

2.3 Scoring

Competitive funding criteria may be utilized to make funding decisions. Only applications that meet completeness and all common and activity specific thresholds are competitively scored, if applicable. Scoring criteria is contained in the application documents. Self-Score Sheets are provided as part of the application specific to their project type.

Tie Breaker – ADOH will evaluate Applicants on the cost effectiveness of their developments in the event of a tie. Total SHF application requests/total number of assisted units = Cost Effectiveness. EXAMPLE: If Applicant A has requested \$500,000 for a development that will set-aside 40 units for SHF, their cost effectiveness value would be 12,500. If Applicant B has requested \$400,000 for a development that will set-aside 50 units for SHF, their cost effectiveness value would be \$8,000. In this case, with each Applicant having the same score on all previous scoring criteria, Applicant B would be recommended for funding.

2.4 Financial and Technical Review

When committing funds to a HOME activity set up in IDIS under a 2012 Consolidated Plan/Annual Action Plan Project, ADOH must certify in IDIS that it has conducted an underwriting review, assessed developer capacity and fiscal soundness, and examined neighborhood market conditions to ensure adequate need for the project. ADOH is able to make this certification based on its financial and technical review of each application that meets threshold requirement. The financial and technical review assesses the following project components.

A. **Market Demand**

The Market Demand Study included in the application must be an accurate and true assessment of the housing market in the primary area of the proposed development, and must have been completed not more than 6 months prior to application submission to ADOH. The following three possible types of market demand formats are discussed below:

1. **Market Demand Study (12 or more rental units);**
2. **Market Demand Analysis (11 or fewer rental units);**
3. **Owner-Occupied Housing Rehabilitation Market Analysis.**

If the demand format submitted with the application is inconclusive, ADOH may require the applicant to supplement the analysis, in whole or in part, before the application will receive further consideration. This may include a request for an independent third-party Market Demand Study.

1. Market Demand Study:

Projects with 12 or more rental units require a third-party Market Demand Study in accordance with ADOH's Market Demand Study Guide. Applicant may request a waiver for this requirement for acquisition/rehabilitation projects that are currently 80 percent occupied, only if applicant provides supporting documentation justifying the request, which shall include the project's current rent roll. If a waiver is granted, the applicant is still required to provide the Market Demand Analysis. The ADOH Market Demand Study Guide can be found on the ADOH web site at: <http://www.azhousing.gov/ShowPage.aspx?ID=453&CID=16>

2. Market Demand Analysis:

Projects with 11 or fewer units require a Market Demand Analysis that requires the following information:

- a. Description of the proposed site(s) and site neighborhood. The site location is to be described using the nearest roadways. Color photographs of the subject site(s) from various vantage points are to be included. Color photographs of adjacent properties and streetscapes are to be included.. All photographs are to be described (e.g., view of the site, looking northeast from Main Street / view from the site, looking west toward the adjacent single family home). The positive and negative attributes of the site and site neighborhood, and their impact on project marketability are to be discussed.
 - b. The proposed project's market area must be described and justified. The market area is the smallest geographic area from where the subject development will draw most of its residents. (The market area is not necessarily the same as a service area.) Provide a narrative describing the methodology and rationale used to determine the market area.
 - c. The applicant is to provide a profile of the most likely (prospective) residents, including income range (minimum income required to afford the proposed units to the maximum permitted income), and other demographic characteristics. Indicate other homeownership opportunities available to the targeted population in the market area.
 - d. Note at least three comparable projects near the proposed development, and provide their current prices, occupancy level and initial absorption rate, and amenities in comparison with the proposed development.
 - e. Note the anticipated number of months it will take the proposed development to reach stabilized occupancy (to 90 percent). Provide supporting evidence from recently developed projects if available.
 - f. Number of comparable units targeting the same population that are under construction (or rehabilitation) or planned concurrently with the proposed project. Include the number of recently issued building permits or building permit applications for comparable units. Note the name, title, and phone number of the local government official who assisted in this determination.
 - g. Note if applications are currently being accepted, and whether a wait list or list of individuals who have expressed interest or inquired about the project is maintained. If a list is maintained, note when it was started and for what purpose (i.e., this project or other projects), as well as the number of names or applications that have been collected. Note if there has been any pre-screening of the applicants. If so, note what portion (number and percentage) of the applicants is estimated to be eligible. Of those who are estimated to be eligible, note what portion is estimated to be likely purchasers.
3. Owner-Occupied Housing Rehabilitation Market Analysis:
The Owner-Occupied Housing Rehabilitation Market Analysis requires:
- a. A demographic analysis of the targeted area;
 - b. A wait list including the demographics of income-qualified households from the target population;
 - c. Information on low-income housing conditions and rehabilitation needs;
 - d. Information on comparable programs and services available in the proposed service area.

B. Affordability to Low-Income Households

1. Homeownership Projects: The intended target household income in conjunction with the lending environment and interest rates are used to determine probable mortgage amounts in relation to the proposed completed appraised value of the homes.
2. Rental Projects: The proposed rents and any committed subsidies must be sufficient to cover operating expenses, reserves and debt service throughout the period of affordability without compromising affordability.
3. Owner Occupied Housing Rehabilitation: Sufficient funds should be invested in each home to meet, at a minimum, the State of Arizona Rehabilitation Standards and local building codes. Lien amounts placed on rehabilitated homes will not be allowed to exceed 100 percent combined loan to value. In some cases, reconstruction will be more cost effective than rehabilitation. Manufactured housing replacement is only allowed as an owner occupied housing rehabilitation activity.

C. Development/ Program Team Experience and Ability to Deliver

ADOH will only provide SHF for development activities to Applicants with demonstrated development experience. If Applicant is a CHDO, it must demonstrate that they have staff with demonstrated development experience. The project or program team must demonstrate in the application the following: 1) it possesses the experience and capacity to successfully complete the proposed project or program; 2) it has developed projects or implemented programs of comparable size and complexity for similar populations; and 3) it has the capacity itself or has selected a suitable contractor to manage the project and provide the services necessary to implement the proposed program design. The financial and technical review process will evaluate the development or administration team for experience and ability to deliver the project or program as proposed. This review focuses on the skills, experience and available or potential financing of the team through the evaluation of each individual and the team as a whole.

D. Financial Feasibility

The financial feasibility review process will evaluate cost reasonableness and will consider all sources and uses of funds to determine whether the program is feasible as proposed and can be completed for the budget indicated. The budget review process will evaluate the maximization of private financing, and will include gap and layering analyses. In addition to other financial analysis criteria, these criteria are used to calculate the amount of State funding that may be provided to a program.

For development projects, the review process will analyze both the construction and permanent sources and uses of funds and the project's pro forma to determine whether or not the project may be completed and operated for the costs indicated in the proposed budget and provide adequate operating, maintenance and replacement reserves. The review will determine that the site is suitable for construction of the proposed use and that all utilities and necessary amenities are available to the site, and that once completed, the project will make available affordable housing to the targeted low-income residents. For homeownership development, the review will evaluate the mortgage-to-construction financing ratios to maximize the extent to which mortgage financing covers construction financing. The cost-to-value ratios are reviewed to ensure that site and construction design both maximizes quality and amenities while reducing overall per unit costs.

1. Cost Reasonableness: Costs will be assessed as to whether they are reasonable, realistic and customary in light of market conditions in the area. ADOH will determine cost reasonableness

from, among other sources, data from experience on prior projects in Arizona and consultation with construction cost experts. Failure to comply with cost reasonableness may be the basis for a denial for funding.

2. Maximization of Private Lender Financing: If financing is required, the applicant must maximize its lending sources for both construction financing and permanent financing. Loan terms will be taken from the lender's letter of interest or commitment. Exceptions to maximizing of private financing may be made for unique situations where private construction financing is not available based on the absence of cash flow. If funding is available within the proposed project jurisdiction (i.e. City or County HOME funds), letters of commitment and/or letters of denial must be provided in the application.
3. Debt Service: ADOH generally considers reasonable a debt service coverage ratio of 1.2 for projects with less than 50 units and 1.15 for projects of 50 units or more. Loan terms (e.g., interest rate and amortization period) will be taken from the lender's letter of interest or commitment letter.
4. Vacancy: ADOH will underwrite to a vacancy rate of 10%.
5. Reserves: ADOH underwrites replacement reserves for new construction at the rate of \$250.00 per unit per year, for Acquisition/Rehabilitation projects at \$350.00 per unit per year, or as specified in the partnership agreement. Replacement reserves should be capitalized at a maximum of 12 months in the development budget.
6. Annual Operating Costs: ADOH underwrites annual Operating Costs for new construction at \$4,200.00 per unit per year and for acquisition/rehabilitation at \$4,500.00 per unit per year. ADOH does not include Asset Management Fees in ordinary annual Operating Costs.
7. Gap Analysis: The gap analysis determines the amount of State funding to be provided. The gap is the amount necessary to make the proposed project financially feasible. A gap is defined as the amount by which projected uses of funds exceed projected sources of funds, after adjustments for unacceptable costs, if applicable. The projected sources of funds for purposes of the gap analysis include maximum loan payment on conventional financing, any other loans or grants for which the project receives a commitment, and the developer's contribution (if any).

E. Layering Analysis:

The layering analysis is required by most government resources to ensure that the amount of subsidy from all government sources does not exceed the amount necessary to make the proposed project financially feasible. Layering applies to any loan, grant, guarantee, insurance, payment, rebate, subsidy, credit, tax benefit, or any other form of direct or indirect assistance from governmental entities.

2.5 Compliance with federal and state regulations

Applications must comply with all federal and state regulations.

2.6 ADOH Funding Approval

The Funding Review Team reviews contract awards, contract terms, contract amendments, budget adjustments and loan terms for proposed new projects and amendments to existing projects. Applicants are notified in writing of the results of the Funding Review Team.