

# Arizona Department of Housing Five-Year Strategic Plan

## Agency Mission

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

## Agency Description

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

With a Federal budget of approximately \$100 million annually, as well as hundreds of millions of dollars worth of Federal tax credits and bonding authority in its tool belt, the Department and its rural bonding partner, the Arizona Housing Finance Authority (“AzHFA”), are available to assist with many of the most pressing housing and community development needs in the state. The agency receives no State General Fund Support for its operations and only a small amount of State Housing Trust Funds (\$2.5 million annually) helps provide its required Federal match.

In 2010, the agency added a third entity to its partnership – when the Arizona Home Foreclosure Prevention Funding Corporation (“AHFPFC”), a non-profit corporation, was established to meet the requirements for accepting the U.S. Department of the Treasury’s mortgage foreclosure assistance award of \$267 million, which is available to the state through 2017. While the day-to-day administration of the non-profit’s mortgage foreclosure program is handled by the Department, its resources are not a part of the state’s budget per requirements of the U.S. Department of the Treasury.

## Strategic Issues & Strategies

The following are key challenges and opportunities facing the agency:

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

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

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

**Issue – Reducing the occurrence of mortgage foreclosures to aid in Arizona’s economic recovery.** Throughout the past few years of economic crisis, Arizona has remained one of the states at the top of the list in experiencing foreclosure problems. With some homes in the state experiencing as much as 58 percent depreciation since the height of the market, and more than half a million Arizonan homeowners living with underwater mortgages, even as the housing crisis improves, the problem of foreclosures is expected to continue to remain an issue as we move into 2014 and beyond. Because Arizona’s economy is heavily influenced by the housing industry and because so many homeowners are hesitant to

spend money given their negative equity mortgages, the state's economic recovery is heavily tied to the stabilization and recovery of the housing market. Today recovery is underway.

Prior to 2008, the Department had provided little in the way of mortgage foreclosure assistance. However, starting in 2008, the Federal government has provided some significant resources to help address related problems, with several of those programs winding down in 2012 and 2013. Those programs which have been fully expended or are nearly so, include programs that assisted with moving foreclosed homes off the market by providing incentives for first-time homebuyers to purchase empty homes. Under this program the Department used more than \$30 million to assist over 900 first-time homebuyers to purchase vacant, foreclosed homes, thereby reducing the inventory glut throughout the state. The Department is also just now winding down a \$7 million program that provided short-term foreclosure and eviction assistance to thousands of Arizonans experiencing trouble paying mortgages and rents during tough economic times. The Department has also received continued Federal funding to support a toll-free hotline that directly links troubled homeowners to mortgage foreclosure counseling, although future funding for this service is not guaranteed past December 2013.

The primary source of mortgage foreclosure assistance that the Department has received to date comes from a grant of \$267 million made available through the U.S. Department of the Treasury. While the day-to-day operation of the program has been entrusted to ADOH, under federal regulations, the funding is required to funnel through a non-public entity. Thus the Department and the AzHFA, partnered through an Intergovernmental Agency Agreement to establish the Arizona Home Foreclosure Prevention Funding Corporation (AHFPFC), which is a non-profit corporation that was established for the sole purpose of receiving these federal grant monies.

The AHFPFC established a program which it contracted with the Department to administer under which it distributes these resources, called the Save Our Home AZ Program. The Department's challenge is to utilize this resource in a manner that will make a significant difference in quelling foreclosures sooner rather than later, even though the program is authorized through December 31, 2017. It is important to note that even though program funds are not a part of the state's budget, we include this issue here because it is one of the most significant undertakings of the Department.

**Strategies.** The Department's strategies to address the utilization of this significant resource over the short term has been to: (1) increase marketing efforts to create better awareness of the assistance through paid advertising which is an eligible use of administrative funds available through the program; (2) continue to work with the servicing and lending community to identify new and improved opportunities to help adjust mortgage payments and reduce outstanding, underwater principal; and (3) continue to work with Treasury and the Arizona Governor's Office to address policies that hamper utilization of the resource.

**Issue – Retooling programs to keep assistance flowing under current market conditions.** Due to market conditions, the issuance of mortgage revenue bonds to finance and promote first-time homebuyer opportunities in rural Arizona is currently infeasible. However,

the market for first-time homebuyer programs which offer downpayment and closing cost assistance to make homeownership attainable to Arizona's young, rural families is still very much in demand and continuing to create homeownership opportunities for responsible homeowners is something that the AzHFA was specifically created to address.

**Strategies.** In 2013 the Department and the AzHFA implemented a privately financed pipeline of loan products which will allow the utilization of these resources to include downpayment and closing cost assistance under some of the same affordable terms as a mortgage revenue bond-financed product. This will allow the AzHFA to continue to promote homeownership in Arizona's 13 rural counties during a time when traditional bonding products are not available. AzHFA expects that it will be able to continue to offer up to \$43 million in loans and \$1.7 million in down payment and closing cost assistance through a TBA (To Be Announced) program for the next several years or until the bond market is once again a viable option to consider.

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

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

**Resource Assumptions**  
Resources included in the State Budget

	<b>FY2013 Actuals</b>	<b>FY2014 Budget</b>	<b>FY2015 Budget Request</b>	<b>FY2016 Estimate</b>	<b>FY2017 Estimate</b>	<b>FY2018 Estimate</b>
Full-time-equivalent (FTE) Positions	61	61	61	61	61	54
General Fund	0	0	0	0	0	0
Other Appropriated Funds (HTF)	\$311,200	\$304,600	\$304,600	\$313,738	\$313,738	\$323,150
Non-Appropriated Funds	\$10,846,939	\$12,723,809	\$13,154,693	\$13,549,334	\$13,955,814	\$12,560,233
Federal Funds	\$83,350,449	\$81,863,734	\$75,603,624	\$73,335,224	\$74,068,576	\$75,549,948
<b>Total Agency Funds</b>	<b>\$94,508,588</b>	<b>\$94,892,143</b>	<b>\$89,062,617</b>	<b>\$87,198,296</b>	<b>\$88,338,128</b>	<b>\$88,433,331</b>

**Other Resource Assumptions**

Resources not included in the State Budget

*(Federal Tax Credits, Hardest Hit Funds, Finance Authority Mortgage Financing and Other)*

	<b>FY2013</b>	<b>FY2014 Budget</b>	<b>FY2015 Budget</b>	<b>FY2016 Estimate</b>	<b>FY2017 Estimate</b>	<b>FY2018 Estimate</b>
Federal Tax Credits	\$15,559,770	\$191,607,714	\$129,090,934	\$132,963,662	\$136,952,571	\$141,061,149
Hardest Hit Funds	\$43,539,212	\$72,146,884	\$72,419,338	\$29,571,988	\$24,604,364	\$4,704,306
Single Family Mortgages & Down Payment Assistance	\$16,337,030	\$44,928,000	\$44,928,000	\$44,928,000	\$44,928,000	\$44,928,000
<b>Total Other Resources</b>	<b>\$75,436,012</b>	<b>\$308,682,598</b>	<b>\$246,438,272</b>	<b>\$217,463,650</b>	<b>\$206,484,935</b>	<b>\$190,693,455</b>

	<b>FY2013</b>	<b>FY2014 Budget</b>	<b>FY2015 Budget</b>	<b>FY2016 Estimate</b>	<b>FY2017 Estimate</b>	<b>FY2018 Estimate</b>
<b>Total Agency Resources</b>	<b>\$169,944,600</b>	<b>\$403,574,741</b>	<b>\$335,500,889</b>	<b>\$304,661,946</b>	<b>\$294,823,063</b>	<b>\$279,126,786</b>

Revised August 2013