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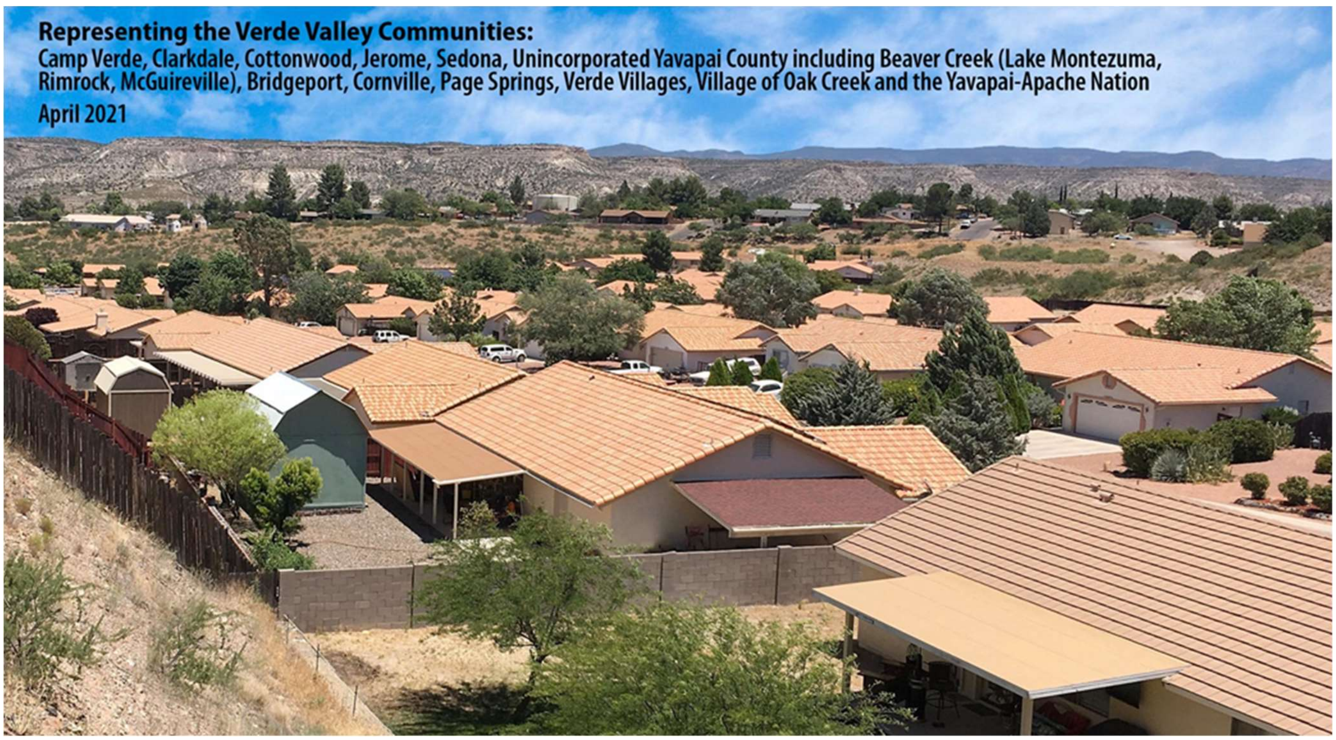
Verde Valley Housing Needs Assessment
Volume 2: Case Study Analysis & Affordable Housing Tool Kit



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1.0 Purpose of Report

Housing affordability is a primary issue for most tourism-dependent economies that rely on a wide range of service jobs for the retail, hospitality, and restaurant industries. As part of the Verde Valley Housing Needs Assessment, a case study analysis was undertaken of affordable housing strategies adopted by communities that are similar to the cities and towns in the Verde Valley region. This part of the study focused on how those affordable housing-constrained communities approached the problem and the lessons that were learned. Out of these case studies evolved the compilation of a "tool kit" of affordable housing concepts outlined herein.

Case studies were conducted through research and interviews with communities that had similar affordable housing issues. All of these communities are tourism-dependent economies that have had to undertake local initiatives and actions to ensure that housing was affordable for their workforce. The communities that were studied for this report include:

- Martha's Vineyard, Massachusetts
- Flagstaff, Arizona
- Telluride, Colorado
- Breckenridge, Colorado

This Tool Kit is focused on analysis of techniques and approaches to address affordable housing at the **local** level. The most prevalent methods to provide affordable housing for low and moderate income households involve public subsidies or programs, much of which flows from federal and state governments. Some of these sources are entitlement program grants to local jurisdictions by formula (such as CDBG), while others are competitive and discretionary. Because these sources are insufficient to address a community's existing and future affordability needs, Section 2.0 of this report focuses on additional concepts and proven methods that may be used by cities, towns, and counties to expand their affordable housing inventory. Section 3.0 outlines federal and state programs that may be available to further address affordability. Section 4.0 illustrates how the Tool Kit may be conceptually applied to the development and operation of an affordable housing complex.

The final section of this report (5.0) provides recommendations on the tools and approaches to addressing affordable housing for the Verde Valley communities.

2.0 Local Affordable Housing Approaches

A broad range of affordable housing techniques and strategies have been developed across the country by tourism-dependent communities that are especially vulnerable to rising home prices and rents that are beyond the reach of many service industry employees. The primary techniques uncovered during the case study analysis follows in this section.

Community Land Trust: A CLT is a non-profit organization that holds title to land to preserve long term availability for affordable housing. Affordability of housing under the CLT is achieved through the separation of the ownership of the land and the improvements on the land. The CLT holds title to the land and leases the property to a homeowner or developer for 99 years at a nominal rate, reducing the cost of the entire land and improvements by 15% to 25%. In addition, CLTs can also provide land for low and moderate-income affordable housing programs including LIHTC projects that benefit the lowest income households. Land is often acquired through donations from developers or the property could be underutilized city-owned land that is transferred to the trust. Trusts often partner with a non-profit to construct units on the site.

Municipalities are a driving force behind CLTs and they can take many forms in terms of governance. Some are non-profit corporations where municipal officials sit on the board along with other members of the public while other CLTs are totally controlled by the municipality. The separation a CLT from its supporting municipality is subject to much discretion. In some cases, a municipal-run CLT may be viewed with suspicion as to its purpose while a non-profit independent from the local government may be considered a function of the community as a whole.

Two land trust programs are operated in Flagstaff: The City of Flagstaff Community Land Trust Program (CLTP) and the Townsite Land Trust Program, a non-profit organization. The City program is designed to provide homeownership opportunities to qualifying households that would otherwise not be able to achieve ownership. The Flagstaff CLT has been very successful operating as an internal city program with no separate identity from local government. The Townsite Program is focused on preservation of historic properties, rehabilitating them for modern use, and then selling the building to income-eligible households while the CLT maintains ownership of the land.

Cities can also partner with other non-profits and agencies that may have excess land. For instance, the Verde Valley Medical Center Sedona Campus owns significant acreage that could provide for a variety of housing types. A partnership with the hospital that demonstrates the benefits of housing development for its staff could lead to new opportunities for moderate income households. Excess land owned by a school district could also be an important asset.

A Verde Valley Community Land Trust could be established among the municipalities and the County to provide land for development of affordable units.

City-Owned Land: The benefit of land ownership provides a city the ability to reduce the cost to develop housing units through ground leases or reduced sale price. Most cities have excess land or parcels that are not used at the current time and which could be converted to residential purposes. A Community Land Trust could assist with this endeavor and provide a conduit for producing affordable housing.

City-owned land provides a cost-effective method for producing affordable low-income and workforce housing. These parcels essentially represent a "sunk cost" to the City that can provide a source of funding for housing or other public purposes without an impact on the City budget. However, the process for the sale or lease of City-owned land needs to be carefully crafted and documented to ensure compliance with affordable housing objectives.

Deed Restricted Housing: Deed restricted housing is one of the primary tools in tourist-oriented communities to address affordable housing. In this technique, housing units are reserved by a deed restriction or covenant for the benefit of local employees working at least 30 hours per week. Tenants must also meet income restrictions. Housing units can take the form of for-sale or rental housing. Deed restrictions are one tool for implementing affordable housing mitigation or linkage programs described in this report.

In the case of housing units that are reserved for owner-occupied units, price caps are placed on the resale of the unit with the owner sharing in some of the upside of appreciation of the home. Any subsequent buyers of the deed restricted unit must meet income caps, usually below 120% Area Median Income (AMI), and the unit then remains affordable due to the price caps.

Affordable deed restricted rental units are similarly limited to employees working in the city or region and who qualify under the city's income guidelines. Typically, rental rates are pegged to 60% to 100% of AMI. The deed restriction runs with the land and binds subsequent owners.

Some communities have adopted programs where they purchase deed restrictions from private owners of existing units who voluntarily agree to have their units restricted to certain occupancy standards (referred to as a buy-down program). The owner can use the value of the deed restriction for any use. For instance, the Vail Indeed program targets the purchase of units, primarily condo units, whose occupancy must be reserved by a person working in the area. There are no income qualification requirements. In 2019, 29 deed restrictions were purchased by Vail at an average price of $86,500 per unit ($80.20 per square foot) with a total cost of more than $2.5 million. The calculation of the value of the deed restriction is subject to discretion but based on demand for the unit (related to size and number of bedrooms) and appraisal of the unit's value. Deed restrictions in other communities are estimated to cost between 10% and 15% of the value of the unit.

Despite the fact that deed restriction programs have worked well in some communities, the approach appears costly. Many ski communities have dedicated annual funding sources that provide for continuous purchase of restrictions. Deed restricted housing requires monitoring of the program by the local government to ensure the deed restriction is enforced and reporting requirements are met. Some cities conduct their own monitoring operation, but many depend upon a housing authority or contract with a non-profit to oversee the sale of units and to verify occupants meet the income and employment restrictions.

The City of Flagstaff has had a deed restriction program in place for a number of years. However, they have begun to encounter financing issues for owners and buyers because it is difficult for appraisers to determine the value of the property with the restriction. They are now transferring their deed restricted properties to the City's Community Land Trust.

Another example of a deed restriction program is the City of Sedona's Development Incentives & Guidelines for Affordable Housing (DIGAH) ordinance which contains provisions for deed restricted for-sale and rental properties. The deed restrictions are directed at new development projects that will typically proceed through the rezoning process. The DIGAH provisions are invoked when a property is rezoned. However, although the ordinance has been in place for several years, we do not believe any deed restricted units have been obtained by the City under the DIGAH.

Housing Mitigation and Linkage Programs: These programs vary from city to city but require a new development project to provide housing for some of the employees who will work in the project. These types of programs are also known as "linkage" programs – linking new commercial and residential projects to the provision of affordable housing. Inclusionary zoning, which is not legal in Arizona, is a similar strategy. It is the requirement that real estate developers include below-market-rate units in any new residential projects. Inclusionary zoning is framed as an antidote to exclusionary zoning that has shut low-income households out of expensive neighborhoods and cities.

Mitigation is calculated by formulas in zoning codes or housing policy documents. For instance, in Telluride, mitigation is based on providing housing for 40% of the employees generated by a new commercial project. There are several ways to meet the mitigation requirements:

- By cash payments known as in-lieu payments.
- By constructing deed restricted units as part of a larger project.
- By purchasing existing market-rate units and placing deed restrictions on the units.
- By donating an equivalent value of the mitigation payment in land to the community.

While inclusionary zoning and linkage programs are not legal in Arizona, similar outcomes can be implemented through development agreements that are negotiated during the rezoning of properties or annexation of properties into a community. Flagstaff, for instance, uses zoning approvals to require that a portion of the units in a project are reserved for affordable housing purposes.

Down Payment Loan Assistance Program: Low interest loans or grants are provided to low and moderate income households in the purchase of a home. Program requirements vary widely depending on the housing goals of the community. Typically, there is a match of the buyer's down payment of two to three times up to a maximum, in some instances to $15,000. Loans can be forgiven over time or repaid upon resale, refinancing, or conversion of the unit to rental use. If the assistance is provided in the form of a loan, they usually have a very low 1% to 3% interest rates paid out over 15 to 20 years. The programs target persons making 80% to 120% of AMI and employed within the region. Flagstaff has a down payment assistance program for local residents.

City Employee Assistance Program: Communities with high housing costs often provide loans or grants to city employees to assist in the purchase a home. The programs are operated similar to the Down Payment Loan Assistance Program outlined above but require the employee to work for the city or the loan must be repaid. Flagstaff operates an employee down payment assistance program that forgives the loan over ten years.

Development Incentives: There are a variety of development-related incentives that can be provided by a city in exchange for the development of affordable units. Those incentives may include:

- Increased density to offset the inclusion of affordable units in the project.

- Flexible development standards for the size of the lot, setbacks, etc.
- Waiver of permit fees.
- Reimbursement of development impact fees.
- Expedited review of plans.
- Reduced parking requirements, particularly if a property is located within a certain distance of mass transit.
- Waiver of sales tax on construction of the project.

Resources to Support Production of Affordable Housing: In an environment of growing affordable housing needs and stagnant or declining federal and state resources, local funding becomes a vital element for addressing local needs. The dedication of local funds to affordable housing can often improve a city's competitive position in attracting federal or state funds for housing projects. Dedicated on-going funding sources use by communities to combat affordable housing issues include:

- Retail sales tax
- Property tax
- Transient occupancy or bed tax
- Mitigation or linkage programs
- General Fund allocations
- Sale or Lease Proceeds
- Bond financing

Public-Private Partnerships (PPP): Through PPP, the resources of the city are used to promote the construction of affordable units through partnerships with private developers or non-profit agencies. Creative options may be employed for land purchase, construction, and operational management. For instance, a city could dedicate city-owned land to a project or provide funds to decrease the gap between market rates for housing and rents that are affordable to low and moderate income households.

Many communities, including Flagstaff, contract with non-profit agencies for a variety of services such as monitoring deed restricted units, providing housing counseling, and administering down payment assistance programs. Housing Solutions of Arizona is certified to provide such services throughout Yavapai and Coconino counties.

Direct Affordable Housing Construction: While not typical for most cities, some communities have directly constructed affordable housing units through bond financing and the resources of a housing authority.

Housing Authority: All cities outlined in the case studies analysis depend upon a housing authority to assist with administration of their housing programs. Some authorities were formal county entities while others, such as Summit County in Colorado, are a multijurisdictional combined city-county organization. Some housing authorities are able to work across city boundary lines and formulate regional approaches to affordable housing issues. They also may be able to administer housing vouchers for the lowest income households. However, the formation of a housing authority requires consistent funding and staffing. In some cases, the authorities gain funding from special tax levies (sales tax, property tax, transfer tax, hotel tax). In other cases, the authorities are folded into the normal operations of a city or county and receive funding from the community's or county's general fund.

The Arizona Department of Housing's Arizona Housing Authority acts as the public housing authority for Yavapai County. For the entire County there are only 89 housing vouchers with a currently closed waiting list. There may be benefits for the County to form a housing authority to address the housing issues that permeate the Verde Valley as well as the Prescott/Prescott Valley area. This would be the funding responsibility of the County.

Under Arizona State statutes, cities, towns, and counties are authorized to form housing authorities. The statutes are silent whether several cities/towns can join together to form a regional authority. However, the formation of a housing authority brings with it the need for staffing and on-going funding that may be beyond the resources of the Verde Valley communities.

Alternative Housing Types: A variety of different housing types have come to the forefront in an attempt to address affordability. Rather than focusing on traditional affordable units that depend on restrictive covenants or state or federal programs for financing, innovations in design and construction are focusing on "naturally" affordable units. These concepts depend on lowering costs through smaller unit sizes, economic construction techniques, and flexible zoning standards. Following are a few examples of alternative housing types that are being tested across the country.

- **Accessory Dwelling Units**: ADUs have become popular in recent years as a way to address the lack of affordable housing while providing income to the owner of the property. Most zoning codes permit a guest unit on a residential property, however that unit typically cannot have full kitchen facilities. The only permitted facilities in guest units are a refrigerator and a sink. An ADU, however, is a full secondary housing unit on a single family lot with a separate entrance and a full kitchen which includes a stove or cooking appliance.

A number of high cost and densely populated cities across the country now permit ADUs by right in single family zoning districts in an effort to expand affordable units. In these situations, ADUs can take the form of a detached tiny home, a unit built above a garage, an addition to a home, or conversion of a basement to a unit. Promoters of ADUs suggest that they can help seniors to age in place, provide housing for a wide range of households, and reduce sprawl through infill.

ADUs present a unique problem in tourist-oriented communities. Instead of increasing the supply of affordable housing, ADUs may become short-term rentals, doing little to expand affordable housing opportunities. Some ski resort towns have recognized this issue and require, as approval of a building permit, that the unit is deed restricted for low and moderate income employees in the community. The ADU may not be separately deeded or sold from the original property and must remain under single ownership with the primary unit.

- **Micro Units and Co-Living**: Micro units are one-person apartments that are smaller than traditional studio units. Generally about 300 square feet in size, they are slightly larger than a typical hotel room but include a full kitchen. Micro units can also be combined into a congregate facility that offers sleeping rooms with shared amenities also known as co-living. Co-living is a concept that can take a couple of forms including the clustering of private homes around a shared space or within an apartment or condo building. As an apartment concept, it is popular on college campuses. Units are designed with a common living and kitchen area with anywhere from two to four connecting bedroom units that can be locked-off. Each occupant signs an individual lease. These types of units would be especially attractive to seasonal or single employees in tourist communities due to affordability, flexibility, and amenities while providing a sense of community for the residents.

- **Tiny Homes**: These single family units are typically less than 500 square feet in size and can be built with wheels or on a foundation. If on a foundation, they could serve as an

ADU on a single family lot. If they are built on wheels, the unit may need to be registered as an RV which could limit their use in single family zoning districts.

Tiny homes have become popular for those persons looking to downsize or those needing an affordable residence. Zoning and building codes can pose a barrier to development in some communities if minimum room sizes or total size of a unit are mandated in an ordinance.

Tiny homes have been built in Arizona to address housing affordability. In Vail, Arizona southeast of Tucson, the Vail School District has used tiny homes as a recruitment and teacher retention program. With no apartments in the District and home values at $300,000 and more, teachers need to commute from Tucson where prices are more affordable and rental units are available. The School District decided to use a vacant 14-acre District-owned site to build 24 tiny homes. The District invested $200,000 in the site for infrastructure improvements and leases the land to each tiny home for $125 per month including utilities and internet. The 400 square foot homes are either sold for $60,000 to $70,000 or rented for $700 per month including the land rent. Rented homes are also owned by local investors interested in helping the school district.

The City of Tempe is experimenting with a tiny home complex known as Tempe Micro Estates that embodies the co-living concept. Located in a single family neighborhood, the City has partnered with Newtown Community Development Corporation to build thirteen 600 square foot tiny homes (one bedroom loft units). The units are built on land owned by a Community Land Trust. The site features a 900-square foot common room with a kitchen and laundry near the front of the property providing a place to gather, share meals, and interact with neighbors. Homes are priced at $210,000 but are available for as low as $170,000 with subsidy available for qualifying households. Land lease and HOA fees are estimated at $135 per month.

Homes are only available to first-time home buyers with incomes lower than 80% or up to 120% of AMI. An AMI of 80% in Tempe is $41,000 for a single person and $46,000 for a couple. Home prices are estimated to be $160,000 to $180,000 for 80% AMI buyers and $195,000 to $215,000 for 80% to 120% AMI buyers. By comparison, the Zillow home value index notes that the median list price of homes in Tempe is $315,000. The site plan for Tempe Micro Estates follows.

Site Plan for Tempe Micro Estates

Homes Surround Central Courtyard

Annexation Policies: Some resort towns require as approval of annexation of property into the town that a percentage of the housing units located on the property be deed restricted for affordable housing purposes. Some of the Verde Valley communities that can annex additional land may wish to consider this option as part of any future expansions of the City.

Government Property Lease Excise Tax (GPLET):
In 1996, the Legislature passed laws to allow Arizona's cities, towns, counties, and county stadium districts (government lessors) to lease property they own to private parties (lessees) for nongovernmental use. In addition, the government lessors can enter into agreements with lessees to develop unused or underutilized property to help revitalize a community. Because the property is owned by the government, it is exempt from paying property taxes, and instead the GPLET is assessed and distributed to jurisdictions.

In 2010, the Legislature amended the GPLET laws to: (1) increase the GPLET rates for new leases entered into on or after June 1, 2010, (2) limit lease terms, and (3) eliminate the ability to reduce payments over time. Additionally, the changes in law required the Arizona Department of Revenue to annually adjust the GPLET rates based on inflation and establish new reporting requirements to improve accountability and transparency. In 2017, the Legislature enacted additional changes to the statutes which revised the reporting requirements by counties and the Arizona Department of Revenue.

The GPLET is essentially a redevelopment tool to initiate development by reducing a project's operating costs by replacing the real property tax with an excise tax. The excise tax is established for the building type of use and is calculated on the gross square footage of the building. The use of the excise tax cannot continue for more than twenty-five years and requires that the land and improvements are conveyed to a government entity and leased back for private use. The excise tax rate can be abated for the first eight years after a certificate of occupancy on the building is issued if the property is located within a Central Business District and a Redevelopment Area. This requires designation of the Redevelopment Area as a slum and blighted area.

Many cities across the state have used the GPLET as one of their primary redevelopment tools. The changes to the GPLET statutes were instituted due to complaints from school districts that they were not receiving property tax revenue from new development. The GPLET excise tax for residential uses in FY 2020 is $.90 per square foot of building area and is subject to inflation increases each year. This GPLET rate may be too high to effectively reduce property taxes for some properties.

A variety of states and cities across the country have used tax abatement to reduce operating expenses for apartments. Some of the abatement programs are situated in high property tax states where taxes represent a significant operating cost. Generally, Arizona is considered a low-cost property tax state. However, a direct property tax abatement program instituted by cities in Arizona is likely not legal unless under the provisions of the GPLET. Alternatively, through a development agreement, a city could provide a subsidy to an affordable housing complex that is equal to the project’s property tax as a way of reducing operating costs.

An alternative to the GPLET and the effort to reduce property tax payment is partnering with a nonprofit for ownership of affordable rental units or forming a Community Land Trust that would own the land. While the improvements on the CLT land are subject to property taxes, the value of the units should be reduced by the county assessor due to the deed restrictions that significantly reduce the property’s marketability and profitability.

3.0 Public Affordable Housing Resources

This portion of the report outlines available public programs and resources to develop affordable housing in the Verde Valley. These resources flow from federal and state programs and generally target the lowest income households. For cities outside of Arizona's urban areas, there are few programs available to support and develop affordable housing in Arizona. Funding is often limited and the competition for funds is fierce. Two major resources of housing assistance administered by the State of Arizona are the Low Income Housing Tax Credit (LIHTC) and Private Activity Bonds (PABs) administered by the Arizona Finance Authority (AFA.) Both of these funding sources are governed by the annual Qualified Allocation Plan developed by the Arizona Department of Housing (ADOH.)

Low Income Housing Tax Credit Program (LIHTC): This program was created by Congress in 1986, became permanent in 1993, and is an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing. The program is administered by the Internal Revenue Service and is often referred to as "Section 42" which corresponds to the section of the Internal Revenue Code that governs this program.

The LIHTC gives investors a dollar-for-dollar reduction in their federal tax liability in exchange for providing financing to develop affordable rental housing. Investors' equity contribution subsidizes low-income housing development, thus allowing some units to rent at below-market rates. In return, investors receive tax credits paid in annual allotments, generally over 10 years.

Financed projects must meet eligibility requirements for at least 30 years after project completion. In other words, owners must keep the units' rent restricted and available to low-income tenants. At the end of the period, the properties remain under the control of the owner.

Since the program began in 1987, the State of Arizona has awarded LIHTC allocations via a competitive program annually. From awards made in 1987 through 2019, nearly $260M in credits have been awarded and 16,849 units have been built throughout Arizona.

Annually the Arizona Department of Housing (ADOH) writes a Qualified Allocation Plan (QAP) to provide guidance and direction for the qualifications and distributions of tax credits. Projects are scored and ranked based on their location, households served and other criteria. In 2019, slightly more than $19 million in tax credits were awarded by ADOH which resulted in 879 affordable housing units planned for construction in Arizona. ADOH received credit requests in 2020 of nearly $38 million for 1,746 units. Projects awarded reservations total 967 units and $20.6 million in tax credits. Only one project in northern Arizona was awarded a reservation – a 70-unit senior complex in Flagstaff.

Individuals and families that rent LIHTC units cannot make more than 60% of area median income. Some developments may include units that are affordable to persons earning 30% of AMI, but usually those units require additional rental subsidy to be viable. Each development must specify the number of units per income strata for which they will be providing housing. Developers are allowed to have multiple income limits per development and each year ADOH specifies income guidelines that delineate the percentage of units by income strata. Usually, the greater the percentage of lower income units, the higher the score an applicant receives on their application.

Table 1

LIHTC Allowable Rents Based on Bedroom Size

Yavapai County

% AMI	0 Bdrm	1 Bdrm	2 Bdrm	3 Bdrm	4 Bdrm	5 Bdrm
60%	$679	$727	$873	$1,008	$1,125	$1,241
50%	$566	$606	$727	$840	$937	$1,034
40%	$453	$485	$582	$672	$750	$827
30%	$339	$363	$436	$504	$562	$620
20%	$226	$242	$291	$336	$375	$413

Coconino County

% AMI	0 Bdrm	1 Bdrm	2 Bdrm	3 Bdrm	4 Bdrm	5 Bdrm
60%	$790	$846	$1,015	$1,173	$1,309	$1,444
50%	$658	$705	$846	$978	$1,091	$1,203
40%	$527	$564	$677	$782	$873	$963
30%	$395	$423	$507	$586	$654	$722
20%	$263	$282	$338	$391	$436	$481

Source: AZ DOH

Cottonwood has seen the construction of five LIHTC complexes since 1994 totaling 307 units. Those complexes include Mingus Pointe (1994) & (1996), Verde Vista Apartments (1996), Aspen Ridge (2003), and Highland Square Senior Apartments (2013). Courtside Apartments is no longer an affordable complex. In addition, there are several USDA financed complexes throughout the Verde Valley that also provide housing for low and moderate income households.

Camp Verde has had one LIHTC complex of 59 units built in 2003 (other than Native American LIHTC housing projects). The project is located at 300 Cliffs Parkway. A small USDA complex known as Arnold Terrace with 24 units is also situated within the community.

Only one LIHTC development has been built in the Sedona area in the Village of Oak Creek using LIHTC since the inception of the program. In 1989, Pine Creek Villas located at 35 Slide Rock Road was awarded tax credits for 24, one bedroom, one bath units for adults aged 55 and older. It was built in 1990. The Tax Credits that were awarded for this development only had a period of 15 years of affordability, so these units are no longer required to provide housing that is affordable. Currently, apartments at this complex are renting for $880 per unit according to an ad in the Red Rock News of June 10, 2020.

Table 2

Affordable Housing Complexes
Verde Valley

Year	Project Name	Address	City	LI Units	Population	Financing	Affordable
2001	LIHTC Camp Verde	300 Cliffs Parkway	Camp Verde	59	Family	LIHTC	Yes
n/a	Arnold Terrace Apartments	274 S Arnold Terrace	Camp Verde	24	Family	USDA	Yes
1976	Verde Valley Manor	3400 E Godard Rd	Cottonwood	224	Elderly	USDA	Yes
1983	Verde Plaza	195 S. 7th St	Cottonwood	52	Family	USDA	Yes
1994	Mingus Pointe Apartments	101 South 6th Street	Cottonwood	36	Family	USDA	Yes
1996	Courtside Apartments	220 South 6th Street	Cottonwood	44	Family	LIHTC	No
1996	Verde Vista Apartments	1720 E. Elm Street	Cottonwood	72	Family	LIHTC	Yes
2003	Aspen Ridge Apartments	831 East Mingus Avenue	Cottonwood	95	Family	LIHTC	Yes
2002	Christian Care Center	859 S. 12th St.	Cottonwood	n/a	Elderly	HUD Sec. 202	Yes
2014	Highland Square Senior Apartments	299 W. Mingus Avenue	Cottonwood	60	Elderly	LIHTC & USDA	Yes
1989	Pine Creek Villas	35 Slide Rock Road	Oak Creek	24	Elderly	LIHTC	No

Sources: Socialserve, AZ DOH, USDA

Private Activity Bonds (PABs): The Arizona Finance Authority (AFA) is a state-run agency that administers Private Activity Bonds that provide special financing benefits for state and local government projects. Each state receives a volume cap from the Federal government based upon the population of the state. In 2020, Arizona's allocation was $764,265,285 and those bonds must be used to fund housing, student loans, manufacturing facilities, and other allowable activities. In 2020, Arizona has the following allocations of PABs.

Table 3

Arizona Finance Authority 2020 Allocations		
Percent	**Allocation**	**Eligible Activities**
35%	$267,492,849	Mortgage Credit Certificates/Mortgage Revenue Bonds
15%	$114,639,792	Residential Rental
5%	$38,213,264	Student Loans
5%	$38,213,264	Manufacturing Projects
10%	$76,426,528	Other
30%	$229,279,585	Director's Discretion
100%	**$764,265,285**	**TOTALS**

The Arizona Finance Authority (AFA) allocates 50% of Private Activity Bonds for residential rental housing and financial assistance for homebuyers. Despite the high allocation of funds for housing, in Arizona the funds are ultimately not used in accordance with the above percentages. The amount of funds for each eligible activity (volume cap) is reserved on a first come, first served basis through March 31. If at that time, funds have not been reserved or fully allocated, the funds are pooled and are available upon a first come, first serve basis to any eligible project. Following is a description of the programs that might benefit the Verde Valley.

- **Residential Rental Housing**: Tax credits are used as a funding source for rental housing projects. The income levels for residential housing associated with (PABs) is the same as the LIHTC program except for a couple of differences. The tax credits available under the PAB program are 4% rather than 9% under the LIHTC program. In addition, financing is provided for rental complexes that have 20 percent of the units affordable for persons earning 50% AMI or 40% of the units affordable for persons earning 60% AMI. The remainder of the rental units are market rate rents. Sometimes this financial formula is more accepted by local communities because the project is mixed-income with a majority of the apartments at market rate rents.

  Developers in Cottonwood partnered with the Immaculate Conception Parish to build apartments for low and moderate income seniors and a priest rectory using Private Activity Bonds. In 2016, $35M was allocated to this development. According to a City of Cottonwood Planning and Zoning meeting of October 18, 2018 an extension to complete approvals for a Conditional Use Permit to construct a multi-story building was held. As of the date of this report, the building has not been constructed.

Entities that have experience with PAB residential housing development are well versed in complicated financing. PAB will be a significant portion of the funding stack of a project (perhaps 40%) so additional sources will be needed to obtain the total financing for the development. Other sources that are often used are LIHTC, Federal Home Loan Bank Affordable Housing Program, and LISC financing.

In 2020, the 15% percent set aside for residential rental properties is more than $114 million. In 2019, only $35.6M was awarded for three multi-family residential housing developments. Requests for funding are historically less than the approved funding levels.

- **Home Ownership**: Private Activity Bonds can also be used to aid low- and moderate-income families/individuals purchase a home. The largest set aside of funding within the Arizona Finance Authority is for **Mortgage Revenue Bonds (MRB)** and **Mortgage Credit Certificates (MCC).** This category has been underutilized since 2008 when the mortgage market collapsed, and the mechanisms used to implement the program were no longer viable. However, this funding source for affordable housing continues to be made available.

  MRBs are issued by a finance authority or industrial development authority for borrowers who are low-and moderate-income buyers to purchase their first home. These loans are below market rate, thereby allowing the borrower to qualify for a larger loan but still within affordable housing guidelines that limit housing expenses to 30 percent of income. The finance authority sells the bonds to investors on a tax-free basis. The MRB funding mechanism is complex, but could be a continuous, non-competitive financing mechanism. Housing finance specialists such at Gene Slater of CSG Advisors in San Francisco may be able to assist the Verde Valley in tapping into the program.

  The Home+Plus Home Buyer Down Payment Assistance Program is administered by the Arizona Industrial Development Authority (AZ IDA), a nonprofit corporation and political subdivision of the State of Arizona. The program offers a pathway to homeownership by giving creditworthy renter who can qualify for a mortgage, but cannot afford the down payment and/or closing costs, the funds to move forward.

  Home+Plus provides a 30-year fixed-rate mortgage combined with down payment assistance (DPA) ranging from 0% to 5% depending upon the new underlying first mortgage. The DPA can be used toward the down payment, closing costs, or a combination of the two. The DPA is only available in conjunction with a Home+Plus mortgage. The program is available in all counties in Arizona. Borrower's annual income may not exceed $109,965 and they must complete a home buyer education course. Reduced mortgage insurance premiums are available on conventional mortgages. Borrowers must have minimum credit score of 640 or higher. Approved participating lenders assist home buyers to obtain a program qualifying mortgage and register the buyer for Home+Plus assistance.

Mortgage Credit Certificates are a tool used to reduce the cost of housing. However, MCCs do not reduce the interest of the loan. Rather they affect the tax liabilities of the homeowner by converting a portion of the mortgage interest paid into a federal tax credit. Homeowners can receive a maximum tax reduction of $2,000 per year in federal tax liabilities. Credits in excess of the current year tax liability may be carried forward for use in the subsequent three years. The remaining interest obligation may be deducted (by those who itemize deductions) as a standard home mortgage interest deduction. MCCs are not exclusively reserved for first time homebuyers, but if the buyer is not a first-time buyer, the home must be located in an area that is designated as economically distressed.

During 2019, approximately $69 million was reserved by the City of Tucson and Pima County for MRBs and MCCs. In 2018, only $18.5 million was spent on this program. No assistance programs were funded for MRBs and MCCs in 2017.

Private Activity Bonds are not typically used to construct or rehabilitate affordable housing. Because the statute allows usage of the funds for other eligible uses, funds that could be used to build housing are diverted. In 2019, slightly less than $55 million was allocated for rental housing. Other eligible activities were funded with the housing allocation including a portion of $600 million to Intel for a new campus in December 2019.

Both LIHTC and PAB financing are complicated programs and working with a veteran housing developer is highly recommended. Two entities have been identified that have experience in both LIHTC and PAB financing. Dominium and Gorman development companies have expressed interest in working in the area. Both companies have decades of experience in working with complex financing and have partnered with other entities in their work.

Community Development Block Grant (CDBG) Program: The Arizona Department of Housing, distributes CDBG funds for rural Arizona. Funds that are available to be used in the Verde Valley are administered by the Northern Arizona Council of Government (NACOG.) Within NACOG, cities are eligible for funding on a rotating basis. This allows communities to identify projects in advance that are eligible for CDBG funds. It also provides a larger block of funding to undertake projects. The entitlement schedule for cities and towns in Yavapai County is:

- 2019 City of Cottonwood, City of Sedona, Town of Dewey-Humboldt
- 2020 Town of Prescott Valley and Town of Jerome
- 2021 Yavapai County
- 2022 Town of Camp Verde, Town of Chino Valley, Town of Clarkdale

WISH Program: The Workforce Initiative Subsidy for Homeownership Program is administered by the Federal Home Loan Bank of San Francisco. The Bank sets aside a portion of its affordable housing program contribution to provide matching grants through bank members for down payment and closing cost assistance to eligible first-time homebuyers. The program is funded in April each year and obligated on a first-come, first-serve basis. Funds are often depleted by September each year, so the program is not available year-round.

The program provides up to $22,000 for each participating household matching up to $4 for each $1 contributed by the homebuyer. Other funds are available based on program eligibility. To be eligible for the WISH program, the homebuyer must be enrolled in the program by a participating bank and complete a counseling program. Homebuyers must be at or below 80% of the area median income. The down payment contribution may include sweat equity. A homebuyer must open escrow on a home within one year of enrollment in the WISH program.

USDA Loan Programs: The U.S. Department of Agriculture offers a variety of loan programs that provide financing for the development of affordable rental housing as well as loans for homeownership. There are two loan options for homeownership in the non-urban areas of Arizona: the Guaranteed Loan and the Direct Loan. The primary difference in the two programs is who funds the loan. With the more popular guaranteed loan, a USDA-approved lender issues the loan. With the direct loan, the USDA issues the loan and provides payment assistance in the form of a subsidy. In this situation, the homebuyers must not have access to safe and sanitary housing, be unable to obtain financing elsewhere, and have an income between 50% and 80% of AMI. In Arizona, a household with one to four members must have an income less than $50,100. The home to be purchased cannot be larger than 2,000 square feet in size.

The guaranteed program, on the other hand, can provide a loan for a family of four making up to 115% of AMI or $90,300. A 0% down payment option is available with no private mortgage insurance. Mortgage Credit Certificates can be combined with the loan.

The multifamily loan guarantee program works with qualified private-sector lenders to provide financing to qualified borrowers to increase the supply of affordable rental housing for low- and moderate-income individuals and families. Eligible borrowers include:

- Most state and local governmental entities
- Nonprofit organizations
- For-profit organizations, including LLC's
- Federally recognized Tribes

Rent for individual units is capped at 30% of 115% of area median income and the average rent for an entire project (including tenant paid utilities) cannot exceed 30% of 100% of area medium income, adjusted for family size. Complexes must consist of at least five units but may contain units that are detached, semi-detached, row houses or multi-family structures. Funding may be used for:

- Construction, improvement and purchase of multi-family rental housing
- Buying and improving land
- Providing necessary infrastructure

The USDA offers guarantees of up to 90% of the loan amount. For-profit entities may borrow up to 90% and non-profit entities may borrow up to 97% of the total development cost or appraised value, whichever is less. The minimum term of the loan guarantee is 25 years with a maximum term of 40 years.

USDA loans are not available in the major urban areas of the state including the Greater Phoenix and Tucson areas, Prescott, Yuma, Lake Havasu, Bullhead City, and Flagstaff.

Housing Solutions of Northern Arizona (HSNA): Housing Solutions of Northern Arizona is a HUD certified Housing Counseling Agency that provides a variety of housing services to Yavapai, Coconino, and Mohave counties. Following are the services provided by the agency.

- **Pre-purchase housing counseling & online homebuyer education**: Pre-purchase housing counseling helps potential first-time homebuyers to understand the home-purchase process and overcome potential barriers to homeownership, including poor credit, high debt and lack of financial resources to pay the up-front costs of homeownership. HSNA Housing Counselors share all HUD-required pre-purchase housing counseling elements including fair housing, the importance of a home inspection, financial analysis, and what's affordable for the household given household income and debts. The homebuyer education course is offered conveniently online in both English and Spanish.

- **Financial literacy counseling:** Housing Counselors can pull tri-merge credit reports with scores and help clients understand their credit reports and how to improve or repair credit. Financial literacy counseling includes goal setting, budgeting, and credit evaluation.

- **Foreclosure counseling**: HSNA HUD-certified counselors can help clients negotiate with their mortgage services to see if they would qualify for a mortgage modification or forbearance. Eligibility is determined for the state's Save our Home AZ program, which provides financial assistance to help households maintain homeownership.

- **WISH Program**: HSNA administers the WISH down payment/closing cost assistance program for residents of Coconino, Yavapai and Mohave counties. WISH down payment assistance up to $22,000 is provided on a first-come, first-served basis, as funding is available, to households earning less than 80% of the area median income.

- **Community-Funded Down Payment/Closing Cost Assistance**: HSNA administers a down payment/closing cost assistance program funded by Flagstaff. Housing counseling is combined with loan administration. HSNA markets the program to the community, determines household eligibility, administers funds, and creates loan documents for the program and work with lenders, title companies, etc. on loan funding and document execution.

- **Employer-Assisted Housing programs:** HSNA works with the City of Flagstaff and Coconino County to administer their employer assisted housing programs. HSNA has the capacity to work with additional employers to administer housing assistance funds to their employees, making homeownership a reality. HSMA can design the program, create outreach and marketing materials, prepare loan documents, administer funds, determining eligibility, and provide funding to the title company at closing.

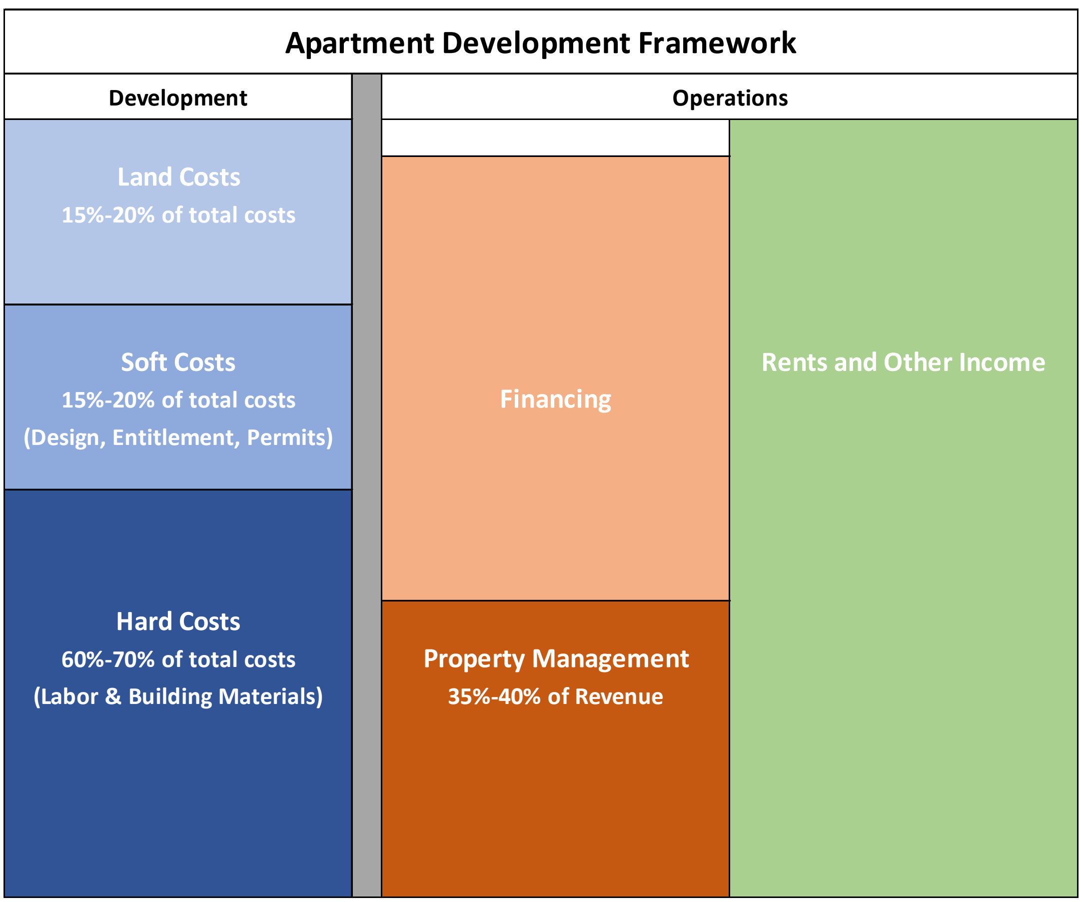
- **Rental Housing Development**: HSNA works with for-profit and non-profit developers on the creation of affordable rental housing units, utilizing LIHTC or HOME funds.

- **USDA Loan Programs**: HSNA is approved to package U.S. Department of Agriculture direct loans for low-income homebuyers. The organization determines eligibility for low-income buyers and helps navigate the USDA 502 Direct Loan Program.

4.0 Application of Tool Kit to Affordable Apartment Complex Development & Operations

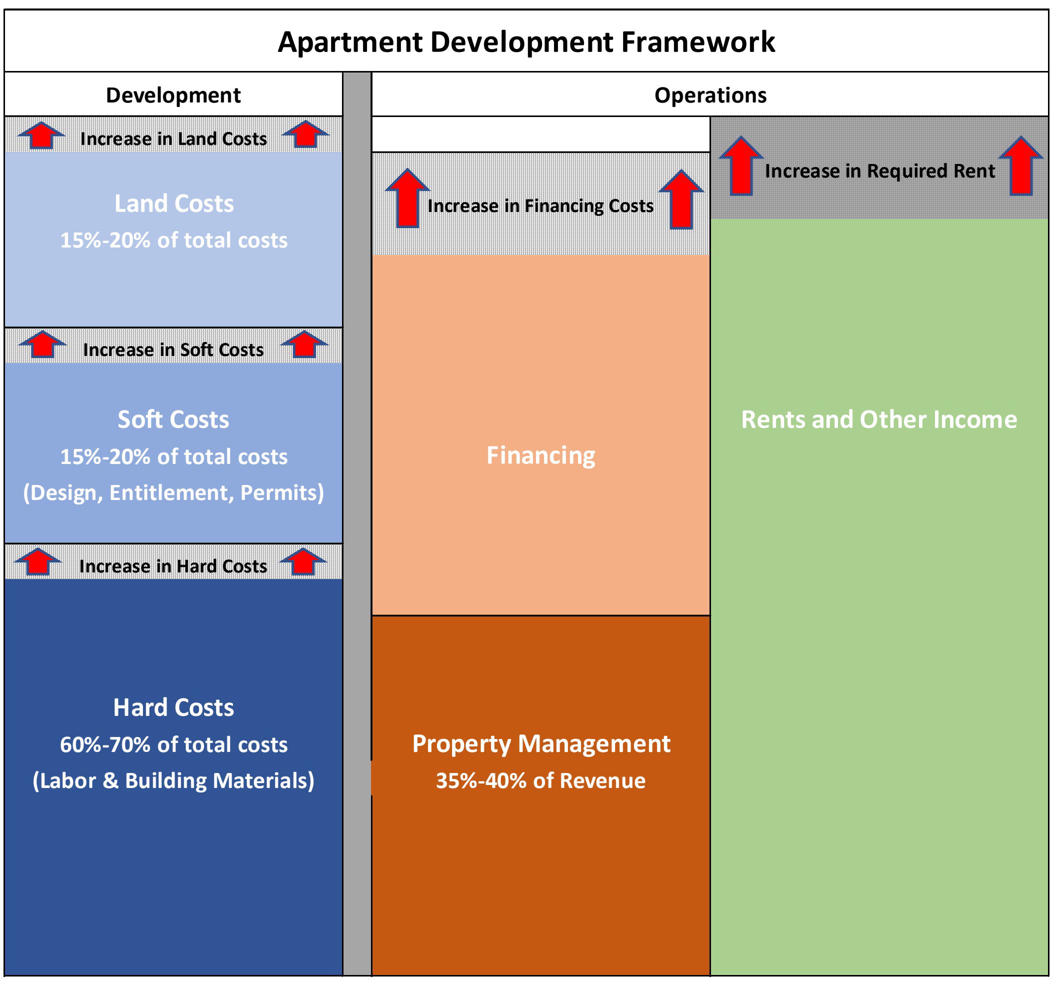
The following charts provide an overview of the costs associated with the development and operation of an affordable apartment complex and how affordable housing tools can affect those costs and revenues. Some of the charts have been adapted from the National Multifamily Housing Council's report The Housing Affordability Tool Kit.

The following chart is a simplified representation of the relationship between apartment development costs and rents. Land costs are typically a function of the market and vary widely depending on location and community. Soft costs are dependent on the city in which the complex is located. Design requirements, the entitlement process, fees, and permitting vary from city to city, ultimately affecting soft costs. Construction costs are market driven depending on demand for contractors, shortages of materials, permitting activity, inflation, and similar factors. Development costs, however, can also be affected by land use and development requirements of the community in which the property is located.



Financing is the key to development of an apartment complex since it pays for most of the cost of construction. Owner equity is another component that typically ranges from 20% to 30% of total construction cost and predevelopment expenses. Property management on most apartment complexes accounts on average for about 40% of revenue. Rent is a function of generating enough revenue to cover operating expenses and financing cost and providing a return on equity to the owner.

The higher the land cost, soft costs, and construction cost for an apartment complex, the greater the need for financing which pays for those costs in addition to owner equity. As costs increase, rent will need to increase as well. For instance, an extended entitlement process will delay bringing a complex to market and could require an additional equity infusion or a higher loan amount. Land costs can be affected by new zoning regulations and construction costs will increase if a community requires excessive infrastructure improvements. All these factors potentially lead to higher rents and a smaller pool of prospective renters.



Apartment Development Tool Kit

The tools outlined in the Tool Kit can assist with affecting both development and operating costs of an affordable complex. For instance, a variety of tools can impact land costs including community land trusts and the use of city of owned land. Density bonuses, an important tool for promoting the inclusion of affordable units in a complex, effectively lowers the cost of land on a per unit basis. In order to close the gap between market rate rents and affordable rents, community subsidies for land costs can have a similar impact.

Soft costs for an apartment complex can be reduced by the waiver of city fees and charges as well as expedited review of building plans which can result in getting the property to market in a shorter period of time (effectively reducing financing costs). Flexible or streamlined development requirements can also lead to shorter entitlement periods.

Apartment Development	
Costs of Development	**Tools**
Land Costs **15%-20% of total costs**	Community Land Trust Land Banks Use of City-owned land Density bonuses Zoning/General Plan policies City contribution to lower private land costs (Gap financing)
Soft Costs **15%-20% of total costs** **(Design, Entitlement, Permits)**	Waiver of permit fees Waiver/reimbursement of development fees Expedited review of plans Flexible design standards Streamlining of development requirements & processes Apartment development by-right
Hard Costs **60%-70% of total costs** **(Labor & Building Materials)**	Waiver of construction sales tax Consistency in Building Codes Reduced parking requirements City assistance with infrastructure improvements Direct capital funding of development costs (Gap financing) Partnerships with private developers & non-profits

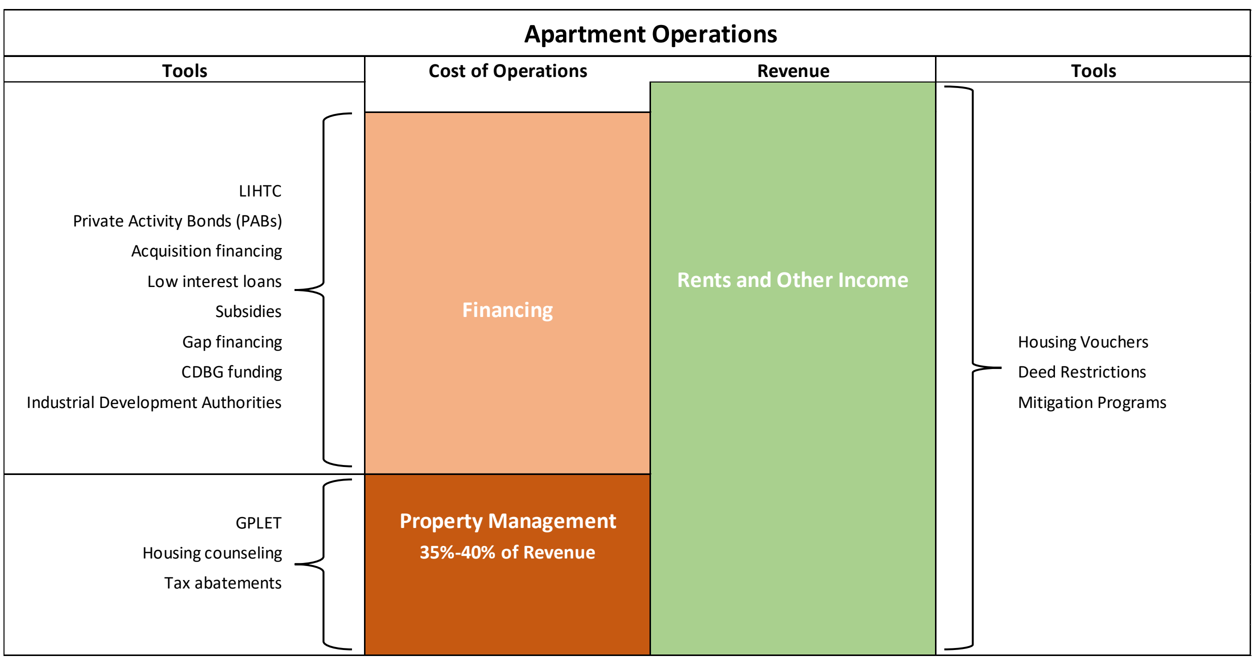
Construction costs can be impacted by both monetary approaches as well as partnerships with private developers and non-profit organizations. The waiver of sales taxes charged on the construction of a project could have a significant effect. The contracting sales tax in the Verde Valley ranges from 3.00% in Jerome to 4.50% in Clarkdale and Cottonwood. The tax is charged on the materials used in the construction of a complex (materials represent 65% of total construction cost). For a $10 million construction cost, the savings to a developer would range from $195,000 to $292,500 depending on the community. This represents between 2.0% and 2.9% of total construction cost. The reduction of parking requirements where a property is near mass transit would also reduce costs. And in some cases, the city could assist with the cost of off-site improvements that may be required for the project.

Apartment Operations Tool Kit

From an apartment operations perspective, government financing programs such as the LIHTC program and Private Activity Bonds may prove impactful. Financing sources that may be implemented at the city level include subsidies, low interest loans, and gap financing. Industrial development authorities are able to provide below-market financing for qualified projects.

Property management expenses can be reduced by tax abatements, particularly using GPLET provisions. Housing counseling available from non-profit organizations can assist residents with budgeting and understanding the leasing process, thereby reducing non-payment of rent and ultimately vacancy rates in the complex.

On the rental income side of operations, housing voucher programs are available in some jurisdictions that allow a resident to pay 30% of their income on rent with the voucher paying for the remainder of the market rent. Once again, deed restrictions on rental properties are an important tool for maintaining affordable rents over the long term.



Summary

The Tool Kit outlined herein can affect all aspects of the affordable housing market, from development through operations. The Apartment Development Framework provides an illustration of the components of apartment development and operations and where those tools might best be employed.

5.0 Recommendations on Tools & Approaches for Verde Valley

The following recommendations are intended to provide a roadmap of potential actions and strategies that can be taken in the Verde Valley to address a regional approach to affordable housing. The recommendations focus on evaluation of existing zoning regulations in the Verde Valley municipalities and the County as well as tools that may be appropriate for future implementation.

5.1 Zoning and Planning

Zoning regulations and General Plans are essential to promoting affordable housing. One of the key factors that will assist with the development of affordable units is an appropriate level of density permitted under a zoning code to foster multifamily complexes. Higher densities assist in reducing the cost per housing unit for land and development. The following table outlines the current density allowances for the jurisdictions in the Verde Valley.

Only two communities allow densities that will promote conventional multifamily development: Cottonwood and Sedona. The minimum density permitted under zoning should be at least 18 to 20 units per acre. The County and the remaining towns have maximum densities of 14.5 units per acre. Jerome only permits two-family dwellings, a result of its topographic constraints.

Sedona has several multifamily zoning districts that can accommodate a range of housing products up to 20 units per acre. In addition, the city has adopted the Design Incentives and Guidelines for Affordable Housing (DIGAH) that requires developers to include affordable housing units in a development project or to contribute in-lieu funds that can be used to develop those units in the future. The DIGAH is a sophisticated regulation that is found in many tourist-dominated, housing-constrained communities. With some modification, it could be a model that is replicated for other Verde Valley communities.

All communities in the Verde Valley have a Housing Element in their General Plans, even though they are not required to have one due their small population level. The County does not have a Housing Element in its Comprehensive Plan. The 2014 Cottonwood General Plan has a lengthy and advanced Housing Element that addresses issues and resources. Most Plans are reaching the age at which they need to be updated. We understand the Clarkdale General Plan is in the process on being updated.

Overall, the zoning codes of several of the Verde Valley jurisdictions and the County should be updated to permit higher density multifamily development.

Table 4

Zoning & General Plan Summary
Verde Valley Communities

Jurisdiction	Multifamily Zoning	General Plan
Camp Verde	R-2 District	2016 General Plan includes a Housing Element.
	Density permitted: Unspecified	Affordable housing policies/goals not addressed.
Clarkdale	R-3 District	2012 General Plan has a Housing Element.
	14.5 units/acre maximum	Affordability is addressed in the Plan.
		The 2022 Plan update will also include a Housing Element.
Cottonwood	R-3 and R-4 Districts	2014 General Plan has a sophistocated Housing Element.
	29 units/acre maximum	Affordablility is a significant part of the Housing Element.
Jerome	R-2 District only permits single & two-family dwellings	2018 General Plan addresses STRs, encourages affordable housing.
Sedona	RM-1 zone: 8 units per acre	2014 General Plan has a Housing Element.
	RM-2 zone: 12 units per acre	No particular policies on Affordable Housing.
	RM-3 zone: 20 units per acre	
	Design Incentives & Guidelines for Affordable Housing (DIGAH)	
Yavapai County	Density of 14.5 units/acre maximum	2012 Comprehensive Plan does not have a Housing Element.

5.2 Recommended Tool Kit Elements

Several tools or resources outlined in the Tool Kit may prove useful in addressing affordable housing in the Verde Valley. The most important tools are as follows.

Community Land Trust (CLT): CLTs have become one of the most popular local government techniques to address affordable housing. The CLT holds title to the land and leases the property to a homeowner or developer for 99 years at a nominal rate, reducing the cost of the entire land and improvements by 15% to 25%. The City of Flagstaff now uses a CLT as one of its primary tools, acquiring land through donations from developers. City owned land can also be transferred to a CLT.

A Verde Valley Community Land Trust could be established among the municipalities and the County as a regional entity to provide land for development of affordable units. Land could be contributed to the trust from local jurisdictions (city or town-owned parcels). Property can also be transferred to a trust as part of a new development project. A Verde Valley CLT could provide the initial structure or organization that local communities need to bring everyone together in a common effort.

City-Owned Land: Most cities have excess land or parcels that are not used at the current time and which could be converted to residential purposes. This is a cost-effective way to generate land for housing without an impact on a city's budget. In combination with a CLT, excess land can be an important element of addressing housing affordability.

Deed Restricted Housing: Deed restricted housing is one of the primary tools used in tourist-oriented communities to address affordable housing. The deed restriction ensures that housing units will be reserved for the benefit of local employees working in the area. Price appreciation caps are also placed on any subsequent unit sales to ensure long term affordability.

Despite the fact that deed restriction programs have worked well in some communities, the approach is costly. Deed restricted housing programs also require staffing to monitor the program to ensure restrictions are enforced. Due to problems with the financing of deed restricted properties, the City of Flagstaff has begun to phase out their program and are transferring their deed restricted properties to the City's Community Land Trust.

For these reasons, a deed restricted housing program is probably not viable for the Verde Valley. Based on the experiences of cities such as Flagstaff, there are probably better options that are less staff intensive and less costly in the long run.

Development Incentives: Incentives should be incorporated into zoning ordinances to assist with the development of affordable units. Those incentives may include:

- Density incentives to offset the inclusion of affordable units in the project.
- Flexible development standards for the size of the lot, setbacks, etc.
- Adjustments to building design standards.
- Waiver of permit fees (building fees, plan review fees, etc.).

- Reimbursement of development impact fees (impact fees cannot be waived but could be paid by the city).
- Expedited review of plans.
- Reduced parking requirements, particularly if a property is located within a certain distance of mass transit.
- Waiver of sales tax on construction of the project.

Promoting Alternative Housing Types: Accessory Dwelling Units (ADUs) have become popular in recent years as a way to address the lack of affordable housing. Cities across the country now permit ADUs by right in single family zoning districts in an effort to expand affordable units. However, in in tourist-oriented communities, ADUs often end up as short-term rentals. Deed restrictions negotiated at the time of building permit approval can prohibit the use of ADUs as a short-term rental as well as requiring that the unit remain under single ownership with the primary unit. This may be an avenue for local communities to consider.

Affordable Housing Policies: Flagstaff and Sedona have adopted sophisticated policies and zoning provisions that require the provision of affordable units at the time of rezoning of a development site or annexation of property. Sedona's DIGAH is an example of such a policy. It is used during the rezoning process and has been successful in producing affordable units and the collection of in-lieu fees. The policies must ensure that any affordable units developed as part of a project remain affordable for the long term.

Staffing & Funding

The hiring of staff who can devote their full time to the affordable housing issue is essential to the production of new housing options. This can be accomplished by joint funding of staff by the local communities and County. The staff should be charged with:

- Administration of a regional housing entity, should one be formed.
- Preparing an overall strategy for addressing regional affordable housing needs.
- Developing policies and ordinances that can be used by local communities to address the development of affordable units.
- Marketing housing sites to low and moderate income housing developers.

Housing Solutions of Northern Arizona is authorized to provide a variety of housing services to Yavapai, Coconino, and Mohave counties. The agency may be able to assist a Verde Valley housing entity in caring out their duties.

Federal and state affordable housing resources have been declining in recent years. That may change in the near term as federal stimulus dollars are being directed towards affordable housing. The current federal administration may also allocate more resources to housing over the next few years. But the federal dollars that come to Arizona will still be subject to intense competition. Therefore, local funding is a critical element for addressing local needs. Verde Valley communities may wish to consider providing dedicated on-going funding sources to combat affordable housing issues. Those sources could include:

- Increase in retail sales tax rates
- Dedicated property tax
- Increase in transient occupancy or bed tax
- Mitigation or linkage programs that require in-lieu payments
- General Fund allocations
- Sale or lease proceeds from city owned land
- Bond financing

Sedona has shown some success in collecting in-lieu payments and a few new projects are in process with affordable housing components. The Verde Valley needs to adopt similar policies and programs that can likewise produce affordable units.

Structure of Regional Affordable Housing Effort

To be determined.