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May 26, 2010

Debra K. Davenport, CPA
Auditor General
State of Arizona Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

RE: Arizona Department of Housing Performance Audit and Sunset Review

Dear Ms. Davenport:

We are writing to provide our comments to the performance audit and sunset review of the Arizona Department of Housing (Department) conducted as part of the sunset review process prescribed in Arizona Revised Statutes § 41-2951 et seq. In addition to assessing the Department's operations using the sunset factors in the statute, the audit focused on four of the Department's largest programs and examined the accomplishments these programs have achieved and the effectiveness of the Department's oversight of these programs.

We are pleased with the findings identified in your report which concluded that the Department programs increase housing opportunities and enhance communities. We believe that your report supports our contention that the programs of the Department are important in increasing the quality of life in Arizona: providing affordable housing opportunities across the state, supporting projects to meet community needs, and increasing home ownership. We are also pleased with the audit's conclusion that the Department operates a sound system for planning, awarding, and monitoring housing program resources.

The Department takes its fiduciary responsibility in administering approximately \$200 million in public resources annually with extreme seriousness. Since the Department was created in 2002, it has overseen over \$1.7 billion in public assets comprised of state and federal monies, federal tax credits, and the bond issuances of the Arizona Housing Finance Authority. We believe that your report supports the Department's assertion that the improvements brought by the Department's programs are immeasurable and operate within the public interest, given the wide range of benefits derived from these investments, enhancing housing affordability and community stability all the while putting significant resources back into the Arizona economy.

As the legislature contemplates the renewal of the Department's authorizing statutes, we would like to point out that unlike many state agencies the housing department has always been self-sufficient, relying on zero General Fund support to finance its operations. As a result, the Department considers itself an asset, providing valuable programs and services at no cost to other functions of the state. The Department operates primarily through federal entitlement and competitively awarded grants, as well as fees charged for services.

The only state resource that the Department has historically utilized has been an allocation of 55 percent of the state's Unclaimed Property fund, which until this past fiscal year provided resources to the Department approaching \$30 million annually for the State Housing Trust Fund. Unfortunately, this fund was significantly reduced in FY2010 when the legislature capped future annual allocations to \$10.5 million. This reduction will significantly hamper the Department's ability to address some of the state's most difficult housing challenges, since it provided a flexible resource capable of funding many housing-related activities that are prohibited under federal housing programs as well as required match for some federally supported activities.

Ironically, though the Department has received only modest state support, through the above mentioned resource, it has lost over \$69 million since 2008, this amount having been swept by the legislature to support the General Fund. As a result, the Department has downsized its staffing by 25 percent since that time, and is, as the old adage goes, "doing more with less." The Department hopes in the future, when the state recovers from the current economic crisis, that the Housing Trust Fund will once again receive an annual allocation of 55 percent from the Unclaimed Property fund or approximately \$30 million per year to assist with Arizona's housing needs.

The aforementioned reduction in state resources has come at a time when the Department has been tasked with addressing a housing crisis of historical proportions. Thankfully while state resources have shrunk, as your report correctly identifies, federal resources have increased, enabling the Department to address some of these critical issues including funding for foreclosure counseling and mitigation efforts, eviction prevention, and other resources to divert the threat of homelessness in these tough economic times. The Department projects that some of these resources will remain available to Arizona residents until approximately 2013, when federal stimulus programs are expected to conclude.

In response to the audit's recommendation, identified on page 42 at 2.1, which recommends that the Department's CDBG handbook be revised to align on-site monitoring policies with its practices, the finding of the Auditor General is agreed to and it should be noted that the audit recommendation has already been implemented.

On behalf of the staff of the Arizona Department of Housing, I would like to thank the Sunset Review team who worked with the Department to conduct this important performance audit. We appreciate the opportunity that this review gave the Department to highlight what it has accomplished in its short history. We look forward to our continued service to the citizens of Arizona as we move into our second decade.

Sincerely,

Michael Traylor
Director