



1. PURPOSE

The purpose of the Sedona Development Incentives & Guidelines for Affordable Housing (“Guidelines”) is to provide guidelines and offer incentives to encourage the construction and retention of affordable housing in Sedona. Ensuring an adequate supply of affordable housing in Sedona is one of the top priorities of City Council and one of the community benefits recommended in the Sedona Community Plan.



The provision of community benefits to address community needs is an important consideration in all requests for a zone change. Providing affordable housing as part of a request for a zone change is considered to be a community benefit that meets an established community need.

Providing affordable housing as part of a project is voluntary on the part of the developer. A developer who elects to provide affordable housing as part of a project should refer to these Guidelines in planning the development.

2. DEFINITIONS

a. Affordable

The affordable housing unit is affordable to the target population specified in the development agreement when the monthly cost of homeownership or rent, including mortgage, property taxes, utilities and HOA fees or rent and utilities, does not exceed 35% of household gross monthly income.

b. Affordable Housing Development

A development that provides a sufficient number of affordable housing units to a target population as specified by the development agreement that will remain affordable for a specified period of time.

c. Affordable Housing Unit (AHU)

The apartment, condominium, cooperative, townhouse, single family, multi-family or manufactured housing unit that is made available to the target population for the period of affordability.

d. Area Median Incomes (AMI)

The Area Median Incomes (AMI) for the portion of the two counties comprising the City of Sedona are determined by the United States Department of Housing and Urban Development and are updated yearly. AMIs are established for a range of household sizes, from one-person households to eight-person households. The current AMIs are available from the City of Sedona Department of Community Development.

e. Period of Affordability

The length of time an AHU must remain affordable to the target population.

f. Target Populations

The households, including single person households, whose incomes are at or below the AMI specified in the development agreement.

3. AFFORDABLE HOUSING PROGRAM

a. Affordable Housing Development Determination

In order to qualify as an affordable housing development, the proposed project must meet the following minimum requirements:

1. The City must agree that the number of AHUs proposed is sufficient to provide a community benefit.

2. Those AHUs must be affordable to households earning a specified percentage of area median income.
3. The AHUs must remain affordable for a specified period of time.

b. Percentage of AHUs

The percentages specified below are affordable housing goals that provide a basis for consideration of community benefit. The number of AHUs in any development shall be determined on a case-by-case basis at the discretion of the City.

When the percentages specified below do not result in a whole number, a developer should either round up and provide that number of AHUs or pay the fractional amount as an in-lieu fee.

1. Residential Developments: For developments with 10 or more total units, AHUs equal to approximately 12% of the market rate units should be provided. For developments with 9 or fewer total units, AHUs equal to approximately 6% of the market rate units should be provided.
2. Lodging Developments: AHUs equal to approximately 12% of the number of lodging units should be provided.

3. Commercial Developments:

The amount of affordable housing for commercial proposals should be equal to approximately 12% of the square footage of the commercial buildings. This is called the affordable housing square footage.

For the purposes of determining how many AHUs could be built using the affordable housing square footage, the following standards are recommended:

- Studio = 500 sq. ft.
- 1-bedroom = 600 sq. ft.
- 2-bedroom = 800 sq. ft.
- 3-bedroom = 1,000 sq. ft.

Using the standard square footage for each unit type, the number of AHUs that could fit into the affordable housing square footage should be determined. For example, if a development proposes to construct 10,000 square feet of commercial space, 1,200 square feet (10,000 x 12%) should be the affordable housing square footage. The applicant should propose 1,200 square feet of affordable housing in a bedroom distribution (the number of bedrooms per unit) acceptable to the City.

c. Methods of Providing Affordable Housing

1. On-site. The City generally prefers that AHUs be on the same site as the primary development.
2. Provision of AHUs at another, off-site location acceptable to the City. The City's first preference is that an off-site location be within the City of Sedona limits. Should the City and other Verde Valley communities develop a regional approach to developing AHUs, the City will consider off-site locations in accordance with the regional approach.

Sale of an off-site existing home defined as an AHU to a qualified purchaser. The City will determine whether or not the home is acceptable.

3. Payment of an in-lieu fee as described in Appendix A of these Guidelines.
4. Dedication of land to the City or a City-designated non-profit housing agency or developer. The City will determine whether or not the land is suitable for the construction of AHUs and/or whether or not the value of the land is equal to or greater than what the in-lieu fee would be.

d. Guidelines for Development of AHUs.

Developers who choose to build AHUs under these Guidelines should refer to Appendix B for development guidelines.

e. Anti-Displacement and Relocation

The City of Sedona's intent is that Sedona residents not be displaced in the process of creating affordable housing opportunities. However, if displacement does occur, the developer may be asked to submit a relocation plan as part of the rezoning application. That plan should include, but is not limited to:

1. Provision of at least three months' notice to households being displaced; and
2. Payment to each displaced household of at least three months' rent.

Developers must comply with all Arizona State regulations regarding mobile home park relocation, where applicable.

f. Target Populations – Homeownership

1. For developments with 34 or more total units (market-rate and AHUs):

Three-quarters (3/4) of the AHUs should be targeted to households earning between 81% and 115% of area median income adjusted for unit size in the county in which the AHUs are located, and one-quarter (1/4) should be targeted to households earning 80% or less.

2. For developments with 6 – 33 total units (market-rate and AHUs):

All of the AHUs should be targeted to households earning 115% or less of area median income adjusted for unit size in the county in which the AHUs are located.

3. For developments with 5 or fewer total units (market-rate and AHUs):

All of the AHUs should be targeted to households earning 150% or less of area median income adjusted for unit size in the county in which the AHUs are located.

g. Target Population – Rental

100% of AHUs should be targeted to households earning up to 80% of the area median income in the county in which the AHUs are located, adjusted for unit size.

h. Criteria for Eligibility

Households should meet the criteria in Appendix C in order to be eligible to own or rent an AHU created pursuant to these Guidelines.

i. Marketing and Application Process

Marketing and sales/rental of AHUs created pursuant to these Guidelines should be undertaken according to the marketing and application process described in Appendix D.

j. Affordable Housing Land Use Restrictions

AHUs should remain affordable to the target population for the period of affordability as defined in the development agreement. To ensure affordability throughout this period, the City requires restrictions to be placed on the land through a Land Use Restriction Agreement. See Appendix E for Affordable Housing Land Use Restrictions.

4. INCENTIVES

The City's goal is to provide incentives such as reduction or modification of development standards in order to encourage construction of AHUs. The incentives are intended to provide developers with the flexibility they need to create AHUs that fit into the neighborhood context within a feasible development budget.

The decision to request all or some of the incentives listed in this section is at the sole discretion of the applicant. Each request for incentives submitted for an affordable housing development will be evaluated by the City on a case-by-case basis.

a. Eligibility for Incentives

Rezoning projects that have been designated as affordable housing developments are eligible to request any or all of the incentives listed below. Projects that are not rezoning applications that have been designated as affordable housing developments are eligible to request any or all of the incentives listed below if the developments are located in multi-family, commercial, office or special planning areas.

b. Fee Waivers and Deferrals

The City will waive or defer all applicable development impact fees, development review fees and building permit and inspection fees for AHUs. The City may waive or defer a portion of any applicable development impact fees, development review fees and building permit and inspection fees for the market rate units in a development that includes AHUs.

c. Expedited Review and Permit Processing

All development projects, including those with AHUs, are subject to the review procedures detailed in Article 4 of the City of Sedona's Land Development Code. However, the City will give priority to affordable housing developments for both planning and building permit reviews. A specific staff member will be assigned to work with affordable housing developments and assist them in getting through all the stages of planning and building permit reviews as quickly as possible.

d. Flexible Development Standards Modification

The following requirements of the Sedona Land Development Code may be modified at the discretion of the City, to the extent necessary to accommodate the AHUs.

The City will evaluate all requests to modify development standards on a case-by-case basis, based on, but not limited to, location, topography, compatibility with adjoining land uses, and visibility of the development.

1. Lot Coverage: The maximum percent of lot coverage may be increased by up to ten percent (10%) of the total square footage over the maximum lot coverage permitted by the zoning district for those properties or lots containing AHUs.
2. Building Height: The maximum building height for those structures containing AHUs may be increased by up to eight feet for those portions of the building(s) at least 20 feet from any property line. If a development utilizes the Guidelines' height incentive, the application of alternative standards as defined in the City of Sedona Land Development Code shall not be allowed.
3. Lot Area: Lots that contain AHUs may be reduced by up to twenty percent (20%) of the minimum lot area as required by the zoning district.
4. Lot Dimensions: Lots that contain AHUs may be reduced by up to twenty percent (20%) of the minimum width and/or depth as required by the zoning district.
5. Yard Setbacks: Structures containing AHUs may encroach up to five feet into the front and/or rear yard setback. The remaining required front and/or rear yard shall not be less than five feet.

e. Determination Considerations

The City of Sedona may approve, approve with conditions, or deny any request for affordable housing incentives and modification of development standards after determining whether or not the proposed development complies with the purposes of these Guidelines. The following are examples of considerations the City could take into account in making that determination:

1. The number, size, and type of housing units proposed, relevant details of the development, including the percentage of units designated as affordable; the degree of affordability; the number, bedroom size and location of AHUs and market rate units; rental rates and/or sales prices of AHUs and market rate units.

2. The additional employment base created by the proposed development.
3. The degree to which the proposed development is in harmony with the character of adjacent properties and fits into the context of the neighborhood in which it is located.
4. The degree to which the proposed development affects the health or safety of persons residing or working in the neighborhood of the proposed use.
5. The degree to which the proposed development is designed to minimize traffic congestion.
6. The degree of visual impact on adjacent properties and view corridors.

f. Modification of Provisions for Affordable Housing

1. Notwithstanding the provisions of the Sedona Land Development Code, the City of Sedona, in reviewing and approving development proposals, may modify requirements or guidelines contained in Article 6 (District Regulations) and/or Article 9 (Development Standards) of the Land Development Code, as amended, on a case-by-case basis if the City finds that:
 - a) The modification is in the best interest of good planning practices or design as evidenced by consistency with the Sedona Community Plan and/or the Land Development Code.
 - b) The modification is considered as part of a development or redevelopment proposal addressing community needs and benefits.
 - c) The modification is needed for the creation, conservation, preservation or retention of affordable housing stock.
2. Such modifications shall not be construed as granting variances to relieve a hardship.
3. Such modifications shall not include approval of uses not otherwise allowed by the zoning district regulations.

g. Development Review/Public Participation

All affordable housing developments will follow the development review and public participation process detailed in Article 4 of the City of Sedona's Land Development Code regardless of whether or not development review and the public participation process is specifically required by Article 4.

APPENDIX A

IN-LIEU FEE

The City will consider an in-lieu fee as an alternative to constructing AHUs. In-lieu fees will be deposited into a dedicated affordable housing fund. Those funds will be spent for activities that directly support the creation and maintenance of affordable housing in Sedona, such as down payment assistance, land acquisition, and low-interest loans.

1. Methodology for Determining an In-Lieu Fee

The in-lieu fee will be negotiated during the development review process. If more than 6 months elapses between negotiation of the in-lieu fee and the Planning and Zoning Commission's public hearing, the in-lieu fee may be renegotiated.

The in-lieu fee will be calculated in a manner sufficient to make up the monetary difference between the following:

- a. The market rate cost of a housing unit in the City, and
- b. The price of a housing unit affordable to a household earning 100% of area median income

2. In-Lieu Fee Formula

The in-lieu fee is determined by establishing a median cost for market rate units, a sales price for AHUs, and a percentage multiplier based on the total number of units proposed.

a. Establishing Median Cost for Market Rate Units.

The median cost for market rate units shall be the median sales price of comparable market rate housing units in the City of Sedona. The median sales price of comparable market rate housing units in the City of Sedona shall be established by the City based on data provided by the Sedona Verde Valley Association of Realtors or other sources selected by staff for sales during the 12 months immediately prior to the calculation. The City or its designee may determine what constitutes comparable units. The City may periodically review the median sales price of comparable units in the City and may, based on that review, adjust the in-lieu fee formula.

b. Establishing a Sales Price For AHUs.

The sales price for AHUs shall be calculated based on a target income of one hundred percent (100%) of Area Median Income (AMI) for the county in which the proposal is located.

The United States Department of Housing and Urban Development (HUD) determines the AMI for areas throughout the nation, and updates the figure yearly. The median income as of March 2007 for Coconino County was \$53,500, and \$49,100 for Yavapai County.

The sales price must be affordable to a buyer at 100% of AMI. A buyer at 100% of AMI should not pay more than thirty-five percent (35%) of income on mortgage, property taxes, utilities and Homeowner Association fees.

- 1) Adjustment for Household Size. The AMI as published by HUD corresponds to the area median income *for a household of four*. To determine a hypothetical household size, a unit size multiplier factor will be used, utilizing the HUD AMI household of four and the number of bedrooms per unit as illustrated in the following table:

Unit size multiplier factor:	Studio	1 bedroom	2 bedroom	3 bedroom
	0.6	0.75	0.9	1.05

The appropriate multiplier will be applied to the market rate units according to the number of bedrooms in each unit. All the studio units will be multiplied by the 0.6 multiplier; all the 1 bedroom units will be multiplied by the .75 multiplier; all the 2 bedroom units will be multiplied by the .9 multiplier; all the 3 bedroom units will be multiplied by the 1.05 multiplier.

- 2) Mortgage Interest. To further the goal of long-term affordability, and in order to moderate interest-rate fluctuations, the following procedure for setting the interest rate will be used for the calculation of initial sale prices of AHUs:

Once a year, concurrent with the annual publication of the AMI by HUD, the City will set the interest rate to be used in its sale price calculations for AHUs, as the higher of the following two rates:

- a. The average ten-year treasury constant maturity rate over the most recent 24 months, plus 200 basis points (2.0%)*, or
- b. The average rate charged by local institutional lenders on a zero point 30-year fixed rate mortgage

*(Example: the average ten year treasury yield for January 2004 through December 2005, calculated from monthly data published on the U.S. Treasury Department web site, was 4.27%. Adding the 200 basis points results in an interest rate of 6.30%.)

- 3) Homeowner Association Fees. The calculation assumes an average Homeowner Association (HOA) fee of \$150 per month. The City may periodically review and adjust this number.
 - 4) Utilities. The calculation assumes basic utilities at \$150 per unit per month. The City may periodically review and adjust this number.
 - 5) Property Taxes. The calculation assumes property taxes based on the following formula: maximum sales price multiplied by one percent, divided by twelve. The City shall periodically review property tax valuations and may, based on that review, adjust the property tax calculation formula.
- c. Establishing a Percentage Multiplier for Size of Development
- 1) Developments with Eleven or More Units. The City shall use a twelve percent (12%) multiplier for developments with 11 or more housing units. In calculating in-lieu fees, the total number of residential units proposed will be multiplied by twelve percent (12%). For example, if a project proposes 15 market rate units, the total number of units (15) would be multiplied by 12% for a percentage multiplier of 1.8. See sample calculation.
 - 2) Developments with Ten or Fewer Units. The City shall use a six percent (6%) multiplier for developments with 10 or fewer housing units. In calculating in-lieu fees, the total number of residential units proposed would be multiplied by six percent (6%). For

example, if a development proposes 8 market rate units, the total number of units (8) would be multiplied by 6% for a percentage multiplier of .48. See sample calculation.

d. AHU Sales Price Calculation

Refer to the sample calculation of the projected sales prices for AHUs, targeted to 100% of the AMI for use in calculating the in-lieu fee. This calculation incorporates the mortgage interest rate of 7.25%, a monthly HOA expense of \$150, and monthly utilities of \$150 per unit. The City may periodically review and adjust the in-lieu fee formula.

e. Timing of Payment of In-Lieu Fees

The in-lieu fee shall be paid as specified in the development agreement, but no later than the issuance of a certificate of occupancy permit for the development; for phased-construction developments, payment of the applicable in-lieu fees shall be made for each portion of the development as specified in the development agreement, but no later than the issuance of a certificate of occupancy permit for that phase of the development.

f. Securing Payment of In-Lieu Fees

The City may require a developer to post a bond in an amount equal to all or part of the in-lieu fee or may place a lien on the property in an amount equal to all or part of the in-lieu fee.

3. Methodology for Setting an In-Lieu Fee for Commercial Property

- a. The amount of affordable housing for commercial proposals should be equal to approximately 12% of the square footage of the commercial building. This is called the affordable housing square footage.
- b. For the purposes of determining how many AHUs could be built using the affordable housing square footage, a standard square foot amount of livable area has been assigned to units:
 - Studio = 500 sq. ft.
 - 1-bedroom = 600 sq. ft.
 - 2-bedroom = 800 sq. ft.
 - 3-bedroom = 1,000 sq. ft.
- c. Using the standard square footage for each unit type, the number of AHUs that could fit into the affordable housing square footage will be determined by the City. Those units will be used in the formula to calculate the in-lieu fee.

For example, if a project proposes to construct 10,000 square feet of commercial space, 1,200 square feet (10,000 x 12%) will be the affordable housing square footage. One 2-bedroom apartment (800 sq. ft.) and 1 studio apartment (400 sq. ft.) could fit into the affordable housing square footage. The in-lieu fee would be based on the provision of one 2-bedroom apartment and one studio apartment.

4. Sample In-Lieu Calculations

The examples below are to illustrate how in-lieu fees are established and are not intended to reflect what an in-lieu fee would be for a particular project. The numbers used to calculate a particular in-lieu fee will be those in effect when the in-lieu fee is calculated, not the numbers used in the examples below.

a. Calculation based on an AMI of \$49,100 to establish a maximum AHU sales price:

Number of bedrooms	0	1	2	3
Target income (% of median)	100%	100%	100%	100%
Unit size multiplier factor	0.6	0.75	0.9	1.05
Target income for affordability	\$29,460	\$36,825	\$44,190	\$51,555
Housing cost/income ratio for calculation	35%	35%	35%	35%
Maximum payment for housing expenses	\$859	\$1,074	\$1,289	\$1,504
Mortgage interest rate used for calculation	7.25%	7.25%	7.25%	7.25%
HOA dues, utilities	\$300	\$300	\$300	\$300
Property tax	\$50	\$72	\$93	\$115
Mortgage payments	\$509	\$702	\$896	\$1,089
Amt. of loan this would amortize	\$74,614	\$102,906	\$131,344	\$159,636
Affordable unit sales price	\$74,700	\$103,000	\$131,400	\$159,700

b. Calculation to establish the in-lieu fee:

1) For 10 or more units @ 12%

Example for a 20 unit project		
Market rate housing cost	\$399,000	Median market rate for a condominium
Less affordable unit sales price	-\$131,400	Maximum sales price for a 2-bedroom unit
Gap	\$267,600	Gap between market rate and amount determined to be affordable
Proposed 20 units multiplied by 12%	2.4	12% used to determine the percentage of affordable units for the in-lieu calculations
Gap multiplied by 2.4	\$642,240	In-Lieu Amount

2) For 9 or fewer units @ 6%

Example for a 5 unit project		
Market rate housing cost	\$399,000	Median market rate for a condominium
Less affordable unit sales price	-\$131,400	Maximum sales price for a 2-bedroom unit
Gap	\$267,600	Gap between market rate and amount determined affordable
Proposed 5 units multiplied by 6%	0.3	6% used to determine the percentage of affordable units for the in-lieu calculations
Gap multiplied by 0.3	\$80,280	5. In-Lieu Amount

APPENDIX B

DEVELOPMENT GUIDELINES FOR AFFORDABLE HOUSING UNITS

Developers who choose to build AHUs under these Guidelines should consider the following when designing their developments:

1. Amenities

The occupants of the AHUs should be entitled to the use of all amenities, including but not limited to a pool, a club house, or a garage, to which the occupants of the market rate units have access. (Does not apply to AHUs created off-site.)

2. Design

a. On-Site Units: The design of the AHUs should be compatible with and comparable to the rest of the dwelling units in the development and not distinguishable from them. Developments should conform to United States Department of Housing and Urban Development standards as well as the requirements of Sedona's Land Development Code, Design Review Manual and all applicable building codes, except as specified in the development agreement.

b. Off-Site Units: Developments should conform to United States Department of Housing and Urban Development standards as well as the requirements of Sedona's Land Development Code, Design Review Manual and all applicable building codes, except as specified in the development agreement.

3. Development Agreement

Developers of projects that include AHUs shall enter into a development agreement with the City. The development agreement will, among other things, address sales price restrictions, homebuyer or tenant qualifications, long-term affordability, and any other applicable issues affecting the AHUs and shall be recorded with the Recorder's Office in the county in which the development is located. The development agreement shall be a covenant running with the land and shall be binding on the assigns, heirs and successors of the applicant.

4. Interior Finish

The interior finish and quality of construction of the AHUs should at a minimum be comparable to applicable entry level rental or ownership housing in the Verde Valley or approved manufactured housing standards.

5. Land Use Restriction Agreement

A Land Use Restriction Agreement (LURA) shall be recorded for each affordable homeownership housing unit and affordable rental housing development in the county in which the AHU is located.

6. Location

a. On-Site Units: AHUs should be disbursed throughout the development whenever feasible.

b. Off-Site Units: The off-site location chosen for the AHUs should be one that is compatible with the proposed use and acceptable to the City.

7. Long-Term Affordability

To ensure long-term affordability, resale restrictions shall be included in the LURA for each AHU. For ownership housing, the resale restrictions describe the terms under which the AHU can be resold. Included in the resale restrictions is a formula for determining the maximum resale price of the AHU. For rental housing, the LURA will require that the AHUs remain affordable to the target population as specified in the development agreement for the period of affordability.

8. Occupancy

- a. On-Site Units: The AHUs should be available for occupancy earlier or at the same time as the market rate units in the development. If a development is phased, the AHUs in each phase should be available for occupancy earlier or at the same time as the market rate units in that phase.
- b. Off-Site Units: The AHUs should be available for occupancy earlier or at the same time as the market rate units in the primary development. If a development is phased, the AHUs in each phase should be available for occupancy earlier or at the same time as the market rate units in that phase in the primary development.

9. Period of Affordability

- a. Homeownership: Affordable homeownership housing units should remain affordable to the target population for a minimum of 50 years from the date of owner occupancy. See *Appendix E*, page 1.
- b. Rental: Affordable rental housing units should remain affordable to the target population for a minimum of 50 years from the date of initial occupancy or for as long as the development remains as a rental, timeshare, or lodging development, whichever is longer.

10. Phasing

If a development is proposed in phases, construction of the AHUs should occur proportionately to construction of the market rate units and should not be clustered in the later phases.

11. Preferences

The City may establish preferences among target populations based on factors such as employment (to target essential community functions), age (for senior citizen housing), disability (for assisted or semi-assisted living), displacement or other factors.

12. Proportion

In determining the bedroom distribution of the AHUs, the developer should consider providing a range of bedroom distributions in proportion to the distribution of market rate units. For commercial developments, the City will recommend bedroom distributions based on current needs.

13. Size

AHUs should be comparable in size to the market rate housing units. AHUs should at a minimum be at least 500 square feet for a studio, 600 square feet for a one-bedroom unit, 800 square feet for a two-bedroom unit, and 1,000 square feet for a three-bedroom unit.

APPENDIX C

ELIGIBILITY CRITERIA FOR AFFORDABLE HOUSING UNITS

Households should meet the following criteria in order to be eligible to own or rent an AHU created pursuant to these Guidelines. If Federal or State subsidy finds are used in a development, eligibility requirements for those funds may supercede requirements of the Guidelines.

1. City Residency and Employment

Households shall have resided within the Sedona City limits for at least one year or at least one adult member of the household should be employed full-time within the Sedona City limits or have a signed employment contract with a business located within the Sedona City limits.

2. Disclosure

Applicants for AHUs are expected to provide truthful information about their eligibility for affordable housing. Failure to truthfully disclose and legitimately obtain a rental AHU is a breach of the lease and the lease can be terminated.

3. Full Time Occupancy

Households must occupy the AHUs full time. AHUs cannot be sub-leased. Households who live elsewhere for all or part of the year are not eligible.

4. Income

The maximum household income for eligibility shall be expressed as a percent of the AMI. Applicant’s income shall be at or below the percent of the AMI specified in the development agreement. In determining an applicant’s income for the purposes of determining eligibility, the gross combined income for all adults in the household shall be considered.

5. Legal Residency

Applicants must be legal residents of the United States.

6. Net Assets

The calculation shall take into account the net assets of all adult members of the household. Net assets should not exceed the following:

<u>Household Size</u>	<u>Maximum Net Assets</u>
1 person	\$75,000
2 people	\$100,000
3 people	\$125,000
4 people	\$150,000
5 people	\$175,000
6 people	\$200,000

Assets include cash, checking and savings accounts, stocks and bonds, life insurance net cash value, real estate owned, vested interest in retirement fund, net worth of business(s), value of revocable trust, and value of vehicle(s). Any portion of the down payment that is a gift will also be counted as an asset. Net assets are defined as the total of all assets less liabilities. The inclusion of assets such as retirement 401(k) accounts and IRAs that involve significant penalties for early withdrawal will be evaluated by the City of Sedona on a case-by-case basis.

7. Occupancy Standards

AHUs should be occupied by households of the appropriate size.

<u>Unit Size</u>	<u>Household Size</u>
Studio	1 – 2 people
1 bedroom	1 – 2 people
2 bedroom	2 – 4 people
3 bedroom	4 – 6 people

8. Percent of Income

Purchasers or renters of AHUs shall pay not less than twenty-eight percent (28%) or more than thirty-five percent (35%) of gross income for housing expenses (including mortgage, property taxes, utilities and HOA fees or rent plus utilities).

9. Prior Homeownership

Households should not own another home or own an interest with one or more other people, such as through joint ownership, at the time of application for AHUs. Applicants who have a signed employment contract with a business located within the Sedona City limits and are moving to Sedona should sell any homes they might own. The City will consider the timing of such a sale on a case-by-case basis. Notwithstanding, all applicants must meet the net asset and other eligibility requirements.

APPENDIX D

MARKETING AND APPLICATION PROCESS

All AHUs will be sold or rented through a random selection process. The developer is responsible for all aspects of the marketing and application processes for homeownership and rental AHUs, including advertising, conducting pre-application workshops, providing application assistance, providing homeownership counseling, administering the random selection process, assisting selected purchasers in obtaining financing and completing the sales process, and assisting renters in completing the rental process. The developer may contract with an experienced not-for-profit group acceptable to the City to provide some or all of these services. The developer must submit a marketing and random selection plan for City approval prior to the start of marketing. The City will work with the developer and the not-for-profit group, if one is used. The developer will pay for the cost of the marketing and random selection process.

1. Marketing, Application and Random Selection Plan

The marketing, application and random selection plan must include:

- a. Identification of who will be responsible for the marketing, application and random selection processes.
- b. Description of the affordable housing development, including the number, size, and bedroom distribution of available AHUs.
- c. Sales prices or rents. Once the marketing begins, the sales prices or rents cannot be increased even if AMIs or interest rates increase.
- d. Description of land use restrictions and explanation of resale restrictions.
- e. Eligibility requirements.
- f. Sample advertisements and outreach materials.
- g. Affirmative marketing strategies.
- h. Time frames and deadlines for marketing, application, and random selection.
- i. Application materials, including an application form, application certification form, authorization for consent to release information, description of the land use restrictions, a description of the eligibility requirements, and a clear description of the random selection process.

2. Affirmative Fair Marketing

Affirmative fair marketing of all AHUs will be conducted to ensure maximum opportunity for low and moderate income households to apply for the random selection process. Ads should be placed in local and Verde Valley newspapers, and notices should be sent to local fair housing commissions, area churches, local and Verde Valley housing agencies, civic groups, lending institutions, social service agencies, and other non-profit agencies.

3. Workshops

Workshops to inform the public about the application and random selection process, the eligibility requirements, and the land use restrictions will be held. The dates, times, and locations of the workshops must be widely advertised. Workshops should be scheduled in the evening or on weekends to reach as many potential applicants as possible. The number of workshops will be determined jointly by the developer and the City.

4. Application Process

The marketing and application plan will specify a date by which all applications for the random selection must be received. That deadline must be widely advertised. All applications must be

mailed to a single address. Applicants will be required to attest that they meet eligibility requirements and provide information on total household income in order to participate in the random selection.

Applications will be opened as they are received and reviewed for completeness. Every effort will be made to contact applicants by telephone or e-mail to advise them of missing information. For this reason, applicants will be strongly urged to submit applications as early as possible to ensure that they are received and are complete in time to participate in the random selection. All applications that are received by the deadline will be opened and reviewed. Late applications (postmarked after the deadline) will not be accepted. Applicants who have submitted all the required information will be eligible for the random selection.

5. Random Selection Process

The random selection will be held in a public place and open to the public. Applicants do not have to be present at the random selection.

Applicants who submitted the required application information will receive a registration number. The registration numbers will be placed in a pool and randomly drawn. All the registration numbers will be drawn and a list will be created in the order in which the registration numbers are drawn.

Units will be awarded by size of unit, with the units with the most bedrooms allotted first. Buyers and renters will be determined by proceeding down the list of registration numbers until reaching the first household on the list that is of the appropriate size for that unit. Once all the units of the same bedroom distribution are awarded, the selection process returns to the top of the list and proceeds in order selecting appropriately sized households for units with the next largest number of bedrooms. This process continues until all available units have been assigned. Should any of those selected households drop out, the process is repeated to identify substitute households.

6. Post-Random Selection

- a. For rental housing: Applicants selected through the random selection process to rent an AHU will provide the developer with evidence of eligibility and provide any other information, such as references, required to rent the unit. If the applicant fails to rent the unit in a pre-specified period of time, the next applicant on the random selection list that is eligible for that size unit will be offered the opportunity to rent.
- b. For ownership housing: Applicants selected through the random selection process to purchase an AHU will be given a reasonable, pre-specified period of time in which to secure financing commitments. Developers may choose to make arrangements with local financial institutions with respect to financing qualified purchasers. If the applicant fails to obtain financing within the pre-specified period of time, the next applicant on the random selection list that is eligible for that size unit will be offered the opportunity to purchase.

Once financing is secured, the developer will enter into a Purchase and Sale Agreement with the purchaser. Once the Purchase and Sale Agreement has been signed, the developer and lender will submit the applicants' income and asset documentation to the City. The City or its designee will verify that the household meets income and asset eligibility guidelines.

APPENDIX E

AFFORDABLE HOUSING LAND USE RESTRICTIONS

AHUs as defined in the development agreement should be maintained and remain affordable to the specified target population for the period of affordability. To ensure compliance throughout this period, the City requires restrictions be placed on the land through a Land Use Restriction Agreement.

1. Land Use Restriction Agreement – Ownership AHU

A Land Use Restriction Agreement (LURA), which includes resale restrictions, shall be recorded for each AHU.

All legal documents and security instruments, including amendments, must be signed by the owner, the purchaser, and the City of Sedona and recorded in the Recorder's Office in the county in which the development is located.

a. Land Use Restrictions

1. At all times during the period of affordability, the owner must occupy the property full time as his/her principal place of residence. The property cannot be sub-leased or rented and must be inhabited by the owner. Owners cannot live elsewhere for all or part of the year. The owner assigns to the City the right to any rents collected in violation of the LURA.
2. The terms of all financing, including refinancing secured by the property, must be pre-approved by the City. The City will generally approve a refinancing of the first mortgage loan if no additional cash is taken out other than the loan costs, and the terms of the new loan are more favorable. In all cases, debt payment-to income ratio shall not be higher than it was upon the owner's purchase of the property.
3. The minimum term of the LURA shall be the period of affordability. If an owner occupies the AHU for the full term, the LURA expires and the owner may sell the AHU to any purchaser for any price. However, if the owner sells the AHU during the term of the LURA, the new owner will be required to sign and record a new LURA, which begins a new period of affordability. This requirement will continue for each new owner of the AHU, but in no event will the total term of period of affordability exceed 99 years.
4. The owner shall maintain the property in good repair over the period of affordability. The owner shall comply with CCRs and any other requirements specific to the development in which the AHU is located.
5. The owner shall submit an annual report that certifies compliance with the terms of the LURA. The City or its designee has the authority to inspect, monitor and otherwise ensure continued compliance with the terms of the LURA. The City or its designee may charge the owner a fee for compliance monitoring.
6. The City or its designee has the right of first refusal on the purchase of any AHU. The owner must first notify the City in writing of the intent to sell; the City or its designee shall notify the owner of its intent to exercise the right of first refusal not more than 15 days from receipt of the owner's written notice. The City shall either close on the AHU within 60 days of receipt of the written notice or shall notify the owner that it has rescinded its election.
7. In the event of foreclosure, transfer in lieu of foreclosure or assignment of an FHA mortgage to HUD, the resale provisions shall terminate, except that the City or its designee may exercise its right of first refusal.

b. Resale Restrictions

1. The owner must be in compliance with all requirements of the LURA.
2. All purchasers must meet the eligibility requirements of these Guidelines.
3. Upon resale, AHUs must remain affordable to the target income population identified in the development agreement. Affordability is ensured through the use of the formula below for calculating the maximum allowable resale price.

c. Resale Price Calculation

1. The resale price calculation will establish a maximum allowable resale price based on the increase in AMI. The City does not guarantee that the owner will receive the maximum allowable resale price.
2. The purchase price paid by the current owner is increased by the percentage increase in Area Median Income (AMI) during the period in which the owner owned the property. AMI is adjusted annually by the United States Department of Housing and Urban Development.

Each time the AMI is adjusted, a new maximum allowable resale price will be calculated for each AHU. That maximum allowable resale price will remain in effect until the next AMI adjustment. For sales taking place between AMI adjustments, this amount may be adjusted by one-half of the increase in the prior AMI and multiplied by the number of months the current AMI has been in place. One-half of the prior AMI adjustment is used to ensure increases are not overestimated.

The following formula will be used to calculate the factor used to determine the amount of increase for the months between the last AMI adjustment and the date of resale:

($\frac{1}{2}$ last AMI increase divided by 12 months) multiplied by the number of months between the last AMI increase and the date of resale

3. The cost of permanent substantial owner improvements may be added to the sales price of the AHU.
 - a. Only permanent substantial owner improvements undertaken with required permits issued by the City and HOA approvals shall be added to the sales price of an AHU. Permanent substantial owner improvements include, but are not limited to, additions, retaining walls, fences, decks, landscaping, and drainage.
 - b. Permanent substantial owner improvements may not exceed ten percent (10%) of the owner's purchase price and must be documented through receipts for materials and labor.
 - c. Permanent substantial owner improvements do not include regular maintenance expenses, such as roofs; luxury items such as barbecues, spas, or swimming pools; or decorative items such as paint, wall coverings, window coverings, or floor treatments.

d. Enforcement Lien

When authorized by law, the City may record a lien against the property of up to the difference between the appraised value and the resale price to ensure that any resales occur in compliance with the requirements of these Guidelines and the written purchase agreement between the parties. The lien will be forgiven once the owner provides proof to the City of a pending sale of the affected property in accordance with these provisions.

2. Land Use Restriction Agreement – Rental AHUs

A Land Use Restriction Agreement (LURA) shall be recorded against the development containing affordable rental housing units to ensure continued affordability of affordable rental housing units. The LURA implements affordability controls and reporting requirements. To ensure compliance, the LURA provides that in the event of any default, the City will have the right to receive all rents due or collected from any AHU rented in violation of the terms of the LURA. The City may also enforce the covenant through legal action.

All legal documents and security instruments, including amendments, must be signed by the developer and the City and must be recorded in the Records Office in the county in which the development is located.

The LURA shall include the following:

- a. The number of AHUs and market rate units in the development. AHU size and amenities shall be indicated. Upon completion, the location of each AHU shall be referred to, through addendum, by street address.
- b. Where 100% of the units in a development are AHUs and on-site management is utilized, one unit could be reserved as a management unit and would be subject to affordability requirements.
- c. Prior to execution of the LURA, the developer shall evidence:
 1. Legal authority to enter into the transaction; and
 2. Good and marketable title to the property.
- d. During the term of the LURA, the owner shall not:
 1. Demolish any part of the project or substantially subtract from any real or personal property of the project;
 2. Permit the use of any residential rental unit for any purpose other than rental housing;
 3. Convert any AHU to condominium or other non-rental use;
 4. Execute any other agreement with provisions contradictory to, or in opposition to, the provisions of the LURA or the development agreement.
- e. The owner shall maintain the property in good condition, make all repairs in a timely fashion, and provide routine maintenance.
- f. The evaluation of income of all new tenants to determine if they are income qualified will be done according to one of the following methods:
 1. Review of annual tax returns and/or Social Security 1099 statements to determine gross income for each household member, or
 2. Whatever income determination method is required by specific subsidy sources.
- g. The owner shall recertify the income of existing tenants every year after initial occupancy and will include that information in the annual report.
- h. Residents whose incomes increase above program limits are not required to move. However, all AHUs should be rented to income-eligible households as they become vacant.
- i. Rents for AHUs can be adjusted annually using the Area Median Income (AMI). AMIs are determined by the United States Department of Housing and Urban Development for the county in which the development is located and are available from the City of Sedona's Department of Community Development. If rents are

adjusted, residents shall receive written notice of the adjustment at least 60 days before the adjustment is implemented.

- j. Depending on City resources, apartment buildings that contain any AHUs may be required to participate in Sedona's crime-free housing program, if applicable.
- k. Affordable rental housing units shall remain affordable to the target population for a minimum of 50 years from the date of initial occupancy or for as long as the development remains as a rental, timeshare, or lodging development, whichever is longer.
- l. The City has the right to require corrections to ensure continued compliance with the terms of the LURA. In the event owner does not remedy compliance concerns, the City may exercise all rights available to it under Arizona law, including but not limited to notification of all note holders.
- m. The City or its designee has the right of first refusal on the purchase of any development containing rental AHUs at the appraised value. The owner must first notify the City in writing of the intent to sell; the City or its designee shall notify the owner of its intent to exercise the right of first refusal not more than 15 days from receipt of the owner's written notice. Upon receipt of such notice, the owner shall have an appraisal performed at his expense by an appraiser acceptable to the owner and the City and shall deliver the appraisal to the City. The City shall either close on the development containing rental AHUs within 60 days of receipt of such appraisal or shall notify owner that it has rescinded its election.
- n. Where more restrictive covenants, conditions and restrictions are in place, as a result, for example, of subsidy programs, the owner shall comply with those requirements.
- o. The applicant or its agent should manage and operate the AHUs and should submit an annual report to the City of Sedona's Department of Community Development identifying which units are AHUs in a development, the rental rate for each AHU over the course of the year, vacancy information for each AHU for the prior year, monthly income for tenants of each AHU, and any other related information requested by the City of Sedona. The City or its designee has the authority to inspect, monitor and otherwise ensure continued compliance with the terms of the LURA and the development agreement. A fee may be charged for compliance monitoring.