

## **PREFACE: PURPOSE AND LIMITATIONS OF THE FY 1992 HOME PROGRAM SUMMARY**

The State of Arizona FY 1992 HOME program is new, having been funded by the United States Department of Housing and Urban Development (HUD) just this year. The State of Arizona will receive approximately \$4.157 million for this program in FY 1992. HOME represents an opportunity for applicants to more fully address their unique affordable housing needs. The State of Arizona has sought to design this program with flexibility and ease of access in mind. Your comments and feedback concerning the program are desired, and it is hoped that the State of Arizona FY 1992 HOME program will serve you well.

The intent of the FY 1992 HOME Program Summary is to realize the following objectives:

- 1) Provide potential grant applicants an ability to make informed decisions about projects they may wish to undertake with available HOME resources.
- 2) To provide applicants with comprehensive information about what is possible to achieve with HOME resources and what will ultimately be expected of them by the State of Arizona concerning the implementation of such projects.
- 3) To secure input and comment from affected organizations and entities about the proposed design of the FY 1992 State of Arizona HOME program. Please send written comments to:

Mr. Steve Capobres, Manager - Office of Housing Development  
Arizona Department of Commerce  
3800 N. Central, Suite 1200  
Phoenix, Arizona 85012  
tel. (602) 280-1365

**Please send comments to the Department by 7/10/92.**

*Like other federally funded housing and community development programs, HOME comes complete with a wide variety of prescribed program restrictions and rules. In addition to the rules unique to the HOME program, a host of federal "overlay" statutes apply to this program. Accordingly, mandatory recordkeeping and monitoring requirements abound under the program. These factors need to be considered by applicants when identifying eligible projects and planning for their implementation.*

As indicated earlier, the HOME program is new. This is its first year of funding by HUD. Applicants, the State of Arizona, and HUD are continually learning about this program, and inevitably, this process will continue for some time. **Count on program changes in the future and a more refined interpretation of federal regulations by HUD and a more complete understanding of them by the State. The State of Arizona has sought to provide you with solid information about HOME in its FY 1992 Program Summary, yet we encourage you to maintain ongoing contact with Department of Commerce - Office of Housing Development for updates or changes in the HOME program.** PLEASE BEAR WITH US IN THIS REGARD. Our approach is to assist you in every regard. Thank you for your patience, and we look forward to working with you to more fully address affordable housing needs in Arizona.

# **FY 1992 STATE OF ARIZONA HOME PROGRAM SUMMARY**

## **SECTION 1.0 FY 1992 HOME PROGRAM OVERVIEW**

## FY 1992 STATE OF ARIZONA HOME PROGRAM SUMMARY

### 1.0 FY 1992 HOME PROGRAM OVERVIEW

#### 1.1 Program Purpose and Objectives

The HOME Program was recently created by the National Affordable Housing Act of 1990 (NAHA). In addition to HOME, this act also incorporates several other major new housing initiatives, including: HOPE I - the transfer of public and Indian housing to homeownership; HOPE II - the transfer of subsidized privately owned multifamily housing to ownership; HOPE III - the promotion of single family ownership for first time homebuyers; Preservation - the preservation of federally subsidized rental housing with expiring subsidies; and, Special Needs - programs directed for the elderly and those with special needs. All of these programs are federally funded and generally administered by the U.S. Department of Housing and Urban Development (HUD). With the exception of HOME, the rest of these new affordable housing programs are available directly from HUD.

The HOME Program has been structured in a way to make available a new federal block grant program for flexible use by grant recipients. The focus of the HOME program is on low-income (persons earning less than 80% of the area median adjusted by family size as annually amended), and very-low income (earning less than 50% of the area median adjusted by family size as annually amended) individuals and families. The statutory purposes of the Cranston Gonzalez Act are as follows:

- "To help families not owning a home to save for a down payment for the purchase of a home;
- To retain wherever feasible as housing affordable to low-income families those dwelling units produced for such purposes with Federal assistance;
- To extend and strengthen partnerships among all levels of government and the private sector, including for-profit and non-profit organizations, in the production and operation of housing affordable to low-income families;
- To expand and improve Federal rental assistance for very low-income families; and,
- To increase the supply of supportive housing, which combines structural features and services needed to enable persons with special needs to live with dignity and independence. "

The statutory purpose of the HOME program is as follows:

- "... to increase the number of families served with decent, safe, sanitary, and affordable housing and expand the long-term supply of affordable housing....".

HOME replaces many longstanding federal housing programs, although most of the activities carried out under the canceled programs are eligible, with modification. The federal programs that have been eliminated include:

- Rental Rehabilitation
- Section 312 Loan Program.

- Urban Homestead Program.
- Section 8 Moderate Rehabilitation Program (except for the SRO component).
- HODAG Grant Program.

In designing the FY 1992 HOME program, the State of Arizona has sought to attain all of the federal statutory objectives noted herein, as well as realize the following:

- To equitably distribute resources to both metropolitan and non-metropolitan regions of Arizona in conformance with objective measures of housing need and population distribution identified in the State of Arizona Comprehensive Housing Affordability Strategy (CHAS).
- To make resources available to grantees in a manner which provides them the maximum flexibility to design and execute affordable housing programs that are responsive to unique and dynamic locally identified needs, and in compliance with all applicable federal regulations.
- To the maximum degree feasible, to foster the ease of access for and implementation of HOME resources.
- To seek to strategically integrate the use of FY 1992 HOME funds with other affordable housing programs operated by and available to grantees from the Arizona Department of Commerce - Office of Housing Development.
- To foster the use of FY 1992 HOME funds as a "lever" with other federal, state, local, and private affordable housing resources so as to increase the impact of such resources to the State.
- In concert with applicable federal and state statutes, to foster the use of HOME resources by units of local government in conjunction with local plans, strategies, ordinances, and objectives.
- To address the unique needs of special needs populations identified in the State of Arizona CHAS.
- To ensure that all grantees operate their HOME financed affordable housing programs in compliance with applicable HOME regulations and federal and state "overlay" statutes.

## 1.2 FY 1992 HOME Program Overview

The purpose of this section is to briefly summarize the major provisions of the State of Arizona FY 1992 HOME program. The major provisions are as follows:

- Eligible Activities - These are mandated by HUD. Generally speaking, they are as follows:
  - *Housing rehabilitation for owner-occupied and rental housing.*
  - *Assistance for first-time homeowners.*
  - *Rental Housing Production*
  - *Relocation and acquisition.*
  - *Tenant Based Rental Assistance.*

- *New Construction (Only in certain instances).*
- *Combinations thereof as authorized by applicable federal regulations.*

**When identifying project uses, applicants are encouraged to keep in mind varying federal program restrictions associated with such uses. Often, specific uses may trigger varying federal regulations guiding the uses of funds.**

- Geographic Distribution and Selection Procedures - FY 1992 HOME funding objectives have been established for metropolitan (**\$867,610 non-CHDO funding**) and non-metropolitan (**\$2,645,839 non-CHDO funding**) jurisdictions. Funding objectives (**\$623,550 mandatory CHDO statewide set-aside**) are established for Community Housing Development Organizations (CHDOs - specially formed non-profit corporations prescribed by federal statute and state regulations) and non-CHDO FY 1992 HOME proceeds. Selection procedures for funding shall be on a competitive basis with final decisions made by the Arizona Department of Commerce - Office of Housing Development. It is the intent of the State to attain, at a minimum, all non-CHDO funding objectives established for metropolitan and non-metropolitan areas (established by COG district). Note that CHDO funding shall be distributed through a statewide competitive allocation process. To the degree feasible and practical, it is the intent of the State to conform with combined CHDO and non-CHDO funding objectives. Specific funding amounts are provided in Section 2.0 of this report.
- Eligible Applicants - For CHDO funding, eligible applicants include specially formed non-profit corporations established pursuant to applicable federal regulations and certified as such by the State of Arizona. CHDOs must secure a resolution of endorsement for activities undertaken within the jurisdiction of affected units of local government. For non-CHDO funding eligible applicants are restricted to: units of local government (cities, towns, and counties), Non-Metropolitan Councils of Government with the approval of affected units of local government or their Regional Council, and State agencies with resolutions of endorsement from all affected units of local government. Other organizations (non-profit corporations, profit corporations, etc. ) are encouraged to apply for resources, yet must do so through the eligible applicants itemized above. **Any application submitted to the State for FY 1992 HOME resources may not include more than one eligible HOME activity.** Refer to subsections 2.3 and 3.1 for further details concerning eligible applicants.
- Eligible Uses of FY 1992 HOME Funds - Eligible uses include:
  - *Homeownership Assistance For First-Time Buyers.*
  - *Homeowner Rehabilitation Activities.*
  - *Rental Housing Production (Acquisition, Rehabilitation, or Combinations thereof, etc*
  - *New Construction related uses in certain instances.*
  - *Tenant Based Rental Assistance.*
  - *Certain Eligible CHDO "Seed or Technical Assistance" Loans.*

Much more detailed information is presented in Section 4.0 of this report. However, note some very general limitations:

- FY 1992 HOME funds may not be used for any administrative costs, yet State Housing Trust fund resources may be used for such.
- FY 1992 HOME funds may be used for some project related activities. Contact the Department of Commerce - Office of Housing Development for details.

- CHDOs are eligible to use HOME funds for all uses authorized for non-CHDO funding, as well as for certain technical assistance and seed loans.
  - Consistent with federal regulations, 15% of the State of Arizona's FY 1992 HOME allocation must be used for CHDOs executing development-related activities. These activities include: rental housing production (acquisition, rehabilitation, etc), eligible new construction related activities, and first-time homebuyer related activities. Tenant based rental assistance and owner occupied rehabilitation are precluded, yet contact the Department of Commerce - Office of Housing Development for further details. In all instances, the CHDO must be developers, sponsors, or owners of the housing to be assisted with FY 1992 HOME resources. If CHDO set-aside funds are not committed within 2 years of HUD's authorization of funding to the State of Arizona, they shall be lost for use within Arizona.
- Eligible Forms of Assistance - Pursuant to applicable federal regulations, the following uses of FY 1992 HOME funds are all authorized:
    - Equity Investments
    - Interest Bearing Loans or Advances
    - Interest Subsidies
    - Deferred Payment Loans
    - Grants
    - Other Uses To Be Determined In The Future - A use not identified above will require federal approval prior to execution.
- Income Eligibility of Beneficiaries of FY 1992 HOME Resources - Income eligibility of beneficiaries of HOME resources varies by the type of activity to be undertaken. Details are provided for each eligible project use discussed later in this report (refer to Section 4.0). Generally speaking, clients assisted may not earn more than 80% of the area (county) median income adjusted by household size as amended annually, and in many instances may not earn more than 50% of the median (adjusted by household size).

# **FY 1992 STATE OF ARIZONA HOME PROGRAM SUMMARY**

## **SECTION 2.0 FY 1992 HOME PROGRAM INTRODUCTION**

## 2.0 FY 1992 HOME PROGRAM INTRODUCTION

### 2.1 State of Arizona Role In The FY 1992 HOME Program

The State of Arizona (aka Arizona Dept. of Commerce) shall perform the following functions associated with the FY 1992 HOME program:

- Design and administer the FY 1992 HOME program.
- Make all funding decisions associated with grants made to grantees.
- Ensure that all grantees execute their grants in conformance with applicable FY 1992 HOME regulations and applicable federal overlay statutes.
- Ensure that all grantees administer their grants in conformance with applicable federal and state financial management guidelines.
- Ensure that all grantees are monitoring their contractors in conformance with applicable FY 1992 HOME regulations, federal overlay statutes, and applicable and prudent federal and state financial management practices and regulations.
- Coordinate the use of HTF resources with other state and federal resources at the disposal and control of the State of Arizona Department of Commerce - Office of Housing Development.
- Design state affordable housing program initiatives in cooperation with units of local government.
- Maintain proper records, and ensure that its grantees do the same.
- Provide ongoing technical assistance to grantees concerning the use and implementation of HOME and other affordable housing resources.

### 2.2 State of Arizona FY 1992 HOME Geographic Funding Objectives

The State Department of Commerce - Office of Housing Development will commit HOME resources to grantees consistent with funding objectives presented on Appendix A enclosed. Funding will be committed through a competitive process. Funding objectives drawn from Exhibit 1 are summarized below:

- Funding objective of **\$1,044,248 (including CHDO funding)** for metropolitan regions (covering all political jurisdictions in Maricopa and Pima counties). Funding objective of **\$887,610 for non-CHDO funding resources**.
- Funding objective of **\$3,112,752 (including CHDO funding)** for non-metropolitan regions (covering all political jurisdictions in Apache, Cochise, Coconino, Graham, Greenlee, La Paz, Mohave, Navajo, Pinal, Santa Cruz, Yavapai, and Yuma counties excluding all Indian Reservations). Funding objective of **\$2,645,839 for non-CHDO funding resources**. Within non-metropolitan Arizona, the following funding objectives have been established for each Council of Government Planning District:
  - Northern Arizona Council of Government (NACOG) Region - covering Apache, Coconino, Navajo, and Yavapai counties. **Funding objective of \$986,712 (\$838,705 excluding CHDOs).**
  - Western Arizona Council of Government Region (WACOG) - covering Yuma, La Paz, and Mohave counties. **Funding objective of \$812,432 (\$690,567 excluding CHDOs).**

- Central Arizona Association of Governments (CAAG) Region - covering Pinal and Gila counties. **Funding objective of \$561,145 (\$476,973 excluding CHDOs).**
- Southeastern Arizona Governments Organization (SEAGO) Region - covering Graham, Greenlee, Cochise, and Santa Cruz counties. **Funding objective of \$752,463 (\$639,593 excluding CHDOs).**

Actual FY 1992 HOME funding distributions **may vary given the quality, quantity, and type of CHDO and non-CHDO applications** received by the State of Arizona during FY 1992, however, it is the intent of the State of Arizona to meet the funding objectives noted herein.

### 2.3 Eligible Applicants

As discussed earlier in the text, eligible applicants include the following entities:

- For FY 1992 HOME CHDO funding, duly created CHDOs pursuant to applicable federal regulations and state certification requirements. Resolutions of endorsement by affected units of local government are required. State certification guidelines are presented in subsection 4.6 and Appendix B of this report. A non-profit organization receiving CHDO funding in FY 1992 must either be certified by the State at the time of funding award or be deemed as having the ability to receive the certification at the time of award.
- For FY 1992 HOME non-CHDO funding, eligible applicants include the following organizations:
  - Units of local government authorized by resolution of the jurisdiction's governing body.
  - Non-Metropolitan Councils of Government (COGs) on behalf of units of local government. Applications made by COGs must include resolutions authorizing the application/s from either: (1) the governing bodies of each affected unit of local government; or, (2) the COG's Regional Council. **COGs may not submit any application covering their entire region unless authorized to do so by the Department of Commerce - Office of Housing Development.**
  - State agencies with resolutions of endorsement from all affected units of local government.
- All other applicants (including non-profit corporations, profit corporations, CHDOs, etc) are ineligible to directly apply for funding, however, they they are encouraged to work with the above listed organizations to serve as sub-grantees or contractors.
- No application may be submitted by any applicant for more than one eligible HOME activity (ie. tenant assistance, owner occupied rehabilitation, first-time homebuyer programs, or new construction related activities). Should an applicant, be they a CHDO, unit of local government, State agency, or COG, submit more than one application in any given funding round, the applicant must assign a priority to each of the applications submitted.
- Should a county submit an application to the State in regions outside its unincorporated areas, it must secure resolution(s) of endorsement from affected cities or towns. This requirement may be waived concerning the provision of tenant based

rental assistance where the legal service area of a county Housing Authority covers other units of local government (cities or towns).

#### **2.4 FY 1992 HOME Funding Selection Process, Procedures and Timing**

The FY 1992 HOME funding selection process shall be executed on a competitive basis among eligible grant applicants for both CHDO funding and non-CHDO funding. The selection criteria to be utilized are described in subsection 2.4 of this document. Funding shall be available with Housing Trust Fund resources available from the Arizona Department of Commerce - Office of Housing Development. Final funding decisions shall be made by the Arizona Department of Commerce with advice from the HOME Advisory Subcommittee established pursuant to State law and in conjunction with FY 1992 HOME funding objectives noted in this document. The funding process and anticipated timeline for the FY 1992 HOME program is as follows:

- CHDO Funding Round 1 - Approximately \$623,550 in CHDO funding shall be made available for statewide competition by all eligible applicants. Applications shall be due to the State of Arizona no later than August 17, 1992 at 5:00PM, with funding awards to be made by September 30, 1992. **Eligible uses of funds are outlined in section 4.0 of this document, and generally include all eligible uses of HOME resources excluding tenant based rental assistance and owner-occupied rehabilitation.** To the degree feasible and practical, CHDO resources shall be allocated in accordance with metropolitan, non-metropolitan, and regional non-metropolitan FY 1992 HOME funding objectives noted in Exhibit 1 of this document. Should there be a need, the State of Arizona shall execute additional funding rounds to distribute uncommitted CHDO resources.
- Non-Metropolitan, Non-CHDO FY 1992 Funding Round 1 - Approximately \$2,645,839 in non-metropolitan, non-CHDO funding shall be made available for competition within Arizona's non-metropolitan regions (all counties with the exception of Maricopa and Pima). Applications shall be due to the State of Arizona no later than August 17, 1992 at 5:00PM, with funding awards to be made by September 30, 1992. **Eligible uses of funds are outlined in section 4.0 of this document, and generally include all eligible uses of HOME resources.** To the degree feasible and practical, resources shall be allocated in accordance with non-metropolitan regional funding objectives (for non-CHDOs) outlined in subsection 2.2.
- Metropolitan, Non-CHDO FY 1992 Funding Round 1 - Approximately \$887,610 in non-metropolitan, non-CHDO funding shall be made available for competition within Arizona's metropolitan regions (Maricopa and Pima counties). Applications shall be due to the State of Arizona no later than August 17, 1992 at 5:00PM, with funding awards to be made by September 30, 1992. **Eligible uses of funds are outlined in section 4.0 of this document, and generally include all eligible uses of HOME resources.**
- Optional Statewide Non-CHDO Funding Round 2 - Should there be a need, the State of Arizona shall execute an additional funding round to distribute uncommitted metropolitan and non-metropolitan FY 1992 HOME funding. When funding is released, the State shall notify eligible applicants of the volume of available funding for metropolitan and non-metropolitan regions (including uncommitted regional objectives). Applications shall be due to the State of Arizona no later than October 30, 1992 at 5:00PM, with funding awards to be made shortly thereafter. **Eligible uses of funds are outlined in section 4.0 of this document, and generally include all eligible**

**uses of HOME resources.** To the degree feasible and practical, resources shall be allocated in accordance with metropolitan and non-metropolitan regional funding objectives (for non-CHDOs) outlined in subsection 2.2. If needed, the State will execute additional funding rounds.

**Note that the timing for FY 1992 HOME applications is preliminary, and may be subject to change. Contact the Arizona Department of Commerce - Office of Housing Development for details in this regard.**

**2.5 FY 1992 HOME Funding Selection Criteria and Minimum Threshold Criteria**

The funding selection criteria (rating) used to select grants under the FY 1992 HOME program are as follows:

<b>Rating Criteria</b>	<b>Maximum Points Awarded</b>
------------------------	-------------------------------

1) Local Housing Need - Clearly outlines the specific need or opportunity that each proposed project is intended to address. Greater weight shall be applied to needs addressed in response to the State and local CHAS documents for the <b>lowest household income level.</b>	10 points
---	-----------

2) Leveraging - Has "firm" or "tentative" commitments of other resources, including private sector cash, other public funds, and recipient contributions. Does not include State HTF funds committed to the project. The greatest weight shall be given to projects with "firm" commitments leveraging the highest volume of additional resources. "In-kind" resources shall count, but be given less weight than cash contributions. <b>"Layering" or the integration and merging of federal resources to generate an excessive amount of subsidy per unit or client do not count for leveraging purposes.</b> Consult subsection 2.7 for "federal layering" rules. Other state or local resources may also be exempted as well under "layering". For questions, contact the Department of Commerce - Office of Housing Development.	20 points
---	-----------

3) Project Impacts - Meets the housing needs for the greatest number of individuals or families at the lowest income level.	20 points
---	-----------

4) Project Management and Capacity - For FY 1992, evidence is provided documenting the applicant's successful capacity to execute and implement the program activity. This may be documented through the capacity of the applicant or its sub-contractors. Information shall be drawn from performance on other federal or state housing and community development programs. For subsequent years, significant weight shall be drawn from performance indicators on HOME funded grant activities.	20 points
---	-----------

5) Long-Term Supply of Affordable Housing - Points would be awarded based on the degree to which the assistance provided enhances the <b>long-term supply of affordable housing and strengthens the physical condition of affected neighborhoods.</b>	10 points
---	-----------

6) Economic Independence - Points would be awarded based	10 points
--	-----------

on the degree to which the proposed assistance fosters the long-term economic- independence of clients to be served.

- 7) Special Target Population Impacts - Points awarded for ..... 10 points  
applications which serve the greatest number of special target populations, including: homeless persons and families, frail elderly persons, handicapped persons (mentally, developmentally, or physically impaired persons and families, migrant & seasonal farmworkers, and other groups the State of Arizona may identify from time to time). The greatest weight shall be given to projects which specifically and exclusively serve such client groups to the degree possible with HOME. Weight shall be given to applications based on the degree (proportion) to which special populations are to be served of all clients to be assisted with FY 1992 HOME resources.

---

---

**TOTAL POSSIBLE POINTS ..... 100 POINTS**

Prior to the rating and ranking of applications they shall be reviewed by the Department of Commerce - Office of Housing Development to determine whether such applications meet minimum threshold criteria. No application shall be funded unless and until it meets such criteria. The criteria to be utilized are as follows:

- 1) The conformance of the application with applicable FY 1992 federal and state HOME regulations including, but not limited to, the following:
  - Applicable client (beneficiary) income limits.
  - Eligibility of applicants.
  - CHDO certification.
  - Maximum property valuation and home investment amounts.
  - Applicable HOME rental limits.
  - Eligibility of properties to be assisted.
  - Eligibility of projects and activities to be undertaken.
  - Duly authorized certifications attesting to compliance with other applicable HOME regulations and applicable federal "overlay statutes"
  - Eligibility as to the the forms of financial assistance sought.
  - Compliance with minimum property standards as applicable.
  - Properly completed applications.
  - Conformance with the State of Arizona CHAS.
  - Etc.
  
- 2) Capacity of the applicant to implement proposed projects incorporated within applications, as evidenced by, but not limited to, the following:
  - Implementation of comparable types of projects.
  - Past performance associated with the use of other federal and state housing and community development related programs.
  - Performance criteria to be established by the Department of Commerce - Office of Housing Development from time to time.
  - The project can be committed by the applicant within mandatory federal timing requirements. Refer to subsection 3.3 for further details. **Note that the commitment**

**of funds means applicants have entered into legally binding, written agreements with project owners.**

- Can be implemented within mandatory HOME requirements (funds committed within 18 months by CHDOs and 24 months for non-CHDOs (36 months for rental housing production set-asides), and resources expended in total within four years of an award. As a general rule, applicants should be prepared to initiate their projects within 3 months of a funding award (execute all activities leading to a commitment pursuant to HOME regulations). The Department of Commerce - Office of Housing Development will not fund projects with inherent inabilities to be completed within a timely manner.

3) Conformance with leveraging and "layering" requirements, as follows:

- Clear evidence indicating resources proposed to be leveraged are either "firmly committed" or "tentative" in nature. Realize that no FY 1992 HOME resources will be released until all "tentative" commitments become "firm". Refer to subsection 3.1 for details.
- Any "layering" issues associated with the grant request are resolved by the applicant to the State of Arizona's satisfaction.

4) Capacity to execute financial and administrative requirements associated with the application request, including but not limited to, the federal "overlay" statutes noted in subsection 5.3 of this document. Compliance shall be based on provisions included in proposed grant applications concerning the status of agency financial and accounting systems, quality and quantity of record keeping systems, proposed grant implementation activities, past performance in implementing federal grant in aid programs, the inclusion of signed certifications in grant requests, etc. Contact the Arizona Department of Commerce - Office of Housing Development for assistance or information on any one of the federal "overlay" statutes noted in subsection 5.3.

## **2.6 FY 1992 HOME Funding Integration With State Housing Trust Fund (HTF) Resources and The Community Development Block Grant Program (CDBG)**

### **State HTF Resources**

The State of Arizona has elected to commit, through the competitive processes noted in subsections 2.4 and 2.5 of this document, State HTF resources for grant applicants seeking FY 1992 State HOME resources. This will be executed through mini State HTF rounds conducted in conjunction with FY 1992 HOME rounds (delineated in subsection 2.4). Note that State HTF resources **shall only be committed in conjunction with FY 1992 HOME requests**. As a general rule, the Department of Commerce - Office of Housing Development will consider funding a **portion** of needed administrative or "project related" costs for FY 1992 HOME grants. Generally speaking, project related costs do not include general administrative expenses, but include project-related specific soft or service costs (rehab services, etc). **Contributions (be they "in-kind or "cash") made by the applicant for administration and "project related expenses" for FY 1992 HOME grant requests will induce the State to commit HTF resources**. Decisions on individual HTF grants shall be made on a **case by case basis**, and the need for HTF-funded administrative and "project related" expenses associated with FY 1992 HOME grant requests must be justified by the applicant. A limited volume of State HTF resources shall be available for other expenditures ("bricks and mortar") up to certain limits, with emphasis on non-HOME eligible costs. Note that State HTF resources are not guaranteed for grant requests, and State policy

concerning the use of HTF resources with HOME will be guided by the following general principles:

- Regardless of their use, State HTF resources shall be the last funding source to be used for requests.
- The Department of Commerce - Office of Housing Development shall make funding decisions on the use of State HTF resources for individual projects and grant application requests on a case by case basis.
- The unique ability of the applicant to secure other sources of funds or execute projects in a different manner shall be considered when authorizing the commitment of State HTF resources for any purpose to a grantee.
- For CDBG entitlement communities, the use of State HTF resources for CDBG-eligible "project related" uses shall be discouraged, since CDBG resources may be used for such in many instances. For non-entitlement communities (subject to the State of Arizona Small Cities CDBG program), the use of CDBG resources with FY 1992 HOME projects are encouraged by applicants. The State of Arizona recognizes that such resources may already be committed this fiscal year, however, re-programming represents an option. Contact the State of Arizona CDBG Administrator for details in this regard. Again, the commitment of State HTF resources for CDBG eligible "project related" costs is generally discouraged by the State, since CDBG funds may be used in certain instances this regard.
- State HTF resources are available in limited quantities, and tentative funding earmarks will be published with information concerning each FY 1992 HOME rounds conducted.
- To the degree feasible, State HTF resources would primarily be used for costs ineligible to be funded by FY 1992 HOME or CDBG resources.
- All decisions would be made on a case by case basis.

## 2.7 Entitlement and Non-Entitlement CDBG Resources

Note that CDBG funds may be used by applicants with FY 1992 HOME assisted projects.

### Entitlement CDBG Grantees

For CDBG entitlement communities, the use of State HTF resources for "project related" costs shall be discouraged, since CDBG resources may be used for such in certain instances.

### Non-Entitlement (Small Cities) CDBG Grantees

For non-entitlement communities (subject to the State of Arizona Small Cities CDBG program), the use of CDBG resources with FY 1992 HOME projects is encouraged. The State of Arizona recognizes that such resources may be already committed for this fiscal year, however, re-programming the use of existing CDBG resources to HOME projects is an option. The State CDBG program staff will assist in this regard, and contact the State CDBG Manager for details. As a general rule, applicants are encouraged to consider the use of available CDBG resources for ineligible uses of FY 1992 HOME resources.

## 2.8 FY 1992 HOME Funding Integration With Other State and Federal Resources and State of Arizona Layering Requirements

The State of Arizona Department of Commerce - Office of Housing Development also administers the Low Income Housing Tax Credit program, offering a federal tax credit to qualified sponsors of low-income rental housing involving new construction, rehabilitation, acquisition, or combinations thereof. Fund availability to the State of Arizona has precluded the closest possible integration of this program with available FY 1992 HOME resources, yet a much better integration is anticipated during FY 1993. Also note that when tax credits are utilized, the maximum amount of HOME investment amount is reduced by the per unit net proceeds from the sale of the tax credit and by the per unit present value of the income stream of the project owner's share of the credit.

A wide variety of other federal, state, and local affordable housing resources offer excellent leveraging and integration alternatives with the use of HOME resources. Most of these resources are not directly controlled by the State of Arizona, yet are available to units of local government, non-profit entities, etc. **Remember an important point when considering the integration of these resources with grant requests..... federal requirements preclude "layering". Layering is an approach where federal resources are combined on a HOME assisted project to the point where "an excessive amount of subsidy is provided for the project or activity".** As a general rule note the following:

- To the degree additional federal resources are secured for HOME assisted projects which proportionately increase the volume of clients or units assisted, layering is generally not an issue (additional federal investment per unit or client is simply increased). This is encouraged.
- To the degree additional federal resources secured increase the subsidy per unit or client on a HOME assisted project, "layering" becomes an issue and should be addressed prior to the submission of grant requests to the State.
- "Layering" issues also affect dollars counted toward leveraging under FY 1992 HOME rating and ranking procedures. Projects which become ineligible due to "layering" will not secure leveraging points and not be funded.

- Please contact the Arizona Department of Commerce - Office of Housing Development for questions associated with leveraging or layering at your earliest possible convenience, as well as refer to specific project details noted in Section 4.0.

**FY 1992 STATE OF ARIZONA  
HOME PROGRAM SUMMARY**

**SECTION 3.0  
GENERAL GRANT PARAMETERS**

## SECTION 3.0: GENERAL GRANT PARAMETERS

This section presents key information and guidelines applicable to all grant requests made to the State of Arizona with FY 1992 HOME resources. Section 4.0 presents detailed information on a per activity basis.

### 3.1 Eligible Applicants

This has already been presented in Section 2.0 of the report. To summarize again, note the following eligible applicants:

- For FY 1992 HOME CHDO funding, duly created CHDOs pursuant to applicable federal regulations and state certification requirements. **Resolutions of endorsement by affected units of local government are required.** State certification guidelines are presented in subsection 4.6 and Appendix B of this report. A non-profit organization receiving CHDO funding in FY 1992 must either be certified by the State at the time of funding award or be deemed as having the ability to receive the certification at the time of award.
- For FY 1992 HOME non-CHDO funding, eligible applicants include the following organizations:
  - Units of local government authorized by resolution of the jurisdiction's governing body.
  - Non-Metropolitan Councils of Government (COGs) on behalf of units of local government. Applications made by COGs must include resolutions authorizing the application from either: (1) the governing bodies of each affected unit of local government; or, (2) the COG's Regional Council. **COGs may not submit any application covering their entire region** without first receiving the written approval of the Department of Commerce - Office of Housing Development.
  - State agencies with resolutions of endorsement from all affected units of local government.
- All other applicants (including non-profit corporations, profit corporations, CHDOs, etc) are ineligible to directly apply for funding, however, they are encouraged to work with the above listed organizations to serve as sub-grantees or contractors.
- No application may be submitted by any applicant for more than one eligible HOME activity (ie. tenant assistance, owner occupied rehabilitation, first-time homebuyer programs, or new construction related activities). Should an applicant, be they a CHDO, unit of local government, State agency, or COG, submit more than one application in any given funding round, the applicant must assign a priority to each of the applications submitted.
- Should a county submit an application to the State in regions outside its unincorporated areas, it must secure resolution(s) of endorsement from affected cities or towns. This requirement may be waived concerning the provision of tenant based rental assistance where the legal service area of a county Housing Authority covers other units of local government (cities or towns).

### 3.2 Eligible Activities

Eligible activities under the FY 1992 HOME program are generally described below:

- Homeownership Assistance For First-Time Buyers.
- Homeowner Rehabilitation Activities.
- Rental Housing Production (Acquisition, Rehabilitation, or Combinations thereof).
- Tenant Based Rental Assistance.
- Certain Eligible CHDO "Seed or Technical Assistance" Loans.

These activities are discussed in detail in Section 4.0 of this report. **All eligible applicants may only include one eligible activity per application made to the Department of Commerce under the FY 1992 HOME program.** Applicants submitting more than one application in a FY 1992 HOME funding round **must rank in priority order the preference it recommends be given to each compared with other/s submitted in that round.**

### 3.3 Grant Duration

Consistent with mandatory federal regulations and State of Arizona objectives governing the FY 1992 HOME program, the following timing issues for grant execution are applicable:

#### CHDO Funding

- Reserve all FY 1992 HOME allocations to CHDOs not later than June 15, 1993. Federal requirement is December 15, 1993 (estimated).
- Commit all FY 1992 HOME allocations to CHDOs not later than December 15, 1993. Federal requirement is June 15, 1994 (estimated).

#### Non-CHDO Funding (Excluding Rental Housing Set-Asides)

- Reserve all FY 1992 HOME allocations not later than June 15, 1993. No federal requirement.
- Commit all FY 1992 HOME allocations not later than December 15, 1993. Federal requirement is June 15, 1994 (estimated).

The reservation of funds means that allocations have been made by the State, while the commitment of funds means applicants have entered into legally binding, written agreements between them and project owners. Regardless of the grant amount all funding by applicants must be expended by December 15, 1996. Federal requirement is June 15, 1997 (estimated). Contact the Department of Commerce - Office of Housing Development for timing requirements associated with HOME rental housing production set-asides.

### 3.4 Minimum and Maximum Grant Levels

Given the rather varied eligible uses and types of applicants for HOME resources, formal grant minimums and maximums have not been established. Decisions shall be made by the Department of Commerce - Office of Housing Development on a **case by case basis**, considering the following factors: the proposed uses of funds, the anticipated impacts of the project, availability of HOME resources, applicable "overlay" statutes and complexity of administration, leveraging issues, etc. Generally, applications (comprised of HOME funding) between the range of \$100,000 to \$300,000 are suggested.

### **3.5 Minimum and Maximum HOME Investments**

Note that HUD imposes a minimum and maximum per unit (or household in the case of rental assistance) investment comprised of all funding sources on a project, including HOME resources. The minimum investment is \$1,000 per unit (or average annual expenditure per household for rental assistance), while the following maximums are presented below. Note that these maximums will change annually.

**MAXIMUM PER UNIT SUBSIDY LIMITS**

<b>COUNTY</b>	<b>0 BDRM</b>	<b>1 BDRM</b>	<b>2 BDRM</b>	<b>3 BDRM</b>	<b>4+BDRM</b>
Apache .....	\$28,857.....	\$33,079 .....	\$40,223.....	\$52,055 .....	\$57,119
Coconino					
Navajo					
Cochise .....	\$26,683.....	\$30,586 .....	\$37,193.....	\$48,115 .....	\$52,815
Graham					
Greenlee					
Pima					
Santa Cruz					
Gila .....	\$27,869.....	\$31,946 .....	\$38,846.....	\$50,253 .....	\$55,162
Maricopa					
Pinal					
La Paz .....	\$28,264.....	\$32,399 .....	\$39,397.....	\$50,966 .....	\$55,945
Mohave					
Yavapai					
Yuma .....	\$27,276.....	\$31,266 .....	\$38,019.....	\$49,184 .....	\$53,969

**3.6 Program Income**

Program income generated from any FY 1992 HOME assisted project must be returned to the State and be used first toward the project. This is the manner in which program income is treated in the Cash & Management Information (C/MI) accounts.

**3.7 Eligible Forms of Assistance**

The authorized uses of FY 1992 HOME funds are outlined below:

- Equity Investments (downpayment assistance, etc)
- Interest Bearing Loans or Advances
- Interest Subsidies
- Non-interest bearing loans
- Deferred Payment Loans (forgivable or repayable)
- Grants
- Other Uses To Be Determined In The Future

The State shall establish the terms and conditions of the assistance to be provided on a case by case basis contingent on requests and in conjunction with applicants. Should other forms of assistance be needed, the State will consider pursuing an authorization for such to HUD. Note that HUD approval in this regard is required. **Contact the State of Arizona Department of Commerce - Office of Housing Development for guidance in this regard prior to the submission of applications involving alternative forms of assistance not listed above.** Note that the aforementioned uses are all presently authorized by HUD pursuant to applicable federal regulations.

**3.8 Ineligible Properties Assisted and Activities To Be Undertaken With FY 1992 HOME Resources**

There are certain properties that may not be assisted with FY 1992 HOME resources regardless of the type of activity undertaken (presented in Section 4.0). **These ineligible properties include the following:**

- Public Housing.
- Properties receiving Rental Rehabilitation program funds.
- Commercial Properties.
- Shelters/Transitional Housing (unless they meet Section 8 Housing Quality Standards [HQS] after rehabilitation and will become rental housing). Contact the Arizona Department of Commerce - Office of Housing Development for opportunities on projects of this sort.

Accordingly, there are certain ineligible activities that may be assisted with FY 1992 HOME resources. **These ineligible activities include the following:**

- Rental assistance in conjunction with the Rental Rehabilitation program to prevent displacement.
- Certain mandated Existing Section 8 program uses. This includes such things as Section 8 rent subsidies for troubled HUD-insured projects.
- Project-based rental assistance, although funds from other sources may be used to provide rental assistance for a HOME-assisted project.
- Public Housing Modernization.
- Preservation of certain HUD subsidized low-income housing mortgages. Other resources under NAHA may be used to address the problem of prepayments of on HUD-financed multifamily projects with expiring subsidies.
- Match for other programs.

### **3.9 Eligible Uses of FY 1992 HOME Funds For Projects Initially Assisted With Such Resources**

No "double dipping" on HOME assisted projects. Except for the first year after project completion, no further HOME funds can be used during the relevant period of affordability. However, there are two exceptions:

- 1) Tenants receiving rental assistance may receive HOME funds on an ongoing basis. However, since the State of Arizona program incorporates a **competitive selection** process, **applicants are advised not to rely on a steady source of HOME funds for rental assistance uses** (refer to subsection 4.5 for details).
- 2) A first-time homebuyer can be assisted with HOME funds to obtain a home that was previously assisted with HOME funds (refer to subsection 4.1 for details).

### **3.10 "Firm" and "Tentative" Commitments and Resources Counted as Leverage**

For purposes of rating and ranking applications in Section 2.0, note the following definitions concerning "firm" and "tentative" commitments:

- "Firm Commitments" - These resources represent public or private funds having a clear and direct relationship to the proposed activity that would not occur (be provided) if the proposed application were not funded. Funds or resources expended prior to funding award will not be counted as leverage, nor shall program income or State Housing Trust Funds. Entitlement and Non-Entitlement CDBG resources count as leverage resources. All "firm commitments" must include a legally binding agreement by a person duly authorized to obligate resources for the entity or individual in question. For a unit of local government, commitments would be evidenced by a resolution by the applicant's governing board. For other governmental bodies, commitments would be evidenced by a person authorized by that entity to make such a commitment. For private, non-profit or foundation funds, commitments would be evidenced by a person or entity duly authorized to make commitments for such organizations. All commitments must be in writing, and be construed as a legally binding commitment by the applicant's legal counsel.
- "Tentative Commitments" - These resources represent public or private funds having a clear and direct relationship to the proposed activity that would not occur (be provided) if the proposed application were not funded. Funds or resources expended prior to funding award will not be counted as leverage, nor shall program income or State Housing Trust Funds. Entitlement and Non-Entitlement CDBG resources do count as leverage resources. A "tentative commitment" is defined as leverage resources where the applicant has submitted evidence that the a "firm commitment" is forthcoming, but has yet to submit evidence that such resources are "firmly committed". The State will condition the expenditure of FY 1992 HOME resources on the ultimate conversion of "tentative" to "firm" commitments. This will be assessed on a case by case basis by the Department of Commerce - Office of Housing Development.

Examples of leverage resources include, but are not limited to, the following: in kind services such as telephone, rent, publication costs, check processing; force account labor; materials; administrative staff time; volunteer labor time; equipment; local cash contributions; state or other federal revenues; mortgage commitments, letters of credit, equity contributions, interest subsidies, rental subsidies, land or structures donated to the activity, and the like. Remember, no FY 1992 HOME funds shall be released to applicants unless their commitment are construed as being "firm".

### **3.11 Financial Analysis**

Some uses of FY 1992 HOME resources (development related.... rental housing, rehabilitation, acquisition, etc) will involve an assessment by the Department of Commerce - Office of Housing Development as to the financial feasibility of a proposed activity or project. In this regard, and judged on a case by case basis, proposed costs and pro-formas will be reviewed in depth by the Department of Commerce - Office of Housing Development. Reviews will involve the compliance by applicants of applicable FY 1992 Federal and State HOME regulations noted herein, as well as an assessment of projects costs associated with the activity. Costs will be assessed as to whether they are reasonable, realistic, and customary in light of applicable and changing market conditions in the region. To the degree feasible, the Department will seek to assess projects on the basis of independent information. Applicants will need to justify their costs with relevant supporting information. State reviews will cover pro-formas covering, at a minimum, the project affordability term. It is very important that applicants devise pro-formas

---

©Crystal & Company, May, 1992 (rev. June 10, 1992). Draft Subject To Review.

which accommodate all relevant HOME regulations to the activity being proposed (refer to Section 4.0 for details). Financial reviews by the State will establish grant sizing, feasibility, applicant capacity, conformance with applicable federal "overlay" statutes (mandatory threshold criteria), leveraging, and "layering" issues.

### **3.12 Audit Requirements**

Annual fiscal year audits are required under the HOME program. These audits are to be conducted by a Certified Public Accountant. Specific audit requirements will be determined by the total amount of federal financial assistance received by the applicant. **Audit expenses are eligible to be financed with FY 1992 HOME resources.** Grantees that receive the following amounts will be subject to the following regulations:

- \$100,000 or more of financial assistance - Audits must be conducted in compliance with OMB Circular A-133. Contact the Department of Commerce - Office of Housing Development for details.
- More than \$25,000 but less than \$100,000 in federal financial assistance - Option of executing a: (1) single audit (primarily financial with limited compliance features) or (2) separate program audit. This does not involve a performance audit.
- Less than \$25,000 in federal financial assistance - Required to obtain an audit in compliance with Department of Commerce CDBG Program Audit Guide.

# **FY 1992 STATE OF ARIZONA HOME PROGRAM SUMMARY**

## **SECTION 4.0 SPECIFIC FY 1992 HOME PROGRAM ACTIVITIES**

## SECTION 4.0: SPECIFIC FY 1992 HOME ACTIVITIES

### 4.1 Homeownership - Rehabilitation of Existing Property

#### Overview

The use of FY 1992 HOME funds for the rehabilitation of existing property owned by an existing homeowner using the property as their principal residence represents a flexible use of the resources. For prospective applicants currently operating CDBG or other federal and/or state funded activities toward this end, FY 1992 HOME resources offers up a real opportunity to expand the volume of their operations and assist a greater proportion of the stock in need of rehabilitation. Key issues in utilizing HOME resources for the rehabilitation of existing homeowner properties are as follows:

- *Administrative costs are ineligible under HOME. Certain project related expenses **may** be eligible HOME expenses depending on who provides the services. Both CDBG or State HTF funds represent viable alternative possibilities to fund these expenses. State CDBG recipients should be aware that re-programming existing CDBG resources toward this end is possible through the Department of Commerce. Consult the Department of Commerce - Office of Housing Development for details associated with eligible HOME expenses, as well as for questions concerning the use of CDBG or HTF resources for project related expenses.*
- *Owners of assisted properties must be low income, or earning less than 80% of the area median adjusted by household size. They must also use the property as their principal residence.*

#### Eligible Property Owners

Owners must be low-income, earning less than 80% of the area (county) median income adjusted by household size. Established methods for verifying income under the State CDBG program prior to and after the rehabilitation has been conducted is acceptable to the State. Owners who earn greater than 80% of the median (adjusted by household size) may not be assisted with HOME resources.

#### Eligible Ownership Interests (By The Owner) In The Property

The homeowner must own the property evidenced by the following:

- Have fee simple title to the subject property, or
- Maintain a 99 year leasehold on the property, or
- Have ownership or membership in a cooperative, and
- Not have any restrictions or encumbrances that would unduly restrict the good and marketable nature of the ownership interest.
- Any other form of ownership must be approved by the State and HUD.

#### Eligible Property Types

Eligible property types include the following assuming they are occupied as a principal residence by the owner:

- Single-family dwellings

- A condominium unit
- Manufactured housing (if permanently affixed to the foundation after rehabilitation)
- Mobile homes (if permanently affixed to the foundation after rehabilitation)
- Cooperative units.
- A one to four family property (owner occupied 2 to 4 rental units may be subject to HOME requirements to the rental production program component discussed in subsection 4.3 of this document. These restrictions include provisions associated with tenant occupancy, rent levels and controls, etc. These provisions generally apply if rental units are assisted with HOME funds).

### **Property Value Limits**

The appraised value of the HOME assisted property after rehabilitation may not exceed the FHA 203(b) mortgage limit for the region and the type of property being assisted. Consult Appendix C for such limits.

### **Minimum and Maximum HOME Investments**

The minimum HOME investment is \$1,000 and the maximums are presented in subsection 2.8.

### **Required Property Standards**

All applicants must comply with the following concerning property standards of the units assisted with HOME funds:

- State rehabilitation standards. Since the State has adopted Section 8 Housing Quality Standards (HQS), properties must, at a minimum, conform with HQS after rehabilitation.
- For those projects where over \$25,000 per unit are invested (including but not limited to HOME funds), properties must also meet
  - local codes after rehabilitation.
  - local rehabilitation standards (a minimum of HQS).
  - local zoning ordinances.
  - cost effective energy conservation and effectiveness standards pursuant to 25 CFR Part 39.

**Since HOME regulations mandate compliance with HQS, HOME assisted projects may not be used for an emergency repair program.**

### **Eligible Uses of Funds and Forms of Assistance**

The eligible forms of assistance are as follows:

- Equity Investments
- Interest Bearing Loans or Advances
- Interest Subsidies

- Deferred Payment Loans
- Grants
- Other Uses To Be Determined In The Future

Costs that may be funded with HOME funds concerning the rehabilitation of existing homeowner properties are as follows:

- Development Hard Costs - The actual rehabilitation costs, including: costs to meet Section HQS, essential improvements, energy-related improvements, abatement of lead-based paint hazards, improvements for handicapped persons, repair or replacement of major housing systems, and incipient repairs and general property improvements of a non-luxury nature.
- Demolition costs when part of a rehabilitation project.
- Site improvements and utility connections.
- Reasonable and necessary soft costs, including:
  - Finance Related Expenditures - including origination fees, credit report, title reports and updates, recordation fees, preparation and filing of legal documents, appraisal fees, attorney's fees, loan processing fees, developers fees, other related customary fees.
  - Architectural, engineering or related professional services (inspections, work write-ups) when executed by a third part to the transaction (not the State or grant recipient).
  - Project Audit Costs.
  - Relocation costs (permanent and temporary), affirmative marketing and fair housing information services.

Administrative costs are ineligible under HOME. Costs like preparing work specifications, loan processing, inspections, counseling and other support services are generally not eligible (deemed administrative). Some of these costs may be eligible expenses under the HOME program depending upon what entity renders the service. Both CDBG or State HTF funds represent alternative possibilities to fund these expenses. State CDBG recipients should be aware that re-programming existing CDBG resources toward this end is possible through the Department of Commerce. Refer to subsection 2.7 for details.

## 4.2 Homeownership For First-Time Homebuyers

### Overview

The use of FY 1992 HOME funds to assist first-time homebuyers represent one of the **more flexible uses** of such funds in terms of the properties and clients that may be assisted. It is important that applicants keep in mind several items when considering first-time homeownership programs:

- The State of Arizona is currently not authorized by HUD to expend FY 1992 HOME funds in this regard. Formal approval by HUD has been intentionally delayed to provide applicants with the maximum flexibility to design first-time homebuyer programs oriented to their unique needs and gauge the interest of applicants in this activity in light of federally imposed requirements. As needed, the State will submit a formal request to HUD to proceed with first-time homebuyer programs once applicants indicate their interest and specific program structuring preferences through their applications for FY 1992 HOME funds.
- HUD mandates the imposition of restrictions on the resale of HOME-assisted dwelling units for first-time homebuyers programs for a period of 15 (for existing dwellings) to 20 years (for new construction). These resale restrictions are as follows:
  - the income of borrowers must be less than 80% of the area median (adjusted by household size).
  - homebuyers must earn a "fair return" on the sale of their dwelling. This fair return is to be stipulated by the State of Arizona.
  - the new (subsequent) buyer may not expend more than 30% of their income on PITI (principal, interest, taxes, and insurance), at an income level not to exceed 75% of the area median (adjusted by household size). This is HUD's affordability requirement. This affordability requirement lasts from 15 years (for resale dwellings) to 20 years (for new construction).
  - if resources are needed to make a HOME-assisted unit under the first-time homebuyer program affordable to subsequent homebuyers (through interest subsidies, principal repayment, etc) during the affordability term, it may be drawn from shared equity (from assisted homebuyers), additional HOME funds, or other resources. If additional HOME resources are used in this regard, the affordability term is re-started for an additional 15 to 20 year period.
  - if HOME resources are used only for acquisition purposes, the property assisted must meet Section 8 HQS at the time of initial occupancy.
  - if HOME resources are used for acquisition and rehabilitation purposes, the property must be free of any defects that pose a danger to the health or safety of occupants at initial occupancy and within 2 years of property transfer to the first-time homebuyer, it must meet Section 8 HQS.
  - if HOME resources are used for substantial rehabilitation (>\$25,000 per unit in total development costs), local code standards, rehabilitation standards and cost-effective energy conservation and effectiveness standards apply.
  - dwelling units must be used as a principal residence.
  - these restrictions on resale must be enforced (through deed restrictions, deeds of trust, etc).

- **Given the nature of these restrictions, the State suggests applicants consider the following items when contemplating the development of grant requests for first-time buyers using HOME resources:**
  - *programs designed to commit small amounts of HOME resources (ie. closing cost assistance programs, etc) will taint such units for 15 - 20 years. Other resources may be more suited to this approach.*
  - *programs designed to commit a greater amount of HOME resources per household and subsequently designed to assist lower income households (60-65% of median) may make more sense. However, the applicant must be prepared to ensure that such HOME assisted units are in good condition upon resale. Homeownership counseling activities ought to be considered in this regard.*
  - *applicants designing first-time homebuyer programs must ensure that adequate resources are available to ensure that such units remain affordable during the mandatory 15 to 20 year affordability term. Since the use of additional HOME resources will restart the affordability term, other funding sources should be explored (shared homebuyer equity, other funds). The State is not willing to guarantee that state resources will be available in this regard.*
  - *grantees must guarantee that full disclosure concerning resale restrictions is provided to initial and subsequent clients (first-time homebuyers) assisted with HOME resources.*
  - ***the State shall mandate specific approaches to enforce resale restrictions.***

#### **Eligible Uses of Funds and Forms of Assistance**

Funds may be used for acquisition, rehabilitation, combinations thereof, or other selected uses, all oriented toward assisting first-time homebuyers to secure affordable dwellings. The eligible forms of assistance are as follows:

- Equity Investments
- Interest Bearing Loans or Advances
- Interest Subsidies
- Deferred Payment Loans
- Grants
- Other Uses To Be Determined In The Future

Costs that may be funded with HOME funds in this regard are as follows:

- Acquisition costs.
- Acquisition of vacant land, site improvements, and demolition when conducted in conjunction with a first-time homebuyer program.
- Relocation costs (note the implications of the Uniform Relocation Act).
- *Reasonable and necessary soft costs, including:*
  - *Finance Related Expenditures - including origination fees, credit report, title reports and updates, recordation fees, preparation and filing of legal documents, appraisal fees, attorney's fees, loan processing fees, developers fees, other related customary fees.*
  - *Construction Related Costs - including architectural fees, engineering fees, preparation of work write-ups/cost estimates, builders or developers fees.*

- Project Audit Costs.

- Affirmative marketing and fair housing Costs.

*Note that administrative costs are ineligible under HOME. Administrative costs like preparing work specifications, loan processing, inspections, and other related services may or may not be eligible under HOME depending upon the entity who will perform the services. Consult the Department of Commerce - Office of Housing Development for details and note that CDBG or State HTF funds represent alternative possibilities in this regard.*

### **Eligible Property Owners (Beneficiaries of First-Time Homeowner Programs)**

All **initial** property owners must meet the following guidelines:

- **Be A First-Time Homebuyer** - May not have owned a home in the previous three years (three years prior to purchase with HOME funds) except under the following exceptions:
  - The household is a "**displaced homemaker**" which means an adult individual has not worked full-time, full-year in the labor force for a number of years, but has during such years, worked primarily without remuneration to care for the home and family; **or**
  - The household is a "**single-parent**", where an individual is unmarried or legally separated from a spouse and has one or more children for whom the individual has custody or joint custody or is pregnant (at the point the applicant occupies the property).
- Be income eligible, meaning that the household income may not exceed 80% of the area median adjusted by family size. Income eligibility must occur at the time the household occupies the property or at the time HOME funds are invested, whichever occurs later.
- The eligible household must use the property as their principal residence, and temporary subleases are not allowed.

### **Eligible Forms of Ownership**

Ownership means fee simple title or a 99 year leasehold interest in eligible properties. The ownership interest may be subject only to the following:

- Mortgages, deeds of trust or other debt instruments approved by the State.
- Any other encumbrance or restrictions that do not impair the marketability of the ownership interest, other than HOME mandated program restrictions on resale.
- Lease-purchase transactions are eligible, but HOME rental production restrictions are applicable during leasehold periods.

### **Eligible Property Types**

The property may be publicly or privately owned, existing or newly constructed units, and be drawn from the following types of residences:

- Single-family (one-unit structures)
- Two to four unit structures - Note that other rental units may be subject to HOME guidelines affecting rental housing production discussed in subsection 4.3.
- Condominium units.
- Manufactured housing (must be permanently affixed to the foundation).
- Mobile Home (must be permanently affixed to the foundation).
- Cooperative Units.

Units where the Certificate Of Occupancy (C of O) has been issued within the past year are deemed to be newly constructed and may only be assisted if they are eligible under HOME new constructions guidelines discussed in subsection 4.4.

## **Property Standards**

For acquisition, the property must meet the Section 8 Housing Quality Standards (HQS) at the time of initial occupancy. For acquisition and rehabilitation, prior to the transfer of ownership, the property must be free of any defects that pose a danger to the health or safety of occupants, and within **2 years** of property transfer to the first-time homebuyer, the property must meet HQS. Where the work constitutes substantial rehabilitation (>\$25,000 average per unit total development costs ... all sources included), local code standards, rehabilitation standards, and cost-effective energy conservation and effectiveness standards apply.

## **Property Value (At The Time Of Purchase By A First-Time Homebuyer)**

The appraised value (not the purchase price) of a HOME assisted project to be acquired by a first-time homebuyer must not exceed the FHA 203(b) mortgage limits applicable in the region (county) for the type of housing being purchased. If rehabilitation is involved, the appraised value (not the purchase price) after rehabilitation may not exceed the FHA 203(b) limits in the region. Consult Appendix C for a listing of these limits. They will vary annually.

## **Minimum and Maximum HOME Investments In Projects**

The minimum HOME investment is \$1,000 and the maximums are presented in subsection 2.8.

## **First-Time Homebuyer Resale Restrictions and Affordability Terms**

The following highlights the affordability and resale restrictions imposed on HOME assisted units when used to initially assist first-time homeowners secure affordable dwellings:

- *Income of Borrowers* - Less than 80% of median for the region adjusted by household size. Required of initial and all subsequent purchasers.
- *Property Value* - Initially the property may not exceed the FHA 203(b) limits in the region. This is waived for subsequent purchasers.
- *First-Time Homebuyer Requirement* - This is required for initial purchasers, yet not required of subsequent purchasers.
- *Principal Residence Restrictions* - Imposed on initial and all subsequent purchasers.
- *Affordability Term* - 15 year affordability term for resale dwellings, and 20 years for new construction (where the C of O has been issued within the past year). For subsequent non first-time purchasers, the affordability term covers the balance of the initial affordability term. If a subsequent purchaser is a first-time homebuyer, then the affordability term is re-started.
- *Affordability* - No restrictions apply to initial first-time purchasers, but all subsequent purchasers may not expend more than 30% of the median income in the region (adjusted by household size) for PITI (Principal, Interest, Taxes, and Insurance) at an income level no greater than 75% of the area median (adjusted by household size). If housing costs exceed household income over the affordability term, this would place a requirement on the State or applicant to potentially re-subsidize the HOME assisted and make it affordable for subsequent purchasers.

- *Fair Return To The Seller* - The fair return to the owner (seller) upon resale. This is to be calculated based on a pre-determined formula devised in conjunction with the State of Arizona.
- *The affordability term is extinguished upon home foreclosure.*
- HUD Approved Resale Options - Two options are currently approved:
  - Shared Appreciation - Any arrangement with the owner in which any appreciation realized during the affordability term is shared between the State or grantee and the homeowner. Techniques exist under this option to ensure a "fair return" to the seller (owner), while potentially generating resources to cover funding needed to ensure that units are affordable to prospective new buyers during the affordability term.
  - Diminishing Subsidy - An arrangement in which the public subsidy is forgiven over the required period of affordability. If the sales price is still not affordable to a new low income buyer during the affordability term, the State or grantee may choose to reduce what is due to it under the sale, reduce the return to the original homebuyer or subsidize the subsequent sale until the affordability requirement is met.

Note that the aforementioned restrictions must be enforced through lien positions taken on the subject property and/or through deed restrictions. The State will work with applicants to provide boilerplate with which to enforce such restrictions. Full disclosure to initial and all subsequent purchasers is also required of applicants. The State will monitor applicants to ensure that such restrictions are in place and enforced. Fees may be collected by the State from applicants to retain third parties to monitor such restrictions. Consult the DOC for further details. Also note that applicants may design their own unique programs with HOME resources, yet they are subject to both State and HUD approval prior to final funding awards.

## **4.3 Rental Housing**

### **Overview**

The use of FY 1992 HOME funds for rental housing is an eligible activity. Briefly stated, note the following key guidelines associated with rental housing:

- Rents are strictly controlled from 5 to 20 years depending on the volume of HOME funds provided on a per unit basis.
- For the State of Arizona program, all tenants may earn no greater than 60% of the area median as adjusted by household size. This income restriction is in effect from 5 to 20 years or longer depending on the volume of HOME funds provided on a per unit basis.
- Tenant income and rent restrictions are to be enforced through deed restrictions and must specify remedies for breach of such provisions. The State of Arizona will provide grantees the provisions to utilize in this regard.
- Any time additional federal resources are used in conjunction with FY 1992 HOME resources for rental housing, the issue of "layering" is germane. Generally speaking, the use of other federal resources in conjunction with FY 1992 HOME-assisted rental projects ought to result in more units assisted. Should the owner secure an increased return from the receipt of additional federal funds on HOME assisted projects, this would constitute "layering" and result in less HOME resources committed to the project or more units assisted in the project. In the instance of the State of Arizona Low Income Tax Credit Program, specific federal "layering" rules reduce the volume of FY 1992 HOME funds that may be used for a LITC assisted project. Refer to subsection 2.7 for details, or contact the Arizona Department of Commerce - Office of Housing Development for details.

### **Eligible Property Owners**

Public or private property owners.

### **Tenant Income Eligibility**

Tenants of HOME assisted units (see definition later in this section) may not earn greater than 60% of the area median income adjusted by household size. Realize that federal income restrictions for HOME rental projects are quite involved, yet this requirement is the general by-product of the federal requirements. Consult the State of Arizona Department of Commerce - Office of Housing Development for questions on tenant income requirements over the 60% of median standard. Indicated earlier, HOME tenants may not earn more than 60% of the annual income (adjusted for household size) within the region. Annual income is the gross amount of income anticipated to be received by all adults in a family during the 12 months following the effective date of the determination. The HOME program uses the same definitions of income in the Section 8 Housing Program. Definitions for the Section 8 program are provided in 24 CFR Part 813. A summary of these provisions are presented in Appendix D.

### **Increases In Tenant Income**

Tenants occupying HOME-assisted units whose annual incomes exceed 80% of the median income may stay in their HOME-assisted apartments. Such tenants however must pay no less than 30% of their **adjusted** income for rent and utilities. Adjusted income is calculated according to the rules for the Section 8 Program. Generally speaking, adjustments are made by deducting from the annual income certain allowances, as follows:

- \$480 for each dependent (includes any of the following family members who are not the head or spouse: person under 18; handicapped/disabled family members; or full-time students).
- Reasonable child care expenses (for children 12 and under) that enables a family member to work or go to school, if no adult is available in the household to provide child care.
- Some expenses for the apparatus and care of a handicapped or disabled family member that enables that person or another person to work.
- \$400 per elderly household (head or spouse is 62 years or older or handicapped or disabled).
- For elderly households only, some medical expenses.

For further details on adjusted income, contact the Arizona Department of Commerce - Office of Housing Development or see HUD Handbook 4350.3 Occupancy Requirements for HUD Subsidized Multifamily Housing.

### **Annual Tenant Income Re-certification Requirements**

The income of tenants in HOME-assisted rental units must be re-examined and re-certified annually. Grantees may perform this function themselves or indirectly through owners, property managers, or other third parties. Regardless of the entity used, it is the responsibility of the grantee to ensure that the income is annually re-certified appropriately. Consult the previous section on "tenant income eligibility" for details.

### **Eligible Property Types**

Eligible property types include:

- one or more buildings on a single site that are under common ownership, management and financing.
- scattered on more than one site as long as the sites are within 4 blocks of each other, and under common ownership, management, and receive HOME assistance as part of a single undertaking.

No limits apply to the number of units per project, for unit size and style, and for public or private ownership.

### **Ineligible Properties**

Ineligible properties include:

- Rental Rehabilitation Program funded projects. HOME funded tenant based rental assistance may be used for rental rehabilitation projects. Existing tenants in such projects who require rental assistance may not be assisted with HOME resources.
- Public Housing projects.
- Projects assisted under Title VI of NAHA.

**Required Property Standards**

All properties must meet the following standards:

- Section 8 existing Housing Quality Standards after rehabilitation.
- New construction and substantial rehabilitation projects must meet local codes, ordinances and zoning as well as specified energy standards:
  - New construction: Model Energy Code published by the Council of American Building Officials.
  - Substantial rehabilitation (for those projects where over \$25,000 per unit are invested, including but not limited to, HOME funds): cost effective energy conservation and effectiveness standards in 24 CFR Part 39.

**Minimum and Maximum HOME Investments**

The minimum HOME investment is \$1,000 and the maximums are presented in subsection 2.8.

**Affordability Restrictions and Term**

Affordability restrictions are imposed on FY 1992 HOME rental projects. The restrictions relate to maximum tenant income and rent guidelines associated with HOME assisted units in the project. The term of the affordability restrictions are contingent on the per unit investment of FY 1992 HOME resources, and are as follows:

<b>Activity Type</b>	<b>HOME \$ Per Unit Committed</b>	<b>Minimum Affordability Term</b>
Rehabilitation, Acquisition, or Combinations thereof.	< \$15,000/unit	5 years
	\$15,000-\$40,000/unit	10 years
	>\$40,000/unit	15 years
New Construction or Acquisition of New Housing	na	20 years
<i>Any Activity With FHA Mortgage Insurance</i>	<i>na</i>	<i>Must match the term of the mortgage insurance period.</i>

**Home Assisted Units**

©Crystal & Company, May, 1992 (rev. June 10, 1992). Draft Subject To Review.

Only units receiving HOME monies are considered HOME assisted units, and HOME expenditure limits, rent and occupancy rules only apply to HOME assisted units.

*For example, a second loan is made to a 10 unit apartment complex, and the maximum per unit subsidy allowed is \$40,000 per unit. Should 5 units be assisted in this complex, the maximum second loan financed with HOME resources is \$200,000 (\$40,000/unit times 5 assisted units). Despite the fact that the entire building is rehabilitated, only five units (the HOME assisted units) are subject to rent restrictions, per unit expenditure requirements, and tenant income restrictions.*

### **Initial HOME Rents**

As indicated earlier, units in projects assisted with FY 1992 HOME resources are subject to maximum rent restrictions (controls), and are established annually during the affordability term applicable to the project. The rules governing maximum HOME rents that may be charged to tenants occupying HOME assisted units are as follows:

**1) 80% of HOME-assisted rental units must be the lesser of:**

a) The Section 8 Fair Market Rents (FMRs) for the area, or the areawide exception rents minus tenant paid utilities. An areawide exception rent is provided by HUD to housing authorities under certain instances relating to market conditions in the region. Whether an FMR or an areawide exception to it is used, a deduction for tenant paid utilities must be made. The deduction for tenant paid utilities are to be drawn from annual HUD approved Utility Allowances Schedules applicable in the region. For areas unserved by a Housing Authority, contact the State of Arizona Department of Commerce - Office of Housing Development for information.

**or**

b) 30% of the adjusted income for households (by family size) at 65% of median income for the region minus tenant paid utilities. These rents are provided in Appendix E. Again, the deduction for tenant paid utilities should be drawn for sources noted in item "a" above. For areas unserved by a local Housing Authority, contact the State of Arizona Department of Commerce - Office of Housing Development for information.

**and**

**2) 20% of HOME-assisted rental units must include rents which are 30% of the adjusted income for households (by family size) at 50% of median income for the region minus tenant paid utilities.** These rents are provided in Appendix E. Again, the deduction for tenant paid utilities should be drawn for sources noted in item "a" above. For areas unserved by a Housing Authority, contact the State of Arizona Department of Commerce - Office of Housing Development for information.

**Future HOME Rents and Income Re-certification Requirements**

As indicated earlier, HOME-assisted rents are controlled during the affordability period. The term of the affordability period is contingent on the per unit subsidy of HOME resources injected into the project. Each year, rents on units subject to rent restrictions will change. **Annual maximum monthly rents and utility allowances must be recalculated by the grantee and approved by the Department of Commerce - Office of Housing Development. Grantees are encouraged to pass this requirement along to project owners or sponsors.** Please note that rents may increase or decrease (being reliant on changes in median household income in a region), and all tenants must be given 30 days written notice before rent increases are implemented and enforced. Any rent increases are subject to other provisions of lease agreements. Should HOME rents decrease, HUD and the State may make adjustments to the rent structure of the project to ensure continued project feasibility.

**Eligible Ownership Interests (By The Owner) In The Property**

The property owner must own the property evidenced by the following:

- Have fee simple title to the subject property, or
- Maintain a 99 year leasehold on the property, or

- Not have any restrictions or encumbrances that would unduly restrict the good and marketable nature of the ownership interest.
- Any other form of ownership must be approved by the State and HUD.

## Eligible Uses of Funds and Forms of Assistance

The eligible forms of assistance are as follows:

- Equity Investments
- Interest Bearing Loans or Advances
- Interest Subsidies
- Deferred Payment Loans
- Grants
- Other Uses To Be Determined In The Future

Costs that may be funded with HOME funds concerning the acquisition and/or rehabilitation of rental housing properties are as follows:

- Hard Rehabilitation Costs - The actual rehabilitation costs, including: costs to meet Section HQS, essential improvements, energy-related improvements, lead-based paint hazards, improvements for handicapped persons, repair or replacement of major housing systems, and incipient repairs and general property improvements of a non-luxury nature.
- Acquisition costs.
- Acquisition of vacant land, site improvements, and demolition when conducted in conjunction with a rental housing project.
- Relocation costs (note the implications of the Uniform Relocation Act).
- Demolition costs when part of a rental housing project.
- Site improvements and utility connections.
- Operating Reserves.
- Reasonable and necessary soft costs, including:
  - Finance Related Expenditures - including origination fees, credit report, title reports and updates, recordation fees, preparation and filing of legal documents, appraisal fees, attorney's fees, loan processing fees, developers fees, other related customary fees.
  - Architectural, engineering or related professional services (inspections, work write-ups) when executed by a third part to the transaction (not the State or grant recipient).
  - Project Audit Costs.
  - Relocation costs (permanent and temporary), affirmative marketing and fair housing information services.

Administrative costs are ineligible under HOME. Costs like preparing work specifications, loan processing, inspections, counseling and other related services may or may not be eligible under HOME depending upon what entity performs the services. Both CDBG or State HTF funds

---

©Crystal & Company, May, 1992 (rev. June 10, 1992). Draft Subject To Review.

represent alternative possibilities to fund these expenses. State CDBG recipients should be aware that re-programming existing CDBG resources toward this end is possible through the Department of Commerce. Consult the Department of Commerce - Office of Housing Development for details.

## 4.4 New Construction

### Overview

The use of FY 1992 HOME funds for new construction activities for: (1) the rehabilitation of owner occupied dwellings; (2) first-time homeownership programs; and (3) rental housing are restricted under certain conditions. As a rule, the federal guidelines affecting the use of FY 1992 HOME monies for new construction activities apply to all eligible FY 1992 HOME activities, regardless of activity type.

The rules governing the use of FY 1992 HOME resources for new construction delineate the conditions under which funding may be used for such, while all other rules would apply to that specific activity. For example, if a locality sought to use FY 1992 HOME funds to develop new, rental housing, this section would outline the conditions under which these uses are eligible, while the other restrictions unique to rental housing would apply. Therefore, this section predominantly addresses the conditions under which new construction is eligible under the FY 1992 HOME program, as well as provides specific definitions of what constitutes new construction.

### Definition of New Construction

A project is considered to be new construction if one of the following is met:

- The project is newly built.
- The rehabilitation of the project includes the addition of new units outside the existing walls of the structure. If new units are constructed, it is considered rehabilitation if undertaken for code compliance purposes.
- The Certificate Of Occupancy was issued within a year (past) of the receipt of HOME resources.

Realize that the acquisition of vacant land, installation of site improvements, and demolition of properties are all eligible when conducted in conjunction with an eligible new construction HOME project.

### Definition of Reconstruction

A project is considered to be reconstruction if the rehabilitation executed occurs **within the existing footprint of the structure/s, unless doing so would result in the creation of substandard housing evidenced through a lack of compliance with local codes.** For rental housing, the reconstruction of units in the structure are limited to the same type and size as in the original structure reconstructed. In the case of mobile homes, note that moving a unit off a project site and placing a new unit (mobile home) on the subject site is considered to be reconstruction plus rehabilitation, and an eligible activity under the HOME program.

### Conditions Under Which New Construction May Be Undertaken

New construction may be undertaken by applicants under the following conditions:

- 1) In regions authorized "by right" by HUD. For Arizona, Santa Cruz county may execute new construction activities associated with the FY 1992 HOME program. The factors used by HUD to determine new construction eligibility include: low vacancy rates, low turnover rates, high proportions of substandard housing, high fair market

rents, and high population growth. Any area may request an appeal from HUD to conduct new construction with FY 1992 HOME resources. All appeals are to be directed to the Arizona Department of Commerce. Note that the Department is in the process of submitting appeal requests to HUD. Contact the Department of Commerce - Office of Housing Development for further information on the appeal process;

**or**

**2) New construction is needed as part of a neighborhood revitalization effort, evidenced by compliance with all of the following conditions:**

- a. The governing body of the jurisdiction certifies that rehabilitation is not the most cost effective means to meet affordable housing needs in that particular neighborhood. The governing body of the applicant must provide the required certification of this condition at the time of application; and
- b. The applicant certifies that new construction is needed to facilitate a neighborhood revitalization program that emphasizes rehabilitation of substandard housing for low- income families. This test is met if at least 51% of all public funds spent by the applicant for revitalization (within the previous 12 months prior to certification) were spent on the rehabilitation of substandard housing. The governing body of the applicant must provide the required certification and evidence of this condition at the time of application; and
- c. The applicant, through its governing body, certifies (and has supporting documentation) that the neighborhood is low- income, with at least 51% of the households in the neighborhood earning less than 80% of the area median income as adjusted by family size. The governing body of the applicant must provide the required certification and evidence of this condition at the time of application; and
- d. That a CHDO, or public agency will develop, sponsor, or own the housing.

**or**

**3) New construction for special needs housing (populations), as follows:**

- a. Housing for large families (greater than or equal to 5 persons/unit).

**or**

- b. Housing for persons with disabilities (physical, emotional, or mental impairment that are long, continued and of an indefinite duration, substantially impede the ability to live independently, and are of a nature that the person's abilities could be improved by more suitable housing). Such housing must be limited to use by these specific target groups. The governing body of the applicant must certify limitation associated with the beneficiaries of a project at the time of application.

**or**

- c. Single Room Occupancy Housing. The governing body of the applicant must certify to this at the time of application.

**or**

- d. Housing necessary to further desegregation or racial de-concentration pursuant to a court-approved settlement agreement or voluntary plan approved by HUD. This use is only allowed if tenant based rental assistance is deemed inadequate to address specified needs in a reasonable period of time. The applicant must provide a copy of the court approved settlement or voluntary HUD approved plan, as well as a certification that tenant based rental assistance is inadequate to address the special needs associated with desegregation or racial de-concentration at the time of application.

*Note that Santa Cruz county is presently authorized by HUD to execute new construction, and that the region is subject to a \$43,000 rental housing production set-aside. This amount is subject to the region's total FY 1992 HOME funding objective. Contact the Arizona Department of Commerce - Office of Housing Development for details.*

## 4.5 Tenant Based Rental Assistance

### Overview

The State of Arizona has authorized the use of tenant based rental assistance with the use of FY 1992 HOME resources. A summary of the key program restrictions are presented below:

- The maximum term of the tenant based rental assistance may not **exceed two years**. Consult the Department of Commerce - Office of Housing Development for details on possibilities to extend the period for FY 1992 HOME resources.
- Preferred applicants include all duly created housing authorities (PHAs), although eligible applicants may designate an administrative agent to execute the program.
- As a general rule, the **State tenant-based rental assistance program has been structured to follow HUD rules associated with the Existing Section 8 Certificate program. Accordingly, all related rules apply.**
- Portability is **not** authorized under this program.
- Administrative expenses concerning the use of FY 1992 HOME funds to execute HQS inspections, income verification, lease preparation, execute program marketing, or absorb other staff related administrative expenses are not eligible. State Housing Trust Fund (HTF) resources may be available to applicants to absorb such costs for tenants in compliance with Existing Section 8 administrative levels (ie. **up to 8%** of the Fair Market Rent) per occupied unit, collected at the end of each month. The initial HUD program set-up allowance of \$275/month per subsidy unit is **not eligible under the program.**
- All eligible tenants must be drawn from **waiting lists of existing housing authorities, be earning no greater than 50% of the median (adjusted by family size), and be selected from the list in compliance with federal preferences** under the Existing Section 8 program.
- **Applicants must be aware that the State of Arizona does not guarantee that tenant based rental assistance programs will be automatically funded in the future. Applicants need to bear this fact in mind, and select clients for entry into this program who are willing to accept the risk of a reduced ability to secure tenant assistance after FY 1992 HOME resources are expended, and are provided with extensive and significant opportunities to secure meaningful permanent employment and thereby eliminate their need for such assistance prior to the expiration of the term of assistance of the FY 1992 HOME financed rental subsidy. Full disclosure of all these facts are mandatory by grantees to clients.**
- *Prior to the release of funding for tenant based rental assistance, the State requires grantees to prepare an addendum to their Existing Section 8 Management Plan, outlining the procedures to be used to select clients from their existing waiting lists, place clients back on such lists when funding is terminated, actions to be employed to aggressively eliminate the need for HOME funded tenant assistance prior to the termination of FY 1992 HOME tenant based rental assistance, and full disclosure to clients of the duration and subsequent risks associated with the receipt of FY 1992 HOME funded tenant assistance. The State of Arizona shall mandate full*

*disclosure by grantees to clients, as well as encourage the coordination of needed employment and training programs and other social and supportive services requirements of clients.*

## Eligible Administrative Entities

- Eligible administrative organizations include designated Public Housing Agencies (authorized by HUD), the State of Arizona, and Administrative Agents approved by the State of Arizona. Note that **preference shall be provided to PHAs** concerning the administration of rental assistance programs given their ongoing experience and capacity to implement programs of this type. Existing PHAs may execute **intergovernmental agreements** with governing bodies (city or town councils, or board of supervisors) of other counties and/or municipalities to serve regions of Arizona presently unserved by a duly created authorized PHA.

## Tenant Income Eligibility

- Tenant Income Eligibility - All HOME assisted tenants may not earn more than 50% of the county median income adjusted by family size, as amended annually. Income re-certifications are required twice per year. For certain types of tenants, the State of Arizona reserves the right to require income re-certification more often than twice per annum.
- All tenants assisted with FY 1992 HOME resources shall be drawn from waiting lists established by designated existing PHAs serving a region, or be residents of rental projects being rehabilitated with HOME funds. Existing PHA's serving the region are defined as established PHAs serving specific delineated geographic areas of Arizona evidenced by legally authorized enabling statutes, and/or **intergovernmental agreements** executed with the governing bodies of other counties and/or municipalities.
- Applicants may condition the initial and continuing eligibility of clients to participation in certain stipulated *medical, job training, social service, or other supportive service treatment and/or assistance programs*. With respect to homeless and other clients, it is the intent of the State of Arizona to serve individuals with some financial means to support themselves (and families if applicable), and to ensure that all such clients are actively involved in needed supportive service programs designed to foster economic independence and serve the unique social service, medical, job training, or medical treatment needs of individual clients.
- **All persons receiving rental assistance under the FY 1992 HOME program must be income eligible at the time of application, and throughout the period they receive assistance under the program.**

## Definition of Family

For the purposes of FY 1992 HOME tenant assistance, a **family** is defined as.....

- two or more persons either: (1) sharing residency whose income and resources are available to meet the family's needs and who are related by blood, marriage or operation of law or who give evidence of a stable relationship which has existed over a period of time, for a least two years, or (2) two or more persons sharing residency who voluntarily wish to do so and who are approved to do so by the PHA or the Administrative Agent, and

- a single person who may be: elderly (aged 62 years or older), disabled as defined in Section 223 of the Social Security Act), handicapped (as defined in applicable HUD regulations), or homeless as defined below (drawn from the Stewart B. McKinney Homeless Assistance Act of 1987):
  1. an individual who lacks a fixed and regular, and adequate nighttime residence; or
  2. an individual who has primary nighttime residence that is
    - a supervised or publicly operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters, transitional housing, etc);
    - an institution that provides a temporary residence for individuals intended to be institutionalized; or
    - a public or private place not designed for, ordinarily used as, a regular sleeping accommodation for human beings.

**Upon the approval of the State of Arizona an applicant may utilize its local PHA's definition of the term "family" outlined in its Administrative Plan.**

#### **Eligible Dwelling Units For Tenants Receiving Assistance**

- All units must meet federal Section 8 Housing Quality Standards.
- The rent levels of all units may not exceed existing Section 8 Fair Market Rent levels for the region by relevant housing type as amended annually, and must be reasonable when compared with rents charged for comparable unassisted units in the area. *Rent levels may exceed Section 8 FMRs in conformance with Section 8 certificate rules for doing so.*
- The number of persons per dwelling unit are to conform with existing Section 8 guidelines as amended from time to time.
- Units **shall not** include cooperatives.
- Units may be owned by the State, PHA, or Administrative Agent that do not already receive a form of federally funded tenant-based assistance.

#### **Portability**

Portability is not authorized under the FY 1992 HOME tenant assistance programs.

#### **Selection of Tenants**

- Tenants shall be selected by the State, PHA, or Administrative Agent from: (1) the existing waiting lists of PHAs serving the region or from residents of rental projects being rehabilitated. Prior to the release of FY 1992 HOME funding, administrators of tenant assistance programs will be required to submit to the State for its review and approval, policies and procedures for selecting tenants for entry into the program and

for returning them to existing PHA waiting lists, and establishing their status on such lists.

- Should an existing FY 1992 HOME assisted tenant exit the program for whatever reason, **the State or PHA** shall place the tenant on the PHA's existing waiting list based on adopted policies it shall establish prior to authorized FY 1992 HOME fund disbursements are made by the State of Arizona. According to HUD guidelines, when FY 1992 HOME assistance expires, tenants selected from the PHA's Waiting List may return to the PHA's Waiting List and **qualify for the same tenant selection preferences as when they were selected for the FY 1992 HOME assistance.**

## **Payment Process**

Payments shall be made directly to landlords pursuant with applicable guidelines covering the existing Section 8 certificate program. Prior to the release of funds by the State, the following agreements shall be executed to the satisfaction of the State: FY 1992 HOME Housing Assistance Payments Contract between the State and the PHA or Administrative Agent; lease between the tenant and the landlord; and agreements between the PHA or Administrative Agent and the tenant.

## **Terms Of Rental Assistance Agreements, Administration Plans, Etc.**

As indicated earlier, upon the award of a FY 1992 HOME grant for tenant assistance to a grantee a Housing Assistance Payment (HAP) Contract shall be executed to the satisfaction of the State prior to the release of funds under the program. This agreement shall be for a period not to exceed 4 years in duration, and will delineate the terms and conditions of the FY 1992 HOME funds to be provided. A brief FY 1992 Administrative Plan Addendum, shall also be prepared by grantees, which shall be referred to and become a part of the HAP Contract. For existing PHAs, the Addendum will be a rider to their existing Administrative Plan and Equal Housing Opportunity Plan. For new PHAs or other entities, a completely new FY 1992 HOME Administrative Plan will need to be executed. HAP Agreements may be comprised of two definitive types of agreements: (1) regular agreements, or (2) Individual Leased Shared Housing arrangements. Refer to Appendix F for HOME requirements to be inserted into rental assistance agreements to be executed. **Note that a lease executed between a grantee and a tenant may not exceed one year, unless mutually acceptable to both parties.**

## **Rent Reasonableness Procedures**

The State of Arizona has adopted rent reasonableness standards for program dwelling units in accordance with adopted HUD regulations governing this requirement under the Existing Section 8 certificate program. PHA administrative plans should delineate the procedures used by them to conform with such rules. These shall apply to the FY 1992 State of Arizona HOME tenant assistance program.

## **Maximum and Minimum Subsidy Amounts**

As indicated earlier, the State of Arizona shall use applicable regulations under the existing Section 8 certificate program. These apply to the determination of the maximum subsidy per tenant (family). Consistent with applicable FY 1992 HOME regulations, the maximum tenant subsidy shall be up to the difference between the applicable contract rent for the unit (under the existing Section 8 certificate program in the region, as amended), minus the greater of the maximum of:

- 30% of the tenant's (family's) adjusted income; or
- 10% of the tenant's (family's) gross income.

Note that under the "Individual Lease Shared Housing" approach, the contract rent would be absorbed by both tenants (possibly families occupying units).

## 4.6 Community Housing Development Organization (CHDO) Development-Related Programs

### Overview

Pursuant to applicable federal regulations, Community Housing Development Organization (CHDO) development related programs secure **15% of the total amount of FY 1992 HOME funds available to the State of Arizona**. Accordingly, the FY 1992 CHDO reservation is **\$623,550**. These funds are only available to qualified CHDOs (specially formed non-profit organizations), and may only be used for the following uses of the funds: (1) *rental housing*; (2) *first-time homebuyer programs*; and (3) *certain technical assistance and pre-development activities associated with affordable housing projects (subject to certain limited dollar expenditures)*. CHDOs must be developers, owners, or sponsors of HOME-assisted housing to be eligible to qualify for the set-aside funds noted above. Contact the State Department of Commerce - Office of Housing Development for details concerning what constitutes the term "sponsor". No other uses are authorized for CHDO set-aside funds, yet a CHDO like any other non-profit or profit entity may, at its option, seek HOME funds through eligible applicants (units of local government or COGs) for non set-aside resources (FY 1992 HOME funds).

### Eligible Applicants - CHDO Definition

Details concerning the definition of a CHDO are noted below; consult Appendix B for the checklist used by the Arizona Department of Commerce - Office of Housing Development to register CHDOs. Note that the State of Arizona certifies eligible CHDOs under its HOME program. Contact the Arizona Department of Commerce for specific details concerning its CHDO registration requirements. These requirements must be met at the time of funding award.

### Legal Status

- The CHDO must be organized under State and local laws.
- It must have a tax exempt ruling from the IRS under Section 501(C) of the IRS Code of 1966. Organizations that have applied, but have yet to receive such rulings do not qualify under this requirement.
- No part of its earnings (profits) may benefit any members, founders, contributors, or individuals.
- The provision of decent housing affordable to low- and moderate- income persons must be among the purposes stated in the charter, articles of incorporation, resolutions or by-laws of the CHDO.
- CHDOs need not represent a single neighborhood. They may include in their service area in an entire county (ie. city, town, county, or multi-county area) as long as they meet the other CHDO requirements.

### Organization Structure

At least one-third of the CHDO's governing board must be:

- residents of low-income neighborhoods, where 51% or more of such residents are low income; **or**

- be other low-income residents of the community (for urban areas "community" includes neighborhoods, the city, county or metropolitan area, whereas for rural areas, the term community includes neighborhoods, towns, villages, county or a multi-county area (but not the entire State); **or**
- be from elected representatives of low- income neighborhood organizations; **and**
- No more than one-third of the CHDO's governing board may be appointed by a state or local government nor may more than one-third of the board be comprised of public officials.
- The CHDO must provide a formal process for low-income program beneficiaries to advise the organization on design, location of sites, development and management of affordable housing.

#### Relation To Public Bodies

- CHDOs may not be public bodies or instrumentalities thereof.

#### Relationship To For-Profit Entities

- CHDOs may not be controlled by nor under the direction of for-profit individuals or entities seeking profit from the organization.
- CHDOs may be sponsored or organized by a for-profit if:
  - the primary purpose of the for-profit is not development or management of housing; a builder, developer, or real estate management firm may not spin off a CHDO.
  - the for-profit appoints no more than one-third of the CHDO's governing board and the board members appointed by the for-profit do not appoint the remaining members of the board.
  - the CHDO is free to contract for goods and services from any vendor it selects.

#### Capacity

- The CHDO must have standards of financial accountability that conform to Attachment F of OMB Circular A-110 (rev).
- The CHDO must have a demonstrated capacity to carry out HOME assisted activities either with:
  - experienced staff who have successfully completed similar projects; or
  - experienced consultants (if consultants are in charge of projects, there must be a plan to train key staff).
  - CHDOs must have at least one-year of experience serving the community where they are providing HOME assisted housing.

**Note that CHDOs may not be formed to serve only specific target populations (ie. SMI, developmentally disabled, migrant and seasonal farmworkers, etc).** The entity must be formed to serve the affordable housing needs of the total population in a region.

#### **CHDO Project Specific Loans**

CHDO(s) may secure up to 10% of the State of Arizona's CHDO set-aside (appx. \$62,000) for project specific loans. There are two types of such loans: (1) technical assistance and site specific loans; and (2) seed money loans. These loans provide a line of credit for "up-front" project expenditures. Costs funded with such loans must be customary and reasonable, and they may not be used to pay CHDO staff or any administrative costs. **The State of Arizona requires that this type of assistance be provided only where financial commitments associated with construction or permanent loans for projects are likely.**

#### **Other CHDO Restrictions**

All other project restrictions noted throughout this document pertain to the CHDO development-related set-aside funds.

# **FY 1992 STATE OF ARIZONA HOME PROGRAM SUMMARY**

## **SECTION 5.0 ADMINISTRATIVE DETAILS**

## SECTION 5.0 ADMINISTRATIVE DETAILS

### 5.1 FY 1992 HOME Written Agreements

Each and every grantee under the FY 1992 HOME program is required to enter into written agreements with the State of Arizona after an award of funding is made. At this point, given mandatory Federal regulations and State of Arizona policy, the following items will be included in such agreements. These agreements will include, but not be limited to the following items:

- 1) Use of FY 1992 HOME Resources: - Must include a description of the use, the tasks to be performed, timeframes, and a budget.
- 2) Affordability: A requirement that HOME affordability requirements will be met and repayment will occur if they are not.
- 3) Repayments: All repayments (project income) will be returned to the State and used first toward the project.
- 4) Uniform Administrative Requirements: The grantee will comply with all applicable federal requirements in this regard (A-87, A-85, etc).
- 5) Project Requirement: Will require compliance with all HOME program project requirements as applicable.
- 6) Housing Quality Standards: Must require owners of rental housing assisted with HOME funds to maintain the housing in compliance with HQS and local code requirements for the duration of the agreement (affordability term - 5-20 years or longer if FHA insurance is used).
- 7) Other Federal Requirements: All "other" federal requirements must be met.
- 8) Affirmative Marketing: Will specify the grantee's affirmative marketing responsibilities.
- 9) Religious Organizations: As applicable, will include the HOME Program conditions for the use of such proceeds by religious organizations.
- 10) Disbursement Requests: Will specify that disbursements from the C/MI will not be made until needed for payment, as well as other restrictions.
- 11) Reversion of Assets: HOME funds must be transferred to the State of Arizona after the term of agreement expires.
- 12) Records and Reports: Will specify the records that must be maintained, and the reports that must be submitted to the State.
- 13) Enforcement of Agreement: Will provide a means of enforcement by the grantee concerning specific HOME regulations (affordability requirements, etc). These will include, but not be limited to, deed restrictions, property liens, and other contractual obligations.

- 14) Duration of Agreement: Will specify that the agreement is in effect for the duration of the period of affordability.
- 15) Indemnification: Indemnification and hold harmless provisions associated with grant agreements.
- 16) Performance, Payment and Fidelity Bonding Requirements & Insurance: State policies concerning the imposition of performance, payment, and fidelity bonds and personal injury and liability insurance coverage. In addition, the State may require performance bonds concerning construction related projects.

## **5.2 FY 1992 HOME Monitoring and Recordkeeping Requirements**

As indicated in Section 1.0 of this report, the State of Arizona is responsible for monitoring the performance of all entities receiving HOME funds. Accordingly, the State will at least annually review the performance of each grantee receiving FY 1992 HOME funds. Efforts by the State to monitor grantees will include, but not be limited to, the following:

- For Homeowner Rehabilitation Programs:
  - On site inspection for compliance with Section 8 HQS.
  - Compliance with written agreements executed between grantees and owners.
  - Compliance with written agreements between the grantee and contractors.
  - Compliance with overlay statutes noted in subsection 5.3.
  - Records that each family assisted and purchase price and value of property are in conformance with FY 1992 HOME regulations.
  - Records supporting the certification that there is no "layering".
- For First-Time Homebuyer Homeownership Programs:
  - Records (inspections) indicating compliance with Section 8 HQS.
  - Compliance with written agreements executed between grantees and owners.
  - Compliance with written agreements between the grantee and contractors.
  - Compliance with overlay statutes noted in subsection 5.3.
  - Compliance associated with the execution and ongoing enforcement of first-time homebuyer resale restrictions.
  - Records that each family assisted and purchase price and value of property are in conformance with FY 1992 HOME regulations.
  - Records supporting the certification that there is no "layering".
- For Rental Housing Programs:
  - Records documenting the annual re-certification of tenant income consistent with FY 1992 HOME regulations.
  - Records documenting the annual determination and establishment of rent and utility allowances consistent with FY 1992 HOME regulations.
  - Records documenting on-site HQS inspections have been executed consistent with FY 1992 HOME regulations. The State will execute on-site inspections in this regard.
  - Compliance with written agreements executed between grantees and owners.
  - Compliance with written agreements between the grantee and contractors.

- Compliance associated with tenant income, rent controls, and occupancy restrictions covering and during the affordability term.
- Records supporting the certification that there is no "layering".
- For New Construction Programs:
  - Records supporting the applicant's certifications associated with new construction eligibility under "the neighborhood revitalization" or "special needs" designation. This would involve records associated with statistical information concerning the census tracts where the activity is being undertaken, tenant mix, eligibility, and occupancy, statistics concerning household income data concerning impacted census tracts, etc. Refer to subsection 4.4 for regulations and the Department of Commerce - Office of Housing Development for details.
- For Tenant-Based Rental Assistance:
  - Records per household assisted concerning income eligibility, involvement in employment and training and other supportive service programs.
  - Records of amended agency Section 8 management plans or new management plans for non-PHA applicants.
  - Copies of leasehold agreements, HAPs, and other such documents executed between landlords, grantees, and clients.
  - Records of annual income certification for each household assisted.
  - Records associated with the execution of HQS inspections for all dwellings.
  - Records associated with the determination of annual rental subsidy levels, tenant utility allowances, and rent reasonableness determinations.
  - Records associated with occupancy levels for HOME-assisted families and units.
- For CHDO Programs:
  - Income eligibility and certification for low-income membership on CHDO boards.
  - If residents from low-income neighborhoods is germane, statistics concerning the compliance of such neighborhoods (>51% of residents are earning less than 80% of the area median).
  - Compliance with other requirements associated with CHDO relationships with public bodies, for-profit entities, financial accountability (OMB Circular A-110), staff capacity issues, structure of bylaws and 501C status, etc.
  - Compliance of the CHDO with written agreements executed between it and the State of Arizona.
  - Other issues noted above per activity type.
- Other Federal "Overlay" Requirements:
  - Equal housing and opportunity and fair housing records records. Consult the State Department of Commerce - Office of Housing Development for details.
  - Records concerning compliance with affirmative marketing procedures, relocation requirements, Davis-Bacon requirements, lead-based paint requirements, conflict of interest statutes (federal), debarment and suspension (federal), federal flood insurance requirements, and the Uniform Act acquisition procedures.
- Program Administration Requirements:

- Accounting records concerning the local HOME Investment Trust Fund Account.
- C/MI records (payment certifications, reports, etc).
- Records documenting program income from HOME assisted projects.
- Audits.
- Etc.

The Department of Commerce - Office of Housing Development will generate performance standards for grantees receiving FY 1992 HOME resources as the program progresses and awards are made. Consult the Department of Commerce - Office of Housing Development for further details concerning records to be kept.

Records must be retained for the following time periods:

- Three years after closeout.
- Where a period of affordability applies, records must be retained for three years after the affordability period ends.
- Records covering displacement and acquisition must be retained for three years after the date persons were displaced or three years from when final acquisition, payment is received, whichever is latest.

### 5.3 FY 1992 HOME Federal "Overlay" Statutes

The following statutes must be complied with by grantees concerning FY 1992 HOME projects:

- **Labor.** Compliance with the Davis Bacon Act; Contract Work Hours and Safety Standards Act, and Copeland Anti Kickback Act.
- **Civil Rights.** Compliance with Title VI of the Civil Rights Act of 1964 (24 CFR 1); Title VIII of the Civil Rights Act of 1968; the Fair Housing Act of 1988 (24 CFR 100); Age Discrimination Act of 1975 (24 CFR 146); Section 504 of the Rehabilitation Services Act of 1973 (24 CFR 8).
- **Environment.** Compliance with National Environmental Policy Act of 1969; National Historic Preservation Act of 1966; Executive Orders 11988 and 11990. Refer to 24 CFR 58.
- **Lead Based Paint.** Compliance with Lead Based Paint Poisoning Prevention Act (24 CFR 35).
- **Acquisition/Relocation.** Compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.
- **Administration.** Compliance with OMB Circulars A-87 and A-128.
- **Financial and Accounting Standards.** Attachment F of OMB Circular No. A-110 (rev).
- **Drug Free Workplace.** Compliance with Drug Free Workplace provisions noted in the State of Arizona FY 1992 HOME Program Description. Copies are available to applicants upon request.
- **Anti-Lobbying Provisions.** Compliance with anti-lobbying provisions noted in the State of Arizona FY 1992 HOME Program Description. Copies are available to applicants upon request.
- **MBE/WBE Provisions.** Compliance with Executive Orders 11625, 12432, and 12138.
- **Equal Opportunity in Housing.** Compliance with Executive Order 11063 (24 CFR 107).

- **Flood Insurance.** Compliance that funds may not be invested in housing located in an area identified by FEMA as having special flood hazards unless flood insurance is obtained, etc.
- **Conflict of Interest and Debarment and Suspension.** Compliance with 24 CFR 24 (debarment and suspension), and 24 CFR 85.36 and OMB Circular 110 rules (conflict of interest).
- Compliance with required FY 1992 HOME record keeping requirements.

**NOTE: CITIZEN PARTICIPATION REQUIREMENTS APPLICABLE TO THE STATE CDBG PROGRAM DO NOT APPLY TO THE STATE FY 1992 HOME PROGRAM.**

Consult the Department of Commerce - Office of Housing Development for questions or guidance in terms of compliance with such statutes and Executive Orders.

#### **5.4 FY 1992 HOME Cash and Management Information System (C/MI)**

Federal rules mandate that FY 1992 HOME resources be controlled through the Cash and Management Information System (C/MI). The Arizona Department of Commerce - Office of Housing Development will provide guidelines to applicants and grantees on its policies associated with the access and use of this system in the not too distant future. For any information on this financial management system, contact the Department for details.

# **APPENDIX A.**

## **FY 1992 STATE OF ARIZONA HOME PROGRAM FORMULA ALLOCATIONS**

## **APPENDIX B.**

### FY 1992 STATE OF ARIZONA HOME PROGRAM CHDO CERTIFICATION CHECKLIST

# APPENDIX C.

FY 1992 STATE OF ARIZONA  
HOME PROGRAM  
FEDERAL HOUSING ADMINISTRATION  
SECTION 203B INSURING LIMITS

# **APPENDIX D.**

## **FY 1992 STATE OF ARIZONA HOME PROGRAM EXISTING SECTION 8 TENANT INCOME FACTORS**

# **APPENDIX E.**

## **FY 1992 STATE OF ARIZONA HOME PROGRAM LOW AND HIGH RENTS**

# **APPENDIX F.**

FY 1992 STATE OF ARIZONA  
HOME PROGRAM  
TENANT BASED RENTAL ASSISTANCE LEASE &  
HAP PROVISIONS

# **APPENDIX G.**

## **FY 1992 STATE OF ARIZONA HOME PROGRAM MOST RECENT SECTION 8 FAIR MARKET RENT LEVELS**

## **APPENDIX H.**

### FY 1992 STATE OF ARIZONA HOME PROGRAM MOST RECENT HUD MEDIAN INCOME ESTIMATES