

Arizona Department of Housing Five-Year Strategic Plan

Agency Mission

Providing housing and community revitalization to benefit the people of Arizona.

Agency Description

The Arizona Department of Housing (“the Department”) provides housing and community revitalization to benefit the people of Arizona by addressing unique and changing housing needs in this state. When adequately housed, individuals, families, and communities flourish; without adequate housing, every aspect of life suffers as a result, including health, education, and the entire welfare of the community. Many of society’s ills begin with and are exacerbated by poor housing choices and deteriorated neighborhoods. As Arizona continues to grow and the economic and housing needs of its population evolve, the Department is in a position to recognize changing market conditions and to respond throughout the state. Creative solutions are developed to be responsive to both rural and urban housing issues, and much of the Department’s focus is on assisting Arizona’s most vulnerable populations, who through no fault of their own, are challenged with finding decent, suitable housing. The Department is working toward sustaining current initiatives and simultaneously maintaining the flexibility to respond to new demands for affordable housing. The Department primarily administers federal funding to promote housing and community development activities, most often acting as a funding and financing pass-through agency (as opposed to providing direct assistance to the public), with community partners providing the bulk of the hands-on assistance in actually delivering the programs and resources entrusted to the agency. ADOH’s partners include local governments, including counties, cities, and towns, tribal governments, public housing authorities, non-profit social service agencies, and for-profit and non-profit housing developers. Beginning in FY2017, the Department is also taking over the regulation of the manufactured housing industry in the State, as the Office of Manufactured Housing, previously located in another State agency, was transferred to ADOH.

With a Federal budget of approximately \$100 million annually, as well as hundreds of millions of Federal tax credits, and mortgage products in its tool belt, the Department is able to assist with many of the most pressing housing and community development needs in the state. Additionally, since 2010, the agency has overseen the work of the Arizona Home Foreclosure Prevention Funding Corporation (“AHFPFC”), a non-profit corporation, established to meet the requirements for accepting the U.S. Department of the Treasury’s mortgage foreclosure assistance award of nearly \$300 million, which is available to the State for commitments through 2020 (note: the program may operate beyond this date to expend or reinvest funds.) While the day-to-day administration of the non-profit’s mortgage foreclosure and down payment assistance programs is conducted by the Department, its resources are not a part of the State’s budget per requirements of the U.S. Department of the Treasury.

One change that will be affecting the Department, beginning in FY2017, is the dissolution of the Arizona Housing Finance Authority (“AzHFA”), with the mortgage programs of that entity being folded into the newly established Arizona Industrial Development Authority (“AzIDA”). While the AzHFA’s programs were absorbed by the AzIDA in August 2016, through an agreement with the AzIDA, the Department will continue to operate its programs through most, if not all, of FY2017. By FY2018, the Department expects that these functions will be wholly moved to the AzIDA. The

Department expects to continue to provide guidance to these mortgage programs in the years to come and will be receiving a portion of any excess mortgage proceeds to invest into the Department's Rapid Re-housing Programs for homeless individuals and families.

During FY2017, the agency will receive an appropriation of General Funds to support the regulatory functions of the manufactured housing industry, but is requesting, in its FY2018 budget request that the Legislature allow the Department to support this function solely on fees alone. The agency receives no State General Fund Support for any of its other operations and only a small amount of State Housing Trust Funds (\$2.5 million annually), which comes from the State's Unclaimed Property Fund, helps provide its required Federal match. Total resources administered by the Department, including those of the Arizona Industrial Development Authority (formerly programs of the Arizona Housing Finance Authority), and the AHFPFC, are expected to exceed \$1.4 billion during the current fiscal year.

Strategic Issues & Strategies

The following are key challenges and opportunities facing the agency:

Issue – Creating better living environments for Arizona's citizens and communities. After experiencing both state and federal budget cuts to its core programs, the Department is streamlining and targeting its resources in order to continue to meet its goals of increasing the availability and sustainability of safe, decent, affordable housing in Arizona under increasingly difficult circumstances. While the Department has always taken a conservative approach to the utilization of its resources, it has had to increase its efforts to target its resources in order to demonstrate the greatest impact in Arizona with fewer resources. With an end goal of aiding in the creation of conditions that create and promote more productive living amongst all Arizonans, the Department is narrowing its focus and targeting like never before, projects that can provide a stronger foundation to assist households and neighborhoods to improve their productivity as citizens through improved living conditions.

Activities that are financed through Department resources that create better living environments include: the development of affordable rental housing units through new construction or acquisition and rehabilitation; rehabilitation of dilapidated owner-occupied housing stock with a priority for seniors; monthly rental subsidy assistance for Arizona's lowest income households who otherwise would be homeless; development and support of transitional housing opportunities for Arizona's most vulnerable special needs populations, including those transitioning out of homelessness, victims of domestic violence, recovering substance abusers, and others; improved infrastructure and community facilities in Arizona's 13 rural counties; regulating the activities of the manufactured housing industry; and other community development and revitalization activities.

Strategies. The Department's strategies to create better living environments includes: (1) targeting resources that promote development of affordable housing opportunities along the light rail and other public transportation hubs to increase transportation to jobs, education, health care providers, and shopping to provide location efficient housing for low-income households; (2) tying financial assistance through the Department to projects that will create the highest economic impact in the shortest term; (3) requiring the incorporation of energy efficiency and green building practices for long-term energy savings and sustainability for Department-financed projects; (4) continuing to limit Department investments to only those projects that require a public subsidy to achieve viability; (5) collaborating with community partners to end

homelessness by providing permanent supportive housing; and (6) operating at the speed of business to provide timely inspection services to manufactured housing plants and installation sites.

Issue – Homeownership: providing a safety net for homeowners struggling in the aftermath of the housing crisis and removing the roadblocks to homeownership for the next generation. As the foreclosure crisis wanes and the housing market improves, the Department is transitioning from its main focus over the past seven years of providing foreclosure-related assistance, to now also removing roadblocks to homeownership for the next generation. While everyone is familiar with the devastating effects of the housing crisis which resulted in record numbers of foreclosures and underwater mortgagees who have yet to financially recover, another well documented side effect was the delayed formation of new households which has added to the prolonged drag on the national and state economy.

Assisting struggling homeowners

While the foreclosure crisis has abated, with foreclosure levels falling to pre-housing 2008 levels, close to 18 percent of Arizona mortgage holders are still underwater and thousands of homeowners are still unable to afford their mortgages, as they are unable to find employment opportunities that match their pre-recession incomes. Negative equity and stagnant wages continue to be impediments to a full housing market recovery. Through a grant from the U.S. Department of the Treasury, the Department has identified 17 communities in Arizona that are lagging in recovery when compared to the state as a whole, and has created a special incentive program to help jump start a housing recovery in those communities.

Removing roadblocks to homeownership

The homeownership rates in Arizona mirror the national average, which is at the lowest rate in almost two decades. New household formations, a leading indicator of homeownership, while improving, are below historical averages with Millennials being the largest group of underrepresented homeowners. With low interest rates available for mortgages, and rental prices continuing to rise, many creditworthy renters could realize a significant savings by becoming homeowners. Research has found that Millennials are now actually more eager to own a home than older Americans, but their biggest challenge is coming up with enough money for a down payment. In Arizona, where a moving housing market remains critical to the State's economic health, improving homeownership rates for responsible borrowers is an important factor in the state's recovery.

Strategies. The Department is taking a two pronged approach, by continuing to offer foreclosure assistance and at the same time, expanding the availability of assistance to new homebuyers.

To assist struggling homeowners

To assist still struggling homeowners, the Save Our Home AZ (SOHAZ) program continues to successfully assist Arizona homeowners who are either facing a potential foreclosure or are significantly underwater with their mortgage payments. Moving forward, the Department will: (1) continue to offer principal reduction assistance to homeowners who are living with the negative effects of paying against underwater mortgages; (2) continue to provide principal reduction assistance, when feasible, to buy down mortgages to an affordable payment for underemployed Arizonans; and (3) the Program will also continue to provide monthly mortgage assistance to homeowners who are completely unemployed or for whom a principal reduction is not a feasible solution. Such financial assistance is given as a loan so that as the housing

market improves, homeowners who sell an assisted property may be repaying a portion of the assistance back to the State to recycle for future use.

Removing roadblocks to homeownership

With the escalating increase in rents, many creditworthy renters are finding it more and more difficult to save for a down payment. Thanks to the HOME Plus and Pathway to Purchase programs, this obstacle has been removed. Through these programs, homebuyers will have access to: (1) an affordable 30-year fixed-rate mortgage, and (2) through HOME Plus, down payment assistance grant equal to between 2 and 5 percent of the mortgage amount (depending on the type of loan), or through the Pathway to Purchase program, which is offered in 17 underperforming communities, up to 10 percent of the purchase price up to \$20,000, with the down payment funding provided by the AHFPFC. The program's objective is to assist creditworthy renters who can afford a monthly mortgage payment but lack the resources for the down payment, eliminating a major obstacle in the marketplace and presenting qualified renters a pathway to homeownership.

The State's mortgage programs are available statewide to buyers with an annual household income not exceeding \$92,984, purchasing homes with a purchase price not exceeding \$371,936. First-time and boomerang homebuyers should find the program especially helpful. Qualified homebuyers must work through an approved and participating lender to obtain a qualified mortgage in order to qualify for the down payment assistance.

Issue – Coordinating efforts to end homelessness throughout the state. Since the State began addressing the issue of homelessness, decades ago, there has not been a collective conscience fighting this issue until recently. In order for Arizona to make progress it will take a coordinated effort. Despite numerous challenges and obstacles, such as inadequate resources, significant progress has been made towards achieving our ongoing objective to end homelessness in Arizona.

In Phoenix, we have put an end to chronic homelessness among our veteran population. A coordinated effort between the city, state, and federal governments, business leaders, the faith community and non-profit community led Phoenix to become the first city in America to end chronic homelessness among its veteran community. Additionally, by utilizing strategies like the "Housing First" concept, we are working to remove the instability that comes with being homeless. We have seen firsthand how people's lives have been transformed once they are stabilized in housing that is supported with services that assist people to become self-sufficient.

Some of those same lessons learned, as well as new strategies will be needed to address chronic homelessness in Maricopa County. The Men's Overflow Shelter (MOS), operated by Central Arizona Shelter Services (CASS), in Phoenix, began in 2007 as a temporary, short term shelter in response to unusually high temperatures and heat related deaths of individuals experiencing street homelessness. However, the facility was not intended to remain open on a permanent basis despite housing an average of 500 people a night. In January 2014, the state fire marshal cited the MOS with five code violations. Various structural issues and upgrades to basic living conditions were cost prohibitive necessitating the need to close the facility. Working with our collaborative partners, Valley of the Sun United Way, Maricopa County, and the city of Phoenix we found short-term, mid-term, and long-term solutions to housing the individuals who depended heavily on the MOS facility. This coming together to work out a solution for the MOS has led to a renewed effort to look at the totality of all of these public and private efforts to end homelessness and a concerted effort to end homelessness together within the next five years.

Strategies. People experiencing homelessness are identified through various outreach efforts and referred to the access points either for singles or families. Individuals generally access emergency shelters first and then are assessed for the appropriate housing interventions. Outreach teams identify individuals and families experiencing homelessness. The common assessment tool known as the Service Prioritization Decision Assessment Tool (SPDAT) is now being utilized to assess the needs of the individuals or families and match them to the most appropriate intervention. Often this can entail diversion, rapid-re-housing, or permanent supportive housing. The SPDAT has undergone rigorous testing. It has been reviewed by experts in healthcare, mental healthcare, housing and homelessness. It is effective in a range of population from an age, gender, and cultural perspective. The core premise is to get the right household to the right program at the right time to end homelessness, based upon evidence of strengths, understanding of needs and housing status.

The SPDAT has enhanced the homeless assistance providers' ability to better serve in that it has reduced subjectivity and increased objectivity in referring and working with people to see that they obtain the best service and housing for their needs. With agreement on using the same assessment tool, there is now consistency in the evaluation process. The use of SPDAT will greatly improve the screening processes, better serving homeless populations to get to the type of assistance they individually need.

The Department is focused and committed to finding permanent supportive housing options which are more effective and less costly than traditional shelter services. It does this by providing funding to build rental facilities that are designed to address the needs of formerly homeless individuals and families, and by providing Rapid Re-housing rental assistance, to assist those homeless individuals and families to simply need a stabilized living situation to recover. Working with our housing partners, we will continue to work on permanent supportive housing solutions, and other ways to reduce Arizona's homeless population.

Issue – Addressing the challenge associated with a lack of resources to address some of Arizona's most critical housing problems. Prior to the economic and ensuring state budget crises, the Department was the beneficiary of excess funding from the State's Unclaimed Property Fund, through a legislated formula of 55 percent of the fund, which was annually deposited into the State Housing Trust Fund. This resource amounted to approximately \$30 million a year that the state was dedicating to helping address affordable housing needs throughout the state. This was an important resource, in that it allowed the Department to address housing problems that no federal funding resource addresses. These types of activities included the development and support of homeless shelters, tribal housing issues, disaster-related housing assistance, emergency repairs for low-income homeowners such as roof and heat and air conditioning repairs, emergency eviction prevention programs, and other desirable activities for which no other resources exist.

Strategies. As the state economy recovers and the state budget improves, with the Rainy Day Fund fully funded, the Department would like to explore the possibility of the restoration of some of the resources lost to the Department during this past economic downturn. Arizona's most vulnerable citizens, who have no other place else to turn to meet their emergency housing needs, have relied on the programs of the Housing Trust Fund over the past two decades. The Department's budget assumptions (below) do not currently contemplate additional resources for the Housing Trust Fund, but it is certainly a consideration that the Department will want to explore when the time is appropriate.

Resource Assumptions
Resources included in the State Budget

	FY2017 Budget	FY2018 Budget Request	FY2019 Estimate	FY2020 Estimate	FY2021 Estimate
Full-time-equivalent (FTE) Positions	77	77	77	77	77
General Fund	\$811,400	0	0	0	0
Other Appropriated Funds (HTF)	\$318,500	\$318,500	\$328,055	\$328,055	337,896
Non-Appropriated Funds	\$16,729,285	\$22,989,565	\$22,789,544	\$15,295,396	15,073,514
Federal Funds	\$81,671,945	\$87,810,245	\$93,013,387	\$95,803,789	98,677,903
Total Agency Funds	\$99,531,130	\$111,118,310	\$116,130,986	\$111,427,240	\$114,089,313

Other Resource Assumptions
Resources not included in the State Budget
(Federal Tax Credits, Hardest Hit Funds, Finance Authority Mortgage Financing and Other)

	FY2017 Budget	FY2018 Budget Request	FY2019 Estimate	FY2020 Estimate	FY2021 Estimate
Federal Tax Credits	\$212,197,600	\$218,563,528	\$225,120,433	\$231,874,047	238,830,268
Hardest Hit Funds	\$68,984,619	\$18,822,849	\$8,500,000	\$4,500,000	0
Single Family Mortgage Program	\$1,026,800,000	Moving to AzIDA	Moving to AzIDA	Moving to AzIDA	Moving to AzIDA
Total Other Resources	\$1,307,982,219	\$237,386,377	\$233,620,433	\$236,374,047	\$238,830,268

	FY2017 Budget	FY2018 Budget Request	FY2019 Estimate	FY2020 Estimate	FY2021 Estimate
Total Agency Resources	\$1,407,513,349	\$348,504,687	\$349,751,419	\$347,801,287	\$352,919,581

Rev. August 2016