

# Arizona's Housing Supply through Innovation

**Arizona Department of Housing**

Rental Housing: Encouraging New Construction

**HFA Staff Contact**

Dave Cherry

[dave.cherry@azhousing.gov](mailto:dave.cherry@azhousing.gov)

### **Introduction**

The Arizona Department of Housing (ADOH) saw a desperate need to open up the state's affordable housing pipeline and took decisive steps to make an immediate and positive impact in speeding up delivery of new affordable homes. We reimagined and then rewrote our Qualified Allocation Plan (QAP) from a burdensome, lengthy document to a concise, easy-to-follow blueprint for obtaining highly-coveted tax credits. This strategic process looked at all potential barriers to delivering quick financing and resulted in new scoring models and evaluation procedures. By initiating a new culture of collaboration, we were able to create a document that reduced regulatory framework, allocated resources faster, and developed an easier path to funding for developers. As a direct result, in 2022, our programs assisted in delivering more than 10,100 units; a 390% increase over 2021. What follows is the formula ADOH used to achieve this success and insight into the innovation used and commitment required to exceed our expectations in the development of more affordable rental housing.

### **Innovative**

To reimagine our QAP, we wanted to innovate the way in which we accumulated data, so we committed to gathering an unprecedented amount of stakeholder input. ADOH held 10 tailored focus groups with 115 attendees, had 4 public comment periods, and 6 formal public hearings. We received 600+ comments from more than 50 stakeholders and engagement came from across all sectors: Developers, syndicators, contractors, architects, local governments, advocates, public officials, and residents. The input shed light on ADOH's past performance, existing barriers, and perceived shortcomings and helped us develop solutions that we incorporated into the new allocation processes.

### **Replicable**

By following the key principles below, other state housing agencies can replicate and utilize Arizona's formula to reimagine their own QAPs for increased success.

***Stakeholder Outreach-*** The significant number of focused, public-input events ensured all partner concerns would be heard and addressed. We encourage agencies to engage stakeholders in tailored groups, seek to better understand their concerns, and work together to collaborate on creative solutions.

***Identify Barriers-*** Systematically track concerns and barriers. Identify trends in the barriers and notate when they are voiced by multiple stakeholders across different sectors with a variety of interests.

***Develop Innovative Solutions-*** Identify tools and best practices to address barriers and concerns. Research internal data from your state's past performance to assess the concerns and identify the origin of the barrier so it can be addressed and solutions can be proposed.

***Stakeholder Outreach Part II-*** Go back to your community to present these findings and solutions and again seek their input to ensure all concerns are addressed through the revised approach. For ADOH, this stakeholder outreach 'sandwich', conducted at the beginning and the end of the reengineering process, was the essential ingredient in developing solutions that worked in harmony with our challenges.

### **Respond to State Housing Need**

Arizona is one of America's fastest growing states but housing supply has not kept pace with our population growth as more than 200,000 housing units are needed statewide to meet current demand. ADOH's reengineered QAP now has fewer barriers and more solutions making it significantly easier for affordable housing developers to access our funding and build more, much-needed housing.

### **Demonstrate Measurable Benefits**

A key measure for success of our QAP changes is more statewide participation. We achieved this goal in all housing programs, for all housing types, through several innovative approaches.

**Arizona Department of Housing**  
**Increasing Arizona's Housing Supply through Innovation**  
**Rental Housing: Encouraging New Construction**

---

***Selection Criteria-*** ADOH's scoring criteria was completely retooled to encourage statewide access to crucial community amenities. Through these changes, ADOH received applications from areas of the state that had not previously participated in the 9% LIHTC program.

***Set Asides-*** After careful analysis, ADOH strategically reduced the number of set asides from 6 to 3. The remaining 3 set asides specifically target statewide distribution, the creation of new units, and the preservation of existing affordable housing inventory. ADOH also incorporated adjustments within its selection criteria to align with HUD's priorities and LIHTC requirements. The QAP now allows adjustments for one Choice Neighborhoods project and 10% of LIHTCs for nonprofit projects.

***State Tax Credits-*** To encourage statewide distribution, ADOH evenly divided its STCs between rural and metro areas. The metro STCs were paired with 4% LIHTC projects and the rural STCs were paired with 9% LIHTC projects. The pairing of rural STCs with 9% LIHTC provided much-needed gap financing and has increased the rural interest in our 9% LIHTC program by 80%.

**Proven Track Record of Success**

We used untraditional methods to streamline key processes and this enabled us to establish a new benchmark for success with significant increased productivity.

***QAP Format-*** An enormous barrier for the ADOH LIHTC program was the 300-page length of the QAP. In the re-imagining process, we insured the QAP was succinct and well-organized and created a new streamlined version just 50 pages in length.

***Application Revision (9% LIHTC)-*** ADOH streamlined its 9% LIHTC application process to reduce some documentation requirements and remove others that led to duplication of information. ADOH now only requires documentation needed to complete its threshold, scoring, and underwriting assessment. We saw an immediate and quantifiable impact when 33 9% LIHTC applications were submitted establishing a new State of Arizona record (16 projects were awarded and 1,042 new housing units created).

***Application and Allocation Method (4% LIHTC)-*** Arizona had not been maximizing its 4% LIHTC bond cap for the creation of affordable housing, leaving resources on the table each year. ADOH had been requiring an onerous application that did not align with the simpler state bond issuance process (ADOH only issues 4% LIHTCs, while the Industrial Development Authority issues municipal revenue bonds that can assist private and public borrowers). ADOH substantially revised the 4% LIHTC application process and allocation method by decreasing the upfront documentation required for the Determination of Eligibility. This move led to significantly more 4% LIHTC applications. In 2021, ADOH added only two new projects using the 4% program. In 2022, with the extensive changes made to the application process, we added 11 new projects using the 4% program (1,902 new units); a 450% increase from 2021.

**Benefits Outweigh Costs**

The incremental cost of this innovation was zero compared to an extraordinary and unprecedented benefit. The only cost incurred to ADOH was staff time to solicit and conduct outreach and to draft/implement the new reengineered QAP with program framework. The outreach, accumulation of stakeholder input, and drafting process was completed over the same time period ADOH generally dedicates to the QAP drafting process. Therefore, no additional cost was incurred, while the benefit was exponential as the number of housing units assisted increased 390% over 2021 and the number of 4% LIHTC units increased 450% over 2021.

**Effective Use of Resources**

As a result of the agency's unprecedented outreach, it became apparent that our programs lacked targeted resources that addressed specific state needs. The new QAP addressed this concern and

**Arizona Department of Housing**  
**Increasing Arizona's Housing Supply through Innovation**  
**Rental Housing: Encouraging New Construction**

---

provided new resources to projects that would have likely otherwise stalled.

*Hardship Credits-* ADOH's new QAP included a \$1.2 million set aside for 9% LIHTC adjustment increases for projects experiencing unforeseen hardships. These projects could apply to receive up to 10% of the original 9% LIHTC award. In the current economic environment, the hardship credit resource proved to be a valuable tool to ensure projects continued forward. In 2022, ADOH assisted 15 projects and 1,081 units with hardship credits.

*Credit Recycling and Forward Allocation-* Resources for construction delays were needed. To create flexibility for projects struggling to place in service, ADOH added a QAP tool that allowed projects to recycle credits and request a one-year extension. ADOH also opted to forward allocate LIHTCs. This tool is available when needed to help fund projects and increase the total number funded from year to year.

*State Tax Credits-* Arizona's first low income housing tax credit program and was signed into law on July 9, 2021. Three days later, ADOH held a stakeholder engagement session, then fast-tracked the State LIHTC (STC) process and included the program in the new QAP. ADOH has held 3 rounds and awarded STCs to 504 units for 4% and 9% metro projects. We will hold 4 rounds in 2022 and 2023 and anticipate assisting more than 1,000 new units with this game-changing new resource.

*Gap Financing-* ADOH had offered gap financing for years with little interest; again leaving resources on the table. During the QAP outreach, we asked stakeholders how we could target our gap financing allocation methods to attract more projects and achieve a greater impact. After learning our financing requirements were too prescriptive and hard-to-achieve, we revamped our allocation methods to pair our financing with much-needed 4% LIHTC transactions, 9% rural LIHTC transactions, and 9% LIHTC projects experiencing cost overruns. With these revisions, ADOH received interest that exceeded its available resources. In 2022, we awarded \$113 million in gap financing to 47 projects and 5,571 units throughout Arizona, with 14 of those projects and 1,244 units directly related to cost overruns.

**Effectively Employ Partnerships**

Again, we should reference the previously-stated innovation we employed in accumulating the data to reimagine our QAP. The amount of stakeholder input we gathered was unprecedented in the history of the agency. The number of focus groups, attendees, public comment periods, formal hearings, and comments received were the most in ADOH history. By partnering with stakeholders, we learned about past mistakes and barriers both real and perceived. The effectiveness of the partnership is evidenced by the significant success we achieved in assisting the creation of more rental housing.

**Achieve Strategic Objectives**

Arizona desperately needs more housing and our main objective is to assist in achieving that goal by making it easier for developers to access funding. Our innovative approach to reimagining our QAP has resulted in ADOH increasing the number of affordable housing units assisted annually by 390%. Our new QAP has produced significant positive results for Arizona and we believe it will continue to achieve our objective for years to come.

