

**REPORT  
 HIGHLIGHTS**  
**PERFORMANCE AUDIT**

**Our Conclusion**

The Arizona Department of Housing (Department) was created in 2002 and administers housing programs that have increased affordable housing opportunities and improved community services. The Department generally does not provide direct services but instead acts as a “pass-through” agency for various services and programs—many targeting the State’s rural areas. We reviewed four of the Department’s largest programs: Low-Income Housing Tax Credit, Community Development Block Grant, and two home purchase assistance programs. We found that these programs have increased affordable housing opportunities—especially for low-income housing—and have facilitated over 430 projects during state fiscal years 2003 through 2009 that have improved community services in Arizona’s rural communities. Further, the Department has a generally sound system for overseeing the programs it administers.



2010

**Affordable housing increased and communities enhanced**

**Low-Income Housing Tax Credit**

**program**—Through this federal program, developers agree to hold a portion of their rental units for low-income households, which earn at or below 60 percent of the area’s median income. These households pay an “affordable rent” based on the area’s median income and the number of persons and bedrooms in the unit. For example, 50 percent of the median income for Maricopa County for one person is \$23,050, and the maximum rent he/she would pay is \$576 for a studio unit. In exchange, the developer receives a federal tax credit that can be sold to investors to raise proceeds to build rental properties.

Since 2003, the Department has awarded nearly \$82 million in federal tax credits, helping to develop about 7,000 low-income housing units. The Department has distributed these projects throughout the State with 66 percent located outside Maricopa and Pima Counties.

The report describes three recent examples of these projects:

- **Matthew Henson Development**—A 549-unit project with 445 units reserved for low-income households. Replacing an existing 1940s-built, low-income housing project, Phoenix city officials reported that this development has helped revitalize the downtown area surrounding it.
- **Page Commons**—A 100-unit senior housing complex located in downtown Gilbert that addressed the need for affordable housing for a growing population of seniors. This too revitalized the downtown Gilbert area, according to Gilbert officials.
- **Maddox Estates Townhomes**—A 60-unit project that helped address a serious need

for affordable housing in Eloy. The development accommodates larger families and provides a pool and recreation area that other housing in the area does not.

**Community Development Block Grant (CDBG)**

**—**This federal community revitalization program provides grants to benefit low- and moderate-income people by alleviating slum conditions and addressing urgent community needs in Arizona’s rural counties. For example, in 2005, the Department awarded the City of Eloy more than \$340,000 to connect its water distribution system to an outlying area called Toltec. Before the connection, whenever the Toltec water system would malfunction, Eloy employees had to purchase bottled water and deliver it to Toltec residents who ran out of water. It also created a fire hazard in Toltec because it would disrupt the source of water for fighting fires. The water connection construction has ensured a continuous supply of water to Toltec in the event of a system malfunction.

The report also describes CDBG grant monies to a food bank serving low-income

Photo 1: Matthew Henson Development—Phoenix



Source: Courtesy of Matthew Henson Apartments.

persons in Tombstone and a construction-job-training program for youth in the City of San Luis that has promoted the graduation of at-risk students.

**Home purchase programs help Arizonans buy homes**—The Homes for Arizonans program provided a portion of the down payment on a home to first-time homebuyers in rural Arizona, and between 2002 and 2009, it provided \$30 million in assistance to 2,500 households.

In July 2009, this program gave way to a program using federal stimulus money to help individuals purchase foreclosed homes. Under the Your Way Home program, the Department offers 22 percent of the purchase price in the form of a deferred second mortgage to buyers who are at or below 120 percent of the area's median income. As of March 2010, 462 homes have been purchased with an average assistance of about \$30,000 per home.

## Department effectively plans, awards, and monitors resources

The Department has developed effective systems for overseeing the housing programs it administers. For example, the Department maintains a strong control environment over the low-income housing tax credit program to ensure compliance with federal Internal Revenue Service requirements regarding eligibility and monitoring. The Department:

- Has developed written operating procedures for staff and compliance manuals for developers, and
- Provides training for property owners.

The Department also conducts thorough on-site inspections and takes appropriate action when it discovers problems. For example, at one development, department inspectors reviewed a random sample of 62 of 102 tax credit units, including reviewing tenant files to ensure eligibility and physically inspecting the units. The Department discovered income verification problems in more than half the sample and problems with about half of the units' physical conditions.

The State has a 5-year plan for CDBG money that addresses the needs of low- to moderate-income persons and addresses slums and urgent community needs. Department staff also follow comprehensive guidelines to review projects and takes actions if there is not satisfactory progress. In one instance, the Department issued a Failure to Progress letter to a town whose water system improvement project was not proceeding in a timely manner. If the town had not addressed the timeliness issues, it would have lost funding and had to repay the monies it had already received.

The Department also oversees lenders and nonprofit counseling agencies helping low-income persons to purchase homes. It does this primarily by using the Internet to receive application information from the lenders and reviewing the information to ensure borrowers fall within the required income guidelines.