



City of Flagstaff Rental Incentive Bond Program



City of Flagstaff - Housing Section
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Funding Background

The City of Flagstaff Housing Commission and Housing Staff developed the Rental Incentive Bond Program (RIBP) as provided for the expenditure of voter-approved general obligation bond funds. Proposition 442 – “Creating Rental and Homeownership 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](#), the ballot language and information for the relevant spending category are below:

Ballot Language:

“To create rental and homeownership opportunities for residents of Flagstaff, shall the City of Flagstaff be authorized to issue and sell general obligation bonds in a principal amount up to \$20,000,000 for the purpose of:

- redeveloping City-owned housing to create additional affordable rental units;
- repurposing existing available buildings into rental units;
- incentivizing the private sector to incorporate affordable rental housing into new developments; and
- expanding the homebuyer assistance program?”

City of Flagstaff Information Pamphlet:

Incentivizing the Private Sector to Incorporate Affordable Rental Housing in New Developments (approximately \$5 million)

“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 the above-referenced 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 and Administration

The City of Flagstaff Housing Section assembled a working group of five members of the Housing Commission to develop the following program requirements. A draft of the Rental Incentive Bond Program was reviewed by the Housing Commission, and the Commission voted unanimously to forward the draft RIBP to City Council with a recommendation for approval on September 28, 2023. The final program was approved by Flagstaff City Council on November 7, 2023, and adopted by Resolution No. 2023-51.

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.



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The Housing Commission provides oversight of any funds approved by the electorate for housing purposes ([City Code Chapter 2-25-001-0005](#)). 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.

Program Description

The City of Flagstaff has a total of \$5 million in general obligation bond funding available for the Rental Incentive Bond Program 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. After the initial NOFA if there are remaining or returned program funds the process will be repeated as needed.

Expenditure of program funds is limited to costs directly incurred by the developer in pre-development and construction of affordable rental housing. Applications should include information related to prior experience developing similar rental projects and should demonstrate project readiness by providing evidence of any and all development approvals. 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:

- Any and all costs relating to the development of affordable rental housing that will remain affordable to low-income households earning up to 80% of the Area Median Income (AMI), including pre-development costs.

Ineligible Uses include but are not limited to:

- Land acquisition, renovation, preservation, or rehabilitation of existing affordable or market-rate units.

Eligible Applicants must be one of the following entities or a 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.



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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.

Affordability Period – The ranking committee will consider a variety of loan terms proposed by applicants; 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.)

Submittal Requirements

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.
- Project includes a minimum of 10% affordable rental units.
- Affordable rental units serve 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 site control.
- Application contains a complete response to each question and includes all required information.

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

Project Readiness – To demonstrate project readiness, applicants:

- 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.
- May include evidence of all zoning approvals, including site and civil plans, and building permits, if available. Prioritization for funding will be given to projects that are closer to construction; for example, projects with building plans submitted for review by the City or issued building permits.
- Must obtain building permits within 24 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. Applicant must disclose all sources of financing and subsidy: construction, bridge, and permanent. 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.
- 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.



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- 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.

Ranking Committee and Award Process

There will be 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. The ranking committee will review and conduct a cost-benefit analysis of total community benefit including the provision of affordable and market-rate units. In addition, the ranking committee will assess developer's ability to deliver units in a timely manner. Complete evaluation criteria will be in the NOFA, including the following:

- Number of total units.
- Number of affordable units.
- Amount of funding requested.
- Cost per affordable unit.
- Project readiness as defined above.
- Developer experience.
- Other funding sources leveraged.
- Waiver of right to Qualified Contract process (if Low-Income Housing Tax Credit project).

Within ten (10) business days after the application deadline, City staff will conduct a 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. No member of the ranking committee shall have a conflict of interest. The committee is authorized to identify funding recommendations, conditional funding recommendations, projects that are waitlisted for funding, and projects that are not recommended for funding.

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; contract will be approved separately by City Council. Funding will be available after Council approval of contract and the recording of associated documents including the promissory note and deed of trust.



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Loan requirements are below:

- Loan will be 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 meet the affordability terms identified in the contract.
- Loan will not be forgiven for 30 years. After the initial 30 years, the loan will be forgiven on a pro-rata basis over the next 20 years. It will 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 loan will be called due and payable immediately.
- Loan may be assumed if property is sold; the new owner must agree to honor the terms of the original agreement.

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 in order to further ensure compliance.