

# Responding to a State Need with a Reengineered Qualified Allocation Plan

**Arizona Department of Housing**  
Special Achievement

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## **Introduction**

In 2022, Arizona is projected to be the second fastest growing state. Unfortunately, housing supply has not kept pace with population growth. The Arizona Department of Housing (ADOH) estimates that 270,000 housing units are needed statewide just keep up with current demand. To combat this shortage, ADOH reengineered its process of allocating resources which led to a significant increase in new housing projects. These changes and reformulated methods led to ADOH assisting 4,875 new units and stabilizing 1,515 existing units. By the end of 2022, we project our programs will assist over 8,574 units; a 330% increase over the prior year. As a direct result of new leadership at ADOH and a new culture of collaboration, this commitment to reimagine a better way do things was born.

Using extensive self-assessment and stakeholder outreach into potential barriers, ADOH and its consultant evaluated the allocation methods of our Qualified Allocation Plan (QAP) and Gap Financing Programs. Through this exhaustive process, ADOH decided to completely rewrite the QAP with the three goals of streamlining processes to increase productivity, increasing solutions and resources, and increasing statewide participation in all housing programs. This application will provide an overview of how ADOH used innovation to overcome barriers and the tangible, effective steps ADOH took to achieve these goals.

## **Innovative**

Our innovation was committing to unprecedented stakeholder input. ADOH held 10 tailored focus groups with 115 attendees, had 4 public comment periods, and 6 formal public hearings. ADOH 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. ADOH worked with stakeholders to develop solutions and then incorporated those into the revised allocation processes.

## **Streamlining Processes**

ADOH experienced significant increased productivity by streamlining several key processes using untraditional methods.

### *QAP Format*

An enormous barrier to accessing the ADOH LIHTC program was the 300-page length of the QAP. We received extensive stakeholder feedback about the difficulty they experienced trying to navigate such a lengthy document. In the re-write process, we insured the QAP was succinct and well-organized. This effort led to ADOH streamlining its QAP from those 300 pages down to 50.

### *Application Revision – 9% LIHTC*

ADOH streamlined its 9% LIHTC application process to reduce some documentation requirements and remove others that led to the duplication of information. ADOH now only requires documentation needed to complete its threshold, scoring, and underwriting assessment and removed the requirement for any additional documentation. We saw an immediate and quantifiable impact this year with 33 LIHTC (9%) applications submitted, which was a record for Arizona.

### *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 bond issuance process in the State. In Arizona, ADOH only issues 4% LIHTCs, while the Industrial Development Authority issues municipal revenue bonds that can assist private and public borrowers. ADOH substantially eased the 4% LIHTC application process and allocation method by

decreasing the upfront documentation required for the Determination of Eligibility. This revision alone has led to more 4% LIHTC applications in the first 5 months of 2022 than ADOH had during 2021. We are on pace this year to double the amount of units created through our 4% LIHTC program in 2021.

### **Increasing Solutions and Resources**

As a result of the agency's unprecedented outreach, it became apparent that our programs lacked solution-oriented flexibilities and targeted resources that addressed specific state needs. Increased solutions and flexible resources became increasingly important as many affordable housing projects were impacted by schedule delays and cost increases due to the impacts of COVID-19. The new QAP addressed these concerns and provided solutions and 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 high-cost environment, many projects experienced cost increases related to COVID-19 and the hardship credit solution proved to be a valuable tool to ensure projects continued forward. ADOH assisted 9 projects and 680 units with hardship credits.

#### *Credit Recycling and Forward Allocation*

Construction delays related to COVID-19 also impacted Arizona housing projects. To create flexibility for projects struggling to place in service, ADOH added a tool to the QAP that would allow 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 Senate Bill 1124 created the State'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 already held 2 rounds and awarded STCs to 368 units for 4% Metro projects. ADOH will hold 4 rounds in 2022 and 2023 and plans to assist over 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. ADOH listened to the feedback. After learning our financing requirements were too prescriptive and hard to achieve, we revamped our allocation methods to pair our funding 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. We awarded \$32 million in gap financing to 21 projects and 2,539 units throughout Arizona. With 10 of those projects and 835 units it was used for cost overruns.

### **Increasing Statewide Participation**

ADOH achieved significant increased statewide participation in all housing programs, for all housing types, through several innovative approaches.

#### *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 project selection criteria to align with HUD’s priorities and LIHTC requirements. The QAP 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. ADOH has held two STC rounds in 2022 and plans to hold two more rounds by April 2023. The pairing of rural STCs with 9% LIHTC provided much-needed gap financing for rural 9% projects and has increased the rural interest in our 9% LIHTC program by 80%.

### **Replicable**

State housing agencies can utilize Arizona’s stakeholder feedback and subsequent strategic changes to our QAP to implement game-changing modifications to their own QAPs following these key principles.

#### **1 – Stakeholder Outreach**

The significant number of focused, public-input events ensured all partner concerns would be heard and addressed. To replicate our method, we encourage agencies to engage stakeholders frequently and in tailored groups to encourage real time feedback. Seek to better understand their concerns and work together to collaborate on creative solutions.

#### **2 – 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.

#### **3 – 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.

#### **4 – 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 policies and programs that worked in harmony with our state-specific concerns and barriers.

### **Summary**

ADOH is addressing the 270,000 housing units needed statewide to meet current demand in Arizona by making it easier for affordable housing developers to gain access to our funding and tax credits. Through frequent stakeholder outreach, self-assessment, and streamlined processes, we re-imagined our QAP and ended up with fewer barriers and more innovative solutions to problems. This approach has led to ADOH increasing the number of affordable housing units assisted annually by 330% with a 60% increase in the number of LIHTC units created annually. Our new QAP has produced significant positive results and we believe it will continue to do so for years to come.

## Visual Aids

