



CITY OF
FLAGSTAFF

Rental Incentive Bond Program

City of Flagstaff - Housing Section
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Funding Background

The City of Flagstaff Housing Section has developed a new Rental Incentive Program for the expenditure of voter-approved general obligation bond funds. Proposition 442 – “Creating Rental and Ownership Opportunities for Residents of Flagstaff” identified four affordable housing spending categories totaling \$20 million dollars and was approved in the November 8, 2022 General Election. Per the [City of Flagstaff Information Pamphlet](#), one of the approved spending categories is described below:

Incentivizing the Private Sector to Incorporate Affordable Rental Housing in New Developments (Approximately \$5,000,000)

“Funding will be utilized to incentivize private developers, including non-profits, to incorporate affordable rental units in market rate developments. This investment is anticipated to create an estimated 400-500 new rental units affordable to the residents of Flagstaff, in addition to the market rate units in the new developments.

The proceeds of the bonds may be used for any and all costs relating to such projects, including the costs of designing, engineering, acquiring, administering, improving, constructing, reconstructing, and equipping such projects and any and all appurtenances or land related thereto.”

Program Creation & Administration

The City of Flagstaff Housing Section assembled of a working group of five members of the Housing Commission to develop the following program requirements. A draft Rental Incentive Program was reviewed by the Housing Commission and recommended for approval on TBD. The final program was reviewed and approved by Flagstaff City Council on TBD.

City of Flagstaff Housing Section staff is responsible for soliciting funding applications that will be reviewed and scored by a ranking committee (described below). It is the intent of this program to make the application and award process as simple and expeditious as possible for both the developer and staff, while maintaining the necessary safeguards surrounding expenditure of public money.

The Housing Commission provides oversight of any funds approved by the electorate for housing purposes ([City Code Chapter 2-25-001-0005](#)). This requirement will be met by having Commissioners participate in the Ranking Committee. Once the Ranking Committee’s recommendations for funding are complete, they will be brought to Council for their consideration. Contracts for the bond funds will require Council approval. Please see Ranking Committee and Award Process section for additional details regarding timing. The long-term administration of the funding and program compliance will involve the City’s Housing Section and Management Services Division staff.



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Program Overview

The City of Flagstaff Housing Section has a total of \$5M in general obligation bond funding available through a Notice of Funding Availability (NOFA) application. This is a competitive application process; applications that meet the minimum threshold criteria are not guaranteed an award of funds and successful applications may be funded for less than the amount requested.

A ranking committee will evaluate applications for funding based on how funds can best maximize and leverage other public and private funds and resources while creating the greatest number of affordable units meeting applicable federal, state, and local requirements. The NOFA process can be repeated until all funds are expended.

Funding is limited to costs directly incurred by developer in pre-development and construction costs of an approved affordable rental housing development. Applications must provide evidence of site control, zoning approval and approved site plans for the entire project. All funding commitments secured by the developer and identified in the application must be confirmed in writing. Applications that do not meet the Minimum Threshold Criteria will not be eligible for funding.

Project Eligibility

Eligible Uses include:

- Acquisition, site improvement, and construction costs directly related to development of affordable housing units that will remain affordable to low-income households earning up to 80% of the Area Median Income (AMI).

Ineligible Uses include but are not limited to:

- Renovation, preservation, or rehabilitation of existing affordable or market rate units.

Affordability Period – The ranking committee will consider a variety of loan terms, however, the minimum required affordability period is 30 years. The affordability period shall be sustained regardless of any transfer of ownership. (See Loan Terms for additional information.)

Qualified Applicants – Eligible applicants must be one of the following entities or combination thereof:

- A corporation (including non-profits) limited partnership, limited liability company, unit of local government, tribe or tribally designated housing entity.
- In good standing with the Arizona Corporation Commission, Arizona Secretary of State, the Arizona Registrar of Contractors, or other appropriate government licensing agency.

Previous commitment of affordable rental units through an executed development agreement/affordable housing agreement or receipt of other City-provided incentives does not disqualify applicants from applying for bond funding.

Applicants with overdue debts to the City and applicants that have received other City-administered grant funds must be in good standing prior to receipt of funding.



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Developer Experience – Developer or development team (if collaborative partnership) must demonstrate experience successfully completing rental housing developments of similar scale.

Site Control and Project Readiness – Eligible projects must provide evidence of the following:

- Applicant must own the property or have a valid and current purchase contract, option agreement, or lease agreement providing the applicant with the right to develop the site for the proposed use.
- Applicants must include evidence of zoning approval and approved site plans. Additionally, if available, building plans for the entire project should be provided. Prioritization for funding will be given to projects that are closer to construction, for example, approved building plans and/or issued building permits.
- Projects must have building permits issued within 18 months of award. Extensions to this timeframe will be considered on a case-by-case basis with documented justification.

Financial Feasibility – All funding sources must be identified. Verification of funding commitments must be included in the application. All financial information provided in the application must be credible and valid. Applicants must provide:

- An overview of all project costs.
- A budget clearly demonstrating uses for the requested funding and other funding sources.
- A list of secured funding sources available for project costs and associated letters of commitment.
- A list of funding applications under review, requested amounts and anticipated award dates.
- A list of other funding sources not yet applied for, requested amount, and application deadline.
- Methodology for determining affordable rental rate for the intended AMI.

Partial Award – The intent of the Program is to leverage the bond funding to the greatest extent to create the largest number of units in the community. Applicants may be awarded less funding than requested to maximize funds.

Identity of Interest – Applicant has disclosed all identities of interest, in addition to all sources of financing and subsidy: construction, bridge and permanent.

Minimum Threshold Criteria – Applications that do not meet the following minimum criteria will not be considered:

- Proposed project must be a rental development entirely within Flagstaff city limits.
- Application contains a complete response to each question and includes all required information.
- Project serves low-income renters earning 80% or less of the AMI for Flagstaff ([2023 AMI Limits for the City of Flagstaff](#)).
- Project meets eligible uses listed above and includes proof of necessary entitlements, site control, and project readiness.



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Ranking Committee and Award Process

This is a competitive application process; applications that meet the minimum threshold criteria are not guaranteed an award of funds and successful applications may be funded for less than the amount requested. Complete evaluation criteria will be in the application and will include criteria such as those listed below for the Ranking Committee to conduct a cost-benefit analysis and assess developer's ability to deliver units in a timely manner:

- Number of units.
- Percentage of overall units that are affordable.
- Amount of funding requested.
- Cost per unit.
- Project readiness as defined above.
- Developer experience.
- Other funding sources leveraged.

Within ten (10) business days after the application deadline City staff will conduct a threshold review of all applications to determine eligibility with all minimum threshold criteria. All applications determined eligible will be forwarded to the Ranking Committee for evaluation and funding recommendations. The Ranking Committee will be comprised of four to seven individuals representing a mix of city staff, Housing Commissioners and subject matter experts from areas such as development, finance, affordable housing, engineering, etc.

The Ranking Committee's recommendations for funding will be presented to City Council for funding approval and letters of award will be provided promptly. Contracts will be completed and executed thereafter. Applicants shall not make substantive changes to the project once a contract is fully executed without the expressed written consent of the City. Applicants shall not pursue additional project funding that would reduce the number of affordable units as described in the fully executed contract.

Loan Terms – Funding will be provided as a loan between the applicant and the City of Flagstaff and requires approval by City Council. Loan requirements are below:

- Loan is secured against the property with a promissory note and recorded deed of trust and will be subordinate to first mortgage financing with further subordination considered on a case-by-case basis.
- No interest and no payments are required during the term of the loan as long as affordable units continue to benefit the community, per the affordability period identified in the contract.
- Lien would not be forgiven for 30 years. After the initial 30-year timeline, the loan would be forgiven on a pro-rata basis over the next 20 years. It would be completely forgiven and released after 50 years of affordability compliance.
- If a developer fails to honor the agreement and units are not delivered in accordance with the terms of the contract, the lien will be called due and payable immediately.
- Loan may be assumed if property is sold, new owner must agree to honor the terms of the original agreement.



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Compliance – Annual compliance monitoring will be conducted by City of Flagstaff or its designee.

- Progress reports will be required during the project construction phase to ensure the successful delivery of units.
- Developer shall list all affordable housing units on myhousingsearch.com or similar website.
- Annual reporting for the life of the loan is required for all projects receiving funding.

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