Engineering</li> </ul>
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**3.10.2 Eligible Construction or Acquisition/Rehabilitation Costs**

State Housing Funds may be used only for reasonable and customary construction costs, or acquisition and rehabilitation costs of properties to be improved and conveyed to eligible homebuyers. Eligible construction, acquisition and rehabilitation costs include:

Hard Costs	Soft Costs
<ul style="list-style-type: none"> <li>▪ Acquisition of land and existing structures</li> <li>▪ On-site costs, such as site preparation or improvement, including demolition</li> <li>▪ Off-site costs may or may not be eligible – contact the Department for guidance</li> <li>▪ Materials and labor</li> <li>▪ Improvements for physically disabled</li> <li>▪ Compliance with HUD and the Department’s lead-based paint regulations (rehab)</li> <li>▪ Energy-related improvements</li> <li>▪</li> </ul> <p>For manufactured housing units:</p> <ul style="list-style-type: none"> <li>▪ Foundations</li> <li>▪ Tie-downs</li> <li>▪ Utility hook-ups</li> <li>▪ All other eligible hard costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financing fees</li> <li>▪ Credit reports</li> <li>▪ Title reports and Title insurance</li> <li>▪ Legal and accounting, including cost certifications</li> <li>▪ Appraisals</li> <li>▪ Construction-period taxes and insurance</li> <li>▪ Recordation fees</li> <li>▪ Environmental review (<i>only if required</i>)</li> <li>▪ Architectural fees, including specifications and job progress inspections</li> <li>▪ Engineering fees</li> <li>▪ Builder, consultant or developer fees</li> <li>▪ Affirmative marketing and marketing costs</li> <li>▪ Homebuyer counseling</li> <li>▪ Building permits</li> <li>▪ Impact fees</li> <li>▪ Project audits</li> </ul> <p>For manufactured housing units:</p> <ul style="list-style-type: none"> <li>▪ Foundation/permanency certifications</li> <li>▪ All other eligible soft costs</li> </ul>

**3.10.3 Eligible Homebuyer Subsidy Costs**

State Housing Funds may be used to subsidize the cost of otherwise-assisted housing units so that the cost of the unit is affordable to the homebuyer. Eligible homebuyer subsidy costs include:

- Down payments and mortgage buy downs
- Closing costs, including: credit reports, title reports and insurance, appraisals, recordation fees, transaction fees and other typical closing costs

**3.11 Ineligible Expenses**

The following costs or activities are ineligible:

- Relocation assistance for displaced renters.
- Most off-site improvements.
- Neighborhood infrastructure improvements such as parks, recreation areas, swimming pools, tennis courts, and other neighborhood improvements not necessary for the provision of safe, decent and sanitary housing.
- Construction or acquisition/rehabilitation costs for speculative housing.
- Land banking (i.e., acquiring and holding land for which a project design is not completed or funded or ready for *immediate* development of affordable housing).
- Upgrades and amenities not necessary for the provision of safe, decent, affordable housing and typical of housing of modest means.
- Refinancing of personal debt in order to qualify a homebuyer for mortgage financing.
- Subsidies or mortgage buy-downs that do not comply with this Chapter.
- Delinquent taxes fees or charges levied on a property.

### 3.12 Developer and Consultant Fees, and Builder Fees

The following limitations apply to all homeownership development projects. In general, the smaller the project the larger the developer’s fee and builder’s overhead and profit that is allowed.

#### 3.12.1 Developer and Consultant Fees

The following limitations apply to homeownership projects. Developer Fee covers General Administration.

Developer and Consultant Fees	Limited to:	Of:
Small project (5 or fewer units)	15%	Acquisition and site improvements, hard construction costs, professional fees, and construction loan costs
Standard project (6 or more units)	12%	
Projects with Identity of Interest between builder and developer	20% with no builder fees	

#### 3.12.2 Builder Fee

The following limitations apply to homeownership projects. Builder Fee generally covers Builder Overhead, Profit and General Requirements. **Construction must be performed by a licensed general contractor. A management entity acting in place of a general contractor is not permitted. General contractors must provide a bid guarantee, payment bond and performance bond for each construction contract. General contractors or any of their subcontractors must not be included on the Federal Excluded Parties List.**

Builder Fee	Limited to:	Of:
Small project (5 or fewer units)	15%	Site improvements and hard construction costs
Standard project (6 or more units)	13%	

##### 3.12.2.1 Identity of Interest

When an identity of interest exists between the developer and builder the fees will be limited to 20 percent of the acquisition and site improvements, hard construction costs, professional fees, and construction loan costs. An “identity of interest” between the developer and builder exists if the entities are affiliated or if there is any identity in ownership between the subject entities including, although not limited to, stock or other equity ownership. The term is also intended to include commonality between the developer and builder, of persons, related entities or firms that have a financial interest, direct or indirect, in the developer/owner and builder entities.

### **3.13 Maximum Property Value and Purchase Price and Property Eligibility**

The property value and purchase price of assisted properties may not exceed the FHA 203(b) insuring limit for single-family properties and applies as follows. See **Appendix B** for FHA 203(b) insuring limits or <https://entp.hud.gov/idapp/html/hicostlook.cfm>

- Newly constructed properties may not exceed these limits upon completion;
- Properties acquired for rehabilitation and resale may not exceed these limits prior to or *after* rehabilitation. If the current owner of an over-valued property agrees to sell a property for an amount allowable under the FHA 203(b) insuring limits, the recipient agency may request a variance;
- Homebuyers may not be assisted with any type of subsidy on any property exceeding these limits.
- Total property liens and loan amounts must not exceed 100 percent loan to value.
- Properties must be sold for appraised value.

### **3.14 Maximum State Investments**

The *maximum* per unit investment is limited to **\$35,000**.

### **3.15 Terms of Assistance to the Applicant**

Applicants receiving an award will be provided State Housing Funds in the form of a loan. State Housing Funds may be provided as a loan directly to the applicant for development financing or provided to the applicant to be loaned directly to the buyers for financing of the homes. In determining the terms of the loan to the applicant, the Department will consider:

- the applicant’s equity and return on investment,
- purchase price of the units and cost to build,
- affordability of the project overall, and
- other appropriate criteria.

### **3.16 Development Financing**

During the development phase of the project State Housing Funds may be used for eligible construction costs. Such costs must be secured by one or more liens on all properties to be assisted. Interest rates for development financing will range from 0% to market rate. Loan payments may be due at lot release, deferred until project completion or converted to buyer financing. The amount of development financing is limited to that necessary to produce housing affordable to eligible buyers. In general, development financing is the gap between the buyer’s mortgage and the cost to develop. Development financing converts to mortgage financing for eligible beneficiaries if the cost to develop is below the sales price. Development financing may be forgiven to some extent if the cost to develop exceeds the sales price.

### **3.17 Terms of Assistance to Buyer**

Permanent financing or assistance to the homebuyer is limited to the amount necessary to cover the gap between the cost to develop the unit or the appraised value (whichever is lower) and the maximum loan for which the homebuyer qualifies. Closing costs may be excluded. The homebuyer must therefore first apply for financing from a lending institution. Assistance provided to the homebuyer by the recipient agency shall be in the form of a non-interest, deferred payment loan secured by a deed of trust and promissory note naming the agency or the Department as beneficiary. Certain tribes may be unable to meet this requirement. Consequently, the Department will recognize alternate means of securing resources, such as: Pledging of alternate security or collateral by the tribe or the member; Memorandum of Understanding (MOU) with tribes; or other various legal documents that secure the loan. The

Department reserves the right to determine the final loan amount after reviewing the entire financing structure of the proposal.

### 3.18 Builder Financing vs. Buyer Financing

The purpose of State Housing Funds for homeownership under this chapter is to promote the construction or acquisition/rehabilitation of homes that can be purchased by eligible buyers. While economic conditions vary greatly across the State and even between neighborhoods in local jurisdictions, the fact remains it is rare for a builder to produce a home for \$80,000 to \$100,000 in a market which has plenty of motivated and mortgage qualified families earning 80% AMI or less. State Housing Funds can be used to help the builder finance the construction of the home, help the buyer finance the purchase of the home and develop a pool of eligible and ready buyers. Builder financing is approved only to the extent that all or a portion of the financing is converted to buyer financing. Because it is rare for builder financing proposals to meet Department risk analysis tests, buyer financing at the time of sale is the recommended method for applicant proposals. The following example demonstrates how builder financing relates to buyer financing.

<b>Builder Financing vs. Buyer Financing</b>		
<b>Item</b>	<b>Amount</b>	<b>Comments</b>
<b><u>Builder Financing</u></b>		
1. Land	\$20,000	Used as examples only.
2. Construction Costs including profit	\$75,000	
3. Soft Costs	\$5,000	
Total Costs	\$100,000	
4. Buyers Mortgage	\$90,000	
5. SHF Builder Financing	(\$10,000)	The builder can borrow SHF to fill this gap and convert the funds to buyer financing below item 10.
<b><u>Buyer Financing</u></b>		
6. Appraised Value	\$110,000	Recorded sales price but not the amount the builder is getting paid. Builder is getting \$100,000
7. Available Equity	\$20,000	Difference between mortgage amount and appraised value.
8. Closing Costs	\$2,000	Does not include buyers minimum contribution
9. 3% Min Down Payment	\$2,700	Used as an example only
10. SHF Buyer Financing	(\$10,000)	Or the Builder can obtain other financing for item 5 above and SHF can be used to fill this gap at the end to finance the buyer.
Total Assistance	\$14,700	
11. Soft Second Mortgage	\$14,700	Sufficient equity in item 7 is available to lien the entire subsidy.

### 3.19 Recapture Period and Provisions

Assistance to eligible beneficiaries is subject to recapture. The recapture period is based on the amount of State funds invested in the unit, as follows:

State Investment Per Unit	Minimum Recapture Period
Less than \$15,000	5 years
Between \$15,000 - \$35,000	10 years

Recapture provisions are enforced through the execution of a promissory note and recording of a (second) deed of trust for the assisted property. Sample promissory notes and deeds of trust are available upon request. Applicants are required to execute security instruments, work with title companies to complete transactions and make sure that all required instruments are properly recorded. Only security instruments approved by the Department may be utilized. Recapture provisions are as follows:

In the event the assisted property is transferred prior to the expiration of the applicable period of affordability, net proceeds shall be distributed as follows.

First, the Net Resale Proceeds for the Property shall be determined. Then, the amount of State funds plus the amount of interest due shall be determined (if any). Then, the Borrower's Down Payment, Principal Payments, and the Value of Improvements as evidenced by receipts provided by the borrower shall be summed, and this shall be called Borrower's Equity. The Net Resale Proceeds shall be distributed as follows.

- If the Net Resale Proceeds are sufficient to cover the Department investment, including any interest due and the Borrower's Equity, the Department investment and any interest due shall be recaptured and the Borrower shall be entitled to receive Borrower's Equity and any amount remaining from Net Resale Proceeds after payment of the Department investment and any interest due and Borrower's Equity.
- If the Net Resale Proceeds are not sufficient to repay the Department investment including any interest due and the Borrower's Equity, the Borrower shall be entitled to receive the Borrower's Equity, and any amount remaining from Net Resale Proceeds after payment of the Borrower's Equity shall be recaptured.

In the event of foreclosure, transfer in lieu of foreclosure or assignment of an FHA mortgage to HUD, recapture provisions shall terminate.

### 3.20 Recipient Responsibilities

In addition to delivering the project as specified and complying with all applicable State and Federal regulations, policies and program requirements, recipients of State Housing Funds are responsible for the following.

#### 3.20.1 Homebuyer Selection Plan and Assistance Standards

Homebuyer Selection Plan and Assistance Standards describe how the applicant will work with homebuyers. At a minimum, the standards must include:

- Marketing plan. Describe all outreach activities and the manner in which the program will be affirmatively marketed.
- Homebuyer application and qualification process. Describe the application process, eligibility

criteria, minimum and maximum income required for different size units, special needs targeting or priority populations, waiting list procedures and resources and referrals for non-qualifying applicants.

- Financial underwriting standards. Describe the parameters that will be used to identify the appropriate mortgage financing and determine down payment and closing cost amounts based on debt coverage, loan to value ratios, and minimum homebuyer contributions.
- Organizational plan. Describe all staff members involved with executing the proposed program and briefly describe their qualifications and job responsibilities.
- Property Inspections.
- Complaint resolution process.
- Homebuyer education curriculum. Must be provided by a third party. Detail the homebuyer curriculum that will be used in the homebuyer education. Describe the manner in which the homebuyer education will be provided.
- Homebuyer counseling. Describe the manner in which one-on-one financial counseling will be available to potential buyers.
- Loan servicing plan.
- Complaint resolution process.
- Site and Design Selection Process

### **3.20.2 Obtain Commitments for Other Financing**

Prior to entering into agreement, applicants are required to obtain commitments for other financing as necessary. This may include construction loan financing, commitments from lenders interested in providing mortgages, and other public and private funding.

### **3.20.3 Homebuyer Education**

Homebuyer education must be provided in a classroom type setting by a qualified third party agency. Applicants must describe in detail the homebuyer curriculum that will be used as well as the manner in which the homebuyer education will be provided. If the applicant is a certified homebuyer educator and wishes to conduct the homebuyer education for the proposed program or project, a variance must be requested. The Department will review the applicant's homebuyer education curriculum and method of delivery and may or may not grant a variance. The Department encourages the use of Homeownership Curriculum developed by the Arizona Housing Counseling Collaborative.

### **3.20.4 Homebuyer Subsidy Loans – Execution and Servicing**

If homebuyer subsidies are provided with State funds, then recipient agencies are required to calculate and record the amount of subsidy needed after the lender has determined the family's eligibility for a loan. In addition, they must record at the time title is transferred to the assisted buyer, all restrictions and liens necessary to meet program requirements. Recipient agencies are required to service the loans over the entire recapture period.

### **3.20.5 Other Recipient Responsibilities**

Recipients of State Housing Funds have further responsibilities. Please refer to Chapter 1, Section 1.8.

## **3.21 Homeownership Thresholds**

- The property valuation, after completion, does not exceed the 203b FHA Mortgage Insurance Limits.

- The form of proposed ownership is eligible.
- Any developer's fee, overhead and consultant's fees are within program limits.
- Builder's profit, overhead, and general requirements are within program limits.
- Development costs are reasonable and customary.
- Applicant has written acceptable homebuyer assistance standards that have been adopted by the applicants governing body.
- A third party homebuyer education provider to be delivered in a classroom type setting is identified and secured for service.
- If the project contains 12 or more assisted units, the budget reflects Davis-Bacon wages.
- Liens will not exceed 100% loan to value.
- If State funds are involved with construction, the homes are sold for appraised value
- Evidence of Site Control:
  - For single-site construction or rehabilitation projects the property has been acquired or leased or is under contract to lease or buy within 90 days of executing a contract with the Department.
  - For scattered-site construction or rehabilitation projects, the properties do not have to be identified at the time of application but the properties must be leased or purchased within 90 days of executing a contract with the Department.
  - Note: Applicants must acquire land and buildings for the project from unrelated third parties in arms-length transactions.
  - Provide a "Preliminary Title Report" for the property dated within 30 days of the date of the application for each property. For projects on Tribal Land a title report may not be possible.

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## CHAPTER 4. PERMANENT AND TRANSITIONAL RENTAL HOUSING

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This chapter describes the requirements of the State Housing Fund for permanent and transitional rental housing activities. Tenants are limited to a specified period of time in transitional housing, typically up to two years, while the tenant participates in self-sufficiency or similar program intended to prepare the tenant for independence. Emergency and temporary housing is generally characterized as that which is available for less than six months and is made available to low-income households who are homeless or otherwise in crisis. Emergency and temporary housing includes mass shelters, multi-family and single-family structures. Funding for emergency or temporary housing is described in Chapter 5.

For HOME funded projects, completion of the environmental review process is mandatory before taking a physical action on a site or making a commitment or expenditure of funds. Those receiving HOME funds may not enter into contracts, conditional or not, or in any way commit funds until HUD or the Department has approved the Request for Release of Funds (RROF) and related certification. Only exempt activities such as architecture and engineering may continue prior to receiving the approved RROF. Exempt activities described in 24 CFR 58.34(a)(1)-(11) are activities that generally have no physical impact on the environment. Projects which run short of funds may stop all work on the project to apply for HOME funds contingent upon an approved RROF under the following circumstances pursuant to Notice CPD-01-11: 1) Projects that have already received an approved RROF but require additional Federal funds due to a change in project scope; and 2) projects that began work with non-Federal funds that had no intention of using Federal funds but which find they need Federal funds to complete the project.

For HTF funded projects, the HUD environmental review is not required. However, a State Historic Preservation Officer (SHPO) clearance determination letter is required and a Tribal Historic Preservation Officer (THPO) determination for tribal lands.

### 4.1 Eligible Activities

Eligible activities include:

- New construction.
- Acquisition and/or rehabilitation of existing units, when rental affordability will be retained or additional affordable units added to the housing stock.
- Demolition of an existing structure only if construction will begin within 12 months.

### 4.2 Eligible Beneficiaries

- In properties with less than 5 assisted units, households initially earning less than 60% of the area median income adjusted for household size.
- In properties with 5 or more assisted units, 20% of the households must initially earn less than 50% of the area median income adjusted for household size, and the remaining households must initially earn less than 60% of the area median income adjusted for household size.

### 4.3 Eligible Property Owners

Public or private property owners are eligible.

### 4.4 Eligible Ownership Interests (By the Owner) In the Property

Property ownership is evidenced by:

- Fee simple title to the subject property;

- A 99-year leasehold on the property;
- Leasehold interests provided by other government agencies must at a minimum meet the affordability period;
- On tribal lands, a leasehold on the property for not less than 50 years

Alternative forms of ownership must obtain prior approval by the Department. The ownership interest may not be restricted or encumbered in a way that impairs the marketability of the property. Deeds of Trust and other debt instruments must be approved by the Department.

#### **4.5 Eligible Projects and Properties**

A project is defined as a site or sites together with any building(s) that are under common ownership, management and financing and are to be assisted as a single undertaking. Single and multi-family properties are eligible. There are several types of projects that may be funded.

- Standard projects include units that have one or more bedrooms, living, kitchen, dining and sanitary facilities. Structures may be single-family or multi-family units.
- Single Room Occupancy (“SRO”) units must contain both food preparation and sanitary facilities within the unit for new construction or reconstruction. In acquisition/rehabilitation projects, each room is not required to have sanitary or food preparation areas, but common facilities must be provided.
- Group Homes are units that provide separate bedroom(s) but shared living, kitchen, dining and/or sanitary facilities, occupied by two or more single persons or families. Each unit in a group home is a one-unit project and is subject to the maximum subsidies, rent limits and other program requirements. The project must comply with all local, State and Federal regulations that apply to group homes. Individuals may not be required to share a bedroom with other individuals.

Please note that utilization of the Homeless Management Information System (HMIS) is required for eligibility except for domestic violence projects as prohibited by Federal law.

#### **4.6 Ineligible Properties**

Ineligible properties include:

- Emergency shelters and temporary housing.
- Institutional facilities such as nursing homes, convalescent homes, hospitals, medically-related residential facilities, correctional facilities and student dormitories.
- Projects previously funded with HUD’s Rental Rehabilitation Program funds.
- Projects previously funded with various HUD or other Federal resources may not be eligible.
- Projects previously funded with any jurisdiction’s HOME funds, if the property is still within the “period of affordability”.
- Projects previously funded with Housing Trust Funds may not be eligible.
- Projects previously acquired with funding from the Department.
- Public housing.
- Projects assisted under Title VI of NAHA.
- Housing reserved exclusively for use by students.
- Commercial buildings and non-residential portions of residential buildings.
- Properties receiving assistance through 24 CFR Part 248 (LIHPRHA or ELIHPA).
- Properties requiring permanent financing only.

If there are additional questions regarding these ineligible properties, contact the Department for further

guidance.

#### **4.7 Acquisition of Renter-Occupied Land/Buildings**

Properties that are currently occupied by renters, including businesses, are subject to the Uniform Relocation Act. The applicant must be familiar with 92.353 and CPD 02-10. Contact the Department prior to applying. The Department discourages displacement except where a special public purpose is served or where there are no alternatives.

#### **4.8 Required Property Standards**

All properties must meet the following standards prior to occupancy and throughout the period of affordability:

##### New Construction

- State and Local code requirements
- Model Energy Code and Energy Star
- Handicapped accessibility requirements of the Fair Housing Act and Section 504 of the Rehabilitation Act
- Site and Neighborhood Standards per 24 CFR Part 983.6(b)
- Rehabilitation
- Local written rehabilitation standards
- State and Local code requirements
- Handicapped accessibility requirements of the Fair Housing Act and Section 504 of the Rehabilitation Act where applicable

##### Building Acquisition

State or local Housing Quality Standards and code requirements

##### Manufactured Housing

All new manufacturing housing must meet the construction and safety standards of 24 CFR 3280.

#### 4.9 Eligible Expenses

State Housing Funds may be used only for reasonable and customary construction costs, or acquisition and rehabilitation costs of properties to be improved. Eligible construction, acquisition and rehabilitation costs include:

Project Hard Costs	Project Soft Costs
<ul style="list-style-type: none"> <li>▪ Acquisition of land and existing structures</li> <li>▪ On-site costs, such as site preparation or improvement, including demolition</li> <li>▪ Materials and labor</li> <li>▪ Improvements for physically disabled</li> <li>▪ In pre-1978 structures, compliance with HUD and Department’s lead-based paint regulations</li> <li>▪ Energy-related improvements</li> </ul> <p>For manufactured housing units:</p> <ul style="list-style-type: none"> <li>▪ Foundations</li> <li>▪ Tie-downs</li> <li>▪ Utility hook-ups</li> <li>▪ All other eligible hard costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financing fees</li> <li>▪ Credit reports</li> <li>▪ Title reports and insurance</li> <li>▪ Legal and accounting, including cost certifications</li> <li>▪ Appraisals</li> <li>▪ Construction-period taxes and insurance</li> <li>▪ Environmental review</li> <li>▪ Architectural fees, including specifications and job progress inspections</li> <li>▪ Engineering fees</li> <li>▪ Builder, consultant or developer fees within Department caps.</li> <li>▪ Affirmative marketing and marketing costs</li> <li>▪ Homebuyer counseling</li> <li>▪ Building permits</li> <li>▪ Impact fees</li> <li>▪ Project audits</li> <li>▪ Relocation costs</li> <li>▪ Surety Bond/Performance Bonds</li> </ul> <p>For manufactured housing units:</p> <ul style="list-style-type: none"> <li>▪ Foundation/permanency certifications</li> <li>▪ All other eligible soft costs</li> </ul>

#### 4.9.1 Operating Subsidies for Transitional Housing Projects

Newly created transitional housing units, whether new construction, acquisition/rehabilitation or a substantial expansion of an existing facility, are eligible for up to 24 months initial operating subsidy. Operating subsidy costs must be directly related to the operation of the assisted housing project and eligible units, and are available only to those projects evidencing inadequate operating assistance at the time the application submitted. Costs to provide services to tenants are not eligible.

#### 4.9.2 Developer and Consultant Fees

The following limitations apply to rental and transitional development projects. Developer Fee covers general administration

Developer and Consultant Fees	Limited to:	Eligible SHF costs of:
Small project (5 or fewer units)	15%	Acquisition and site improvements, hard construction costs, professional fees, and construction loan costs
Standard project (6 or more units)	12%	
Projects with Identity of Interest between builder and developer	20% with no builder fees	

### 4.9.3 Builder Fee

The following limitations apply to rental and transitional development projects. Builder Fee generally covers builder overhead, profit, and general requirements. **Construction must be performed by a licensed general contractor. A management entity acting in place of a general contractor is not permitted. General contractors must provide a bid guarantee, payment bond and performance bond for each construction contract, but is not part of the Builder Fee. General contractors or any of their subcontractors must not be included on the Federal Excluded Parties List.**

Builder Fee	Limited to:	Eligible SHF Cost Of:
Small project (5 or fewer units)	15%	Site improvements and hard construction costs
Standard project (6 or more units)	13%	

#### 4.9.3.1 Identity of Interest

When an identity of interest exists between the developer and builder the fees will be limited to 20 percent of the acquisition and site improvements, hard construction costs, professional fees, and construction loan. An “identity of interest” between the developer and builder exists if the entities are affiliated or if there is any identity in ownership between the subject entities including, although not limited to, stock or other equity ownership. The term is also intended to include commonality between the developer and builder, of persons, related entities or firms that have a financial interest, direct or indirect, in the developer/owner and builder entities.

### 4.10 Ineligible Expenses

The following expenses are ineligible:

- Project-based rental assistance.
- Costs to provide services to tenants.
- Most off-site improvements. Call Department for guidance.
- Refinancing of HUD or other publicly-held mortgages. Contact Department for guidance.
- Luxury amenities not necessary for the provision of safe, decent, affordable housing (e.g., swimming pools, tennis courts).
- Delinquent taxes and fees or charges levied on a property.
- Project reserve accounts (except for initial operating deficit reserves).

### 4.11 Minimum and Maximum State Investments

- The *minimum* State Housing Fund investment is \$1,000 per assisted unit;
- The *maximum* per unit investment is as defined in Appendix E.

### 4.12 Terms of Assistance to the Project/Property Owner

All rental and transitional housing projects receive loans. Grants are not provided. The terms of assistance to the project will be established through financial and technical review. Loans may be zero interest or below or at market rate, may be repayable, or may be deferred. In determining the terms of the loan to the applicant, the Department will consider: the applicant’s equity and return on investment, acquisition and construction costs, affordability of the project overall, and other appropriate criteria. The amount of financing is limited to that necessary to develop the project for occupancy by eligible beneficiaries. Financing is secured by a deed of trust and promissory note naming the Department as beneficiary. Certain tribes may be unable to meet this requirement. Consequently, the Department will recognize alternate means of securing resources, such as: Pledging of alternate security or collateral by the tribe or the member; Memorandum of Understanding (MOU) with tribes; or other various legal documents that secure the loan.



#### 4.13 Period of Affordability

State-funded rental and transitional housing is subject to a period of affordability during which it must comply with the affordability requirements outlined in this section. The period of affordability is based on the total amount of the per unit investment of State Housing Funds, regardless of repayment and as follows:

ACTIVITY	State Investment Per Unit	Minimum Period of Affordability
Acquisition and/or Rehabilitation	Less than \$15,000	5 years
	Between \$15,000 - \$40,000	10 years
	More than \$40,000	15 years
New construction or acquisition of newly-constructed units (initial certificate of occupancy issued within 12 months of State assistance)	Regardless of the amount	20 years

#### 4.14 State-Assisted Units

Only units receiving State funds (and matching funds) are considered State-assisted units; therefore, minimum and maximum State subsidies, rent and occupancy rules apply only to State-assisted units. State-assisted units must be comparable to all other units in the project. Applicants are encouraged to propose the maximum number of assisted units feasible.

The minimum number of State-assisted units is determined through a series of calculations that takes into account:

- eligible costs per square foot,
- unit mix (number and size),
- maximum program subsidy limits, and
- project amenities

Section 4.14.1 of the Application is an approximation of the minimum number of State-assisted units, but is not a complete and final calculation. The final determination on the required number of units will be determined by the Department in the financial and technical review, and will be specified in the award letter, written agreement, and CC&Rs.

Absent any compelling justification for an alternative distribution of assisted units, the Department will assume that the State-assisted units will be “comparable and proportional” to the overall project. In particular:

- The total number of State-assisted units at a minimum will equal or exceed the percentage of eligible project costs funded by SHF;
- The units will be distributed through all buildings or phases of the project;
- The unit mix of State-assisted units will approximate the overall distribution of project units by bedroom size; and
- A floating system will be used to maintain the distribution of units over the compliance period.

In some cases, however, the Department may choose to regulate more than the minimum required units when it is in the public interest to do so, and the project is not made infeasible by the additional assisted units. Also, the Department may choose to designate a fixed system and/or units that do not reflect the overall distribution when there are particular units that it would be in the Department’s interest to designate as State-assisted, such as accessible units, large family units, or units that serve a priority clientele.

A detailed explanation of the determination will be available upon award, and applicants will be given an opportunity to submit supplemental information to justify alternative distributions of assisted units if the initial determination presents a hardship.

#### 4.14.1 Calculating the Number of State-Assisted Units

The following formula is used by the Department to determine the minimum number of State-assisted units. The final determination on the required number of units will be determined in financial and technical review. Cost per square foot, unit mix (number and size), maximum subsidy limits, and project type will impact the actual required number of State-assisted units. The example assumes the project is a “standard” project.

Calculations on total project:	Example:
Total amount of investment in construction, acquisition and/or rehabilitation	<u>\$300,000</u>
Divided by the total number of units in project	15 units
Equals the average per unit investment (all units)	= \$20,000

Calculations regarding State-Assistance:	Example:
Amount of State investment, and any matching funds	<u>\$200,000</u>
Divided by the average per unit investment (all units)	\$20,000
Equals the number of State-assisted units	= 10 units
Period of affordability (based on \$20,000 per unit investment)	10 years (if acquisition/rehab) 20 years (if new construction)
Number of units @ High HOME rent	8 units
Number of units @ Low HOME rent	2 units

#### 4.15 Covenants, Conditions and Restrictions

State-funded rental housing requirements and resources are enforced through the recording of Covenants, Conditions and Restrictions (CC&Rs). The CC&Rs remain in place throughout the period of affordability *regardless of the status of the loan*. The Department requires the CC&Rs be recorded in first position, ahead of all other liens. A sample copy of the Department’s required Declaration of Covenants, Conditions and Restrictions is available on request.

**4.16 Initial Income and Rent Restrictions in State-Assisted Units**

State-assisted units and the households that occupy the units are subject to rent and income restrictions throughout the period of affordability. Rents may be lower, as long as the project remains viable. **Rental sales tax is included in maximum rent.**

<b>Standard Projects</b>		
Projects with less than 5 State-assisted units	100% of State-assisted units must be occupied by households initially earning no more than 60% of the area median income (low-income units) adjusted by family size, and must bear rents not greater than the lesser of:	<ul style="list-style-type: none"> <li>• the fair market rent (FMR) for existing housing for comparable units in the area as established by HUD, including tenant paid utilities; or</li> <li>• a rent that does not exceed the area 65% rent limit (High HOME rent limit), including tenant paid utilities. See the rent chart at <b>Appendix D.</b></li> </ul>
Projects with 5 or more State-assisted units, or in the case of an owner of multiple one or two unit projects, with a total of five or more State-assisted rental units.	Not less than 20% of the State-assisted units must be occupied by households whose incomes do not initially exceed 50% of the area median income (very low-income units) adjusted by household size, and bear rents not greater than the lesser of:	<ul style="list-style-type: none"> <li>• the fair market rent (FMR) for the area as established by HUD, including tenant paid utilities; <u>or</u></li> <li>• a rent that does not exceed the area 50% rent limit, including tenant paid utilities.</li> <li>• (Low HOME rent) See the rent chart at <b>Appendix D.</b></li> </ul>
	The balance of the State-assisted units must be occupied by households whose income do not initially exceed 60% of the area median income (low income units) adjusted by household size, and bear rents not greater than the lesser of:	<ul style="list-style-type: none"> <li>• the fair market rent (FMR) for the area as established by HUD, including tenant paid utilities and sales tax; <u>or</u></li> <li>• a rent that does not exceed the area 65% rent limit, including tenant paid utilities and sales tax.</li> <li>• (High HOME rent) See the rent chart at <b>Appendix D.</b></li> </ul>

<b>Single Room Occupancy (SRO) Projects</b>	
Regardless of the number of units, if the unit has neither food preparation or sanitary facilities, or only one of these amenities:	100% of State-assisted units must be occupied by households initially earning no more than 60% (low income unit) of the area median income adjusted by family size, and must bear rents not greater than 75% of the fair market rent (FMR) for a zero-bedroom unit. See the rent chart at <b>Appendix D.</b>
If the unit has both food and sanitary facilities:	Income and rent restrictions for standard projects apply.

<b>Group Home Projects</b>	
Units must be occupied by households initially earning no more than 60% (low income unit) of the area median income adjusted by household size, and bear rents not greater than the lesser of:	<ul style="list-style-type: none"> <li>• the fair market rent (FMR) established by HUD, including tenant paid utilities and sales tax; <u>or</u></li> <li>• a rent that does not exceed the area 65% rent limit (High HOME Rent), including tenant paid utilities.</li> <li>• Or can say High HOME rent</li> <li>• Each household pays a proportionate share of the unit rent.</li> <li>• See the rent chart at <b>Appendix D</b>.</li> <li>• Income and rent restrictions do not apply to live-in service providers.</li> </ul>
Note: Projects funded with HTF will be reviewed on case-by-case basis for applicable rental limits.	

#### 4.17 Group Home versus Single Room Occupancy (SRO)

When providing transitional housing, group homes are convenient and readily available. Most any existing home of two or more bedrooms can be converted to a group home or, just as easily, to an SRO. The rule is that new construction or reconstruction requires that the SRO units must contain both food preparation and sanitary facilities within the unit. If a project involves acquisition or rehabilitation of an existing residential structure or hotel, neither food preparation nor sanitary facilities are required to be in the units. The SRO projects offer greater financial flexibility. Each applicant must designate the type of project (SRO or Group Home) at time of application and once under contract with the Department, the designation cannot be changed for the entire affordability period or as designated in the CC&Rs.

While group home designations allow for greater convenience initially, keeping compliant with HOME regulations can be burdensome during operations:

- Not as much rent can be collected to meet operating costs
- The amount of SHF investment available to a group home is less than what is allowed by SROs. The maximum subsidy is calculated on the basis of the number of HOME-assisted units in the structure(s) multiplied by the allowable per unit subsidy amount.

The following two tables provide comparisons using 2006 La Paz County 50% (Low HOME) limits as an example. Actual comparisons will vary depending upon SRO facilities and number of units.

<b>LA PAZ COUNTY INCOME, RENT AND PER UNIT SUBSIDY LIMITS</b>				
<b>Household Size</b>	<b>50% Income Limits</b>	<b>Bedroom Size</b>	<b>Home 50% FMR Rent Limits</b>	<b>Home Per Unit Subsidy</b>
		0	\$358	\$81,429
1	\$14,350	1	\$384	\$93,343
2	\$16,400	2	\$461	\$113,505
3	\$18,450	3	\$532	\$146,836
4	\$20,500	4	\$593	\$161,182
5	\$22,100	5	\$655	
6	\$23,750	6	\$717	
7	\$25,400	7		
8	\$27,050	8		

COMPARISON BETWEEN 4 SRO LIMIT AND 4 BEDROOM GROUP HOME USING 50% RENT AND INCOME LIMITS		
Maximums	SRO (0 Bedroom)	4 Bedroom Group Home
Rent Collected	\$358 * 4 = \$1,432	\$593
SHF Investment	\$81,429 * 4 = \$325,716	\$161,182
Income	\$14,350 per tenant	\$14,350 per tenant

#### 4.18 Proposed Income and Rent

Applicants that propose to serve households whose incomes are lower than those required will be required to rent units to the *proposed* households. Applicants that propose rents lower than those required may request an adjustment to the *proposed* rent prior to lease-up.

#### 4.19 Utility Allowances

Maximum rents include utility allowances for tenant paid utility costs. Tenant-paid utilities must be deducted from the actual rent charged, whether the rent is equal to or lower than the rent limit. Utility allowances where tenants are responsible must be based on the utility allowance established by the local public housing authority for the area in which the project is located and must be provided in the application. A list of Public Housing Authorities in Arizona is included as **Appendix A**.

Note: Units may not be refused for leasing to a holder of a Section 8 voucher, or State tenant-based rental assistance certificate. When accepting Section 8 vouchers, the rent received, including tenant payment and subsidy, may not exceed the maximum rent level.

#### 4.20 Long-Term Compliance

Applicants who become recipients of State Housing Funds must maintain long-term compliance with State and Federal regulations, policies and program requirements in each State-assisted unit during the entire affordability period.

##### 4.20.1 Future State-Assisted Unit Rents

Rent and income limits and tenant-paid utility allowances must be analyzed and adjusted annually during the period of affordability. Updated income and rent limits are distributed to recipients by the Department on an annual basis. Based on HUD adjustments, rents may increase or decrease. Annual rent increases are generally limited to not more than 2 percent. Annual rent decreases that threaten the viability of assisted projects may be adjusted. Tenants must be given 30 days written notice of rent increases.

##### 4.20.2 Tenant Income Certification and Recertification Requirements

The income and assets of tenants in State-assisted units must be certified according to Section 8 guidelines for determining gross income and assets. During the period of affordability, tenant income and assets must be recertified annually. Owners must use the Department's "Tenant Income Certification" (TIC) form for both initial certifications and annual re-certifications. A copy of the current TIC form can be found at **Exhibit H**.

##### 4.20.3 Fixed or Floating State-Assisted Units

When a project includes both State-assisted and non State-assisted units, the State-assisted units must be designated as either "fixed" or "floating". Designation of units is required prior to project completion and lease up. If no selection is made, units are presumed "floating".

- Fixed Units are designated and retain this designation during the period of affordability.
- Floating Units are initially designated but may lose their designation and be replaced by comparable units during the period of affordability. The number and size, amenities and other characteristics of assisted units remain the same throughout the period of affordability.

When an increase in household income in a fixed, *very-low* income State-assisted unit occurs, the following applies:

- If the increase does not exceed 80 percent of the area median income adjusted for household size, then the *next available* State-assisted unit must be rented to a *very-low* income qualified household and the unit that has been replaced becomes a *low* income State-assisted unit and the low-income rent must be charged.
- If the increase exceeds 80 percent of the area median income adjusted for household size, then the next available State-assisted unit must be rented to a *very-low* income qualified household and the unit that has been replaced is required to pay 30 percent of the household's income for rent.

When an increase in household income in a floating *very-low* income occupied State-assisted unit occurs, the following applies:

- If the increase does not exceed 80 percent of the area median income adjusted for household size, then the next available comparable unit is rented to a *very-low* income qualified household and the unit that has been replaced becomes a *low*- income State-assisted unit and the low-income rent must be charged.
- If the increase exceeds 80 percent of the area median income adjusted for household size, then the next available comparable unit must be rented to a *very-low* income qualified household and the unit that has been replaced is required to pay 30 percent of the household's income for rent or the prevailing market rent, whichever is less.

When the annual income of households occupying fixed, *low* income State-assisted units exceeds 80 percent of the area median income adjusted for household size, they may stay in their State-assisted units but must pay a minimum of 30 percent of their adjusted income for rent and utilities and the next available low income, State-assisted unit must be rented to an income eligible household. When the occupied unit is a floating unit the tenant may continue occupancy and pay a minimum of 30 percent of their adjusted income for rent and utilities, up to the prevailing market rent.

#### **4.20.4 Terms of Tenant's Leases**

In accordance with HOME regulations, tenant leases on all HOME funded State-assisted units are subject to the following requirements:

- Must be for at least one year, unless by mutual agreement between the tenant and the owner. The owner must provide evidence that a 12-month lease was offered but both parties agreed on a lesser term.
- *Must not contain* any of the following provisions:
  - Agreement to be sued. The tenant must not be required to agree to be sued, to admit guilt, or to a judgment in favor of the owner in a lawsuit brought in connection with the lease.

- Treatment of property. The tenant must not be required to agree that the owner may seize or sell personal property of household members without notice to the tenant and a court decision on the rights of the parties. This provision does not apply to disposition of personal property left by a tenant who has vacated a property.
- Excusing owner from responsibility. The tenant must not be required to agree not to hold the owner or owner’s agents legally responsible for any action or failure to act, whether intentional or negligent.
- Waiver of notice. The tenant must not be required to agree that the owner may institute a lawsuit without notice to the tenant.
- Waiver of legal proceedings. The tenant must not be required to agree that the owner may evict the tenant or household members without instituting a civil court proceeding in which the tenant has the opportunity to present a defense, or before a court decision on the rights of the parties.
- Waiver of a jury trial. The tenant must not be required to agree to waive any right to a trial by jury.
- Waiver of right to appeal court decision. The tenant must not be required to waive their right to appeal, or to otherwise challenge in court, a court decision in connection with the lease.
- Tenant chargeable with cost of legal actions regardless of outcome. The tenant must not be required to agree to pay attorney’s fees or other legal costs even if the tenant wins in a court proceeding by the owner against the tenant. The tenant, however, may be obligated to pay costs if the tenant loses.
- Owners may terminate tenancy or refuse to renew a lease only upon 30 days written notice with cause except as provided by Arizona Law.

HTF funded transitional housing programs may use program agreements in lieu of leases but are still prohibited from including any of the above provisions in the agreements.

**4.20.5 Inspection and Reporting**

Owners of assisted projects are required to submit a *Yearly Compliance Report*. The Department may inspect properties and verify files at any time with reasonable notice; however, information provided in the *Yearly Compliance Report* is generally confirmed through on-site unit and records inspections according to the following schedule. The *Yearly Compliance Report* is to be submitted to the Compliance Manager.

Number of Units in Project	Inspections Required
1-4	every 3 years
5-25	every 2 years
26 or more	Annually

## **4.21 Recipient Responsibilities**

In addition to delivering the project as specified and complying with all applicable State and Federal regulations, policies and program requirements, recipients of State Housing Funds are responsible for the following.

### **4.21.1 Management Plan Requirements**

An owner of State-assisted rental housing must adopt a management plan with the following components:

- Financial Plan—Indicate how rents will be collected, and how the development’s financial operations will be managed
- Physical Management—Indicate how the physical plant will be managed by describing planned/preventative maintenance activities, work order system response, ongoing unit inspections, and maintenance of HQS standards
- Occupancy Management—Describe how the units will be advertised/marketed, the intake and application process (including certification and documentation of SHF eligibility), if and how a waiting list will be maintained, how occupancy standards (i.e., house rules or standards of conduct) will be enforced, and how re-certification and turnover will be managed.

### **4.21.2 Adoption of Tenant Selection Policies and Criteria (for the State-Assisted Units)**

An owner of State-assisted rental housing must adopt written tenant selection policies and criteria that:

- Are consistent with the purpose of providing housing for low-income families;
- Reasonably reflect the Department’s program eligibility requirements and the owner’s ability to perform the obligations of the lease, including but not limited to:
  - Eligible tenants.
  - Tenant application procedures.
  - Tenant qualification process.
  - If transitional housing, the maximum length of stay.
  - If transitional housing, any program participation requirements.
- Provide for the selection of tenants from a written waiting list in the chronological order of their application, insofar as is practical.
- Give prompt written notification to any rejected applicant of the grounds for any rejection.
- Projects in excess of 5 State-assisted units are required to have an Affirmative Marketing plan.

### **4.21.3 Obtain Commitments for other Financing**

Prior to entering into agreement, applicants are required to obtain commitments for other financing as necessary. This may include construction loan financing, commitments from lenders interested in providing mortgages, and other public and private funding.

### **4.21.4 Other Recipient Responsibilities**

Recipients of State Housing Funds have further responsibilities. Please refer to Chapter 1, Section 1.8.

#### 4.22 Rental Thresholds

- Rents on the State-assisted units do not exceed program limits and are adjusted for tenant-paid utilities.
- If the project contains Federal funds, i.e., 12 or more HOME assisted units; the budget reflects Davis-Bacon wages.
- Any developer fee, overhead and consultant fees are within program limits.
- Builder profit, overhead, and general requirements are within program limits.
- Development costs are reasonable and customary.
- Applicant has written, acceptable Tenant Selection Policies and Criteria formally adopted by the Applicant's governing body in the form of a motion or Resolution.
- The property must comply with Site and Neighborhood Standards per 24 CFR Part 983.6(b).
- For HUD Section 202/811 projects, firm and final commitments must be expected within 90 days of the application submission deadline.
- Applicant has provided an acceptable Management Plan .
- Evidence of Site Control:
  - For construction or rehabilitation projects the property has been acquired or leased or is under contract to lease or buy within 90 days of executing a contract with the Department.
  - Note: Applicants must acquire land and buildings for the project from unrelated third parties in arms-length transactions.
- Provide a Preliminary Title Report for the property dated within 30 days of the date of the application for each property. For projects on Tribal Land, a title report may not be possible.

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## CHAPTER 5. EMERGENCY SHELTERS AND TEMPORARY HOUSING

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Emergency Shelters and Temporary Housing are not eligible for HOME funding and can only be funded with Housing Trust Fund. The following guidelines apply to the use of Housing Trust Funds for new construction, acquisition or rehabilitation of properties to be utilized for emergency shelters or temporary housing. Emergency and temporary housing is generally characterized as that which is available for less than six months and is made available to low-income households who are homeless or otherwise in crisis. Emergency and temporary housing includes mass shelters, multi-family and single-family structures.

### 5.1 Eligible Activities

Eligible activities include:

- New construction.
- Acquisition and/or rehabilitation of existing units, when temporary or emergency units will be retained as a result or additional units will be added to the available stock.

### 5.2 Eligible Beneficiaries

Emergency and temporary housing is intended to benefit low-income households that are homeless or otherwise in crisis. Households must earn not more than 80% of the area median income adjusted for household size.

### 5.3 Eligible Property Owners

Public or private property owners are eligible.

### 5.4 Eligible Ownership Interests (By the Owner) in the Property

Property ownership is evidenced by:

- Fee simple title to the subject property, or
- A 99-year leasehold on the property.
- On tribal lands, a leasehold on the property for not less than 50 years.

Any other form of ownership must be approved by the Department. The ownership interest may not be restricted by any encumbrances or restrictions that impair the marketability of the property or deeds of trust or other debt instruments not approved by the Department.

### 5.5 Eligible Projects and Property Types

A project is defined as a site or sites together with any building(s) that are under common ownership, management and financing and are to be assisted as a single undertaking. Eligible property types include:

- congregate shelters
- multi-family (apartments, single room occupancies (SROs), and group homes)
- single-family structures

Please note that utilization of the Homeless Management Information System (HMIS) is required for eligibility except for domestic violence projects as prohibited by Federal law.

## 5.6 Ineligible Projects and Property Types

Ineligible properties include:

- Projects previously funded with Housing Trust Funds *may* not be eligible. Contact the Department for guidance.
- Student housing.
- Commercial buildings (unless suitable for conversion to housing).
- Properties currently occupied by renters *may not* be eligible. Contact the Department for guidance.

## 5.7 Acquisition of Land/Buildings Currently in Use by Renters

Properties that are currently occupied by renters, including businesses, will be reviewed carefully and the dislocation impact will be a major part of the funding decision. Contact the Department prior to applying. The Department discourages displacement except where a special public purpose is served or where there are no alternatives.

## 5.8 Required Property Standards

All properties must meet the following standards prior to occupancy:

- Local codes, zoning and ordinances.
- New construction projects shall meet Model Energy Codes and Energy Star requirements. (*See Definitions*)
- Meets State licensing requirements, as applicable.
- Properties must meet the State fair housing laws regarding accessibility.

## 5.9 Eligible Expenses

State funds are available for the actual capital costs involved with the new construction, acquisition and/or rehabilitation of a facility to be used for emergency shelter or temporary housing.

Hard Costs	Soft Costs
<ul style="list-style-type: none"> <li>▪ Acquisition of land and existing structures</li> <li>▪ On-site costs, such as site preparation or improvement, including demolition</li> <li>▪ Off-site costs may or may not be eligible – contact Department for guidance.</li> <li>▪ Materials and labor</li> <li>▪ Improvements for physically disabled</li> <li>▪ Compliance with HUD and the Department’s lead-based paint regulations.</li> <li>▪ Energy-related improvements</li> <li>▪ Necessary furnishings (must be permanent or secured)</li> <li>▪</li> </ul> <p>For manufactured housing units:</p> <ul style="list-style-type: none"> <li>▪ Foundations</li> <li>▪ Tie-downs</li> <li>▪ Utility hook-ups</li> <li>▪ All other eligible hard costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financing fees</li> <li>▪ Credit reports</li> <li>▪ Title reports and Title insurance</li> <li>▪ Legal and accounting, including cost certifications</li> <li>▪ Appraisals</li> <li>▪ Construction-period taxes and insurance</li> <li>▪ Recordation fees</li> <li>▪ Environmental review (<i>only if required</i>)</li> <li>▪ Architectural fees, including specifications and job progress inspections</li> <li>▪ Engineering fees</li> <li>▪ Builder, consultant or developer fees</li> <li>▪ Affirmative marketing and marketing costs</li> <li>▪ Homebuyer counseling</li> <li>▪ Building permits</li> <li>▪ Impact fees</li> <li>▪ Project audits</li> <li>▪ Surety Bond/Performance Bonds</li> </ul> <p>For manufactured housing units:</p> <ul style="list-style-type: none"> <li>▪ Foundation/permanency certifications</li> <li>▪ All other eligible soft costs</li> </ul>

### 5.9.1 Operating Subsidies

Up to 24 months initial operating subsidy is eligible for newly created emergency and temporary housing, whether new construction, acquisition/rehabilitation or a substantial expansion of an existing facility. Operating subsidy costs must be directly related to the operation of the assisted housing project and eligible units, and is available only to those projects evidencing inadequate operating assistance at the time the application submitted. Costs to provide services to tenants are not eligible.

### 5.9.2 Developer and Consultants Fees

The following limitations apply to emergency and temporary housing development projects. Note: Developer Fees are a substitute for general administrative funding.

Developer and Consultant Fees	Limited to:	Of:
Small project (15 or fewer units) or Congregate Shelter with 25 or fewer beds	15%	Acquisition and site improvements, hard construction costs, professional fees, and construction loan costs
Standard project (16 or more units) or Congregate Shelter with 26 or more beds	12%	
Projects with Identity of Interest between builder and developer	20% with no builder fees	

### 5.9.3 Builder Fee

The following limitations apply to emergency and transitional housing development projects. Builder Fee generally covers builder overhead, profit, and general requirements. **Construction must be performed by a licensed general contractor. A management entity acting in place of a general contractor is not permitted. General contractors must provide a bid guarantee, payment bond and performance bond for each construction contract. General contractors or any of their subcontractors must not be included on the Federal Excluded Parties List.**

Builder Fee	Limited to:	Of:
Small project (15 or fewer units) or Congregate Shelter with 25 or fewer beds	15%	Site improvements and hard construction costs
Standard project (16 or more units) or Congregate Shelter with 26 or more beds	13%	

#### 5.9.3.1 Identity of Interest

When an identity of interest exists between the developer and builder, the fees will be limited to 20 percent of the acquisition and site improvements, hard construction costs, professional fees, and construction loan. An "identity of interest" between the developer and builder exists if the entities are affiliated or if there is any identity in ownership between the subject entities including, although not limited to, stock or other equity ownership. The term is also intended to include commonality between the developer and builder, of persons, related entities or firms that have a financial interest, direct or indirect, in the developer/owner and builder entities.

### 5.10 Ineligible Expenses

The following expenses are ineligible:

- Project-based rental assistance or ongoing operating subsidy.
- Most off-site improvements. Call Department for guidance.
- Refinancing of HUD or other publicly-held mortgages. Contact Department for guidance.
- Luxury amenities not necessary for the provision of safe, decent, affordable housing (e.g., swimming pools, tennis courts).
- Delinquent taxes and fees or charges levied on a property.

### 5.11 Minimum and Maximum State Investments

- The *minimum* State Housing Fund investment is \$1,000 per assisted unit;
- The *maximum* per unit investment is as defined in **Appendix E**.

### 5.12 Terms of Assistance to the Project/Property Owner

All emergency and temporary housing projects receive zero interest deferred payment loans that are forgiven upon expiration of the use restriction period. Grants are not provided. The amount of financing is limited to that necessary to develop the project for occupancy by eligible beneficiaries. Financing is secured by a deed of trust and promissory note naming the Department as beneficiary. Certain tribes may be unable to meet this requirement. Consequently, the Department will recognize alternate means of securing resources, such as: Pledging of alternate security or collateral by the tribe or the member; Memorandum of Understanding (MOU) with tribes; or other various legal documents that secure the loan.

### 5.13 Period of Affordability

State-funded emergency and temporary housing is subject to a period of affordability as follows:

ACTIVITY	State Investment Per Unit	Minimum Period of
Acquisition and/or Rehabilitation	Less than \$15,000	5 years
	\$15,000 - \$40,000	10 years
	More than \$40,000	15 years
New construction or acquisition of newly-constructed units (initial certificate of occupancy issued within 12 months of State assistance)	Regardless of the amount	20 years

Additionally, all emergency shelters and temporary housing properties require the recording of Covenants, Conditions and Restrictions (CC&Rs), which must remain in place throughout the required use restriction period *regardless of the status of the loan*.

## 5.14 State-Assisted Units

When the project consists of multi- or single-family units, only units receiving State funding are considered State-assisted units; therefore, minimum and maximum State subsidies, rent and occupancy rules apply only to State-assisted units. In mass shelter facilities, the entire facility is considered State-assisted.

The minimum number of State-assisted units is determined through a series of calculations that takes into account eligible costs per square foot, unit mix (number and size), maximum program subsidy limits, and project amenities.

Section 5.14.1 of the Application is an approximation of the minimum number of assisted units, but is not a complete and final calculation. The final determination on the required number of units will be determined by the State in the financial and technical review, and will be specified in the award letter, written agreement, and CC&Rs.

Absent any compelling justification for an alternative distribution of assisted units, the Department will assume that the State-assisted units will be “comparable and proportional” to the overall project. In particular:

- the total number of assisted units at a minimum will equal or exceed the percentage of eligible project costs funded by SHF;
- the units will be distributed through all buildings or phases of the project;
- the unit mix of assisted units will approximate the overall distribution of project units by bedroom size; and
- a floating system will be used to maintain the distribution of units over the compliance period.

In some cases, however, the Department may choose to regulate more than the minimum required units when it is in the public interest to do so, and the project is not made infeasible by the additional assisted units. Also, the Department may choose to designate a fixed system and/or units that do not reflect the overall distribution when there are particular units that it would be in the Department’s interest to designate as State-assisted, such as accessible units, large family units, or units that serve a priority clientele.

A detailed explanation of the determination will be available upon award, and applicants will be given an opportunity to submit supplemental information to justify alternative distributions of assisted units if the initial determination presents a hardship.

**5.14.1 Calculating the Number of Assisted Units**

The following formula is used by the Department to determine the minimum number of State-assisted units. The final determination on the required number of units will be determined in financial and technical review. Cost per square foot, unit mix (number and size), maximum subsidy limits, and project type will impact the actual required number of State-assisted units.

<b>Calculations on total project:</b>	<b>Example:</b>
Total amount of investment in construction, acquisition and/or rehabilitation	<u>\$300,000</u>
Divided by the total number of units in project	15 units
Equals the average per unit investment (all units)	= \$20,000

<b>Calculations regarding State Assistance:</b>	
Amount of State funds invested	<u>\$100,000</u>
Divided by the average per unit investment (all units)	\$20,000
Equals the number of State-assisted units	= 5 units
Period of affordability (based on \$20,000 per unit investment)	10 years (if acquisition/rehabilitation) 20 years (if new construction)

**5.15 Covenants, Conditions and Restrictions**

State funded emergency and temporary housing requirements and resources are enforced through the recording of Covenants, Conditions, and Restrictions (CC&Rs). The CC&Rs remain in place throughout the period of affordability *regardless of the status of the loan*. The Department requires the CC&Rs be recorded in first position, ahead of all other liens. A sample copy of the Department’s required Declaration of Covenants, Conditions and Restrictions is available on request.

**5.16 Tenant Fees**

Reasonable fees for services provided in conjunction with the housing are allowed.

**5.17 Income Verification**

In temporary housing, occupants of State-assisted units may not have total household incomes that exceed 80% of the area median income adjusted for household size. While income verification is not required, it is recommended when tenants will remain in the housing unit for more than 30 days. The Department recommends utilizing the Section 8 income verification guidelines. However applicants may propose alternative methods for determining that the housing is being used to benefit low and moderate income persons below 80% of area median income.

## **5.18 Terms of Client/Tenant Assistance**

The following terms and conditions may not be required as part of any agreement to occupy emergency or temporary State-assisted housing:

- Agreement to be sued. The client/tenant must not be required to agree to be sued, to admit guilt, or to make a judgment in favor of the owner in a lawsuit brought in connection with the lease.
- Treatment of property. The client/tenant must not be required to agree that the owner may seize or sell personal property of household members without notice to the client/tenant and a court decision on the rights of the parties. This provision does not apply to disposition of personal property left by a client/tenant who has vacated a property.
- Excusing owner from responsibility. The client/tenant must not be required to agree not to hold the owner or owner's agents legally responsible for any action or failure to act, whether intentional or negligent.
- Waiver of notice. The client/tenant must not be required to agree that the owner may institute a lawsuit without notice to the tenant.
- Waiver of a jury trial. The client/tenant must not be required to agree to waive any right to a trial by jury.
- Waiver of right to appeal court decision. The client/tenant must not be required to waive their right to appeal, or to otherwise challenge in court, a court decision in connection with the lease.
- Tenant chargeable with cost of legal actions regardless of outcome. The client/tenant must not be required to agree to pay attorney's fees or other legal costs even if the client/tenant wins in a court proceeding by the owner against the client/tenant. The client/tenant, however, may be obligated to pay costs if the client/tenant loses.

## **5.19 Monitoring and On-Site Inspections**

The Department may conduct on-site inspections and verify records at any time during the period of affordability.

## **5.20 Recipient Responsibilities**

In addition to delivering the project as specified and in compliance with applicable State requirements,, recipients of State Housing Funds are responsible for the following:

### **5.20.1 Adoption of Client/Tenant Selection Policies and Criteria for the State-Assisted Units**

An owner of State-assisted housing must adopt written client/tenant selection policies and a criterion, formally approved by the applicant's governing body in the form of a motion or resolution, that:

- Are consistent with the purpose of providing housing, emergency shelter and temporary housing for low-income families and special needs populations;
- Are reasonably related to the Department's program eligibility requirements and the applicants' ability to perform their obligations of the assistance;
- Provide for the selection of clients/tenants from a written waiting list (if necessary), in the chronological order of their application and to the extent it is practical for the population served; and,
- Give prompt written notification to any rejected client/tenant of the grounds for any rejection.

### **5.20.2 Management Plan Requirements**

An owner of Emergency & Temporary housing must adopt a management plan with the following components:

- Financial Plan—Indicate how rents/fees will be collected, and how the development’s financial operations will be managed
- Physical Management—Indicate how the physical plant will be managed by describing planned/preventative maintenance activities, work order system response, ongoing unit inspections, and maintenance of HQS standards
- Occupancy Management—Describe how the units will be advertised/marketed, the intake and application process (including certification and documentation of SHF eligibility), if and how a waiting list will be maintained, how occupancy standards (i.e., house rules or standards of conduct) will be enforced, and how re-certification and turnover will be managed.

### **5.20.3 Obtain Commitments for other Financing**

Prior to entering into agreement, applicants are required to obtain commitments for other financing as necessary. This may include construction loan financing, commitments from lenders interested in providing mortgages, and other public and private funding.

### **5.20.4 Other Recipient Responsibilities**

Recipients of State Housing Funds have further responsibilities. Please refer to Chapter 1, Section 1.8.

## **5.21 Emergency and Temporary Housing Thresholds**

- Fees (if applicable) on the assisted units do not exceed program limits.
- Any developer fee, overhead and consultant fees are within program limits.
- Builder profit, overhead, and general requirements are within program limits.
- Development costs are reasonable and customary.
- Applicant has written, acceptable Tenant Selection Policies and Criteria.
- Applicant has provided an acceptable Management Plan.
- Evidence of Site Control:
  - For construction or rehabilitation projects the property has been acquired or leased or is under contract to lease or buy within 90 days of executing a contract with the Department.
  - Note: Applicants must acquire land and buildings for the Project from unrelated third parties in arms-length transactions.

Provide A “Preliminary Title Report” for the property dated within 30 days of the date of the application for each property. For projects on Tribal Land a title report may not be possible.

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## CHAPTER 6. OWNER-OCCUPIED HOUSING REHABILITATION PROGRAMS

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The following guidelines apply to the use of State Housing Funds for the rehabilitation of properties owned and occupied as a primary residence by low-income homeowners.

### 6.1 Eligible Activities

Rehabilitation of owner-occupied housing units, including

- Reconstruction
- Refinancing

#### 6.1.1 Reconstruction

When the cost to rehabilitate the existing housing unit is in excess of the cost to replace the unit, then reconstruction is an eligible activity. Reconstruction is eligible to the extent that the replacement unit will be situated on the same property as the existing unit and the replacement unit is substantially the same as the existing unit, except when a larger or smaller unit is necessary to comply with property standards or local zoning, codes or ordinances. Reconstruction includes replacement of existing manufactured housing. Unit being replaced must be demolished and removed from the property receiving assistance.

#### 6.1.2 Refinancing

Refinancing existing debt that is secured by the existing housing unit is an eligible activity only if State funds loaned for rehabilitation and refinancing will result in a lower overall housing cost than would result from any other combination of loans. For example:

A homeowner is seeking rehabilitation assistance. They have an outstanding principal balance on their first mortgage of \$30,000, at 10% interest, with a monthly payment of \$263. The cost of rehabilitation is \$15,000. The rehabilitation agency is offering a rehabilitation loan at 4% for a 20-year term, with a monthly cost to the homeowner of \$91. The monthly payments for both loans would total \$354, making participation in the rehabilitation program a financial burden for the homeowner. Using State funds to refinance the first mortgage and include the rehabilitation loan would result in a monthly cost of \$273, a lower overall housing cost.

### 6.2 Ineligible Activities

The following activities are ineligible:

- Single purpose rehabilitation, such as weatherization or accessibility when the unit will not comply with property standards after rehabilitation; however, accessibility, for example, can be a component of the rehabilitation.

### 6.3 Eligible Beneficiaries

All assisted homeowners must meet the following guidelines:

- Have an annual gross income that does not exceed 80% of the area median income adjusted by household size.
- The household must be income eligible at the time the rehabilitation commitment is made to the homeowner.
- Income must be determined and verified according to Section 8 guidelines. See **Appendix C** for the most recent median income guidelines; and
- Certify that they occupy the property as their principal and only residence.

#### 6.4 Eligible Forms of Ownership

- Fee simple title to the subject property, or
- A 99-year leasehold on the property.
- On tribal lands, a leasehold on the property for not less than 50 years.
- A lease agreement between the city or town and the agency applying for SHF. The lease agreement must equal to or greater than the recapture period.

The ownership interest in the subject home may be subject only to mortgages, deeds of trust or other debt instruments approved by the Department. The property must be free of restrictions or encumbrances that unduly restrict the good and marketable nature of the ownership interest, such as liens and non owner-occupants named on a deed. Limited title searches are recommended.

#### 6.5 Eligible Property Types

The following property types are eligible:

- Single-family (one-unit structures)
- Condominium units.
- Manufactured housing only if the unit upon completion will be:
  - placed on a permanent foundation (requires certification) and is connected to permanent utility hook-ups;
  - is located on land that is held in fee-simple title, or long-term ground lease with a term of at least 99 years (50 years for tribal land);
  - meets the construction standards of 24 CFR 3280 if manufactured after June 15, 1976; or, meets applicable local and/or State codes if manufactured prior to June 15, 1976.

#### 6.6 Ineligible Properties

The following properties are ineligible:

- Rental properties;
- Units not occupied as a primary residence of the owner-occupant;
- Uninsured properties.

#### 6.7 Required Property Standards

Housing assisted with State Housing Funds must meet the following standards upon completion:

- State's Rehabilitation Standards.
- Local codes, zoning and ordinances, or if no Local code exists, meet model building codes.
- Newly constructed (reconstructed) units must meet Model Energy Code.

#### 6.8 Maximum Property Value

After completion, the property value of assisted units may not exceed the FHA 203(b) insuring limit for single-family properties. See **Appendix B** for FHA 203(b) limits. The after-rehabilitation value may be estimated by adding the total rehabilitation investment (State Housing Funds and other funds) to the current assessed value of the property.

#### 6.9 Minimum and Maximum State Investments

- The minimum State Housing Fund per unit investment is \$1,000
- The maximum State Housing Fund per unit investment is listed at **Appendix E**.

## 6.10 Eligible Forms of Assistance to Beneficiaries

Owner-Occupied Housing Rehabilitation assistance to homeowners may be in the form of:

- Deferred payment loans;
- Non-interest bearing loans;
- Interest-bearing loans; or
- Due on sale.

## 6.11 Terms of Assistance to Beneficiaries

The Applicant must indicate the terms of assistance that will be offered to beneficiaries. This section details the options and suggestions for providing assistance.

### 6.11.1 Deferred Payment and Forgivable Loans

Recipients may elect to provide deferred and/or forgivable loans to beneficiaries. These types of loans do not require repayment by beneficiaries and loan servicing is limited. Deferral or forgiveness of the loan is conditioned upon the beneficiary complying with program requirements, including required loan documents.

#### 6.11.1.1 Deferred Payment Loan

Deferred payment loans require repayment of the principal amount of the loan at a specified time, usually when ownership of the assisted unit is transferred or when the assisted beneficiary fails to occupy the assisted unit as their primary residence. Deferred loan programs must specify the conditions under which the loan must be repaid. The deferred loan must be secured by a promissory note and a Deed of Trust, naming the recipient as beneficiary.

#### 6.11.1.2 Forgivable Loan

Like deferred payment loans, forgivable loans require repayment at a specified time; however, a forgivable loan may include repayment of only a portion of the principal amount. Forgiveness may be proportional based on the beneficiary's continued owner occupancy for the recapture period or conditioned upon other locally-defined criteria. Forgivable loan programs must specify the conditions under which the loan must be repaid. The forgivable loan must be secured by a promissory note and a Deed of Trust naming the recipient as beneficiary.

#### 6.11.1.3 Recapture Period

When a Recipient elects to provide assistance in the form of a deferred or forgivable loan, the following recapture periods apply. The recaptured period is based on the amount of State funds invested in the assisted unit. Recipients may elect to have a recapture period that is longer than the required period.

Amount of State Funds Invested Per Unit	Recapture Period
Under \$15,000	5 years
\$15,000 to \$40,000	10 years
Over \$40,000	15 years

### **6.11.2 Customized Loan**

Customized loans require repayment of the principal and/or interest over a period of time. The recipient must specify the loan terms and conditions that will be made available to meet the individual needs of beneficiaries. Customized loan programs calculate the borrowing capacity of each household by determining the income of the borrower, the amount available for additional housing related expenses and the estimated cost of rehabilitation. The interest rate and/or terms of the loan are based on the beneficiary's borrowing capacity. Borrowers should not be expected to pay more than 33 percent of their gross income on housing. The loan must be secured by a promissory note and a Deed of Trust naming the recipient as beneficiary.

### **6.11.3 Standardized Loans**

Like customized loans, standardized loans require repayment of principal and/or interest over a period of time. The recipient must specify the loan terms and conditions that will apply to all beneficiaries. Standardized loan programs make available a single type of loan at a fixed term and interest rate, regardless of the borrowing capacity of the beneficiary. Each beneficiary is qualified for the program based on the maximum affordable loan. Any funds necessary to complete the rehabilitation must be granted or deferred or the beneficiary would be disqualified. The loan must be secured by a promissory note and a Deed of Trust naming the recipient as beneficiary.

### **6.11.4 Beneficiary Refinancing and Home Equity Loan Policy.**

When State Housing Funds are loaned to the homeowner, a repayment or recapture period applies. As part of the program policies, the recipient must establish a policy for refinancing of existing debt or home equity loans after completion of rehabilitation and prior to loan repayment or expiration of the recapture period. The policy must contain the following language: 1) loan subordination will only be allowed when the refinancing results in a lower monthly payment; and 2) loan subordination will not be allowed under any circumstances for a cash-out refinancing. As an alternative, the applicant may disallow any subordination under any circumstances.

## 6.12 Eligible Expenses

State funds may be used for construction (rehabilitation) costs and related soft costs. The following costs are eligible:

Hard Costs	Soft Costs (related to a specific unit)
<ul style="list-style-type: none"> <li>▪ Construction/reconstruction/rehabilitation materials and labor:               <ul style="list-style-type: none"> <li>• To meet rehabilitation standards;</li> <li>• To meet applicable codes, standards, ordinances;</li> <li>• For essential improvements;</li> <li>• For energy-related improvements;</li> <li>• Compliance with HUD and Department lead-based paint requirements;</li> <li>• For improvements for handicapped persons;</li> <li>• To repair or replace major housing systems;</li> <li>• For impending repairs and general property improvements of a non-luxury nature;</li> <li>• For site improvements and utility connections.</li> </ul> </li>   <li>▪ Temporary Relocation costs, including:               <ul style="list-style-type: none"> <li>• Temporary replacement housing</li> <li>• Moving costs</li> <li>• Out-of-pocket expenses</li> <li>• Advisory services</li> <li>• Staff and overhead costs related to relocation assistance services</li> </ul> </li>   <li>▪ For manufactured housing units:               <ul style="list-style-type: none"> <li>• Foundations</li> <li>• Tie-downs</li> <li>• Unit replacement</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit reports</li> <li>▪ Title reports and Title insurance</li> <li>▪ Legal and accounting fees, including cost certifications</li> <li>▪ Appraisals</li> <li>▪ Recordation fees</li> <li>▪ Other applicable fees</li> <li>▪ Environmental reviews</li> <li>▪ Architectural/engineering fees, including specifications and job progress inspections (if necessary)</li> <li>▪ Consultants' fees</li> <li>▪ Affirmative marketing/marketing costs</li> <li>▪ Building permits</li> <li>▪ Project audits</li> <li>▪ Third party subcontractor costs (if administered by a third party)</li> <li>▪ Project specific administrative costs.</li> <li>▪ Permanency certifications for manufactured housing units.</li> </ul>

## 6.13 Recipient Responsibilities

In addition to delivering the project as specified and complying with all applicable State and Federal regulations, policies and program requirements, recipients of State Housing Funds are responsible for the following.

### **6.13.1 Owner-Occupied Housing Rehabilitation Policies**

Recipients are required to have their governing body adopt Owner Occupied Housing Rehab Program Policies via a Resolution or Motion and then implement such, including but not limited to:

- Program Design (scattered sites, targeted, etc.)
- Staffing and Administrative Structure;
- Rehabilitation Standard (minor, substantial, remove all code violations, must)
- Energy Efficiency Guidelines;
- Marketing and advertising methods;
- Application and waiting list procedures;
- Method of determining scope of work;
- Unit inspection, work write-up, cost estimate, bidding processes, contractor selection. Construction must be performed by a licensed general contractor. A management entity acting in place of a general contractor is not permitted. General contractors must provide a bid guarantee, payment bond and performance bond for each construction contract. General contractors or any of their subcontractors must not appear on the Federal Excluded Parties List;
- Pre-construction Conference
- Construction inspection process
- Housing maintenance counseling services; for example: changing filter pads, servicing furnace, warranty review for new systems;
- Homeownership education; for example: budgeting, timely mortgage payments, maintaining homeowner's insurance
- Examples of construction contract, deed of trust and promissory notes;
- Loan closing and lien recordation process;
- Method for determining after-rehabilitation value;
- Loan servicing policies and procedures, including lien release procedures;
- Grievance and quality assurance procedures;
- Program income accounting and return procedures;
- Policy addressing the refinancing of existing debt or home equity loans after completion of rehabilitation and prior to loan repayment or expiration of the recapture period. The policy must contain the following language: 1) loan subordination will only be allowed when the refinancing results in a lower monthly payment; and 2) loan subordination will not be allowed under any circumstances for a cash-out refinancing. As an alternative, the applicant may disallow subordination under any circumstances.

### **6.13.2 Other Recipient Responsibilities**

Recipients of State Housing Funds have further responsibilities. Please refer to Chapter 1, Section 1.8.

### **6.14 Owner-Occupied Housing Rehabilitation Program Thresholds**

1. Applicant has acceptable written Owner-Occupied Housing Rehabilitation Policies adopted by its governing body via a Resolution or motion.
2. The form of ownership is eligible.
3. The property valuation, after completion, does not exceed the maximum property value.
4. Program costs are reasonable and customary.
5. Applicant has a commitment of all non-State funding shown in the budget OR applications have been made to all funding sources and a commitment can reasonably be expected within 90 days from the application deadline.
6. All staff/team members, including consultants and/or subcontractors have been hired and are ready to begin work on the proposed program OR can reasonably be assured to be in place

within 90 days of the award of funds.

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## CHAPTER 7. OWNER-OCCUPIED HOUSING EMERGENCY REPAIR PROGRAMS

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The following guidelines apply to the use of State Housing Funds for the emergency repair of properties owned and occupied as a primary residence by low-income homeowners.

### 7.1 Eligible Activities

State Housing Funds may be used for basic emergency repair when:

- The assisted housing unit has one or more hazardous conditions that threaten the health and safety of the occupants; and
- The cost to rectify the hazardous conditions up to \$10,000; and
- Correction of hazardous conditions will result in a unit that is decent, safe and sanitary, including single purpose activities such as handicapped accessibility or lead-based paint removal.

OR

- The owner and assisted housing unit are on a waiting list to receive assistance through an Owner-occupied Housing Rehabilitation program; and
- Correction of the hazardous conditions is necessary to avoid displacement of the owner occupants. All repairs undertaken must meet the Department's rehabilitation standards.

When a unit that receives emergency repairs due to pending displacement (then or shortly thereafter) receives rehabilitation assistance, the cost of the emergency repairs must be included in the total cost of rehabilitation and become subject to all terms and conditions of the State Housing Fund and the approved Owner-occupied Housing Rehabilitation program.

### 7.2 Ineligible Activities

Single-purpose programs such as weatherization, energy improvements are ineligible; however, these activities may be undertaken as part of an Owner-occupied Housing Rehabilitation Program.

### 7.3 Eligible Beneficiaries

All assisted homeowners must meet the following guidelines:

- Have an annual gross income that does not exceed 80 percent of the area median income adjusted by household size. The household must be income eligible at the time the emergency repair commitment is made to the homeowner. Income must be determined and verified according to Section 8 income determination guidelines. See **Appendix C** for the most recent median income guidelines; and
- Certify that they occupy the property as their principal and only residence.

### 7.4 Eligible Forms of Ownership

The Department requires ownership of the property in one of the following forms:

- Fee simple title to the subject property, or
- A 99-year leasehold on the property.
- On tribal lands, a leasehold on the property for not less than 50 years.

The ownership interest in the subject home may be subject only to mortgages, deeds of trust or other debt instruments approved by the Department. The property must be free of restrictions or encumbrances that unduly restrict the good and marketable nature of the ownership interest, such as liens and non owner-occupants named on a deed. Limited title searches are recommended.

## **7.5 Eligible Property Types**

The following property types are eligible:

- Single-family (one-unit structures).
- Condominium units.
- Manufactured housing only if the unit upon completion will be:
  - located on a permanent foundation (requires certification) and is connected to permanent utility hook-ups;
  - is located on land that is held in fee-simple title, or long-term ground lease with a term at least 50 years;
  - meets the construction standards of 24 CFR 3280 if manufactured after June 15, 1976; or, meets applicable local and/or state codes if manufactured prior to June 15, 1976.

## **7.6 Ineligible Properties**

The following properties are ineligible:

- Rental properties;
- Units not occupied as a primary residence of the owner-occupant;

## **7.7 Required Property Standards**

Emergency housing repairs must meet Local codes, zoning and ordinances, or if no Local code exists, meet model building codes.

## **7.8 Maximum Property Value**

After completion, the property value of assisted units may not exceed the FHA 203(b) insuring limit for single-family properties. See Appendix B for FHA 203(b) limits. The after-rehabilitation value may be estimated by adding the total rehabilitation investment (State Housing Funds and other funds) to the current assessed value of the property.

## **7.9 Minimum and Maximum State Investments**

The minimum State Housing Fund per unit investment is \$1,000

The maximum State Housing Fund per unit investment is \$10,000.

## **7.10 Eligible Forms of Assistance**

Owner-Occupied Housing Emergency Repair assistance to homeowners may be in the form of:

- Grants;
- Deferred payment loans;
- Non-interest bearing loans;
- Interest-bearing loans; or
- Due on sale.

## **7.11 Terms of Assistance**

There are no required State Housing Fund recapture provisions or other terms of assistance. Consequently, the actual terms of assistance to the beneficiary must be established in the Recipient's program policies.

## 7.12 Eligible Expenses

State funds may be used for construction (rehabilitation) costs and related soft costs. The following costs are eligible:

Hard Costs	Soft Costs
<ul style="list-style-type: none"> <li>▪ Construction/reconstruction/rehabilitation materials and labor:               <ul style="list-style-type: none"> <li>• To meet rehabilitation standards</li> <li>• To meet applicable codes, standards, ordinances</li> <li>• For essential improvements</li> <li>• For energy-related improvements</li> <li>• Compliance with HUD and Department lead based paint regulations</li> <li>• For improvements for handicapped persons</li> <li>• To repair or replace major housing systems</li> <li>• For site improvements and utility connections</li> </ul> </li> <li>▪ Temporary Relocation costs, including:               <ul style="list-style-type: none"> <li>• Temporary replacement housing</li> <li>• Moving costs</li> <li>• Out-of-pocket expenses</li> <li>• Advisory services</li> <li>• Staff and overhead costs related to relocation assistance services</li> </ul> </li> <li>▪ For manufactured housing units:               <ul style="list-style-type: none"> <li>• Foundations</li> <li>• Tie-downs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit reports</li> <li>▪ Title reports and Title insurance</li> <li>▪ Legal and accounting fees, including cost certifications</li> <li>▪ Appraisals</li> <li>▪ Recordation fees</li> <li>▪ Other applicable fees</li> <li>▪ Environmental reviews</li> <li>▪ Architectural/engineering fees, including specifications and job progress inspections (if necessary)</li> <li>▪ Consultants' fees</li> <li>▪ Affirmative marketing/marketing costs</li> <li>▪ Building permits</li> <li>▪ Project audits</li> <li>▪ Third party subcontractor costs (if administered by a third party)</li> <li>▪ Project specific administrative costs</li> <li>▪ Permanency certifications for manufactured housing units</li> </ul>

## 7.13 Recipient Responsibilities

In addition to delivering the project as specified and complying with all applicable State and Federal regulations, policies and program requirements, recipients of State Housing Funds are responsible for the following.

### 7.13.1 Owner-Occupied Emergency Repair Program Policies

Recipients are required to have their governing body adopt Owner Occupied Housing Rehab Program Policies via a Resolution or Motion and then implement such, including but not limited to:

- Marketing and advertising methods;
- Application and waiting list procedures;
- Method of determining scope of work;
- Unit inspection, work write-up and bidding processes; Construction must be performed by a licensed general contractor. A management entity acting in place of a general contractor is not permitted. General contractors must provide a bid guarantee, payment bond and performance bond for each construction contract. General contractors or any of their subcontractors must not appear on the Federal Excluded Parties List

- Construction inspection process;
- Housing maintenance counseling services; for example: changing filter pads, servicing furnace, warranty review for new systems;
- Homeownership education; for example: budgeting, timely mortgage payments, maintaining homeowner's insurance;
- Method for determining after-rehabilitation value;
- Grievance and quality assurance procedures;
- Program income policies and procedures, including accounting procedures;
- Policy addressing the refinancing of existing debt or home equity loans after completion of rehabilitation and prior to loan repayment or expiration of the recapture period. The policy must contain the following language: 1) loan subordination will only be allowed when the refinancing results in a lower monthly payment; and 2) loan subordination will not be allowed under any circumstances for a cash-out refinancing. As an alternative, the applicant may disallow subordination under any circumstances.

### **7.13.2 Other Recipient Responsibilities**

Recipients of State Housing Funds have further responsibilities. Please refer to Chapter 1, Section 1.8.

### **7.14 Owner-Occupied Housing Emergency Repair Program Thresholds**

1. Applicant has acceptable written Owner-Occupied Emergency Repair Policies adopted by its governing body via a Resolution or motion.
2. The form of ownership is eligible.
3. The property valuation, after completion, does not exceed the maximum property value.
4. Program costs are reasonable and customary.
5. Applicant has a commitment of all non State funding shown in the budget OR applications have been made to all funding sources and a commitment can reasonably be expected within 90 days from the application deadline.
6. All staff/team members, including consultants and/or subcontractors have been hired and are ready to begin work on the proposed program OR can reasonably be assured to be in place within 90 days of the award of funds.

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**CHAPTER 8. OTHER HOUSING ACTIVITIES**

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During State FY 2007, the Department will make available State Housing Funds for the following activities. Funding will be announced through Notices of Funding Availability, Requests for Proposals, or emergency/sole source processes.

**8.1 Distribution and Availability – State Housing Trust Fund**

<b>FY 2007 State Housing Fund – Other Housing Activities Distribution</b>		
<b>Activity</b>	<b>Amount of State Housing Trust Funds</b>	<b>Availability</b>
Homes for Arizonans Initiative	\$4,000,000	On-going with contracted agencies and ADOH staff
Homelessness Prevention	\$2,500,000	NOFA
Housing Finance Authority Special Initiatives	\$3,000,000	NOFA, Requests for Proposals, Sole Source
Low Income Housing Tax Credit Gap Financing	Approximately \$6,000,000	NOFA
State Special Projects	\$1,549,600	NOFA

**8.1.1 Homes for Arizonans Program**

The Homes for Arizonans program, assists two basic income levels with two corresponding funding sources. The Department (ADOH) uses Housing Trust Fund to provide down payment and closing cost assistance in all areas outside Maricopa County and Pima County to first time home buyers earning less than 80 percent of the area median income adjusted for household size. The Arizona Housing Finance Authority (AzHFA) uses its funds to provide down payment assistance to households earning between 81 percent and 130 percent AMI. To be eligible for AzHFA down payment assistance buyers must also utilize either a Mortgage Credit Certificate (MCC) or Mortgage Revenue Bond (MRB) financing issued by the AzHFA. The Homes for Arizonans program is delivered by three non-profit agencies as well as Department staff. The following chart describes the various Homes for Arizonans subsidy levels.

<b>HOMES FOR ARIZONANS SUBSIDY LEVELS</b>				
<b>Income Level</b>	<b>Funder</b>	<b>Down Payment</b>	<b>Down Payment High Cost Areas</b>	<b>Closing Costs</b>
Target Areas 1-2 Persons 110% AMI 3 or More 130% AMI	AzHFA	5%	10%	None
Non-Target 1-2 Persons 100% AMI 3 or More 115% AMI		5%	10%	None
81% to 100% AMI		5%	10%	None
61% to 80% AMI	ADOH	10%	15%	\$3000
60% or Below AMI	ADOH	15%	20%	\$3000

### 8.1.2 Homelessness Prevention

It is anticipated that for FY 2007 current service providers may be funded at previous year levels. The Department may provide for additional funding through a Notice of Funding Availability process. Eligible activities may include but are not limited to loans and grants for security deposits; rent or mortgage assistance; utility payments; moving and storage fees to prevent eviction; landlord-tenant mediation; household management assistance; budget counseling; tax relief for the elderly and disabled; emergency financial assistance in crisis situations.

Applications for Homelessness Prevention funds are accepted according to guidelines published in a Notice of Funding Availability (NOFA) or Request for Proposals (RFP). In limited instances, Homelessness Prevention funding may be available through sole source.

### 8.1.3 Housing Finance Authority (HFA) Special Initiatives

Authorized under A.R.S. 41-3907(c), Housing Trust Funds provided to the Arizona Housing Finance Authority (AzHFA) will assist that entity for the years of its operations. Funding will be used as seed money to augment its Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs in rural areas of the State, as well as other projects of the Finance Authority. The AzHFA has the authority to issue both single-family and multi-family bonds in the 13 rural counties in the State.

### 8.1.4 Low-Income Housing Tax Credit Gap Financing

In order to encourage the development of LIHTC projects that are targeted to very-low income households, approximately \$6,000,000 will be made available for projects proposed during the 2007 LIHTC funding round. LIHTC gap financing may also be made available to bond projects eligible for 4 percent tax credits. LIHTC gap financing will be awarded to the highest scoring LIHTC applications that meet the criteria published in the Notice of Funding Availability (NOFA). The NOFA will be published around January 2007. For further information on LIHTC gap financing, consult the NOFA. The Department reserves the right to award either HOME or HTF.

## 8.2 State Special Projects

State Special Projects (SSP) funding is limited to innovative housing programs or projects as determined by the Department. These activities are not otherwise fundable through another eligible activity. SSP housing programs or projects must serve or benefit households earning 80 percent or less of the area median income adjusted for household size.

Applications for HTF-SSP funds are accepted according to guidelines described below or as published in a Notice of Funding Availability (NOFA) or Request for Proposals (RFP). In limited instances, SSP funding may be available through sole source.

<b>FY 2007 State Housing Fund - State Special Projects</b>	
<b>Activity</b>	<b>Availability</b>
Matching and National Competitive Funding	NOFA, Sole Source, Emergency
Emergency Funding	Emergency Only
Sole Source Funding	NOFA, Sole Source
Pre-Development Loan Funding	Recommended by the Technical Assistance Unit

### **8.2.1 Matching and National Competitive Funding**

State Housing Trust Fund resources may be made available to assist applications competing for Federal or private funds at the national level, or to Federal or private funds that would otherwise be lost due to a lack of matching funds. The matching funds must be required by regulation or policy of the Federal or private funding source. Programs and projects fundable through the regular application process that are seeking gap financing or leverage resources must apply through the regular application process.

Eligible applicants are limited to: (1) The actual applicant that is filing an application at the national or private level; or (2) an entitlement community or direct recipient of Federal or private resources that is in jeopardy of losing those resources due to a lack of local matching funds. Entities that receive Federal or private dollars on a pass-through basis are not eligible.

In order to be considered, the application must, at a minimum, meet the following criteria. Other criteria may apply.

- Activity must be Housing Trust Fund eligible;
- Beneficiaries must be households at or below 80 percent of the area median income adjusted for household size;
- The requested amount must be reasonable in relation to the amount of funding requested or in jeopardy.

Requests are reviewed on a case-by-case basis. Applicants not applying for gap financing through the regular application process should contact the Department for further guidance and instructions regarding how to apply.

### **8.2.2 Emergency Funding**

Housing Trust Funds may be made available in situations where utilizing the standard application process is contrary to public interest. Requests are reviewed on a case-by-case basis. Applicants should contact the Department for further guidance and instructions regarding how to apply.

In order to be considered, the request must, at a minimum, meet the following criteria. Other criteria may apply.

The housing needs are the result of a natural disaster, and the health, welfare and safety of housing residents is threatened; or

- Failure to correct the situation will result in multiple households being displaced or made homeless.

Beneficiaries must be households earning 80% or less of the area median income adjusted for household size.

### **8.2.3 Sole Source Funding**

Housing Trust Funds will be made available through sole source procurement methods if it is determined that there is only one source for a service, making a competitive process impractical or unnecessary.

### **8.2.4 Predevelopment Loan Program**

The pre-development loan program is to assist non-profit agencies in funding pre-development costs relating to proposed HOME and Housing Trust Fund projects.

#### **8.2.4.1 Eligible Recipients**

- Non-profit 501(c)(3) corporations proposing HTF-funded projects anywhere in Arizona.
- Non-profit 501(c)(3) corporations proposing HOME-funded projects in rural Arizona defined as all areas outside of Maricopa County and Pima County.

#### **8.2.4.2 Ineligible Recipients**

- For-profit entities
- Low Income Tax Credit developers, profit or non-profit
- Local government agencies
- 501(c)(3) corporations proposing HOME-funded projects in Maricopa County or Pima County

#### **8.2.4.3 Eligible Predevelopment Activities**

- Lead based paint assessment and testing
- Asbestos assessment and testing
- Phase I environmental review
- Preliminary architectural and engineering work necessary to determine feasibility and obtain accurate cost estimates
- Other activities determined by the Department to be necessary to complete and submit a fundable State Housing Fund application

#### **8.2.4.4 Funding Requirements and Limitations**

- Projects are eligible for funding only if the sponsor is actively involved with staff in the Technical Assistance Unit of the Department and the Technical Assistance Unit has made a preliminary determination that the proposed project appears to be feasible and fundable, subject to completion of the activities proposed for predevelopment funding (see Section 1.16).
- The maximum loan amount to any one agency is \$20,000.
- Loan terms are generally no interest loans due in 18 months or from SHF loan proceeds when funded, which ever comes first.
- Loans can be forgiven, subject to the Department's sole discretion, if the project is determined to be infeasible, principally because of information obtained from the pre-development funded activity (e.g. lead based paint testing uncovers expensive remediation requirements) that make the project infeasible.

#### **8.2.4.5 Program Administration**

- The Program is administered by the Technical Assistance Unit of the Department, including recommendation for funding to the Funding Committee and administration of loan agreements.
- Formal applications for funding are not required. Consideration for funding is based on a letter of request for funding to the Technical Assistance Unit. Technical Assistance staff will assess the request based on its preliminary determination that the project appears to be feasible and fundable by the Department.
- Funding will occur after the execution of a loan agreement between the applicant and the Department.

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## CHAPTER 9. DEFINITIONS

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Adjusted Income - The Department program uses the definitions of the Section 8 program determining the amount of adjusted income necessary to compute actual tenant payment in tenant-based rental assistance programs only.

Affordability Period or Period of Affordability - A period of time, dependent upon the amount of State funds invested per unit, during which unit occupancy is restricted to low-income households, rents are restricted, and funds are subject to recapture provisions. Consult the chapter regarding the applicable activity (i.e., rental, homeownership, etc., for information on the specific period required.)

Area Median Income (AMI) - The median household income, adjusted for family size, covering a specific geographical area (usually by county or metropolitan area). Charts, issued and updated periodically by HUD, are used in determining the eligibility of households to become beneficiaries of the Department program.

Annual Gross Income - The Department program uses the definitions of the Section 8 program. Annual income is used to qualify potential beneficiaries for assistance and/or occupancy.

Applicant - The legal and primary entity submitting an application for funds (applicants who are successful in receiving funding are subsequently referred to as Recipients.) If an eligible Applicant is sponsoring an application for an ineligible applicant, the Applicant is the sponsor (the eligible applicant) and will be considered the Applicant on record. The ineligible applicant, through sponsorship may technically become the Recipient, but will never be categorized as “the Applicant.”

Beneficiary – Refers to a person or household that actually receives the end result of the State Housing Fund assistance; the assisted homeowner or renter.

Community Housing Development Organization (CHDO) – is a private, non-profit organization that meets a series of qualifications and is certified by the Department as eligible to receive funds from the CHDO set-aside.

Congregate Shelter – a type of housing utilized, usually for emergency or temporary housing only, which utilizes a dormitory type setting. Individual bedrooms are not available – many beds are in one (or more) rooms, with communal living, eating and restroom facilities. Inhabitants typically have limited or no space for personal belongings. This type of housing is only intended for short-term, emergency purposes.

Consolidated Plan and Consolidated Plan Update - The *Consolidated Plan* (published in 1995 and 2000) is a document, required by HUD, that describes needs, resources, priorities and proposed activities to be undertaken with respect to HUD-funded projects and programs throughout the State of Arizona. As a condition of receiving HUD funding, the Department is required to file a *Consolidated Plan Update* by May 15<sup>th</sup> of each year.

Contract Expiration Date – The date on which funding ceases. All work funded with State dollars must have been completed by this date. Any funding not encumbered by this date is typically recaptured by the Department for reuse in another project.

Council of Government - Arizona is home to four rural and two metropolitan Councils of Governments serving regional planning districts. The four rural councils and the districts they serve are: Northern Arizona Council of Government (NACOG), serving the counties of Apache, Coconino, Navajo and Yavapai Counties in Region 3; Western Arizona Council of Governments (WACOG), serving the counties of LaPaz, Mohave and Yuma in Region 4; Central Arizona Association of Governments (CAAG), serving Region 5, the counties of Gila and Pinal; and SouthEastern Arizona Governments Organization (SEAGO), serving Region 6 which serves the counties of Cochise, Graham, Greenlee and Santa Cruz.

Department – The use of the term the “Department”, within the context of this document, refers to the Arizona Department of Housing.

Developer – any legal entity that will provide or arrange for design, financing, and construction services in connection with a project.

Development Project – Those projects that are actually developing new or expanding on current housing opportunities, including: new construction, acquisition and/or rehabilitation (excluding owner-occupied housing rehabilitation.)

Energy Star – Units newly constructed or rehabilitated must meet the Energy Star standard to promote use of energy efficient products to reduce greenhouse gas emissions. More information of approved Energy Star labeled products can be found at <http://www.energystar.gov>.

Final Rule – The Final HOME Rule, published at 24 CFR Part 92 on September 16, 1996, and effective October 16, 1996, with amendment published October 31, 2002.

Firm Commitment – a commitment for funding that is not connected with additional contingencies beyond conforming with the programmatic and legal requirements of funding.

Gap Financing – the financing gap left between acceptable project costs and the funding available to the project (provided all other funding sources have been maximized to the greatest extent possible).

HOME-Assisted Units – See State-assisted units.

HOME funds - All appropriations for the Federal HOME Investment Partnership Program, plus all repayments and interest or other returns on the investment of these funds.

Homeownership – Ownership in fee simple title or a 99 year leasehold interest in a one-unit dwelling or in a condominium unit, or equivalent form of ownership approved by the Department.

Household - One or more persons occupying a housing unit.

Housing Trust Fund (HTF) – A housing program funding source authorized under Arizona State Legislation to provide funding for housing projects and programs that assist low-income households.

HUD - United States Department of Housing and Urban Development.

Identity of Interest - exists between the developer and builder if the entities are affiliated or there is commonality between the developer and builder of persons, related entities or firms which have a financial interest, direct or indirect, in the developer/owner and builder entities. Each applicant is evaluated on a case-by-case basis as this definition is not meant to be exclusive.

Impact Fee -- Fee or charge, levied by a government against a property, to cover wholly or partly the cost of providing capital improvements or public services necessitated by the construction or alteration of a residential or commercial development, or to control growth.

Low-Income Families – Families whose annual incomes do not exceed 80% of the median income for the area.

Low Income Housing Tax Credits (LIHTC) -- The Low-Income Housing Tax Credit, a program of the Internal Revenue Service which provides Federal income tax credits to owners of qualified residential rental projects.

Low-Income Neighborhood -- A neighborhood that has at least 51% of its households at or below 80% of median income for the area.

Land banking – A prohibited activity. The acquisition of parcels of land to be held for an indefinite period of time without an imminent development date set in the *immediate* future for its use in the development of affordable housing. A determination of what is viewed as imminent and immediate is at the sole discretion of Housing.

Match or Matching Contributions – Funds permanently contributed to a State-funded project that take on the characteristics of HOME funds and are subject to essentially the same requirements as HOME funds.

Material Changes – Changes, from information previously submitted to the Department, in the substance of the project, including but not limited to changes in the composition of ownership entity, in the project itself, in the terms of sources of financing, or in construction lender, permanent lender or in the case of a LIHTC project, in the syndicator.

Model Energy Code (MEC) – Units newly constructed with HOME funds must meet the Model Energy Code and applicants will be required to certify that the project will meet, upon completion, the Model Energy Code. The Model Energy Code (MEC) is published by the Council of American Building Officials (CABO) and is updated annually by the CABO Code Changes Committee. New editions of the MEC are published at approximately three-year intervals. Copies of the MEC may be ordered through CABO at 5203 Leesburg Pike, Falls Church, Virginia 22041, (703) 931-4533. If you have questions about the MEC, please contact the U.S. Department of Energy’s Building Standards and Guidelines Program (BSGP) Hotline at (800) 270-CODE and select option #2 to speak with a technical advisor.

Neighborhood – Geographic location designated in comprehensive plans, ordinances, or other local documents as a neighborhood, village, or similar geographical designation that is within the boundary but does not encompass the entire area of a unit of general local government. If the unit of general local government has a population under 25,000, the neighborhood may, but need not, encompass the entire area of a unit of general local government.

New Construction – a project is considered to be new construction if the project is newly built or has had the initial certificate of occupancy issued within the past 12 months of the receipt of the Department subsidy.

Operating Costs – The fixed and variable expenses of operating a project, including but not limited to taxes, insurance, utilities, management and replacement reserves, but exclusive of debt service.

Owner – the entity which legally owns the project.

Owner-Occupied Housing Rehabilitation – An eligible program for funding where homes owned and occupied as the sole residency of low-income (at or below 80% AMI) households are eligible for rehabilitation or reconstruction assistance. Does not include specialized programs such as weatherization, emergency repair programs. Homes completed under this program must meet the Department’s Housing Rehabilitation Standards.

Principal Residence – Reside as a principal place or residence in dwelling for at least 6 months of the year.

Participating Jurisdiction (PJ) – the term given to any state or local government or consortium that has been designated by HUD to administer a HOME Program. HUD designation as a PJ occurs if a state or local government meets the funding thresholds, notifies HUD that they intend to participate in the program and has a HUD-approved Consolidated Plan.

Priority Populations – the following special needs populations are recognized by the Department as priority populations for the purpose of applying for State Housing Funds:

- Individuals or families experiencing homelessness. Individuals or families are considered homeless when they lack a fixed, regular and adequate night time residence, and includes those who are sharing the housing of other persons due to loss of housing, economic hardship, or similar reason; are living in a supervised publicly or privately operated shelter designed to provide temporary living accommodations; or a public or private place not designed for, or

ordinarily used as regular sleeping accommodation for human beings (i.e. cars, parks, abandoned buildings, substandard housing, bus or train stations or similar settings).

- *Seriously mentally ill persons.* Adults whose emotional or behavioral functioning is so impaired as to interfere with their capacity to remain in the community without supportive treatment. The mental impairment is severe and persistent and may result in a limitation of their functional capacities for primary activities of daily living, interpersonal relationships, homemaking, self-care, employment or recreation. The mental impairment may limit their ability to seek or receive local, State or Federal assistance such as housing, medical and dental care, rehabilitation services, income assistance, or protective services.
- *Persons with a physical disability.* Persons with a physical or mental impairment which substantially limits one or more of such person's major life-activities; or having a record of such impairment(s); or being regarded as having such an impairment, but such term does not include current, illegal use of or addiction to a controlled substance (as defined in section 102 of the Controlled Substance Act (2 U.S.C. 802)).
- *Persons with a developmental disability* Persons suffering from a severe, chronic condition attributable to a physical or mental impairment manifesting itself before the age of 22 and likely to continue indefinitely.
- *Families with children under the age of 18.*
- *Persons with Acquired Immunodeficiency Syndrome (AIDS)/ Human Immuno-Virus (HIV).* Persons with the disease of AIDS or any conditions arising from the etiologic agent for acquired immunodeficiency syndrome including infection with the human immunodeficiency virus (HIV)
- *Persons experiencing Domestic Violence.* Persons experiencing bodily injury from a family or household member or is being placed in a position of threat of force or fear of imminent physical harm
- *Persons with chronic substance abuse, if referred by a recognized substance abuse agency.*
- *Elderly.* A household in which at least one member is 62 and older.
- *Individuals or families with very, very low income.* Persons earning at or below 30% of area median income (AMI).
- *Other special needs groups,* with documentation in writing by the affected unit of local government and approved by the Department in its sole discretion. Applicants wishing to have other special needs groups recognized by the Department as such within an application, must receive written approval from the Department at least 30 days prior to the submittal of an application.

Professional Fees — Fees directly related to the project paid to architects, engineers, and lawyers, and for soils analysis, soils reports, and environmental reports.

Program Income — Program Income is income that has been generated by the use of State Housing Funds. Funds recaptured from homeowners who are required to repay their assistance because they did not remain in the assisted housing for the required "recapture period" should not be categorized as Program Income (see *Recaptured Funds* below).

Project — A site or an entire building (including a manufactured housing unit), or two or more buildings, together with the site that are under common ownership, management, and financing and are to be assisted with State funds under a commitment by the owner as a single undertaking. Project includes all the activities associated with the site and building.

Project Completion — Occurs when all necessary title transfer requirements and construction work has been performed and the project, in the Department's judgment, complies with the requirements of the Department program including: the property standards adopted; the final drawdown has been

disbursed for the project; and a Project Completion Report or Contract Close out Report has been submitted and accepted.

Recaptured Funds — State funds that are recaptured from homeowners who were required to repay their assistance subsidy because they did not remain in the assisted housing for the required “recapture period.” Recaptured funds are not Program Income.

Recipient — A recipient is an applicant who is successful in receiving a firm commitment of funds. A non-eligible applicant who receives funding due to an application filed through a sponsorship, but becomes the legal entity who contracts directly with the Department for funding also becomes the Recipient (in which case the Applicant on record will not be recognized as a Recipient).

Reconstruction — Rebuilding on the same lot as that of housing standing on a site at the time of project commitment. The number of housing units on the lot may not be decreased or increased as part of reconstruction project, but the number of rooms per unit may be increased or decreased. The reconstructed housing must be substantially similar (i.e., single- or multi-family housing) to the original housing. Reconstruction also includes replacing an existing substandard unit of manufactured housing with a new or standard unit of manufactured housing. Reconstruction is rehabilitation for purposes of this part. If the reconstruction does not take place on the original foundation, it is considered new construction for environmental review record compliance requirements.

Single-Room Occupancy (SRO) — Housing consisting of single-room dwelling units that is the primary residence of its occupant or occupants. The unit must contain food preparation and/or sanitary facilities if the project involves new construction.

Special Needs Populations – See Priority Populations.

Sponsor – A sponsor is an eligible applicant who applies for funding on behalf of an ineligible applicant. Sponsors may request that the ineligible entity become the contracting entity (the “Recipient”) with the Department if the application receives funding; otherwise the “sponsor” is technically the applicant.

State-Assisted Unit — a term that refers to units within a State assisted project where State or matching funds are used, requiring that rent, occupancy and/or recapture provisions apply. Same as HOME-assisted units within this publication.

State Funds — this term encompasses both Federal HOME funds and State Housing Trust Funds. This term is not meant to imply literally only those funds that originated at the Department level, but both sources of funding that are outlined in this Program Summary and administered by the Department. Collectively these two sources are referenced as State funds or State Housing Funds..

State Housing Fund — The State Housing Fund is a combination of Federal and State dollars that the Department administers, which are Federal HOME funds and State Housing Trust Funds. Collectively these two sources are referenced as State funds or State Housing Funds.

Transitional Housing — is rental housing that:

1. is designed to provide housing and appropriate supportive services to persons, including (but not limited to) priority (special needs) populations; and
2. has its purpose facilitating the movement of individuals and families to independent living within a time period that is set by the participating jurisdiction (State), State recipient or project owner before occupancy.

Very-Low Income Families — Families whose annual incomes do not exceed 50% of the median family income for the area.

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**CHAPTER 10. APPENDICES**

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<b>Appendix</b>	
A.	Public Housing Authority List
B.	FHA 203(b) Insuring Limits for Single-Family Properties web link
C.	Median Income Guidelines
D.	Rent Chart
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F.	Sample Applicant Resolution
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## 10.1 APPENDIX A – Public Housing Authority List

Utility allowances must be obtained from the local Public Housing Authority. The Arizona Department of Housing is the Public Housing Authority for Yavapai and Graham Counties. The utility allowances for Yavapai and Graham Counties are on the Department’s web site [www.housingaz.com](http://www.housingaz.com) in the Library under Reports and Studies.

Service Area	Public Housing Authority
<b>Chandler</b> <i>Service area: within city limits</i>	<b>Chandler Housing and Redevelopment</b> 99 North Delaware Street, Chandler, AZ 85225 Telephone: (480) 782-3200 Facsimile: (602) 782-3220
<b>Cochise County</b> <i>Service area: countywide, excluding Douglas</i>	<b>Cochise County Housing Authority</b> 1415 West Melody Lane, Building A, Bisbee, AZ 85603 Telephone: (520) 432-9690 Facsimile: (520) 432-9480 <a href="mailto:housing@cochise.az.us">housing@cochise.az.us</a>
<b>Douglas</b> <i>Service area: within city limits</i>	<b>Douglas Housing Authority</b> 10th Street, Douglas, AZ 85607 Telephone: (520) 364-8458 Facsimile: (520) 364-6462 <a href="mailto:Christina.Gomez@douglasaz.gov">Christina.Gomez@douglasaz.gov</a>
<b>Eloy</b> <i>Service area: within city limits</i>	<b>Eloy Housing Authority</b> P.O. Box 637, Eloy, AZ 85231 Telephone: (520) 466-7162 Facsimile: (520) 466-4223 <a href="mailto:trinahace@cybertrails.com">trinahace@cybertrails.com</a>
<b>Flagstaff</b> <i>Service area: within city limits</i>	<b>Flagstaff Housing Authority</b> 3481 North Fanning Drive, Flagstaff, AZ 86004 Telephone: (928) 526-0002 Facsimile: (928) 526-3734 <a href="mailto:ellen@flagha.org">ellen@flagha.org</a>
<b>Gila County</b> <i>Service area: entire county</i>	<b>Gila County Housing Department</b> 1400 East Ash, Globe, AZ 85502 Telephone: (928) 425-7631 Facsimile: (928) 425-9468 <a href="mailto:pcampos@co.gila.az.us">pcampos@co.gila.az.us</a>
<b>Glendale</b> <i>Service area: within city limits</i>	<b>Glendale Community Services Department</b> 6842 North 61 <sup>st</sup> Avenue, Glendale, AZ 85301 Telephone: (623) 930-2180 Facsimile: (623) 930-1064 <a href="mailto:kruss@gledaleaz.com">kruss@gledaleaz.com</a>
<b>Graham County</b> <i>Service area: entire county</i>	<b>State of Arizona Public Housing Authority</b> Arizona Department of Housing 1700 West Washington Street, Suite 210, Phoenix, AZ 85007 Telephone (602) 771-1000 Facsimile (602) 771-1002 Email: <a href="mailto:elizabethl@housingaz.com">elizabethl@housingaz.com</a>
<b>Maricopa County</b> <i>Service area: all areas of county, except within city limits of Chandler, Mesa, Peoria, Phoenix, Scottsdale and Tempe.</i>	<b>Maricopa County Housing Division</b> 2024 North 7 <sup>th</sup> Street, Suite 101, Phoenix, AZ 85006-2155 Telephone: (602) 257-1113 Facsimile: (602) 253-9268
<b>Mesa</b> <i>Service area: within city limits</i>	<b>Mesa Housing Authority</b> 415 North Pasadena, Mesa, AZ 85201 Telephone: (480) 644-3536 Facsimile: (480) 644-2923 <a href="http://www.ci.mesa.az.us/housing">www.ci.mesa.az.us/housing</a>

<b>Service Area</b>	<b>Public Housing Authority</b>
<b>Mohave County</b> <i>Service area: entire county</i>	<b>Mohave County Housing Authority</b> 809 East Beale, Kingman, AZ 86402 Telephone: (928) 753-0723 Facsimile: (928) 753-0776 <a href="mailto:Dave.wolf@co.mohave.az.us">Dave.wolf@co.mohave.az.us</a>
<b>Nogales</b> <i>Service area: within city limits</i>	<b>Nogales Housing Authority</b> 951 North Kitchen Street, P.O. Box 77, Nogales, AZ 85621 Telephone: (520) 287-4183 Facsimile: (520) 287-4802 <a href="mailto:nha@theriver.com">nha@theriver.com</a>
<b>Peoria</b> <i>Service area: within city limits</i>	<b>Peoria Housing Authority</b> 8355 West Peoria Avenue, Suite 115, Peoria, AZ 85343 Telephone: (623) 773-7140 Facsimile (623) 773-7179 <a href="mailto:Bswanton@csainc.org">Bswanton@csainc.org</a>
<b>Phoenix</b> <i>Service area: within city limits</i>	<b>City of Phoenix Housing Department</b> 830 East Jefferson Street, Phoenix, AZ 85034 Telephone: (602) 534-2142 Facsimile: (602) 534-5345 <a href="http://www.phoenix.gov">www.phoenix.gov</a>

## 10.2 APPENDIX B – FHA 203(b) Insuring Limits for Single-family Properties

HUD updates the FHA 203(b) insuring limits on an as needed basis. To assure that you are using the most recent insuring limits you must download the information from the following HUD website.

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

Once at this page you should sort your search by “county” and identify that you want information on Arizona.

If you do not have access to the internet please contact the following:

Kathy La Porte  
Homeownership Programs Administrator  
(602) 771-1021  
Fax (602) 771-1002  
kathyl@housingaz.com

### 10.3 APPENDIX C – Median Income Guidelines

HUD updates the Median Income Guidelines on an annual basis. If you do not have the attachment to this Appendix you may download the information from the following HUD website.

<http://www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/income/2005/index.cfm>

Or in the Department's web site in the Library under Income and Rent Limits.

<http://www.housingaz.com/library/#1026>

If you do not have access to the internet please contact the following:

Julie Barrett  
Rental Programs Manager  
(602) 771-1032  
Fax (602) 771-1002  
julieb@housingaz.com

#### 10.4 APPENDIX D – Rent Chart

HUD updates the HOME Program Rent Limits on an annual basis. If you do not have the attachment to this Exhibit you may download the information from the following HUD website.

<http://www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/rent/2005/index.cfm>

Or in the Department’s web site in the Library under Income and Rent Limits.

<http://www.housingaz.com/library/#1026>

If you do not have access to the internet please contact the following:

Julie Barrett  
Rental Programs Manager  
(602) 771-1032  
Fax (602) 771-1002  
julieb@housingaz.com

10.5 APPENDIX E – Maximum per Unit State Investments by Geographic Area- 221 (d) 3 per unit limits

Maximum State per unit investments, by number of bedrooms varies by geographical areas and is as follows:

**FOR HOMEOWNERSHIP ACTIVITIES ONLY:**

**Coconino and Yavapai Counties**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$90,103	\$103,890	\$125,292	\$160,376	\$178,665

**Maricopa, Pima and Yuma Counties**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$85,098	\$98,118	\$118,331	\$151,466	\$168,739

**Mohave County**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$83,277	\$96,020	\$115,800	\$148,226	\$165,130

**Cochise, Douglas, LaPaz and Pinal Counties**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$81,457	\$93,921	\$113,269	\$144,986	\$161,520

**Apache, Gila, Graham, Greenlee and Navajo Counties**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$78,272	\$90,248	\$108,839	\$139,316	\$155,204

**Santa Cruz County**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$78,727	\$90,773	\$109,472	\$140,126	\$156,106

**FOR RENTAL ACTIVITIES ONLY:**

**Coconino and Yavapai Counties**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$94,822	\$108,696	\$132,174	\$170,988	\$187,694

**Maricopa, Pima and Yuma Counties**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$89,554	\$102,657	\$124,831	\$161,489	\$177,266

**Mohave County**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$87,638	\$100,461	\$122,161	\$158,035	\$173,474

**Cochise, Douglas, LaPaz and Pinal Counties**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$85,723	\$98,265	\$119,491	\$154,580	\$169,683

**Apache, Gila, Graham, Greenlee and Navajo Counties**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$82,370	\$94,422	\$114,818	\$148,535	\$163,047

**Santa Cruz County**

<u>0 bedroom</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>	<u>4 bedroom</u>
\$82,849	\$94,971	\$115,486	\$149,399	\$163,995

*(Numbers published by HUD's San Francisco Multifamily Hub Office Effective June 14, 2006)*

10.6 APPENDIX F – Sample Applicant Resolution

**Authorization to Submit Application(s) and  
Enter into an Agreement for State Housing Funds**

Resolution No. \_\_\_\_\_

A resolution of the [AUTHORIZING BOARD OR GOVERNING BODY] of [NAME OF APPLICANT] authorizing the submission of an application(s) for State Housing Funds (which may include Federal funding through the HOME Investment Partnership Program or State Housing Funds), certifying that said application(s) meets the community’s housing and community development needs and the requirements of the State Housing Programs, and authorizing all actions necessary to implement and complete the activities outlined in said application.

WHEREAS, the [AUTHORIZING BOARD OR GOVERNING BODY] of [NAME OF APPLICANT] is desirous of undertaking affordable housing development activities; and

WHEREAS, the State of Arizona is administering the State Housing Fund Program; and

WHEREAS, the State Housing Fund requires that State Housing Funds benefit low income households; and

WHEREAS, the activity in the application addresses the community’s low-income population housing needs; and

WHEREAS, a recipient of State Housing Funds is required to comply with the program guidelines, State and Federal Statutes and regulations.

NOW, THEREFORE, BE IT RESOLVED THAT the [AUTHORIZING BOARD OR GOVERNING BODY] of [NAME OF APPLICANT] authorize application to be made to the State of Arizona for funding from the State Housing Fund, and authorize [NAME and JOB POSITION OF INDIVIDUAL] to sign application and contract or grant documents for receipt and use of these funds, and authorize [NAME AND JOB POSITION OF INDIVIDUAL] to take all actions necessary to implement and complete the activities submitted in said application(s); and

THAT, the [AUTHORIZING BOARD OR GOVERNING BODY] of [NAME OF APPLICANT] will comply with all State Housing Fund Program Guidelines, State and Federal Statutes and regulations applicable to the State Housing Fund Program (HOME program and/or State Housing Trust Fund) and the certifications contained in the (these) application(s).

Passed and adopted by the [AUTHORIZING BOARD OR GOVERNING BODY] of [NAME OF APPLICANT] this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

By: \_\_\_\_\_  
*Title of person signing*

ATTEST:

APPROVED AS TO FORM:

By: \_\_\_\_\_  
*Title of person attesting*

By: \_\_\_\_\_  
*(Applicant Attorney)*

## **10.7 APPENDIX G – ADOH Lead Hazard Control Procedures**

### **LEAD HAZARD CONTROL STANDARDS FOR PROJECTS FUNDED EXCLUSIVELY WITH HOUSING TRUST FUNDS**

Some properties are assisted with Housing Trust Funds and have no other Federal funds, and therefore are not required to comply with the Federal LBP regulation at 24 CFR Part 35. Recipients should consult with the Department for clarification if they are not sure about the source of their funds.

Nevertheless, it is the Department's policy to provide lead-safe housing to all assisted households. If the Department provides assistance for the acquisition or rehabilitation of housing, and no Federal funds are included in the project financing, the following will apply as a matter of policy beginning with projects acquired and/or rehabilitated after January 1, 2002:

1. All units in the project will be subject to visual assessment standards for identification of deteriorated or deteriorating paint surfaces.
2. All rehabilitation, maintenance or other physical work on the painted surfaces will be done using Safe Work Practices, to be certified by the owner of the property or recipient of grant funds, unless the surface has been tested and determined to be LBP-free.
3. Any such work will be subject to visual assessment standards upon completion to ensure that the work has been completed, an intact painted surface restored, and all debris and dust have been removed. Dust wipes are not a requirement, but are recommended where feasible to create documentation of safe work.
4. Rental property owners will be required to have a paint maintenance policy that ensures regular (at least annual) visual assessment and repair/maintenance of painted surfaces using Safe Work Practices.

**10.8 APPENDIX H – Tenant Income Certification**

If you downloaded this document or received it on diskette, the tenant income certification may be found in a separate document. *This Appendix H provides a sample document only.*

**TENANT INCOME CERTIFICATION**

Initial Certification       Recertification       Other \_\_\_\_\_

Effective Date: _____
Move-in Date: _____
(MM/DD/YYYY) _____

PART I – DEVELOPMENT DATA		
Property Name: _____	County: _____	BIN#: _____
Address: _____	Unit Number _____	# Bedrooms: _____

PART II. HOUSEHOLD COMPOSITION						
HH Mbr.	Last Name	First Name & Middle Initial	Relationship to Head of Household	Date of Birth (MM/DD/YYYY)	F/T Student (Y or N)	Social Security No. or Alien Reg. No.
1			Head			
2						
3						
4						
5						
6						
7						

PART III. GROSS ANNUAL INCOME (USE ANNUAL AMOUNTS)				
HH Mbr.	(A) Employment or Wages	(B) Soc. Security/Pensions	(C) Public Assistance	(D) Other Income
TOTALS	\$ _____	\$ _____	\$ _____	\$ _____
Add totals from (A) through (D), above			<b>TOTAL INCOME (E):</b>	\$ _____

PART IV. INCOME FROM ASSETS				
Hshld Mbr #	(F) Type of Asset	(G) C/I	(H) Cash Value of Assets	(I) Annual Income from Asset
<b>TOTALS:</b>			\$ _____	\$ _____
Enter Column (H) Total If over \$5000 \$ _____ X		Passbook Rate 2.00%	=	(J) Imputed Income \$ _____
Enter the greater of the total of column I or J: imputed income.			<b>TOTAL INCOME FROM ASSETS (K)</b> \$ _____	
<b>(L) Total Annual Household Income from all Sources [Add (E) + (K)]</b>				\$ _____

\_\_\_ Have you disposed of any asset(s) valued at \$1,000 or more in the past two years for less than the fair market value?  Yes  No

\_\_\_ I/We certify that the total value of assets owned by all household members as of the Effective Date (stated above) is \$ \_\_\_\_\_.  
The total annual income derived from the assets is \$ \_\_\_\_\_.

*Assets include cash held in savings and/or checking accounts, trust funds, equity in real estate and other capital investments, stocks, bonds, Treasury bills, certificates of deposit, money market funds, IRA accounts, retirement and pension funds, lump sum receipts (i.e. lottery winnings, insurance settlements, etc.) and personal property held as an investment (i.e. gem or coin collections, paintings, antiques, etc.) Do not include necessary personal property such as furniture, automobiles and clothing.*

PART V. DETERMINATION OF INCOME ELIGIBILITY		
<b>TOTAL ANNUAL HOUSEHOLD INCOME FROM ALL SOURCES:</b> From item (L) on page 1 <span style="border: 1px solid black; padding: 5px;">\$ _____</span>	Household Meets Income Restriction at: <input type="checkbox"/> 60% <input type="checkbox"/> 50% <input type="checkbox"/> 40% <input type="checkbox"/> 30% <input type="checkbox"/> ____%	<b>RECERTIFICATION ONLY:</b> Current Income Limit x 140% \$ _____  Household Income exceeds 140% at recertification? Yes <input type="checkbox"/> No
Current Income Limit per Family Size \$ _____	Household Income at Move in: \$ _____	Household Size at Move-in: _____
PART VI. RENT		
Tenant Paid Rent \$ _____ Utility Allowance \$ _____  <b>GROSS RENT FOR UNIT:</b> <span style="border: 1px solid black; padding: 5px;">\$ _____</span> (Tenant paid rent Utility Allowance & other non-optional charges)	Rent Assistance \$ _____ Other non-optional charges \$ _____  Unit Meets Rent Restriction at: <input type="checkbox"/> 60% <input type="checkbox"/> 50% <input type="checkbox"/> 40% <input type="checkbox"/> 30% <input type="checkbox"/> ____%	
Maximum Rent Limit for this unit: \$ _____		
PART VII. STUDENT STATUS		
<b>ARE ALL OCCUPANTS FULL TIME STUDENTS?</b> <input type="checkbox"/> yes <input type="checkbox"/> no	If yes, Enter student explanation* (also attach documentation)  <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Enter 1 - 4</div>	*Students Explanation: 1 TANF assistance 2 Job Training Program 3 Single parent/dependent child 4 Married/joint return

**PART VIII. PROGRAM TYPE**

Mark the program(s) listed below (a through e) for which this household's unit will be counted toward the property's occupancy requirements. Under each program marked, indicate the household's income status as established by this certification/recertification.

**a. Tax Credit**

See Part V above

**b. HOME**

**Income Status**

- ≤ 50% AMGI
- ≤ 60% AMGI
- ≤ 80% AMGI
- OI\*\*

**c. Tax Exempts**

**Income Status**

- 50% AMGI
- 60% AMGI
- 80% AMGI
- OI\*\*

**d. AHDP**

**Income Status**

- 50% AMGI
- 80% AMGI
- OI\*\*\*

**e.** \_\_\_\_\_   
(Name of Program)

**Income Status**

- \_\_\_\_\_
- \_\_\_\_\_
- OI\*\*

\*\* Upon recertification, household was determined over-income (OI) according to eligibility requirements of the program(s) marked above.

**HOUSEHOLD CERTIFICATION & SIGNATURES OF OWNER/REPRESENTATIVE**

The information on this form will be used to determine maximum income eligibility. I/We have provided for each person set forth in Part II acceptable verifications of current anticipated annual income. I/We agree to notify the landlord immediately upon any member of the household moving out of the unit or any new member moving in. I/We agree to notify the landlord immediately upon any member becoming a full time student.

Under penalties of perjury, I/We certify that the information presented in this Certification is true and accurate to the best of my/our knowledge and belief. The undersigned further understands that providing false representations herein constitutes an act of fraud. False misleading or incomplete information may result in the termination of the lease agreement.

\_\_\_\_\_  
**Signature** (Date)

\_\_\_\_\_  
**Signature** (Date)

\_\_\_\_\_  
**Signature** (Date)

\_\_\_\_\_  
**Signature** (Date)

Based on the representations herein and upon the proofs and documentation required to be submitted, the individual(s) named in Part II of this Tenant Income Certification is/are eligible under the provisions of Section 42 of the Internal Revenue Code, as amended, and the Land Use Restriction Agreement (if Applicable), to live in a unit in this Project.

\_\_\_\_\_  
**SIGNATURE OF OWNER/REPRESENTATIVE** **TITLE** **DATE**

## INSTRUCTIONS FOR COMPLETING TENANT INCOME CERTIFICATION

*This form is to be completed by the owner or an authorized representative.*

### Part I- Development Data

Check the appropriate box for Initial Certification (move-in), Recertification (annual recertification, or other. If other, designate the purpose of the recertification (i.e., a unit transfer, a change in household composition, or other State-required recertification).

Move-in-Date	Enter the date the tenant has or will take occupancy of the Unit.
Effective Date	Enter the effective date of the certification. For move-in, this should be the move-in-date. For annual recertification, this effective date should be no later than one year from the effective date of the previous (re)certification.
Property Name	Enter the name of the development.
County	Enter the county (or equivalent) in which the building is located.
BIN	Enter the Building Identification Number (BIN) assigned to the Building (from IRS Form 8609).
Address	Enter the address of the building.
Unit Number	Enter the unit number.
#Bedrooms	Enter the number of bedrooms in the unit.

### Part II-Household Composition

List all occupants of the unit. State each household member's relationship to the head of household by using one of the following coded definitions:

H	-	Head of Household	S	-	Spouse
A	-	Adult co-tenant	O	-	Other family member
C	-	Child	F	-	Foster children/adult(s)
L	-	Live-in caretaker	N	-	None of the above

Enter the date of birth, student status, and social security number or alien registration number for each occupant. If there are more than 7 occupants, use an additional sheet of paper to list the remaining household members and attach it to the certification.

### Part III – Annual Income

**See HUD Handbook 4350.3 for complete instructions on verifying and calculating income, including acceptable forms of verification.**

From the third party verification forms obtained from each income source, enter the gross amount anticipated to be received for the twelve months from the effective date of the (re) certification. Complete a separate line for each income-earning member. List the respective household member number from Part II.

Column (A)	Enter the annual amount of wages, salaries, tips, commissions, bonuses, and other income from employment: distributed profits and/or net income from a business.
Column (B)	Enter the annual amount of Social Security, Supplemental Security Income, pensions, military retirement, etc.
Column (C)	Enter the annual amount of income received from public assistance (i.e., TANF, general assistance, disability, etc).
Column (D)	Enter the annual amount of alimony, child support, unemployment benefits, or any other income regularly received by the household.
Row (E)	Add the totals from columns (A) through (D), above. Enter this amount.

### Part IV – Income from Assets

**See HUD Handbook 4350.3 for complete instructions on verifying and calculating income from assets, including acceptable forms of verification.**

From the third party verification forms obtained from each asset source, list the gross amount anticipated to be received during the twelve months from the effective date of the certification. List the respective household member number from Part II and complete a separate line for each member.

Column (F)	List the type of asset (i.e., checking account, savings account, etc.)
Column (G)	Enter C (for current, if the family currently owns or holds the asset) or I (for imputed, if the family has disposed of the asset for less than fair market value within two years of the effective date of (re)certification).
Column (H)	Enter the cash value of the respective asset.
Column (I)	Enter the anticipated annual income from the asset (i.e., savings account balance multiplied by the annual interest rate)
TOTALS	Add the total of Column (H) and Column (I). Respectively.

If the total in Column (H) is greater than \$5,000, you must do an imputed calculation of asset income. Enter the Total Cash Value, multiply by 2% and enter the amount in (J), Imputed Income.

Row (K)	Enter the greater of the total in Column (I) or (J)
Row (L)	Total Annual Household Income From all Sources Add (E) and (K) and enter the total

## Part V- Determination of Income Eligibility

Total Annual Household Income	Enter the number from item (L) from all Sources.
Current Income Limit per Family	Enter the Current Allowable Move-in Income Limit for the household size ( <i>See chart published annually</i> ) for recertifications, only. Enter the household income from the move-in.
Household income at move-in	On the adjacent line, enter the number of household member from the move-in-certification.
Household size at move-in certification.	Check the appropriate box for the income restriction that the household meets according to what is required by the set-aside (S) for the project
Household Meets Income Restriction	
Current Income Limit x 140%	For recertifications, multiply the current Maximum Move-in Income Limit by 140% and enter the total. Below, indicate whether the household income exceeds that total. If the Gross Annual Income at recertification is greater than 140% of the current income limit, then the available unit rule must be followed. If not a recertification please complete line by answering "N/A".

## Part VI-Rent

Tenant Paid Rent	Enter the amount the tenant pays toward rent (not including rent assistance payments such as Section(8)
Rent Assistance	Enter the amount of rent assistance, if any.
Utility Allowance	Enter the utility allowance. If the owner pays all utilities, enter zero.
Other non-optional charges	Enter the amount of <u>non-optional</u> charges, such as mandatory garage rent, storage lockers, charges for services provided by the management, etc.
Gross Rent for Unit	Enter the total of Tenant Paid Rent plus Utility Allowance and other non-optional charges.
Maximum Rent Limit for this unit	Enter the maximum allowable gross rent for the unit.
Unit Meets Rent Restriction at	Check appropriate rent restriction that unit meets according to what is required by the set-aside(s) for the project.

## Part VII –Student Status

If all household members are full time\* students, check "yes". If at least one household member is not a full time student, check "no". If "yes" is checked, the appropriate exemption must be listed in the box to the right. If none of the exemptions apply, the household is ineligible to rent the unit.

\*The educational institution attended by the student determines "Full time" or "Part time" status.

## Part VIII-Program Type

Mark the program(s) for which this household's unit will be counted toward the property's occupancy requirements. Under each program marked, indicate the household's income status as established by this certification/ recertification. If the property does not participate in the HOME, Tax-Exempt Bond, Affordable Housing Disposition, or other housing program, leave those sections blank.

Tax Credit	See Part V above.
HOME	If the property participated in the HOME program and the unit this household will occupy will count towards the HOME program set – asides, mark the appropriate box indicating the household's designation.
Tax Exempt Bond	If the property participates in the Tax Exempt Bond program. (AHDP), and this household's unit will count towards the set-aside requirements, mark the appropriate box indicating the household's designation.
AHDP	If the property participates in the Affordable Housing Disposition Program (AHDP), and this household's unit will count towards the set-aside requirements, mark the appropriate box indicating the household's designation.
Other	If the property participates in any other affordable housing program, complete the information as appropriate.

## HOUSEHOLD CERTIFICATION AND SIGNATURES

After all verifications of income and/or assets have been received and calculated, each household member age 18 or older must sign and date the Tenant Income Certification. For move-in, it is recommended that the Tenant Income Certification be signed no earlier than 5 days prior to the effective date of the certification.

### SIGNATURE OF OWNER/REPRESENTATIVE

It is the responsibility of the owner or the owner's representative to sign and date this document immediately following execution by the resident(s).