

Arizona Department of Housing

Performance Audit and Sunset Review

Department took steps to implement recommendations from its 2024 sunset review but its Low Income Housing Tax Credit program monitoring did not ensure some housing units at properties we reviewed were safe, sanitary, and rented only to eligible tenants

Audit purpose

To determine if the Department monitored Low Income Housing Tax Credit (LIHTC) properties consistent with key program requirements in fiscal years 2020 through 2025 and implemented 31 recommendations from its 2024 sunset review; and to provide information on LIHTC and State low-income housing tax credit (STC) programs and respond to the 10 statutory sunset factors.¹

Key findings for LIHTC

- ▶ Our review of Department records for 10 LIHTC and STC properties found it:
 - Did not inspect 1 or more federally required health and safety standards for 126 of 153 housing unit inspections and/or notify some property owners of violations, increasing the risk that tenants lived in unsafe or substandard housing.
 - Lacked evidence it completed federally required reviews of tenant income eligibility and/or rent rates for 53 of 153 files it inspected, increasing the risk that tenants were ineligible for low-income housing or paid incorrect rental rates.
- ▶ Department developed the State's Qualified Allocation Plan to establish eligibility requirements and scoring criteria for making LIHTC and STC awards to housing developers.
- ▶ In calendar years 2020 through 2025, the Department awarded more than \$4.3 billion in tax credits for the development of 21,549 low-income housing units.² The Department awarded an average of approximately \$201,000 in tax credits per low-income housing unit for all projects that received any federal and State tax credits in calendar years 2020 through 2025. During that time period, the average amount of federal and State tax credits awarded per low-income housing unit substantially increased, as did the per unit development costs.
- ▶ Research has found that the overall structure for developing LIHTC properties can impose some barriers to these properties' cost efficiency, such as higher costs associated with administration, financing, and construction in comparison to market-rate properties.

¹ The Arizona Auditor General conducted this performance audit and sunset review of the Department pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee. In response to a special audit request, the Joint Legislative Audit Committee also directed us to review the Department's Low-Income Housing Tax Credit program as part of the Department's performance audit and sunset review. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

² The amount of tax credits reported is the total amount of tax credits that can be claimed for a 10-year period once the property is placed in service.

- ▶ Our review of housing market research and analysis of affordable rental housing supply in Arizona found there is a shortage of affordable housing for low-income households, and LIHTC and STC properties provide needed affordable housing and other benefits.
- ▶ We provided information on each of the LIHTC and STC awards the Department made in calendar years 2020 through 2025, including the project name, developer, development costs, total tax credit amount awarded, and tax credit amount per unit.

Key findings for sunset factors

- ▶ Department developed a written plan outlining steps it will take to implement key practices for providing special needs housing, emergency shelter, and affording housing development oversight, but it is still in process of implementing its written plan.
- ▶ Despite reporting to the Legislature that its review did not identify any improper payments made to special needs housing grantees, the Department identified the need for additional supporting documentation for some expenses, which is necessary to review prior to reporting that it did not pay grantees for unallowable expenses.
- ▶ Department developed a comprehensive performance-measurement system, but some program-performance measures need improvement.
- ▶ Department developed and began implementing policies, procedures, and training for wire transfers.
- ▶ Department and the Board of Manufactured Housing implemented 6 of 31 recommendations from the 2 reports we issued as part of the Department's 2024 sunset review and we identified steps the Department should take to fully implement the remaining recommendations.

Key recommendations to the Department

- ▶ Complete inspections of LIHTC properties consistent with program requirements.
- ▶ Continue to implement its written plan for implementing the key practices for providing program oversight, including updating it as necessary.
- ▶ Continue its review of approved and paid payment requests, including obtaining and reviewing adequate supporting documentation.
- ▶ Revise and implement its comprehensive performance measurement system procedures to include processes for tracking, evaluating, and establishing annual measurable goals, performance benchmarks, and measurable outcomes.
- ▶ Continue to implement its policies and procedures for processing wire transfers, and provide training to all relevant employees on its wire transfer policies and procedures.