Arizona Incentives for Affordable Housing Task Force

Final Report
June 2006

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INTRODUCTION

Across the country and here in Arizona, housing that is safe, decent, and affordable, provides a foundation for stability in a family's life. It creates a positive environment for children and promotes healthy neighborhoods and communities. Our economy also benefits when housing is available and affordable. Access to a suitable labor pool – one of the top three considerations in business location decisions – is greatly hindered by a lack of reasonably-priced housing options for employees.

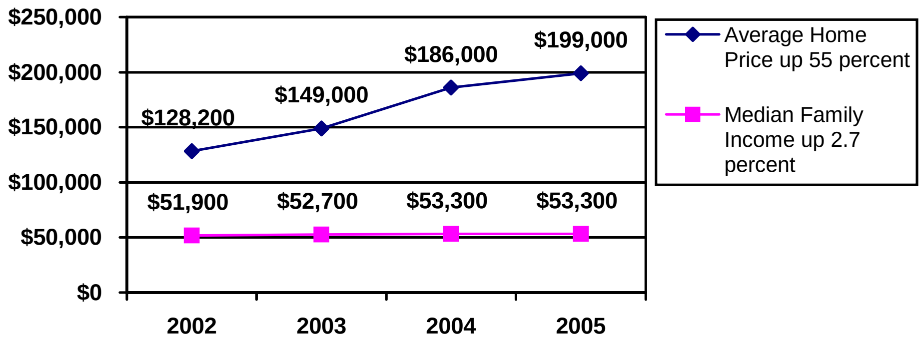
According to the U.S. Department of Housing and Urban Development, a home is affordable if the occupants do not pay more than 30 percent of their income for rent or a mortgage. Unfortunately, here in Arizona housing costs for more and more of our residents are rapidly exceeding this affordability standard. Data from the 2000 Census indicates that over 47 percent of Arizona renters and 27 percent of homeowners are paying more than 30 percent of income for housing, or are living in overcrowded or inadequate conditions.

Further exacerbating these challenges is the fact that housing prices in Arizona have increased exponentially since the 2000 Census. Increased demand, due to record-setting population growth, increased investor speculation, and rapidly rising construction costs, in some areas caused by the lack of supply of available affordable land, are all factors that have contributed to this escalation.

From 2002 to 2005, average home prices in the State rose 55 percent (see graph next page). In 2005 alone, Arizona ranked first in the nation in home-price appreciation, up 30 percent from the previous year (see chart next page). With rising home purchase costs, the rental market has experienced greater demand, causing vacancy rates in rental communities to decline and rents to increase after several years of little growth. These rent increases, coupled with the conversion of multi-family apartments into condominiums, are also threatening the availability and affordability of rental housing Statewide.

Over this same three year time period, median family income has increased just 2.7 percent for homebuyers and renters. With housing costs rising so much faster than income, a growing number of workers are finding it harder to secure quality, affordable housing in the communities in which they work. Not surprisingly, these cost increases have especially impacted low- and moderate- income households.

Arizona Home Prices and Income*



House Price Appreciation by State**

State	Annual Price Increase	Ranking
Arizona	30.33%	1
Florida	25.18%	2
Hawaii	21.33%	3
California	19.26%	6
Nevada	17.59%	8
Oregon	16.92%	9
New Mexico	12.65%	14
Utah	11.37%	22
Colorado	5.55%	45
U.S. Average	12.02%	-

As a result of these converging trends, thousands of Arizona households are struggling to find an affordable home and are facing the following tough choices:

- Work two or more jobs or have two or more wage earners
- Double up with another family
- Live in poor conditions
- Pay a disproportionate share of their income for housing (more than 30%)
- Receive some sort of housing assistance
- Drive long distances where housing is more affordable
- Choose between paying for utilities, prescription drugs, or their rent or mortgage
- Face homelessness, in the most extreme cases

* National Association of Realtors ® and U.S. Department of Housing and Urban Development. Note: During this same time period, mortgage interest rates for a 30-year fixed rate loan fell from a yearly average of 6.54 percent in 2002 to 5.87 percent in 2005, based on Freddie Mac national mortgage trend analysis. While the drop in interest rates during this time period provided some relief for purchasers as home prices increased, current mortgage rates have begun to rise, surpassing 6.5 percent in April 2006.

** Office of Federal Housing Enterprise Oversight. Ranking based on one-year appreciation. Period ended Sept. 30, 2005.

In response to this housing affordability challenge, and as stipulated in her veto message of SB1477, which prohibited inclusionary zoning, Governor Janet Napolitano in December 2005 directed the Arizona Department of Housing and the Arizona Housing Commission to bring together a broad group of stakeholders to identify innovative solutions for creating housing opportunities which can be implemented within the context of local market conditions.

The guiding principles developed by the Task Force were two-fold: 1) No one stakeholder should bear the burden alone in addressing the growing affordability challenge and; 2) Solutions should recognize that all types of housing, including single-family, multifamily, and mass-produced, have a role to play in expanding the availability of housing that is affordable.

After an extensive series of meetings and deliberations, the Task Force adopted the following recommendations for the Governor to improve the housing environment for more hard-working Arizonans. The recommendations are grouped into four major categories and encourage new partnerships and resources, leadership, and cutting red-tape. Both short-term and long-term recommendations are grouped under each category below, but are separated in the Detailed Summary section of the report.

Finance

1. Develop, expand and market Employer Assisted Housing (EAH) strategies throughout the state and provide tax benefits for participating employers and employees.

2. Enhance the ability to use both Greater Arizona Development Authority (GADA) and Water Infrastructure Finance Authority (WIFA) financing on a single project.

3. Standardize the property tax valuation processes for housing developed through the Low Income Housing Tax Credit (LIHTC) program to ensure consistency throughout the State.

4. Investigate the possibility of using interest earned on earnest monies from the resale of residential and commercial real estate transactions to dedicate to affordable housing.

5. Seek out Community Reinvestment Act-related partnerships with financial institutions to increase affordable housing investments. Create partnerships with financial institutions where a percentage of government funds are invested at below market rates and in exchange, the financial institutions commit to passing on these savings to borrowers in the form of low-interest loans for housing related activity.

6. Explore financial incentives to municipalities and counties to encourage the establishment of local housing trust/resource funds.

7. Establish state and local tax incentive programs to encourage the development of affordable housing.

8. Dedicate a portion of State Transaction Privilege Tax (TPT) collections from the prime contracting classification, above a determined threshold, to affordable housing.

Barriers and Incentives

1. Improve procedures at the local level to reduce housing costs, such as processing time, development process, development standards, financial requirements, and market considerations.

2. Identify strategies for greater collaboration among state agencies, such as the Departments of Housing, Commerce, Transportation, Land and Corrections, around land use and housing development.

3. Establish consistent methods locally to determine development/impact fees so that builders can plan for the cost of fees at the development stage.

Education

1. Create and maintain a clearinghouse for resource material and model strategies relating to housing affordability.

2. Begin a public awareness, education and communications effort relating to affordable housing.

Land/Land Planning

1. Expand the investment authority of the State Treasurer to permit a portion of the Permanent Fund to be invested into loans for affordable housing.

2. Permit beneficiaries of the sale of State Trust land to use earnings from the Permanent Fund to finance Employer-Assisted Housing programs for their employees.

3. Prioritize the sale of State trust land so as to facilitate planned growth rather than speculate on growth (i.e. "leap-frog development"). Provide the State Land Department with increased flexibility and resources to carry out this goal.

4. Include affordable housing goals and strategies as an element addressed in municipal and county general and comprehensive plans.

5. Inventory existing real-estate assets (e.g. parking structures, buildings, land) owned by municipalities, counties, and State that are underutilized, vacant, or have multiple uses, for consideration in affordable housing development.

6. Increase the supply of land for housing that is affordable.

Arizona Incentives for Affordable Housing Task Force: History and Detailed Recommendations

The Arizona Incentives for Affordable Housing Task Force convened on January 19, 2006. The membership of the Task Force consisted of professionals from the private, public and non-profit sectors, including housing industry and economic development representatives. Members represented both rural and urban interests throughout the State. The Task Force was chaired by Jean Richmond-Bowman, representing the Arizona Housing Commission. A full listing of the membership is included (See Attachment A).

Dr. Kent Colton, Senior Scholar in housing studies at the Joint Center for Housing Studies at Harvard University, facilitated each of the full Task Force meetings. Additionally, staff from the Fannie Mae Foundation, Dr. Kil Huh and Chris Morton, provided extensive research and technical support on issues of interest to the Task Force and its respective subcommittees.

During the first Task Force meeting, three subcommittees were established to tackle what the Task Force identified as the major hurdles to affordable housing production and preservation in Arizona:

- **Barriers and Incentives to Affordable Housing – Chair, Tom Doucette**
- **Lack of Adequate Financing – Chair, Brian Mickelsen**
- **Lack of Adequate Land – Chair, Gary Marks**

Each subcommittee met at least three times from February to April, holding in-depth discussions and reviewing a number of potential strategies that could be supported by all parties represented on the Task Force. In order to gain the broadest perspective, the subcommittees also invited non-Task Force members to participate by providing presentations on specific topics or to solicit feedback about strategies being considered.

Two additional meetings were held in partnership with the League of Arizona Cities and Towns to discuss the role local governments play in the housing development process. The first meeting involved municipal staff and the second engaged staff and local elected officials. Representatives from municipalities throughout the State participated in both meetings.

The full Task Force reconvened on April 21, 2006 at which time members reviewed subcommittee recommendations and decided to divide the recommendations between short and long-term activities. The Task Force defined short-term activities as those that could be accomplished during the next six months and, where necessary, developed into a legislative package for consideration by the Arizona State Legislature in 2007. Long-term recommendations are those requiring additional implementation time beyond the 2007 legislative session. One of the reasons the task force was established was disagreement over legislation concerning inclusionary zoning. After review, the Task Force recognized that there was disagreement among the participants on the Task Force on this subject, and therefore set aside the issue in order to focus on items where all members could agree.

On May 19, 2006, the Arizona Incentives for Affordable Housing Task Force adopted its final set of recommendations. Detailed discussions of these recommendations are outlined below.

RECOMMENDATIONS – DETAILED SUMMARY

Finance - *Short Term*

1) Develop, expand and market Employer Assisted Housing (EAH) strategies throughout the state and provide tax benefits for participating employers and employees. EAH programs encourage employers to assist their employees in obtaining housing. Employers may provide financial assistance with down payments and closing costs toward the purchase of a home, first-month's rent or rental assistance, and utility deposits (see attachment B for additional information on EAH programs). The following are strategies to implement such a policy.
   - Encourage private investment in affordable housing by employers by providing tax relief for employers that invest in employer housing programs (similar to Connecticut or Illinois). *Legislation needed.*
   - Encourage employee participation by eliminating the requirement that employer assistance be taxed by the state. *Legislation needed.*
   - Require one-on-one homebuyer counseling for beneficiaries of housing assistance.
   - Permit beneficiaries of the sale of State Trust land to use earnings from the Permanent Fund to finance Employer-Assisted Housing programs for their employees (*See also Land/Land Planning shot term recommendation #2*). *Legislation needed.*
   - Promote EAH programs among businesses, banks, housing developers, non-profits, cities, towns, and counties.

➢ **Implementation**: The Department of Housing can bring together a group of stakeholders including state agencies, public and private sector employers, Realtors ® and the Fannie Mae Foundation. Legislation relating to the taxation and State trust land portion of the recommendation can be drafted and introduced during the 2007 legislative session.

2) Enhance the ability to use both Greater Arizona Development Authority (GADA) and Water Infrastructure Finance Authority (WIFA) financing on a single project. Although GADA has statutory authority to obtain a state shared revenue pledge on infrastructure loans, WIFA cannot do the same in an efficient manner. Additionally, although WIFA has greater financial capacity, GADA can finance over a longer period of time (30 years, as opposed to WIFA's 20 year limit).

   Legislation allowing WIFA the same state shared revenue intercept as GADA will enable both programs to attain parity with respect to the source of repayment. The power of these two finance programs can then be jointly leveraged on a single project, increasing the size, amount and repayment period for many projects. This would enable communities to finance water infrastructure projects for an additional ten years.

In addition, GADA is approaching its lending limit based on its current capitalization of approximately $16.5 million. To ensure it can continue to meet the public infrastructure needs of Arizona's rapidly growing communities over the next five years - and participate with WIFA to finance water and wastewater projects - GADA will need an additional capital infusion in the near future.

- **Implementation**: Through the Governor's "Growth Initiative" process, stakeholders from the Governor's office, GADA, WIFA, the Department of Commerce, the Department of Environmental Quality and the Attorney General's office can begin to develop the legislation and documents required. The Department of Commerce and the Governor's office should also identify an appropriate level of additional capitalization for GADA.

3) Standardize property tax valuation processes for housing developed through the Low Income Housing Tax Credit (LIHTC) program to ensure consistency throughout the state. The valuation of housing developed with LIHTCs varies from county to county. The valuation of LIHTC properties should be based on the income approach to valuation.

- **Implementation**: The Department of Housing can work with LIHTC developers, county government associations, and the Department of Revenue to determine if there is an administrative solution. If there is not, legislation can be developed and introduced during the 2007 legislative session.

4) Investigate the possibility of using interest earned on earnest monies from the resale of residential and commercial real estate transactions to dedicate to affordable housing. Currently, unless the buyer or seller requests, funds held in earnest related to the resale of residential and commercial real estate transactions do not automatically accrue interest. The Arizona Foundation for Legal Services & Education is currently exploring the concept of allowing earnest monies to be deposited into interest-bearing accounts automatically. The interest would be used in part to support affordable housing, should the net interest not be of value to the client. To explore this concept more fully, the following must take place:
   - Begin dialogue with title companies, real estate professionals, banks, mortgage brokers, state agencies and other interested parties.
   - Policies would need to be established related to administration of the funds and eligibility to access them, including where such monies would be deposited (Possibly state and/or local housing trust funds).
   - Because earnest monies for new home constriction are used to develop homes, escrow monies should not be required to be placed into interest bearing accounts unless the builder participates on a voluntary basis.

- **Implementation**: The Department of Housing can work with the Arizona Foundation for Legal Services & Education and stakeholders to discuss the concept further. Should stakeholders be amenable, legislation can be drafted for the 2007 legislative session.

5) Seek out Community Reinvestment Act-related partnerships with financial institutions to increase affordable housing investments. Create partnerships with financial institutions where a percentage of government funds are invested at below-market rates. Municipal, county, and the State funds can be invested at below market rates and in exchange, the financial institutions commit to passing on these savings to borrowers in the form of low-interest loans for housing related activity. Such a partnership has been developed in Cuyahoga County, Ohio. The County Treasurer invests up to 10% of total tax revenue in participating banks at below market rates. The banks pass on the savings to borrowers in the form of low interest loans to assist homeowners in the rehabilitation of homes.

- **Implementation**: The Arizona Housing Commission can bring together parties of interest to discuss feasibility and implementation, including municipal and county governments, as well as the Office of the State Treasurer.

Finance - *Long Term*

6) Explore financial incentives to municipalities and counties to encourage the establishment of local housing trust/resource funds. State agencies (such has the departments of Housing and Commerce), Industrial Development Authorities, and others could offer such incentives to supplement local funds. Incentives would scale down over time as adequate funding is secured. Cities, towns, and counties would receive such incentives if they established a dedicated source of revenue for the purchase, construction, or rehabilitation of affordable housing within their respective jurisdictions. The match could be on a sliding scale, as localities establish a steady funding stream.

- **Implementation**: The Department of Housing can convene discussions with interested municipal/county governments and potential matching funders.

7) Establish state and local tax incentive programs to encourage the development of affordable housing. These programs can include:
   - Abatement and/or diversion of State Transaction Privilege Tax collections from the prime contracting classification or local construction sales tax on parcels that are built and utilized for affordable housing.
   - Reduction and/or waiver of the property tax on parcels that are utilized for affordable housing.
   - Exempt affordable housing developed by non-profit organizations from property tax payments during construction and when such housing in unoccupied.
   - Guidelines to determine eligibility and administration of the tax incentives.

- **Implementation**: The Arizona Housing Commission can bring together group of stakeholders from municipal, county and state governments to discuss tax incentives, eligibility and implementation strategies, including legislation.

8) Dedicate a portion of State Transaction Privilege Tax (TPT) collections from the prime contracting classification, above a determined threshold, to affordable housing. A minimum threshold can be established for deposit into the State General Fund,

adjusted annually for inflation and population (or a similar economic indicator). Amounts collected above this annually established threshold would be dedicated to affordable housing. The TPT consists of many different tax categories, including the prime contracting classification. The tax base for contractors is 65 percent of the value of a contract, based on the assumption that labor costs represent 35 percent of the value of a contract (A.R.S. § 42-5017). Total TPT collections in FY 2004-2005 were $3.66 billion. Of that amount, $691.4 million, or approximately 19 percent, was collected in the prime contracting classification.

- **Implementation**: The Arizona Housing Commission can bring together group of stakeholders to discuss feasibility and implementation strategies, including legislation.

Barriers and Incentives – *Short Term*

1) Improve procedures at the local level to reduce housing costs, such as processing time, development processes, development standards to allow for increased densities, financial requirements, and market considerations. Communities can adopt voluntary community-based goals tied to the policies below when working with developers. The link between savings to the developer and affordability to the buyer can be accomplished within the development agreement.
   - Defer development fees until certificates of occupancy are issued, increasing upfront cash flow to projects, thereby increasing their feasibility.
   - Establish minimum performance requirements. If a housing project and developer meet certain requirements, as defined by the community, processing and approvals are accelerated.
   - Create partnerships within a geographic region between local governments to allow a development that has been approved in one community to receive similar approval in another.
   - Reassess the application of blanket zoning and development restrictions.
   - Review regulatory and zoning processes to identify their impact on housing affordability.
   - Identify and target underutilized or vacant sites for the purpose of developing affordable housing.
   - Identify opportunities for municipal or county staff to utilize technology to facilitate the timeliness of the development process.
   - Establish clear and concise development processes so that both the public and private sectors will know and understand the "ground rules" and normal timetable for the housing development approval process in each area.

- **Implementation**: The Arizona Housing Commission can bring together group of stakeholders from municipal and county governments to discuss implementation strategies.

2) Identify strategies for greater collaboration among state agencies, such as the Departments of Housing, Commerce, Transportation, Land and Corrections around land use and housing development. Collaboration and coordination will facilitate a comprehensive approach to affordable housing statewide, maximizing existing resources and minimizing costs.

- **Implementation**: The Governor has recently created a cabinet level workgroup on growth and infrastructure. As the group's plans and activities are further refined, greater areas of collaboration will emerge.

Barriers and Incentives – *Long Term*

3) Establish consistent methods locally to determine development/impact fees so that builders can plan for the cost of fees at the development stage. Developers and local authorities need a predictable and consistent fee schedule in order to accurately plan. Developers should pay for their fair share of development, but need to know what those costs are in order to determine the feasibility of their projects. This also helps localities plan for allocation of their own resources, with respect to staff time and budget. The more clarity, certainty, and standardization there is regarding project costs upfront, the more likely it is that a project will not only occur, but also be operationally sustainable over time.
   - **Implementation**: The Arizona Housing Commission can bring together group of stakeholders from municipal and county governments to discuss implementation strategies.

Education - *Short Term*

1) Create and maintain a clearinghouse for resource material and model strategies relating to housing affordability. The clearinghouse should provide:
   - Successful strategies implemented in various communities and states.
   - Listing of available resources for the development of affordable housing opportunities.
   - Information to expand knowledge of available funding for infrastructure through special districts (community facility districts, city improvement districts), as well as special financing authorities (Water Infrastructure Finance Authority, Greater Arizona Development Authority).
   - Model zoning ordinances for municipalities and counties that allow for efficient use of land.
   - A workshop for cities and counties to provide information about how to establish local housing resources.
   - Academic research relating to affordable housing.
   - Guiding principals for adopting affordable housing goals for communities.
   - Methods to maintain housing affordability beyond the first owner in housing preservation and production strategies and programs. Possible tools to promote long-term affordability include deed restrictions as well as equity-sharing strategies between homeowners, developers and public agencies.

   - **Implementation**: The Arizona Department of Housing can develop and maintain such a clearinghouse, working with the Fannie Mae Foundation and the Stardust Center at Arizona State University. Funding for a staff person would be needed to develop and maintain the clearinghouse. A request for funding can be included in the Department of Housing's FY2008 budget request.

2) Begin a statewide public education, awareness and communications campaign relating to affordable housing. A principal roadblock to the development of affordable housing is overcoming public opposition. Concerns are raised about property values, crime, quality of construction, traffic, etc. Such concerns about affordable housing are often not accurate. A quality public education campaign, as well as a communication tool-kit, would assist in educating the public and elected officials about the true economic and social benefits of developing affordable housing. The campaign can consist of the following:
   - Television, radio and print advertisements.
   - A tool-kit consisting of housing market data and academic research relating to the development of affordable housing that is updated on a regular basis.
   - A speaker's bureau where persons can present information on affordable housing to elected officials at the town, city, county and state level; planning and zoning boards; neighborhood groups; other pertinent organizations.
   - Public and private sponsorship for the development of campaign.

➢ **Implementation**: The Arizona Housing Commission can continue to work with public, private and non-profit groups to expand the current tool-kit that is available to include television, radio and print advertisements, as well as seek out sponsorships to fund the effort.

Land/Land Planning – Short Term

1) The proceeds from the sales of land by the State Land Department are deposited in a Permanent Fund, which is managed by the State Treasurer. The Treasurer's investment authority could be expanded to permit a portion of the Permanent Fund to be invested into loans for affordable housing. Such investments would have to provide for an appropriate return to the Permanent Fund taking into account normal underwriting standards, including risk and security. A similar effort has occurred in California since 1997 where the California Public Employees Retirement System focuses part of its investment strategy on housing related activities (See attachment D). The System sustains an internal rate of return of 22 percent on its real estate investments. Continuing sales of State Trust land should significantly increase the amount of the Permanent Fund and provide additional funds that could be an increasing source of financing for the development at affordable housing. Proposed developments could be processed and underwritten by the Department of Housing.

➢ **Implementation**: The Arizona Housing Commission can bring together stakeholders from the State Treasurers Office, State Land Department, and beneficiaries of the sale of State Trust land to discuss feasibility and implementation.

2) Permit beneficiaries of the sale of State Trust land to use earnings from the Permanent Fund to finance Employer-Assisted Housing programs for their employees. (*See also Finance short term recommendation #1*)

- **Implementation**: The Arizona Housing Commission can bring together stakeholders from the State Land Department and beneficiaries of the sale of State Trust land to discuss feasibility and implementation.

3) Prioritize the sale of State trust land so as to facilitate growth rather than speculate on growth. Provide the State Land Department with increased flexibility and resources to carry out this goal.

   - **Implementation**: The Arizona Housing Commission can bring together stakeholders from the State Land Department, development community, and municipal/county government planners to discuss feasibility and implementation.

4) Include affordable housing goals and strategies as an element addressed in municipal and county general and comprehensive plans. Affordable housing is not a required element for the general plans of cities or the comprehensive plans of counties.

   - **Implementation**: The Arizona Department of Housing can provide incentives for inclusion of affordable housing in such plans and be available to provide technical assistance to municipalities and counties as plans are drafted.

Land/Land Planning – *Long Term:*

5) Inventory existing real-estate assets (e.g. parking structures, buildings, land) owned by municipalities, counties, and the State that are underutilized, vacant, or have multiple uses, for consideration in affordable housing development. Communities in other parts of the country are using public assets to expand the amount of affordable housing in creative ways, including the use of government-owned land and buildings for residential purposes. The use of air rights for development rather than land rights has also been successful. Examples of these efforts could be included in the affordable housing clearinghouse developed by the Arizona Department of Housing.

   - **Implementation**: The implementation of this recommendation is best administered at the local level, as communities develop affordable housing strategies.

6) Increase the supply of land for housing that is affordable.

   - **Implementation**: Land can be purchased by local governments or non-profits using the land bank/land trust model. The concept of a state housing bond can be explored, as well as leasing state trust land for housing.

IMPLEMENTATION STRATEGIES

The recommendations in this report are the first step in the process toward improving housing affordability in the State of Arizona. Over the coming months, the State, in collaboration with cities, towns, counties, financial institutions, developers, homebuilders, realtors, nonprofit organizations, the public, and other key stakeholders, will take steps to implement these recommendations through a variety of mechanisms. These mechanisms will include greater education and outreach on the part of the State about the need for affordable housing and the challenges that skyrocketing costs pose to our communities, working families, and Arizona's future economic competitiveness. It shall also include the creation of innovative partnerships, along with legislative and regulatory changes where necessary, to produce greater housing opportunity throughout the State. This effort will also entail training and technical assistance to local jurisdictions in the development of model housing policies and practices that assist in alleviating the affordability challenge. This process will continue to be guided by the principle that no one stakeholder will bear the burden alone in tackling this important issue.

ATTACHMENTS

<u>Attachment A</u>

Task Force Membership

Organization	Name
Arizona Association of Realtors	Tom Farley
Arizona Association of Realtors Housing Needs Foundation	Judy Lowe
Arizona Department of Commerce	Gilbert Jimenez
Arizona Department of Housing	Sheila Harris – Jeff Gray
Arizona Multihousing Association	Terry Feinberg – Suzanne Gilstrap
Arizona State Land Department	Mark Winkleman – Richard Hubbard
City of Cottonwood/Arizona Housing Finance Authority	Brian Mickelsen
City of Flagstaff	Jeri Dustir
City of Phoenix	Doug Lingner
City of Tucson/Arizona Housing Commission	Emily Nottingham
City of Yuma Housing Authority/Arizona Housing Commission	Ken Finlayson
County Supervisors Association	Craig Sullivan
Doucette Homes	Tom Doucette
Fannie Mae Partnership Office	Elisa de la Vara
Home Builders Association of Central Arizona	Connie Wilhelm – Spencer Kamps
Housing Authority of Cochise County	Bill Kammann
JPMorgan Chase/Phoenix Industrial Development Authority/Commerce and Economic Development Commission	Ruben Ramos
League of Arizona Cities and Towns	Cheyenne Walsh
Manufactured Housing Industry of Arizona	Bill Trottier – Scot Butler III
National Bank of Arizona	Kathy Pechman
Native American Connections	Diana Yazzie Devine
Northern Arizona Building Association/Arizona Housing Commission	Jean Richmond-Bowman
Pima County	Margaret Kish
Prescott Valley Economic Development Foundation	Gary Marks
Southern Arizona Home Builders Association	Ed Taczanowsky – Stan Barnes
Stardust Companies	Gregg Holmes
U.S. Department of Housing and Urban Development	Rebecca Flannigan
WESCAP Investments, Inc.	William (Bill) Spreitzer

Attachment B

Employer Assisted Housing Models

Today, state and local governments are recognizing what businesses have known for a long time. Housing within reach of working families is an important component to attracting and retaining a quality workforce nationwide. One in seven families pays over 50 percent of their income to housing costs (and the cost burden on families is greater when transportation costs are included). Regional imbalances between the locations of jobs and affordable housing further exacerbate the situation for both working households and employers—often requiring many working households to face the decision to either pay higher housing costs or endure lengthy commutes from areas with more affordable housing.

Employer Assisted Housing programs have emerged as a growing and viable approach to addressing the housing challenges for working families. Employers of all shapes and sizes have started EAH programs and this attachment highlights some promising examples.

University of Chicago, Employer Based Homeownership Program
Chicago, Illinois

The University of Chicago established an Employer Assisted Housing Program (EAHP) in 2003 for its employees (as well as those of the University Hospital). The overarching goal of the program is to encourage University employees to live within close proximity to the campus and thereby cut commuting times, as well as spur investment in surrounding neighborhoods. The program was developed in partnership with the Metropolitan Planning Council (MPC), Neighborhood Housing Services of Chicago (NHS) and the City of Chicago. MPC has been working with dozens of employers throughout the Chicago region since 2000, developing similar employer-assisted housing initiatives. At the University, NHS provides homeownership education and access to other assistance programs, in partnership with the Illinois Housing Development Authority (IHDA) and the Chicago Department of Housing (DOH). The University of Chicago EAHP makes available a $7,500 forgivable loan to qualified employees to use toward downpayment or closing costs of homes purchased in the Hyde Park, North Kenwood-Oakland, Washington Park or Woodlawn neighborhoods that immediately surround the campus. Further, the state—through the IHDA—offers a downpayment match based on household income and size, providing up to $5,000 for households earning less than 50 percent of the region's AMI, or up to $3,000 for households earning between 50 and 80 percent of AMI. Additionally, the State of Illinois offers a financial incentive to employers for participating in an EAH program. Through the Illinois Affordable Housing Tax Credit Program, an employer is eligible to receive a $.50 tax credit on income tax liability for every $1 in cash, land, or property donated for the creation of affordable housing or otherwise invested in EAH. Further, the tax credits are transferable, giving the University of Chicago and the University Hospital the opportunity to sell them to an individual or corporation with state tax liability. Initially, the EAHP was implemented as a limited pilot program, setting aside enough funds to cover 70 employee loans over two years.

HomeStreet Bank's Affinity Lending Department
Seattle, Washington

In 1994, the City of Seattle partnered with HomeStreet Bank to help address a concern brought up by the Seattle Police Chief that many of his employees could not afford to live in the city and were thus choosing to live in the outlying suburbs. This presented a multifaceted problem: on the one hand, Seattle's public employees living in the suburbs could not reasonably respond to a civil emergency if called upon, and, on the other hand, their residence in the suburbs was likely contributing to traffic congestion and loss of revenue for Seattle. Further, the lack of affordability and the high cost of living within the city were also seen as potential drawbacks for retaining current workers and recruiting new employees. The City wisely responded by creating a homeownership assistance program for its police officers and firefighters. The program proved so successful that all City of Seattle employees were deemed eligible within a year after its inauguration. Shortly thereafter, the program was extended yet again to include a wide variety of institutions throughout Seattle and the Puget Sound region; over the years, a host of employers in the area have developed partnerships with the HomeStreet Bank's employer-assisted housing programs, now grouped together under the bank's Affinity Lending Department. The primary EAH program—known as the Hometown Home Loan Program—offers a 50 percent reduction on loan fees, discounted closing costs for home inspections, appraisals, and escrow fees, as well as free pre-approvals and home buying seminars. Some of the current participants in the program include employees of the University of Washington, several area school districts, local housing authorities and the Fred Hutchison Cancer Research Center, as well as all AFL-CIO affiliated members. To date, the most active partners in the program include the University of Washington (1,826 mortgages), the City of Seattle (1,862 mortgages), and the AFL-CIO (2,921 mortgages). While offering savings to employees pursuing inner-city homeownership, the program addresses several other issues, including reducing traffic, allowing employees to live closer to their jobs, and is a means to both retain and recruit employees. The program has received assistance from the Washington State Housing Finance Commission, the City of Seattle, Fannie Mae, and the Federal Home Loan Bank of Seattle, in addition to the participating employers and institutions.

HOPE (Homeownership for Performing Employees)
New Jersey

For over 15 years, the New Jersey Housing and Mortgage Finance Agency (HMFA) has operated their HOPE (Homeownership for Performing Employees) program, an employer assisted housing program offering below-market, fixed-rate mortgages to workers of participating companies. Originally established as a means to help New Jersey employers attract and retain a competitive workforce, the program has evolved from mostly small mom-and-pop employers to including partnerships with a number of large casinos in Atlantic City. Offering a loan product specifically suited to first-time homebuyers of participating New Jersey companies, the HMFA funds the program by selling bonds. Employers are required to cover 20 percent of the loan if foreclosure should take place within the first five years, an agreement akin to the company co-signing on the loan. To be eligible, employees must meet income and purchase price limitations; if determined eligible, homebuyers may borrow up to 100 percent of the market value of the home and are not required to make a downpayment. Further, the loan can be used to cover the closing costs. To date, 25 companies have been approved to participate in the HOPE program, with 15 actually having made loans. In total, 88 loans have been made through HOPE, worth nearly $8 million.

Teacherwise
Santa Fe, New Mexico

Teacherwise is a partnership between Homewise—a local not-for-profit organization—and the Santa Fe Public School District, offering teachers the opportunity to purchase or repair homes in Santa Fe. The overarching goal of the program is to improve the quality of life for teachers in Santa Fe, where the cost of living is far too high and incomes too low for teachers to pursue homeownership. Accordingly, the program is designed to help retain and attract educators in an area known for a high turnover rate among teachers. With support from the New Mexico Mortgage Finance Authority, Teacherwise offers low-interest mortgages to school employees in addition to downpayment and closing cost assistance. Further, Teacherwise provides homebuyer education and financial counseling, educating teachers on ways in which to build equity, in addition to offering low-interest home repair loans for existing homeowners and discounted rentals for new teachers not yet looking to buy. Funding for Teacherwise is derived from land that developers in Santa Fe are required to provide to the school district; when this land is not needed for new schools, it is sold with the proceeds going directly into the capital fund that finances Teacherwise. In the first year and a half since the program was established, 22 teachers purchased homes with the assistance of Teacherwise.

Tyson Food, Inc. - Tyson Workforce Home Benefit Program
22 States

In February 2004, Tyson Foods established a $50 million Workforce Home Benefit program to assist eligible Tyson employees pursue homeownership. A partnership between the Tyson Credit Union, Balance (financial counseling), National Credit Union Foundation and Freddie Mac, the Tyson program is one of the largest employer-driven, employer assisted housing programs in the country. The new program provides eligible Tyson employees access to homeownership counseling and flexible mortgage products, including downpayment and closing costs assistance when buying a home. The program is available to any Tyson employee that has been employed for a minimum of 2 years at the company, with a maximum household income placed at $54,500 per year. Further, the program only applies to the purchase of single family, owner-occupied homes. Given that the Tyson program is still in its infancy, measurable results are still forthcoming. However, interest in homeownership assistance seems immense; as of October 2004, the program has received nearly 400 applications. Further, it has been estimated that 6,000 to 7,000 Tyson employees could be eligible for the program amongst the 22 states that the company currently has operations.

State of Connecticut – Employer Assisted Housing Tax Credit

The State of Connecticut has established an Employer Assisted Housing program as a way for employers to help their workers purchase or rent a home within Connecticut. Businesses are offered an incentive to participate in the EAH program by receiving tax credits for their contributions to the program. Participating employers set up a revolving loan fund (between $1,000 and $100,000 annually) for eligible low- and moderate-income employees to meet their housing needs; in return, businesses receive a credit against their State business taxes equal to the amount paid into the revolving loan fund. Most businesses in the State are eligible to receive the benefit of the tax credit, with the exception of banks, trust companies, insurance companies, and other savings associations. Eligible employees must have a household income that does not exceed 140 percent of the area median income and may use funds from the program in several ways. Potential homebuyers may use the funds for downpayment assistance, to buy-down mortgage interest rates, or for customary closing costs, with the total assistance not to exceed 25 percent of the home price. Renters may use program funds for assistance with security deposits or for advanced rental payments. The total annual allocation to the program is $1 million.

Attachment C

Leveraging Resources
Community Reinvestment Act

The Community Reinvestment Act (CRA), passed by Congress in 1977, requires banks and other regulated financial institutions to meaningfully serve the areas in which they normally conduct business. Created to effectively help counteract “redlining” practices, the CRA was designed to encourage banks to invest in—and meet the credit needs of—low- and moderate-income communities. Accordingly, the Act requires that financial lenders use their resources to engage in community and economic development activities for the benefit of the neighborhoods in which they operate. Among the activities qualified for CRA credit are: providing affordable housing for low- and moderate-income persons; promoting economic development by financing small businesses or farms; revitalizing or stabilizing low- and moderate-income areas; and providing community services to low- and moderate-income individuals. As required under the CRA, periodic assessments by federal regulators are undertaken to gauge the performance of each financial institution in meeting their CRA obligations. These ratings are designed to provide incentives to use bank resources towards the fulfillment of CRA goals. In this regard, it is hoped that banks and other lending institutions will find profitable ways to invest in their local areas, spurring revitalization efforts in underserved low- and moderate-income communities while meeting their bottom line.

CRA commitments from financial institutions can take on a variety of forms, including loans, grants, donations, investments, and technical assistance. Further, these resources can be directed towards both different target populations, including children and families, and uses, such as housing, small businesses, or social service facilities. While banks are required to fulfill certain CRA commitments, policy makers and other community leaders can effectively use these CRA obligations as leverage to actively seek out partnerships with financial institutions regarding the use of their CRA resources. State and local governments can encourage innovative CRA investments in their jurisdictions, helping to focus these valuable resources to serve vital community development and housing needs. The following examples briefly demonstrate how cities, counties, and nonprofits have used the CRA to help generate resources towards these ends.

San Diego City-County Reinvestment Task Force

The San Diego City-County Reinvestment Task Force (RTF) was created in 1977 through a joint resolution of the San Diego City Council and Board of Supervisors. A quasi-public entity consisting of elected representatives, lenders, and members of community organizations, the RTF was established to ensure that the federal Community Reinvestment Act was enforced and adhered to at the local level. Accordingly, the RTF works to channel investments in San Diego County to specifically serve low-income communities, affordable housing, and local community and economic development efforts. Receiving its funding from the City Housing Commission and the County Department of Housing and Community Development, the RTF operates in compliance with all city and county policies and is co-chaired by a member of the City Council and the County Board of Supervisors.

The stated mission of the RTF is “to spur private and public financing of affordable housing and economic development in areas suffering from disinvestment.” This vision is pursued through two primary activities: monitoring the lending practices and policies of local financial institutions, and developing innovative strategies for investments in traditionally underserved neighborhoods throughout San Diego. Through research, education, and facilitation, as well as actively securing commitments from lenders regarding their CRA obligations, the RTF operates in a proactive manner to create new and strategic initiatives. Accordingly, the many successes under the RTF have largely been achieved through active partnerships between government, lenders, and community groups. According to the RTF, taking advantage of the financial capacity and resources of the private sector makes possible community revitalization efforts on a scale that is rarely undertaken or achieved by the public sector alone.

Among the many innovative steps taken by the RTF has been the creation of the San Diego Capital Collaborative (SDCC). Chartered by the Reinvestment Task Force, the SDCC is a nonprofit entity established to sponsor a family of investment funds specifically targeting low- and moderate-income communities throughout San Diego. The first such fund developed by the SDCC is known as the San Diego Smart Growth Fund—a financing vehicle created to support large scale real estate investments throughout San Diego that follow the general tenets of smart growth. Accordingly, the Fund was designed to attract private capital to invest in a wide range of projects, including mixed-use developments that incorporate mixed-income housing, as well as affordable and inclusionary housing projects. In April 2006, the Smart Growth Fund announced its first two projects: a 75-unit condominium project affordable to middle-income residents, and an office condo project providing ownership opportunities to small business owners. While these two projects represent the first efforts under the Smart Growth Fund, over time it is hoped that the $90 million in equity in the Smart Growth Fund will leverage over $500 million for new residential and commercial projects.

Cleveland Neighborhood Reinvestment Program

The City of Cleveland's Neighborhood Reinvestment Program was established in 1991 as a joint effort between the City's Department of Community Development and a number of local banks to offer creative home mortgage and improvement loans, consumer credit, small business loans, and other financing opportunities to low- and moderate-income residents. Using the Community Reinvestment Act as a leveraging tool, the City has entered into Neighborhood Reinvestment Agreements with a host of local financial institutions to provide credit and services to underserved residents and communities in Cleveland. From 1991 through 2005, the City of Cleveland entered into Neighborhood Reinvestment Agreements with a number of local banks, generating investments totaling over $2 billion. The most recent agreement developed through the Neighborhood Reinvestment Program was made with Sky Bank, totaling $87.5 million over the span of four years. The Sky Bank deal is slated to focus on a range of elements, including (but not limited to): taking special efforts to employ Cleveland residents, particularly minorities and females; placing underused and distressed properties back into productive use; supporting the anti-predatory lending refinance initiative; offering affordable residential and consumer loan products; supporting third party agencies that provide homeownership counseling services; participating in non-traditional financing for community development efforts; and supporting small business development.

Arizona MultiBank Community Development Corporation

The Arizona MultiBank CDC was formed as a nonprofit in 1991 through an initiative of the Arizona Bankers Association to specifically manage an investment pool devoted to small business development, low- and moderate-income housing, and community and economic development. Initially formed with $10 million in funding from 18 Arizona banks, MultiBank assists financial institutions in finding appropriate investments to satisfy their Community Reinvestment Act obligations. Acting as both a lender and an intermediary, MultiBank manages this flexible loan pool to both facilitate conventional financing and to leverage other resources from both private and public funds. As of December 1992, MultiBank has made over 350 loans totaling over $33 million, with loan amounts ranging from $500 to $1,000,000. For affordable housing projects, loans are available for both nonprofit and for-profit developers for acquisition, development, construction and rehabilitation. Further, projects that provide new or expanded affordable housing opportunities must serve households that have an income at or below 80% of the area median income. Additionally, in the late 1990s, MultiBank created Magnet Capital, a small business investment company with an investment strategy focused on businesses located in low- and moderate-income neighborhoods. With a startup investment of $5 million, Magnet Capital currently manages a fund of over $20 million designed to spur venture capital in underserved areas.

Attachment D

The Land/Land Planning short term recommendation #1 calls for a portion of the principal (Permanent Fund) from the sale of State trust land to be invested to finance affordable housing-related activities. Attachment D illustrates how this might be done by reviewing an initiative by CalPERS, the California Public Education Retirement System, to invest their money in housing while still receiving a very solid rate of return on their money.

Developing New Resources for Housing
California Public Employees Retirement System as a Possible Model for State Trust Land Investments

In 1997, the California Public Employees Retirement System (CalPERS) initiated a targeted real estate investment program, specifically focusing part of its overall investment strategy on the rehabilitation and development of urban neighborhoods in California. This was a significant step, as CalPERS is the largest benefit pension fund in the United States with assets nearing $200 billion and covering 1.4 million public sector employees and retirees. The 1997 initiative, known as the California Urban Real Estate (CURE) program, committed an initial $375 million to the urban redevelopment effort. The overarching vision of CURE is rooted in a sound financial investment strategy with hopes of realizing a host of social benefits; from the outset the plan has been to make a substantial profit while spurring revitalization and redevelopment that will have measurable community benefits. CURE investments span a wide range of sectors, including: multi-family housing (26.5%), mixed-use development (19.5%), low-income multi-family housing (16.8%), industrial (13.0%), as well as single-family housing, retail, and office development.[1] Since its inception in 1997, CalPERS has invested $1.2 billion in CURE (with an asset value totaling over $4 billion), sustaining an internal rate of return of 22 percent on its real estate investments.

In 2001, CalPERS announced a series of new investments for urban infill development and the production of affordable housing. CalPERS chose four real estate investment partners to receive $200 million in financing for the development and redevelopment of multi-family and single-family housing, industrial, office, and mixed-use properties in urban areas. The four firms chosen included Buchanan Street Partners, Inc., receiving $60 million; Capri/Capital Advisors, L.L.C., also receiving $60 million; and Institutional Housing Partners, Inc. and American CityVista, both receiving $40 million. Additionally, CalPERS earmarked $150 million specifically targeted towards developing a new multi-family affordable housing investment program, with a focus on projects with 70/30 and 80/20 market rate unit-to-affordable unit ratios.

American CityVista, for example, a venture spearheaded by former U.S. Housing and Urban Development Secretary Henry Cisneros, has taken the initial investment provided by CalPERS and made substantial headway. Originally focusing their efforts on single-family homes in California, American CityVista launched a new arm called CityView with its sights trained on the inner-city, developing a wider range of properties. A major element of CityView's operation is workforce housing, providing affordable homeownership opportunities to households earning up to 120 percent of the area median income. These projects typically range in size from 40 to over 300 units, in a variety of arrangements including single-family, town homes, condominiums, and mixed-use development. Further, CityView has partnered with a range of builders, both large and small, as well as public and private. By offering builders up to 100 percent of the capital needed for the

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[1] Tessa Hebb. 2005. "Pension Funds and Urban Revitalization, California Case Study B: CalPERS' California Urban Real Estate Initiative." Oxford University, School of Geography (Working Paper in Employment, Work and Finance, WPG 05-16).
(http://www.geog.ox.ac.uk/research/wpapers/economic/wpg05-16.pdf).

development of this housing, CityView eases the often difficult financing process for affordable housing. In return, the company receives an ownership share and a cut of the profits once the housing units are sold. Building upon the early successes of this model, CalPERS provided an additional investment of $100 million to CityView to specifically expand its operations beyond California, into Arizona, Nevada, Oregon, and Washington State. By the end of 2006, CityView is on a schedule to have financed 3,500 units of workforce housing worth $1.1 billion. Further, with additional investments from CalPERS, CityView is working on developing their workforce housing financing model on a national scale.

STATE OF ARIZONA

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December 20, 2005

Sheila Harris, Ph.D.
Director
Arizona Department of Housing
1700 W. Washington, Suite 210
Phoenix, AZ 85007

Dear Director Harris:

During my tenure as Governor, I have worked to establish a number of policies to strengthen our educational system, grow our economy and, make Arizona a great place to grow up and grow old in. Success, however, relies on a number of important factors. A vital component to our efforts is the development of safe, quality housing opportunities for individuals and families in our state. Unfortunately, as our State has grown, so has the cost of housing.

As you know, an economically diverse housing stock is extremely important to Arizona's future economic and social well being. Access to a suitable labor pool - one of the top three considerations in business location decisions – is hindered by a lack of housing options. Additionally, better housing promotes family and community stability and creates a positive environment for raising children.

With this in mind, I am directing your office and the Arizona Housing Commission to bring together a group of stakeholders to identify solutions for creating housing opportunities which are relatively affordable and that allow for flexibility and adaptation to local market conditions. The group should consist of professionals from the private, public and non-profit sector, and include housing industry and economic development representatives.

I recognize that there is no "silver-bullet" to address the issue of housing affordability. Solutions developed by the workgroup, therefore, should include a range of options that benefit urban and rural communities. Recommendations should be submitted to my office by May 31, 2006.

I look forward to this being a collaborative effort, with positive outcomes and I am eager to see the product of your work.

Yours very truly,

Janet Napolitano
Governor

AMC:JN/jm