

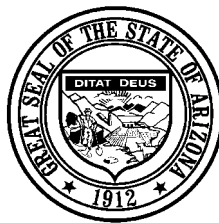


FY 2004

State of Arizona

Annual Action Plan

May 15, 2004



Prepared by:
Arizona Department of Housing
Arizona Department of Economic Security



The FY 2004 State of Arizona Consolidated Plan Update represents a collaborative effort between two state agencies: the Arizona Department of Housing and the Arizona Department of Economic Security. This document outlines the state's affordable housing and community development resources, methods of distribution, geographic funding objectives and other actions to be taken by the state during the coming fiscal year.

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SECTION ONE:
Executive Summary
FY 2000-2004 Consolidated Plan
FY 2004 Annual Action Plan

1. SECTION ONE: EXECUTIVE SUMMARY

The Consolidated Plan is a five-year strategy and application required by the U.S. Department of Housing and Urban Development (HUD) on the proposed use of its funds by states and larger local governments. By requiring states and larger local governments to develop a Consolidated Plan, HUD hopes to encourage a collaborative, holistic view of community development and housing issues and solutions.

The HUD programs specifically covered by this Consolidated Plan are: Community Development Block Grant (CDBG); HOME Investment Partnerships Program (HOME); Emergency Shelter Grant (ESG); and Housing Opportunities for Persons with AIDS (HOPWA). The overall goal of these programs is to develop viable communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for low- and moderate-income persons. These programs provide more than \$94 million (not including Tribal lands) to governments in Arizona. As the lead agency for the state's Consolidated Plan, the Arizona Department of Housing (ADOH), in cooperation with the Arizona Department of Economic Security (DES) develops an Annual Action Plan that describes the actions and funding distribution that the state plans for the coming fiscal year with HUD programs.

1.1. Consolidated Plan and Action Plan Components

Arizona's FY 2004 Consolidated Plan Update describes the state's strategies to address both affordable housing and community development needs in Arizona. **It covers the state's Fiscal Year 2004 (July 1, 2004 to June 30, 2005).** The plan represents a joint effort between the ADOH that administers CDBG, HOME, and HOPWA and the DES that administers ESG.

Since these programs are primarily used in rural areas and non-entitlement communities, the focus of the Consolidated Plan and Annual Action Plans is on these geographic areas.

The Five-year Consolidated Plan summarizes: 1) the state's market and needs in the broad areas of housing, homelessness, and community development, 2) the state's priority needs in those areas and its strategies for addressing them, and 3) the long-term objectives developed to address those strategies.

The Annual Action Plan outlines the specific steps that the state will take in FY 2004 to implement the long-term objectives in the Five-year Consolidated Plan. The Annual Action Plan also describes other resources available to the state, including the state Housing Trust Fund, Federal Low Income Housing Tax Credits (LIHTC), and Special Needs Housing resources.

This document consists of a summary of the state's FY 2000-2004 Consolidated Plan and the entire FY 2004 Annual Action Plan. The full FY 2004 Annual Action Plan is presented in Section Two of this plan. Section Three of this plan is devoted to citizen consultation and participation. Section Four of this plan is devoted to monitoring requirements. Section Five of this plan includes state certifications and the Standard Forms 424.

Summary of FY 2000-2004 State of Arizona Consolidated Plan

- State Profile
- Citizen Consultation and Participation
- Housing Needs, Market Analysis and Strategy
- Public Housing Needs and Strategy
- Fair Housing Needs and Strategy

- Lead-based Paint Needs and Strategy
- Homeless and Special Populations Needs and Strategies
- Non-Housing Community Development Needs and Strategy
- Institutional Structure Needs and Strategy
- Anti-Poverty Needs and Strategy

Summary of FY 2004 Annual Action Plan

- Annual Actions
- Methods of Distribution and Geographic Funding Objectives
- Citizen Consultation and Participation
- Monitoring
- State Certifications and Standard Forms 424

1.2. State Profile

Historically, Arizona's public sector involvement in housing and community development has been limited, especially at the state level. Instead of state government involvement, local governments have been empowered and encouraged to address the issues.

To meet its mission and promote affordable housing and community development in Arizona, the state has adopted two goals:

Leadership: Develop partnerships and provide increased technical assistance and education.

Resources: Coordinate and attract new resources and eliminate gaps (needs) in the delivery system.

Arizona continues to be one of the fastest growing states in the nation. In 2003, Arizona's population reached 5,629,870, an increase of 2.9 percent from 2002 and 9.7 percent since 2000. Almost 77 percent of this population lives in Maricopa and Pima counties.

In 2001 and 2002, Arizona's economy experienced its worst job losses in recent history. Several rural counties continue to experience high unemployment and/or lower than average incomes: Apache, Navajo, Santa Cruz, and Yuma counties.

The correlation between low-income and minority status is prevalent throughout Arizona. The incidence of minority households experiencing the housing problems of cost burden, overcrowding, or substandard conditions is very high. As both minority and non-minority households move down the income scale, the incidence of housing problems increases dramatically. Minorities suffer disproportionately in terms of their basic need for adequate, affordable shelter.

1.3. Citizen Consultation and Participation

As the state analyzes the needs in Arizona and develops strategies to address those needs, it consults with a wide variety of public, private, and nonprofit agencies. It also provides a number of opportunities for citizen involvement and comment. This section of the Consolidated Plan describes the state's consultation and citizen participation processes. It also includes the public comments received by the state regarding the Consolidated Plan and Annual Action Plan and the state response to those comments as appropriate.

1.4. Housing Needs, Market Analysis and Strategy

While the state is fortunate to have a relatively stable real estate market, there is currently a severe shortage of affordable housing options for lower-income people in Arizona.

Statistics reveal that as Arizona becomes more urbanized, more residents are living in multi-family housing, townhouses, and condominiums. Manufactured housing is quickly becoming an affordable housing choice in rural Arizona, where it constitutes 29 percent of all housing units. Arizona's housing stock is relatively new; close to 78 percent of the units have been built since 1970, but many units now need rehabilitation.

The 2000 Census revealed that 61.3 percent of homeowners and renters in Arizona paid 30 percent or more of their income for housing, 8.6 percent of Arizona households lived in overcrowded housing, and 1.1 percent of housing units had dilapidated plumbing conditions. A 1993 Maricopa County needs assessment revealed that of 2,318 respondents; nearly 14 percent indicated dwellings were in need of major repairs. The estimated figure ranged between 17 percent and 21 percent in rural Arizona, outside of Maricopa and Pima counties.

Homeownership

Statewide, and for most of Arizona's fifteen counties, home values have increased faster than median household income during the 1990-2000 period.

The homeownership rate in Arizona has declined from its peak in 1993 of 69.6 percent to 68.1 percent in 2001. A positive economic environment, low interest rates, and a growing population have driven sales of both new and existing single-family homes. The main issue is that the price of housing has been increasing, which is adversely influencing affordability. Rural housing markets in the state also face issues of financing and preserving housing stock.

Rental Housing

The hourly wage needed to pay for an average two-bedroom apartment in metropolitan Arizona is \$14.49. During the 1980s, the building of 137,436 apartment units was authorized. For the 1990s, 86,531 units have been permitted. Most of the development activity has been in the high-end market. With a combination of limited development and strong population growth, vacancy rates have been declining while rental prices are rising.

Affordability and Availability

With increasing numbers of people moving to Arizona, housing costs are rising and so is the difficulty of finding an affordable home. The root cause is the large gap between the cost of decent housing and income. While 64 percent of all Arizona households could afford the median-priced home in 1970, only 43 percent could in 1999. While 73 percent of all households could afford the median rent in 1970, only 62 percent could in 1998.

Since affordable homes are becoming harder to find, many lower-income households are faced with a choice: pay more than they can afford for rent or a mortgage, or live in substandard or overcrowded conditions. Current estimates show that 194,700 Arizona households are either paying more than 30 percent of their income for housing, living in substandard housing, or living in over-crowded housing.

Rural Minority Concentration Census Tracts

The state of Arizona, in the FY 2004 Consolidated Plan, defines a census tract of minority concentration as a census tract (off-Indian reservation) where the percentage of minority population exceeds the state average of minority population by at least 200 percent. Seventeen census tracts outside of city of Flagstaff, city of Yuma, Maricopa County and Pima County meet this definition. The rural minority concentration census tracts that are listed in the following table mostly lie within the state’s border counties:

Census Tract	Percent of Minorities	County	City/Town
7.00	85.2	Cochise County	Douglas
8.00	85.3	Cochise County	Douglas
9.00	92.6	Cochise County	Douglas
13.00	75.7	Gila County	Winkelman
15.00	70.9	Pinal	Casa Grande
19.00	83.4	Pinal	Eloy
20.00	81.4	Pinal	Eloy
9961.02	81.7	Santa Cruz	Unincorp. County
9962.00	93.3	Santa Cruz	Nogales
9963.00	94.5	Santa Cruz	Nogales
9964.01	95.7	Santa Cruz	Nogales
9964.02	94.5	Santa Cruz	Nogales
106.00	73.8	Yuma	Unincorp. County
114.01	98.9	Yuma	San Luis
115.01	83.1	Yuma	Somerton
115.02	96	Yuma	Somerton
116.00	98.9	Yuma	San Luis
Arizona’s Minority Population		36.2%	

Source: Census 2000, the Federal Financial Institutions Examination Council (FFIEC), Arizona State Data Center, and Arizona Department of Housing.

Funding in Census Tracts with Minority Concentrations

ADOH does not specifically target funding to census tracts with concentrations of minority populations, however, ADOH ensures all census tracts have equal access to ADOH funds. ADOH conforms to 24 CFR 983.6 (b) Site and Neighborhood Standards which ensures that federal resources are not furthering geographic over-concentration of minority or low income households.

Affordable Housing Strategies

To effectively address Arizona’s needs for affordable housing, the state has adopted the following strategy:

To increase the supply of affordable housing in Arizona, the state will provide leadership and seek new resources.

To carry out this statewide housing strategy, the ADOH has developed and committed to several five-year objectives for both rental housing and homeownership housing:

Rental Housing Objectives

- Objective #1 – Augment rental affordability.
- Objective #2 – Increase the number of affordable rental units to meet demand.
- Objective #3 – Increase rehabilitation of existing rental stock.

Homeownership Objectives

- Objective #1 – Promote homeownership affordability.
- Objective #2 – Increase the number of for-sale affordable units to meet demand.
- Objective #3 – Promote rehabilitation of existing owner-occupied stock.
- Objective #4 – Implement a homebuyer assistance program that provides down-payment and closing cost assistance using American Dreams Downpayment Initiative funds and other resources.

1.5. Public Housing Needs and Strategy

Arizona's 39 Public and Indian Housing Authorities play an important role in delivering housing and supportive services for the state's lower income households. The geographic area covered by the Arizona Consolidated Plan includes 11 Public and Local non-Tribal Housing Authorities.

The ADOH administers two types of public housing programs:

1.5.1. Tenant-Based Section 8 Rental Assistance Program

The ADOH (the state PHA) administers the tenant-based rental assistance (Housing Choice Voucher) program in Graham and Yavapai counties. These counties are not served by other PHAs. The state is seeking ways to expand the operations of its PHA to help low-income residents living in other areas without a PHA. The state PHA needs therefore include additional rental assistance vouchers and collaboration with nonprofit and for-profit developers to encourage the development of additional housing units. Another need is for special needs vouchers.

1.5.2. Arizona Public Housing Authority Program - Oversight of Project-Based Section 8 Affordable Housing

Beginning in October 2001, the Arizona Public Housing Authority was given oversight and monitoring responsibilities for 111 federally subsidized properties, representing over 7,751 units, throughout the state of Arizona. The properties, which receive rental subsidies through HUD, offer affordable housing to households that are at or below 50 percent of the area median income.

Arizona is experiencing a sharp growth in the expiration of project-based Section 8 rental assistance contracts, which could potentially remove thousands of affordable housing units from the market. The state is working with HUD and its other partners to keep the units affordable by offering incentives in its Low-Income Housing Tax Credit Program for rehabilitation of older properties.

To effectively address the needs of public housing in Arizona, the ADOH has adopted the following strategy:

To address the needs of public housing in Arizona, the state will provide leadership and seek new resources.

To carry out this statewide public housing strategy, the ADOH has developed and committed to the following five-year objective.

- Objective #1 - Promote collaborative planning on housing and community development projects throughout the state among public housing and community development organizations.

1.6. Fair Housing Needs and Strategies

It is not a question of whether discrimination happens in Arizona, it is the extent to which it takes place and how. The major fair housing needs in rural areas are for education and credit counseling. In trying to understand the reasons for these needs and how to improve housing opportunity, the state of Arizona's Analysis of Impediments (AI) to Fair Housing Choice identified key fair housing impediments. The state's fair housing strategy is therefore to:

Affirmatively further fair housing by providing leadership and resources to address those impediments.

To carry out this statewide fair housing strategy, the ADOH has developed and committed to several five-year objectives:

- Objective #1 – Address Impediment Number One - lack of knowledge of fair housing laws by housing consumers.
- Objective #2 – Address Impediment Number Two - lack of knowledge of fair housing laws by housing industry agents: real estate agents, builders, landlords, management agents, lenders and insurers.
- Objective #3 – Address Impediment Number Three - lack of hard data on the extent of discrimination in the areas of homebuyer insurance, zoning and permitting processes.
- Objective #4 – Address Impediment Number Four - testing of rental, sales, lending and insurance activities is intermittent, and does not usually cover the state outside of Maricopa and Pima counties.
- Objective #5 – Address Impediment Number Five - Not in My Back Yard – NIMBY attitudes concerning housing for low-income and disabled persons.

1.7. Lead-Based Paint Needs and Strategy

Lead poisoning from lead-based paint is one of the most common and preventable pediatric health problems today. Lead-based paint hazards consist of any condition that causes exposure to lead that would result in adverse human health. Lead exposure may result from lead-contaminated dust, lead-contaminated soil, and lead-contaminated paint that are deteriorated or present in accessible surfaces, friction surfaces, or impact surfaces.

Almost 41 percent of Arizona's housing stock (904,357 units) was built before 1978 and is therefore at risk of containing lead-based paint. Almost one quarter of the units are located in the non-entitlement communities. The state documented more than 500 cases of elevated lead blood levels (poisoning) in 1998. Almost 37 percent of these cases were from non-metropolitan Arizona.

To effectively ameliorate lead-based paint hazards in Arizona, the state has adopted the following strategy:

Play a leadership role and seek new resources to ameliorate housing-related lead-based paint hazards.

To carry out this statewide lead-based paint protection strategy, the ADOH has developed and committed to the following five-year objective:

- Objective #1 – Continue to play an organizational role in reducing the hazards associated with lead-based paint relative to housing.

1.8. Homeless and Special Needs Populations: Needs, Market Analysis and Strategy

On any given day in Arizona there are up to an estimated 26,700 homeless individuals. Half of the homeless population is centered in Maricopa County. Seventeen percent is estimated to be in Pima County and 38 percent in the balance of the state. The rural homeless population is largely invisible. They live in cars, in forests, in the desert, on the streets, or in the few emergency shelter beds and transitional housing units currently available. In addition, many persons double up with family and friends.

The causes of homelessness in the state can be attributed to a variety of factors, including: unemployment/underemployment, lack of health insurance, lack of affordable housing, a decline in public assistance, inadequate mental health care and substance abuse treatment, poverty, and domestic violence. Many of Arizona's lower-income individuals have other needs that put them at higher risk for homelessness. These groups include 26,000 persons with serious mental illness, 69,000 persons with developmental disabilities, 41,000 farm workers, 50,000 elderly persons living in poverty, and victims of domestic violence.

The state system to help homeless people in rural areas and move them to self-sufficiency is called the "Continuum of Care". The system is designed to meet the needs of individuals with the appropriate housing resources and support services.

To effectively address the needs of Arizona's homeless and special needs populations, the state has adopted the following strategy:

Using a Continuum of Care approach to homelessness and special needs, the state will provide leadership and seek new resources.

To carry out this statewide homeless and special needs strategy, the ADOH and DES have developed and committed to several five-year objectives.

- Objective #1 – Provide Emergency Shelter in Rural Areas
- Objective #2 – Develop Transitional Housing/Supportive Housing
- Objective #3 – Promote Permanent Housing
- Objective #4 – Prevent Homelessness

1.9. Non-Housing Community Development Needs and Strategy

Infrastructure Needs

The limited availability of public infrastructure often impedes the ability of smaller communities to grow. A conservative estimate of infrastructure funding needs over the five years ending 2004 in Arizona (excluding the Phoenix and Tucson metropolitan areas) is \$5.6 billion. This figure includes streets and roads, public safety, sewers, water, solid waste, airports, cultural and recreational facilities, and government facilities.

Economic Development

Overall, the state has been among the leaders in job creation in the 1990s and in 2000, creating 69,055 new jobs per year. In 2002, however, the state lost a total of approximately 1, 000 jobs. During normal economic times, significant business climate improvements, including tax reductions, make Arizona an attractive place to do business. Continuing economic development issues include: 1) attracting high paying, quality jobs, 2) encouraging diversified job creation, 3) providing a stable supply of well-trained workers, and 4) developing and maintaining infrastructure necessary for business expansion.

Public Services

As Arizona grows, so too does the demand for public services. Noted needs in Arizona include transportation, childcare, medical care, literacy and job training, parks and recreation, and various social services including mental health facilities, counseling and adult day care.

Community development needs are often exacerbated in rural areas by distance and the higher cost of providing services in remote areas. In less densely populated areas, services must be delivered on a regional scale, increasing delivery costs.

To effectively address the community development needs of Arizona, the state has adopted the following strategy:

Provide leadership and seek new resources for public facilities, infrastructure, public services, accessibility/historic preservation/general planning, economic development, neighborhood revitalization, and expanded grantee capacity in Arizona.

To carry out this non-housing community development strategy, the ADOH has developed and committed to several five-year objectives:

- Objective #1 – Enhance public facilities
- Objective #2 – Enhance infrastructure improvements
- Objective #3 – Address public service needs
- Objective #4 – Address accessibility
- Objective #5 – Address other community development needs
- Objective #6 – Promote economic development
- Objective #7 – Encourage neighborhood redevelopment and revitalization
- Objective #8 – Enhance grantee capacity

1.10. Institutional Structure Needs and Strategy

In the past few years, ADOH has assumed a leadership role through its coordination efforts to address housing and community development issues in Arizona. In this role, it leads and coordinates a variety of agencies and Commissions designed to more effectively target resources and strategies. The state has adopted the following strategy regarding its institutional structure:

To provide leadership and seek new resources to fill gaps in the state's institutional structure for the delivery of housing and community development projects, programs, and activities.

To carry out this statewide strategy, the ADOH has developed and committed to several five-year objectives:

- Objective #1 – Enhance coordination efforts
- Objective #2 – Provide leadership and develop partnerships
- Objective #3 – Improve communication and increase outreach
- Objective #4 – Eliminate gaps (needs) in the delivery system
- Objective #5 – Coordinate and attract new resources
- Objective #6 – Coordinate resources and improve program operations
- Objective #7 – Provide increased technical assistance and education

1.11. Annual Action Plan

Annual Actions

Each year, the state sets measurable, annual actions that carry out the strategies and objectives outlined in its five-year Consolidated Plan. These actions are designed to address the needs of the state in the areas of: housing, public housing, barriers to affordable housing, fair housing, lead-based paint, homelessness and special needs, non-housing community development, anti-poverty, and the institutional structure by which the state and its partners deliver resources for housing and community development.

Methods of Distribution and Geographic Funding Objectives

Each year the state outlines how it will use HOME, CDBG, ESG and HOPWA funds received from HUD. This section of the Action Plan also describes in general terms, the state Housing Trust Fund (HTF) and Low Income Housing Tax Credit (LIHTC) programs.

1.12. Citizen Consultation and Participation

As the state analyzes needs in Arizona and develops strategies to address those needs, it consults with a wide variety of public, private, and nonprofit agencies. It also provides a number of opportunities for citizen involvement and comment. This section of the Consolidated Plan Update describes the state's consultation and citizen participation efforts as it developed the 2004 Consolidated Plan Update. It also includes the public comments received by the state regarding the Consolidated Plan Update and the state's response to those comments as appropriate.

1.13. Monitoring

To ensure effective and efficient use of funds, the state monitors CDBG, HOME, ESG, and HOPWA grantees. This section discusses steps the state will undertake to monitor grantees of CDBG, HOME, ESG, and HOPWA funds for program compliance. The ADOH also monitors the LIHTC projects. It takes a unique approach for each program as described in that section of the Action Plan.

1.14. State Certifications and Standard Forms 424

To receive HUD funds, the state must certify that it will comply with various statutes and regulations governing the Consolidated Plan. These certifications include a citizen participation plan, affirmatively furthering fair housing, anti-displacement and relocation, drug free workplace, anti-lobbying, authority of the state, Section 3, and others.



**SECTION TWO:
FY 2004 Annual Action Plan
Part A: Annual Actions**

2. SECTION TWO: FY 2004 ANNUAL ACTION PLAN

This Annual Action Plan describes the actions the state will take during FY 2004 (July 1, 2004-June 30, 2005) to meet the five-year strategies and objectives outlined in the State of Arizona Consolidated Plan. It also explains how the state will distribute resources to help meet the strategies and objectives.

In 2001, Arizona Governor Jane Dee Hull signed into law House Bill 2615 (45th Legislature, First Regular Session), establishing the ADOH and the Arizona Housing Finance Authority (AzHFA), a housing bond issuance authority established to serve the thirteen rural Arizona counties. The AzHFA became effective January 1, 2002, and the Department became effective October 1, 2002.

During the next year (state FY04), the state of Arizona will receive \$23,377,000 from HUD. This amount includes CDBG (\$13,637,000), HOME (\$8,901,000), ESG (\$711,000), and HOPWA (\$128,000) program resources. Based on continuing public comment and the citizen participation process the following represents the state of Arizona's FY 2004 Action Plan.

Summary of Five-Year Housing and Community Development Strategies

As explained in detail in the State Profile section of the FY 2000-2004 Consolidated Plan, the state has adopted two goals to meet its mission and promote housing affordability and community development in Arizona:

Leadership – Develop partnerships and provide increased technical assistance and education.

Resources – Coordinate and attract new resources and eliminate gaps (needs) in the delivery system.

To carry out these goals, the ADOH, with guidance from the Arizona Housing Commission where appropriate, has developed and committed to several long-term objectives. The ADOH, as the lead agency for the Consolidated Plan, has also developed measurable, annual actions that it will undertake to achieve the objectives. The annual actions for FY 2004 are listed below for each Consolidated Plan objective.

2.1. Annual Actions for the FY 2004 Program Year

2.1.1. Housing

The state's affordable housing strategy:

To increase the supply of affordable housing in Arizona, the state will provide leadership and seek new resources.

2.1.1.1. Rental Housing

- Objective #1: Augment rental affordability (1,700 households over 5 years)
- Objective #2: Increase the numbers of affordable rental units to meet demand (1,500 units over five years)
- Objective #3: Increase rehabilitation of existing rental stock (200 units over 5 years)
 - Encourage the use of tax-exempt financing, Low Income Housing Tax Credits, HOME and Housing Trust Funds to provide below market rents and/or utility subsidies.
 - Implement the rural bond issuance and statewide Risk Sharing programs of the AzHFA to increase production of newly constructed affordable rental units.

- Partner with the Arizona Energy Office to promote cost saving energy efficiency improvements. This will be accomplished through minimum construction standards and public education.

2.1.1.2. Homeownership

➔ Objective #1: Promote homeownership affordability (1,000 households over 5 years)

- Implement the **American Dreams Downpayment Initiative** through the existing ADOH Homes for Arizonans Program.

Program Narrative - The Homes for Arizonans program, formerly known as the Rural Homebuyer Assistance Program (RHAP), assists two basic income levels with two corresponding funding sources. The Department will use Housing Trust Funds and ADDI funds 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% 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% and 130% AMI. To be eligible for AzHFA down payment assistance buyers must also utilize Mortgage Credit Certificates issued by the AzHFA. MCCs allow a borrower to receive a reduction in tax liability of 20% of the mortgage interest paid. The Homes for Arizonans program is delivered by three non-profit agencies as well as the Department staff. The following chart describes the various Homes for Arizonans subsidy levels.

HOMES FOR ARIZONANS SUBSIDY LEVELS				
Income Level	Funder	Down Payment	Down Payment High Cost Areas	Closing Costs
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

Ensuring Success of New Homeowners - ADOH will make available and provide both pre- and post-purchase education/counseling to potential and existing “Homes for Arizonans” clients. Housing counseling may take place in a group setting or one-on-one with individual clients, depending upon the circumstances of each client. At least one individual session will be held with each potential client to discuss credit and related personal issues. In no event shall credit, job history or other personal information regarding any individual client be discussed in a group setting or with other than the “Homes for Arizonans” clients. At a minimum, housing counseling must include the following information:

- Provision of the Fannie Mae document entitled “Opening the Door to a Home of Your Own” and/or any subsequent Fannie Mae publications.
- Provision of the “Homes for Arizonans” literature and explanation of program parameters, limitations, and calculations.
- Individual pre-closing briefing to review all closing documents (including “Homes for Arizonans” documents), all obligations of the borrower and “what happens at the closing.”
- Two or more group or individual sessions in compliance with the Arizona Housing Counseling Collaborative Curriculum.
- Formal review of comprehensive curriculum which includes the mortgage loan process, the role of realtors, the role of title companies, closing statements, credit issues, mortgage interest payment, payment to income ratios, mortgage interest tax advantages, debt management, monthly expenses and maintenance.

Marketing and Outreach - ADOH will be responsible for all marketing and outreach activities for the Homes for Arizonans program. ADOH’s goal in this effort is to reach individuals and families who are eligible for homeownership based on job and credit history but who otherwise will not take the final steps to homeownership because of real or perceived barriers. While the main barrier is the lack of a down payment and closing costs other barriers include cultural barriers, language barriers, fear of the process, apprehension, lack of knowledge and the need for counseling. ADOH will target these individuals in the following ways:

- Provide flyers and mailings to residents of existing rental manufactured housing, public housing and other rental housing.
- Advertise via radio and newspapers quarterly.
- Conduct statewide public relations and information campaigns directed at local governments, local professional housing associations, and local housing professionals, State agencies and departments and local for-profit and non-profit housing builders.
- Disseminate program brochure in English and Spanish.
- Speak at housing, economic development and League of Cities and Towns conferences.
- Recruit buyers and homebuyer education participants directly from local schools and large employment centers.

The success of the above marketing techniques will be measured to the extent that ADOH and its contractors implementing the Homes for Arizonans Program have close working relationships with representatives of local lending institutions, brokers, realtors, real estate agents, title companies, builders, local government and local non-profit organizations.

- Implement the rural Mortgage Revenue Bond (MRB)/Mortgage Credit Certificate (MCC) programs of the AzHFA.
- Continue the statewide Homeownership Network to provide a stable source of housing counseling and down payment and closing cost assistance throughout Arizona.
- Coordinate with Fannie Mae on its Arizona housing investments strategy, which will provide uniform counseling and assistance with mortgage products.
- Partner with local lenders to increase homeownership opportunities.
- Work with the Arizona Housing Commission to identify and address factors that contribute to higher homeownership costs.

- Objective #2: Increase the number of for-sale affordable units to meet demand (150 units over 5 years)
 - Encourage the use and combination of tax-exempt financing, CDBG, HOME and Housing Trust Funds to provide funding to develop new affordable units.
 - In conjunction with the implementation of the rural MRB/MCC programs of the AzHFA, encourage builders to augment affordable single-family supply in rural Arizona through the use of tax-exempt financing.
 - Seek new sources of public and private financing to leverage existing resources.
 - Encourage communities and developers to consider alternative construction techniques, materials and methods to lower costs.

- Objective #3: Promote rehabilitation of existing owner-occupied stock (750 units over 5 years)
 - Encourage the use of CDBG, HOME, and Housing Trust Funds to provide rehabilitation/retrofit funding.
 - Research opportunities to offer rehabilitation funding sources from the rural MRB programs of the AzHFA.
 - Support lead-based paint legislation to establish a state-certified abatement program that will enable better access to lead abatement resources.
 - Commit state resources to emergency repair programs.

2.1.1.3. Barriers to Affordable Housing

Consolidated Plan regulations require the state to examine barriers to affordable housing, and develop a strategy, including annual objectives, to address identified barriers. After examining barriers to affordable housing, the ADOH developed objectives, including those listed under rental housing and homeownership housing, as a way to address identified barriers. To meet these objectives, the state has developed the following measurable actions for FY 2004:

- Through the Arizona Housing Commission:
 - Work to identify specific regulatory barriers and to educate government on the impacts of regulatory barriers on housing affordability.
 - Identify financing solutions that make it easier to obtain private financing for affordable housing.
 - Explore financing solutions that maximize the use of existing resources.
- In conjunction with the implementation of the rural MRB/MCC programs of the AzHFA, encourage the use of down payment/closing cost resources to augment development of affordable single family units rural Arizona.
- Explore the development of new initiatives to increase housing affordability.
- Prioritize efforts to preserve existing affordable housing and explore opportunities for affordable housing production to increase the supply.
- Increase outreach to the lending community in an effort to increase interest and involvement in the financing of affordable housing.

2.1.2. Public Housing

To effectively address the needs of public housing in Arizona, the state has adopted the following strategy:

To address the needs of public housing in Arizona, the state will provide leadership and seek new resources.

To carry out this statewide public housing strategy, the ADOH has developed and committed to the following five-year objective and related annual actions:

- Objective #1: Promote collaborative planning and housing and community development projects among public housing and community development organizations throughout the state.
 - Continue to participate in statewide meetings held by the Arizona Housing Authority Directors Association (AHADA).
 - Work with AHADA to explore establishing informal “cooperation” agreements among appropriate parties. These informal agreements are intended to ensure a concerted and effective use of HUD and other funding to produce housing and assist Arizona low and moderate-income clients.
 - Work with AHADA, housing authorities, and other housing partners to explore methods of providing Section 8 certificates in non-served rural areas of Arizona.
 - Apply for new Section 8 and related program resources as appropriate and as made available by HUD.

2.1.3. Fair Housing

The state’s fair housing strategy is to:

Affirmatively further fair housing by providing leadership and resources to address identified impediments.

The HUD definition of “fair housing choice” means the ability of persons, regardless of race, color, religion, sex, handicap, familial status or national origin, of similar incomes, to have available the same housing choices. During the fiscal year, the state will update the Analysis of Impediments to Fair Housing Choice. Based on the outcomes of that analysis, the state will undertake specific actions to address identified impediments.

Until such time as the updated Analysis of Impediments to Fair Housing Choice is completed and approved, the state will continue to work towards addressing the five key impediments identified in its previously completed Analysis of Impediments to Fair Housing Choice.

- Objective #1: Address impediment Number One (lack of knowledge of fair housing laws by housing consumers).
 - Encourage the distribution of Public Service Announcements (PSAs) to promote fair housing.
 - Continue to distribute the brochure, “Hopes, Dreams and Fair Housing,” both in English and Spanish, on fair housing rights to all organizations which serve low- income, disabled and minority groups.
- Objective #2: Address impediment Number Two (lack of knowledge of fair housing laws by housing industry agents: realtors, builders, landlords, management agents, lenders and insurers).
 - Continue to support education and training to these groups statewide.
 - Continue to make state resources available for fair housing education.
- Objective #3: Address impediment Number Three (lack of hard data on the extent of discrimination in the areas of homeownership: insurance, zoning, and permitting processes).

- Initiate a “statewide barriers to fair housing” project, in which each local jurisdiction will identify existing barriers to fair and affordable housing and methods of addressing them. This will include barriers in the areas of insurance, zoning, and permitting.
- Objective #4: Address Impediment Number Four (Testing of rental, sales, lending and insurance activities is intermittent, and does not usually cover the state outside of Maricopa and Pima Counties).
 - Encourage the Attorney General’s Office, FHIP grantees, and other fair housing advocates to continue testing in all parts of Arizona.
- Objective #5: Address impediment Number Five (not in my back yard [NIMBY] attitudes concerning housing for low income and disabled persons).
 - Continue to participate in meetings with local housing and disability community agencies and advocates, staff of local governments, and other interested parties at which anti-NIMBY strategies will be discussed.
 - Advise units of local government that receive CDBG and HOME funds that, as a result of receiving funding from ADOH, the state will require the local government to advocate for and support the fair housing act.

2.1.4. Lead-Based Paint

To effectively ameliorate lead-based paint hazards in Arizona, the state has adopted the following strategy:

Play a leadership role and seek new resources to ameliorate housing-related lead-based paint hazards.

- Objective #1: Continue to play an organizational role in reducing the hazards associated with lead-based paint relative to housing.
 - Contractually obligate HOME, and CDBG recipients, sub-recipients, contractors and sub-contractors to comply with the Lead-Based Paint Poisoning Prevention Act. This obligation prevents any recipient of funds from participating in rehabilitation activities unless they contractually agree to comply with the Act. Participating jurisdictions and entities are responsible for testing, interim controls and abatement when hazardous conditions exist.

2.1.5. Homelessness and Special Needs

Disability is defined as a long-lasting physical, mental, or emotional condition. This condition can make it difficult for a person to do activities such as walking, climbing stairs, dressing, bathing, learning, or remembering. This condition can also impede a person from being able to go outside the home alone or to work at a job or business.

The number of people in the state of Arizona “with a disability” is estimated at 902,252, based on the 2000 Census. Four percent of Arizona’s population lives with disabling sensitivities to chemical and electrical pollution.

As shown in the following tables, there are 696,913 persons in the state of Arizona “with one or more disabilities”. The ages used for the disability estimation purpose is five years and older, civilian non-institutionalized population.

Disability Status of the Civilian Non-institutional Population – Arizona

	Number	Percent
Population 5-20 Years With a Disability	95,958	8.0%
Population 21-64 Years With a Disability	546,773	19.4%
Population 65+ With a Disability	259,521	39.7%
Total Population 5 Years and Over With a Disability	902,252	19.3%

Note: The total population for age five and over (those with or without disability) was 4,667,187.

Source: Census 2000, SF-3

Disability is classified differently for different groups, but the categories presented in the following table are those that were identified by Census 2000 for data tabulation purposes:

Disability Data by Type of Disability – Arizona

Disability by Type in Arizona	Number Disabled	Population Universe	Percent Disabled
Sensory Disability	357,764	4,667,187	7.7%
Physical Disability	385,950	4,667,187	8.3%
Mental Disability	379,168	4,667,187	8.1%
Self-care Disability	393,265	4,667,187	8.4%
Go-outside-home Disability	393,342	3,822,951	10.3%
Employment Disability	319,537	3,169,173	10.1%
Total Population Age 5 and Over With One or More Disability Items	696,913	4,667,187	14.9%

Source: Census 2000, SF-3.

To effectively address the needs of Arizona's homeless and special needs populations, the state has adopted the following strategy:

Using a Continuum of Care approach to homelessness and special needs, the ADOH and DES will provide leadership and seek new resources.

- Objective #1: Provide emergency shelter statewide (14,000 families & individuals over 5 years)
 - Encourage the use of state Homeless, TANF and other available funds to provide operating support for emergency shelters and the provision of necessary support services.
 - Encourage the use of state Housing Trust Funds and CDBG for the construction or rehabilitation of emergency shelters.
 - Increase contact with local communities to identify local needs and priorities.
 - Disseminate information that will assist interested agencies and persons to remain informed about homelessness issues and programs.
 - Continue to administer in an effective manner a variety of fund sources that address homelessness and seek to move people to self-sufficiency.
 - Support the statewide Continuum of Care and local Continuums of Care that maximize local resources and coordinate with available state and federal funds. The state will, to the maximum extent feasible, provide a portion of the required matching funds for capital activities approved for McKinney Act funding.
 - Provide technical assistance and/or assist directly in the development of funding applications for Stewart B. McKinney Act funds.
 - Administer the state's HOPWA funds to meet emergency and long-term housing needs of persons with AIDS or HIV.
 - The DES will continue to require case management services for recipients of emergency shelter and will analyze outcome measures.
 - Provide emergency shelter and transitional housing, such as hostels, 811 projects and other suitable housing types for persons with chemical and electrical sensitivities.
- Objective #2: Develop transitional housing and supportive housing (4,500 beds/units over 5 years)
 - Encourage the use of state Homeless funds, HOPWA and Homeless McKinney-Vento Act dollars to provide operating support for transitional and supportive housing units and the provision of necessary supportive services.
 - Encourage the use of state Housing Trust Funds, HOME, LIHTC and CDBG for the construction or rehabilitation of transitional and supportive housing.
 - Continue to provide, through the office of special needs housing and technical assistance outreach, the development of affordable housing opportunities for special needs groups.
 - Coordinate the preparation and submission of a statewide application for Stewart B. McKinney funding, for non-entitlement areas of Arizona.
 - Proactively promote projects that enable homeless persons to obtain supportive housing assistance throughout the full range of the Continuum of Care.
 - Encourage the provision of the information necessary for homeless persons to access appropriate mainstream assistance programs.
 - Encourage and facilitate on-going dialogue, communication and collaboration among emergency shelters and transitional housing service providers.

- The DES will continue to require case management services for recipients of transitional housing and will require standardized outcome measures for FY 2004.
- Objective #3: Promote permanent housing (950 units over 5 years)
 - Encourage and facilitate ongoing dialogue, communication and collaboration among emergency shelters, transitional shelters, and permanent housing and mainstream service providers.
 - Obtain and provide the information necessary for homeless persons to access appropriate mainstream assistance programs.
 - Give priority in state HOME, Housing Trust Fund and LIHTC applications to projects that serve homeless and special needs populations.
 - Promote the development of permanent supportive housing for disabled homeless persons through the Stewart B. McKinney program and the State Housing Fund.
- Objective #4: Prevent homelessness (21,000 individuals over 5 years)
 - Use HOPWA funds to prevent homelessness for persons living with AIDS or HIV.
 - Maintain and seek to expand an eviction/foreclosure intervention and emergency homeless housing assistance program that incorporates the provision of immediate financial and social services to distressed owners, renters and homeless persons.
 - Encourage the use of CDBG funds to provide emergency rental and utility assistance to low- and moderate-income persons to prevent eviction.
 - Place increased emphasis on case management as a means to provide appropriate assistance that will prevent homelessness.
- Objective #5: Provide housing for persons with disabilities
 - Promote awareness in both public and private housing about the need to accommodate disabilities.
 - Ensure adherence to accessibility standards in all federal and state assisted housing.
 - Promote visibility in public and privately funded housing to include wheelchair accessible front doors/pathways and wheelchair accessible bathrooms.
 - Incorporate provisions in publicly funded housing to accommodate persons with all disabilities.
- Objective #6: Increase housing opportunities for persons with chemical and electrical sensitivities
 - Encourage Public Housing Authorities to implement policies and procedures conducive to healthy safe housing for chemically and electrically sensitive residents.
 - Promote awareness in both public and private housing about the need to accommodate disabilities.
 - Promote awareness of any institutional barriers to successful housing for persons with chemical and electrical sensitivities.
 - Encourage provisions in publicly funded housing to accommodate persons with chemical and electrical sensitivities. Such provisions should prevent additional exposure from indoor pollution and unnecessary chemical and electrical exposure in publicly funded housing.
- Objective # 7: Increase housing opportunities for elderly and frail elderly
 - Encourage the use of the LIHTC, State Housing Funds and CDBG funds for the construction and rehabilitation of housing for elderly and frail elderly.

- Objective # 8: Increase housing opportunities for persons with Severe Mental Illness and Persons with Alcohol/Drug Addictions.
 - Encourage the use of the LIHTC, State Housing Funds and CDBG funds for the construction and rehabilitation of housing for persons with severe mental illness and persons with alcohol and drug addiction.
- Objective # 9: Increase housing opportunities for persons who are Developmentally Disabled
 - Encourage the use of the LIHTC, State Housing Funds and CDBG funds for the construction and rehabilitation of housing for developmentally disabled.
- Objective # 10: Increase housing opportunities for persons with HIV/AIDs
 - Encourage the use of State Housing Funds for the construction and rehabilitation of housing for persons with HIV/AIDs.
- Objective # 11: Increase housing opportunities for Victims of Domestic Violence
 - Encourage the use of the LIHTC, State Housing Funds and CDBG funds for the construction and rehabilitation of housing for victims of domestic violence.
- Objective # 12: Increase housing opportunities for troubled and homeless youth
 - Encourage the use of the LIHTC, State Housing Funds and CDBG funds for the construction and rehabilitation of housing for troubled and homeless youth.

2.1.6. Non-Housing Community Development

To effectively address non-housing community development needs in Arizona, the ADOH has adopted the following strategy:

Provide leadership and seek new resources for public facilities, infrastructure, public services, accessibility/historic preservation/general planning, economic development, neighborhood revitalization, and grantee capacity in Arizona.

The Consolidated Plan statute requires that the state describe non-housing community development actions as either long-term or short-term:

- Objective #1: Enhance public/community facilities
 - Long-term
 - In cooperation with units of local government:
 - Commit resources to rehabilitate deteriorating public facilities.
 - Commit resources to foster the provision of needed facilities and services accessible to low-income beneficiaries.
 - Encourage the commitment of CDBG resources for public facilities where the long-term operation and maintenance of such facilities is established.
 - Invest public facility resources in projects that serve as a lever to induce the subsequent investment of public or private resources.
 - Stimulate the investment of non-federal, local sources of funding in assisted projects.

- Invest approximately 30 percent of annual CDBG resources for priority public/community facility needs throughout Arizona, based on FY2001 investments.

Short-term in the 2004 program year

- As needed, provide technical assistance to communities proposing and implementing public facility projects that assist in achieving the state's long-term objectives.

➤ Objective #2: Enhance infrastructure improvements (water, wastewater and streets).

Long-term

- In cooperation with units of local government:
 - Strategically address the health, safety, and welfare of low-income residents through the investment of CDBG funds in infrastructure projects.
 - Commit resources to foster the provision of needed facilities and services accessible to and benefiting low-income households.
 - Commit CDBG resources to infrastructure projects that can be realistically accomplished within timelines stipulated by the state and accepted by applicants.
 - Invest CDBG resources in priority "Colonia" projects that can be locally operated and maintained on a sustained basis over time.
 - Strategically invest CDBG resources in infrastructure projects that provide direct services to eligible beneficiaries.
 - In an effort to bring projects into compliance with applicable federal and state environmental regulation, and in cooperation with the state's Water Infrastructure Finance Authority (WIFA), the Arizona Department of Environmental Quality (ADEQ), and units of local government, foster the commitment of State Revolving Loan proceeds in assisted projects.
 - Stimulate the investment of non-federal, local sources of funding in assisted projects.
 - Invest approximately 20 percent of annual CDBG resources for priority infrastructure needs throughout Arizona, based on FY 2001 investments.

Short-term in the 2004 program year

- As needed, provide technical assistance to communities in the development and implementation of projects that are designed appropriately for the communities needs, are sustainable and leverage the maximum amount of non-federal resources.

➤ Objective #3: Address public service needs

Long-term

- In cooperation with units of local government:
 - Consider the investment of CDBG resources in public facilities with needed and applicable public services to secure the maximum benefit to low-income persons and induce the investment of supplemental public or private resources.
 - Invest CDBG resources for public services that do not cultivate reliance on CDBG funding to meet long-term expenses.
- Invest approximately 10 percent of annual CDBG resources for priority public services needs throughout Arizona, based on 2001 investments.

Short-term in the 2004 program year:

- In conjunction with units of local government and applicable CDBG regulations, ensure that the investment of public services conforms to applicable cap requirements.
 - Encourage the creation and expansion of public services funded through other resources by using CDBG to acquire land for, construct or renovate facilities in which such will be provided.
 - As needed, provide technical assistance to communities proposing and implementing public service projects.
- ➔ Objective #4: Address accessibility, historic preservation, general planning needs, and other community development needs

Long-term

- As needed and in cooperation with units of local government:
 - Invest CDBG resources for priority projects that enhance the accessibility of projects in compliance with ADA and 504 regulations.
 - Invest CDBG resources for priority residential and non-residential historic preservation projects that further downtown redevelopment and neighborhood revitalization efforts.
- Maximize the investment of CDBG resources to stimulate supplemental public and private investments.
- In cooperation with units of local government:
 - Invest the ADOH CDBG resources in tandem with and in support of ADOC Main Street Program initiatives.
 - Invest CDBG resources in eligible planning activities that benefit low and moderate-income persons, further the removal of slum or blight, create or retain employment for lower income beneficiaries, or foster residential development for lower income households.
- Invest CDBG resources in residential and non-residential historic preservation projects that stimulate the receipt of public historic preservation tax credits.
- Invest approximately 4 percent of annual CDBG resources in priority accessibility, residential and non-residential projects, and other community development needs, based on FY 2001 investments.

Short-term in the 2004 program year:

- As needed, provide technical assistance to communities in the design and implementation of redevelopment and neighborhood revitalization activities.
- ➔ Objective #5: Promote economic development

Long-term

- In cooperation with units of local government:
 - Strategically invest CDBG resources to foster the retention and expansion of businesses in the state offering long-term opportunities for low-income households and furthering neighborhood revitalization.
 - Consider the commitment of Section 108 loan guarantees for long- and short-term financing of economic development projects consistent with ADOH rules that guarantee repayment.
 - Induce the development of economic development projects that retain jobs within the grantee's jurisdiction.

- Strategically commit CDBG resources in tandem with state Workforce Investment or other available state resources to further business retention, expansion or creation.
- Strategically commit CDBG resources for infrastructure assistance where such assistance is paramount to the success of business expansion, retention or creation.
- In no instance, commit CDBG resources to section 108 loans that pledge municipal or county general funds as sources of repayment.
- Continue to offer a revolving loan program alternative for use in assisting businesses that create or retain long-term employment opportunities for low-income households.
- In cooperation with units of local government and in conformance with adopted methods of distributions for CDBG resources, invest CDBG resources to implement approved federal and state Enterprise Zone or Community designations.
- Invest funds as needed, based on the nature of projects submitted for funding, for priority economic development activities and needs throughout the state.

Short-term in the 2004 program year

- As needed, provide technical assistance to communities in the design and implementation of economic development activities.

➤ Objective #6: Encourage neighborhood redevelopment and revitalization

Long-term

- In cooperation with units of local government:
 - Strategically invest CDBG resources to foster neighborhood revitalization and redevelopment throughout the state.
 - Strategically invest CDBG resources in ways that induce the maximum investment by neighborhood residents and private business interests.
 - Strategically invest CDBG resources to sustain and maintain local code enforcement efforts.
 - Strategically invest CDBG resources in designated target and redevelopment areas so as to accelerate the quality and quantity of private investment in neighborhoods.

Short-term in the 2004 program year:

- As needed, provide technical assistance to communities in the design and implementation of redevelopment and neighborhood revitalization activities.

➤ Objective #7: Enhance grantee capacity

Long-term

- In cooperation with units of local government, implement a technical assistance and training strategy to foster the identification and implementation of priority community development projects.
- Foster the development of a peer-training program so that successful and innovative projects and programs may be shared throughout the state.
- Continue to assist communities to leverage other resources with CDBG funding.

Short-term in the 2004 program year:

- In cooperation with Councils of Government (COGs) and in consultation with units of local governments, continue to deliver one-on-one technical assistance to communities concerning project identification and project implementation.
- In consultation with units of local government and the COGs, continue to provide in-depth technical assistance via formal workshops and handbooks.
- In conjunction with the COGs, local communities and HUD make improvements to ADOH's CDBG application forms to streamline the application process and to facilitate the management of CDBG contracts for all parties.
- In cooperation with units of local government and COGs, continue to improve the expenditure rate of CDBG funds.

2.1.7. Anti-Poverty

The Consolidated Plan regulations require the state to describe its anti-poverty strategy as related to housing and community development. The state has therefore described its anti-poverty strategy in detail in its five-year Consolidated Plan:

As implemented in the ADOH, the state's anti-poverty strategy is to provide leadership in developing policies and programs to reduce poverty. Building partnerships among state agencies, COGs, local housing organizations, and supportive service providers is key to the success of this strategy. As a result, many of Arizona's poor will be provided an opportunity to increase their standard of living.

- Objective #1: Promote economic opportunity
- Objective #2: Enhance support services
- Objective #3: Promote housing opportunities
 - The actions listed under Non-housing Community Development Objective #5 (Promote economic development) are the actions the state will carry out during the 2004 program year.
 - The actions listed under Non-housing Community Development Objective #3 (Address public service needs) and many of the actions listed under the objectives for homelessness and special needs are the actions the state will carry out during the 2004 program year.
 - The actions listed under the three Rental Housing Objectives are the actions the state will carry out during the 2004 program year.
 - Encourage the use of CDBG and other federal and state resources for anti-poverty activities that provide economic opportunities through jobs, business opportunities, training, childcare, and other actions.
 - Continue to participate in committees, workshops and conferences that attempt to coordinate housing, economic, and community development resources with welfare reform.
 - Continue to target state resources to areas of high poverty in an effort to revitalize neighborhoods and communities.

2.1.8. Housing and Community Development Delivery System (Institutional Structure)

The Consolidated Plan regulations require the state to describe its institutional structure for addressing housing and community development issues and examines the gaps in this structure. It also requires the state to design a strategy to address those gaps. The state has adopted the following strategy regarding institutional structure:

To provide leadership and seek new resources to fill gaps in the state's institutional structure for the delivery of housing and community development projects, programs, and activities.

➤ Objective #1: Enhance coordination efforts

- The ADOH, and the AzHFA will continue to deliver housing and community development programs in Arizona, and will assume responsibility for tax-exempt and taxable housing bond programs in rural Arizona.
- Undertake efforts to secure the support of impacted localities and encourage the passage of key affordable housing legislation. The state will continue to work with a variety of units of local government, with COGs, and with the League of Arizona Cities and Towns.
- Continue to:
 - Work with the Arizona Housing Commission to guide state affordable housing policy aimed at enhancing public-private coordination on affordable housing projects.
 - Work with other agencies (e.g., Fannie Mae, USDA Rural Development) on jointly-funded programs designed to enhance affordable housing and community development.
 - Make available resources to match those made available at the local level.
 - Meet with representatives of AHADA concerning issues affecting the development of affordable housing.
 - Participate in meetings intended to establish state and local networks or coalitions to increase public-private coordination of the state's fair and affordable housing efforts.
 - Participate in activities to promote fair housing statewide through Arizona's "Fair Housing Partnership" that includes HUD, the Arizona Attorney General's Office, Arizona Association of Realtors, Arizona Mortgage Bankers Association, Arizona Multihousing Association, Fannie Mae, and the National Association for the Advancement of Colored People.
 - Work with various private sector, philanthropic, and faith-based organizations on a Maricopa countywide collaboration to develop a strategic plan for affordable housing.
- With respect to the design and implementation of the state's housing programs, solicit and secure local government input and comment. In accordance with state statutes, the state will solicit local input prior to committing resources.
- In cooperation with HUD, USDA Rural Development, other state agencies and various local governments, the state will participate in meetings to coordinate training and technical assistance. Additionally, the state will participate in the development of other entitlement community Consolidated Plans when requested.
- Meet with members of the Maricopa and Pima County HOME Consortia to discuss ways of ensuring that program delivery is consistent for mutual applicants.

- Objective #2: Provide leadership and develop partnerships.
 - In cooperation with the Arizona Housing Commission:
 - Strengthen the state’s leadership on housing affordability and related infrastructure issues.
 - Advise state agencies regarding housing-related activities including program policy and performance.
 - In cooperation with the ADOC and DES, continue to monitor changes at the federal level and participate in the state’s joint response.
 - In cooperation with the Department of Health Services, work toward continued funding solutions that ensure that adequate housing is provided for the state’s seriously mentally ill population.
 - In cooperation with the Department of Corrections, work toward continued housing development in communities around Arizona with state correctional facilities.

Joint Initiatives

- In cooperation with the ADOC, HUD, Fannie Mae, the Department of Energy, USDA Rural Development, the Federal Reserve Bank, and others:
 - Participate in USDA Rural Development’s Southwest Initiative for the Mexican Border.
 - Make available state resources to local communities applying for federal funds.
 - Initiate, upon request, project-by-project consultations to match state and federal resources.
 - Partner with HUD and Fannie Mae, the Arizona Attorney General’s Office and major housing trade organizations, on a statewide “Fair Housing Partnership.”

Partnerships With Local Governments

- Design programs sensitive to local needs and place particular emphasis on working to get resources to regions of Arizona without local providers. The state will continue to consult with local governments on programs and projects that are needed and wanted in communities. Specifically, the following efforts will be undertaken in partnership with local governments:
 - The ADOH and AzHFA will administer the tax-exempt housing bond programs for the thirteen rural Arizona counties.
 - Participate in local Continuum of Care processes.
 - Submit a Continuum of Care application on behalf of rural communities.
 - Educate local communities about the benefits of using AzSTEP, a self-help water/wastewater concept, in the development and implementation of such projects.
 - Make available state resources to local communities applying for federal funds.
 - Make planning guidance and/or resources available.
 - Participate in conferences and events to promote programs and solutions.

Partnerships With Tribes

- Work with tribes to design programs and projects that are sensitive to their unique cultures. In FY 2004 the state will:
 - Provide technical assistance to Tribes in analyzing and addressing their housing and community development needs through the newly created Tribal Liaison position with ADOH.
 - Periodically confer with the InterTribal Council of Arizona (ITCA) on housing issues.

Partnerships With the Private Sector

- Maintain relationships with nonprofit agencies, builders, lenders and developers to identify ways to use public resources to stimulate community and housing development. In FY 2004, this will include:
 - Sponsoring or participating in workshops to educate the private sector regarding opportunities with public programs.
 - Consultations on projects and programs to match public and private resources.
 - Encouraging private sector consultation and involvement in the activities of the Arizona Housing Commission.
 - Working with various private sector, philanthropic, and faith-based organizations on a Maricopa countywide collaboration to develop a strategic plan for affordable housing.
 - Encouraging private sector participation in local planning councils.
 - Through the Governor's Homeless Trust Fund Oversight Committee, continuing to identify priority needs and to advocate for policies that strengthen programs for homeless persons.

➔ Objective #3: Improve communication and increase outreach

The state's communication and outreach have been critical in developing affordable housing and community development activities that address community needs. These efforts educate communities regarding the positive impact of affordable housing/community development on issues such as economic development and quality of life. For the 2004 program year, the state will:

- Continue to attend grand openings, hold consultations, etc.
- Participate in state and local councils comprised of both the public and private sectors to discuss how to address affordable housing/community development issues.
- Continue to hold public forums and hearings to provide additional opportunities for public participation.
- Hold or participate in workshops/conferences to assist in the identification of barriers to affordable housing, community development, and fair housing.
- Hold or participate in training events to encourage the use of the ADOH resources and to facilitate the application process.
- Use press releases to build public awareness.
- Disseminate data on resources available to homeless persons.
- Maintain and continuously improve the ADOH website, and include information on programs and related links.
- Continue to publicize the State of Housing in Arizona and The Arizona Affordable Housing Profile studies to increase awareness of Arizona's affordable housing issues.

➔ Objective #4: Eliminate gaps (needs) in the delivery system

- Through the Arizona Housing Commission, help fill identified financing gaps by developing priorities and making available funding to address those priorities.
- Through the programs of the ADOH and AzHFA, encourage projects and programs that:
 - Are located in rural Arizona.
 - Are located in hard to develop or underserved areas.

- Are located on Tribal lands.
- Include nonprofit participation in underserved markets.
- Are located in locally-designated revitalization areas.
- Are targeted to lower-income and special-needs populations.
- Preserve existing affordable housing.
- Promote self-sufficiency.
- Take a proactive approach in the development of programs and prototypes in non-entitlement areas.
- Encourage planning among local governments and nonprofit agencies.
- Reach out to rural areas that have identified needs for the development of Continuum of Care strategies.
- Continue to use state resources for costs not eligible under federal programs and for necessary match.

➔ Objective #5: Coordinate and attract new resources

The state has pursued and continues to pursue affordable housing and community development resources. For the 2004 year, the state will:

- Continue to:
 - Help communities, nonprofits, and private developers identify community and housing development resources.
 - Work with Congress to protect current resources and to bring new federal housing and community development resources to Arizona.
 - Provide staff support to the Housing Commission Task Force on Tax Exempt Mortgage Financing. This Task Force was created by legislation passed in FY 1999 and charged with reviewing and reporting on 1) the availability of financing for single family housing, and 2) the role of the private activity bond allocation process in facilitating the availability of housing for low to medium income families in all areas of Arizona. The Task Force includes eight members appointed by the Governor and two members each appointed from the State Senate and House of Representatives. The Task Force will publish interim annual reports prior to its final report due in August 2004.
 - Support local government and nonprofit efforts to retain and bring new federal housing resources into Arizona by providing matching funds.
 - Explore and encourage ways to stretch resources by reducing costs (e.g., alternative construction methods and designs.)
 - Encourage use of an infrastructure self-help approach called AzSTEP.
 - Apply for Continuum of Care resources for rural Arizona.
- Through the Arizona Housing Commission, continue to work with the Legislature to protect current resources and to develop new state resources or incentives.
- Implement the Housing Opportunities for People with Aids (HOPWA) program in areas outside of Maricopa, Pima and Pinal counties.
- Pursue funding for supportive housing to provide new units and to preserve existing rental assistance programs.
- Make an effort to certify for consistency with the state's Consolidated Plan those local governments seeking to apply for other HUD resources.

➤ Objective #6: Coordinate resources and improve program operations

The state's philosophy is to develop and refine its programs so that they are efficient, maximized, and flexible. For the 2004 year, the state will:

- Continue to:
 - Refine program criteria to encourage most efficient use of resources.
 - Accept program and project applications periodically throughout the year, as resources are available.
 - Accept concurrent applications for LIHTC applicants seeking gap financing from HOME or HTF.
 - Measure the use of state resources against pre-determined goals to monitor program effectiveness. This includes geographic funding objectives and priority projects, such as special needs projects.
 - Work on coordinating resources available for special-needs housing through ADOH and the DES.
 - Efforts to application processes more user-friendly.
- Address issues identified in a customer satisfaction survey.
- Seek to identify ways to increase the effectiveness of homeless assistance programs.
- Promote local homeless Continuum of Care strategies that proactively seek to utilize mainstream assistance programs to assist homeless individuals and families.

➤ Objective #7: Provide increased technical assistance and education

The state continually provides technical assistance to all levels of government as well as the nonprofit and private sectors. For the 2004 year, the state will:

- Direct technical assistance to requesting agencies.
- Offer technical assistance on program and development issues.
- Provide general guidance on program standards.
- Update and develop program manuals.
- Develop a program training schedule.

2.1.9. Obstacles to Serving Underserved Needs

The Consolidated Plan regulations require the state to develop a strategy to address the obstacles to serving underserved needs and set actions to address them.

The state's strategy in this area is to work with the Arizona Housing Commission to build support and provide leadership to address issues concerning underserved needs.

The following actions will therefore be undertaken during the 2004 program year to achieve that strategy:

- The actions listed under all the objectives for Non-housing Community Development are also the annual actions the state will carry out during the 2004 program year to help serve underserved needs.



**SECTION TWO:
FY 2004 Annual Action Plan
Part B: Methods of Distribution
and Geographic
Funding Objectives**

2.2. Methods of Distribution and Geographic Funding Objectives for FY 2004

This section describes the methods of distribution and geographic allocation of resources for: 1) HOME Investment Partnerships Program (HOME), 2) Community Development Block Grant (CDBG), 3) Emergency Shelter Grant (ESG), and 4) Housing for Persons with AIDS (HOPWA). Program descriptions for the state Housing Trust Fund (HTF) and Low-Income Housing Tax Credit (LIHTC) programs are also included in this section. As required by 24 CFR 91.320(g), program-specific items are noted when relevant.

The methods of distribution and geographic allocation of resources are subject to change given a variety of factors, including but not limited to:

- Changes in socio-economic data affecting affordable housing, homelessness, demand for supportive housing, and community development needs.
- Changes in the amount and/or timing of local, state, and federal affordable housing resources available to the state.
- Changes in the priorities, structure, and delivery mechanisms of local, state and federal affordable housing programs.
- The quality and quantity of funding applications received from grantees, sub-grantees, sub-recipients, contractors and other applicants.

2.2.1. HOME Program Method of Distribution, Match and Geographic Investment

The state expects to receive \$9,622,705 in FY 2004 HOME resources, including \$538,313 in **American Dreams Downpayment Initiative (ADDI)**. ADDI funds are expected to be available July 1, 2004. ADOH will implement the American Dreams Downpayment Initiative through the existing ADOH Homes for Arizonans Program. Refer to Section 2.1.1.2 for a description of the program.

HOME match liability is expected to be met through State dollars invested in the State's Homes for Arizonans Program. The HOME program match liability is 25 percent (statutory requirement) of actual expenditures during the program year or approximately \$2,405,676. Match will be provided from the following two sources – the Homes for Arizonans Program and match carried over from previous years. The Homes for Arizonans program is expected to generate \$1.2 million. This program provides down payment and closing cost assistance to first time homebuyers in the rural areas of the State. Additionally, the State has \$6.0 million in match that was carried over from the previous years. The Homes for Arizonans program has been an essential component in the State's ability to far exceed the HOME program's minimum match requirements.

Supportive Housing

ADOH actively obtains matching funds for operating costs, supportive services, and capital development for all Supportive Housing activities. ADOH has actively funded capital development

activity, over and above HUD Supportive Housing program requirements, to help local communities and nonprofit agencies meet the housing needs of homeless persons throughout the State.

The state intends to make HOME funds available statewide. Applicants for most HOME activities may also apply for State Housing Trust Fund resources through the same application.

HOME Geographic Funding Objectives	
Geographic Area	Amount
State Administrative Costs (not for distribution)	\$ 908,439
Statewide CHDO set-aside (15%)	1,362,659
METRO Area (Maricopa & Pima Counties)	1,549,343
CAAG Area (Gila & Pinal Counties)	1,015,804
NACOG Area (Apache, Coconino, Navajo & Yavapai Counties)	1,951,916
SEAGO Area (Cochise, Graham, Greenlee & Santa Cruz Counties)	836,689
WACOG Area (LaPaz, Mohave & Yuma Counties)	1,459,542
SUB-TOTAL	\$ 9,084,392
Set-Asides:	
American Dream Downpayment Initiative Set Aside (2004)	\$ 291,384
American Dream Downpayment Initiative Set Aside (2003)	246,929
TOTAL HOME AVAILABLE DURING FY2005	\$ 9,622,705

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.	\$ 6,412,500	\$4,125,953
Homeownership Housing, including HOME CHDO set-aside, new construction; acquisition/ rehabilitation for resale.		150,000
American Dream Downpayment Initiative Set-Asides (federal FY03 and FY04)		538,313
Owner-occupied Housing Rehabilitation, including emergency repair	2,137,500	3,900,000
Grantee/recipient Administrative Costs	600,000	
Fair Housing Education	150,000	
Homes For Arizonans Program	3,000,000	
Homelessness Prevention	2,000,000	
State Special Projects	1,500,000	
HFA Special Initiatives	3,000,000	
Tribal Housing Initiative	FY04 carryover	
Totals	\$ 18,800,000	\$ 8,714,266

2.2.1.1. Method of Distribution

The state makes available HOME funds through an application process. Applications are accepted quarterly for rental and homeownership development activities, including CHDO activities, and semi-annually for housing rehabilitation programs. Administrative funding in support of HOME activities is available from the state Housing Trust Fund through the HOME application. Funding decisions are generally made within thirty (30) to sixty (60) days.

Only applications that meet minimum thresholds are considered for funding. The minimum thresholds for HOME applications include:

- o Program Responsiveness
- o Readiness to Proceed

Applications that meet minimum thresholds are underwritten based on the following criteria as relevant to the proposed activity:

- o Market Need/Demand
- o Management/Capacity
- o Budget/Financial Analysis
- o Program Design

Once it is determined that an application meets minimum underwriting standards, the application and underwriting results are forwarded to a funding committee for final review and recommendation. The funding committee is comprised of senior ADOH staff, including program managers, ADOH Administrators, ADOH Deputy Director and the ADOH Director. The funding committee makes a recommendation to the ADOH Director as to whether the application should be funded without conditions, funded with conditions, or rejected. The ADOH Director makes the final funding decision.

When insufficient funds are available, either geographically or for an activity, competitive scoring criteria are used. If competitive scoring is necessary, the following scoring criteria will be used:

- o Very-low income targeting

Priority populations Applications for FY 2004 HOME activities will be accepted according to the following schedule:

Application Due Date	
Homeownership and Rental Housing Development	August 31, 2004
	October 29, 2004
	January 31, 2005
	April 29, 2005
Owner-occupied Housing Rehabilitation	August 31, 2004
	January 31, 2005

2.2.1.2. Geographic Distribution of HOME Funds

The state will distribute HOME resources to recipients and Community Housing Development Organizations (CHDOs) through the application process outlined above. In accordance with §92.201(b)(1) of the HOME regulations, geographic funding objectives have been established to ensure, to the extent possible, an equitable geographic distribution of funds.

The actual geographic distribution of resources will be based on the number and quality of applications received. The state will not hold funding available or make any concessions with regard to program thresholds or underwriting in order to guarantee the funding of activities within a specific geographic region. Additionally, without regard for geographic distribution, the state has a goal of directing at least 25 percent of HOME funding to projects and programs that serve special needs populations.

During FY2004, the state will not utilize HOME resources for tenant-based rental assistance or for homeownership assistance in the form of down payment/closing cost or equity contributions. Both tenant-based rental assistance and down payment and closing cost homeownership assistance programs are funded through the state Housing Trust Fund (HTF). Funding these activities with state HTF enables the state to meet HOME match requirements and also ensures more timely expenditure of HOME funds.

2.2.1.3. Forms of Investment – 9.320(g)(2)(i)

No other forms of investment will be used.

2.2.1.4. Resale and Recapture Provisions – 91.320(g)(2)(ii)

HOME and/or matching funds used to assist eligible homebuyers are subject to the following recapture provisions.

Assistance provided by the state shall be in the form of a non-interest bearing, deferred payment loan secured by a deed of trust naming the State of Arizona or its designated representative(s) as beneficiary. 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 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. Then the Net Resale Proceeds shall be distributed as follows.

If the Net Resale Proceeds are sufficient to cover the state investment including any interest due, and the Borrower's Equity, the state 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 state investment and any interest due and Borrower's Equity.

If the Net Resale Proceeds are not sufficient to repay the state 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.

2.2.1.5. Security Instruments

Recapture restrictions shall be executed through one or more of the following instruments, depending on the type of first-mortgage instrument:

- A due-on-sale provision inserted by a private mortgage lender with loan pre-payment penalties covering the amount of recapture as determined above. At the time of property transfer, pre-payment proceeds less processing costs due the State of Arizona shall be paid by the first mortgage lender. Due-on-sale provisions shall be executed through written agreements between the lender and the State of Arizona, and shall be accepted by the borrower at the time of first-mortgage loan origination.
- Land Use Restriction Agreements and/or deed restrictions filed against the property acquired by the assisted homebuyer.
- Deed of Trust and Promissory Notes consistent with the non-interest HOME-financed loan filed on the property acquired by the assisted homebuyer.

2.2.1.6. HOME Activity – Arizona Border Region Enterprise Community

The investment of HOME funds is not restricted or limited to a geographic area and can be used in support of the Arizona Border Region Enterprise Community (AZBREC).

2.2.2. Emergency Shelter Grant (ESG) Method of Distribution, Match and Geographic Investment

The Arizona Department of Economic Security (DES) is the HUD grantee for ESG funds and is the responsible administrative agency. Federal FY 2005 ESG funds in the amount of \$800,248 have been allocated to the State of Arizona. Up to five percent or \$40,012 will be retained for administrative costs. For FY 2004, it is the intent to renew existing contracts at FY2004 funding levels. Anticipated funding by county is shown for governmental entities in the Resources Chapter of the 2000-2004 Consolidated Plan.

ESG funds require a one-to-one (100%) match. Federal regulation allows the first \$100,000 expenditure of ESG to be unmatched. Since DES requires its subrecipients to provide the match, this option is used to assist subrecipients with the least amount of resources. The total minimum match that will be provided for the FY 2005 ESG grant is \$700,248 for a total program resource of \$1,500,496. In previous years the minimum match requirements have been exceeded. Matching funds are provided in a variety of ways ranging from in-kind salary matches to volunteer labor.

Updated budgets, certifications if needed, and descriptions of activities to be funded by ESG will be submitted to the DES, Community Services Administration (CSA) for the renewal period. The updated information submitted will be reviewed and approved, where necessary to assure compliance with ESG requirements.

It is planned that renewal contracts with governmental entities and nonprofit organizations can be in place by July 1, 2004. Funds will be spent by June 30, 2005 for contract renewals.

The following funding strategies apply:

- The current funding strategies is to continue funding at current levels for shelter services, case management and outreach which is approximately 70% in Maricopa County, 11.5% in Pima

County, 4% in Pinal County, 12% in Mohave, Yavapai and Yuma Counties and 2.5% in Navajo, Cochise and Coconino Counties.

- Funding of eviction prevention services up to the maximum 30 percent of the allocation.
- Funding of staff costs in shelter facilities is not planned.
- Selected applicants least apt to be able to provide match will have their match requirement reduced by a negotiated amount. A total of \$100,000 of match will be waived as allowed by federal regulation.
- DES intends to utilize up to five percent of the allocation for administration to help defray the costs of operating the ESG program.

The ESG funds, upon award, will be contracted and utilized within the state fiscal year to operate emergency shelter and transitional housing facilities and make homeless prevention and essential services available in order to alleviate the urgent and growing needs of people who are homeless.

2.2.3. Community Development Block Grant (CDBG) Method of Distribution, Match and Geographic Investment

This section of the Consolidated Plan Annual Action Plan complies with 24 CFR 91.320(c), 91.320(d) and 91.320(g)(1) for the State Small Cities CDBG program. Details regarding the FY 2004 state CDBG Program are available in the FY 2004 CDBG Application Handbook, other CDBG handbooks, and in federal regulations governing this program.

The total amount of CDBG funds available for the FY 2004/2005 is \$14,409,104. No program income or carryover funds are available therefore none are included in this amount. Federal Law allows the State to retain two percent (\$288,182) plus \$100,000 of its annual CDBG allocation for program administration. However, it also mandates that the State provide a non-federal match for the two percent. The match is to be documented at the same time that CDBG funds are drawn down for the State's administrative expenditures above \$100,000. During the July 1, 2004 to June 30, 2005 the state will provide the non-federal funds from two sources. These included "hard" match funds, i.e., State funds used to pay salaries and other operating expenses of the CDBG program and "In-kind" or "soft" match funds which represent staff time devoted to the CDBG program by individuals whose salaries are paid from non-federal sources. These individuals, which include those located in the MIS Division, Personnel, Procurement, the Division's front desk, the Deputy Director and Programs Administrator all track their time on departmental time sheets.

2.2.3.1. Allocation

The \$14,409,104 in federal CDBG resources available to the state will be distributed as follows:

- ADOH Administration - \$532,273. This includes \$144,091 (1% for technical assistance), \$288,182 (2% for administration), \$100,000 (for administration). This amount does not include the required 2% administration match of \$288,182.
- Grantee Funds – \$13,876,831
- Regional Account (RA) – \$11,795,306 (85% of grantee funds)
- SSP Account (SSP) – \$2,081,525 (15% of grantee funds)

2.2.3.2. Other Funds Including Program Income (PI)

The State will distribute any recaptured funds, de-obligated funds, disallowed costs from prior contracts, and program income (PI) not retained by grantees. These funds will be distributed as follows:

ADOH may reallocate de-obligated funds to the same community from which it was de-obligated to an existing or new contract of the same funding year based on the following criteria: 1) performance of the contract from which the funds were de-obligated; and 2) ability to commit de-obligated funds to another project that can immediately use the funds provided the new funds can be committed through a new contract or an amended contract within 60 days.

If ADOH cannot reallocate de-obligated funds according to the above criteria the de-obligated funds will be redistributed by ADOH to the SSP.

Funds Recaptured for Non-compliance and Recaptured for Non-performance will be redistributed by ADOH to the SSP.

2.2.3.3. Thresholds

To be eligible for CDBG funds, the proposed activity (ies) and unit of general local government must meet the following thresholds:

- National objectives – Each activity, other than administration, must meet one of three national objectives: Low/Mod benefit, Slum or Blight, or Urgent Need.
- Eligible activities – Each activity and all components of each activity must be eligible per CDBG statutes and regulations and ADOH policies and handbooks.
- Administrative and financial thresholds – Costs must be realistic and activities must be capable of being implemented within approximately 24 months.
- Compliance – Each activity must comply with federal regulations and overlay statutes.
- Anti-speculation – All sources of funds necessary to complete the project must be secured prior to application.

2.2.3.4. Meeting Low/Mod Benefit

At least 70 percent of FY 2004 CDBG funds must be spent on activities that meet the low/mod benefit national objective. Consequently, activities justified on the basis of Slum/Blight or Urgent Need are funded on a first-notified (to either the COG or ADOH), first-funded basis up to a maximum of 30 percent of FY 2004 CDBG funds.

2.2.3.5. Administration, Planning, and Public Service Caps

Administration and Planning. Requests for administrative and planning funds are limited to not more than 18 percent of each applicant's total application amount. The exception to this limitation is planning-only grants. Planning-only grants may be funded from either the RA or SSP account on a first-notified, first-funded basis up to 20 percent of the state's annual allocation.

Public Services. Requests for public service funds are limited to not more than 15 percent of the total CDBG allocation and are funded on a first-notified, first-funded basis.

2.2.3.6. CDBG-Eligible Activities

CDBG funds can be used for a wide range of activities including but not limited to:

- Public improvements (water, wastewater, streets)
- Public facilities (parks, community/senior centers, removal of architectural barriers)
- Housing (both owner-occupied and rental rehabilitation, new housing construction undertaken by a nonprofit, and homeownership assistance)
- Economic development (infrastructure for and direct assistance to businesses, including micro enterprises, to create or retain jobs for and benefit low-moderate income persons)
- Public services (e.g., childcare, transportation, job training)
- Planning

2.2.3.7. CDBG-Eligible Applicants

The state CDBG program is available to units of local government, including cities, towns, and counties, in rural areas. For the purposes of the CDBG program, rural areas are those located outside of entitlement jurisdictions, which receive CDBG funds directly from HUD. Entitlement jurisdictions in Arizona include: all of Maricopa and Pima Counties, the cities of Flagstaff and Yuma, and Tribal lands.

2.2.3.8. Multi-Jurisdictional Grant Applications

Multi-jurisdictional CDBG applications may be submitted. Multi-jurisdictional applications are subject to the following requirements: an Intergovernmental Agreement identifying a lead entity must be executed; each jurisdiction must comply with required citizen participation and publication requirements; and each jurisdiction must benefit from the proposed activity.

2.2.3.9. Urgent Needs Grant Applications

When proposing an activity that meets the Urgent Need national objective, the applicant must document that it has no other financial resources available to meet the need. Additionally, all activities that propose to meet the Urgent Need national objective must meet community development needs that:

- have a particular urgency; and
- pose a serious, immediate threat to the health or welfare of the community; and
- are of recent origin.

2.2.3.10. Regional Account: Submission Deadlines and Statistics

The Regional Account (RA) is divided into four sub-accounts, one for each of the non-metropolitan Councils of Government (COG) areas. The COGs and their service areas are:

- Central Arizona Association of Government (CAAG): Gila and Pinal Counties;
- Northern Arizona Council of Government (NACOG): Apache, Coconino, Navajo and Yavapai Counties;
- South Eastern Arizona Government Organization (SEAGO): Cochise, Graham, Greenlee and Santa Cruz Counties; and
- Western Arizona Council of Government (WACOG): La Paz, Mohave and Yuma Counties

Applications for CDBG funds must be submitted initially to each COG, which in turns submits the applications and activities recommended for funding to the state, according to the following schedule:

COG	Submittal to COG	Submittal to ADOH
CAAG	May 28, 2004	July 1, 2004
NACOG	April 30, 2004	July 1, 2004
SEAGO	June 1, 2004	July 1, 2004
WACOG	May 21, 2004	July 1, 2004

The amount recommended for funding to the state by each COG cannot exceed the amount available in the COG's sub-account. The sub-account consists of the COG's share of the FY 2004 allocation and any redistributed or reallocated funds. While the COG makes funding recommendations to the state, the state makes final funding determinations. Final funding determinations are based on the consistency of recommended applications with minimum thresholds and the COG's pre-approved Method of Distribution. COG Methods of Distribution (MOD) are described in detail in the CDBG Application Handbook.

To determine the amount of CDBG funding allocated to each COG's sub-account, the state uses a formula based on population and persons in poverty. Specifically, the COG sub-accounts are determined by: 1) multiplying the percentage of the corrected total population of each COG by the weight for population (30 percent), 2) multiplying the percentage of the corrected total poverty population of each COG by the weight for poverty (70 percent), and 3) adding a) weighted population and b) weighted persons in poverty.

The FY 2004 COG sub-accounts are based on the following data:

REGION/ COUNTY	2003 POP. ESTIMATE	% OF TOTAL ADJ. POP.	PERSONS IN POVERTY	% TOTAL ADJUSTED PERSONS IN POVERTY
CAAG	238,595	23.34543%	28,925	20.97261%
Gila	47,125		5,619	
Pinal	191,470		23,306	
NACOG	305,498	29.89159%	33,103	24.00194%
Apache	15,820		2,098	
Coconino	43,166		3,575	
Navajo	60,552		8,146	
Yavapai	185,960		19,284	
SEAGO	205,534	20.11057%	34,704	25.16278%
Cochise	126,160		19,772	
Graham	29,889		4,734	
Greenlee	8,595		842	
Santa Cruz	40,890		9,356	
WACOG	272,393	26.65241%	41,186	29.86267%
LaPaz	13,249		2,208	
Mohave	168,490		20,582	
Yuma	90,654		18,396	
TOTALS	1,022,020	100%	137,918	100%

Notes to Table:

Population data is obtained from and appears in a document entitled "2003 Population Estimates," prepared by Population Statistics Unit, Research Administration, Arizona Department of Economic Security (DES), approved by the DES Director in December 2004.

Persons in poverty data is based on the 2000 Census, Summary File 3.

Exceptions to the above:

- The population of and persons in poverty on the Indian reservations are not included in the CDBG funding formula. On-reservation population data is based on Census 2000 found in the DES POPTAC State Data Center (SDC) Newsletter, summer 2001. Persons in poverty data is based on "Poverty Status in 1999 for Indian Reservations by County". Source: 2000 Census Summary, File 3.
- The population of La Paz County is determined by subtracting only the number of Native Americans living on the Colorado River Reservation in La Paz County (rather than all persons living on the reservation).

(NOTES CONTINUE ON NEXT PAGE)

Notes to Table (continued):

- The persons in poverty for La Paz County is determined by: 1) taking the percentage of the on-reservation population that is Native American (30.2 percent), 2) multiplying the percentage of the on-reservation population that is Native American by the total on-reservation persons in poverty (1,590 persons); and 3) subtracting the number of on-reservation Native Americans living in poverty (1,590 persons) from the total persons in poverty in LaPaz County (3,798).
- Coconino county population is based on the POPTAC population estimate for the county less the POPTAC population estimate for the City of Flagstaff, which receives CDBG funds directly from HUD. Coconino county persons in poverty is based on Coconino county persons in poverty minus City of Flagstaff persons in poverty, both based on 2000 US Census, Summary File 3.
- Yuma county population is based on the POPTAC population estimate for the county less the POPTAC population estimate for the City of Yuma, which receives CDBG funds directly from HUD. Yuma county persons in poverty is based on Yuma county persons in poverty minus City of Yuma persons in poverty, both based on 2000 US Census, Summary File 3.

2.2.3.11. Central Arizona Association of Governments (CAAG) Method of Distribution (MOD)

1. Type of MOD

- a. Overview. CAAG will use a combination of an entitlement and a comparative MOD. The entitlement component consists of a base allocation determined by dividing the total CAAG allocation by the number of communities that submit Letters of Intent to CAAG. The CAAG MOD also includes Primary Applications and Backup Applications. Primary Applications are those submitted for entitlement funding; Backup Applications are those submitted for any funding that remains after Primary Applications are funded. Each applicant may submit only one Primary Application.

Each Application is first submitted to CAAG. CAAG makes funding recommendations to the CAAG Regional Council. The CAAG Regional Council makes final funding recommendations to ADOH.

- b. Letter of Intent. To be eligible to apply for and be recommended by CAAG for CDBG Primary Application funding, each community must submit a Letter of Intent. Letters of Intent or Non-intent are mandatory. However, the Letter of Intent need not include detailed project information.
- c. Entitlement Allocation. CAAG notifies both ADOH and all communities of the amount of each entitlement community allocation amount. Joint applications are treated as an application from a single entity.
- d. Partnering and Double Funding. A community may switch funding with another community through a partnership. When partnering, one community receives double funding in one year and the partner community receives double funding in the next year. When partnering, each community submits a Letter of Intent that specifies the name of the partner and which of the two will receive two shares in 2003 and which in 2004. A community that received two shares in FY 2003 cannot apply again in FY 2004. The Letter of Intent is kept on file by CAAG and is valid for two years.

- e. Backup Applications. Each community may submit one or more backup applications. Backup applications are scored by tier, and rated and ranked only if:
- o One or more entities choose not to utilize their entire primary application allocation;
 - o One or more primary applications are determined not fundable; or
 - o As a result of redistributed funds or program income, additional funds are available.

If the amount of backup application funding is insufficient to fund the highest-ranked backup application, the community submitting the highest-ranked backup application may combine the available funds with its primary application as long as doing so does not increase primary application funding for any activity by more than 35 percent or change the scope of the activity.

- f. Comparative MOD. The comparative MOD is used only when:
- o For primary applications, activities justified under the Slum/Blight or Urgent Need national objectives exceed the 30 percent cap; or
 - o For backup applications, the primary applications do not utilize the entire allocation because one or more:
 - Applications are determined non-fundable; and/or
 - Activities are determined non-fundable; and/or
 - Applications do not request the full entitlement amount.
- g. The comparative component of the MOD has two rating criteria and a total of 50 points. When using the comparative MOD, first CAAG tabulates and ranks applications for Technical Points. Then, a MOD Committee ranks the applications and makes recommendations to the CAAG Regional Council. An applicant asserting a tabulating/ranking discrepancy may appeal to the CAAG Management Committee prior to the MOD Committee meeting at which final ranking recommendations are approved for submittal to the Regional Council.

2. Communities to be funded in FY 2004 are:

SINGLE FUNDING		PARTNER (DOUBLE) FUNDING			
Community/ County	Amount	Community	Amount	Partner Community	Amount
Casa Grande	\$170,516.06	Eloy	\$341,032.12	Coolidge	\$0
Gila County	\$170,516.06	Florence	\$341,032.12	Winkelman	\$0
Globe	\$170,516.06	Kearny	\$341,032.12	Mammoth	\$0
Hayden	\$170,516.06	Payson	\$341,032.12	Apache Junction	\$0
Miami	\$170,523.15				
Pinal County	\$170,516.06				
Superior	\$170,516.06				
			TOTAL	\$2,557,747.99	

3. Application Deadline

Complete Primary and Backup Applications must be received by CAAG no later than 5 p.m., May 28, 2004.

4. Allocation Method: Redistributed funds and program income.

- Definitions:

De-obligation is the action of removing funds from a contract because of one of the following: 1) the scope of work is completed utilizing less CDBG funds than anticipated and leaving a balance of unexpended funds; 2) the original allocation was a loan and the loan was paid; 3) an activity was changed or cancelled (for reasons other than performance) resulting in excess funding; and 3) program income is received that is not programmed for use.

Recapture is the action of removing funds from a contract because of the following two types of circumstance 1) ADOH determines that CDBG funds were not used in compliance with the contract entered into between ADOH and the recipient or with federal regulations constituting a Recapture for Non-compliance; and 2) the recipient fails to perform according to the performance criteria outlined in the contract scope of work, the contract schedule and/or the performance criteria outlined in the text of the contract entered into between ADOH and the recipient constituting a Recapture for Non-performance.

De-obligated funds will be distributed according to the following order of priority:

ADOH may reallocate de-obligated funds to the same community from which it was de-obligated to an existing or new contract of the same funding year based on the following criteria: 1) performance of the contract from which the funds were de-obligated; and 2) ability to commit de-obligated funds to another project that can immediately use the funds provided the new funds can be committed through a new contract or an amended contract within 60 days.

If ADOH cannot reallocate de-obligated funds according to the above criteria the de-obligated funds will be redistributed by ADOH to the SSP.

Funds Recaptured for Non-compliance and Recaptured for Non-performance will be redistributed by ADOH to the SSP.

5. Procedures to ensure a maximum of 30 percent is recommended for activities justified on the basis of either Slum/Blight or Urgent Need national objectives.

If activities justified on the basis of Slum/Blight or Urgent Need exceeds the 30 percent maximum, activities will be recommended based on ratings and ranking, by tier.

6. Method of Distribution: Notification.

At least three months prior to the application deadline, CAAG, through the Regional Council, will notify each member community of the requirements of and the deadline for application submission. The Method of Distribution (MOD) was approved by the Regional Council at its September 24, 2003 meeting and a copy of the approved MOD was sent to each city/town manager and grant administrator on January 5, 2004.

7. Second-Round of Applications.

If CAAG determines that the application submitted will not utilize the entire CAAG allocation, the Executive Director may authorize a second round of applications.

2.2.3.12. Northern Arizona Council of Governments (NACOG) Method of Distribution

1. Type of MOD

a. Overview.

The NACOG Method of Distribution is primarily an entitlement system, with a partial comparative system for backup applications. In the entitlement system, each county is allocated a base amount of \$110,000 and the remaining funds are allocated to each county based on a weighted formula of 70 percent persons in poverty (based on the 2000 Census), and 30 percent population (using 2003 Arizona population projections/estimates).

b. County Committee.

NACOG sponsors county committees that determine the details of the Method of Distribution in each county. County committees may discuss applications with entitlement communities and offer comments on the activities. The NACOG Regional Council approves each county's Method of Distribution.

c. Additional Available Funding.

For Apache and Coconino Counties, if an entitlement community does not wish to or is unable to use the full entitlement amount, the community submits written notification to NACOG and the funds are offered to other county communities. If more than one community expresses a desire to receive additional funding, the County Committee will select the community to receive funding. The funded community will not change its rotation position for future years. When applications or activities do not utilize the full County allocation, the additional funding is split evenly and offered to all other entitlement entities in the NACOG region.

For Navajo County, funds will be evenly split between the entitlement entities, except Navajo County will be the only applicant during their entitlement period and will receive the total amount. If an entitlement community does not wish to or is not able to use the full entitlement amount, the community submits written notice to NACOG and the funds are made available to: 1) the other Navajo county entitlements; 2) the other Navajo County communities; or 3) the funds are split evenly and offered to all entitlement entities within the region.

For Yavapai County, in the years with three entitlement entities, funds will be evenly split. In the year with Prescott and Jerome, the split will be 2/3 and 1/3, respectively; in the year with the County and Camp Verde, the split will be 2/3 and 1/3, respectively. If an application will not require the full amount allocated, the applicant will notify NACOG in writing and the funds will be made available to the other applicants by an even split.

For all counties, if an applicant is determined non-fundable and has no backup applications, it will switch places with the successful backup applicant on the county entitlement schedule. If there is no backup application from that county, the applicant will lose its turn.

d. Multi-jurisdictional Applications.

If the administrative/lead entity is a scheduled entitlement, the rotation schedule remains the same. If the administrative/lead entity is not a scheduled entitlement, the administrative/lead entity is considered the entitlement and switches places on the rotation schedule with the joining entity. If there is more than one joining entity, the entities determine the rotation schedule.

e. Backup Applications.

Backup applications are defined as those submitted by:

- A community/county that is not on the entitlement schedule; or
- An entitlement community/county as a backup application.

Backup applications are recommended to ADOH only when an entitlement community's application is non-fundable, and in the following order: first, a backup application from the entitlement community that submitted the non-fundable application; second, the highest ranked backup application within the county; and third, the highest ranked backup application within the region. If NACOG does not receive sufficient fundable applications to fully utilize the NACOG sub-allocation, the remaining funds become part of the SSP account.

f. Backup Application Funding Criteria.

Backup applications are funded based on four criteria and a total possible 60 points. Backup application funding criteria include 1) highest percentage of low-moderate income beneficiaries; 2) largest geographic area served; 3) total number of beneficiaries as a percentage of the community's population; and 4) persons in poverty in the community.

2. Communities to be funded. For FY 2004, each community will receive funds as follows.

FY 2004 Communities			
County/Community	Amount	% Pop. / Poverty	% County Dollars
Apache (\$265,958)		6.0%	
Apache County	\$265,958		100%
Coconino (\$416,458)		11.79%	
Page	\$416,458		100%
Navajo (\$712,258)		23.17%	
Snowflake	\$356,129		50%
Winslow	\$356,129		50%
Yavapai (\$1,644,627)		59.04%	
Prescott	\$1,096,418		67%
Jerome	\$548,209		33%
TOTAL	\$3,039,301	100%	

Communities to be funded in future years. The following communities will receive funding in future years:

County/Community	Funding Year	County/Community	Funding Year
Apache		Coconino	
Apache County	FY 2004	Page	FY 2004
St. Johns	FY 2005	Coconino County	FY 2005
Eagar	FY 2006	Williams	FY 2006
Springerville	FY 2007	Fredonia	FY 2007
Navajo		Yavapai	
Snowflake	FY 2004	Prescott	FY 2004
Winslow	FY 2004	Jerome	FY 2004
Holbrook	FY 2005	Camp Verde (1/3)	FY 2005
Show Low	FY 2005	Yavapai County (2/3)	FY 2005
Taylor	FY 2006	Chino Valley	FY 2006
Pinetop-Lakeside	FY 2006	Clarkdale	FY 2006
Navajo County	FY 2007	Yavapai County	FY 2006
		Cottonwood	FY 2007
		Sedona	FY 2007
		Prescott Valley	FY 2007

3. Application Deadline

All applications must be submitted to NACOG no later than 5 p.m., April 30, 2004.

4. Allocation Method: Redistributed funds and program income.

• Definitions:

De-obligation is the action of removing funds from a contract because of one of the following: 1) the scope of work is completed utilizing less CDBG funds than anticipated and leaving a balance of unexpended funds; 2) the original allocation was a loan and the loan was paid; 3) an activity was changed or cancelled (for reasons other than performance) resulting in excess funding; and 3) program income is received that is not programmed for use.

Recapture is the action of removing funds from a contract because of the following two types of circumstance 1) ADOH determines that CDBG funds were not used in compliance with the contract entered into between ADOH and the recipient or with federal regulations constituting a Recapture for Non-compliance; and 2) the recipient fails to perform according to the performance criteria outlined in the contract scope of work, the contract schedule and/or the performance criteria outlined in the text of the contract entered into between ADOH and the recipient constituting a Recapture for Non-performance.

De-obligated funds will be distributed according to the following order of priority:

ADOH may reallocate de-obligated funds to the same community from which it was de-obligated to an existing or new contract of the same funding year based on the following criteria: 1) performance of the contract from which the funds were de-obligated; and 2) ability to commit de-obligated funds to another project that can immediately use the funds provided the new funds can be committed through a new contract or an amended contract within 60 days.

If ADOH cannot reallocate de-obligated funds according to the above criteria the de-obligated funds will be redistributed by ADOH to the SSP.

Funds Recaptured for Non-compliance and Recaptured for Non-performance will be redistributed by ADOH to the SSP.

5. Communities anticipating an activity justified on the basis of the SB or UN national objective shall notify NACOG of the expected dollar amount of the activity. NACOG will set-aside funds on a first-come, first-served basis up to the 30 percent.

6. Method of Distribution: Notification.

The Regional Council adopted the MOD on January 26, 2004 and the communities were notified of the draft MOD on February 12, 2004.

7. MOD Implementation Procedures.

NACOG will document that procedures included in this MOD have been followed and that NACOG staff will award points if there is a need to rate and rank backup applications.

2.2.3.13. Southeastern Arizona Governments Organization (SEAGO) Method of Distribution

1. Type of MOD

- a. Overview. The FY 2004 SEAGO Method of Distribution combines a modified rotational entitlement system, an entitlement system, and a comparative system. The modified rotational entitlement system is used to determine the amount of the “sub-regional allocation” for each county. The comparative system applies when there are not sufficient eligible applications in any or all County Rotation Schemes.
- b. Modified Rotational Entitlement Component. The modified rotational entitlement component results in each sub-region (county) receiving a percentage of the SEAGO FY 2004 allocation, based on a formula giving 70 percent weight to poverty population (derived from the 2000 Census) and 30 percent weight to population (based on 2003 POPTAC population estimates).
- c. Base Sub-region Allocation Amount. The base or minimum allocation to any sub-region (county) is \$100,000. When the minimum sub-region (county) allocation is less than \$100,000, then other sub-region (county) allocations are proportionately reduced. In FY 2004, the base applies to Greenlee County. Based on this formula, the sub-region (county) allocations are:

Sub-Region/ County	Percent of Total	Amount
Cochise	58.15%	\$1,621,514
Graham	17.12%	477,259
Greenlee	3.56%	100,000
Santa Cruz	21.17%	590,282
Total	100%	\$2,789,055

- d. Multi-jurisdictional Applications. Applicants submitting a multi-jurisdictional application must submit an intergovernmental agreement, which authorizes one of the applicants to act as the representative for all participating jurisdictions, becoming the “lead agency”. Each jurisdiction remains eligible to submit their own single-jurisdictional application. When multi-jurisdictional applications are allowed to exceed the maximum funding level, the funding allocations of affected sub-regional areas shall be revised accordingly upon approval of SEAGO’s Executive Board.
- e. Backup Applications and Activities. All applicants are encouraged to submit backup applications.
- f. Comparative Rating and Ranking: Backup Applications. When there are not sufficient eligible applications in any or all County Rotation Schemes the “back up” application will be rated and ranked. The selection criteria system consists of a number of individual selection criterion included within a weighted system, totaling 95 points (with a possible bonus points criterion) In rating and ranking, each activity is evaluated separately, according to the following factors: 1) leverage; 2) low/mod income beneficiaries; 3) total beneficiaries; 4) priority needs; and 5) bonus for housing rehabilitation.

g. Gifts and Transferring Funds. An eligible jurisdiction may gift some or all of the its funding to another jurisdiction.

2. Application Deadline

All applications must be received by SEAGO by 4 p.m., June 1, 2004 and must comply with the specified requirements.

3. Allocation Method: Redistributed funds and program income.

• Definitions:

De-obligation is the action of removing funds from a contract because of one of the following: 1) the scope of work is completed utilizing less CDBG funds than anticipated and leaving a balance of unexpended funds; 2) the original allocation was a loan and the loan was paid; 3) an activity was changed or cancelled (for reasons other than performance) resulting in excess funding; and 3) program income is received that is not programmed for use.

Recapture is the action of removing funds from a contract because of the following two types of circumstance 1) ADOH determines that CDBG funds were not used in compliance with the contract entered into between ADOH and the recipient or with federal regulations constituting a Recapture for Non-compliance; and 2) the recipient fails to perform according to the performance criteria outlined in the contract scope of work, the contract schedule and/or the performance criteria outlined in the text of the contract entered into between ADOH and the recipient constituting a Recapture for Non-performance.

De-obligated funds will be distributed according to the following order of priority:

ADOH may reallocate de-obligated funds to the same community from which it was de-obligated to an existing or new contract of the same funding year based on the following criteria: 1) performance of the contract from which the funds were de-obligated; and 2) ability to commit de-obligated funds to another project that can immediately use the funds provided the new funds can be committed through a new contract or an amended contract within 60 days.

If ADOH cannot reallocate de-obligated funds according to the above criteria the de-obligated funds will be redistributed by ADOH to the SSP.

Funds Recaptured for Non-compliance and Recaptured for Non-performance will be redistributed by ADOH to the SSP.

4. Procedures to ensure a maximum of 30 percent are recommended for activities justified on the basis of either slum/blight or urgent need national objectives.

Activities justified on the basis of the Slum/Blight and Urgent Need national objective will be funded up to the maximum of 30 percent. Funding is on a first-come, first-served basis, documented by the date of receipt by SEAGO of a letter of intent.

5. Method of Distribution: Notification.

The Method of Distribution was adopted on October 18, 2003 and revised on February 28, 2004 and each entity was notified on the same date through the SEAGO Executive Board.

6. Method of Distribution: Implementation Procedures.

- a. Overview. SEAGO staff will review applications for eligibility based on criteria established by the state. Following eligibility review, a ranking score will be developed for all applications, including those noted by SEAGO staff as ineligible. Applications will then be presented to the SEAGO Administrative Council for action at its Fall meeting. The SEAGO Executive Board will take final action and the applications will be submitted to ADOH for staff review.
- b. Insufficient Fund Requests Within a Sub-Region. Prior to submittal to ADOH, and in the event that the total requests for funds within a sub-region are insufficient to fully utilize the sub-region allocation, the remaining funds will be recommended to under-funded or un-funded activities in the other sub-regions. The funding recommendation shall be based on ranking and the applicant’s ability to implement and operate the project and still meet the community need. The proposed scope of work may be reduced provided there is no impact on the original score. Under no circumstance will an applicant/activity be recommended for funding in an amount that is greater than that indicated in the application originally submitted to SEAGO.
- c. Awards When Available Funds Are Less Than Amount Requested. If ADOH staff determines that an applicant or activity is not fundable, and the remaining sub-region funds are insufficient to fully fund the next-ranked applicant, a recommendation to partially fund the next-ranked applicant or activity will be made. The next-ranked applicant must then demonstrate that the activity can be completed and operated with partial funding and still meet the identified community need. If the next-ranked applicant cannot demonstrate its ability to complete and operate the activity and still meet the community need, the remaining funds within the sub-region will be offered to other applications in that sub-region in ranked order. If remaining funds are not fully committed within the sub-region, the remaining funds will be made available to the other sub-regions.

7. Sub-Region (County) Methods of Distribution.

a. Cochise County.

Rotation Schedule and Entitlement Amount. There are eight eligible entities in Cochise County and the entities follow a four-year rotation schedule. The sub-region allocation is divided equally. The two-year rotation schedule and funding amounts are:

FY 2004 & 2005 Communities	Amount	FY 2005 & 2007 Communities
Benson	\$405,378.50	Bisbee
Douglas	\$405,378.50	Cochise County
Tombstone	\$405,378.50	Sierra Vista
Willcox	\$405,378.50	Huachuca City

Trading Rotation and Gifts. Entities may trade positions at any time prior to 60 days before the application is due to SEAGO. When doing so, the entities must notify the CDBG Program of the trade and must also provide courtesy notification to SEAGO.

Within a rotation, entitlement entities may gift all or a portion of their allocation to any of the entities within the sub-region. When gifting all or part of an entitlement allocation, both parties must by official action approve the gift. When a gift is made to a non-entitlement entity under the rotation schedule, the entity receiving the gift may submit an application for the amount of the gift only; the rotation schedule does not change.

Backup Applications. If an applicant is not eligible or a project activity is not fundable, backup applications will be competitively rated and ranked. Entitlement entities receiving backup application funding maintain their rotation position. Entitlement entities determined not fundable lose their rotation position. All entities, including those not entitled to funding in the current year's rotation, are encouraged to submit applications.

Method of Distribution Revision. It is mutually agreed that the eight members of this sub-region will not ask that this process be reviewed or changed until the passage of four years, or two complete 2-year cycles, subject to state and/or federal requirements.

b. Graham County.

Rotation Schedule and Entitlement Amount. There are four eligible entities in Graham County and the entities follow a four-year rotation. The four-year rotation schedule and the funding allocation are not subject to funding caps or scoring criteria. The FY 2004 funding allocation is:

Community	Year	Amount
Thatcher	2004	\$477,259
Graham County	2005	
Safford	2006	
Pima	2007	

Trading Rotation. The entities may trade years at any time through formal or informal agreement. When doing so, the entities must maintain records of the trade, determine how they will administer the rotation system, provide courtesy notification to SEAGO, and notify the CDBG Program.

c. Greenlee County.

Rotation Schedule and Entitlement Amount. There are two interested entities in Greenlee County and the entities follow a two-year rotation schedule. The two-year rotation schedule and the funding allocation are not subject to funding caps or scoring criteria. The rotation schedule, which does not go beyond FY 2004, and the FY 2004 funding allocation is:

Community	Year	Amount
Duncan	2004	\$100,000
Clifton	2005	

Additional Interested Entities. The County of Greenlee has not recently participated in the CDBG RA distribution. Should the County wish to begin participating and be a part of this rotation system, it must notify SEAGO no later than November 30, 2004, in order to adjust this agreement accordingly for inclusion in the FY2004 MOD.

Trading Rotation. The sub-region entities may trade years through formal or informal agreement. When doing so, the entities must maintain records of the trade, determine how they will administer the rotation system, provide courtesy notification to SEAGO, and notify the CDBG Program.

d. Santa Cruz County.

Rotation Schedule and Entitlement Amount. There are three eligible entities in Santa Cruz County and the entities entered into an inter-governmental agreement (IGA) effective June 15, 2001 and ending December 31, 2004. The IGA provided for rotation and funding as follows:

Community/County	Year	Amount
Patagonia	2004	\$590,282
Nogales		
Santa Cruz County		

Modifications to Rotation. Modifications to the rotation may be made with the written agreement of all three parties and timely notification to SEAGO.

Backup Applications. All three entities shall, by separate agreement, create a schedule for each party to submit backup applications in each funding year. Backup applications must be submitted by June 1 of each funding year.

2.2.3.14. Western Area Council of Governments (WACOG) Method of Distribution

1. Type of MOD.

- a. Overview. The WACOG Method of Distribution is primarily a rotational entitlement system, with a modified rating and ranking system used to recommend funding of backup applications.

- b. Entitlement Component. The WACOG Executive Committee annually determines the communities that are entitled to receive funds. The entitlement component requires that each county be allocated funds calculated on a weighted formula of 70 percent persons in poverty (based on the 2000 Census), and 30 percent population, (based on the July 2002 POPTAC estimates), and excluding Indian reservations and the City of Yuma. This results in the following county allocations and each community's entitlement:

County/Community	Amount	% of County Dollars
La Paz County (\$273,953)		
Quartzsite	\$273,953	100%
Mohave County (\$1,770,608)		
Colorado City	\$354,122	20%
Mohave County	\$708,243	40%
Kingman	\$708,243	40%
Yuma County (\$1,363,996)		
Yuma County	\$681,998	50%
Wellton	\$681,998	50%
TOTAL	\$3,408,557	

- c. Multi-jurisdictional Applications. An entitlement community may choose to submit a multi-jurisdictional application with either an entitlement or a non-entitlement community. An entitlement community may also submit a multi-jurisdictional application and a second separate application, as long as the total amount requested does not exceed the entitlement amount. Entities within the same county may agree among themselves to a 10 percent funding adjustment to meet a local need.
- d. In the event that an entitlement chooses to not apply, the entitlement's funds remain in that entitlement's county, and distribution is determined by a special vote of the county's entities.
- e. Backup Applications and Criteria. If an entitlement application is deemed not fundable by WACOG, then the entitlement's backup application is given first preference for funding. If the entitlement did not submit a backup application, then all backup applications within the WACOG region are reviewed. If there are no backup applications and there is sufficient time to complete the required Public Notices/Public Meetings, the remaining funds are split evenly among funded applications.

The WACOG Management Committee evaluates the WACOG staff recommendations using funding criteria. All entities are encouraged to submit backup applications. If there is more than one backup application, the applications are rated and ranked by type of project and percent low-moderate income beneficiaries. The following criteria are used: 1) water/wastewater project; 2) housing project; 3) public services project; 4) community facilities project; 5) removal of barriers project; and 6) all other types of projects.

2. Application Deadline

All applications must be submitted to the WACOG Executive Director by 5 p.m., May 21, 2004.

3. Allocation Method: Redistributed funds and program income.

- Definitions:

De-obligation is the action of removing funds from a contract because of one of the following: 1) the scope of work is completed utilizing less CDBG funds than anticipated and leaving a balance of unexpended funds; 2) the original allocation was a loan and the loan was paid; 3) an activity was changed or cancelled (for reasons other than performance) resulting in excess funding; and 3) program income is received that is not programmed for use.

Recapture is the action of removing funds from a contract because of the following two types of circumstance 1) ADOH determines that CDBG funds were not used in compliance with the contract entered into between ADOH and the recipient or with federal regulations constituting a Recapture for Non-compliance; and 2) the recipient fails to perform according to the performance criteria outlined in the contract scope of work, the contract schedule and/or the performance criteria outlined in the text of the contract entered into between ADOH and the recipient constituting a Recapture for Non-performance.

De-obligated funds will be distributed according to the following order of priority:

ADOH may reallocate de-obligated funds to the same community from which it was de-obligated to an existing or new contract of the same funding year based on the following criteria: 1) performance of the contract from which the funds were de-obligated; and 2) ability to commit de-obligated funds to another project that can immediately use the funds provided the new funds can be committed through a new contract or an amended contract within 60 days.

If ADOH cannot reallocate de-obligated funds according to the above criteria the de-obligated funds will be redistributed by ADOH to the SSP.

Funds Recaptured for Non-compliance and Recaptured for Non-performance will be redistributed by ADOH to the SSP.

4. Procedures to ensure a maximum of 30 percent are recommended for activities justified on the basis of either slum/blight or urgent need national objectives.

Activities justified on the basis of the Slum/Blight and Urgent Need national objective will be funded up to the maximum of 30 percent. Funding is on a first-come, first-served basis.

5. Method of Distribution: Notification

All potential regional applicants will be notified of the MOD by mail, fax or hand delivery at least 90 days prior to the deadline of 5 p.m. on Friday, May 21, 2004 for the submittal of regional projects for 2004.

6. Method of Distribution: Implementation Procedures.

In the event that rating and ranking of applications is necessary and to avoid self-evaluation by applicants, WACOG staff award points for each criterion. The final rating and ranking numbers are then provided to the WACOG Management Committee; the WACOG Management Committee makes its recommendation to the WACOG Executive Board, which is responsible for final review and approval.

2.2.3.15. State Special Projects Account (SSP): Overview

Fifteen percent of the state's FY 2004 CDBG funds, or \$2,081,525, will be maintained in the SSP account plus any recaptured or de-obligated funds. Funding criteria for the SSP are determined by ADOH.

2.2.3.16. SSP Components

a. 2003 CDBG Application Handbook

Except where specifically superseded by this notice, all State of Arizona CDBG requirements described in the 2003 CDBG Application Handbook including the application requirements apply. Terms and conditions within this notice apply only to this notice and are not applicable to any other funds available from ADOH.

b. Eligible Activities

All activities pursuant to 24 CFR 570 that are ready to begin implementation immediately with environmental review requirements completed, Release of Funds issued, land control secured, planning design and permitting complete, and all other related upfront issues resolved. Please obtain prior ADOH approval of plans to submit for public service activities allowing ADOH to ensure the State does not exceed its 15% public service cap.

c. Application Submission

All communities eligible to receive funding from the State CDBG program are eligible to apply. Each community is encouraged to submit one application. Multiple applications may be submitted from one community if the applications are prioritized. All first priority applications will be reviewed first, with subsequent priority applications reviewed if sufficient funding is available, thereby allowing each community a chance to be funded.

d. Threshold Issues and Application Requirements

To qualify for funding under this notice, applicants must submit the following items in addition to all elements required by the 2004 CDBG Application Handbook.

e. Complete Application

Applications that are not complete and do not contain the following will be rejected.

Environmental Review

- A completed and compliant environmental review record (ERR) to include the Release of Funds (ROF)

For any renovation projects:

- Completed "built-to" construction plans
- Evidence of site control (own land, no restrictive agreements)

For owner occupied housing or rental rehabilitation:

- A list of income-certified homeowners/tenants to be assisted
- A letter certifying that work orders and specifications have been completed for all houses to be rehabilitated
- Pre-approved and adopted housing rehabilitation guidelines
- Evidence of site control
- Agreement between the landlord and the city to rent a certain percentage of units to L/M income households

For homeownership assistance:

- A list of income-certified homeowners to be assisted
- Documentation demonstrating that a home lot has been selected and that all other financing has been approved for the specific families to be assisted
- Pre-approved and adopted home ownership assistance guidelines

For equipment purchase:

- Completed specifications
- List of bidders and prices or statement certifying that municipality will use either state or county vendors selected through a competitive procurement process

f. Deadline

Applications are due to the Arizona Department of Housing by June 4, 2004 at 4:00 p.m.

g. Selection of Project Awards

- Projects will be selected for SSP funding by a competitive process through which applications are evaluated based on the following application evaluation criteria:
- Primary Criteria: Need, demand and project readiness.
- Secondary Criteria: Leverage and match, past performance of applicant, the extent to which funds are provided to an area that has limited resources including none to few past SSP awards.

h. Contract Terms

Contract time frames will not be restricted. Contracts entered into between successful applicants and ADOH will contain schedules reflective of the reasonable amount of time that will be required to undertake the proposed activity. In general projects should be complete within 24 months. The successful applicant must return contract documents with Mayor's/Board Chair's signature within five days of their receipt. All successful applicants will be notified by e-mail that the contracts have been mailed so that a meeting can be scheduled to obtain needed signatures. Contracts not returned within the specified time period will be terminated and funds will be reassigned to the next community.

i. Maximum Grant Amount

The maximum grant available under this notice is \$300,000. Funds unexpended at contract termination will be returned to the state.

j. Selection Notification

ADOH anticipates notifying applicants within 45 days of receiving the application as to whether they will be funded or not. If funded, applicants must be prepared to initiate projects within 30 days of notification.

k. Public Participation

ADOH encourages each community to include combine SSP projects with Regional Account Projects in the public participation and publication process to avoid the need for additional publications and hearings.

2.2.3.17. Colonias Set Aside

a. Overview and Funding Level.

HUD mandates the state expend at least ten percent (10%) of its CDBG allocation in Colonias. For FY 2004, the Colonias allocation is \$1,440,910. All activities in a self-determined or CDBG-determined Colonia will be considered to meet this set-aside. If there are insufficient funds requested for Colonias from the RA, Colonias SSP applications for will be given priority-funding consideration.

b. Definition.

For purposes of this section and based on the National Affordable Housing Act (NAHA), Section 916, "Colonia" means any identifiable community that:

- o Is in the state of Arizona, California, New Mexico, or Texas.
- o Is in the United States-Mexico border region (i.e., within 150 miles of the U.S.-Mexico border but excluding any standard metropolitan statistical area that has a population exceeding one million).
- o Is determined to be a Colonia on the basis of objective criteria, including lack of potable water supply, lack of adequate sewage systems, and lack of decent, safe and sanitary housing.

- o Was in existence as a Colonia before the date of enactment of NAHA (i.e., November 28, 1990).
- c. Colonia Declaration Procedure.
- An area may be declared a Colonia in one of three ways:
- o It previously identified itself as a Colonia through a resolution.
 - o It was previously identified as a Colonia by ADOH.
 - o It qualifies as a Colonia but has never passed a resolution for such. Such an applicant must submit a Colonia form and a copy of the Colonia resolution with the application. An applicant that does not submit a Colonia resolution may not in the future apply for or identify itself as a Colonia.

2.2.4. FY 2004 Housing Opportunities for Persons With AIDS (HOPWA) Method of Distribution and Geographic Investment

2.2.4.1. HOPWA Resources

During federal FY 2004, the state is scheduled to receive \$164,000 in HUD HOPWA funds. Any funds not committed during FY 2003 will be combined with FY 2004 HOPWA funds for distribution.

The state is an entitlement Eligible Metropolitan Area (EMA) in 2004 that includes the following counties: Apache, Cochise, Coconino, Gila, Graham, Greenlee, LaPaz, Navajo, Santa Cruz, Yavapai and Yuma. The balance of the state is included in other HOPWA EMAs.

2.2.4.2. Method of Distribution

Applications will be accepted for projects located within the state's EMA and on an on-going basis until all funds are committed. Coordination of project proposal planning with local AIDS/HIV Consortia will be encouraged through the proposal review process. Technical assistance will be provided to potential applicants in the planning of their proposed projects.

2.2.5. FY 2004 Special Needs Housing Program (Supportive Housing Program and Shelter Plus Care

- a. Overview. In 2004, the state will coordinate and serve as the applicant for HUD Continuum of Care Homeless Assistance funds for rural Arizona (all counties excluding Maricopa and Pima). These include Supportive Housing Funds, Shelter Plus Care and Housing Trust Fund.

In 2004, the state is scheduled to receive \$3,008,817 in Supportive Housing Program Funds. Of these \$150,440 (5%) will be retained by the state for administration and \$75,220 (2.5%) will be provided to project sponsors in Housing Trust Fund for administration.

In 2004, the state is scheduled to receive \$5,602,600 in Shelter Plus Care Funds. All of these funds will be provided to project sponsors for program implementation, of which the project sponsors may retain up to 7% for program administration.

In 2004, the state is scheduled to provide \$2,000,000 in Housing Trust Funds to sustain its Eviction/Prevention Emergency Homeless Housing Assistance Program. This will be done through negotiations with the current 22 contractors located statewide the 15 existing counties who represent nonprofit, county and city governments, and PHA agencies.

Eligible project sponsors (co-applicants and subcontractors) include city and county governments, PHAs, Tribal governments and nonprofit agencies servicing homeless persons. The ADOH will file the national competitive application on behalf of rural Arizona and will serve as grantee for projects approved by HUD through subcontracts to governmental and nonprofit agencies.

- b. Program Components. Eligible program components include: transitional housing; permanent housing for disabled persons; supportive services not in conjunction with supportive housing; Safe Havens; rental assistance through the Shelter Plus Care Program, in either tenant based, project based, sponsor based or SRO configurations; and Section 8 SRO housing. Within these components eligible activities may include acquisition, rehabilitation, new construction, leasing, operating costs, supportive services and rental assistance. The term of HUD assistance may vary depending on the program component for which funds are requested.
- c. Continuum of Care Application Process. The process to be used by the state in developing the Continuum of Care Application will have several components.
- d. Identification of Needs. Existing resources and gaps addressed by the HUD application need to be identified. This data will be gathered through several sources:
 - o Data collection by all agencies proposing projects for Continuum of Care assistance and ongoing local homeless Continuum of Care planning groups.
 - o Consultation with municipal, county and COG representatives regarding needs in their respective geographic areas; and, use of various databases compiled on a regular basis by the state of Arizona and its agencies.
- e. In 2004, the state will relinquish two Maricopa Association of Government Supportive Housing Program contracts to the current project sponsor, Arizona Behavioral Health Corporation, and will no longer act as the agency lead planner and applicant. The state will submit one Maricopa Association of Government Shelter Plus Care renewal project application and serve as the agency lead planner and applicant for HUD Continuum of Care Homeless Assistance funds for Maricopa County.
- f. In 2004, the state will submit one HUD Shelter Plus Care renewal project application to the Pima County Continuum that serves as the agency lead planner and applicant for HUD Continuum of Care Homeless Assistance funds for Pima County.

2.2.6. State Housing Trust Fund (HTF) Program Description

2.2.6.1. State Housing Trust Fund Eligible Activities and Resources Distribution

The state Housing Trust Fund (HTF) is a state resource funded through the state's Unclaimed Property Fund. Original estimates from the Arizona Department of Revenue indicated that the fund could expect to receive \$18.8 million in the next fiscal year. Due to potential shortfalls in the state's General Fund budget, the amount that the HTF will have in the next year to fund projects may be subject to change.

FY 2004 HOUSING TRUST FUND (HTF) ELIGIBLE ACTIVITIES & RESOURCES DISTRIBUTION	
Activity	State Housing Trust Funds
Rental Housing, including HOME CHDO set-aside, LIHTC gap financing; emergency shelter development; operating subsidies for new special needs housing projects.	\$ 6,412,500
Homeownership Housing, including HOME CHDO set-aside, new construction; acquisition/ rehabilitation for resale.	
Owner-occupied Housing Rehabilitation, including emergency repair	2,137,500
Grantee/recipient Administrative Costs	600,000
Fair Housing Education	150,000
Homes For Arizonans Program	3,000,000
Homelessness Prevention	2,000,000
State Special Projects	1,500,000
HFA Special Initiatives	3,000,000
Tribal Housing Initiative	FY04 carryover
Totals	\$ 18,800,000

2.2.6.2. State Housing Trust Fund Application Due Date(s)

Applications for eligible activities may be made available through a number of methods, including quarterly applications, semi-annual applications, special notices of funding availability, sole source contracts, or emergency funding. In addition, the state provides ongoing funding to its Homes for Arizonans Program formerly Rural Home Purchase Assistance Program (RHAP), which is operated by three subcontractors and by ADOH staff.

FY 2004 Housing Trust Fund (HTF) Application Due Dates	
ACTIVITY	APPLICATIONS DUE
Rental Housing Homeownership Housing	August 31, 2004 October 29, 2004 January 31, 2005 April 29, 2005
Owner-occupied Housing Rehabilitation, Emergency Repair.	August 31, 2004 January 31, 2005
Grantee/recipient Administrative Costs.	Only in conjunction with funding application for an eligible activity.
Fair Housing Education, State Special Projects.	As announced
Homes for Arizonans Program formerly Rural Home Purchase Assistance Program.	Ongoing

2.2.6.3. State Housing Trust Fund (HTF) Selection Process

The state makes available state Housing Trust Fund (HTF) through an application process. Applications are accepted periodically according to the above schedule. Funding decisions are generally made in 30 to 60 days.

Only applications that meet minimum thresholds are considered. The minimum thresholds for HTF applications include:

- Program Responsiveness
- Readiness to Proceed

Applications that meet minimum thresholds are underwritten based on the following criteria as relevant to the proposed activity:

- Market Need/Demand
- Management/Capacity
- Budget/Financial Analysis
- Program Design

Once it is determined that an application meets minimum underwriting standards, the application and underwriting results are forwarded to a funding committee for final review and recommendation. The funding committee is comprised of senior ADOH staff, including program managers, ADOH Administrators, the ADOH Deputy Director and the ADOH Director. The funding committee makes a recommendation to the ADOH Director as to whether the application should be funded without conditions, funded with conditions, or rejected. The ADOH Director makes the final funding decision.

When insufficient funds are available, either geographically or for an activity, competitive scoring criteria are used. If competitive scoring is necessary, the following scoring criteria will be used:

- Very-low income targeting
- Priority populations

2.2.6.4. Low Income Housing Tax Credit (LIHTC) Allocation Plan

The Low Income Housing Tax Credit Program provides federal income tax credits to owners of qualifying residential rental projects. An approximate \$10 million allocation of tax credits is available in Arizona in 2004. This tax credit allocation will result in approximately \$7 million in investor equity for the construction of affordable rental housing. The program was established by the Tax Reform Act of 1986 to replace traditional tax incentives for investment in low-income housing eliminated by the same law. The ADOH is the agency in Arizona responsible for allocating tax credits to specific projects that comply with the Internal Revenue Code (“the IRS” or the “Code”). ADOH carries out this responsibility through the creation and administration of the Qualified Allocation Plan (the “QAP”).

The program has been a viable incentive for the production of affordable housing for low and moderate-income households. From the start of the Arizona program in 1987 to the end of FY 2003, approximately \$100 million in annual tax credits has been allocated, assisting in the creation of more than 20,000 units of low-income housing. The purpose of the program is to comply with federal requirements and to meet the following general program goals:

- Make such units affordable to households having the lowest incomes for the longest period of time.
- Assist in providing financially viable, market appropriate housing in areas of greatest housing needs in the state.
- Promote the development of quality housing at reasonable cost to meet a variety of needs, including family, elderly and special needs.
- Encourage affordable housing development and provide an equitable distribution of tax credits from the state allocation to both urban and rural areas.
- Allocate only the amount of tax credits that the ADOH determines to be necessary for the financial feasibility of the development and its viability as a qualified affordable housing development throughout the long-term compliance period.
- Allocate tax credits to long-term rental developments that provide the greatest overall public benefit and support developments intended for eventual tenant ownership.

In connection with the 2004 QAP, the state has set as its specific goals, the encouragement of:

- An equitable allocation of projects between the urban and rural areas of the state and among various geographic regions;
- Substantial involvement and input from the affected community;
- Projects serving very low-income families;
- Projects to be built on Tribal Lands;
- Acquisition/rehabilitation and rehabilitation projects;
- Projects serving priority populations with special housing needs;
- Projects undertaken by non-profit organizations;
- Projects located in each of the rural Councils of Government jurisdictions.



SECTION THREE: FY 2004 Annual Action Plan Citizen Consultation and Participation

3. SECTION THREE: CITIZEN CONSULTATION AND PARTICIPATION

24 CFR 91.115 requires the following: At least public hearing on housing and community development needs before the Consolidated Plan is published for comment. The general public must have at least 30 days to review and comment on the Consolidated Plan once it is published and made available. At least a two-week notice was provided in several mediums prior to both the hearings and the opportunity to comment.

ADOH held three public hearing, two before the plan was published and one during the 30-day comment period as indicated below. ADOH provided the following opportunities to involve the public the in Consolidated Planning process.

3.1. Public Notice and Public Meeting Schedule

Notices regarding public hearings and opportunities to discuss components of the Arizona Consolidated Plan Update (Update) were provided in three separate ways.

3.1.1. Newspaper Publication

ADOH published the following notice in the Arizona Republic on March 18, 2004 announcing the Consolidated Plan Hearings of April 1, 2004 and April 22, 2004 and allowing for a 30-day comment period beginning April 5, 2004 and ending May 7, 2004.

ARIZONA DEPARTMENT OF HOUSING 2004 CONSOLIDATED PLAN UPDATE

The Arizona Department of Housing (ADOH) is requesting input on Draft FY 2004 State of Arizona Consolidated Plan Update (Update). The Update applies to non-metropolitan and rural areas and describes the state's strategies and actions related to housing, including Public Housing and Section 8, special needs (including HIV/AIDS), homeless, community development, lead based paint, anti-poverty and fair housing. The Update includes an annual action plan, methods of distribution and geographic funding objectives for FY 2004 federal HOME, CDBG, HOPWA and ESG federal funds. The State of Arizona previously adopted a Citizen Participation Plan governing procedures to secure citizen input for the use of HOME, CDBG, HOPWA and ESG resources from FY 2000 through FY 2004. The Update, has been prepared pursuant to applicable federal regulations (24 CFR, PART 91).

To begin obtaining public comment on the Update ADOH is holding the following public hearings. Persons requiring special accommodations due to disabilities may contact the Arizona Department of Housing at (602) 771-1000 or our TTY number, (602) 771-1001.

- Thursday, April 1, 2004, 11:00 am, Greenley Room, Tucson Metropolitan Housing Commission Conference, Tucson Conference Center, 260 S. Church Street, Tucson, Arizona.
- Wednesday, April 22, 2004, 4:15 pm, Sonoran Room, 2004 State Housing Fund Workshop, Black Canyon Conference Center, 9440 N. 25th Avenue, Phoenix, Arizona.

Copies of the Update will be available beginning April 5, 2004 at the ADOH website www.housingaz.com and in paper form from 8:00 am to 5:00 pm at the following location.

Arizona Department of Housing
State Capitol Tower
1700 W. Washington, Suite 210
Phoenix, Arizona 85007
Telephone (602) 771-1010 Fax (602) 771-1002

Written comments on the Update will be accepted by Andrew Rael, Housing Programs Administrator at the above address until May 7, 2004 at 5:00 pm.

3.1.2. ADOH Information Bulletin

The notice in Section 3.1. was included in the March 11, 2004, Information Bulletin No. 3 which was circulated through the ADOH email distribution list.

3.1.3. Posted with the office of the Arizona Secretary of State

The notice in Section 5.1.1 was posted with the office of the Secretary of State on March 29, 2004.

3.1.4. Meeting with CDBG Communities and Arizona Council of Governments

The following paragraph was included in the January 5, 2004, Information Bulletin No. 1 which was circulated through the ADOH e-mail distribution list.

The Consolidated Plan by federal statute must describe the method by which ADOH will distribute CDBG funds. The four Arizona Councils of Government are currently in the process of formulating a draft Method of Distribution (MOD) for the CDBG recipient communities in their respective regions. As in previous years, ADOH may modify each MOD to achieve compliance with federal statute and the goals outlined in the Consolidated Plan. To avoid substantial modifications to the MODs, ADOH has scheduled a meeting with the COGs and communities to discuss the MODs at 10:00 a.m. on January 23, 2004, at the State Capitol, 1700 W. Washington, in the Grand Canyon room which is located directly off of the elevators in the basement. The meeting will begin at 10:00 am and conclude at approximately 1:00 pm. More information about the meeting will be forthcoming.

The following was the agenda for the meeting.

Meeting with CDBG Recipient Communities and COGs
Regarding the Method of Distribution
January 23, 2004 – 10:00 am to 1:00 pm
Arizona State Capitol Tower
Grand Canyon Room (in basement across from elevator)
1700 W. Washington Street
Phoenix, Arizona 85013

AGENDA

1. State Consolidated Plan. Arizona Department of Housing (ADOH) will provide a brief overview of how the Consolidated Plan relates to the CDBG program.
2. Method of Distribution (MOD). ADOH is seeking comments from communities and Councils of Government (COGs) about the MOD process.
3. New Administrative Guidelines. ADOH will discuss new forms and restrictions on moving funds to different funding years.
4. SSP Structure. What will make the SSP more accessible to communities?
5. COGs role in the MOD vs. ADOH responsibility for Contract Administration. ADOH will clarify the role of the COGs with respect to planning and funding recommendations and the role of the state as the responsible entity to HUD.
6. Adjourn

3.2. Other Public Comment

The Consolidated Plan Update was placed on the ADOH website www.housingaz.com beginning April 5, 2004 with a link allowing comments to be received until May 7, 2004.

3.3. Public Input

Tucson Metropolitan Housing Commission Conference, April 1, 2004
Meeting in the Greenlee Room at 11:00 AM

1. Make the Homes for Arizonans Program more effective in rural areas by adapting it for use by Self-Help housing providers as a forward commitment to eligible family participants with re-certification of income at completion of construction/closing.
2. State has a network of 6 of more Self-Help providers with estimated volume of 200 units per year. RD 502 loan eligibility frequently eliminates very low-income families, e.g. below 50% of AMI, by requiring mortgage buy-downs to qualify. (This is exactly the market which was targeted by the 502 program, but is still unable to reach in rural Arizona due to the prevailing very, very low-incomes.)
3. The Homes for Arizonans Program has competed for same market targeted by Self-Help providers and made outreach and production efforts more difficult in the 60% to 80% of AMI. (Eligible homeowners would rather buy a finished home with down payment assistance than work for 9 to 12 months year to earn the subsidy through the 503 program).
4. Establish a HOME set aside for "Community Housing Development Organizations (CHDO) Operating" to build capacity for less-established, less-mature CHDOs that target rural areas for affordable housing development.
5. ADOH policy is in conflict with HUD by discouraging new CHDO formation in rural areas. Capacity of existing CHDOs is diminishing and ability to serve rural areas is limited. HUD 2004 funding was cut by 1/3 on average to existing CHDO-TA providers in AZ (PPEP Housing).
6. ADOH Technical Assistance (TA) practices do not bridge the gap for capacity building in CHDOs and Community Development Corporations (CDC) because of the following: 1) it does not allow for the development of strategic planning, self-sufficiency strategies or housing strategies; 2) offer information, resources and contacts that require high level professional staff to

access/develop in CHDO/CDC who are unavailable in rural areas; and 3) not willing to work one-on-one to develop a winning application for sponsor (Considered a conflict of interest by ADOH?)

7. Award technical assistance contracts to select Arizona TA providers to result in HOME applications by rural CDCs, non-profits and faith-based organizations for affordable housing in rural areas.
8. TA by ADOH has not resulted in sufficient HOME applications/awards for housing in rural areas due to techniques and limitations.
9. Utilization of regional TA providers and one-on-one assistance with housing strategy and application development would increase application and award rate in rural areas.
10. ADOH should more specifically and proactively target the funding of Colonias with CDBG and other funds.
11. With regard to the allocation of CDBG funds, it is difficult to influence local government as to how CDBG funds could be used, especially if local governments are simply funding ongoing projects such as housing rehabilitation or streets.
12. Too much HOME funds are being targeted for rental development.
13. The competitive scoring criteria for awarding CDBG SSP is too subjective and allows too much state discretion.
14. The 2004 CDBG SSP structure rewards those communities who have more capacity and more discretionary funding.
15. The state should not remove the provision from the current CDBG MOD that CDBG funds once allocated to a COG region will stay in the COG region and be reallocated by the COG.
16. The state needs to streamline the CDBG administrative process and remove unnecessary paper work and transactions.
17. ADOH should base CDBG payment on performance.

State Housing Fund Workshop, Black Canyon Conference Center, April 22, 2004 , 4:00 PM

No comments were received.

Comments During the 30 day review Period from April 5, 2004 to May 7, 2004

No written comments were received.



SECTION FOUR: FY 2004 Annual Action Plan Monitoring Plan and Procedures

4. SECTION FOUR: MONITORING PLAN AND PROCEDURES

4.1. Community Development Block Grant (CDBG) Monitoring Plan

The CDBG Monitoring Plan for FY 2004 is described in the Arizona CDBG Administration Handbook, which is provided to all CDBG eligible units of general local government. CDBG periodically updates the Handbook and provides the update to all CDBG-eligible units of government. CDBG monitoring consists of both desk and on-site monitoring. The Handbook contains copies of all desk and on-site monitoring forms so that applicants and grantees know beforehand how they will be monitored.

The CDBG Program has also prepared the following subject-specific handbooks: Environmental Review Records, Federal Labor Standards, Procurement, Contracting and Acquisition, and an annual CDBG Application Handbook. These handbooks contain detailed information about CDBG requirements, and include sample documents, file checklists, and forms.

Throughout the contract period, recipients must submit bi-monthly reports. The reports provide an update to staff regarding the recipient's progress. Staff conducts desk monitoring of each project based on a combination of a risk analysis and random sample. Documented desk monitoring includes: a detailed application review including national objectives, eligible activities, cost reasonableness, anti-speculation, citizen and public participation and certifications; requests for payment; ERR; procurement and contracting; acquisition; construction bids/contracts; labor standards weekly payrolls and employee interviews; Section 3; housing rehabilitation guidelines; homeownership assistance guidelines; sub-recipient agreements; and close-out reports. The nature of the activities undertaken by grantees determines which documents must be submitted for desk monitoring. After a document is desk-monitored, the grantee is notified, in writing, as to whether the document is compliant or what corrective actions are needed with a date for such to be completed.

The CDBG Program also conducts on-site monitoring visits. Communities are selected for on-site monitoring on the basis of a risk analysis which takes into account the following: prior desk and on-site monitoring of both the specific project being reviewed and prior projects; the knowledge and experience of administrative staff; staff turnover; the date of the last on-site visit; the nature and complexity of the projects undertaken; project revisions; audit concerns; and complaints. During on-site monitoring, the project sites are visited to ensure conformance with the information in the application and contract. In addition, a sample of files is reviewed. Checklists are provided to ensure that communities will maintain all required documents, and on-site monitoring will proceed quickly and smoothly. Grantees are always notified in writing in advance of a monitoring visit, which is scheduled at the mutual convenience of the grantee and ADOH staff. All monitoring visits result in a follow up letter (MVL), which identifies the items reviewed, any concerns and findings, and a response date, if appropriate.

Response dates for both desk and on-site monitoring are tracked through a computerized grants management system. Lack of appropriate responses can result in a withholding of funds, an inability to apply for future funds, or a grant termination, following appropriate notification and due process procedures. Responses are reviewed for completeness and if necessary, an additional monitoring visit letter is sent, with a new reply due date. All issues are tracked until resolution.

4.2. HOME Program Monitoring

The state has two written policies with regard to the monitoring of state HOME-funded projects and programs. Those policies are outlined in the documents entitled, Monitoring Policy for Funding Contracts and Long-Term Monitoring Policy for State-Assisted Rental Housing. The first document outlines the program's policies and procedures for monitoring HOME-assisted projects during the funding phase, which includes the time the project is under contract with the state and prior to project completion; the latter outlines the program's policies with respect to the long-term monitoring requirements for HOME-assisted rental properties. The local HUD office has reviewed both documents and the associated policies for compliance with HOME program requirements.

The goals and philosophy of HOME program monitoring are:

- To document program accountability to regulatory oversight agencies and to the public;
- To provide recipients with the technical guidance and assistance necessary to comply with program requirements; and
- In cases of non-compliance, to take all necessary measures to ensure issues are adequately resolved and/or proper sanctions are undertaken.

4.2.1. HOME Contract Monitoring

Desk reviews and on-site monitoring are tools that ensure the activities and transactions undertaken by HOME recipients are allowable within laws, regulations and policies that govern the program. Staff is responsible for gauging information received (or not received) from recipients against all applicable laws, regulations, and policies. Throughout the contract period, recipients must submit bi-monthly reports. The reports provide an update to staff regarding the recipient's progress and also collect federally mandated reporting data, such as matching contributions, contracts let to minority and women-owned businesses, and relocation statistics. From time to time, additional documentation is required of recipients. This additional information enables staff to provide in-house oversight (referred to as desk monitoring). Items such as environmental review documents, documentation provided by escrow/title companies, etc., may be requested by ADOH staff.

As part of on-going technical assistance to recipients, staff is available to meet with recipients. Recipients who have not previously contracted with the state or who are engaging in a new activity may be required to attend a pre-contract meeting. State staff is also available for additional meetings and technical assistance as necessary throughout the contract period.

In addition to reviewing monthly reports, staff members schedule at least one annual on-site visit for each HOME recipient. Because most HOME contracts are typically active from a period of 12 to 24 months, most recipients are monitored twice; preferably once when the project or program is near completion. Each monitoring visit involves a one-to-two day visit to review records, inspect the program/project's progress in completing required activities, and meet with staff responsible for the HOME-funded program/project.

On-site monitoring visits include the following components: entrance/exit conferences; documentation/file review; and viewing of the program/project (as applicable). Within 30 days of an on-site monitoring visit, state staff provides written monitoring comments to the recipient in the form of a follow-up letter. The letter, at a minimum, includes the following: date of review and names of those individuals present during the review; results of the monitoring (satisfactory performance, concern, or finding); a statement describing the basis for each conclusion; instructions on what the recipient must do to address any areas of concern, or finding; and a deadline by which the recipient must respond. In cases

of non-compliance, staff may determine that an additional on-site monitoring visit is necessary before an issue can be adequately resolved.

When a monitoring review of a recipient's performance reveals a specific, identifiable violation of a statutory, regulatory, or legal requirement about which there is no question, staff must make a finding. A written response regarding the recipient's proposed actions to correct the situation is required within 30 days of the date of the monitoring letter. Corrective actions are designed to: prevent a continuance of the violation; mitigate any adverse effects or consequences of the violation to the extent possible under the circumstances; and prevent a recurrence of the same or a similar violation.

State staff will work with recipients to the greatest extent possible to come to a satisfactory resolution in areas where recipients are in non-compliance or when on-site monitoring visits have resulted in findings. Deadlines for bringing activities into compliance are set. Should the ADOH exhaust all possible avenues to bring a recipient's contract into compliance, the matter may be determined an "unresolved issue." Any recipient with an unresolved issue may be barred from further funding from the HOME program and/or the State Housing Trust Fund program. A recipient who is barred from future funding due to unresolved issues may appeal the decision in one of two ways: 1) by resolving the issue to the state's satisfaction; or 2) by providing a detailed plan of action in the area(s) of concern that describes the procedures the recipient put in place to alleviate any future possibility of non-compliance. The ADOH, in its sole discretion, may reject such plans of action if deemed insufficient in alleviating concerns about future performance and compliance.

4.2.2. HOME Long-Term Monitoring - Rental Housing

As outlined in all funding contracts and declared in the Declarations of Covenants, Conditions and Restrictions (CC&Rs), rental property owners/managers are required to maintain complete files to comply with program reporting requirements, and to make their records available to authorized agents of the state and federal government. The state holds owners of state-assisted housing responsible for compliance with applicable state and federal regulations throughout the compliance period.

Desk review and on-site monitoring provide an on-going assessment to assure that the rental units assisted with HOME funds are being utilized in accordance with all laws, regulations and policies that govern the program. Staff is responsible for gauging information received (or not received) from property owners/managers against all applicable laws, regulations, and policies.

Throughout the compliance period, property owners/managers must complete and submit a yearly compliance report. The report updates staff regarding the status of the state-assisted units and the property in general. Failure to comply with the reporting requirements of the program will result in a determination of an unresolved compliance issue and will result in property owners being barred from future opportunities with the HOME and/or State Housing Trust Fund programs.

In addition to reviewing yearly compliance reports, staff schedule on-site monitoring visits according to the requirements of the HOME program as described below.

The frequency of on-site monitoring is determined by the total number of units within a property, according to the following schedule:

Number of Units in the Project	Minimum Frequency of Site Visits
1-4	Once every 3 years
5-25	Once every 2 years
26+	Once per year

The length of the compliance period is determined by the HOME and/or state Housing Trust Fund resources per-unit investment. The compliance period is determined in the initial underwriting and is established in writing at the time of the initial commitment. The length of the compliance period is also declared in the legal documentation filed on the property.

Activity	State Investment Per Unit	Minimum Period of Affordability
	Less than \$15,000	5 years
Acquisition and/or Rehabilitation	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

On-site monitoring visits include the following components: entrance/exit conferences; documentation/file review; and viewing of the program/project (as applicable). Within 30 days of an on-site monitoring visit, state staff provides written monitoring comments to the recipient in the form of a follow-up letter. The letter, at a minimum, includes the following: date of review and names of those individuals present during the review; results of the monitoring (satisfactory performance, concern, or finding); a statement describing the basis for each conclusion; instructions on what the recipient must do to address any areas of concern, or finding; and a deadline by which the recipient must respond. In cases of non-compliance, staff may determine that an additional on-site monitoring visit is necessary before an issue can be adequately resolved.

The focus of the on-site monitoring will be to determine compliance with:

- Maximum tenant income and unit rents on state-assisted units;
- Property standards;
- Affirmative marketing.

Staff will work with property owners/managers to the greatest extent possible to come to a satisfactory resolution in areas where properties are in non-compliance or when on-site monitoring visits have resulted in findings. Deadlines are set by which property owners/managers are expected to bring the

property into compliance. Should the state exhaust all possible avenues to bring a property into compliance, the matter may be determined an “unresolved issue.” A property owner/manager with unresolved issues may be barred from further funding from the HOME and/or State Housing Trust Fund. A property owner/manager who has been barred from future funding due to unresolved issues may not appeal the decision, but may by bringing the property into compliance become eligible. In those cases where the finding is determined to be a breach of any covenant, condition, or restriction, the state shall pursue remedial actions as outlined in the subject property’s CC&Rs. Remedies are outlined at Part III of the Declaration of Covenants, Conditions and Restrictions. Copies of the Declaration are available upon request.

4.3. Emergency Shelter Grant (ESG) Monitoring Plan

The DES reviews contracts and validates for environmental clearance prior to providing approval for expenditure and reimbursement of ESG funds. Annual on-site monitoring reviews will be conducted for all ESG funded contractors. After the annual on-site monitoring, a written report is prepared with findings and recommendations identified for corrective actions, as necessary. Completion of corrective actions with specific timelines for completion are required and verified by DES. For new ESG agencies contracting with the Community Services Administration, an on-site visit will be conducted within three months of the contract award. ESG resources and program reports are monitored monthly. Monthly program reports attached to fiscal claims for reimbursement are designed to capture client data, average number of bed nights, activities, fiscal expenditures billed, and types and sources of match. Desk reviews of submitted reports and information will also be completed monthly, as needed.

4.4. Housing Opportunities for Persons With AIDS Program (HOPWA) Monitoring Plan

With respect to the housing and related-service needs of persons living with HIV or AIDS, ADOH shall administer the Housing Opportunities for Person With AIDS Program (HOPWA), providing for a range of housing and services to assist people to prevent homelessness and to provide housing and services for homeless persons with HIV/AIDS, linking HOPWA funds with other programs administered by the state and other agencies.

ADOH reviews contracts and validates for compliance with annual performance related to HOPWA requirements. On-site visits are conducted following contract award and program reports are required on a semi-annual basis. Program reports are designed to capture client data, activities, and fiscal expenditures billed. At least twice a year each HOPWA provider will receive a monitoring site visit and a written report prepared with findings and recommendations for corrective actions, if necessary. Completion of corrective actions with specific timelines for completion are required and verified by ADOH.

4.5. LIHTC Project Long-Term Compliance Monitoring

The ADOH is required to monitor and inspect the project for compliance with IRS regulations, and the requirements (set-asides, income restrictions, rent skewing, affordability period, amenities and services, etc.) elected in the application and agreed upon in the extended use agreement, and upon which the tax credit is based.

The code further requires that agencies publish and institute monitoring procedures as part of the approved allocation plan. All projects for which tax credits are allowable are subject to the application of this compliance monitoring procedure. This means that all projects allocated tax credits since January 1, 1987 are to be monitored for compliance. The most recent amendments, detailing requirements for state agency health, safety, and building inspections and owner reporting of building code and Fair Housing violations, are effective as of January 1, 2001.

The ADOH has prepared a Low Income Housing Tax Credit Program Compliance Manual, revised in March of 2000, which it provides to all Program participants. The manual outlines the ADOH's compliance monitoring procedures and reporting requirements. Twice-annual training is offered by the ADOH on the Compliance Manual and compliance responsibilities of owners and managers.



**SECTION FIVE:
FY 2004 Annual Action Plan
State Certifications
and Standard Forms 424**

5. STATE CERTIFICATIONS AND STANDARD FORMS 424