AGENDA 3:00 P.M.

CITY COUNCIL SPECIAL MEETING — WEDNESDAY, DECEMBER 9, 2020

NOTES:

- Meeting room is wheelchair accessible. American Disabilities Act (ADA) accommodations are available upon request. Please phone 928-282-3113 at least two (2) business days in advance.
- City Council Meeting Agenda Packets are available on the City's website at:

  www.SedonaAZ.gov

GUIDELINES FOR PUBLIC COMMENT

PURPOSE:

- To allow the public to provide input to the City Council on a particular subject scheduled on the agenda.
- This is not a question/answer session.
- The decision to receive Public Comment during Work Sessions/Special City Council meetings is at the discretion of the Mayor.

PROCEDURES:

- **It is strongly encouraged that public input on agenda items be submitted by sending an email to the City Clerk at sirvine@sedonaaz.gov in advance of the 3:00 p.m. Call To Order.**
- Fill out a "Comment Card" and deliver it to the City Clerk.
- When recognized, use the podium/microphone.
- State your:
  1. Name and
  2. City of Residence
- Limit comments to **3 MINUTES.**
- Submit written comments to the City Clerk.

DUE TO CONTINUED PRECAUTIONS RELATED TO COVID-19, SEATING FOR THE PUBLIC WITHIN THE COUNCIL CHAMBERS IS ARRANGED IN COMPLIANCE WITH CDC GUIDELINES FOR PHYSICAL DISTANCING AND IS VERY LIMITED. THOSE WISHING TO COMMENT ON SCHEDULED AGENDA ITEMS MAY BE ASKED TO WAIT OUTDOORS OR IN AN ALTERNATE LOCATION IF THERE IS NOT ADEQUATE SEATING IN COUNCIL CHAMBERS. **COMMENTS IN ADVANCE OF THE 3:00 P.M. CALL TO ORDER ARE STRONGLY ENCOURAGED BY SENDING AN EMAIL TO SIRVINE@SEDONAAZ.GOV AND WILL BE MADE PART OF THE OFFICIAL MEETING RECORD.** THE MEETING CAN BE VIEWED LIVE ON THE CITY'S WEBSITE AT WWW.SEDONAAZ.GOV OR ON CABLE CHANNEL 4.

1. CALL TO ORDER/PLEDGE OF ALLEGIANCE/MOMENT OF SILENCE

2. ROLL CALL

3. SPECIAL BUSINESS

LINK TO DOCUMENT =

a. AB 2635 **Discussion/possible direction** regarding the draft results of the Affordable Housing Needs Assessment and the development of the draft Five Year Housing Action Plan document, by consultant Elliot D. Pollack and Company.

b. **Discussion/possible action** regarding future meetings/agenda items.

4. EXECUTIVE SESSION

If an Executive Session is necessary, it will be held in the Vultee Conference Room at 106 Roadrunner Drive. Upon a public majority vote of the members constituting a quorum, the Council may hold an Executive Session that is not open to the public for the following purposes:

a. To consult with legal counsel for advice regarding matters listed on this agenda per A.R.S. § 38-431.03(A)(3).

b. Return to open session. Discussion/possible action regarding executive session items.

5. ADJOURNMENT

Posted: 12/03/2020

By: DJ

Susan L. Irvine

Susan L. Irvine, CMC
City Clerk

Note: Pursuant to A.R.S. § 38-431.02(B) notice is hereby given to the members of the City Council and to the general public that the Council will hold the above open meeting. Members of the City Council will attend either in person or by telephone, video, or internet communications. The Council may vote to go into executive session on any agenda item, pursuant to A.R.S. § 38-431.03(A)(3) and (4) for discussion and consultation for legal advice with the City Attorney. Because various other commissions, committees and/or boards may speak at Council meetings, notice is also given that four or more members of these other City commissions, boards, or committees may be in attendance.

A copy of the packet with material relating to the agenda items is typically available for review by the public in the Clerk's office after 1:00 p.m. the Thursday prior to the Council meeting and on the City's website at www.SedonaAZ.gov. The Council Chambers is accessible to people with disabilities, in compliance with the Federal 504 and ADA laws. Those with needs for special typeface print, may request these at the Clerk's Office. All requests should be made **forty-eight hours** prior to the meeting.

CITY COUNCIL CHAMBERS
102 ROADRUNNER DRIVE, SEDONA, AZ

The mission of the City of Sedona government is to provide exemplary municipal services that are consistent with our values, history, culture and unique beauty.

CITY COUNCIL AGENDA BILL

AB 2365
December 9, 2020
Special Business

Agenda Item: 3a

Proposed Action & Subject: Discussion/possible direction regarding the draft results of the Affordable Housing Needs Assessment and the development of the draft Five Year Housing Action Plan document, by consultant Elliot D. Pollack and Company.

Department	City Manager's Office
Time to Present	1 hour
Total Time for Item	2 hours
Other Council Meetings	October 22, 2019
Exhibits	A. Volume 1: Existing Conditions and Housing Gap Assessment Draft B. Volume 2: Affordable Housing Action Plan Draft

City Attorney Approval	Reviewed 12/1/2020 KWC
City Manager's Recommendation	Discussion and direction only.

Expenditure Required	
$	0
Amount Budgeted	
$	0
Account No. (Description)	N/A
Finance Approval	☒

SUMMARY STATEMENT

<u>Background:</u> For the last several years, the Sedona City Council has identified the need for workforce housing as one of its highest policy priorities. Sedona's Community Plan identifies housing diversity as one of six major outcomes to achieve by 2020. That outcome specifically calls for housing types that, "provide options for all ages and income levels by using innovative public policies and programs and nurturing partnerships with private developers."

To better understand current housing conditions, where gaps exist, and to identify ways to address housing needs, proposals were solicited last fall from qualified firms to conduct a comprehensive Housing Needs Assessment and develop a 5-year Housing Action Plan for the City. The Housing Needs Assessment was intended to provide an in-depth analysis of the current as well as the future needs for affordable, workforce, and other housing options primarily of current and future community households, reported incrementally in relation to the Area Median Income (AMI). A Housing Action Plan was intended to identify 1, 3, and 5-year quantifiable recommendations to bridge those identified gaps.

The City issued a request for proposals for professional services on June 9, 2019. A contract for this work was issued on October 22, 2019 to Elliot D. Pollack and Company, in conjunction with Sheila Harris Consulting, in an amount not to exceed $101,820.

The purpose of this work session is to review the draft Existing Conditions and Housing Gap Assessment (Exhibit A), as well as the Draft Affordable Housing Action Plan (Exhibit B). Council feedback and direction will be used to further develop the Action Plan to prioritize the proposed strategies to address the current, short-term, and long-term needs of the community. Given that the options are vast, needs varied, and resources limited, priorities will need to be identified and recommendations will need to be made accordingly to address priorities as established by City Council. A final Action Plan is intended to provide a rational basis for resource allocation deciding when, why, and how the City should participate in creating, supporting and/or funding affordable and other housing developments. This discussion is the next step in further refining those goals and objectives.

Community Plan Consistent: ☒Yes - ☐No - ☐Not Applicable

One of the six major outcomes identified in the Community Plan is Housing Diversity. The future visioning in the Plan calls for Sedona to have fostered the building of different housing types to provide more options for all ages and income levels by using innovative public policies and programs and nurturing partnerships with private developers. The intent, as identified in the Plan, is that housing diversity has attracted more young people, families, and professionals, to become a vital part of our community life.

Chapter 3. Land Use, Housing, and Growth (page 23 of Sedona Community Plan) identifies the following key issues:

- Need for greater housing diversity and affordability.
- Need for preservation and renewal of older neighborhoods.
- Need for a range of housing choices for seniors

Board/Commission Recommendation: ☐Applicable - ☒Not Applicable

Alternative(s):

MOTION

I move to: for discussion and direction only.

DRAFT 11-30-2020

Housing Needs Assessment & Five-Year Housing Action Plan

City of Sedona, Arizona

Volume 1:Existing Conditions & Housing Gap Assessment

Prepared for:
City of Sedona

November 2020

Prepared by:

Elliott D. Pollack & Company
7505 East 6th Avenue, Suite 100
Scottsdale, Arizona 85251
And
Sheila Harris Consulting Services

Table of Contents

Executive Summary

Purpose of Report

The purpose of this report is to provide the City of Sedona and the Housing Assessment Advisory Committee with the initial findings of the existing conditions analysis and housing gap assessment. Included with this assessment are:

1. A summary of the findings of the employee survey conducted in December 2019, and
2. A summary of the interviews conducted with employer groups in February 2020.

Both of these documents are included in the Appendix of this report.

Housing Gap Assessment Findings

- There has been much discussion about the term "affordable housing". "Affordable" is often associated with housing for the lowest income households. "Workforce" or "attainable" housing is often associated with the demand from critical service providers and other service workers. In the context of this study, the term "affordable" will apply to all households that are burdened by housing costs or those that can't find housing due to its cost relative to household income. Affordable housing refers to a continuum of housing demand that affects persons from the lowest income levels to those earning above the area median income. A healthy economy and housing market must address all these demand sectors.
- The method for determining housing affordability is based on the relationship between household income and the cost of housing. The threshold for affordability established by HUD is a household paying no more than 30% of income toward housing. For renters, this estimate includes rent and utilities; for a homeowner it includes a mortgage payment, property taxes, and insurance. Households that are "cost-burdened" by housing are those that pay more than 30% of income on rental or ownership housing.
- The housing "gap" is the difference between the demand for housing units available at different income levels and the supply of those units. The "gap" affects both homeowners as well as renters. However, homeowners have more options to reduce their housing costs; renters, however, have limited options other than to find more affordable housing farther from their place of employment, to double up with roommates to share rent, or in some cases seek substandard accommodations in sheds, tents or other unsafe spaces. The effort to address affordable housing should approach both ownership units (which help bring stability to neighborhoods) as well as providing rental units for all income levels. The provision of affordable housing in a community carries with it a variety of benefits, not the least of which is the spending of resident

incomes in the community on retail goods and services. If workers are forced to move to other communities, those benefits are lost.

- Single family detached units and mobile home units account for 87% of all housing units in the City. According to the U.S. Census, 442 of 786 mobile homes in Sedona (56%) were built before 1979. It is likely that many of these units may pose health and safety hazards for residents if built before June 1976 when HUD established minimum standards for construction. Further, some of the mobile home communities are age-restricted which further limits the housing options for the City's younger households.
- By comparison, Sedona only has 257 units within what would be considered traditional apartment complexes and only 211 occupied single family attached units or townhomes. The lack of apartment units limits the inventory of affordable housing units for low and moderate income households.
- The price of housing in Sedona has been cyclical and was dramatically impacted by the Great Recession and housing bubble. The price of housing, including all types of units, rose to $593,000 in 2007 before declining by 36% in 2009. In 2016, prices started to rise again and have now eclipsed the highest price reached during the housing bubble reaching $636,000. Since 2015, prices have risen by 45%. Housing sales prices in the other Verde Valley communities are significantly lower, generally in the $250,000 range.
- Employment in the Verde Valley is expected to see significant growth over the next ten years with Sedona forecasted to increase from 8,179 jobs in 2019 to 9,788 in 2030. The predominance of job growth in Sedona over the next ten years is forecasted to be in the Accommodations & Food Service industry (restaurants and hotels) and tourist-oriented jobs. This increase of more than 1,600 jobs will continue to place demands on the housing inventory in Sedona. However, there are significant risks in the economy over the near term due to the COVID-19 pandemic that is affecting airline travel and potentially planned commercial or hotel development in Sedona. While the City is seeing continued interest in hotel development, the employment forecast for Sedona has been adjusted for the short-term uncertainty in the economy. Job growth is expected to range from 950 to 1,100 jobs over the next ten years.
- Nearly 58% of the renters in Sedona (over 800 households) are cost burdened, paying more than 30% of their household income on rent. The lack of affordable units most affects those households earning less than $50,000 including service workers, teachers, and critical service employees such as police and fire fighters. Homeowners earning less than $50,000 are also affected by the lack of affordable housing supply. This core ownership group encompasses more than 900 households earning less than $50,000

per year.

Table A

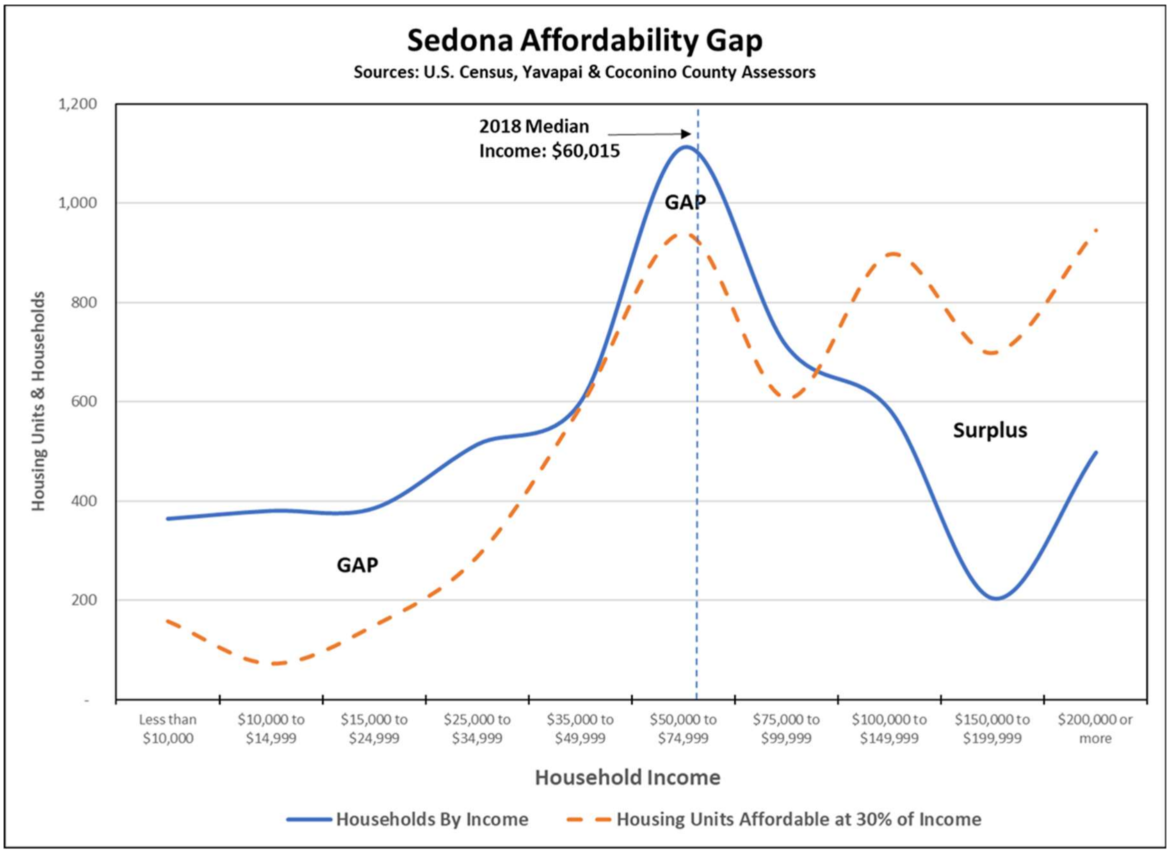
Housing Costs as a Percentage of Household Income			
	City of Sedona		
Housing Tenure & Income	Total Households	Paying More Than 30% Toward Housing	% Paying More Than 30% Toward Housing
Owner-Occupied Housing Units			
Less than $20,000:	454	437	96.3%
$20,000 to $34,999:	378	232	61.4%
$35,000 to $49,999:	430	253	58.8%
$50,000 to $74,999:	814	260	31.9%
$75,000 or more:	1,709	270	15.8%
Zero or negative income	41	-	0.0%
Totals	**3,826**	**1,452**	**38.0%**
Renter-Occupied Housing Units			
Less than $20,000:	392	392	100.0%
$20,000 to $34,999:	150	113	75.3%
$35,000 to $49,999:	237	189	79.7%
$50,000 to $74,999:	271	89	32.8%
$75,000 or more:	189	24	12.7%
Zero or negative income	53	-	0.0%
No cash rent	102	-	0.0%
Totals	**1,394**	**807**	**57.9%**
Total Households	**5,220**	**2,259**	**43.3%**

Source: 2013-2017 American Community Survey 5-Year Estimates

- Short Term Rentals (STRs) advertised on sites such as Airbnb and Vrbo have become a significant housing issue for many residents of Sedona. STRs have proliferated over the last few years reaching a total of 744 verified listings in mid-2019 representing approximately 12% of all housing units in the City. State legislation prevents cities and towns from regulating or prohibiting STRs. Of utmost concern with STRs is the conversion of housing units from permanent to transient use, many units of which would be affordable to moderate income households. STRs can also change the character of the City's residential neighborhoods and result in the reduction of property values for the community's permanent residents. Unfortunately, STRs will be a significant part of Sedona's housing inventory until legislation is enacted at the State level to either regulate them or prohibit them. Recent STR data from various sources appears to indicate that the market has not been materially affected by the COVID-19 pandemic and the industry is currently outperforming the hotel industry.
- This affordability gap analysis prepared for this study evaluates the relationship between the household incomes of residents and the availability of housing units that

are affordable to those households based on available Census data. For instance, the number households within Sedona at each income level are compared to the available housing units that they can afford. The "gap" occurs where there are more households than units. For Sedona, the analysis demonstrates that the gap extends to households earning up to $100,000 and the total cumulative gap is more than 1,250 units or approximately 23.5% of all households. The following table illustrates the results of the analysis.

Chart A



The large surplus of housing units available for households earning above $100,000 is an anomaly not found in many other communities. The explanation may be that there are retired households that have significant wealth and can purchase high priced homes, but do not have a commensurate income because they are retired.

- An additional source of affordable housing demand in Sedona is the growth of employment as employees moving to the City for work search for housing close to their place of employment. A pre-pandemic forecast suggested that employment in Sedona over the next ten years was expected to increase by more than 1,600 jobs. Most of the forecasted job growth in Sedona is expected to be in the restaurant and hotel industries and tourist-oriented service jobs. However, due to the pandemic, planned commercial or hotel development in Sedona may be impacted until the tourism industry fully recovers. However, as of the date of this report, City staff reports that planned hotels are still moving forward to development.

Given the risks and uncertainty in the economy, the employment forecast for Sedona over the next ten years has been adjusted to a range of 950 to 1,100 jobs or an average of 95 to 110 jobs per year. This forecast is further reduced for the number of dual income households and those households that would be expected to earn less than 100% of the Yavapai County area median income ($64,600). Based on those criteria, the demand for affordable units generated by employment growth is expected to range from 44 to 51 units per year or 220 to 255 units over the next five years.

- Sedona has a large inventory of mobile homes totaling 786 units with 442 built before 1979. In 1976, HUD established the Manufactured Home Construction and Safety Standards which regulate all aspects of the construction of mobile homes. Many of the units built before 1979 may be uninhabitable or unsafe and do not meet today's standards. However, they do provide low cost, affordable housing for low and moderate income households. If units are removed from the housing inventory and note replaced, residents of those units would need to relocate to another low cost unit (perhaps an unsafe one) or move to another community. The City needs to recognize the situation with its older mobile home inventory and create a plan or policy for their replacement over time.
- In summary, the final five-year affordable housing gap for Sedona is a combination of:
  - Addressing the current shortage of affordable housing for existing residents estimated at 1,260 units.
  - Providing for housing needs of low and moderate income persons who will be filling new employment opportunities within the City over the next five years. That demand is estimated at a total of 220 to 255 units.

In total, the five-year affordable housing demand is estimated at 1,480 to 1,515 units.

<u>Summary Findings and Conclusions - Sedona Employee Housing Survey</u>

As part of the City of Sedona Housing Needs Assessment and Action Plan, an online survey was prepared and distributed to persons who work within the City limits. Distribution of the survey was coordinated with the Sedona Chamber of Commerce, the City of Sedona, and local businesses in the community. The survey questionnaire was divided into three sections as follows:

- Work Environment
- Housing Situation

- About You (Demographic information)

Distribution of the survey was highly successful with 417 individual responses.

The primary take-aways from the survey are that employees like living in the Verde Valley and many have settled in as a place to raise a family. They have shown longevity in working and living in the area. Most also say they will continue to live and work in the Sedona area and 60% of those not living in Sedona would like to live in the community if affordable housing was available.

Work Environment

- Approximately one-third of all respondents live within the City of Sedona. Cottonwood, Cornville/Page Springs, and Oak Creek are the next most popular places to reside.
- There is longevity in persons working in Sedona. The majority of survey respondents have worked in Sedona for more than five years and 75% have worked in the City for more than three years.
- More than 90% of workers plan on continuing to work in Sedona. This indicates employee's satisfaction with the Verde Valley lifestyle, despite housing affordability issues, traffic congestion, and other tourism-related dislikes.
- The average worker has lived in the Sedona area for 13 years – longevity again.

Housing Situation

- Almost 90% of homeowners live in a single family home. Another 9% live in a mobile home.
- Renters live in a variety of housing units including single family homes (35%), apartments (28%), condos (12%), and mobile homes (9%).
- The average monthly rent for Sedona employees across the Verde Valley is $1,210. The highest monthly rent is found in Sedona while the lowest rents are in Camp Verde, Clarkdale, and Cottonwood.
- The federal government has established the standard for housing cost burden as those households that spend more than 30% of household income on rent or mortgage payments. For renter households, 56% of Sedona employees are paying more than 30% of their income for housing including 16% paying more than 50% toward housing. Approximately 19% of homeowners pay more than 30% of income toward housing.

Housing Cost Burden				
	Owners		Renters	
Burden Range	Households	% of Total	Households	% of Total
Less Than 20%	94	55.0%	25	17.9%
20% - 29.9%	45	26.3%	37	26.4%
30.0% - 49.9%	29	17.0%	55	39.3%
More than 50%	3	1.8%	23	16.4%
Total	**171**	**100.0%**	**140**	**100.0%**
Average Cost Burden	**17.5%**		**28.2%**	

- About one-third of renters plan on purchasing a home in the next two years and three-quarters prefer owning to renting.
- Obstacles to homeownership are lack of affordable units, lack of a down payment, and not earning enough income.
- 60% of respondents who do not live in Sedona would like to live in the City if affordable housing was available. This is an important finding that show employees would like to live closer to their place of employment despite some of the issues they may have with traffic congestion and other tourism-related dislikes.
- For those respondents who would not like to live in Sedona, traffic congestion and tourists were primary reasons. Others indicated they were happy with where they now live.

About You

The demographic characteristics of the survey respondents show that their average age is 43 and the average household size is 2.5 persons. The majority of households are dual income with homeowners averaging $98,800 in income and renters averaging $52,800 per household.

Stakeholder Interview Primary Findings - February 10, 2020

1. There is an overwhelming need for affordable employee housing in Sedona whether it is in the retail, restaurant, tourism, hospitality, education, or government industries. Very few employees working in Sedona can live and work in Sedona.
2. Because so few people can live and work in Sedona, the sense of community is declining.
    - People don’t know their neighbors.
    - Entering kindergarten classes have declining enrollment every year.
    - There is a constant churning of employees resulting in constantly retraining new hires.

- Even many business owners cannot afford to live in Sedona and thereby they have less ability to control their fates because they cannot vote in elections.

3. Short term vacation rentals (STRs) have resulted in constant turnover in neighborhoods and no one knows their neighbor. STRs have also reduced the availability of housing for working individuals.
4. Businesses are having to find housing for their employees in nearby communities to ensure that they have a sufficient workforce for entry level jobs. A few employers are providing a limited amount of housing for their employees as well as providing transportation for these workers so they can get to and from their jobs. This is an additional cost that is passed on to consumers and tourists. It was reported that the competition for good employees was so strong that workers have left jobs for a 10 cent per hour increase in pay.
5. The community needs more “tools in the toolbox” to expand housing availability. A variety of housing types for all levels of income are needed. Apartments, shared living, ADUs are a few options that were suggested.
6. Traffic is a major issue and becomes worse as the tourist season arrives.
7. Advocates for preservation of views and small town character are very vocal and influential. They have been successful in limiting non-traditional development options that could address the affordable housing issue. There is no clear-cut definition of “small town character” that several participants describe as a goal for the community. Building height appears to be a significant element of small town character, but other opinions include additional components. Without a clear-cut definition, there is limited direction on how to proceed with expanding housing options.

1.0 Introduction

The purpose of this report is to provide the City of Sedona and the Housing Assessment Advisory Committee with the findings of the existing conditions analysis and housing gap assessment. The report is comprised of two sections:

- A Demographic and Economic Analysis summary for the City of Sedona which outlines the characteristics of the residents of the community and its economic strengths. The analysis will differentiate Sedona from other Verde Valley communities.
- A Housing Conditions & Trends analysis which outlines the current housing environment, future population and housing growth forecasts, and the housing affordability gap.

The "gap" is the difference between the number of households within each income range and the number of housing units affordable to those households. The "gap" typically occurs at the lower end of the income range where there are more households than affordable units. Homeowners have more options to reduce their housing costs. Renters, however, have limited options other than to find more affordable housing farther from their place of employment, to double up with roommates to share rent, or in some cases seek substandard accommodations in sheds, tents or other unsafe spaces. The primary standard of determining the gap is estimating the number of households that are paying more than 30% of income towards housing.

Also included with this Assessment in the Appendix are:

1. A summary of the findings of the employee survey conducted in December 2019, and
2. A summary of the interviews conducted with employer groups in February 2020.

2.0 Demographic & Economic Analysis

Most of the data presented in this section is a comparative analysis of the City of Sedona to other jurisdictions in the Verde Valley. This provides perspective on how Sedona compares to its Verde Valley neighbors and the Verde Valley as a whole. Verde Valley Communities include in this analysis are the incorporated municipalities of Camp Verde, Clarkdale, Cottonwood, and Jerome as well as unincorporated areas of Cornville, Lake Montezuma, Verde Village and Village of Oak Creek.

2.1 Demographic Profile

The 2019 population of City of Sedona is estimated by the Arizona Office of Economic Opportunity (OEO) at 10,374 persons (Table 1), a slight increase from 10,305 persons in 2018. The Verde Valley population as a whole is estimated at 65,556 persons. OEO estimates between the decennial census years are based on surveys, permit data, and other sources. The true resident population for the Verde Valley communities will not be known until the 2020 Census.

Table 1

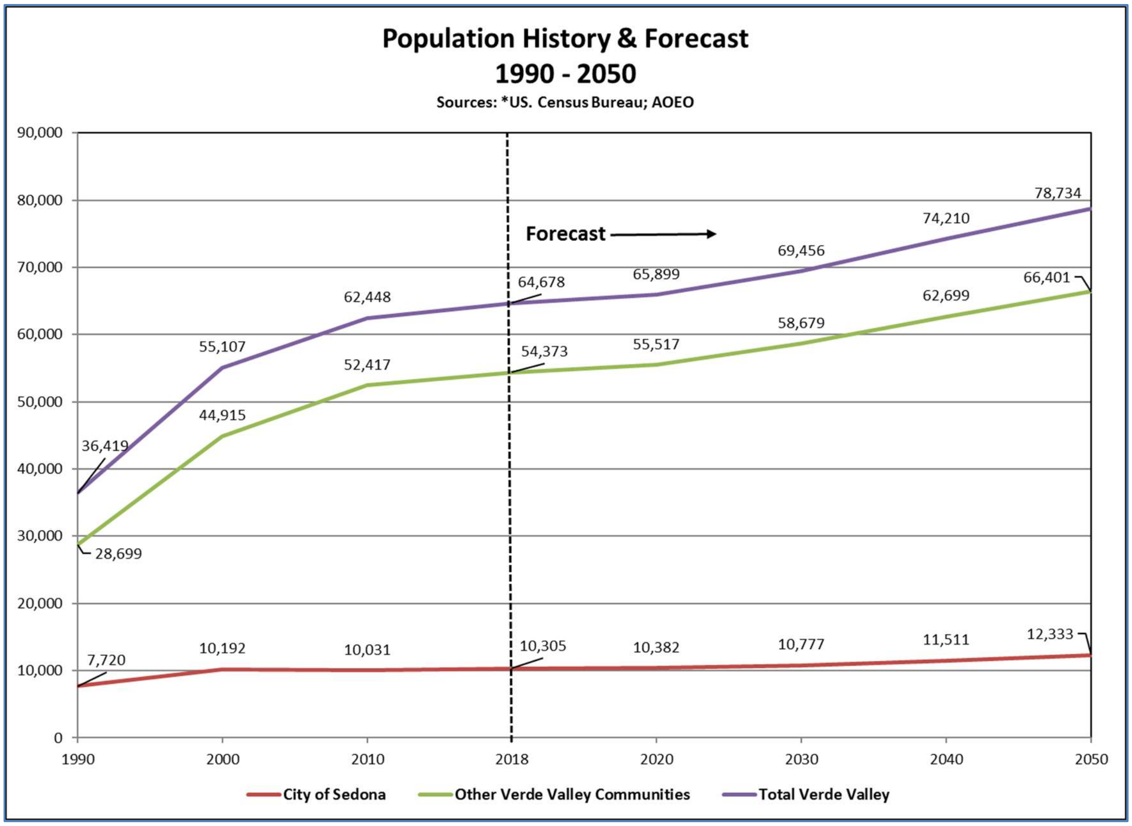
2019 Population & Household Estimates

Municipalities	Population	Households	Persons Per Household
Sedona	**10,374**	**5,285**	**1.96**
Camp Verde	11,162	4,361	2.56
Clarkdale	4,517	2,384	1.89
Cottonwood	12,249	5,589	2.19
Jerome	450	222	2.03
Unicorporated Areas			
Cornville	3,665	1,542	2.38
Lake Montezuma	5,784	2,486	2.33
Village of Oak Creek	5,888	2,232	2.64
Verde Village	11,466	5,785	1.98
Total Verde Valley	**65,556**	**29,886**	**2.19**

Source:U.S. Census Bureau; Office of Economic Opportunity

Chart 1 compares the historic and forecasted growth of City of Sedona over the next 30 years to that of its neighboring Verde Valley communities. The City of Sedona has experienced very little growth since 1990 and is forecasted by the Arizona Office of Economic Opportunity (AOEO) to grow from its current 10,300-person population to 12,300 over the next 30 years. The majority of the population growth in the Verde Valley will be concentrated in Camp Verde and Cottonwood as well as the unincorporated areas.

Chart 1



The average household size of the City of Sedona residents is among the lowest of all Verde Valley communities (Table 2). Across the Verde Valley, renter-occupied units have larger households than owners, something not typically found in the demographic characteristics of a region. Normally, renters have lower household sizes because they are younger and do not have children. This factor may reflect the difficulty of finding affordable ownership housing in this part of Yavapai County.

Residents of the City of Sedona are on average older than the Verde Valley median age. Surprisingly, the median age of the entire Verde Valley is significantly higher than the statewide median of 37.2 years. The older median age for the Verde Valley may show that it is a magnet for retirees desiring to live an environment with significant natural beauty and with a moderate climate.

Table 2

Average Household Size & Median Age				
Communities	Average Household Size	Owner Occupied Units	Renter Occupied Units	Median Age
City of Sedona	1.96	2.01	1.84	58.70
Other Verde Valley Communities	2.31	2.28	2.37	50.19
Total Verde Valley	2.25	2.23	2.29	51.53

Source: 2013-2017 American Community Survey 5-Year Estimates

The level of education completed by the population is typically a reflection of household income and the employment characteristics of the region. Educational attainment for City of Sedona residents demonstrates that wealth factor with 46% of residents having a bachelor's degree or higher. Comparatively, only 22% of the remaining of Verde Valley residents have attained a bachelor's degree or higher. The number of persons who have less than 9th grade through some college but no degree education level is lower in the City of Sedona compared to Other Verde Valley Communities and the Verde Valley as whole.

Table 3

Educational Attainment - Last year Completed in School Percent of Persons Age 25 and Older			
Educational Level	City of Sedona	Other Verde Valley Communities	Total Verde Valley
Population 25 years and over	**8,983**	**33,470**	**50,406**
Less than 9th grade	2.5%	3.9%	3.7%
9th to 12th grade, no diploma	2.6%	7.5%	6.6%
High school graduate	16.7%	27.9%	25.9%
Some college, no degree	23.2%	30.2%	29.0%
Associate's degree	9.2%	8.8%	8.9%
Bachelor's degree	25.1%	12.2%	14.5%
Graduate or professional degree	20.7%	9.5%	11.5%

Source: 2013-2017 American Community Survey 5-Year Estimates

As expected, household incomes in the City of Sedona are higher than virtually every other community in the Verde Valley except for Cornville. However, average incomes, which are skewed by high income households, are significantly higher in Sedona. However, both Jerome and the Village of Oak Creek also have high average income households as well. The high incomes are a reflection of the natural and historic characteristics of each community which attract above-average income individuals to work, live, and retire there.

Table 4

Median & Average Household Incomes		
Municipalities	**Median Income**	**Average Income**
Sedona	**$58,417**	**$82,535**
Camp Verde	$40,465	$48,440
Clarkdale	$45,901	$59,836
Cottonwood	$32,746	$43,177
Jerome	$48,125	$74,583
Unicorporated Areas		
Cornville	$60,455	$69,805
Lake Montezuma	$38,422	$49,050
Village of Oak Creek	$53,735	$79,520
Verde Village	$49,016	$60,736
Total Verde Valley	$46,532	$61,442

Source: 2013-2017 American Community Survey 5-Year Estimates

Income estimates are based on a survey undertaken by the Census and can show great variability. For instance, the following table shows the number of households and average household income for Sedona from 2009 through 2017. The household count has declined by more than 500 households over that time and average incomes have essentially remained flat, although they rose in 2011 and 2012. The 2020 Census will provide more accurate estimates of income.

Table 5

Historic Average Household Income City of Sedona		
Year	**Households**	**Mean income**
2009	5,754	$84,309
2010	5,307	$86,186
2011	5,479	$96,364
2012	5,293	$101,434
2013	5,302	$81,134
2014	5,136	$74,702
2015	5,205	$81,987
2016	5,125	$80,995
2017	5,220	$82,535

Source: American Community Survey 5-Year Estimates

Despite the high incomes in the City of Sedona, there are still families and households that have very modest incomes. According to the Census, 43% of Sedona households have incomes that are less than $50,000 per year. These are the households that are most vulnerable to increases in housing values and rents. For the entire Verde Valley, 54% of households have incomes less than $50,000.

Table 6

Household Income by Income Range

	City of Sedona		Other Verde Valley Communities		Total Verde Valley	
	Estimate	% of Total	Estimate	% of Total	Estimate	% of Total
Total Households	**5,220**		**23,153**		**28,373**	
Less than $25,000	1,085	20.8%	6,342	27.4%	7,427	26.2%
$25,000 to $49,999	1,152	22.1%	6,857	29.6%	8,009	28.2%
$50,000 to $74,999	1,085	20.8%	4,574	19.8%	5,659	19.9%
$75,000 to $99,999	742	14.2%	2,365	10.2%	3,107	11.0%
$100,000 to $124,999	311	6.0%	1,312	5.7%	1,623	5.7%
$125,000 to $149,999	188	3.6%	568	2.5%	756	2.7%
$150,000 to $199,999	181	3.5%	642	2.8%	823	2.9%
$200,000 or more	476	9.1%	493	2.1%	969	3.4%
Median Income	$58,417		$43,852		$46,532	
Mean Income	$82,535		$56,687		$61,442	

Source: 2013-2017 American Community Survey 5-Year Estimates

Table 7 looks at the change in the number of households in the City between 2009 and 2018 by income and tenure (homeowner or renter). The data confirms some of the comments received in focus groups regarding the loss of moderate-income households in the community and the resulting decline in school enrollment. These comments are further confirmed by Table 8 which evaluates the change in number of households by the age of the primary householder and tenure. The table shows a loss of residents, both homeowners and renters, between the ages of 25 and 59 since 2009. Some of this population loss may be due to the increase in short term rentals in the community which reduces affordable housing options. The increase in housing values and rents also contributes to families moving from Sedona to other parts of the Verde Valley.

Table 7

Tenure by Household Income 2009 & 2018			
Tenure & Income	**2009**	**2018**	**Change**
Total Households	**5,754**	**5,348**	**(406)**
Owner occupied:	**4,136**	**4,113**	**(23)**
Less than $5,000	103	101	(2)
$5,000 to $9,999	190	100	(90)
$10,000 to $14,999	117	161	44
$15,000 to $19,999	96	159	63
$20,000 to $24,999	187	114	(73)
$25,000 to $34,999	432	391	(41)
$35,000 to $49,999	581	337	(244)
$50,000 to $74,999	667	905	238
$75,000 to $99,999	569	626	57
$100,000 to $149,999	528	558	30
$150,000 or more	666	661	(5)
Renter occupied:	**1,618**	**1,235**	**(383)**
Less than $5,000	142	92	(50)
$5,000 to $9,999	14	68	54
$10,000 to $14,999	8	219	211
$15,000 to $19,999	69	77	8
$20,000 to $24,999	74	37	(37)
$25,000 to $34,999	444	123	(321)
$35,000 to $49,999	377	262	(115)
$50,000 to $74,999	164	205	41
$75,000 to $99,999	38	86	48
$100,000 to $149,999	111	27	(84)
$150,000 or more	105	39	(66)

Source: 2014-2018 American Community Survey 5-Year Estimates

Table 8

Tenure by Age of Householder 2009 & 2017			
Tenure & Age	**2009**	**2017**	**Change**
Total Households	**5,754**	**5,220**	**(534)**
Owner occupied:	4,136	3,826	**(310)**
Householder 15 to 24 years	-	7	**7**
Householder 25 to 34 years	90	10	**(80)**
Householder 35 to 44 years	229	302	**73**
Householder 45 to 54 years	755	466	**(289)**
Householder 55 to 59 years	831	588	**(243)**
Householder 60 to 64 years	527	526	**(1)**
Householder 65 to 74 years	941	1,093	**152**
Householder 75 to 84 years	630	498	**(132)**
Householder 85 years and over	133	336	**203**
Renter occupied:	1,618	1,394	**(224)**
Householder 15 to 24 years	13	41	**28**
Householder 25 to 34 years	229	189	**(40)**
Householder 35 to 44 years	457	334	**(123)**
Householder 45 to 54 years	385	189	**(196)**
Householder 55 to 59 years	240	182	**(58)**
Householder 60 to 64 years	43	167	**124**
Householder 65 to 74 years	176	194	**18**
Householder 75 to 84 years	23	98	**75**
Householder 85 years and over	52	-	**(52)**

Sources: 2005-2009 and 2013-2017 American Community Survey 5-Year Estimates

The U.S. Department of Housing and Urban Development (HUD) produces data on low and moderate-income households. The information is used to determine housing need. HUD classifies the income data in the following manner:

- Extremely low income: Persons in households earning less than 30% of the area median income (AMI). For Yavapai County, the current AMI is $64,600 per year.
- Very low income: Persons in households that earn less than 50% of the area median income (AMI).
- Low income: Persons in households that earn between 50% and 80% of AMI.
- Moderate income: Persons in households that earn between 80% and 100% of AMI.

The estimates of low and moderate-income households are shown on Table 9. The data is somewhat dated as 2016, but the most current information available from HUD. In 2016, the median family income was estimated at $52,200. Combined, 32.3% of the City's population is classified as low and moderate-income or 1,655 households.

Table 9

Low & Moderate-Income Households City of Sedona			
% of Median Family Income	Income for Family of 4	Total Households	% of Total Households
0%-30%	$0 - $24,300	545	10.6%
30%-50%	$24,301 - $26,600	480	9.4%
50%-80%	$26,601 - $42,600	630	12.3%
80%-100%	$42,601 - $52,200	495	9.7%
>100%	$52,201+	2,975	58.0%
Total		5,125	100.0%

Sourcesl U.S. Census 2012-2016 American Communty Survey, HUD CHAS Dataset

Another method of evaluating the well-being of a community is the poverty level. The U.S. government establishes the criteria for poverty as noted on the table below based on household or family size. The poverty level is established for all 48 contiguous states (excluding Alaska and Hawaii which have higher limits) and is calculated at three times the cost of a minimum food diet, updated annually for inflation. The official poverty rate for the U.S. in 2017 was 13.4% of the population or 42.6 million persons. For the typical family of four persons, the poverty level is an income of less than $26,370 per year in 2019. According to federal sources, Arizona has a high level of "deep" poverty (those persons earning less than 50% of the poverty level).

Table 10

Poverty Income Guidlines		
Persons in Family/ Household	2015 Poverty Level	2019 Poverty Level
1	$11,770	$13,300
2	$15,930	$17,120
3	$20,090	$19,998
4	$24,250	$26,370
5	$28,410	$31,800
6	$32,570	$36,576
7	$36,730	$42,085
8	$40,890	$47,069

Source: U.S. Federal Register

Poverty data for counties and towns is only estimated periodically by the Census. The numbers shown on the follwing table are five year estimates from the 2017 American Community Survey. Overall, poverty in the City of Sedona is well below the statewide average. Other

Verde Valley communities' poverty levels are above the statewide average. Approximately 1,118 persons or 10.9% of the City of Sedona's population is considered to live in poverty in 2017.

Table 11

Poverty

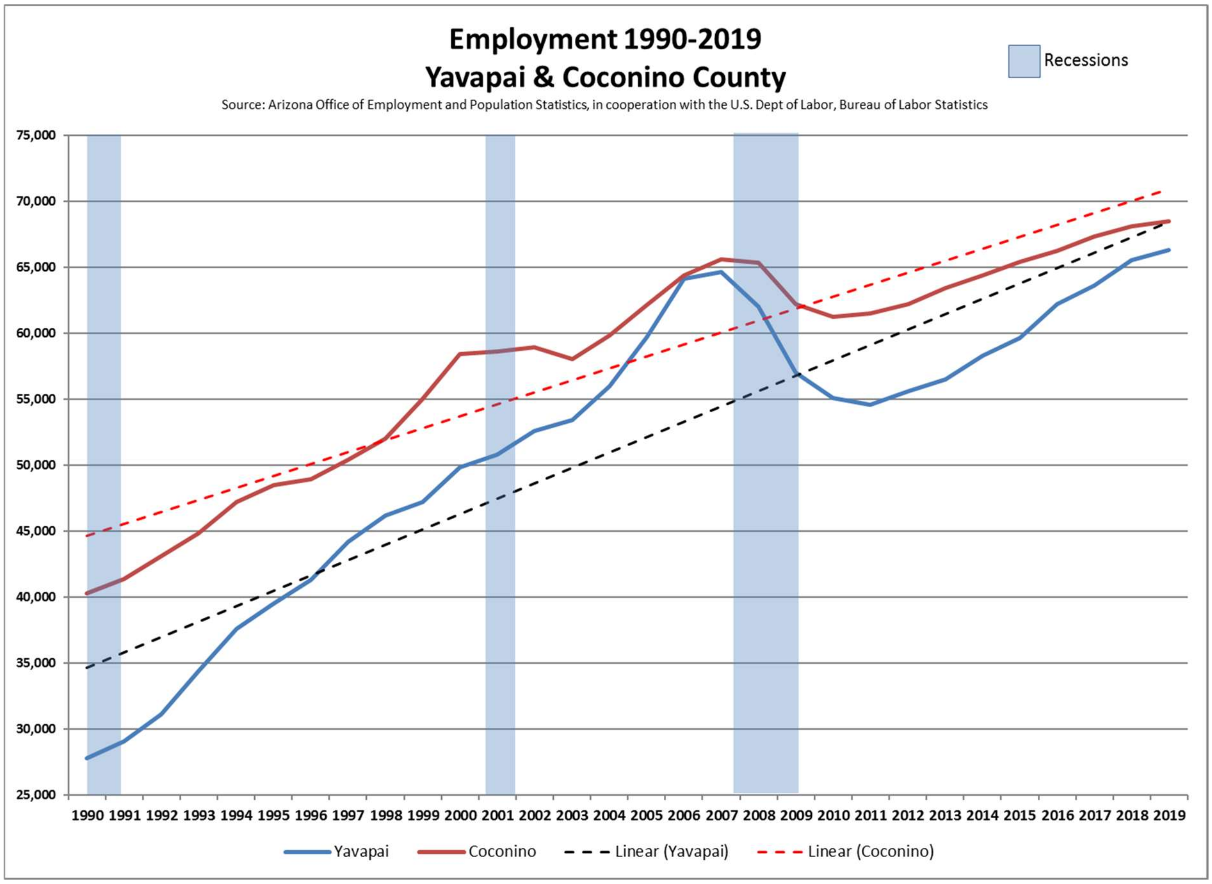
Jurisdiction	Persons in Poverty	% of Total Population
City of Sedona	1,118	10.9%
Other Verde Valley Communities	9,312	17.3%
Total Verde Valley	10,430	16.3%
Arizona	1,128,046	17.3%

Source: Estimates are from the 2013-2017 American Community Survey 5-Year Estimates. Estimateds only include the population for whom poverty status are determined

2.2 Economic Profile

Employment in Yavapai County has grown slowly since 1990 and, at times, has been highly cyclical. The trendline for employment growth is upward sloping as shown on Chart 3. By comparison, neighboring Coconino County's employment base has grown at a slower rate and only has 3% more jobs than Yavapai County.

Chart 2



Yavapai County is similar to the rest of Arizona counties due to its dependence on services. Approximately 84% of all jobs in the County are categorized as "Service-Providing" which includes the trade, transportation and utilities, professional and business services, education and health services and government among others. By comparison, 90% of Coconino County's employment base is comprised of service-providing jobs with only 15% categorized as goods-producing. Across Arizona, service-providing jobs comprise 87% of all jobs (and has been increasing for the last 30 years) while government makes up 14% of the state's employment base. Coconino County is highly dependent on the tourism industry and government.

Table 12

Employment by Type 2019
Yavapai & Coconino Counties

	Yavapai County		Coconino County		Arizona (1,000's)	
Job Type	Jobs	% of Total	Jobs	% of Total	Jobs	% of Total
Total Nonfarm Employment	**66,300**		**68,500**		**2,930.8**	
Goods Producing	**10,300**	**15.5%**	**7,100**	**10.4%**	**366.0**	**12.5%**
Service-Providing	**56,000**	**84.5%**	**61,400**	**89.6%**	**2,564.8**	**87.5%**
Trade, Transportation, and Utilities	12,300	18.6%	9,300	13.6%	545.0	18.6%
Information	500	0.8%	400	0.6%	47.4	1.6%
Financial Activities	2,000	3.0%	1,400	2.0%	222.5	7.6%
Professional and Business Services	4,500	6.8%	3,400	5.0%	441.0	15.0%
Educational and Health Services	13,000	19.6%	9,400	13.7%	465.0	15.9%
Leisure and Hospitality	10,900	16.4%	16,000	23.4%	331.9	11.3%
Other Services	2,200	3.3%	1,700	2.5%	95.3	3.3%
Government	**10,600**	**16.0%**	**19,800**	**28.9%**	**416.7**	**14.2%**
Federal Government	1,500	2.3%	2,700	3.9%	56.6	1.9%
State and Local Government	9,000	13.6%	17,100	25.0%	360.1	12.3%

Source: Arizona Office of Economic Opportunity

Unemployment declined significantly across the State between 2012 and 2019. The unemployment rate in 2019 for the U.S. was 3.9%, considered to be full employment. Arizona's 2019 average unemployment rate was slightly higher at 4.8%, down from 8.3% in 2012. Most communities and counties enjoyed unemployment rates in the 5.0% range in 2019. That came to an end in March 2020 when the economy shut down due to the COVID-19 pandemic. Unemployment peaked at 13.1% in the state in April 2020 and has slowly declined since then reaching 7.9% in October. The average unemployment rate through October 2020 is slightly higher reflecting the high rates in the early part of the year. Yavapai County's unemployment rate is below the statewide rate. Most cities in the Verde Valley have recovered much of their job losses except for Clarkdale and Jerome.

Table 11

Unemployment Rate							
Year	Arizona	Yavapai County	Camp Verde	Clarkdale	Cottonwood	Jerome	Sedona
2012	8.3%	8.6%	9.9%	13.6%	8.7%	5.4%	7.1%
2013	7.7%	7.7%	8.9%	12.3%	7.8%	5.0%	6.6%
2014	6.8%	6.4%	7.4%	10.5%	7.1%	7.4%	6.3%
2015	6.1%	5.6%	6.5%	9.3%	6.3%	6.6%	5.7%
2016	5.4%	4.9%	5.7%	8.3%	5.5%	5.7%	5.2%
2017	4.9%	4.5%	5.3%	7.6%	5.1%	5.2%	4.7%
2018	4.8%	4.5%	5.2%	7.5%	5.0%	5.1%	4.7%
2019	4.8%	4.5%	5.3%	7.6%	5.0%	5.2%	4.6%
2020 Average Through Oct.	**8.6%**	**8.0%**	**6.3%**	**12.8%**	**7.1%**	**12.9%**	**8.5%**
Oct 2020	**7.9%**	**6.9%**	**5.6%**	**10.6%**	**6.2%**	**10.7%**	**7.3%**

Source: Arizona Office of Economic Opportunity

The occupations of City of Sedona employees are heavily oriented towards management, business, science, and arts occupations. Employees in the remainder of the Valley Verde are more oriented towards (1) natural resources, construction, and maintenance occupations, (2) service occupations, and (3) production and transportation.

Table 14

Employment by Occupation			
	City of Sedona	Other Verde Valley Communities	Total Verde Valley
Civilian employed population 16 years and over	4,516	21,179	25,695
Management, business, science, and arts occupations	40.9%	30.5%	32.4%
Service occupations	21.6%	27.2%	26.2%
Sales and office occupations	26.8%	22.9%	23.6%
Natural resources, construction, and maintenance occupations	4.3%	10.7%	9.6%
Production, transportation, and material moving occupations	6.3%	8.8%	8.3%

Source: 2013-2017 American Community Survey 5-Year Estimates

The average commute time for City of Sedona residents is 16.3 minutes, primarily because most of the jobs are located in the City of Sedona. The average commute time for Other Verde Valley Communities residents is higher than the Verde Valley average.

Table 15

Average Travel Time to Work	
Jurisdiction	**Minutes**
City of Sedona	16.4
Other Verde Valley Communities	25.3
Total Verde Valley	23.7
Source: 2013-2017 American Community Survey 5-Year Estimates	

Additional data was collected on "place of work" to determine whether residents work within their county of residence. For Sedona, the percentage of workers who work within their county of residence is slightly lower than the statewide average. This may be due to the fact that Sedona is situated in two counties or it could mean that some people commute to places like Flagstaff for work. This pattern is more apparent for male workers. The remaining Verde Valley communities work within their county of residence at rates similar to the statewide average.

Table 16

Workers by Place of Work by Sex

Place of Work	City of Sedona		Other Verde Valley Communities		Total Verde Valley	
Total Workers 16 Years & Older	**4,378**		**20,466**		**24,844**	
Worked in state of residence:	4,218	96.3%	20,255	99.0%	24,473	98.5%
Worked in county of residence	3,530	80.6%	18,390	89.9%	21,920	88.2%
Worked outside county of residence	688	15.7%	1,865	9.1%	2,553	10.3%
Worked outside state of residence	160	3.7%	211	1.0%	371	1.5%
Male:	2,201		11,061		13,262	
Worked in state of residence:	2,085	94.7%	10,937	98.9%	13,022	98.2%
Worked in county of residence	1,736	78.9%	9,845	89.0%	11,581	87.3%
Worked outside county of residence	349	15.9%	1,092	9.9%	1,441	10.9%
Worked outside state of residence	116	5.3%	124	1.1%	240	1.8%
Female:	2,177		9,405		11,582	
Worked in state of residence:	2,133	98.0%	9,318	99.1%	11,451	98.9%
Worked in county of residence	1,794	82.4%	8,545	90.9%	10,339	89.3%
Worked outside county of residence	339	15.6%	773	8.2%	1,112	9.6%
Worked outside state of residence	44	2.0%	87	0.9%	131	1.1%

Source: 2013-2017 American Community Survey 5-Year Estimates

The U.S. Census Bureau produces a model that estimates commuting patterns of residents for counties and cities. The data is somewhat dated from 2017 but provides some indication of where residents live and work. The following table shows the inflow and outflow of all jobs for the City of Sedona. In total, of the 5,979 persons working in Sedona, 74.2% live outside Sedona

(4,435 persons) while 25.8% or 1,544 persons lived and worked in the Sedona. Verde Village, Cottonwood, and Village of Oak Creek are the three primary areas where Sedona workers live.

Of the 3,725 working persons who live in City of Sedona, 2,181 leave the city for work while 1,544 live and work in the city. Over 40% of all working adults who live in the Sedona also work in Sedona.

Table 17

City of Sedona Inflow/Outflow Job Counts 2017

City of Sedona					
Where Sedona Workers Live			Where Sedona Residents Are Employed		
Place	Count	Share	Place	Count	Share
All Places	5,979	100.0%	All Places	3,725	100.0%
Sedona	1,544	25.8%	Sedona	1,544	41.4%
Verde Village	637	10.7%	Phoenix	418	11.2%
Cottonwood	615	10.3%	Flagstaff	211	5.7%
Village of Oak Creek	475	7.9%	Scottsdale	115	3.1%
Camp Verde	252	4.2%	Cottonwood	90	2.4%
Flagstaff	237	4.0%	Tempe	80	2.1%
Phoenix	208	3.5%	Village of Oak Creek	74	2.0%
Cornville	198	3.3%	Prescott	64	1.7%
Lake Montezuma	132	2.2%	Camp Verde	56	1.5%
Prescott Valley	106	1.8%	Mesa	46	1.2%
All Other Locations	1,575	26.3%	All Other Locations	1,027	27.6%

Source: U.S. Census Bureau's OntheMap

As a community that is dependent on tourism, Sedona has an extremely high level of per capita sales for retail services and restaurants and bars. Sedona's per capita retail sales is nearly twice the statewide average and 5.7 times the statewide rate for restaurants and bars. These sales figures provide the City with a tremendous revenue source that is not found in most small communities. On the other hand, the City's expenditures likely reflect the demands placed on the town for services, particularly public safety.

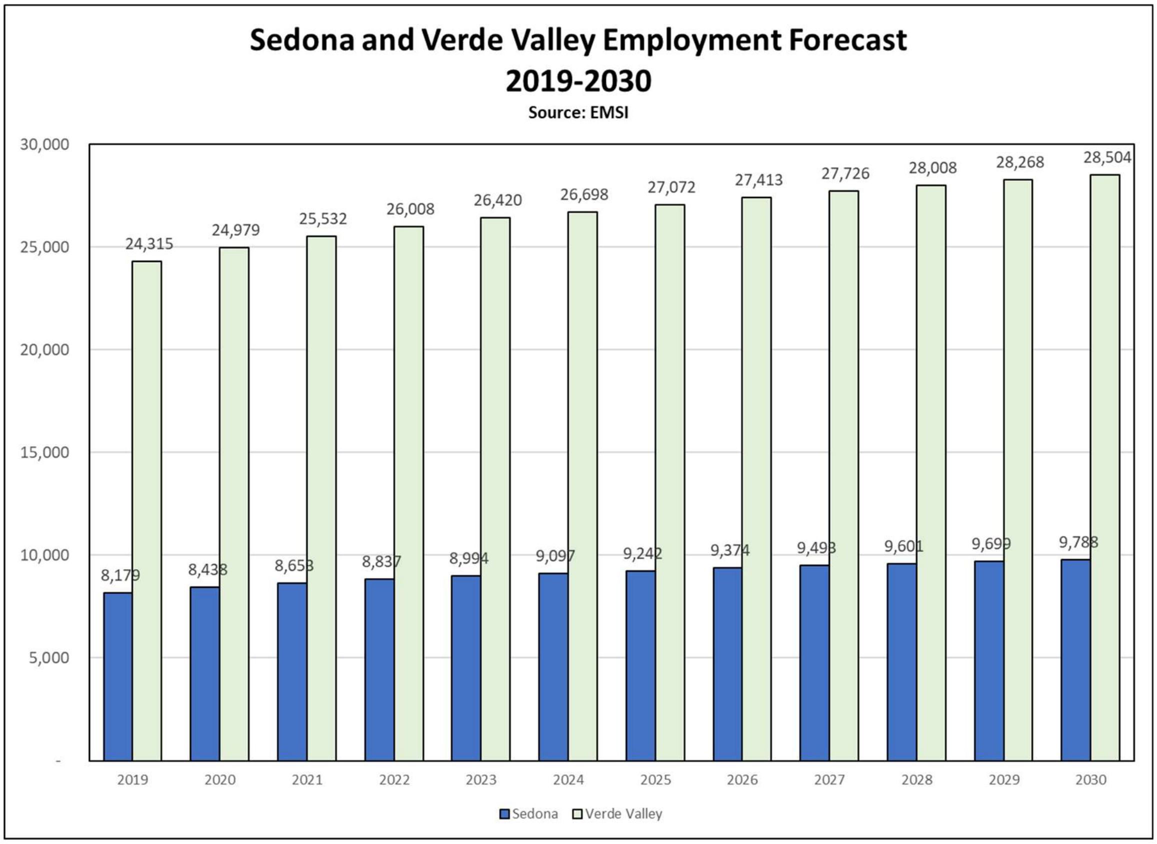
Table 18

FY2019 Per Capita Taxable Sales			
Jurisdiction	**Population**	**Retail Trade**	**Restaurants and Bars**
Arizona	7,187,990	$9,970	$2,119
Yavapai County	232,024	$8,725	$1,831
Phoenix	1,617,344	$10,202	$2,422
Sedona	**10,305**	**$19,698**	**$12,108**

Sources: City CAFRs, OEO Population Estimate 7/1/2019

Employment in the Verde Valley is expected to continue to grow over the next ten years although the growth rate may be affected by the COVID-19 pandemic. Forecasts prepared prior to the pandemic expected the region to grow at an annual rate of 1.65% through 2030. Employment is forecasted to increase from 24,300 jobs in 2019 to 28,500 jobs by 2030. Sedona is also expected to experience significant growth, increasing from 8,179 jobs in 2019 to 9,788 in 2030. This increase of more than 1,600 jobs will continue to place demands on the housing inventory in Sedona. The pandemic could result in a slowdown of significant commercial or hotel development in the near term resulting in limited job prospects. However, according to city information, retail sales activity has recovered as of the date of this report and hotel development activity does not appear to be affected by the pandemic.

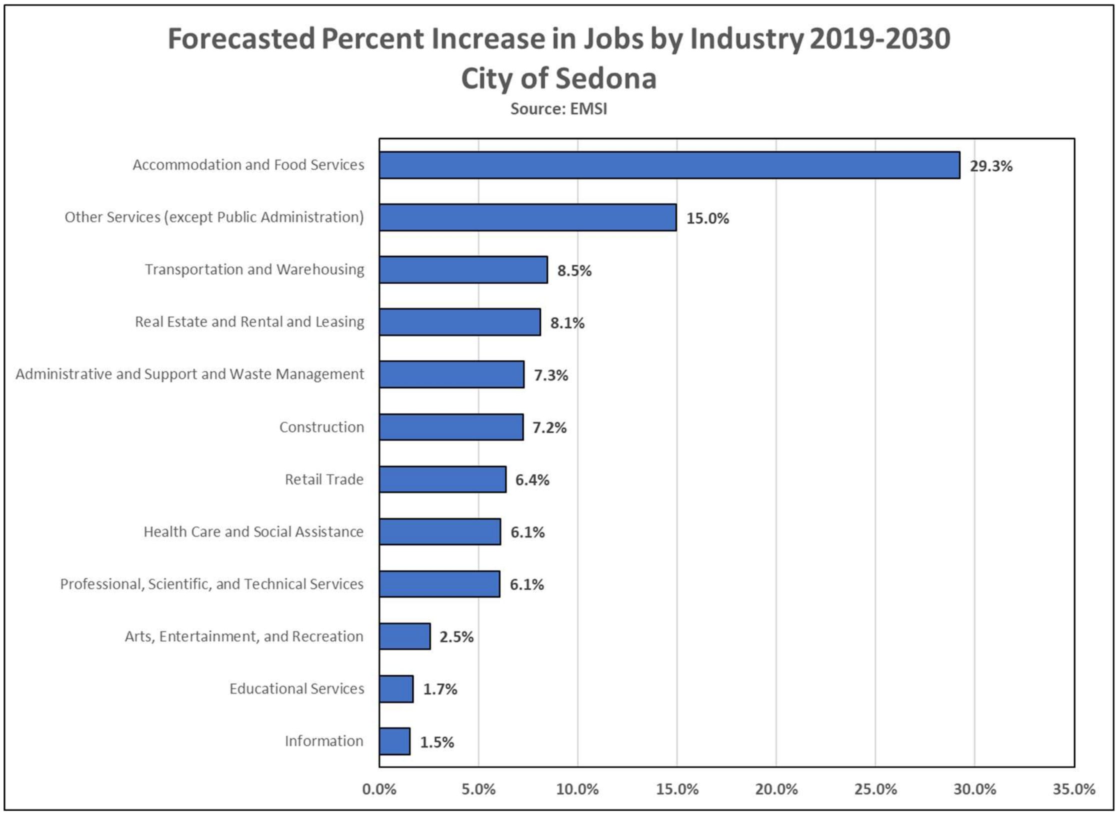
Chart 3



The predominance of job growth in Sedona over the next ten years is forecasted to be in the Accommodations & Food Service industry – essentially restaurants and hotels. Other services, primarily tourist-oriented jobs, are also forecasted for significant growth. Beyond those two industries, most of the growth is related to support services related to increases in the tourism industry and growth in population.

As of the date of this report, Arizona has weathered the pandemic very well and is one of the leading economies in the country during the closing of the economy and recovery. However, air travel has been affected and has limited the number of out of state and out of country visitors to Arizona. Visitors to Arizona are likely driving from nearby states instead of flying from more distant locations. According to information from the Sedona Chamber of Commerce, occupancy at hotels in Sedona was down 18.8% for fiscal year 2020. Bed tax collections were down 13% for FY 2020 although retail and restaurant sales started to recover in the last two months of the fiscal year. City sales taxes in total were down 6% for the fiscal year.

Chart 4



The ultimate increase in Sedona's employment base over the next ten years may not reach the 1,600 jobs forecast. There is still risk in the economy in the near term. Future employment growth in Sedona over the next ten years will likely range from 950 to 1,100 jobs.

2.3 Summary

Following are the primary findings regarding the demographic and economic characteristics of Sedona and the Verde Valley.

- Sedona is forecasted by the Arizona Office of Economic Opportunity to grow from its current 10,300-person population to 12,333 over the next 30 years. Neighboring communities in the Verde Valley are expected to grow at a faster rate in the future, adding another 12,000 persons by 2050 or about 400 persons per year.
- As expected, Sedona's median household income is higher than other Verde Valley communities, reflecting its natural attributes and the desire of persons to retire to the area. High income levels are not typically found in the non-urban parts of the state.
- The population of Sedona is well educated, reflecting its above average income levels.
- Poverty in City of Sedona is well below the statewide average. Other neighboring communites in the Verde Valley have poverty levels that are equal to the statewide average.

- Employment in Yavapai County has a lower level of service-providing jobs than Coconino County and the state. It appears that most of the goods producing jobs in Yavapai County are located in the Prescott area. Leisure and hospitality employment in Yavapai County is above the statewide average, but lower than that found in Coconino County.
- Employee commuting patterns are an important indicator of the difficulty in finding affordable housing. For Sedona, 75% of those employees who work in the city live in another community. An estimated 39% of Sedona workers live in the Verde Valley region, primarily in Cottonwood, Verde Village, Camp Verde or Village of Oak Creek.
- According to Census data, the City has experienced a loss of moderate-income households in the community that coincides with a decline in school enrollment. The data shows a loss of residents, both homeowners and renters, between the ages of 25 and 59 since 2009. Some of this population loss may be due to the increase in short term rentals in the community which reduces affordable housing options.
- Sedona was forecasted to see significant employment growth over the next ten years, primarily in the hotel and restaurant industries and tourism-related businesses. The COVID-19 pandemic may slow that growth over the next one to two years. Employment growth in the City is expected to range from 950 to 1,100 jobs through 2030.

3.0 Housing Conditions & Trends

The best available housing data for non-urban areas of the state comes from the American Community Survey of the U.S. Census. The data has been compiled from the 2013-2017 Five Year Estimates. Five Year estimates are only available for areas with smaller populations where there are too few households to provide a reliable survey estimate. To compute the estimates, the Census pools survey responses for the entire five-year period and applies measures to account for changes in geography, value of the dollar, margins of error, and similar factors.

Throughout most of this section, data will be shown for the City of Sedona, Other Verde Valley Communities and Total Verde Valley. The Verde Valley communities include Sedona, Camp Verde, Clarkdale, Cornville, Cottonwood, Jerome, Lake Montezuma, Verde Village, and Village of Oak Creek.

3.1 Housing Occupancy

According to the Census, Sedona has 6,450 housing units, of which 1,230 are considered vacant. Vacancy data from the Census has often been questioned for its accuracy and the Sedona estimate of nearly one-fourth of its inventory considered as vacant may be inaccurate or misunderstood. Vacant units can include seasonal housing, abandoned units, units that are vacant but for sale, units that are available for rent but are currently vacant, and similar conditions. Sedona's vacancy rate of 19.1% is well above the Verde Valley average.

The impact of short term rentals (STRs) on housing vacancy estimates is likely not reflected in the numbers outlined above since STRs really became an issue in the last two years. The 2020 Census may show different vacancy numbers since STRs may be noted as vacant if only occupied a few days during a month.

Of note is the number of seasonal or recreational units in Sedona and the Verde Valley. In Sedona, 14.6% of all vacant units are listed as seasonal or 946 units. This likely understates the true seasonal characteristic of the housing market since other occupied units may be used seasonally as well. However, the remaining Verde Valley communities also have a large portion of their housing stock in seasonal use as well totaling another 1,743 units. The seasonal units correlate with the higher median age of residents found in the Verde Valley.

Vacancy rates for both owner-occupied and renter-occupied units are very low and demonstrate the strong demand for units and the lack of available inventory. Rates in the 2%

to 3% range typically mean a market is in full occupancy, taking into account the normal turnover of homes and rental units in the marketplace.

Table 19

Total Household Units						
	City of Sedona		Other Verde Valley Communities		Total Verde Valley	
Occupancy Status	Estimate	% of Total	Estimate	% of Total	Estimate	% of Total
Total Units	**6,450**		**26,633**		**33,083**	
Occupied	**5,220**	**80.9%**	**23,153**	**86.9%**	**28,373**	**85.8%**
Vacant	**1,230**	**19.1%**	**3,480**	**13.1%**	**4,710**	**14.2%**
For rent	46	0.7%	383	1.4%	429	1.3%
Rented, not occupied	28	0.4%	99	0.4%	127	0.4%
For sale only	142	2.2%	387	1.5%	529	1.6%
Sold, not occupied	18	0.3%	6	0.0%	24	0.1%
For seasonal, recreational use	942	14.6%	1,743	6.5%	2,685	8.1%
For migrant workers	-	0.0%	-	0.0%	-	0.0%
Other vacant	54	0.8%	862	3.2%	916	2.8%
Homeowner Vacancy Rate	**3.6%**		**2.4%**		**2.7%**	
Renter Vacancy Rate	**3.1%**		**4.4%**		**4.2%**	

Source: 2013-2017 American Community Survey 5-Year Estimates

Sedona has a high percentage of single family detached units followed by mobile home units. Together, these units account for 87% of all units in the city. Mobile homes also comprise a high percentage of units in the other Verde Valley communities. Depending on the age of these units, some may pose health and safety hazards for residents if built before June 1976 when HUD established minimum standards for construction. **According to the U.S. Census, 442 of 786 mobile homes in Sedona (56%) were built before 1979. It is likely that most of these units do not meet the current construction standards for mobile homes.**

By comparison, Sedona only has 257 units within what would be considered traditional apartment or condo units (from 5 to 50 units in a structure, excluding duplexes, triplexes, and four-plexes). This total represents approximately 4.0% of total dwelling units in the City. In addition, there are only 211 occupied single family attached units (townhomes) in the city (3.3% of total units), 58 of which are considered vacant and most likely used on a seasonal basis. Comparatively, across the state multifamily complexes account for 16.4% of all housing unit; in Maricopa County, the percentage is even higher at 20.7% of total units. The lack of both apartment units and townhome units create a significant impediment for providing affordable housing to working families.

Table 20

Total Housing Units by Unit Type						
Units in Structure	**City of Sedona**	**% of Total Units**	**Other Verde Valley Communities**	**% of Total Units**	**Total Verde Valley**	**% of Total Units**
Total Housing Units	**6,450**		**26,633**		**33,083**	
1, detached	4,794	74.3%	16,307	61.2%	21,101	63.8%
1, attached	211	3.3%	1,051	3.9%	1,262	3.8%
2	221	3.4%	1,038	3.9%	1,259	3.8%
3 or 4	109	1.7%	692	2.6%	801	2.4%
5 to 9	133	2.1%	642	2.4%	775	2.3%
10 to 19	58	0.9%	590	2.2%	648	2.0%
20 to 49	57	0.9%	403	1.5%	460	1.4%
50 or more	9	0.1%	394	1.5%	403	1.2%
Mobile home	846	13.1%	5,470	20.5%	6,316	19.1%
Boat, RV, van, etc.	12	0.2%	46	0.2%	58	0.2%

Source: 2013-2017 American Community Survey 5-Year Estimates

As a result of the lack of apartment units in Sedona, many residents are forced to rent single family homes or mobile homes. Overall, 18% of all occupied single family homes and 39% of occupied mobile homes in Sedona are rented. In addition, 40% of the townhomes in Sedona are rented as well.

Table 21

Occupied-Housing Units by Unit Type						
	City of Sedona		Other Verde Valley Communities		Total Verde Valley	
Units in Structure	**Units**	**% of Total**	**Units**	**% of Total**	**Units**	**% of Total**
Total Occupied Housing Units	**5,220**		**23,153**		**28,373**	
Owner-occupied housing units:	**3,826**	**73.3%**	**15,365**	**66.4%**	**19,191**	**67.6%**
1, detached	3,181	83.1%	11,743	76.4%	14,924	77.8%
1, attached	91	2.4%	433	2.8%	524	2.7%
2	25	0.7%	125	0.8%	150	0.8%
3 or 4	28	0.7%	22	0.1%	50	0.3%
5 to 9	9	0.2%	-	0.0%	9	0.0%
10 to 19	-	0.0%	19	0.1%	19	0.1%
20 to 49	-	0.0%	-	0.0%	-	0.0%
50 or more	9	0.2%	-	0.0%	9	0.0%
Mobile home	471	12.3%	2,985	19.4%	3,456	18.0%
Boat, RV, van, etc.	12	0.3%	38	0.2%	50	0.3%
Renter-occupied housing units:	**1,394**	**26.7%**	**7,788**	**33.6%**	**9,182**	**32.4%**
1, detached	695	49.9%	2,708	34.8%	3,403	37.1%
1, attached	62	4.4%	508	6.5%	570	6.2%
2	81	5.8%	735	9.4%	816	8.9%
3 or 4	81	5.8%	598	7.7%	679	7.4%
5 to 9	98	7.0%	609	7.8%	707	7.7%
10 to 19	58	4.2%	380	4.9%	438	4.8%
20 to 49	16	1.1%	362	4.6%	378	4.1%
50 or more	-	0.0%	348	4.5%	348	3.8%
Mobile home	303	21.7%	1,532	19.7%	1,835	20.0%
Boat, RV, van, etc.	-	0.0%	8	0.1%	8	0.1%

Source: 2013-2017 American Community Survey 5-Year Estimates

Sedona's housing stock is older than its neighboring communities (Table 22). By 2020, nearly 40% of all housing units in the City will be more 40 years old. By comparison, the Verde Valley communities only have 28.3% of their housing stock built before 1980.

Table 22

Total Housing Units by Year Built						
	City of Sedona		Other Verde Valley Communities		Total Verde Valley	
Year Built	Units	% of Total	Units	% of Total	Units	% of Total
Total Units	6,450		26,633		33,083	
Built 2014 or later	49	0.8%	196	0.7%	245	0.7%
Built 2010 to 2013	66	1.0%	321	1.2%	387	1.2%
Built 2000 to 2009	809	12.5%	5,824	21.9%	6,633	20.0%
Built 1990 to 1999	1,576	24.4%	6,884	25.8%	8,460	25.6%
Built 1980 to 1989	1,420	22.0%	5,863	22.0%	7,283	22.0%
Built 1970 to 1979	1,507	23.4%	4,186	15.7%	5,693	17.2%
Built 1969 or earlier	1,023	15.9%	3,359	12.6%	4,382	13.2%

Source: 2013-2017 American Community Survey 5-Year Estimates

Construction activity in Sedona, according to the U.S. Census, has been modest with only 331 single family units built between 2013 and 2018 or an average of 55 per year. Data for 2019 is not yet available. By comparison, in Yavapai County 1,696 single family homes were built in 2018 alone. The County has also seen a number of multi-family complexes built over those six years.

Table 23

Residential Building Permits Units Constructed					
Year	Single Family	Duplex	3-4 Plex	Apartment	Total
Sedona					
2013	30	-	-	-	30
2014	46	-	-	-	46
2015	56	-	-	-	56
2016	70	-	-	-	70
2017	74	2	-	-	76
2018	55	-	-	-	55
Yavapai County					
2013	841	20	-	-	861
2014	948	8	4	80	1,040
2015	1,120	12	17	228	1,377
2016	1,336	22	-	214	1,572
2017	1,493	54	12	417	1,976
2018	1,696	56	18	309	2,079

Source: U.S. Census

Short Term Rentals (STRs)

Over the past three years, short term rentals advertised on sites such as Airbnb and Vrbo have become a significant housing issue for many residents of Sedona. As a tourist community, Sedona had taken the stance to prohibit short term rentals since the mid-1990s. However, in January 2017, SB1350 became law and preempted cities and towns from prohibiting and regulating STRs. Since that time, STRs have proliferated in Sedona reaching a total of 744 verified listings in mid-2019, excluding hotels, lodges, B&Bs, and timeshare properties. The STR inventory represents approximately 12% of all housing units in Sedona (although some STRs advertised on websites include RVs, tents, and cave dwellings). Through other legislation, Sedona is able to place a sales tax on STRs and require owners to post emergency contact information on the properties. Sedona is also creating a hot line for residents to lodge complaints about the use of STRs.

STRs present a variety of negative impacts for Sedona neighborhoods. These include illegal conversions of buildings to residential use, the lack of parking for homes that can accommodate large tourist groups, the introduction of commercial uses in a residential areas, and the violation of building and safety codes that normally apply to hotels or other guest properties. Of utmost concern is the conversion of housing units from permanent to transient use, many units of which would be affordable to moderate income households. STRs can also change the character of the City's residential neighborhoods and result in the reduction of property values for the community's permanent residents. Focus group interviews conducted for this study suggested that STRs have led to the loss of young families in the community as a result of the reduction in the available housing inventory. This may also explain the City's loss of residents between the ages 25 and 59 since 2009 (Table 8 of this report).

Recent STR data from various sources appears to indicate that the market has not been materially affected by the COVID-19 pandemic and the industry is currently outperforming the hotel industry. As a result, a transition or conversion of STR units from short-term rentals to long term rentals due to the pandemic will not likely occur to any extent.

Unfortunately, STRs will be a significant part of Sedona's housing inventory until legislation is enacted at the State level to either regulate them or prohibit them. A number of states and cities have enacted prohibitions to restrict their continued proliferation. Sedona is taking a proactive approach to monitor the STR inventory and work with State legislators to resolve the impact on the community.

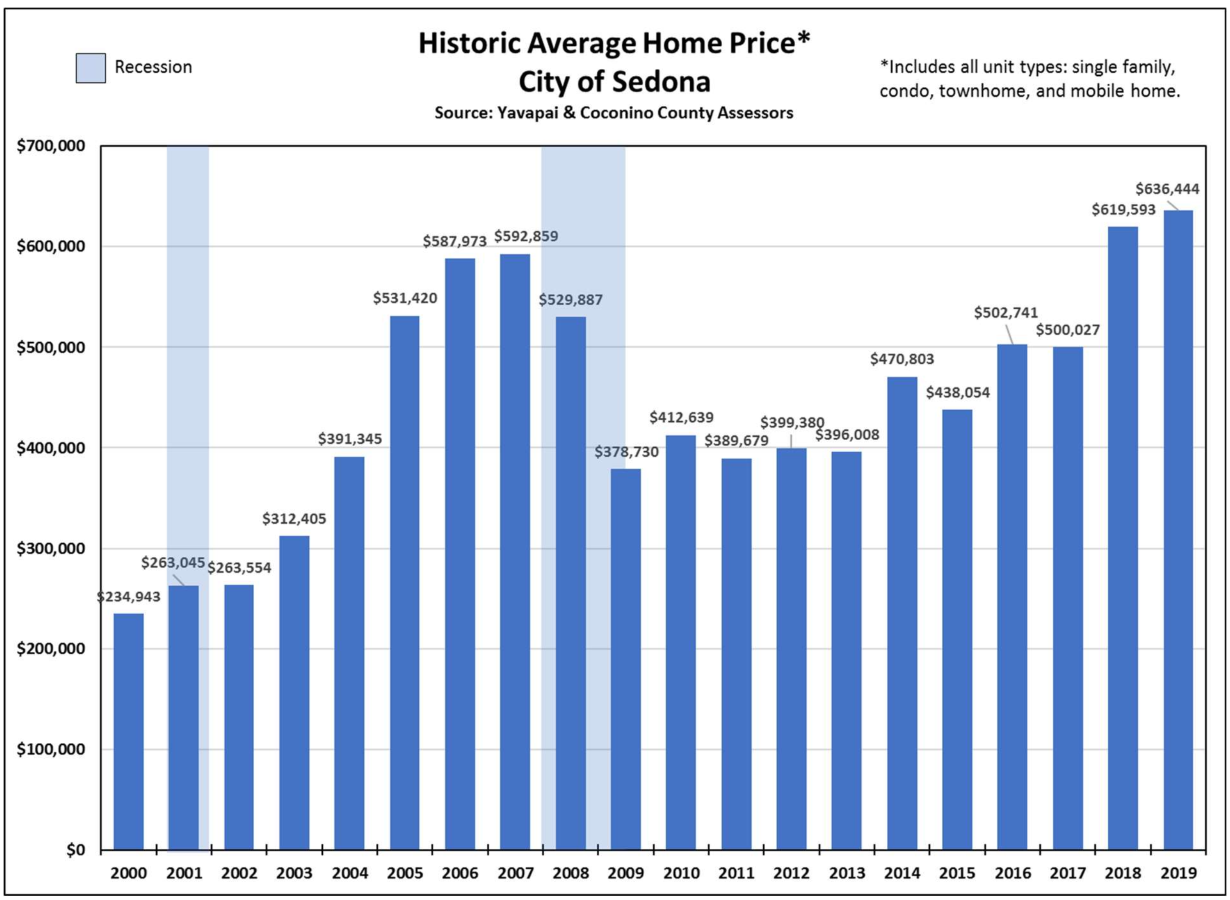
3.2 Housing Prices and Rents

Housing Prices

Housing value data from the U.S. Census is notoriously out-of-date and dependent on the homeowner's opinion of value. As a result, the authors of this study requested housing sales data from the Assessors for Yavapai and Coconino County. They graciously provided the latest information on recorded housing sales in the Verde Valley. The results of the data are outline herein.

The price of housing in Sedona has been cyclical and dramatically impacted by the Great Recession and housing bubble. The price of housing, including all types of units, rose to $593,000 in 2007 before declining by 36% in 2009. From that point forward until 2016, prices were flat. However, in 2016, prices started to rise again and have now eclipsed the highest price reached during the housing bubble. In 2019, the average price of housing units reached $636,000. Since 2015, prices have risen by 45%.

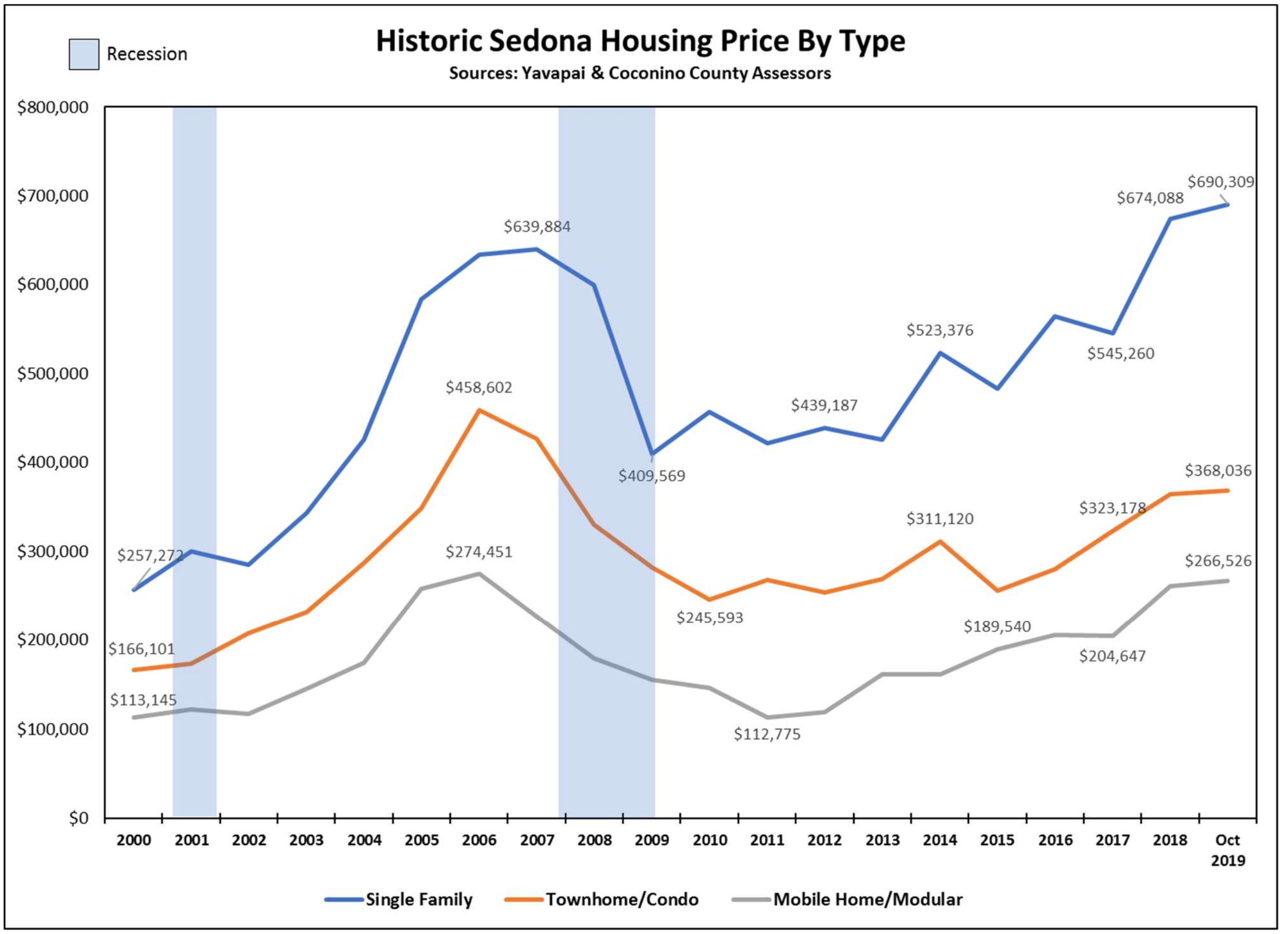
Chart 5



Housing prices naturally vary by type. The average price of a single family home in Sedona is closing in on $700,000 in 2019. Likewise, townhomes/condos and mobile homes have also risen rapidly in the past few years. For instance, since the time prices hit their lowest point after the Great Recession, prices have risen to 2019 by the following percentages:

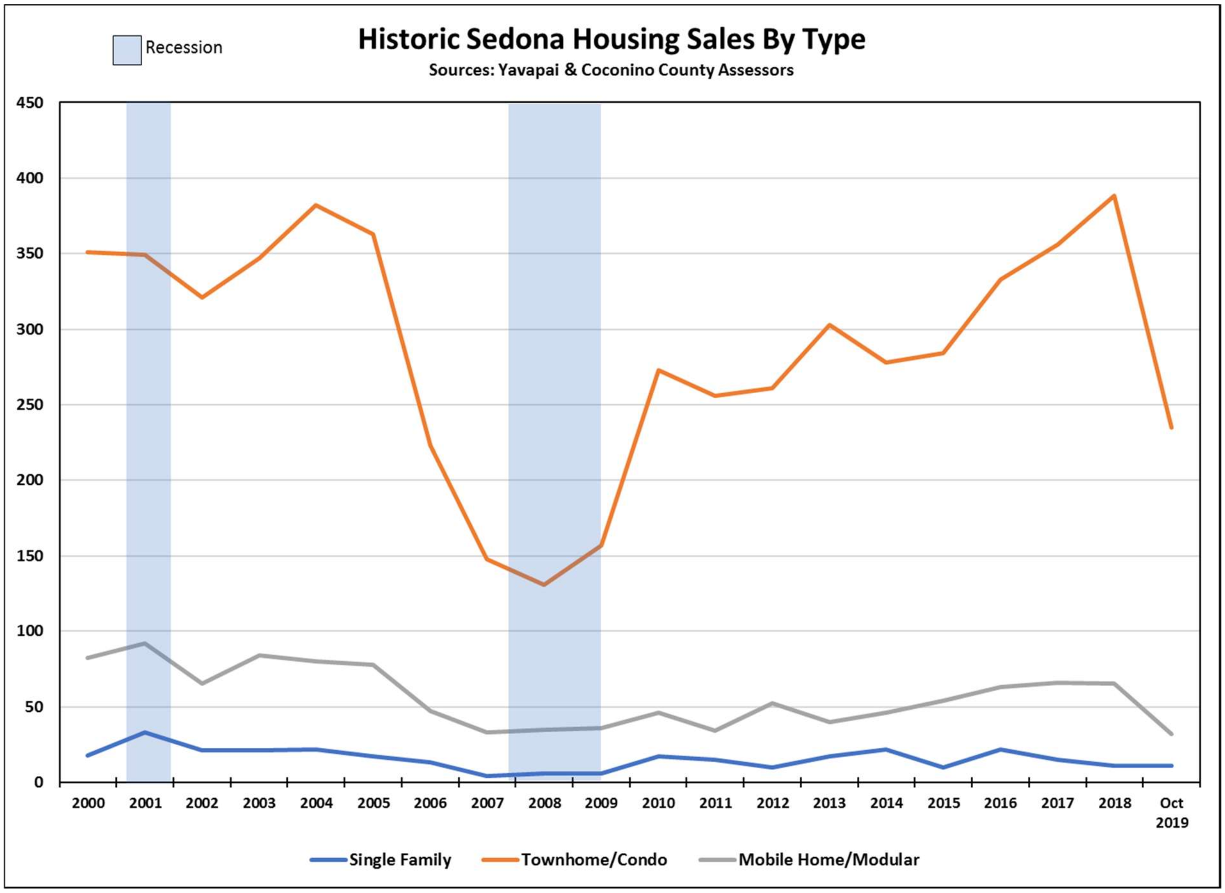
- Single family homes: 69%
- Townhomes/condos: 50%
- Mobile/modular homes: 136%

Chart 6



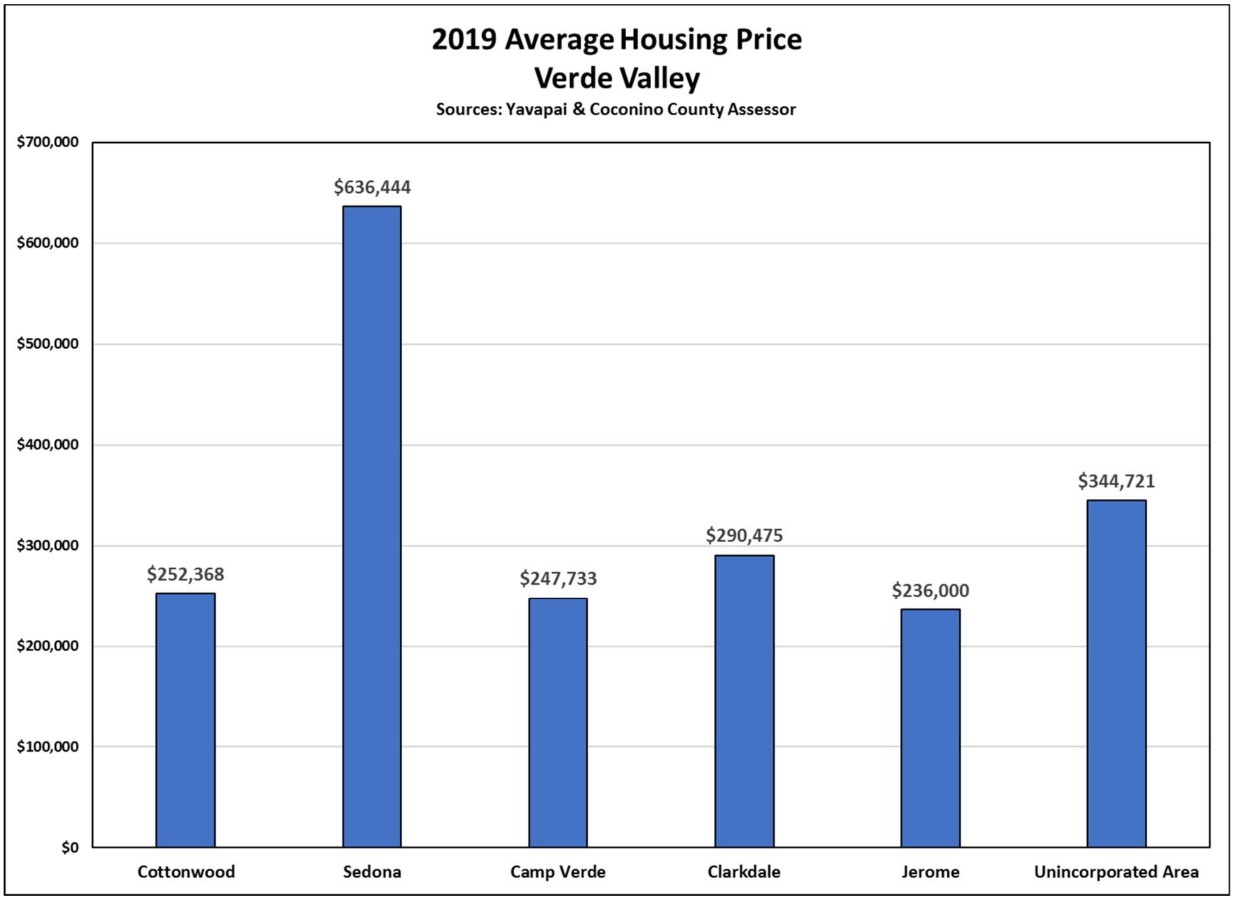
The number of housing sales have varied over the past 19 years with single family homes showing a sharp decline between 2005 and 2009 prior to the start of the recession. This is likely the result of rapidly rising prices that slowed the number of sales. A decline in sales is noted for 2019. The is partly due to the lack of sales data for the last two months of the year. However, the rise in prices likely also has slowed the sales rate.

Chart 7



Housing sales prices in the other Verde Valley communities are significantly lower than those found in Sedona. Prices in most of the communities are in the $250,000 to $300,000 range. The unincorporated area of Yavapai County shows the highest average price outside of Sedona with Cornville and the Village of Oak Creek seeing prices rise over the past few years.

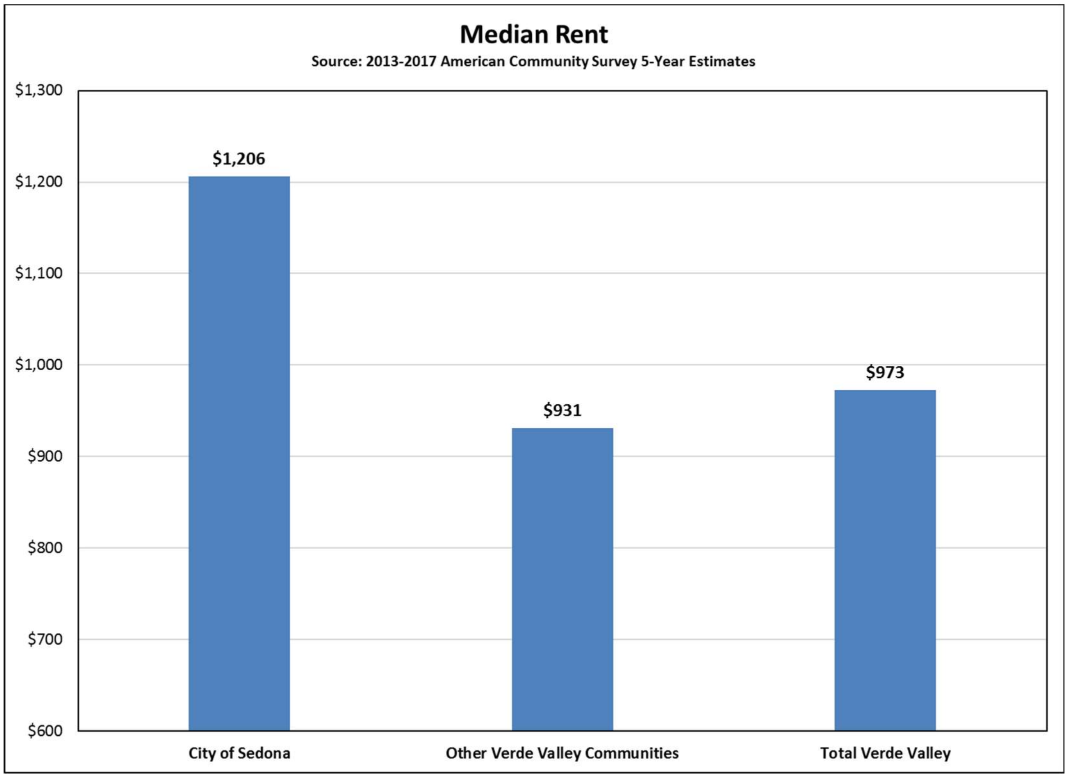
Chart 8



Rents

Similar to housing price information from the U.S. Census, rental data is out-of-date and has not accounted for the rapid increase in rents over the past few years. Median rents for Sedona and the Verde Valley from the Census are shown on Chart 7. The median gross rent in Sedona is 24% higher than the Verde Valley median and 30% higher than rents found in neighboring Verde Valley communities.

Chart 9



In order to provide more up-to-date rental information, data was collected from a variety of sources. Zillow, for instance, provides county rent data. The following table outlines the average rents for Yavapai County from 2010 to 2019. Of note is the large percentage increase in rents since 2017 averaging more than 10% each year.

Table 24

Yavapai County Average Rents		
Year	Average Rent	% Change
2010	$665	
2011	$687	3.4%
2012	$651	-5.3%
2013	$676	3.9%
2014	$751	11.1%
2015	$803	6.9%
2016	$832	3.7%
2017	$922	10.8%
2018	$1,019	10.5%
2019	$1,121	10.0%

Source: Zillow

Another source to track rent increases is through HUD's Fair Market Rent (FMR) analysis. Each year, HUD updates its FMR data for all communities in the country. FMRs are based on standard quality rents and complexes and include the cost of shelter (contract rent) and utilities (which do not include telephone, cable TV, or internet services). The rent calculations are used to determine payment standards for voucher programs, public housing rents, and other rent related payment programs.

For the Verde Valley, rents have increased dramatically by more than 20% between 2015 and 2020 (Table 5). The highest rent increases occurred in the Cornville area followed by Sedona. Cornville experienced a 54% increase in rents across all unit sizes while Sedona's rents increased by 34%. Rents across most communities were well above the rate of inflation that averaged less than 2% annually over the last five years or a total of approximately 10% for the last five years.

Table 25

Fair Market Rent Comparison 2015 & 2020
Verde Valley Communities

Community	ZIP Code	Efficiency	One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom	Average
2015 Fair Market Rents							
Camp Verde	86322	$540	$610	$770	$1,130	$1,200	$850
Clarkdale	86324	$690	$780	$990	$1,460	$1,540	$1,092
Cornville	86325	$620	$700	$890	$1,310	$1,390	$982
Cottonwood	86326	$550	$630	$790	$1,160	$1,230	$872
Jerome	86331	$610	$690	$870	$1,280	$1,360	$962
Rimrock	86335	$540	$610	$770	$1,130	$1,200	$850
Sedona	86336	$710	$810	$1,020	$1,500	$1,590	$1,126
Oak Creek	86351	$680	$780	$980	$1,440	$1,530	$1,082
2020 Fair Market Rents							
Camp Verde	86322	$670	$740	$970	$1,360	$1,420	$1,032
Clarkdale	86324	$750	$820	$1,080	$1,510	$1,580	$1,148
Cornville	86325	$990	$1,080	$1,420	$1,990	$2,080	$1,512
Cottonwood	86326	$720	$780	$1,030	$1,440	$1,510	$1,096
Jerome	86331	$650	$680	$900	$1,260	$1,320	$962
Rimrock	86335	$730	$800	$1,050	$1,470	$1,540	$1,118
Sedona	86336	$1,010	$1,090	$1,410	$1,940	$2,110	$1,512
Oak Creek	86351	$850	$930	$1,220	$1,710	$1,780	$1,298
Percent Increase 2015-2020							
Camp Verde	86322	24.1%	21.3%	26.0%	20.4%	18.3%	21.4%
Clarkdale	86324	8.7%	5.1%	9.1%	3.4%	2.6%	5.1%
Cornville	86325	59.7%	54.3%	59.6%	51.9%	49.6%	54.0%
Cottonwood	86326	30.9%	23.8%	30.4%	24.1%	22.8%	25.7%
Jerome	86331	6.6%	-1.4%	3.4%	-1.6%	-2.9%	0.0%
Rimrock	86335	35.2%	31.1%	36.4%	30.1%	28.3%	31.5%
Sedona	86336	42.3%	34.6%	38.2%	29.3%	32.7%	34.3%
Oak Creek	86351	25.0%	19.2%	24.5%	18.8%	16.3%	20.0%
Average Annual Percent Increase 2015-2020							
Camp Verde	86322	4.4%	3.9%	4.7%	3.8%	3.4%	4.0%
Clarkdale	86324	1.7%	1.0%	1.8%	0.7%	0.5%	1.0%
Cornville	86325	9.8%	9.1%	9.8%	8.7%	8.4%	9.0%
Cottonwood	86326	5.5%	4.4%	5.4%	4.4%	4.2%	4.7%
Jerome	86331	1.3%	-0.3%	0.7%	-0.3%	-0.6%	0.0%
Rimrock	86335	6.2%	5.6%	6.4%	5.4%	5.1%	5.6%
Sedona	86336	7.3%	6.1%	6.7%	5.3%	5.8%	6.1%
Oak Creek	86351	4.6%	3.6%	4.5%	3.5%	3.1%	3.7%

Source: HUD Fair Market Rents

An inventory of apartment complexes in the Verde Valley was conducted by this firm using available data sources and online websites. The complexes range from those with five units or more. The data may be incomplete and not account for every complex. Most of the projects were fully occupied and rent data was not provided by managers when contacted. The inventory is dominated by the Town of Cottonwood with 61% of all units followed by Sedona with an estimated 18% share.

Table 26

Verde Valley Apartment Inventory		
Community	**Units**	**% of Total**
Camp Verde	135	9.5%
Clarkdale	67	4.7%
Cottonwood	879	61.7%
Jerome	24	1.7%
Oak Creek	74	5.2%
Sedona	246	17.3%
Total	**1,425**	**100.0%**

Source: Elliott D. Pollack & Co.

The Sedona apartment inventory is primarily comprised of small properties with only two complexes larger than 25 units. Shadowbrook Apartments is the largest complex with 54 units built in 1987. Pinon Lofts just recently opened with 45 units. As noted previously in this report, the lack of both apartment units and townhome units create a significant impediment for providing affordable housing to working families. The expected ratio of multifamily units to total units is typically between 15% and 20% of the total unit count.

Table 27

Sedona Apartment Inventory		
Complex Name/Address	**Address**	**Units**
325 Price Rd		6
515 Sunset Ln		8
200 N Payne Pl		10
75 Canyon Circle Dr		14
550 Jordan Rd		15
Sedona Terrace Apartments	50 Sombart Ln	15
150 Sombart Ln		16
371-390 Cedar St		18
Sedona Winds	405 Jacks Canyon Rd	22
79 Canyon Diablo Rd		23
Pinon Lofts	3285 W State 89A	45
Shadowbrook Apartments	145 Navajo Dr	54
Total Units		**246**

Source: Elliott D. Pollack & Co.

As noted previously, rental data is not readily available from data sources and vendors and apartment managers could not be reached or declined requests for information on their rental rates. However, information has been collected for the two major apartment complexes. The following chart shows that Shadowbrook Apartments rates have increased by approximately 20% since 2017 to an average of approximately $1,436 per month per unit. Much of the increase is for the smaller one-bedroom units. The purpose of this chart is not to disparage the owner of the complex, but rather to show the impact of strong demand for apartment units in Sedona.

Table 28

Shadowbrook Apartments

				2017 Rents		2020 Rents		
BR	BA	Units	SF	Rent/SF	Rent	Rent/SF	Rent	% Change
1	1	14	650	$1.50	$972	$1.99	$1,296	33%
1	1	14	682	$1.47	$1,002	$1.96	$1,335	33%
2	1	10	960	$1.44	$1,382	$1.60	$1,536	11%
2	2	10	982	$1.43	$1,407	$1.59	$1,562	11%
2	2	6	1,080	$1.44	$1,552	$1.50	$1,620	4%
Totals/Averages		**54**	**44,548**	**$1.46**	**$1,201**	**$1.74**	**$1,436**	**20%**

Pinon Lofts is a substantial addition to the Sedona market at 45 units. Average rents at the complex are higher than Shadowbrook and can be justified based on the amenities offered at a new project. Based on the criteria of rents plus utilities equal to 30% of gross income, the required household income to rent a unit ranges from $60,400 for a one-bedroom unit to $76,000 for a two-bedroom unit. The complex will provide housing for households earning 117% to 124% of the estimated 2020 Yavapai County area median income (AMI) of $64,600.

Table 29

Pinon Lofts Apartments

BR	Units	SF	Rent/SF	Rent	Rent + Utilities	Required Income	Percent of AMI
1	9	652	$2.20	$1,435	$1,510	$60,400	117%
1	16	742	$2.06	$1,530	$1,605	$64,200	124%
2	16	1,042	$1.73	$1,800	$1,900	$76,000	118%
2	4	1,020	$1.76	$1,800	$1,900	$76,000	118%
Averages	**45**	**855**	**$1.91**	**$1,631**	**$1,781**	**$71,240**	**110%**

Note: The HUD 2020 Area Median Income (AMI) for Yavapai County is $64,600 (for a 4-Person household). The AMI for a 2-person household is $51,700.

Sources: HUD, Pinon Lofts Website

The following table outlines the affordable rents for certain Yavapai County occupations and critical service personnel. Wages are based on U.S. Department of Labor surveys for the County. Rents are based on a person spending no more than 30% of their income on housing including utilities. The table demonstrates that teachers, police, firefighters, LPNs, and restaurant and hospitality employees would all find it difficult to obtain rental housing in the City of Sedona. These occupations are critical to the economy of Sedona and its tourism industry, for without these employees, services would suffer.

Table 30

Affordable Rents For
Critical Personnel & Service Workers
Yavapai County

Occupation	Annual Wage	Affordable Payment*	Affordable Rent
Teacher	$46,000	$1,150	$1,000
Police	$54,900	$1,373	$1,223
Firefighter	$53,400	$1,335	$1,185
Registered Nurse	$82,050	$2,051	$1,901
LPN	$54,100	$1,353	$1,203
Nursing Assistants	$33,800	$845	$695
Restaurant Cook	$31,200	$780	$630
Waiter	$40,000	$1,000	$850
Housekeeping	$31,200	$780	$630
Area Median Family Income 2020 (HUD)	**$64,600**	**$1,615**	**$1,465**

*Includes rent and utilities

Source: AZ OEO, U.S. Dept. of Labor 2019

Census data provides some indication of the impact of rising rents on the renter population. Table 30 outlines the number of renters in Sedona between 2012 and 2017 and the percentage of their income that was spent on rent. Overall, there are nearly 300 fewer renters in Sedona in 2017 and a larger percentage of those renters spend more of their income on their rental unit. In 2012, one-third of all renters paid less than 25% of income on rent. By 2017, that percentage had declined to 22%. Renters paying more than 25% of income on rent increased from 67% in 2012 to 78% in 2017. Those renters paying more than 35% of income on rent also increased dramatically. This data may demonstrate that (1) the number of renter households has declined in Sedona over the past five years and (2) the decline may be due to the increase in rents over the past few years.

Table 31

Gross Rent as Percent of Household Income City of Sedona 2012 & 2017					
Rent as	2012		2017		2012-2017
Percent of Income	Renters	% of Total	Renters	% of Total	Change
Total Renters	**1,531**		**1,239**		(292)
Less than 15.0%	260	17.0%	41	3.3%	(219)
15.0% - 19.9%	110	7.2%	100	8.1%	(10)
20.0% - 24.9%	136	8.9%	130	10.5%	(6)
25.0% - 29.9%	90	5.9%	161	13.0%	71
30.0% - 34.9%	205	13.4%	88	7.1%	(117)
More than 35.0%	729	47.6%	719	58.0%	(10)

Sources: 2008-2012 and 2013-2017 American Community Survey 5-Year Estimates

For those persons interested in purchasing a housing unit, the situation is the same given the limited inventory of moderately priced single family homes or condo/townhouses in Sedona, even with historic low interest rates. For a $250,000 unit, the minimum required income with a 5% down payment is $59,400. For a $300,000 unit, the qualifying income jumps to $71,300. Clearly, many of the service employees and critical service workers do not have the incomes to qualify for a mortgage payment unless they have a large down payment. But even with a 20% down payment, a $300,000 housing unit would require an income of $65,000.

Table 32

Sample Monthly Housing Payment & Qualifying Income				
	5% Down Payment		5% Down Payment	
Home Price	$250,000		$300,000	
Down Payment	$12,500	5%	$15,000	5%
Loan Amount	$237,500		$285,000	
Interest Rate	3.5%		3.5%	
Payment (30 Years)	$1,066		$1,280	
Property Tax	$188	0.90%	$225	0.90%
Insurance	$73	0.35%	$88	0.35%
PMI	$158	0.80%	$190	0.80%
Total Payment	$1,485		$1,782	
Qualifying Income	**$59,409**		**$71,291**	

3.3 Housing Cost Burden

The accepted method for determining housing affordability is based on the relationship between household income and the cost of housing. The threshold for affordability established by HUD is a household paying no more than 30% of income toward housing. For renters, this estimate includes rent and utilities; for a homeowner it includes a mortgage payment, property taxes, and insurance. Table 33 outlines those households that are burdened by housing payments in the City of Sedona and in the remainder of the Verde Valley. Overall, 43.3% of households are considered burdened in Sedona. In the remainder of the Verde Valley communities, 36.1% of all households are burdened by housing costs.

Typically, high housing costs primarily affect renters since they have few options for securing a suitable and safe place to live. Their housing options are to find affordable housing farther from Sedona or double up with roommates to share rent. Owner-occupants can also have high housing cost burdens, but they have more options to alleviate the situation by selling their home and moving to a rental unit.

Across the Verde Valley, 80% of households earning less than $20,000 per year are burdened by housing costs. For renters with the same incomes, 87% are burdened by housing costs. For renter occupied units, nearly 100% for Sedona renter households earning less than $20,000 are rent burdened. In addition, Sedona's housing cost burden is significantly higher for owner-occupied units than the other Verde Valley communities. Some of these households may be long term owners of real estate in the City who are now retired and living on limited incomes. Other owners may be stretching their budgets to live near their place of employment. The core ownership gap encompasses more than 900 households earning less than $50,000 per year.

Table 33

Housing Costs as a Percentage of Household Income						
	City of Sedona			Remainder of Verde Valley		
Housing Tenure & Income	Total Households	Paying More Than 30% Toward Housing	% Paying More Than 30% Toward Housing	Total Households	Paying More Than 30% Toward Housing	% Paying More Than 30% Toward Housing
Owner-Occupied Housing Units						
Less than $20,000:	454	437	96.3%	2,514	1,950	77.6%
$20,000 to $34,999:	378	232	61.4%	2,558	1,088	42.5%
$35,000 to $49,999:	430	253	58.8%	2,372	832	35.1%
$50,000 to $74,999:	814	260	31.9%	3,485	713	20.5%
$75,000 or more:	1,709	270	15.8%	4,225	152	3.6%
Zero or negative income	41	-	0.0%	211	-	0.0%
Totals	**3,826**	**1,452**	**38.0%**	**15,365**	**4,735**	**30.8%**
Renter-Occupied Housing Units						
Less than $20,000:	392	392	100.0%	1,762	1,486	84.3%
$20,000 to $34,999:	150	113	75.3%	1,708	1,396	81.7%
$35,000 to $49,999:	237	189	79.7%	1,392	579	41.6%
$50,000 to $74,999:	271	89	32.8%	1,037	125	12.1%
$75,000 or more:	189	24	12.7%	1,093	43	3.9%
Zero or negative income	53	-	0.0%	118	-	0.0%
No cash rent	102	-	0.0%	678	-	0.0%
Totals	**1,394**	**807**	**57.9%**	**7,788**	**3,629**	**46.6%**
Total Households	**5,220**	**2,259**	**43.3%**	**23,153**	**8,364**	**36.1%**

Source: 2013-2017 American Community Survey 5-Year Estimates

Overcrowding is another housing problem that is defined by HUD as more than one person per room living in a housing unit. In Sedona, 1.5% of owner-occupied units are considered overcrowded, all within owner-occupied units. Remarkably, the Census does not find any overcrowded rental units in the City. Rental units typically have a higher rate of overcrowding than owner-occupied units. Overcrowding is apparent in the other Verde Valley communities where 2.5% of households have more than 1 person per room. In the Verde Valley, 660 units are considered overcrowded or 2.3% of the total occupied housing inventory. About 0.6% of total households (183 units) are considered extremely overcrowded with more than 1.50 persons per room.

Overcrowding does not appear to be a significant housing issue in Sedona or the Verde Valley. However, it is a symptom of the lack of affordable housing when persons are forced to acquire housing that is smaller than their needs or where people must double-up in housing to make ends meet.

Table 34

Overcrowded Housing Units						
	City of Sedona		Other Verde Valley Communities		Total Verde Valley	
	Units	% of Total	Units	% of Total	Units	% of Total
Total households	**5,348**		**23,076**		**28,424**	
Owner occupied households	**4,113**		**15,699**		**19,812**	
0.50 or less occupants per room	3,669	89.2%	12,968	82.6%	16,637	84.0%
0.51 to 1.00 occupants per room	365	8.9%	2,588	16.5%	2,953	14.9%
1.01 to 1.50 occupants per room	79	1.9%	110	0.7%	189	1.0%
1.51 to 2.00 occupants per room	-	0.0%	33	0.2%	33	0.2%
2.01 or more occupants per room	-	0.0%	-	0.0%	-	0.0%
Overcrowded Owner Occupied Households	79	1.9%	143	0.9%	222	1.1%
Renter occupied households	**1,235**		**7,377**		**8,612**	
0.50 or less occupants per room	822	66.6%	4,841	65.6%	5,663	65.8%
0.51 to 1.00 occupants per room	413	33.4%	2,098	28.4%	2,511	29.2%
1.01 to 1.50 occupants per room	-	0.0%	288	3.9%	288	3.3%
1.51 to 2.00 occupants per room	-	0.0%	150	2.0%	150	1.7%
2.01 or more occupants per room	-	0.0%	-	0.0%	-	0.0%
Overcrowded Renter Occupied Households	-	0.0%	438	5.9%	438	5.1%
Total Overcrowded Households	**79**	**1.5%**	**581**	**2.5%**	**660**	**2.3%**

Source: 2014-2018 American Community Survey 5-Year Estimates

3.4 Summary

Following are the primary findings and conclusions of Housing Conditions and Trends analysis.

- Sedona and the Verde Valley have a high percentage of seasonal housing units which fits with the tourism economy of the area and the age and incomes of local residents. In the collection of Census data for 2020, the seasonal and vacant housing inventory may increase dramatically due to the abundance of short term rentals in Sedona.
- Sedona only has 257 units within what would be considered traditional apartment complexes and only 211 occupied single family attached units or townhomes. The lack of apartment and townhome complexes limits the inventory of affordable housing units.
- Single family detached units and mobile home units account for 87% of all housing units in the City. According to the U.S. Census, 442 of 786 mobile homes in Sedona (56%) were built before 1979. It is likely that many of these units may pose health and safety hazards for residents if built before June 1976 when HUD established minimum standards for construction. The City may want to consider a developing a policy or plan for the eventual replacement of the older mobile home units.
- The price of housing in Sedona has been cyclical and dramatically impacted by the

Great Recession and housing bubble. The price of housing, including all types of units, rose to $593,000 in 2007 before declining by 36% in 2009. In 2016, prices started to rise again and have now eclipsed the highest price reached during the housing bubble reaching $636,000. Since 2015, prices have risen by 45%. Housing sales prices in the other Verde Valley communities are significantly lower, generally in the $200,000 range.

- The Sedona apartment inventory is primarily comprised of small properties with only two complexes larger than 25 units. Shadowbrook Apartments is the largest complex with 54 units built in 1987. Pinon Lofts with 45 units was recently completed in 2020. The lack of apartment and townhome units in Sedona restricts the opportunities for low and moderate income households to find affordable housing.
- Between 2012 and 2017, the number of renters in Sedona declined by 300 households. This data may demonstrate that the decline may be due to the increase in rents over the past few years.
- Nearly 58% of Sedona renters are cost burdened or over 800 households. The lack of affordable units most affects those households earning less than $50,000 including service workers, teachers, and critical service employees such as police and fire fighters. Homeowners earning less than $50,000 are also affected by the lack of affordable housing supply. More than 900 households earning less than $50,000 per year pay more than 30% of their income on housing.
- According to HUD, fair market rents in Sedona have increased by 34.3 % since 2015 or an average of 6.1% each year. This rate of increase is approximately three times the rate of inflation over the past five years.
- Short Term Rentals have become a significant housing issue for Sedona over the past three years, today totaling 744 units. Aside from the disruption of neighborhoods, STRs have resulted in the conversion of housing units from permanent to transient use, many units of which would be affordable to moderate income households. The loss of this housing inventory has exacerbated the affordable.

4.0 Affordable Housing Gap Analysis

The housing gap is the difference between the rents or housing values in a community and ability of households to afford those rents or values. Affordability has become an issue over the past few years for many income levels due to rents and values that have increased well above the rate of inflation. At the same time, wages have stagnated. Housing affordability affects low and moderate income households as well as workforce households that include many essential occupations such as teachers, police, firemen, and nurses.

There has been much discussion about the term "affordable housing". "Affordable" is often associated with housing for the lowest income households. "Workforce" or "attainable" housing is often associated with the demand from critical service providers or essential personnel such as police, firefighters, nurses, schoolteachers, and others. In the context of this study, the term "affordable" will apply to all households that are burdened by housing costs or those that can't find housing due to its cost relative to household income. Affordable housing refers to a continuum of housing demand that affects persons from the lowest income levels to those earning above the area median income. A healthy economy and housing market should address all these demand sectors.

There are two primary components of the housing gap:

- The gap affecting existing residents in the community who cannot find affordable housing and are forced to pay more than 30% of their income on housing and
- The demand for housing generated from new jobs created in the community.

Each component will be described in this section of the report.

4.1 Gap Affecting Existing Residents

This section report describes the gap analysis for existing residents living and working in the Verde Valley. The analysis will focus on the housing gap for Sedona along with the gap for the Verde Valley's four other towns and cities and the unincorporated area of Yavapai County. Housing data is available from the U.S. Census American Community Survey (ACS) for the towns and cities as well as for four unincorporated areas known as Cornville, Lake Montezuma, Verde Village, and Village of Oak Creek.

There are two methods for determining the housing gap:

- Evaluating the resident population that pays more than 30% of income towards housing known as the housing cost burden. The recognized national standard for affordability is the 30% figure.

- Evaluating the relationship between the household incomes of residents and the availability of housing units that are affordable to those households. This data is derived from the ACS as well although it is dated by a year or two and does not provide up-to-date housing values or rents. This approach is referred to in this study as the Affordable Housing Analysis Approach.

Each approach will be outlined in this report.

Housing Cost Burden Approach

As noted above, households are considered burdened by the cost of housing if rent or other housing costs total more than 30% of total household income. For a homeowner, the cost of housing typically includes a mortgage, property taxes, and insurance. For a renter, the cost of housing is rent and utilities. The U.S. Department of Housing and Urban Development also recognizes households that pay more than 50% of income towards housing known as an "severely cost burdened." Across the country, approximately one-third of all households are considered cost burdened and about 16% are severely burdened.

The following table summarizes the housing cost burden for the Verde Valley by city or town including the unincorporated area of Yavapai County. The detailed table by community and income range follows thereafter. Across the Verde Valley, approximately 36% of all households are considered cost burdened or 10,300 households out of 28,400 total households. Of those 10,300 cost burdened households, approximately 45% or 4,600 households are considered severely burdened paying more than 50% of income towards housing. These severely burdened households represent 16% of total households in the Verde Valley. Overall, these numbers are relatively consistent with national estimates.

Table 35

Verde Valley Housing Cost Burden Summary

	Camp Verde	Clarkdale	Cottonwood	Jerome	Sedona	Yavapai County	Total Verde Valley
Total Households	3,956	2,226	5,253	227	5,348	11,414	28,424
Cost Burdened Households	1,144	1,034	2,135	62	2,275	3,686	10,336
% Cost Burdened Households	**28.9%**	**46.5%**	**40.6%**	**27.3%**	**42.5%**	**32.3%**	**36.4%**
Paying 30%-50% of Income	554	882	1,174	14	1,060	2,024	5,708
Paying More Than 50% of Income	590	152	961	48	1,215	1,662	4,628
% Paying More Than 50% of Income	**14.9%**	**6.8%**	**18.3%**	**21.1%**	**22.7%**	**14.6%**	**16.3%**

Source: 2018 American Community Survey 5-Year Estimates

The highest levels of cost burdened households are found in Clarkdale, Cottonwood, and Sedona, all above 40%. Sedona also has the highest number of severely burdened households among the municipalities paying more than 50% of income towards housing. The unincorporated areas of Yavapai County have the highest level of housing cost burden on an absolute basis although its percentage is lower due to a larger population.

In Sedona, housing cost burden reaches to those households earning more than $75,000 (see Table 36). Of the 5,348 households in Sedona, 2,275 are considered cost burdened (42.5%); renters have an even higher cost burden with 62.4% paying more than 30% of income on housing. Out of those cost burdened households, approximately 1,215 are judged to be severely cost burdened paying more the 50% of their income on housing.

Cost burden is often cited as the basis for determining the affordability gap. However, the absolute numbers of persons and households subject to a housing cost burden is rather significant and does not consider households that may be paying up to 35% or 40% of income on housing which for some apartment rental managers is an acceptable payment level. As a result, alternative affordability gap approaches are often considered as well.

Table 36

Housing Cost Burden (More Than 30% of Household Income Paid to Housing)

Verde Valley

Housing Tenure & Income	Camp Verde			Clarkdale			Cottonwood		
	Total Households	Paying More Than 30% To Housing	% Paying More Than 30% To Housing	Total Households	Paying More Than 30% To Housing	% Paying More Than 30% To Housing	Total Households	Paying More Than 30% To Housing	% Paying More Than 30% To Housing
Owner-Occupied Housing Units									
Less than $20,000:	400	298	**74.5%**	292	181	**62.0%**	455	423	**93.0%**
$20,000 to $34,999:	600	182	**30.3%**	82	24	**29.3%**	615	216	**35.1%**
$35,000 to $49,999:	528	112	**21.2%**	318	163	**51.3%**	357	102	**28.6%**
$50,000 to $74,999:	661	85	**12.9%**	367	240	**65.4%**	513	33	**6.4%**
$75,000 or more:	575	21	**3.7%**	410	-	**0.0%**	593	-	**0.0%**
Zero or negative income	99	-	**0.0%**	60	-	**0.0%**	2	-	**0.0%**
Totals	**2,863**	**698**	**24.4%**	**1,529**	**608**	**39.8%**	**2,535**	**774**	**30.5%**
Renter-Occupied Housing Units									
Less than $20,000:	308	235	**76.3%**	194	189	**97.4%**	728	557	**76.5%**
$20,000 to $34,999:	219	201	**91.8%**	142	142	**100.0%**	755	618	**81.9%**
$35,000 to $49,999:	74	10	**13.5%**	116	95	**81.9%**	247	91	**36.8%**
$50,000 to $74,999:	142	-	**0.0%**	123	-	**0.0%**	527	75	**14.2%**
$75,000 or more:	171	-	**0.0%**	54	-	**0.0%**	315	20	**6.3%**
Zero or negative income	7	-	**0.0%**	-	-	**0.0%**	26	-	**0.0%**
No cash rent	172	-	**0.0%**	68	-	**0.0%**	120	-	**0.0%**
Totals	**1,093**	**446**	**40.8%**	**697**	**426**	**61.1%**	**2,718**	**1,361**	**50.1%**
Total Households	**3,956**	**1,144**	**28.9%**	**2,226**	**1,034**	**46.5%**	**5,253**	**2,135**	**40.6%**
Estimated Severely Cost Burdened (Paying 50%+)		**590**			**152**			**961**	
% of Burdened Households that are Extremely Burdened		**51.6%**			**14.7%**			**45.0%**	

Housing Tenure & Income	Jerome			Sedona			Unincorporated Yavapai County			Total Verde Valley		
	Total Households	Paying More Than 30% To Housing	% Paying More Than 30% To Housing	Total Households	Paying More Than 30% To Housing	% Paying More Than 30% To Housing	Total Households	Paying More Than 30% To Housing	% Paying More Than 30% To Housing	Total Households	Paying More Than 30% To Housing	% Paying More Than 30% To Housing
Owner-Occupied Housing Units												
Less than $20,000:	13	6	**46.2%**	489	480	**98.2%**	1,181	814	**68.9%**	2,830	2,202	**77.8%**
$20,000 to $34,999:	22	9	**40.9%**	505	273	**54.1%**	1,062	511	**48.1%**	2,886	1,215	**42.1%**
$35,000 to $49,999:	16	13	**81.3%**	337	192	**57.0%**	1,338	453	**33.9%**	2,894	1,035	**35.8%**
$50,000 to $74,999:	15	-	**0.0%**	905	268	**29.6%**	2,125	382	**18.0%**	4,586	1,008	**22.0%**
$75,000 or more:	72	2	**2.8%**	1,845	291	**15.8%**	2,917	136	**4.7%**	6,412	450	**7.0%**
Zero or negative income	-	-	**0.0%**	32	-	**0.0%**	11	-	**0.0%**	204	-	**0.0%**
Totals	**138**	**30**	**21.7%**	**4,113**	**1,504**	**36.6%**	**8,634**	**2,296**	**26.6%**	**19,812**	**5,910**	**29.8%**
Renter-Occupied Housing Units												
Less than $20,000:	18	10	**55.6%**	378	378	**100.0%**	551	551	**100.0%**	2,177	1,920	**88.2%**
$20,000 to $34,999:	16	16	**100.0%**	131	116	**88.5%**	603	543	**90.0%**	1,866	1,636	**87.7%**
$35,000 to $49,999:	17	6	**35.3%**	244	187	**76.6%**	547	218	**39.9%**	1,245	607	**48.8%**
$50,000 to $74,999:	13	-	**0.0%**	205	65	**31.7%**	318	62	**19.5%**	1,328	202	**15.2%**
$75,000 or more:	-	-	**0.0%**	152	25	**16.4%**	472	16	**3.4%**	1,164	61	**5.2%**
Zero or negative income	11	-	**0.0%**	53	-	**0.0%**	27	-	**0.0%**	124	-	**0.0%**
No cash rent	14	-	**0.0%**	72	-	**0.0%**	262	-	**0.0%**	708	-	**0.0%**
Totals	**89**	**32**	**36.0%**	**1,235**	**771**	**62.4%**	**2,780**	**1,390**	**50.0%**	**8,612**	**4,426**	**51.4%**
Total Households	**227**	**62**	**27.3%**	**5,348**	**2,275**	**42.5%**	**11,414**	**3,686**	**32.3%**	**28,424**	**10,336**	**36.4%**
Estimated Severely Cost Burdened (Paying 50%+)		**48**			**1,215**			**1,662**			**4,628**	
% of Burdened Households that are Extremely Burdened		**77.4%**			**53.4%**			**45.1%**			**44.8%**	

Source: 2018 American Community Survey 5-Year Estimates

Affordability Gap Analysis Approach

This alternative affordability gap analysis evaluates the relationship between the household incomes of residents and the availability of housing units that are affordable to those households based on available Census data. The "gap" occurs where there are more households than units. Table 37 is an example of the approach for the City of Sedona.

On the far-left side of the table is the number of households by income range and the affordability range based on the 30% cost burden. For instance, a household earning $10,000 per year could afford a monthly payment of $250.

For those units that are owner-occupied, the affordable monthly payment for housing has been converted to a value or cost of a housing unit. The assumptions used for this calculation assume a 5% down payment and a 4% interest rate on a home loan over 30 years. In addition, the monthly mortgage payment is increased by a factor of 1.45 to account for private mortgage insurance (for any loan with less than a 20% down payment), property taxes, and home insurance. For a household earning $10,000, in theory they could afford a housing unit valued at $38,000. They could also afford a rental unit with a $250 monthly rent.

The number of owner and renter-occupied units available within Sedona at each income level shown on the right side of the table is based on Census data. The "gap" is the difference between available units and the number of households at each income level. For Sedona, the resulting calculation demonstrates that the gap extends to households earning up to $100,000 and the total cumulative gap is more than 1,250 units. This represents approximately 23.5% of all households.

Table 37

Sedona Affordability Gap Analysis

Assumptions	
Maximum % of Income for Housing	30%
Interest Rate	4.00%
Down Payment	5.00%
Median Household Income	$60,015
PMI/Home Insurance/Property Tax Factor	1.45

Household Income		Total	Affordability Range		House Value		Monthly Rent		Units Available		Total Units		Cumulative
									Owner	Renter			
Low	High	Households	Low	High	Low	High	Low	High	Occupied	Occupied	Available	GAP	GAP
$0	$10,000	364	-	$250	-	$38,000	$0	$250	86	72	158	(205)	(205)
$10,000	$14,999	380	$250	$375	$38,000	$57,100	$250	$375	38	35	73	(306)	(512)
$15,000	$24,999	385	$375	$625	$57,100	$95,100	$375	$625	50	100	150	(235)	(747)
$25,000	$34,999	513	$625	$875	$95,100	$133,100	$625	$875	112	176	288	(225)	(972)
$35,000	$49,999	599	$875	$1,250	$133,100	$190,200	$875	$1,250	288	302	590	(9)	(981)
$50,000	$74,999	1,112	$1,250	$1,875	$190,200	$285,300	$1,250	$1,875	590	350	940	(173)	(1,154)
$75,000	$99,999	711	$1,875	$2,500	$285,300	$380,400	$1,875	$2,500	487	121	607	(104)	(1,258)
$100,000	$149,999	583	$2,500	$3,750	$380,400	$570,600	$2,500	$3,750	817	80	897	314	(943)
$150,000	$199,999	203	$3,750	$5,000	$570,600	$760,700	$3,750	$5,000	699	-	699	495	(448)
$200,000	-	497	$5,000	$0	$760,800	$0	$5,000	$0	945	-	945	448	-
		5,348							4,113	1,235	5,348		

Source: U.S. Census American Community Survey 2018 5-Year Estimates

The above analysis is theoretical in some respects and assumes that each household can find a unit relative to its income up until the point that affordable units are no longer available. Unfortunately, housing demand is not distributed evenly to where it is most needed. Some higher income households occupy units that could be affordable to lower income households. As a result, some households are forced to live in units that cost more than 30% of their income because they are crowded out of affordable units. Alternatively, they may live in substandard units such as older mobile homes or live with roommates to share housing costs.

Affordability for ownership housing is at an all-time high. The analysis uses a 4% mortgage interest rate for ownership housing which is about 1% higher than current interest rates. The 4% rate approximates interest rates found in the market prior to the start of the pandemic. Affordability at the present time is therefore extended beyond historic levels. Higher interest rates in the future would reduce affordability. The Federal Reserve recently announced that they would likely maintain the current low interest rate environment through 2023.

For this approach, the housing affordability gap for Sedona is judged to be 1,258 units. This approach represents a more realistic estimate of the gap compared to the housing cost burden approach. This estimate may form the basis for determining a housing affordability goal.

One further note, throughout the Verde Valley there are an estimated 5,462 mobile homes representing nearly 20% of all housing units. Included in that amount are 1,708 units that were built before 1979. In 1976, HUD established the Manufactured Home Construction and Safety Standards which regulate all aspects of the construction of mobile homes including design and construction strength, durability, transportability, fire resistance, and energy efficiency. Many of the units built before 1979 may be uninhabitable or unsafe and do not meet today's standards. However, they do provide low cost, affordable housing for low and moderate income households.

Sedona has a large inventory of mobile homes totaling 786 units with 442 built before 1979. These older units could be unsuitable for habitation. However, if removed from the housing inventory, the gap would increase for each unit that is removed. If replacement units are not provided, residents of those units would need to relocate to another low cost unit or move to another community. The City needs to recognize the situation with its older mobile home inventory and create a plan or policy for their replacement over time.

Table 38

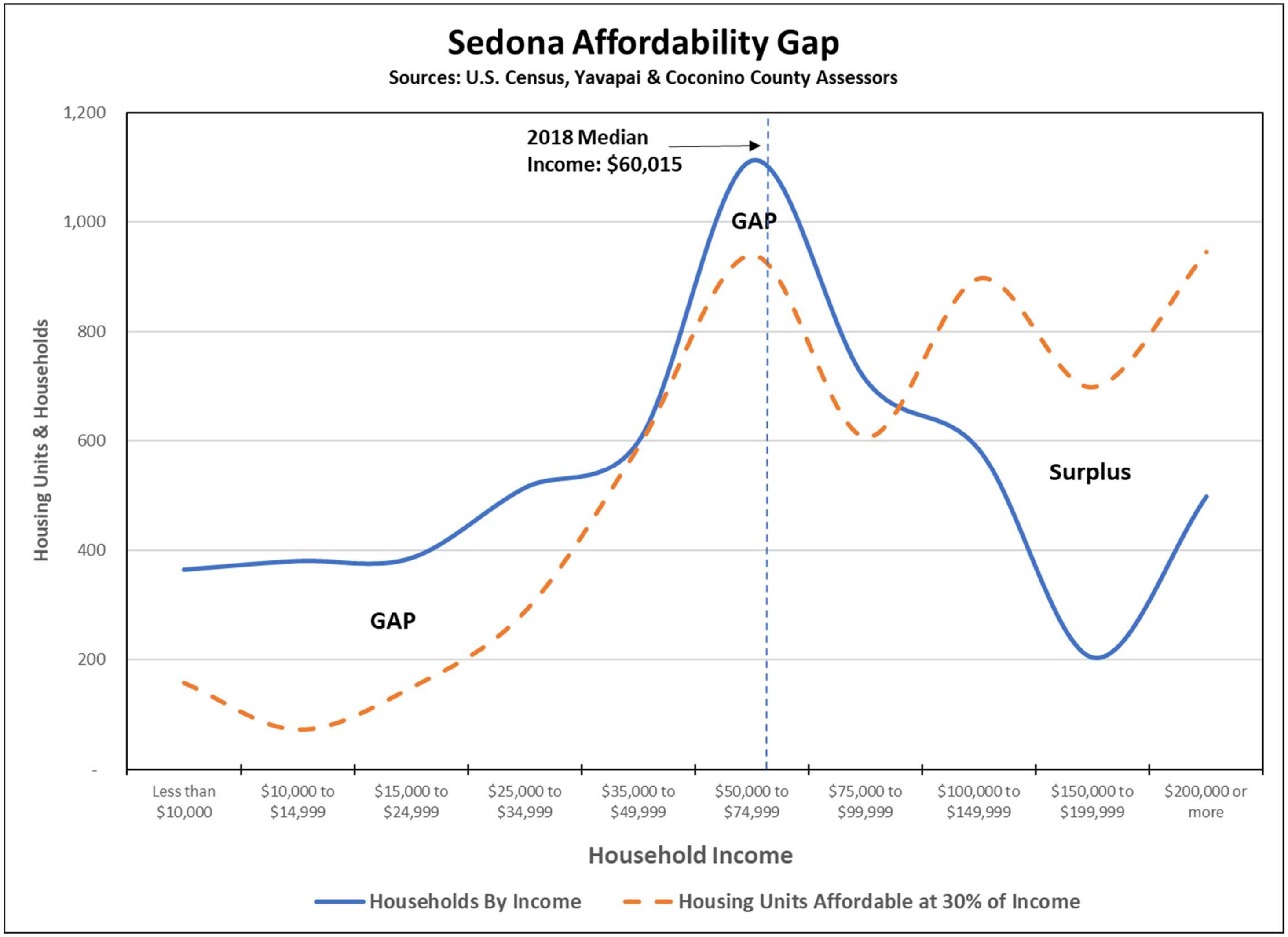
Verde Valley Mobile Home Inventory							
	Camp Verde	Clarkdale	Cottonwood	Sedona	Jerome	Yavapai County	Verde Valley Total
Total Mobile Homes	1,290	184	964	786	6	2,232	5,462
Mobile Home Built Before 1979	528	0	142	442	6	590	1,708
% of Homes Built Before 1979	40.9%	0.0%	14.7%	56.2%	100.0%	26.4%	31.3%

Source: U.S. Census American Community Survey 2018 5-Year Estimates

A chart illustrating the Sedona housing affordability gap follows. Essentially, the gap extends to those households earning up to $100,000 with the largest gap occurring for persons earning below $50,000.

The large surplus of housing units available for households earning above $100,000 is an anomaly not found in many other communities. The explanation may be that there are retired households that have significant wealth and can purchase high priced homes, but do not have a commensurate income because they are retired.

Chart 10


Sedona Affordability Gap
Sources: U.S. Census, Yavapai & Coconino County Assessors
Housing Units & Households
1,200
1,000
800
600
400
200
-
2018 Median Income: $60,015
GAP
GAP
Surplus
Less than $10,000
$10,000 to $14,999
$15,000 to $24,999
$25,000 to $34,999
$35,000 to $49,999
$50,000 to $74,999
$75,000 to $99,999
$100,000 to $149,999
$150,000 to $199,999
$200,000 or more
Household Income
Households By Income
Housing Units Affordable at 30% of Income

The housing affordability gap for each community in the Verde Valley and the unincorporated area is summarized on the following table. The gap is considered the largest number within the column marked "cumulative gap". For the entire Verde Valley, the gap is 2,285 units or approximately 8.0% of total households. That gap affects persons earning less than $25,000.

The comparison of data among the communities shows the difference between Sedona and the remaining towns and cities. For Sedona, the affordability gap affects households up to $100,000 of income. For all other jurisdictions, the gap is at the lower end of the income range under $25,000. This outcome may dictate different strategies for Sedona compared to the remainder of the Verde Valley. For instance, Sedona may need to address the housing needs of low and moderate income households as well as middle income households – essential workers such as police, firemen, nurses, teachers, etc.

Table 39

Housing Gap Estimate
Verde Valley

Household Income Range	Camp Verde Households	Camp Verde Affordable Units	Camp Verde Cumulative Gap	Clarkdale Households	Clarkdale Affordable Units	Clarkdale Cumulative Gap	Cottonwood Households	Cottonwood Affordable Units	Cottonwood Cumulative Gap
Less than $10,000	451	369	(82)	294	200	(94)	357	281	(76)
$10,000 to $14,999	206	318	30	109	57	(146)	394	406	(64)
$15,000 to $24,999	585	460	(95)	263	129	(280)	1,014	709	(370)
$25,000 to $34,999	534	602	(27)	114	360	(34)	909	1,081	(198)
$35,000 to $49,999	625	694	42	434	456	(12)	620	1,227	409
$50,000 to $74,999	803	703	(57)	490	512	11	1,056	1,090	444
$75,000 to $99,999	261	327	9	127	155	39	415	287	316
$100,000 to $149,999	348	350	10	294	169	(86)	462	149	2
$150,000 to $199,999	40	109	80	31	188	71	16	16	2
$200,000 or more	99	23	4	71	-	-	16	8	(5)
Totals	**3,952**	**3,956**	**-**	**2,226**	**2,226**	**-**	**5,258**	**5,253**	**-**

Household Income Range	Jerome Households	Jerome Affordable Units	Jerome Cumulative Gap	Sedona Households	Sedona Affordable Units	Sedona Cumulative Gap	Unincorporated Yavapai County Households	Unincorporated Yavapai County Affordable Units	Unincorporated Yavapai County Cumulative Gap	Total Households	Total Affordable Units	Total Cumulative Gap
Less than $10,000	30	25	(5)	364	158	(205)	620	411	(209)	2,116	1,444	(671)
$10,000 to $14,999	13	18	(0)	380	73	(512)	501	164	(546)	1,603	1,035	(1,238)
$15,000 to $24,999	35	24	(11)	385	150	(747)	1,148	913	(782)	3,430	2,384	(2,285)
$25,000 to $34,999	9	24	4	513	288	(972)	1,327	1,502	(606)	3,406	3,858	(1,833)
$35,000 to $49,999	33	19	(10)	599	590	(981)	1,951	2,363	(195)	4,262	5,349	(746)
$50,000 to $74,999	35	38	(7)	1,112	940	(1,154)	2,473	2,709	42	5,969	5,994	(722)
$75,000 to $99,999	16	34	12	711	607	(1,258)	1,199	1,181	23	2,729	2,592	(859)
$100,000 to $149,999	20	43	35	583	897	(943)	1,327	1,192	(112)	3,034	2,799	(1,094)
$150,000 to $199,999	21	2	15	203	699	(448)	525	415	(222)	836	1,428	(501)
$200,000 or more	15	-	0	497	945	-	343	565	(0)	1,042	1,541	(2)
Totals	**227**	**227**	**-**	**5,348**	**5,348**	**-**	**11,415**	**11,414**	**-**	**28,426**	**28,424**	**-**

Source: 2018 American Community Survey 5-Year Estimates

Affordability gap charts for each community in the Verde Valley are found in the Appendix to this report.

4.2 Demand for Housing Generated by Employment Growth

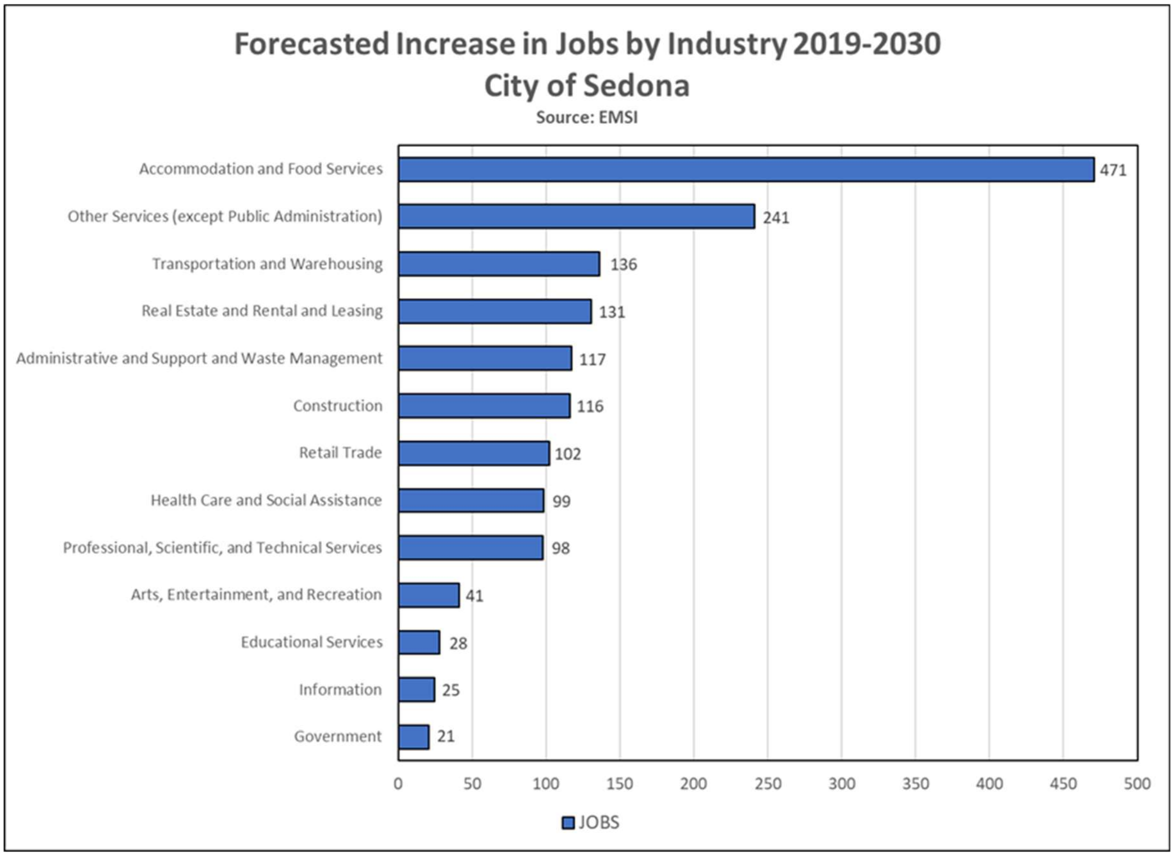
Sedona's population is forecasted to grow by approximately 395 persons between 2020 and 2030. Based on an average household size of 2.0 persons per unit, this forecast translates into a housing demand for 200 units or 20 new units per year. There will likely be some redevelopment activity over that time frame that may result in the loss of older housing units and the construction of new units in their place. In any case, the forecasted housing demand is modest.

Of more significance is the forecasted growth in employment for Sedona over the next ten years that totals more than 1,600 jobs (as noted in Section 2.2 of this report). Employment is the primary factor that will generate demand for housing in Sedona, with employees searching for housing close to their place of work. However, this employment forecast was prepared prior to the COVID-19 pandemic. The postponement of commercial or hotel development in Sedona will likely occur until the tourism industry fully recovers. In the short term, job prospects may be limited.

With the assistance of the City staff, it may be reasonable to determine if the forecast of employment growth outlined in this report is accurate based on commercial building permit activity (industrial, retail, office, institutional, and hotel land uses). Employment estimates can be developed based on the square footage of historic commercial building activity and forecasted into the future.

Most of the forecasted job growth in Sedona is expected to be in the restaurant and hotel industries. The "other services" category, primarily tourist-oriented jobs, is also forecasted for significant growth. Any remaining employment growth is largely related to support services related to the growth of the tourism industry and growth in population (Table 40).

Chart 11



As noted in Section 2.2 of this report, Sedona's employment base over the next ten years will likely not reach the 1,600 jobs forecast due to the near-term risk in the economy from the pandemic. Future employment growth in Sedona over the next ten years will likely range from 950 to 1,100 jobs or an average of 95 to 110 jobs per year.

Using the results of the Sedona Employee Survey, the above employment forecast is reduced by the percentage of dual income households and those households that would be expected to earn less than 100% of the Yavapai County area median income ($64,600). Based on those criteria, the demand for affordable units is expected to range from 44 to 51 units per year or 220 to 255 units over the next five years.

Summary

The final five-year affordable housing gap for Sedona is a combination of:

- Addressing the current shortage of affordable housing for existing residents. This estimate is 1,260 units.
- Providing for housing needs of low and moderate income persons who will be filling new employment opportunities within the City over the next five years. That demand

is estimated at a total of 220 to 255 units.

In total, the five-year affordable housing demand is estimated at 1,480 to 1,515 units.

Appendix 1: Verde Valley Affordability Gap Charts

Following are the Affordability Gap charts for the communities in the Verde Valley including the unincorporated area. Cottonwood is an example of a typical affordability curve where there is a gap at the lower end of the income range and a surplus of units at the middle income or median income range. Theoretically, in this situation, we believe that the lower income households are forced into the "surplus" in the middle income range and end up paying more than 30% of income towards housing. But, higher income households also crowd into the surplus area attempting to reduce their housing cost. The result is a shortage of housing for the lowest income households.

Chart 12

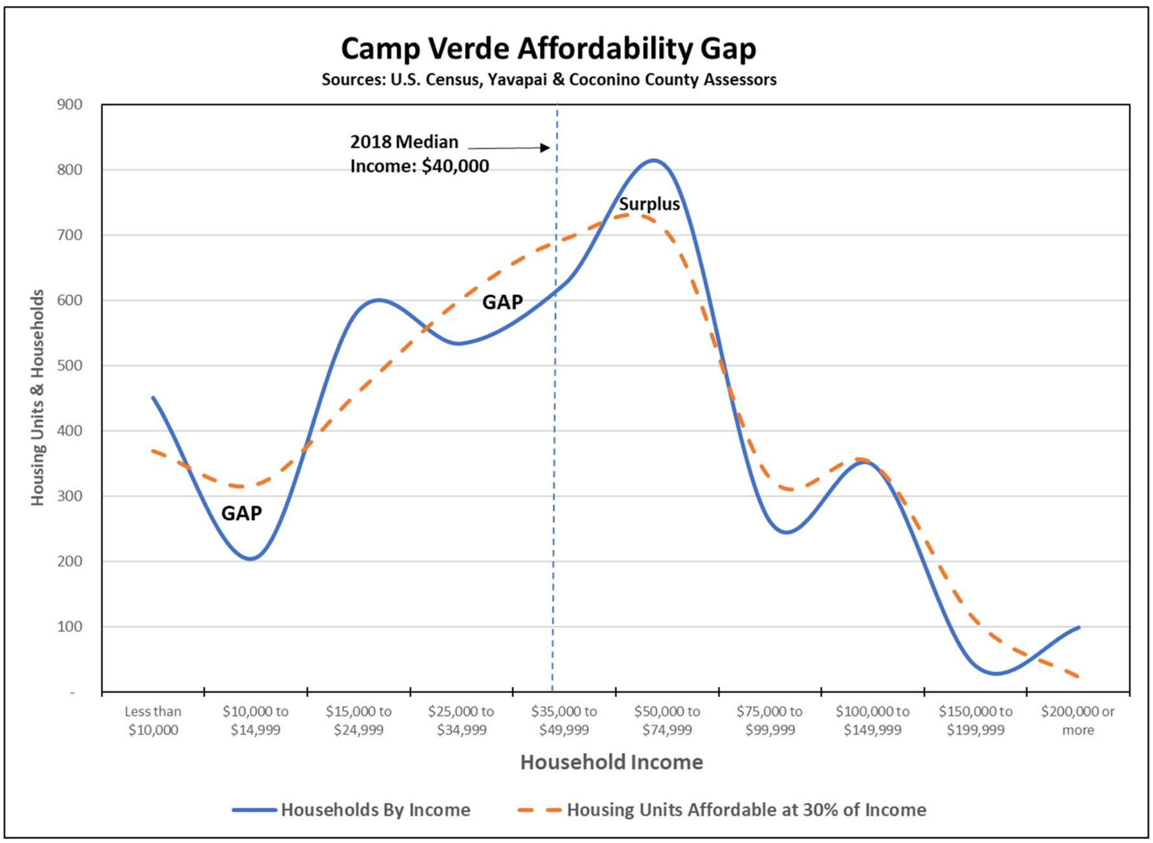


Chart 13

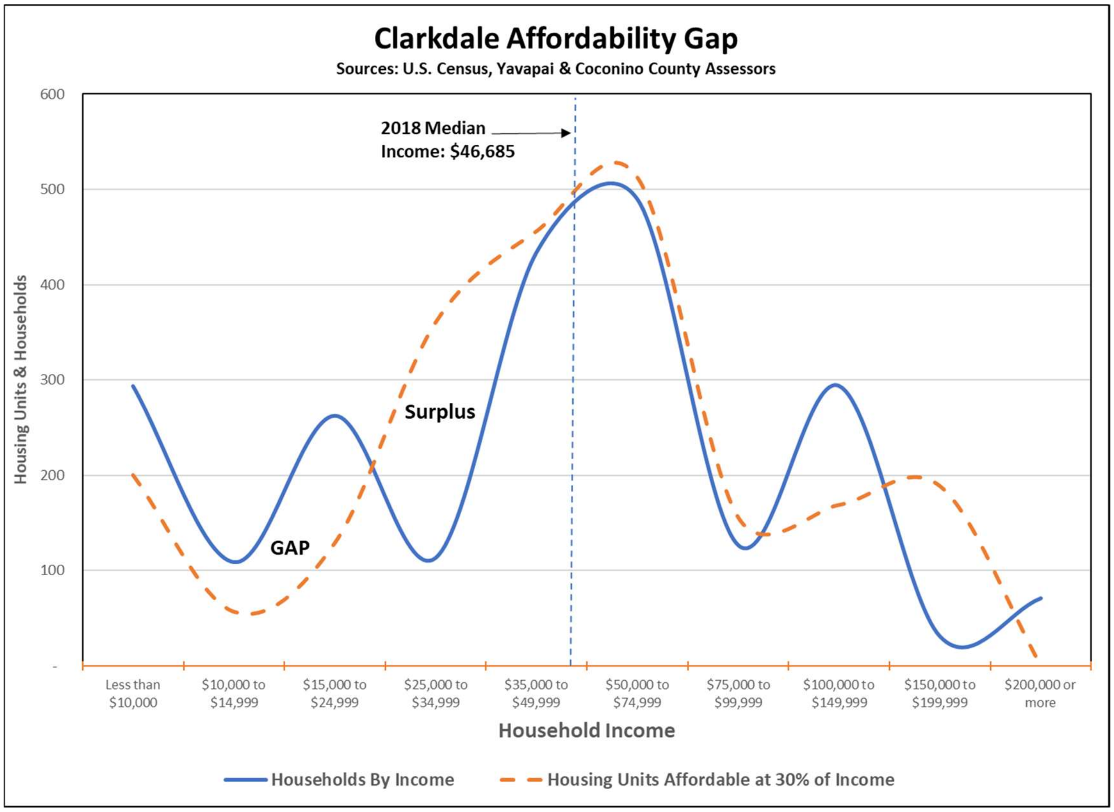


Chart 14

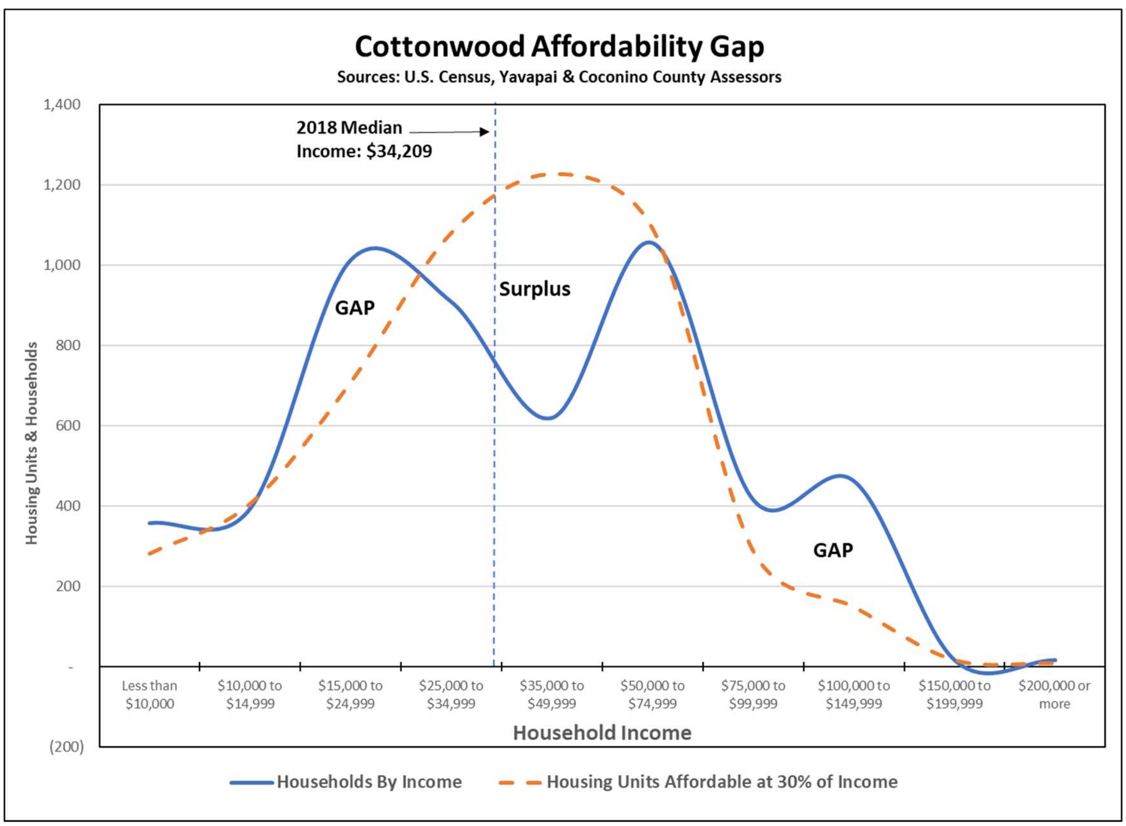


Chart 15

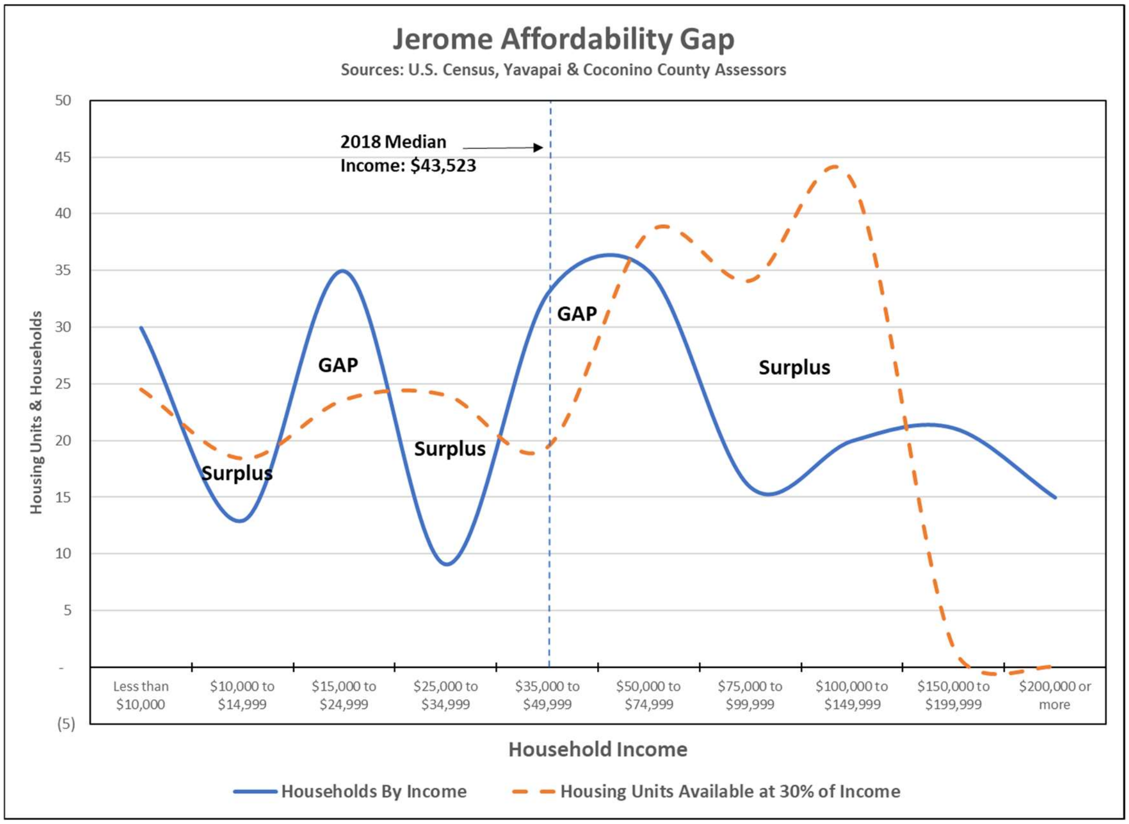
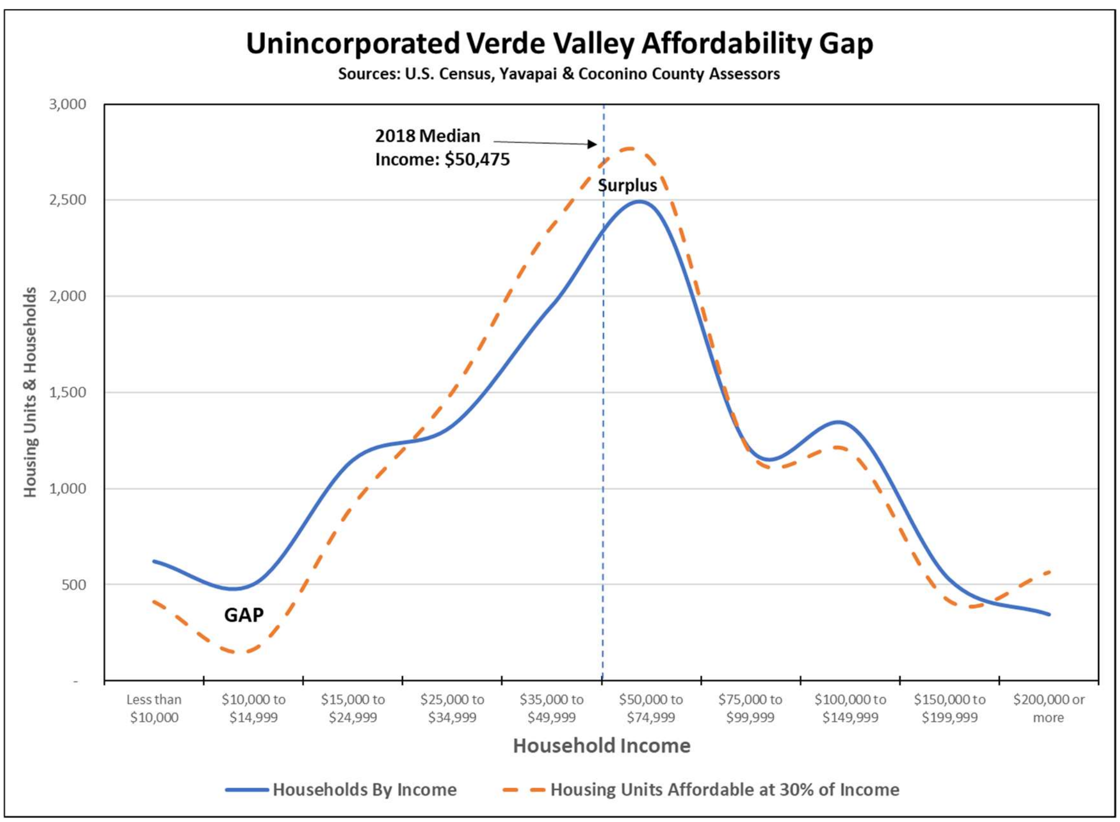


Chart 16



Appendix 2: Summary Findings and Conclusions - Sedona Employee Housing Survey

As part of the City of Sedona Housing Needs Assessment and Action Plan, an online survey was prepared and distributed to persons who work within the City limits. The purpose of the survey was to evaluate the housing availability in Sedona, where employees live, the amounts they pay for housing, and their views on living and working today in the Verde Valley. Distribution of the survey was coordinated with the Sedona Chamber of Commerce, the City of Sedona, and local businesses in the community. All responses are kept strictly confidential and individual responses will not be revealed to any employer or business.

The survey questionnaire was divided into three sections as follows:

- **Work Environment**: Questions related to type of business the employee works in, commuting patterns, where they live, and how long they have worked in Sedona.
- **Housing Situation**: What type of housing the employee lives in, the amount of rent or mortgage payment, and satisfaction with the employee's housing situation.
- **About You**: Demographic information on the employee and their family including household income.

This Summary Report is organized in the following manner.

1. The primary findings and conclusions of the survey are summarized in the following section.
2. Summary tables for each of the survey questions are outlined thereafter.
3. The survey questionnaire is attached to this report for reference.

From all appearances, distribution of the survey was highly successful with 417 individual responses. The additional open-ended comment section at the end of the survey received 170 responses, some of which are very revealing. These responses were separated into several categories and some will be noted in the final Housing Needs Assessment report. We also note from these responses that a couple of <u>employers</u> took the survey. These employers appear to be small single-person proprietors whose responses did not affect the outcome of the survey.

<u>Primary Findings and Conclusions</u>

<u>Work Environment</u>

- There is a heavy weighting toward government and public safety employees representing about 29% of all responses. While not a major concern, it probably shows that City employees were encouraged to take the survey. However, there is also a good response from workers in service and retail jobs, recreation (tourism), and hotels. (Table 1)
- Approximately one-third of all respondents live within the City of Sedona. Cottonwood, Cornville/Page Springs, and Oak Creek are the next most popular places to reside. (Table 2)

- Overall, commuting times and miles are fairly modest and equal to or less than commuting times found in the Greater Phoenix area. (Table 3 and 4)
- There is longevity in persons working in Sedona. The majority of survey respondents have worked in Sedona for more than five years and 75% have worked in the City for more than three years. (Table 7)
- More than 90% of workers plan on continuing to work in Sedona. This indicates employee's satisfaction with the Verde Valley lifestyle, despite housing affordability issues, traffic congestion, and other tourism-related dislikes. (Table 8)
- The average worker has lived in the Sedona area for 13 years – longevity again. (Table 9)

<u>Housing Situation</u>

- Almost 90% of homeowners live in a single family home. Another 9% live in a mobile home. (Table 11)
- Renters live in a variety of housing units including single family homes (35%), apartments (28%), condos (12%), and mobile homes (9%). (Table 12)
- Of the survey respondents, the homeownership to renter ratio is about equal at 53% owner to 47% renter. However according to the U.S. Census, within the entire Verde Valley area the homeownership rate is about 68% of all households. (Table 13)
- The average monthly rent for Sedona employees across the Verde Valley is $1,210. The highest monthly rent is found in Sedona while the lowest rents are in Camp Verde, Clarkdale, and Cottonwood. (Table 14)
- Housing Cost Burden: The federal government has established the standard for housing cost burden as those households that spend more than 30% of household income on rent or mortgage payments. To address this question, renter and owner housing cost burdens were estimated by comparing rent and mortgage payments to household income. For renters, the survey question was stated for the respondent to provide their rent payment. The Census definition of rent burden includes both rent and utilities. To adjust for utilities, the average renter utility bill was assumed at $150 per month and added to the total rent payment.

  The average rent burden for Sedona employees is approximately 28.2% according to survey results (Table 15). Cottonwood and Flagstaff are showing the highest average rent burden above 30%. Average homeowner cost burden is much lower at 17.5% (Table 16). Only households in Cordes are showing a burden above 30%. Homeowners have more options for relieving cost burden by moving and/or selling their homes. Renter populations do not have similar options.

  Table 17 shows the cost burden for homeowners and renters by the range of burden. For renter households, 56% are paying more than 30% of their income to housing including 16% paying more than 50% toward housing. These levels are higher than those noted by the U.S. Census. Approximately 19% of homeowners pay more than 30% of income toward housing. The housing cost burden table is shown below for reference.

Housing Cost Burden				
	Owners		Renters	
Burden Range	Households	% of Total	Households	% of Total
Less Than 20%	94	55.0%	25	17.9%
20% - 29.9%	45	26.3%	37	26.4%
30.0% - 49.9%	29	17.0%	55	39.3%
More than 50%	3	1.8%	23	16.4%
Total	**171**	**100.0%**	**140**	**100.0%**
Average Cost Burden	**17.5%**		**28.2%**	

- Not surprisingly, renters are less satisfied with their housing situation than owners. (Tables 18 and 19)
- About one-third of renters plan on purchasing a home in the next two years (Table 20) and three-quarters prefer owning to renting. (Table 21)
- Obstacles to homeownership are lack of affordable units, lack of a down payment, and not earning enough income. (Table 22)
- The condition of their residence varies by owner-renter. Approximately 63% of owners consider their home in excellent or above average condition; 42% of renters have the same response. (Table 23)
- 60% of respondents who do not live in Sedona would like to live in the City if affordable housing was available. This is an important finding that show employees would like to live closer to their place of employment despite some of the issues they may have with traffic congestion and other tourism-related dislikes. (Table 24)
- For those respondents who would not like to live in Sedona, traffic congestion and tourists were primary reasons. Others indicated they were happy with where they now live. (Table 25)

<u>About You</u>

The demographic characteristics of the survey respondents show that their average age is 43 and the average household size is 2.5 persons. The majority of households are dual income with homeowners averaging $98,800 in income and renters averaging $52,800 per household.

<u>Summary Comments</u>

The primary take-aways from the survey are that employees like living in the Verde Valley and many have settled in as a place to raise a family. They have shown longevity in working and living in the area. Most also say they will continue to live and work in the Sedona area and 60% of those not living in Sedona would like to live there if affordable housing was available. Affordability issues in Sedona are also noted in open ended questions which are still being evaluated.

Work Environment

Table 1

Type of Business Worker Employed In		
Business Type	**Employees**	**% of Total**
Service or retail worker	90	21.6%
Government	86	20.6%
Recreation	67	16.1%
Hotel	39	9.4%
Public Safety	37	8.9%
Professional	30	7.2%
Non-Profit Agency	19	4.6%
Medical/Healthcare/Wellness	16	3.8%
Education	10	2.4%
Fine Arts	10	2.4%
Self-Employed	4	1.0%
Construction	2	0.5%
Manufacturing	2	0.5%
Business owner	1	0.2%
No Business Identified	4	1.0%
Total	**417**	**100.0%**

Table 2

Community Where Employee Lives		
Community	**Employees**	**% of Total**
Sedona	158	37.9%
Cottonwood	92	22.1%
Cornville/Page Springs	36	8.6%
Oak Creek	31	7.4%
Camp Verde	23	5.5%
McGuireville/Lake Montezuma/Rimrock	20	4.8%
Flagstaff	18	4.3%
Clarkdale	11	2.6%
No Community Identified	9	2.2%
Verde Village	6	1.4%
Prescott/Prescott Valley/Chino Valley	3	0.7%
Scottsdale	3	0.7%
Yavapai County	3	0.7%
Cordes	2	0.5%
Gilbert	2	0.5%
Total	**417**	**100.0%**

Table 3

Average Commuting Miles	
Community	**Average Miles**
No Community Identified	31
Camp Verde	31
Clarkdale	24
Cornville/Page Springs	18
Cottonwood	20
Flagstaff	28
Gilbert	128
McGuireville/Lake Montezuma/Rimrock	23
Oak Creek	9
Prescott/Prescott Valley/Chino Valley	61
Scottsdale	133
Sedona	4
Verde Village	18
Yavapai County	14
Average All Communities	**16**

Table 4

Average Commuting Minutes	
Community	**Average Minutes**
No Community Identified	37
Camp Verde	41
Clarkdale	35
Cordes	85
Cornville/Page Springs	25
Cottonwood	26
Flagstaff	49
Gilbert	123
McGuireville/Lake Montezuma/Rimrock	36
Oak Creek	18
Prescott/Prescott Valley/Chino Valley	70
Scottsdale	120
Sedona	10
Verde Village	24
Yavapai County	20
Average All Communities	**24**

Table 5

Method of Getting to Work								
Community	**Bicycle**	**Carpool**	**Drive Yourself**	**Public transit (Verde Lynx)**	**Walk**	**Work From Home**	**Other**	**Total**
No Community Identified	1		6				2	8
Camp Verde		2	21				-	23
Clarkdale		1	10				-	11
Cordes			2				-	2
Cornville/Page Springs		2	33				1	36
Cottonwood		3	84	3			2	92
Flagstaff		3	15				-	18
Gilbert			2				-	2
McGuireville/Lake Montezuma/Rimrock		1	18				1	20
Oak Creek			31				-	31
Prescott/Prescott Valley/Chino Valley			3				-	3
Scottsdale			3				-	3
Sedona	7		130	1	8	3	9	158
Verde Village			6				-	6
Yavapai County			3				-	3
Totals	**8**	**12**	**367**	**4**	**8**	**3**	**15**	**416**
% of Total	**1.9%**	**2.9%**	**88.2%**	**1.0%**	**1.9%**	**0.7%**	**3.6%**	**100.2%**

Table 6

Type of Employee		
Community	**Full-time**	**Part-time**
No Community Identified	6	-
Camp Verde	22	-
Clarkdale	11	-
Cordes	-	2
Cornville/Page Springs	33	3
Cottonwood	81	8
Flagstaff	15	3
Gilbert	2	-
McGuireville/Lake Montezuma/Rimrock	20	-
Oak Creek	29	1
Prescott/Prescott Valley/Chino Valley	3	-
Scottsdale	3	-
Sedona	116	34
Verde Village	6	-
Yavapai County	3	-
Total	**350**	**51**

Table 7

Years Working in Sedona						
Community	**Less than 1 year**	**1 – 2 years**	**3 – 5 Years**	**5 – 10 years**	**More than 10 years**	**Total**
No Community Identified	-	1	1	3	3	8
Camp Verde	3	5	8	3	4	23
Clarkdale	-	2	4	2	3	11
Cordes	-	2	-	-	-	2
Cornville/Page Springs	2	3	6	6	19	36
Cottonwood	12	18	19	16	26	91
Flagstaff	1	4	3	5	5	18
Gilbert	-	2	-	-	-	2
McGuireville/Lake Montezuma/Rimro	4	3	2	5	6	20
Oak Creek	4	6	3	5	13	31
Prescott/Prescott Valley/Chino Valley	1	-	-	1	1	3
Scottsdale	-	-	-	2	1	3
Sedona	9	25	33	25	62	154
Verde Village	1	-	2	1	2	6
Yavapai County	-	-	-	2	1	3
Totals	**37**	**71**	**81**	**76**	**146**	**411**
% of Total	**9.0%**	**17.3%**	**19.7%**	**18.5%**	**35.5%**	**100.0%**

Table 8

Planning on Continuing to Work in Sedona			
Community	No	**Yes**	**Total**
No Community Identified	-	8	8
Camp Verde	5	18	23
Clarkdale	-	11	11
Cordes	2	-	2
Cornville/Page Springs	2	34	36
Cottonwood	5	86	91
Flagstaff	1	17	18
Gilbert	-	2	2
McGuireville/Lake Montezuma/Rimrock	-	20	20
Oak Creek	3	28	31
Prescott/Prescott Valley/Chino Valley	-	3	3
Scottsdale	-	3	3
Sedona	14	139	153
Verde Village	1	5	6
Yavapai County	-	3	3
Total	**33**	**377**	**410**
% of Total	**8.0%**	**92.0%**	**100.0%**

Housing Situation

Table 9

Years Living in Sedona or Nearby Communities	
Community	**Average**
No Community Identified	11
Camp Verde	16
Clarkdale	16
Cordes	30
Cornville/Page Springs	18
Cottonwood	14
Flagstaff	10
McGuireville/Lake Montezuma/Rimrock	12
Oak Creek	12
Prescott/Prescott Valley/Chino Valley	27
Scottsdale	3
Sedona	12
Verde Village	14
Yavapai County	13
Average All Communities	**13**

Table 10

Type of Residence Homeowners Live In						
Community	**Single family home**	**Duplex**	**Condo/ Townhome**	**Mobile or Manufactured Home**	**RV**	**Total**
No Community noted	4	-	-	-	-	**4**
Camp Verde	8	-	-	3	-	**11**
Clarkdale	7	-	1	1	-	**9**
Cordes	2	-	-	-	-	**2**
Cornville/Page Springs	20	-	-	1	-	**21**
Cottonwood	46	1	-	1	1	**49**
Flagstaff	9	-	-	1	-	**10**
Gilbert	1	-	-	-	-	**1**
McGuireville/Lake Montezuma/Rimrock	10	-	-	3	-	**13**
Oak Creek	14	-	-	-	-	**14**
Prescott/Prescott Valley/Chino Valley	3	-	-	-	-	**3**
Scottsdale	3	-	-	-	-	**3**
Sedona	60	-	-	8	-	**68**
Verde Village	4	-	-	-	-	**4**
Yavapai County	2	-	-	1	-	**3**
Total	**193**	**1**	**1**	**19**	**1**	**215**
% of Total	**89.8%**	**0.5%**	**0.5%**	**8.8%**	**0.5%**	**100.0%**

Table 11

Type of Residence Renters Live In

Community	Single family home	Duplex	Triplex	Apartment	Condo/ Townhome	Mobile or manufactured home	RV	Guesthouse or Casita	Roomates/ Shared Rental	Rent a Room	Homeless	Total
No Community noted	2	-	-	1	-	-	-	-	-	-	-	**3**
Camp Verde	4	-	-	4	-	3	1	-	-	-	-	**12**
Clarkdale	1	-	-	1	-	-	-	-	-	-	-	**2**
Cornville/Page Springs	11	-	-	1	-	2	-	-	-	-	1	**15**
Cottonwood	12	8	-	10	6	1	-	-	-	3	-	**40**
Flagstaff	1	-	-	6	-	-	-	-	-	1	-	**8**
Gilbert	-	-	-	1	-	-	-	-	-	-	-	**1**
McGuireville/Lake Montezuma/Rimrock	3	-	-	-	-	3	-	-	-	-	-	**6**
Oak Creek	6	-	-	5	4	1	-	-	1	-	-	**17**
Sedona	27	4	1	22	12	6	-	7	4	-	-	**83**
Verde Village	-	-	-	1		1	-	-	-	-	-	**2**
Total	**67**	**12**	**1**	**52**	**22**	**17**	**1**	**7**	**5**	**4**	**1**	**189**
% of Total	**35.4%**	**6.3%**	**0.5%**	**27.5%**	**11.6%**	**9.0%**	**0.5%**	**3.7%**	**2.6%**	**2.1%**	**0.5%**	**100.0%**

Table 12

Average Years Living in Present Home

Community	Owner	Renter
No Community Identified	26	2
Camp Verde	8	5
Clarkdale	6	2
Cordes	4	-
Cornville/Page Springs	10	2
Cottonwood	6	3
Flagstaff	8	3
Gilbert	3	1
McGuireville/Lake Montezuma/Rimrock	6	7
Oak Creek	10	4
Prescott/Prescott Valley/Chino Valley	3	-
Scottsdale	6	-
Sedona	8	3
Verde Village	14	6
Yavapai County	11	-
Average All Communities	**8**	**3**

Table 13

Tenure (Owner-Renter)			
Community	**Own**	**Rent**	**Total**
No Community Identified	5	3	8
Camp Verde	11	12	23
Clarkdale	9	2	11
Cordes	2	-	2
Cornville/Page Springs	21	15	36
Cottonwood	50	39	89
Flagstaff	10	8	18
Gilbert	1	1	2
McGuireville/Lake Montezuma/Rimrock	14	6	20
Oak Creek	14	17	31
Prescott/Prescott Valley/Chino Valley	3	-	3
Scottsdale	3	-	3
Sedona	66	85	151
Verde Village	4	2	6
Yavapai County	3	-	3
Totals	**216**	**190**	**406**
Percent of Total	**53.2%**	**46.8%**	**100.0%**

Table 14

Average Monthly Rent		
Community	**Households**	**Average Rent**
No Community Identified	3	$1,400
Camp Verde	10	$928
Clarkdale	2	$975
Cornville/Page Springs	12	$1,118
Cottonwood	39	$970
Flagstaff	8	$1,137
McGuireville/Lake Montezuma/Rimrock	5	$1,040
Oak Creek	15	$1,085
Sedona	79	$1,423
Verde Village	2	$1,025
Total/Average	**175**	**$1,210**

Table 15

Renter Housing Cost Burden Average Rent Payment to Average Renter Income					
Community	**House-holds**	**Average Monthly Rent**	**Annual Rent + Utilities**	**Average Income**	**Rent as % of Income**
No Community Identified	3	$1,400	$18,600	$114,000	16.3%
Camp Verde	5	$1,040	$14,280	$63,800	22.4%
Clarkdale	1	$1,050	$14,400	$100,000	14.4%
Cornville/Page Springs	11	$1,181	$13,399	$60,455	22.2%
Cottonwood	36	$1,002	$13,485	$42,083	32.0%
Flagstaff	6	$983	$13,590	$40,068	33.9%
McGuireville/Lake Montezuma/Rimrock	4	$1,150	$15,600	$60,250	25.9%
Oak Creek	14	$1,133	$14,426	$52,214	27.6%
Sedona	60	$1,363	$17,880	$60,543	29.5%
Total	**140**	**$1,198**	**$15,665**	**$55,614**	**28.2%**

Table 16

Homeowner Housing Cost Burden Average Homeowner Mortgage Payment to Average Income					
Community	**Households**	**Monthly Mortgage Payment**	**Annual Payment**	**Average Income**	**Payment as % of Income**
No Community Identified	2	$75	$900	$46,500	1.9%
Camp Verde	9	$1,246	$14,955	$78,889	19.0%
Clarkdale	7	$1,243	$14,914	$90,714	16.4%
Cordes	2	$650	$7,800	$20,000	39.0%
Cornville/Page Springs	19	$1,395	$16,741	$114,895	14.6%
Cottonwood	40	$1,323	$15,874	$85,825	18.5%
Flagstaff	8	$1,848	$22,178	$120,250	18.4%
McGuireville/Lake Montezuma/Rimrock	12	$1,111	$13,335	$75,500	17.7%
Oak Creek	10	$1,640	$19,680	$97,900	20.1%
Prescott/Prescott Valley/Chino Valley	3	$1,228	$14,732	$117,000	12.6%
Scottsdale	3	$1,667	$20,000	$116,667	17.1%
Sedona	49	$1,667	$20,005	$111,329	18.0%
Verde Village	4	$1,375	$16,500	$105,500	15.6%
Yavapai County	2	$950	$11,400	$95,000	12.0%
Total/Averages	**170**	**$1,430**	**$17,158**	**$98,289**	**17.5%**

Table 17

Housing Cost Burden				
	Owners		Renters	
Burden Range	Households	% of Total	Households	% of Total
Less Than 20%	94	55.0%	25	17.9%
20% - 29.9%	45	26.3%	37	26.4%
30.0% - 49.9%	29	17.0%	55	39.3%
More than 50%	3	1.8%	23	16.4%
Total	**171**	**100.0%**	**140**	**100.0%**
Average Cost Burden	**17.5%**		**28.2%**	

Table 18

Renter Satisfaction with Housing Situation		
Rating	Households	% of Total
Very satisfied	29	15.3%
Somewhat satisfied	57	30.0%
Neutral	36	18.9%
Somewhat dissatisfied	41	21.6%
Very dissatisfied	27	14.2%
Total	**190**	**100.0%**

Table 19

Homeowner Satisfaction with Housing Situation		
Rating	Households	% of Total
Very satisfied	124	56.1%
Somewhat satisfied	59	26.7%
Neutral	25	11.3%
Somewhat dissatisfied	3	1.4%
Very dissatisfied	7	3.2%
No Response	3	1.4%
Total	**221**	**100.0%**

Table 20

Renters Planning on Purchasing Home in Next Two Years			
Community	**No**	**Yes**	**Total**
No Community Identified	1	2	3
Camp Verde	5	7	12
Clarkdale	1	1	2
Cornville/Page Springs	10	5	15
Cottonwood	20	20	40
Flagstaff	8	-	8
Gilbert	1	-	1
McGuireville/Lake Montezuma/Rimrock	3	3	6
Oak Creek	10	5	15
Sedona	59	21	80
Verde Village	-	2	2
Total	**118**	**66**	**184**

Table 21

As a Lifestyle Choice, Do You Prefer Owning or Renting?			
	Renters		
Community	**Own**	**Rent**	**Total**
No Community Identified	2	1	3
Camp Verde	11	1	12
Clarkdale	2	-	2
Cordes	-	-	-
Cornville/Page Springs	14	1	15
Cottonwood	34	5	39
Flagstaff	4	4	8
Gilbert	1	-	1
McGuireville/Lake Montezuma/Rimrock	6	-	6
Oak Creek	9	6	15
Prescott/Prescott Valley/Chino Valley	-	-	-
Scottsdale	-	-	-
Sedona	58	24	82
Verde Village	2	-	2
Yavapai County	-	-	-
Total	**143**	**42**	**185**
% of Total	**77.3%**	**22.7%**	**100.0%**

Table 22

Obstacles Preventing Homeownership	
Reason	**Responses**
Lack of affordable for-sale units	130
Lack of a down payment	104
Not earning enough income	103
Concern about the economy and housing market	43
Credit history/credit score	32
Student debt	28
Will be moving from the area soon	10
High cost of living	2
Medical Debt	1
High cost of home ownership	1
No housing incentives	1
Increasing rents due to AirBNB	1

Table 23

Physical Condition of Residence

Community	Excellent	Above average	Average	Below Average	Poor	Total
Owners						
No Community Identified	1	3	1			5
Camp Verde	2	4	4	1		11
Clarkdale	2	6	1			9
Cordes			2			2
Cornville/Page Springs	9	6	6			21
Cottonwood	11	24	14	1		51
Flagstaff	3	3	4			10
Gilbert		1				1
McGuireville/Lake Montezuma/Rimrock	2	9	2	1		14
Oak Creek	3	3	7	1		14
Prescott/Prescott Valley/Chino Valley	1	1	1			3
Scottsdale	2	1				3
Sedona	21	20	22	3	1	70
Verde Village		1	3			4
Yavapai County	1		2			3
Grand Total	**58**	**82**	**69**	**7**	**1**	**221**
% of Total	**26.2%**	**37.1%**	**31.2%**	**3.2%**	**0.5%**	**100.0%**
Renters						
Community	**Excellent**	**Above average**	**Average**	**Below Average**	**Poor**	**Total**
No Community Identified	1	-	2	-	-	**3**
Camp Verde	3	2	3	2	2	**12**
Clarkdale	-	1	1	-	-	**2**
Cornville/Page Springs	2	2	6	5	-	**15**
Cottonwood	10	11	18	1	-	**40**
Flagstaff	1	4	2	1	-	**8**
Gilbert	-	1	-	-	-	**1**
McGuireville/Lake Montezuma/Rimrock	-	2	3	-	1	**6**
Oak Creek	3	4	6	2	1	**17**
Sedona	11	20	39	9	5	**84**
Verde Village	-	1	1	-	-	**2**
Total	**31**	**48**	**81**	**20**	**9**	**190**
% of Total	**16.3%**	**25.3%**	**42.6%**	**10.5%**	**4.7%**	**100.0%**

Table 24

If Affordable Housing was Available in Sedona, Would You Be Interested in Living in the City?			
Community	**No**	**Yes**	**Total**
No Community Identified	3	4	7
Camp Verde	9	14	23
Clarkdale	5	6	11
Cordes	-	2	2
Cornville/Page Springs	18	18	36
Cottonwood	36	55	91
Flagstaff	10	8	18
Gilbert	-	2	2
McGuireville/Lake Montezuma/Rimrock	5	15	20
Oak Creek	11	19	30
Prescott/Prescott Valley/Chino Valley	-	3	3
Scottsdale	2	1	3
Verde Village	2	4	6
Yavapai County	1	2	3
Total	**102**	**153**	**255**
% of Total	**40.0%**	**60.0%**	**100.0%**

Table 25

For a "No" Answer, Why Would You Not Want to Live in Sedona?	
Reason	**Responses**
Traffic congestion	26
Happily settled in current city	19
Too many tourists	16
Not well suited for young families or singles	10
Enjoy rural lifestyle outside of Sedona	8
Sedona residents not friendly	6
More housing value in other cities	5
Cost of living	5
Lack of conveniences/shopping	2
Too many AirBNBs	2
NIMBY's	1

Demographic Characteristics

Table 26

Gender of Survey Respondent			
Community	**Female**	**Male**	**Total**
No Community Identified	1	7	8
Camp Verde	15	8	23
Clarkdale	8	3	11
Cordes	2	-	2
Cornville/Page Springs	23	13	36
Cottonwood	53	35	88
Flagstaff	5	13	18
Gilbert	-	2	2
McGuireville/Lake Montezuma/Rimrock	11	9	20
Oak Creek	26	5	31
Prescott/Prescott Valley/Chino Valley	1	2	3
Scottsdale	1	2	3
Sedona	99	55	154
Verde Village	4	2	6
Yavapai County	1	2	3
Total	**250**	**158**	**408**
% of Total	**61.3%**	**38.7%**	**100.0%**

Table 27

Average Age or Respondent	
Community	**Average**
No Community Identified	33
Camp Verde	34
Clarkdale	40
Cordes	39
Cornville/Page Springs	47
Cottonwood	40
Flagstaff	39
Gilbert	34
McGuireville/Lake Montezuma/Rimrock	42
Oak Creek	46
Prescott/Prescott Valley/Chino Valley	40
Scottsdale	39
Sedona	47
Verde Village	42
Yavapai County	53
Average All Communities	**43**

Table 28

Average Number of People in Household	
Community	**Average**
No Community Identified	1.8
Camp Verde	3.2
Clarkdale	2.7
Cordes	3.0
Cornville/Page Springs	2.6
Cottonwood	2.9
Flagstaff	2.8
Gilbert	2.5
McGuireville/Lake Montezuma/Rimrock	2.9
Oak Creek	2.1
Prescott/Prescott Valley/Chino Valley	2.7
Scottsdale	3.3
Sedona	2.1
Verde Village	2.7
Yavapai County	1.7
Average All Communities	**2.5**

Table 29

Household Income by Business type			
	Average	**Type of Household**	
Business	**Income**	**Dual income**	**Single income**
Construction	$82,500	1	1
Education	$149,125	5	4
Fine Arts	$60,311	7	3
Government	$82,774	44	40
Hotel	$70,774	19	19
Manufacturing	$156,500	0	2
Medical/Healthcare/Wellness	$72,929	6	9
Non-Profit Agency	$88,429	10	9
Professional	$101,455	15	15
Public Safety	$99,400	23	13
Recreation	$62,327	34	28
Service or retail worker	$66,400	53	35
Average All Communities	**$78,799**	**217**	**178**

Table 30

Average Household Income By Business Type and Owner-Renter		
Business	**Owners**	**Renters**
Construction	$100,000	$65,000
Education	$140,448	$75,000
Fine Arts	$83,333	$48,800
Government	$96,714	$44,200
Hotel	$80,524	$50,300
Manufacturing	$280,000	$33,000
Medical/Healthcare/Wellness	$109,571	$36,286
Non-Profit Agency	$104,667	$59,200
Professional	$160,556	$60,538
Public Safety	$106,714	$74,100
Recreation	$86,083	$40,517
Service or retail worker	$75,238	$62,084
Average	**$98,752**	**$52,785**

City of Sedona Employee Housing Survey

The City of Sedona has retained Elliott D. Pollack & Company of Scottsdale to prepare a Housing Needs Assessment and Action Plan that will address affordable housing in the City. As part of the Assessment, an online survey will be conducted of persons who work within the City limits to determine the need for affordable housing and where it might be found today in the Verde Valley. In conjunction with the Sedona Chamber of Commerce and businesses in the community, we are requesting your participation in the survey to better understand the availability of affordable housing. All responses will be kept strictly confidential and individual responses will not be revealed to any employer or business.

Please take ten minutes to answer the following questions. **Please limit responses to one per household.** Your responses will be immensely important to addressing the housing needs of persons working in Sedona. Thank you for your participation.

Work Environment

1. In what type of business are you currently employed?
   - Service or retail worker
   - Recreation (bike rental, jeep tours)
   - Hotel
   - Professional (engineer, accountant, real estate agent/investor, lawyer)
   - Medical/Healthcare/Wellness (doctor, nurse, etc.)
   - Construction
   - Manufacturing
   - Public Safety (police, fireman)
   - Government
   - Non-Profit Agency
   - Education
   - Fine Arts
   - Other (specify)
2. In what community, city, or town do you reside?
   - Sedona
   - Cottonwood
   - Camp Verde
   - Clarkdale
   - Jerome
   - Oak Creek
   - Cornville/Page Springs
   - McGuireville/Lake Montezuma/Rimrock
   - Flagstaff
   - Munds Park
   - Prescott/Prescott Valley/Chino Valley

- Verde Village
- Other (specify)

3. Approximately how many miles do you commute from your residence to your place of work in Sedona?
4. How many minutes does it take you to commute to work?
5. How do you normally get to work?
    - Drive yourself
    - Carpool
    - Public transit (Verde Lynx)
    - Bicycle
    - Walk
    - Other (specify)
6. What type of employee are you?
    - Full-time
    - Part-time
7. Are you a seasonal employee, planning to only work in Sedona for a season or two?
    - Yes
    - No
8. How long have you worked in Sedona?
    - Less than 1 year
    - 1 – 2 years
    - 3 – 5 Years
    - 5 – 10 years
    - More than 10 years
9. Do you plan on continuing to work in Sedona for the future?
    - Yes
    - No

Housing Situation

10. How many years have you lived in the Sedona area or nearby communities?
11. What type of residence do you live in?
    - Single family home
    - Duplex
    - Apartment
    - Condominium
    - Mobile or manufactured home
    - Other (specify)
12. How many years have you lived in your present home?
13. Do you rent or own your residence?

    13a. If you rent, what is the monthly rent for your household?

13b. If you own your residence, what is your monthly housing cost (mortgage payment, property taxes, property insurance).

14. How satisfied are you with your current housing situation?
    - o Very satisfied
    - o Somewhat satisfied
    - o Neutral
    - o Somewhat dissatisfied
15. What do you like or dislike about your current housing condition?
16. If you are a renter, do you plan on purchasing a home in the Sedona or Verde Valley area in next two years?
    - o Yes
    - o No
17. As a lifestyle choice, which do you prefer, homeownership or renting?
    - o Homeownership
    - o Renting
18. If you prefer homeownership and are currently renting, what are the obstacles preventing you from purchasing a home? (Check all that apply).
    - o Lack of a down payment
    - o Student debt
    - o Not earning enough income
    - o Will be moving from the area soon
    - o Credit history/credit score
    - o Lack of affordable for-sale units
    - o Concern about the economy and housing market
    - o Other (specify)
19. How would you describe the physical condition of your current residence?
    - o Excellent
    - o Above average
    - o Average
    - o Below average
    - o Poor
20. If affordable housing was available in Sedona, would you be interested in living in the City?
    - o Yes
    - o No

    20.A If you answered "No", why would you not want to live in Sedona?
21. Are you planning on moving from Sedona and the Verde Valley for any of the following reasons? (Check all that apply).
    - o Lack of employment
    - o Low wages
    - o Lack of affordable housing

- Cost of living
- Other (specify)

About You

22. Are you:
    - Male
    - Female
23. What is your age?
24. How many persons live in your household, including yourself?
25. For statistical purposes, what was your annual household income before taxes for 2018?
26. What best describes your household income?
    - Single income household
    - Dual income household (my spouse or partner also works)

ADDITIONAL COMMENTS

Please provide any additional comments regarding housing in the Sedona and Verde Valley area.

Appendix 3: Stakeholder Interviews February 10, 2020

In addition to the survey of employees that was undertaken in December 2019, focus group interviews were also conducted with employer and industry groups on February 10, 2020. Interviews were organized by industry groups and included:

- Retail/Restaurant/Tourism
- Lodging/Hospitality
- Education/Public Safety/Government
- Miscellaneous

Following are the primary findings of the interviews. Thereafter are direct notes from each of the individual groups.

Primary Findings & Conclusions

1. There is an overwhelming need for affordable employee housing in Sedona whether it is in the retail, restaurant, tourism, hospitality, education, or government industries. Very few employees working in Sedona can live and work in Sedona.
2. Because so few people can live and work in Sedona, the sense of community is declining.
    - People don't know their neighbors.
    - Entering kindergarten classes have declining enrollment every year.
    - There is a constant churning of employees resulting in constantly retraining new hires.
    - Even many business owners cannot afford to live in Sedona and thereby they have less ability to control their fates because they cannot vote in elections.
3. Short term vacation rentals (STRs) have resulted in constant turnover in neighborhoods and no one knows their neighbor. STRs have also reduced the availability of housing for working individuals.
4. Businesses are having to find housing in nearby communities to ensure that they have a sufficient workforce for entry level jobs. A few employers are providing a limited amount of housing for their employees as well as providing transportation for these workers so they can get to and from their jobs. This is an additional cost that is passed on to consumers and tourists. It was reported that the competition for good employees was so strong that workers have left jobs for a 10 cent per hour increase in pay.
5. The community needs more "tools in the toolbox" to expand housing availability. A variety of housing types for all levels of income are needed. Apartments, shared living, ADUs are a few options that were suggested.
6. Traffic is a major issue and becomes worse as the tourist season arrives.
7. Advocates for preservation of views and small town character are very vocal and influential. They have been successful in limiting non-traditional development options that could address the affordable housing issue. There is no clear-cut definition of "small town character" that several participants describe as a goal for the community. Building height appears to be a significant element of small town character, but other opinions include

additional components. Without a clear-cut definition, there is limited direction on how to proceed with housing options.

Notes from Retail/Restaurant/Tourism Group

- Very few employees live in Sedona. Employer has workforce of nearly 120 and everybody drives to work. Hiring seasonal employees starts earlier every year; now starting in winter for spring hires.
- Some employees are living in RVs in the woods. Some start that way and find housing later.
- RV parks are popular for housing. Carpooling is often needed. People had places to live but units have been turned into VRBOs and they get kicked out.
- 80% of Sedona's workforce does not live in Sedona. Very rare that someone lives and works here. VRBOs have pushed everyone outside of town.
- City needs to build housing – no developer will build it. Must live outside of the city in order to find affordable housing.
- Only about 15% of the land is developable. No industrial space available. Building costs are constantly increasing.
- Residential building costs have increased from $105/sq. ft. to $150/sq. ft. to build in Clarkdale.
- Few affordable housing units are provided by any companies. Auberge will help fund housing but it must remain affordable. Restaurants and commercial uses need housing for all but they must also pay more for minimum wage plus provide health insurance. Difficult to carry employees over the slow season.
- Spring Creek is organized against affordable housing outside of Sedona.
- Need government intervention to make it happen.
- Lots of NIMBY's.
- Transportation links from housing outside of Sedona needs to be explored
- City needs to relax fees. Public Private Partnership. Reduce land costs.
- Help create a sense of community – increase density.
- Social impacts – closing of schools – more calls to police and fire because of VBROs.
- Low turnover in restaurant industry. Restaurants servers make $3 less per hour than minimum wage but make it up on tips. Restaurant servers very stable - don't move around. Cooks can make up to $22/hr.
- Minimum wage didn't affect employee turnover, but those at the lower end are finding it harder to get housing.
- Don't have high school students working in tourism industry – they go to fast food restaurants.
- 8 homes in one person's neighborhood switched to VBRO.
- Keep Sedona Beautiful movement – core members are old time Sedona residents.
- People who are voting live in the community but are relatively recent residents. Business owners and their employees don't live here either – hard to organize employee interest.
- 1,200 units of employee housing needed now.

- Long term residents moved here for small time, quiet community but then mobilize against apartment complex close to them.
- Low hanging fruit is city owned land by water treatment facility. Land swapping with Forest Service could expand the land by 200 acres potentially. Create master plan the community. City could make money off the rentals and property.
- Red Rock Fever – love the place but no place to live.
- Focus on rental housing – more impact for expanding housing availability.
- Commute times will double or triple during the season starting March 15.
- Increase the number of smaller apartment complexes – help to bring in affordable housing.
- Are other communities making financial commitments to the other study? Verde Valley housing consortium has been created. All communities and county are participating in the housing situation.
- Streamlined building application process for the County is now available.
- What does KSB want? How can we incorporate their needs/wants into the process?

Notes from Lodging/Hospitality Group

- Very hard to find housekeepers. They can work "under the table" and earn more from VRBOs.
- Affordable housing at $1,000 for 1 bedroom is not affordable.
- What is affordable housing? 40 employees – only 1 employee lives in Sedona. Must pay more to offset travel expenses.
- Housing cost should be one-week of salary. Current entry level $12-15/hour.
- Two employees live here – they are retired and just want work but could not find units to rent. Hotel engineer could not find housing.
- Lack of availability. Leases come up and units turn to VRBOs.
- Resort with 500 employees – rent 24 units in Cottonwood. Can accommodate max of 96 employees. Impossible to bring even Director and Manager positions here due to quality of housing. Older homes not up to standards. This is a community issue – teachers, police cannot live here. Cottonwood is now turning to VRBOs. Single room is $1300. Need more density to get rents affordable.
- Need transportation – bus lines don't run 24 hours.
- Managers of other resorts rent their homes in Sedona and live in other places.
- J1 visa employees work for 3-4 months - international workers.
- Master Corp is providing housing for employees – bring in exchange workers. As minimum wage goes up so do expenses for the resorts as they provide housing for the workers. Third party administrative costs increase expenses for resorts and hotels.
- Group opinion: 1,000 or more units needed.
- Need to catch up with demand – haven't addressed housing issue for years.
- $800 a month may be affordable for $15/hour employee. Seasonality makes a difference – cut employee hours when out of season, but rents don't go lower. High seasons: March – May and Sept – October.

- Workers do not want to work overtime.
- Employee turnover – try to hold on to good employees and pay overtime during busy season. Pay regular wages remainder of time. Employees will leave job of 10 cents an hour increase saying they don't have money for gas.
- Nothing to buy to provide affordable housing. Company would buy units, but investors buy quickly and turn them to VRBOs.
- Communities cannot control their future due to VRBO restrictions. Lack of community – different neighbors every week – surrounded by VRBOs.
- Summer season – can't find workers. NAU intern program moved to Scottsdale.
- City okays new hotels – but can't get staff and have congestion problems.
- Other communities are building medical facilities and other facilities. Employees don't need to come to Sedona – go to Cottonwood.
- No low hanging fruit. Land costs are too high.
- Not just KSB, lots of vocal minority groups oppose everything.
- Courtyard – only 2 units for affordable housing required. Time share had to pay fee to Sedona. How was money used? What are the stipulations?
- Hold developers accountable for the impacts on the community
- Want to know what the City's housing fund will go towards? We prefer to own and manage units. Looking for options – look for partners to help mitigate costs.
- Site for housing – Spring Creek in Cornville – long term owners.
- Cornville/Rimrock – reduced rental units. Difficult to get through process – very isolated.
- Rental housing preferred – residents cannot afford down payment nor qualify to purchase housing.
- Bus stops need improvement – address congestion problem.

<u>Notes from Education/Public Safety/Government Group</u>

- Residents of other communities lash out at Sedona that it doesn't want affordable or attainable housing. Interviewee monitors social media and sees backlash against the City. 90 applicants to rent one small home in Camp Verde. Beaver Creek 300+ condo development. Negative comments from local residents targeted at Sedona.
- Interviewee just moved to Sedona – where can I live? Lose great top-level employees because they cannot afford to live here. We do not have the land. Cost of land is too high.
- Sedona is a tourist destination – short term rentals have increased to keep up with tourist demands.
- Doubled room rents in the last two years. Eclipsed by VRBO increases. Over 1,000 units converted to short term rentals.
- Impact on school district – enrollment dropping. Only 4% of population are families. First recession hit then short-term rentals – double whammy. Incoming K classes are decreasing every year. Hard to recruit teachers – recruit from around the country to get teachers. Housing

costs are a big problem in getting teachers in Sedona. Young professionals don't want to co-habitat or rent a tiny house.

- How long am I willing to live under these conditions?
- Similar situation with hiring at community college – older adults getting new skills have problems finding housing
- Parents are 45 minutes away for work, education, or getting kids to school. School choice causes pressures on the community – shrinking family population in mid 30s to late 40s.
- Older population – Yavapai County residents are older than general AZ population
- Planned area development Spring Creek Ranch, halfway between Sedona and Cottonwood, asking for substantially higher density. Opponents from Sedona about the density – KSB – Sedona is seen as blocking it.
- Encouraged ownership housing - not all rentals – not as much opposition.
- "Modular home" – need different term. These terms make things more negative. Need comprehensive approach to housing, not just a Sedona problem.
- Fire Dept. 75 out of 98 work do shift work. Employees must live in district – 212 sq. miles. Administrative generalist position open – see what happens.
- School district superintendent had trouble finding housing – made this known during interview process.
- Many City positions require living in Sedona. Must look at housing availability first – many do not continue with interview.
- Police Dept. – 40 employees. 4 live in the City. 3 people drive to the valley on weekends and rent locally. They must live within 30 miles. Community feels safer when police live in the community. Residents see police cars in driveways, etc.
- School district wants teachers to live in the community but Cottonwood isn't that much cheaper than Sedona. Teachers aren't available for school events. Not sure what percent line in Sedona.
- Only 30% City workforce live in City. Recruitment: beautiful place but can't live here.
- School district recruits from South Dakota.
- Hospital changing in Sedona – turning into Cancer Center. Administrators didn't realize housing conditions in the city. They thought doctors and related staff could live here. Now incorporating housing units into the development.
- Short-term rentals make leasing a difficult situation. People living in smaller units. Generates calls to police against policy.
- Fire safety code violations are occurring. They don't know about them until something bad happens
- Haven't seen a lot of nuisance calls because of VRBOs.
- Fire operations people will drive farther because only drive 2 times a week
- Need housing at $1,000 per month. School district starting salary is $40,000. With some experience $45,000 t0 $50,000.
- Community college: Wide range of salaries $15/hour entry level, Advisors start at $40,000, Faculty $60,000+.

- Need $60K or higher income for interviewee's rental property – 3 bedroom on the market in Camp Verde for rental at $850. Yet $2000 per month for rent on adjacent property. People have the income but there is a shortage of housing.
- Need $250,000 lowest priced house to appeal to Sedona workers.
- Vacation rental - $50K increase in price for a vacation rental. $300K is the threshold for ownership for City employees.

Notes from Miscellaneous Group

- Employees do not consider themselves part of the community. They are scattered throughout the Verde Valley area. They have one employee who lives in Sedona with parents. Families are leaving because so few kids in the community. They move to other communities for T-ball and other sports. There are fewer education options. People see ads in paper really consider transportation costs which are about $400 per month before they apply for a job. Employers don't consider people from Flagstaff, Chino Valley or Prescott for jobs. The drive is too much and they leave after a year. Camp Verde resident typically has kids in day care in Cottonwood. If they work in Sedona a huge burden when kids get sick. New owners from Minnesota kept company in Sedona. Could have lost 50 jobs in the community because the new buyers wanted to move the company to Phoenix and have a place in Sedona for Superintendents to stay when in the area. The situation has gotten worse on the past few years.
- Natural topography could support more levels of housing.
- Humane society south of 89A – Shelby and Sunset area is a community focus area. Special rules for the area. Proposal to increase the height from 2 to 3 stories up against the Mesa for affordable workforce housing. By the time it got to Council it was 4 stories and the entire community focus area moving towards affordable housing and office buildings. They worried about the slippery slope of preserving small town character of the city in the community plan.
- Are the City rules going to result in what we want? There are conflicting ideas in the plan. What is the gap? How much of the problem should the City of Sedona solve? Public/private partnership – can we trade? Need study to help and provide good ideas.
- Good to hear Council is struggling with these ideas. What does a healthy community look like? How do we have economic diversity? Not everybody can afford to live where they want. Define small town character. Issues: Do we need to acquire more land, ownership versus rental. Spring Creek – none of the units are owned? Flagstaff is using some assets to develop land for LIHTC housing. Habitat - are these places going to work?
- Build housing in the Dells and County. Be part of our community. Cannot live here now.
- Greater diversity sending housing outside the community doesn't make it a part of the community. Not enough kids to get federal $ for HeadStart program.
- Young families want to be with other young families
- Survey for the residents of Sedona? Haven't included that in the scope of work. We need to do something for the workforce to provide housing. If you work in Sedona have a reasonable commuting distance. 30 minute commute is nothing. Everybody who works in Sedona cannot

live here. Not a God-given right. We want our teachers and police officers living here or within reasonable commute distance. Short term rentals are the 800 lb. gorilla in the room. Having a tremendous impact. Workforce housing situation is worsening. Small town character isn't Flagstaff with tall buildings. You know it when you see it.

- Dells is 400 acres – 200 acres can be developed now.
- We want workforce housing, not affordable housing in Sedona. Think outside of the box but there are constraints.
- Worry about social stigma - number of units by apartment size and number of for-sale product. If we are going to solve it all – how much will Sedona have to do?
- Regional Housing Authority needed in order to create the supply in the area.
- Development for surrounding community lands – everyone is against anything – opposition. Land use planning – water quantity and quality. Spring Creek will have great impact. A lot of communities have urban growth boundaries. Development may be farther away but traffic may be less.
- County is not planning.
- Spring Creek – no contact with the City of Sedona in the planning process'
- In resorts towns, YIMBY is growing. We need ADUs (accessory dwelling units). Need to educate community about what density looks like. Community Enhancement Program, distributed sites, incremental infill on edges of neighborhoods. Example: Beach housing – 48 units on 5 different sites, small scale incremental housing options. Difficult in Sedona to get numbers to work even for 400 sq. ft units. Likely need gap dollars from city during construction. Friends from Silicon Valley looking to move here and invest here. Housing for locals – large scale projects will not fly. 10 units or less – bite size answers.
- Council has spoken about "ownership". Not sure what that is – more small condos or townhouses. Senior population is not a part of this community – no place to go if cannot live in here 3000 sq/ft home. Missing some segments of housing market. No options for seniors to age in place.
- $1M per acre is the price of land in Sedona.
- City as the landowner – do long term leases let someone else run it.
- What is the "small town character?" Conversation is needed.
- Economic diversification – no place for workers to live. Meld housing report into the economic diversification study
- Solution has always been the Dells – small houses, etc.
- Only way that would fly would be to develop appropriate housing for the community – rural character.
- Harmony area may be appropriate for new housing near the City Hall.

DRAFT 11-30-2020

Housing Needs Assessment & Five-Year Housing Action Plan

City of Sedona, Arizona

Volume 2: Affordable Housing Action Plan

With Case Study and Affordable Housing Tool Kit

Prepared for:
City of Sedona

November 2020

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Table of Contents

Executive Summary

Introduction

Volume 2 of the Sedona Five-Year Affordable Housing Action Plan outlines a strategy to address the creation of affordable housing for at a variety of income levels. As a prelude to that Action Plan, a case study analysis was conducted of similar tourism-dependent communities to determine how they approached the housing affordability problem and what lessons were learned. The analysis focuses on identifying the primary strategies employed by those communities and the preparation of a "tool kit" of affordable housing concepts and approaches that may be transferable to Sedona (Appendix 1 and 2).

Five-Year Affordable Housing Action Plan (AHAP)

The goal of the AHAP is to provide quality housing that is affordable to Sedona households at a variety of income levels with specific focus on those households that are cost-burdened. For Sedona, that includes low-income households as well as those earning in excess of the Yavapai and Coconino counties area median incomes of $64,500 and $75,200 respectively. These moderate income households include critical service providers or essential personnel such as police, firefighters, nurses, schoolteachers, and others.

The objectives of the Action Plan outlined below are the result of analysis of the affordable housing landscape in Sedona, the case study analysis of approaches used in similar communities, and input from City staff, community stakeholders, and the community-at-large through interviews and surveys. **The Action Plan objectives are:**

1. **Encourage development of affordable housing units that meet the needs of low and moderate income households.** In order to be effective, this objective requires the active recruitment of affordable housing developers by the City. In addition, a regional, collaborative approach to the affordable housing issue should also be considered for the entire Verde Valley.
2. **Incentivize the inclusion of affordable units in private development.**
3. **Increase resources to support production of affordable housing.**
4. **Monitor the increase in demand and loss of affordable housing units in the community particularly mobile homes built before 1976.**

Table A summarizes the objectives and tools that are recommended for the Affordable Housing Action Plan by tenure, primary funding source, and target population. Each of the objectives and tools are discussed in detail in this report including examples and scenarios that outline the potential cost of the individual tools.

Table A

Summary of Affordable Housing Action Plan Objectives and Tools
City of Sedona

Objective/Tool	Tenure		Funding Source			Target Affordability Levels (AMI)		
	For Sale	Rental	Federal	State	Local	Very Low <50%	Low 50%-80%	Moderate >80%
1. Encourage Development of Affordable Housing Units								
Workforce Affordable Housing Approaches								
Tool 1: Community Land Trust (CLT)	X	X			X	X	X	X
Tool 2: City-Owned Land	X	X			X	X	X	X
Tool 3: Deed Restricted Housing	X	X			X			X
Tool 4: Rental Subsidy Program (Voucher)		X			X			X
Tool 5: Down Payment Assistance Program	X		X	X	X			X
Low Income Affordable Housing Approaches								
Tool 6: Low Income Housing Tax Credit Program (LIHTC)		X	X				X	
Tool 7: Private Activity Bonds (PABs)		X	X			X		
2: Incentivize the Inclusion of Affordable Units in Private Development								
Tool 8: Fee Waivers & Expedited Processing	X	X			X	X	X	X
Tool 9: Density Incentive	X	X						X
Tool 10: Regulation Review	X	X				X	X	X
3: Increase Resources to Support Production of Affordable Housing								
Funding of Housing Programs on an On-Going Dedicated Basis	X	X			X			X
4: Monitor the Increase in Demand and Loss of Affordable Housing Units								
Affordable Housing Impact Summary	X	X	X	X	X	X	X	X

Based on the total housing gap estimate of 1,500 households outlined in Volume 1 of this report, the affordable housing mix is estimated at 78% low income households (1,170) and 22% workforce housing (330). The strategies to address these two target groups will be different. Low-income approaches will target rental units and workforce housing strategies will focus on both rental and ownership options.

Preface to Affordable Housing Action Plan

The Affordable Housing Action Plan is prepared with the understanding of the limitations facing Sedona in the expansion of its affordable housing stock including:

- The lack of developable land in the City and the cost of land.
- The lack of multifamily units in the City which creates a significant impediment for providing affordable housing to persons currently working in the community.
- The cost of construction in Sedona which is among the highest in the state.
- The small size of multifamily projects typically built in Sedona. Larger projects provide economies of scale that can be used to offset a high cost environment.
- Limited access to capital due to the perceived limited employment base in the City by lending institutions.
- The size of the demand for affordable units in the City at 1,500 units will require Sedona to be proactive in its approach to implementing the Action Plan.

Given the limitations and impediments facing Sedona in the development of affordable housing units, the Affordable Housing Action Plan will require a commitment on the part of the City to address the issue.

- This commitment will at least require staffing in order to administer programs and recruit housing developers to the community through marketing efforts that demonstrate the demand for affordable housing at all income levels.
- A combination of tools and resources will likely be required to attract affordable housing to Sedona including public-private partnerships, fee waivers, density incentives, public subsidies, partnerships with local organizations, and the availability of city owned land to name a few.
- Managing an affordable housing program will be a matter of trial and error and finding the right mix of tools that work for the City. Adjustments will need to be made along the way and tools expanded or removed as needed.

Objectives

Objective 1: Encourage Development of Affordable Housing Units

Workforce Affordable Housing Approach

The following recommended programs and tools represent proven methods that may be used at the local level to address workforce housing affordability for households earning between 80% and 120% of the area median income. Federal and state affordable housing programs generally do not address this critical demographic, hence local governments are often tasked with creating their own programs and tools for moderate income households.

- **Tool 1: Community Land Trust (CLT)**: Sedona should establish a Community Land Trust as an important tool that can be used to facilitate the development of affordable housing.
- **Tool 2: City-Owned Land**: Sedona should consider the use of its land inventory as a catalyst for the development of affordable housing. Promote partnerships with other government or non-profit organizations that may have land available for residential purposes.
- **Tool 3: Deed Restricted Housing:** Sedona should establish a deed restriction subsidy program for multifamily developers as part of the DIGAH. The purchase of deed restrictions on ownership units should be approached with caution due the difficulties of obtaining financing for condo or single family units.
- **Tool 4: Rental Subsidy Program (Voucher)**: The City should consider establishing a Rental Subsidy demonstration project to determine potential interest from landlords.

- **Tool 5: Down Payment Assistance Program**: The City should consider a Down Payment Assistance demonstration project to determine potential interest from prospective owners.
- Sedona should consider contracting with Housing Solutions of Northern Arizona (HSNA) for assistance in the start-up of any housing programs.

Low Income Affordable Housing Approach

Several publicly financed housing programs are viable for the development of affordable housing in Sedona. These resources flow from federal and state programs and generally target the lowest income households.

- **Tool 6: Low Income Housing Tax Credit (LIHTC) Program**: The City should recruit a developer to construct a LIHTC complex in the City that would target households earning less than 60% of AMI. Negotiations with the developer will involve the identifying incentives and waivers that may be available for the property.
- **Tool 7: Private Activity Bond (PAB) Program**: The City should recruit a developer to construct a PAB complex in the City that will provide mixed-income housing for low and moderate income households. The PAB program provides 4% tax credits for investors participating in the project. Negotiations with the developer will involve the identifying incentives and waivers that may be available for the property.

Objective 2: Incentivize the Inclusion of Affordable Units in Private Development

- **Tool 8: Fee Waivers & Expedited Processing:** The Sedona Development Incentives & Guidelines for Affordable Housing document is well-crafted and similar to those policy documents found in the Case Studies analysis contained in this report in Appendix 1. However, it has its limitations since it is essentially a voluntary program on the part of housing developers. Strengthening the incentives and modifying certain portions of the DIGAH could assist in increasing participation by private interests.
- **Tool 9: Density Incentive**: A density incentive for multifamily development should be considered within the City's Development Incentives & Guidelines for Affordable Housing (DIGAH).
- **Tool 10: Regulation Review:** The City should evaluate and review the Land Development Code requirements relative to the potential cost of the design enhancements (massing and articulation) and public art investment and determine if some could be modified or waived for affordable housing.

Objective 3: Increase 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. Sedona's establishment of its Housing Fund as part of its annual Budget is an important statement of the City's commitment to address housing affordability. 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 such as the DIGAH
- General Fund allocations
- Sale or Lease Proceeds
- Bond financing

Objective 4: Monitor the Increase in Demand and Loss of Affordable Housing Units

The City should monitor the demand for affordable housing in Sedona as well as any loss of affordable housing through clearance of obsolete buildings resulting in displacement of residents. The monitoring of the affordable housing inventory can be accomplished through an Affordable Housing Impact Summary on an annual or semi-annual basis. In particular, mobile home parks may be a target for redevelopment, particularly those situated in high value commercial locations. Any removal of units should be monitored to ensure replacement units are provided.

Affordable Housing Funding Commitments

The following table outlines the potential funding commitments for the City of Sedona for two affordable housing scenarios and some of the more productive affordable housing tools. The scenarios of 250 units and 470 units assume development over five years of a combination of market rate and affordable units. The scale of funding for each program is noted and the length of the affordability commitment.

Table B illustrates the effort required to generate just a limited number of affordable units. Most of the low income units come from the federal tax credit programs. It is very costly for the City to attempt to reach households earning less than 80% of AMI. City funds will be best spent focusing on households earning 80% to 100% of AMI.

The potential funding commitments in Table B are examples of the scale and range of public funding that might be required for the Affordable Housing Action Plan and the number of affordable units that could be created. The ultimate cost of the Action Plan will be the result of negotiations with a development entity and the implementation of the appropriate tools, waivers, and incentives by the City. There is no assurance that the affordable units can be created for the dollars outlined in the table.

Table B

Sample Scenarios of Funding Commitments - Affordable Housing Action Plan
City of Sedona

Tool	Total Units	Market Rate Units	Affordable Units	Cost Per Unit	Total Cost	Commitments
Scenario 1						
LIHTC - 60% AMI	70		70	$8,100	**$567,000**	30 Year Affordable Commitment
PAB 4% Tax Credit- 50% AMI	100	80	20	$8,900	**$178,000**	30 Year Affordable Commitment
Renter Subsidy - 80% AMI	10		10	$8,500	**$425,000**	5-Year City Commitment
Density Incentive - 80% AMI	60	48	6	$50,000	**$300,000**	30 Year Affordable Deed Restriction
Down Payment Assistance	10		10	$15,000	**$150,000**	One Time Commitment
Totals	**250**	**128**	**116**		**$1,620,000**	
Scenario 2						
LIHTC - 60% AMI	70		70	$8,100	**$567,000**	30 Year Affordable Commitment
PAB - 50% AMI	200	160	40	$8,900	**$356,000**	30 Year Affordable Commitment
Renter Subsidy - 80% AMI	40		40	$8,500	**$1,700,000**	5-Year City Commitment
Density Incentive - 80% AMI	120	108	12	$50,000	**$600,000**	30 Year Affordable Deed Restriction
Down Payment Assistance	40		40	$15,000	**$600,000**	One Time Commitment
Totals	**470**	**268**	**202**		**$3,823,000**	

1.0 Introduction

Volume 2 of the Sedona Five-Year Affordable Housing Action Plan outlines a strategy to address the creation of affordable housing for at a variety of income levels. The Action Plan is presented in the next sections. As a prelude to that Action Plan, a case study analysis was conducted of similar tourism-dependent communities to determine how they approached the housing affordability problem and what lessons were learned. The analysis focuses on identifying the primary strategies employed by those communities and the preparation of a "tool kit" of affordable housing concepts and approaches that may be transferable to Sedona.

The tool kit is a critical element of the Action Plan outlined herein. The case study analysis and tool kit are contained in this report in Appendices 1 and 2 for reference.

2.0 Five-Year Affordable Housing Action Plan (AHAP)

The goal of the AHAP is to provide quality housing that is affordable to Sedona households at a variety of income levels with specific focus on those households that are cost-burdened. For Sedona, that includes low-income households as well as those earning in excess of the Yavapai and Coconino counties area median incomes of $64,500 and $75,200 respectively.

To achieve the goal of the AHAP, several approaches are necessary to address Sedona's housing needs. The term "affordable housing" is often associated with housing for the lowest income households. "Workforce" or "attainable" housing is often associated with the demand from critical service providers or essential personnel such as police, firefighters, nurses, schoolteachers, and others. In the context of this study, the term "affordable" will apply to all households that are burdened by housing costs or those that can't find housing due to its cost relative to household income. Affordable housing refers to a continuum of housing demand that affects persons from the lowest income levels to those earning above the area median income.

Although the greatest need for affordable housing is evident in lower income rental households, the Action Plan also encourages development of housing for moderate income households as well, for both rental and ownership opportunities. A housing shortage forces households to compete for housing which bids up home prices and rents. Increasing the total inventory of housing, including market rate housing, helps to lessen the pressure on Sedona's tight housing market.

The objectives of the Action Plan described below are the result of analysis of the affordable housing landscape in Sedona, the case study analysis of approaches used in similar communities, and input from City staff, community stakeholders, and the community-at-large through interviews and surveys.

1. **Encourage development of affordable housing units that meet the needs of low and moderate income households.** In order to be effective, this objective requires the active recruitment of affordable housing developers. In addition, a regional, collaborative approach to the affordable housing issue should also be considered for the entire Verde Valley.
2. **Incentivize the inclusion of affordable units in private development.**
3. **Increase resources to support production of affordable housing.**
4. **Monitor the increase in demand and loss of affordable housing units in the community particularly mobile homes built before 1976.**

The resources and tools available to the City to address its housing needs will vary depending on the income levels of the target population. The Action Plan that follows outlines both:

- Public resources provided at the federal and state levels that typically address the needs of the lowest income households.
- Resources and tools required to address housing needs of moderate income or workforce households that most likely emanate from the local government level.

Table 1 summarizes the objectives and tools that are recommended for the Affordable Housing Action Plan by tenure, primary funding source, and target population. Each of the objectives and tools are discussed in detail on the following pages including examples and scenarios that outline the potential cost of the individual tools.

Table 1

Summary of Affordable Housing Action Plan Objectives and Tools
City of Sedona

	Tenure		Funding Source			Target Affordability Levels (AMI)		
Objective/Tool	For Sale	Rental	Federal	State	Local	Very Low <50%	Low 50%-80%	Moderate >80%
1. Encourage Development of Affordable Housing Units								
Workforce Affordable Housing Approaches								
Tool 1: Community Land Trust (CLT)	X	X			X	X	X	X
Tool 2: City-Owned Land	X	X			X	X	X	X
Tool 3: Deed Restricted Housing	X	X			X			X
Tool 4: Rental Subsidy Program (Voucher)		X			X			X
Tool 5: Down Payment Assistance Program	X		X	X	X			X
Low Income Affordable Housing Approaches								
Tool 6: Low Income Housing Tax Credit Program (LIHTC)		X	X				X	
Tool 7: Private Activity Bonds (PABs)		X	X			X		
2: Incentivize the Inclusion of Affordable Units in Private Development								
Tool 8: Fee Waivers & Expedited Processing	X	X			X	X	X	X
Tool 9: Density Incentive	X	X						X
Tool 10: Regulation Review	X	X				X	X	X
3: Increase Resources to Support Production of Affordable Housing								
Funding of Housing Programs on an On-Going Dedicated Basis	X	X			X			X
4: Monitor the Increase in Demand and Loss of Affordable Housing Units								
Affordable Housing Impact Summary	X	X	X	X	X	X	X	X

2.1 Affordable Housing Demand

Volume 1 of this study identified an affordable housing gap of approximately 1,500 households including the existing demand of 1,260 units and the future employment demand of 250+- units. The housing gap estimate has been categorized below by HUD's low and moderate-income groupings. The low-income category is defined as households earning less than 80% of area median income (AMI). Very low-income households earn 50% of AMI. There is a third category that HUD uses called extremely low income which is 30% of AMI. Moderate income households are considered to range from 80% to 120% of AMI. This portion of demand can be characterized as "workforce or essential worker" demand. The following table shows the gap estimates according to those income categories for households currently living in the community (Census data).

Table 2

Affordability Gap Demand By Income Range
City of Sedona

Income Category	Percent of AMI	Household Income	Gap	Percent of Households
Very Low Income	50%	$32,300		
Low Income	80%	$51,680	(981)	78.0%
Moderate Income	80%	$51,680		
Moderate Income	100%	$64,600		
Moderate Income	120%	$77,520	(277)	22.0%
Total			(1,258)	

Note: Yavapai County AMI for 2020 is $64,600.
Sources: HUD, U.S. Census, Elliott D. Pollack & Co.

Based on the total housing gap estimate of 1,500 households outlined in Volume 1 of this report, the affordable housing mix is estimated at 78% low income households (1,170) and 22% workforce housing (330). The strategies to address these two target groups will be different. Low-income approaches will target rental units and workforce housing strategies will focus on both rental and ownership options.

The Sedona affordable housing gap is substantial at 1,500 households particularly for a small community. With 78% of the demand within the low income population, the resources needed to address those target households are limited and subject to intense competition. For instance, for a Low Income Housing Tax Credit (LIHTC) complex, Sedona would be competing with the urban areas of the state that typically receive the majority of funding. In 2020, only 13 projects received reservations across the state out 45 applications. Ten of those reserved projects were in either Pima or Maricopa County although Flagstaff did receive one reservation.

The Affordable Housing Action Plan focuses on the household income levels for Yavapai and Coconino counties in the development of programs and tools for Sedona (Table 3). The Low Income Housing Tax Credit (LIHTC) program and other public programs address households with incomes below 60% AMI. The incomes outlined below serve to establish the baseline rents for low-income complexes as well as programs that target moderate income families.

Table 3

2020 HUD Incomes & Affordable Housing Cost By Family Size — Yavapai County Area Median Income (AMI):								
Yavapai County Area Median Income (AMI):				**$64,600**				
	Persons in Family							
% AMI	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Income								
120%	$54,360	$62,040	$69,840	$77,520	$83,760	$90,000	$96,240	$102,360
100%	$45,300	$51,700	$58,200	**$64,600**	$69,800	$75,000	$80,200	$85,300
80%	$36,240	$41,360	$46,560	$51,680	$55,840	$60,000	$64,160	$68,240
60%	$27,180	$31,020	$34,920	$38,760	$41,880	$45,000	$48,120	$51,180
Maximum Affordable Housing Cost								
Persons/Room	1	1.5	3	4.5	6	7.5		
Unit Size	0 Bdrm	1 Bdrm	2 Bdrm	3 Bdrm	4 Bdrm	5 Bdrm		
120%	$1,359	$1,455	$1,746	$2,016	$2,250	$2,483		
100%	$1,133	$1,213	$1,455	$1,680	$1,875	$2,069		
80%	$906	$970	$1,164	$1,344	$1,500	$1,655		
60%	$679	$727	$873	$1,008	$1,125	$1,241		

2020 HUD Incomes & Affordable Housing Cost By Family Size — Coconino County Area Median Income (AMI):								
Coconino County Area Median Income (AMI):				**$75,200**				
	Persons in Family							
% AMI	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Income								
120%	$63,240	$72,240	$81,240	$90,240	$97,520	$104,720	$111,920	$119,120
100%	$52,700	$60,200	$67,700	**$75,200**	$81,260	$87,260	$93,270	$99,270
80%	$42,150	$48,150	$54,150	$60,150	$65,000	$69,800	$74,600	$79,400
60%	$31,620	$36,120	$40,620	$45,120	$48,780	$52,380	$55,980	$59,580
Maximum Affordable Housing Cost								
Persons/Room	1	1.5	3	4.5	6	7.5		
Unit Size	0 Bdrm	1 Bdrm	2 Bdrm	3 Bdrm	4 Bdrm	5 Bdrm		
120%	$1,581	$1,694	$2,031	$2,347	$2,618	$2,888		
100%	$1,318	$1,411	$1,693	$1,956	$2,182	$2,407		
80%	$1,054	$1,129	$1,354	$1,564	$1,745	$1,925		
60%	$790	$846	$1,015	$1,173	$1,309	$1,444		
Source: HUD 2020								

Based on this information, a five-year affordable housing production goal should be realistic based on the availability of federal and state resources, resources from the City, and the extent of affordable housing need. Section 7.0 of this report provides a cost summary for two scenarios that assume the development and/or incentivizing of (1) 250 market rate and affordable units and (2) 470 market rate and affordable units. The summary brings into focus the long term effort to address affordable housing needs.

While there are land supply limitations, two areas of the City could be prime locations new housing development. Those include the West Gateway Community Focus Area (CFA) and the Soldiers Pass CFA. The Western Gateway CFA has more than 80 acres of vacant land with high density development already present in the area. A partnership with the Sedona Medical Center may be feasible for the development of part of the property. The Soldiers Pass CFA is centrally located in the community with services directly available to the site including mass transit via the Verde Lynx.

2.2 Preface to Affordable Housing Action Plan

The Affordable Housing Action Plan is prepared with the understanding of the limitations facing Sedona in the expansion of its affordable housing stock including:

- The lack of developable land in the City due to topographic constraints, federal land ownership patterns, and the cost of land due to high demand and limited supply.
- The lack of multifamily units in the City which accounts for only 4.0% of total dwelling units (as opposed to 16% across the state). This situation creates a significant impediment for providing affordable housing to persons currently working in the community.
- The cost of construction which, according to a local developer, is among the highest in the state. The area does not have a good supply of construction labor and requires workers to travel from other communities to Sedona. If there is adequate work in places like Prescott and Flagstaff, contractors are less likely to travel to Sedona for work.
- The size of multifamily projects typically built in Sedona. Most multifamily developers desire to build projects that are larger than the ones found in Sedona. Larger projects provide economies of scale that can be used to offset a high cost environment. Essentially, Sedona is competing with the urban areas of the state for development projects.
- Limited access to capital. Lending institutions perceive that Sedona has a limited employment base and small economy based on tourism. Hotels are easier to finance in Sedona than apartments.
- The disparity between the demand for affordable units at 1,500 and the forecasted growth of Sedona over the next ten years at 395 persons or roughly 200 new households. For this reason, the City will likely need to be proactive in its approach to implementing the Action Plan.

Given the limitations and impediments facing Sedona in the development of affordable housing units, the Affordable Housing Action Plan will require a commitment on the part of the City to address the issue.

- This commitment will at least require staffing in order to administer programs and recruit housing developers to the community. Marketing efforts need to demonstrate the demand for affordable housing at all income levels and cite (1) the low vacancy rates in rental housing and (2) surveys which demonstrate that workers desire to live close to their place of work in Sedona.

- A combination of tools and resources will likely be required to attract affordable housing to Sedona including public-private partnerships, fee waivers, density incentives, public subsidies, partnerships with local organizations and the availability of city owned land to name a few.
- Managing an affordable housing program will be a matter of trial and error and finding the right mix of tools that work for the City. Adjustments will need to be made along the way and tools expanded or removed as needed. It is uncertain whether residential developers and landlords will be willing to participate in the recommended programs.

3.0 OBJECTIVE 1: Encourage Development of Affordable Housing Units

While not a formal objective of this Action Plan, as part of the initiative to address the affordable housing issue in Sedona, a regional, collaborative approach should also be considered for the entire Verde Valley. The creation of the Verde Valley Workforce Housing Alliance is a step in that direction along with the preparation of the Verde Valley Housing Needs Assessment Study. Although each community's housing needs will differ, significant benefits can be derived from a regional approach to and understanding of affordable housing needs across the Valley.

3.1 Workforce Affordable Housing Approach

The following recommended programs and tools represent proven methods that may be used at the local level to address workforce housing affordability for households earning between 80% and 120% of the area median income. Federal and state affordable housing programs generally do not address this critical demographic, hence local governments are often tasked with creating their own programs and tools for moderate income households.

Market rate apartments may be able to address some of the workforce housing needs. For instance, the Pinon Lofts Apartment complex is reaching workforce households who earn at the upper end of the moderate-income range (120% of AMI). Part of the problem with addressing workforce housing needs is the lack of conventional apartment complexes in Sedona. Demand is so strong that Pinon Lofts leased up in a matter of weeks. The ability to meet part of the workforce housing demand in Sedona may lie with market rate complexes.

Table 4

Pinon Lofts Apartments

BR	Units	SF	Rent/SF	Rent	Rent + Utilities	Required Income	Percent of AMI
1	9	652	$2.20	$1,435	$1,510	$60,400	117%
1	16	742	$2.06	$1,530	$1,605	$64,200	124%
2	16	1,042	$1.73	$1,800	$1,900	$76,000	118%
2	4	1,020	$1.76	$1,800	$1,900	$76,000	118%
Averages	**45**	**855**	**$1.91**	**$1,631**	**$1,781**	**$71,240**	**110%**

Note: The HUD 2020 Area Median Income (AMI) for Yavapai County is $64,600 (for a 4-Person household). The AMI for a 2-person household is $51,700.

Sources: HUD, Pinon Lofts Website

In addition, manufactured housing represents an ownership product that may address the housing needs of workforce households. Appropriate locations need to be identified where manufactured housing may be feasible and acceptable to the community.

Following are the recommended tools to address workforce housing.

Tool 1: Community Land Trust (CLT)
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 for 99 years at a nominal rate, reducing the cost of the entire land and improvements by 15% to 25%. In addition, CLTs also hold land for low and moderate-income affordable housing programs including LIHTC projects that benefit the lowest income households.

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 should have from its supporting municipality and how accountable a CLT should be to local residents relative to local government are 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. Flagstaff has been very successful with their CLT which operates as an internal program with no separate identity from local government. The City has converted deed restricted units acquired years ago to the CLT model due to difficulties with financing deed restricted homes.

It is recommended to establish a Sedona Community Land Trust (this could even be expanded to a Verde Valley CLT) that would initially be sponsored by the City. Staffing of the CLT would be provided by the City to expedite and coordinate any new projects. The City CLT could be the beneficiary of units or land acquired by the City through its DIHAG or other regulatory measures.

Pros:

- A CLT is one of the most productive tools within a city's arsenal for addressing affordable housing issues.
- Provides for continued long-term affordability of ownership housing.
- It can be used to hold title to land for both low-income and workforce housing projects, reducing land costs.

- Sedona can use a CLT as an effective negotiating tool for affordable units or projects.
- For homeowners, reduced home cost can be combined with down payment assistance programs.
- A CLT could be a substitute for a Housing Authority option for Sedona and the Verde Valley. It may provide greater flexibility to address affordable housing issues in a coordinated manner.

Cons:

- The lack of new residential development activity in Sedona may limit the effectiveness of the CLT program for ownership housing.
- The program will likely need support from non-profit housing agencies, particularly at start-up.

Administrative Support:

- Requires staffing by the City to administer the CLT.
- Requires monitoring of the sale of homes to ensure affordability.
- Partnership with a non-profit housing agency is recommended for program start-up, financial and homeowner counseling, and other services.
- Requires legal assistance in establishing ground lease documentation, closing procedures.

Example:

The best example of a successful CLT is the Flagstaff Community Land Trust Program (CLTP) which was established by resolution in 2006. The intent of the CLTP is to provide homeownership opportunities to qualifying households who would otherwise not be able to achieve ownership on the open market. The resolution identifies homebuyer eligibility criteria and establishes the ground lease provisions, securing permanent affordability for future buyers. Ownership of a land trust unit is a step in between traditional renting and owning that seeks to balance securing the investment of public dollars and providing owners who are not able to access homeownership any other way in Flagstaff.

The City has negotiated with homebuilders to reserve 10% of housing units for moderate income households. A total of 46 unit have been delivered through the CLTP and another 134 units are promised in development agreements. Homebuilders build and market the homes at affordable prices, then transfer the land component of the home to the CLTP at closing. Affordable homes are usually smaller in size than the market-priced homes.

Recommendation: Sedona should establish a Community Land Trust as an important tool that can be used to facilitate the development of affordable housing.

Tool 2: 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. Sedona has some assets that could be used for residential purposes. A Community Land Trust could assist with this endeavor and provide a conduit for producing affordable housing.

Pros:

- City-owned land could provide a cost-effective method of producing affordable low-income and workforce housing.
- City-owned land may 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.

Cons:

- The process for the sale or lease of City-owned land will need to be carefully crafted and documented to ensure compliance with affordable housing objectives.

Administrative Support:

- Requires staffing by the City to properly sell or lease City assets.
- Requires extensive legal assistance in establishing ground lease and sale documentation, preparation of development agreements, and monitoring of development activity.

Example:

Sedona owns excess land at the wastewater treatment plant plus a small lot next to city hall. Other City-owned property may also be available. The City's wastewater treatment plant site could be the location of a master planned mixed residential project with single family homes and multifamily units. The City could issue an RFP to the development community to assist with planning the property and ultimately selling or leasing the property which could include an affordable component.

In addition, the Sedona Medical Center owns significant acreage at the west end of the city 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 the school district could also be an important asset.

Recommendation: Sedona should consider the use of its land inventory as a catalyst for the development of affordable housing. Promote partnerships with other government or non-profit organizations that may have land available for residential purposes.

Tool 3: Deed Restricted Housing

Deed restricted programs can take many forms but are primarily used to buy-down the value of rental units in apartment complexes to create affordable rents for persons who work in the community. Some communities have also purchased deed restrictions from private owners of existing condo or single family units who voluntarily agree to have their units restricted to occupancy by a local employee. The owner can use the value of the deed restriction for any use. 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 for existing ownership units are estimated to cost between 10% and 15% of the value of the unit.

The high price of housing in Sedona and lack of moderate density units such as condos is a barrier for implementation of a buy-down program. For a $400,000 unit in Sedona, a deed restriction could cost $40,000 to $60,000. The overall cost of such a program may not provide the benefit for the resident population relative to need. And since the programs are voluntary, participation by local owners is unknown.

Pros:

- Deed restrictions can be put in place for 30 years or more to maintain the affordability of rental units.
- The Sedona Development Incentives & Guidelines for Affordable Housing (DIGAH) contain deed restriction provisions (referred to as land use restrictions in the DIGHA) and a process for procuring affordable ownership and rental units.
- Sedona can use deed restrictions and the DIGAH as a negotiating tool for affordable units or projects.
- The program can be expanded to existing ownership units. Most of the owners who voluntarily agree to the deed restriction are condo owners who are renting the unit on a permanent basis.

Cons:

- The lack of new residential development activity in Sedona may limit the effectiveness of procuring deed restricted units.
- Linkage and mitigation programs outlined in the DIGAH are not permitted as a requirement of development under State law. The DIGAH can only promote voluntary compliance with the provision for providing affordable deed restricted units. The rezoning or annexation of proposed projects provides the opportunity to engage a developer in the affordable housing issue.

- Deed restrictions normally require a subsidy paid to the developer to offset the cost of providing affordable rents and the loss of value in the property. The program can be costly to a city for deed restricted rents that are affordable to low income households.
- For deed restrictions placed on ownership units, in some cases owners have encountered difficulties securing a mortgage for the property. Lending firms often have difficulties underwriting deed restricted ownership units.

Administrative Support:

- Requires staffing by the City to administer and monitor deed restricted rents.
- Partnership with a non-profit housing agency may assist with marketing properties for rent and monitoring of rents.
- Requires legal assistance in documenting development agreements and deed restriction documents.

Example:

The following chart is a comparison of two scenarios for the development of a 45-unit apartment complex which would be subject to deed restrictions. The chart is a summary of a proforma analysis and outlines the expected return on investment based on (1) market rents (no deed restricted units) and (2) the introduction of five deed restricted units in the complex that would be affordable to households earning 80% of the area median income (AMI). The proforma is modeled after the Pinon Lofts recently completed complex.

The analysis demonstrates the potential impact on the property value of the apartment complex after five years. An estimated $950,000 subsidy in the form of an upfront payment would be required to provide roughly the same return on investment for the market rate alternative. The subsidy equates to $190,000 per unit but the deed restriction would be in effect for at least 30 years. The average annual cost per unit for the restriction is $6,330 excluding the effect of inflation and rising rents.

The subsidy does not fully need to be in the form of a cash investment by the City. Part of the cost of the subsidy could be provided in the form of waivers of City fees, reimbursement of development impact fees, and/or reduced land price or ground lease of City-owned land.

Table 5

Five Year Return on Investment Market Rate Complex vs. Deed Restricted Complex		
	1 Market Rate Complex	2 5 Affordable Units Deed Restricted
Market Rate Units	45	40
Affordable Units	**-**	**5**
Total Units	**45**	**45**
Target Affordable Income		80% AMI
Project Cost	$9,221,279	$9,221,279
Equity Investment (30%)	**$2,766,384**	**$2,766,384**
Year 5 Property Value	$12,025,254	$11,149,502
Cost of Sale	($360,758)	($334,485)
Mortgage Ending Balance	($5,817,654)	($5,817,654)
Subsidy	**$0**	**$950,000**
5-Year Cash Flow	**$5,846,842**	**$5,947,363**
5-Year IRR	**17.6%**	**17.4%**
Subsidy Per Unit	**$0**	**$190,000**
Per Unit Value	$267,228	$247,767

The above example demonstrates the financial burden placed on developers to provide affordable units on a voluntary basis under the DIGAH. If the City can offer some form of financial incentive along with fee waivers and other inducements, market rate developers may wish to take advantage of the subsidy. From the City's perspective, the purchase of the deed restrictions are an upfront investment in the project that could last for 30+ years.

Recommendation: Sedona should establish a deed restriction subsidy program for multifamily developers as part of the DIGAH. The purchase of deed restrictions on ownership units should be approached with caution due the difficulties of obtaining financing for condo or single family units.

Tool 4: Rental Subsidy Program (Voucher)

An alternative to the purchase of a deed restriction is a rental subsidy or voucher program. In this program, the City would pay an apartment owner who rents a unit to a low income household the difference between the market rate rent and the household paying 30% of its income toward rent. The program offers the City the ability to reduce its initial outlay or upfront cost under a deed restriction program and perhaps benefit a larger number of households. The program could target households earning up to 100% of AMI.

Pros:

- A rental subsidy program would provide immediate opportunities for households to rent in Sedona at a cost that is relative to their income.
- It would reduce the large initial outlay of City funds required under the deed restriction programs.
- The program could reach a larger number of households than other programs.
- Landlords should be willing to participate in the program since it would provide a guaranteed, consistent source of income.
- This type of program could be extended to City employees as a stipend to their wages.

Cons:

- The lack of new residential development activity in Sedona may limit the effectiveness of the subsidy program. Are there enough units in the market to accommodate a fair number of affordable households? According to the census, there are only 207 conventional apartment units in the city plus another 182 duplex, triplex and 4-plex units.
- Fair market rents would need to be established and verified to ensure the City is not overpaying for the subsidies.
- Rental units or homes would need to be certified they are suitable for habitation.
- Will landlords be willing to participate in the program? Will the guaranteed subsidies offset landlord costs associated with participating in the program?

Administrative Support:

- Requires staffing by the City to administer and monitor the subsidies to ensure the target households are being served.
- The City would need to establish criteria for unit suitability for habitation.
- Household incomes of residents would need to be verified.
- Partnership with a non-profit housing agency may assist with marketing properties for rent and monitoring of program activities.

Example:

The following table outlines the potential cost of a rent subsidy program for households earning 100% and 80% of AMI (Yavapai County). Using Pinon Lofts rents as the current market rent, the total cost for an annual subsidy at 100% AMI is nearly $21,000 per year or $110,200 for five years ($4,409 per unit per year). The 80% AMI subsidy is $36,500 per year or $193,700 for five years ($7,750 per unit per year). Affordable rents are those established by HUD; project rents due to the landlord equal affordable rents less utilities.

Table 6

Subsidized Rent Alternative 100% AMI Yavapai County								
			Affordable Rents			Difference		
Unit Type	No. of Units	Market Rent	Affordable Rent	Utility Allowance	Project Rents	To Market Rent	Annual Cost/Unit	Total Cost
1 BR	3	**$1,435**	$1,213	$70	**$1,143**	$292	$3,504	$10,512
2 BR	2	**$1,800**	$1,455	$82	**$1,373**	$427	$5,124	$10,248
Total Annual Subsidy								**$20,760**
Total 5-Year Subsidy at Inflation Rate:				**3.0%**				**$110,218**

Subsidized Rent Alternative 80% AMI Yavapai County								
			Affordable Rents			Difference		
Unit Type	No. of Units	Market Rent	Affordable Rent	Utility Allowance	Project Rents	To Market Rent	Annual Cost/Unit	Total Cost
1 BR	3	**$1,435**	$970	$70	**$900**	$535	$6,420	$19,260
2 BR	2	**$1,800**	$1,164	$82	**$1,082**	$718	$8,616	$17,232
Total Annual Subsidy								**$36,492**
Total 5-Year Subsidy at Inflation Rate:				**3.0%**				**$193,741**

The above examples are essentially a pay-as-you-go plan. If these subsidies are extended over 30 years, the total cost at a 3% annual rent increase would total $988,000 for the 100% AMI scenario and $1,736,000 for the 80% AMI alternative.

Recommendation: The City should consider establishing a Rental Subsidy demonstration project to determine potential interest from landlords.

Tool 5: Down Payment Assistance Program

Down payment assistance programs match a buyer's down payment of two to three times up to a maximum, in some instances to $15,000. Programs can take a several forms.

- Low interest loans or grants are provided to low and moderate income households for the purchase of a home. The programs usually target essential or workforce households making 80% to 120% of AMI and employed within the region.
- Communities with high housing costs often provide loans or grants to city employees to assist in the purchase a home. In some cases, the loan is forgiven over time if the person remains employed by the city.
- A variety of federal and state programs also provide down payment and mortgage assistance for both low and moderate income households.

Pros:

- Programs help to provide stability in homeownership and city employment.
- Many of the federal and state programs are essentially cost-free to the City.
- A down payment assistance program can be combined with a Community Land Trust program that leases land to qualified households.

Cons:

- The lack of new residential development activity in Sedona and the cost of housing will limit the effectiveness of a down payment program.

Administrative Support:

- May require staffing by the City to administer and monitor the program to ensure the target households are being served.
- The City would need to establish criteria for unit suitability for habitation.
- Household incomes of residents would need to be verified.
- Partnership with a non-profit housing agency may assist with marketing properties for rent and monitoring of program activities.

Example:

Flagstaff offers a down payment assistance program for local residents as well as a city employee assistance program. Federal programs include the WISH program and the Arizona Home+Plus Home Buyer Down Payment Assistance Program. Housing Solutions of Northern Arizona (HSNA) contracts with the City of Flagstaff to assist with administration of the Flagstaff down payment programs.

Recommendation: The City should consider a Down Payment Assistance demonstration project to determine potential interest from prospective owners.

3.3 Low Income Affordable Housing Approach

This portion of the report focuses on available public programs that are most viable for the development of affordable housing in Sedona. These resources flow from federal and state programs and generally target the lowest income households.

Tool 6: Low Income Housing Tax Credit Program (LIHTC)

This program is an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing. 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 units to be rented at below-market rates. In return, investors receive tax credits paid in annual allotments, generally over 10 years.

Pros:

- A highly successful program that has provided affordable housing for low income households earning no more than 60% of AMI.
- The program can reach a large number of low income (60% AMI) households compared to other programs.
- Complexes are usually of moderate size ranging from 40 to 80 units.

Cons:

- The amount of tax credits available to Arizona is limited; project selection by the Arizona Department of Housing is highly competitive (in 2020 only 13 projects received reservations out of 45 applications).
- Projects may require soft debt or subsidies from local governments. Subsidies can take the form of reduced land cost, fee waivers, deferred development impact fees, and similar incentives.

Administrative Support:

- Limited administrative support required from City.
- Partnership with a non-profit housing agency may assist with marketing properties for rent and monitoring of program activities.

Example:

Consulting with a LIHTC developer, the following proforma was prepared to illustrate the potential subsidies that may be required to develop a complex in Sedona. The capital or investment stack is shown under the "Investment Summary" heading. The proforma shows that the tax credit equity in the project comprises approximately 60% of the total development cost with a mortgage at one-third of the total. To round out the financing for the project, another $881,400 must be raised. In this example, the developer agrees to defer payment of a portion of its development fee. Additional soft debt is estimated at just over $500,000. This amount could be provided by the City in a number of ways:

1. An outright grant.
2. A soft loan at a low interest rate that is paid off over a long period of time or when the complex is sold.
3. The contribution of land for the project.
4. A lease of land from a Community Land Trust.
5. The waiver of certain City processing fees.
6. The reimbursement of development impact fees.

The ultimate cost of the project to the City under these circumstances is $7,385 per unit with at least a 30-year affordability period. A city can extend the affordability period if they financially contribute to the complex. Most cities extend affordability to 40 years.

Table 7

9% LIHTC Complex 60% AMI		
	LIHTC Complex	
Assumptions	**Per Unit**	**Total**
Land (Acres)		3.40
Affordable Units		**68**
Parking Spaces		121
Building area (SF)		57,396
Land Price (Per SF)	**$10.00**	**$1,481,040**
Land Price (Per Unit)	$21,780	
Construction Cost (Per SF)		$135.00
Equity Investment (% of Cost)	30%	
Debt Interest Rate	4.25%	
Amortization (Years)	35	
Targeted Households (AMI)	60%	
Total construction cost	**$132,070**	**$8,980,792**
Total project cost	**$192,309**	**$13,077,000**
Investment Summary	**Per Unit**	**Total**
Annual Tax Credit Equity		**$829,971**
Total Tax Credit Equity - 10 Years	59.7%	$7,801,728
Mortgage	33.6%	$4,393,872
Deferred Development Fee	2.9%	$379,233
Soft Debt	3.8%	$502,167
Cost Per Affordable Unit		**$7,385**

Recommendation: The City should recruit a developer to construct a LIHTC complex in the City. Assistance with identifying a site for the complex may be required. Negotiations with the developer will involve the identifying incentives and waivers that may be available for the property.

Tool 7: Private Activity Bonds (PABs)

The Arizona Finance Authority (AFA) allocates Private Activity Bonds for residential rental housing and financial assistance for homebuyers. In most years, the funds are not fully used or reserved. Reservations are on a first come, first served basis through March 31 at which time the funds are pooled and available to a wide variety of projects. The PAB program is similar to the LIHTC program except it is based on 4% tax credits instead of 9%. In addition, rental complexes are subject to one of two requirements: the complex must 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.

Pros:

- The PAB program is a successful approach to providing affordable housing for low income households earning no more than 60% of AMI.
- The program can reach a large number of low income households compared to other programs.
- Complexes are typically large ranging from 100 to 200 units.
- The complexes are mixed-income which are often more acceptable to communities.
- The PAB program is less competitive than the LIHTC program and funds often go unreserved at the end of the funding year.

Cons:

- Projects typically require more soft debt or subsidies from local governments than LIHTC projects. Subsidies can take the form of reduced land cost, fee waivers, deferred development impact fees, and similar incentives.
- The availability of land in Sedona for multifamily development may be limited. The cost of land may be a further constraint.

Administrative Support:

- Limited administrative support required from City.
- Partnership with a non-profit housing agency may assist with marketing properties for rent and monitoring of program activities.
- Creating partnerships with organizations that own land suitable for multifamily development is an option in Sedona.

Example:

Consulting with a LIHTC developer, the following proforma was prepared to illustrate the potential subsidies that may be required to develop a 4% tax credit complex in Sedona. Two scenarios are presented: (1) a 50% AMI complex with 20% affordable units and 80% market rate units and (2) a 60% AMI complex with 40% affordable units and 60% market rate units. The capital or investment stack is shown under the "Investment Summary" heading. The proforma shows that the 50% AMI complex requires less subsidy because affordable rents are offset by the larger number of market rate units. To round out the financing for the 60% project, another $1,002,000 must be raised. In this example, the developer agrees to defer payment of a portion of its development fee. Additional soft debt is estimated at just over $544,000. The 50% AMI complex can support more conventional debt and the potential subsidy is reduced to $217,600, split nearly equally between deferred development fee and soft debt.

This soft debt could be provided by the City in a number of ways:

1. An outright grant.
2. A soft loan at a low interest rate that is paid off over a long period of time or when the complex is sold.
3. The contribution of land for the project.
4. A lease of land from a Community Land Trust.
5. The waiver of certain City processing fees.
6. The reimbursement of development impact fees.

Table 8

Alternative 1			Alternative 2		
4% Private Activity Bond Complex 60% AMI 40% Affordable Units			**4% Private Activity Bond Complex 50% AMI 20% Affordable Units**		
	4% Tax Credit Complex			4% Tax Credit Complex	
Assumptions	Per Unit	Total	**Assumptions**	Per Unit	Total
Land (Acres)		3.40	Land (Acres)		3.40
Units		68	Units		68
Market Rate Units		41	Market Rate Units		54
Affordable Units		**27**	**Affordable Units**		**14**
Parking Spaces		121	Parking Spaces		121
Building area (SF)		57,396	Building area (SF)		57,396
Land Price (Per SF)	**$10.00**	**$1,481,040**	**Land Price (Per SF)**	**$10.00**	**$1,481,040**
Land Price (Per Unit)	$21,780		Land Price (Per Unit)	$21,780	
Construction Cost (Per SF)		$135.00	Construction Cost (Per SF)		$135.00
Equity Investment (% of Cost)	30%		Equity Investment (% of Cost)	30%	
Debt Interest Rate	3.75%		Debt Interest Rate	3.75%	
Amortization (Years)	40		Amortization (Years)	40	
Targeted Households (AMI)	60%		Targeted Households (AMI)	60%	
Construction Cost	Per Unit	Total	**Construction Cost**	Per Unit	Total
Total construction cost	**$132,070**	**$8,980,792**	**Total construction cost**	**$132,070**	**$8,980,792**
Total project cost	**$192,309**	**$13,077,000**	**Total project cost**	**$192,309**	**$13,077,000**
Investment Summary	Per Unit	Total	**Investment Summary**	Per Unit	Total
Annual Tax Credit Equity		**$449,849**	**Annual Tax Credit Equity**		**$449,849**
Total Tax Credit Equity - 10 Years	32.3%	$4,228,579	Total Tax Credit Equity - 10 Years	32.3%	$4,228,579
Mortgage	60.0%	$7,846,200	Mortgage	66.0%	$8,630,820
Deferred Development Fee	3.5%	$457,695	Deferred Development Fee	0.8%	$104,616
Soft Debt	4.2%	$544,526	Soft Debt	0.9%	$112,985
Soft Debt Per Affordable Unit		**$20,168**	**Cost Per Affordable Unit**		**$8,070**

The potential cost of the project to the City under these circumstances is $20,168 per unit for the 60% AMI complex and $8,070 for the 50% AMI complex. Both would have at least a 30-year affordability period. A city can extend the affordability period if they contribute to the complex. Some cities extend affordability to 40 years.

Recommendation: The City should recruit a developer to develop a PAB complex in the City. Assistance with identifying a site for the complex may be required. Negotiations with the developer will involve the identifying incentives and waivers that may be available for the property.

Additional Resources

The U.S. Department of Agriculture (USDA): USDA offers a variety of loan programs that provide financing for the development of affordable rental housing and homeownership in the non-urban areas of Arizona. The programs are available in Yavapai and Coconino counties. There are two loan options for homeownership: the Guaranteed Loan and the Direct Loan. For the direct loan, 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. The guaranteed program 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.

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

Housing Solutions of Northern Arizona (HSNA): Housing Services of Northern Arizona is a HUD certified Housing Counseling Agency that provides a variety of housing services to Yavapai, Coconino, and Mohave counties. They have significant experience in:

- Counseling
- Administration of the Workforce Initiative Subsidy for Homeownership (WISH) Program down payment/closing cost assistance for households earning less than 80% of the area median income.
- Administration of community-funded down payment/closing cost assistance programs. HSNA contracts with the City of Flagstaff to assist with administration of the City's two programs.
- Works with for-profit and non-profit developers on the creation of affordable rental housing units utilizing LIHTC or HOME funds.

- 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.

It is recommended that Sedona consider contracting with HSNA for assistance in the start-up of any housing programs.

4.0 OBJECTIVE 2: Incentivize the Inclusion of Affordable Units in Private Development

The amount of funding available to subsidize affordable housing is rarely sufficient to satisfy demand. As a result, local communities must look to the private market to produce affordable units. The most common tools include fee waivers, expedited permit processing, and inclusionary or mitigation programs which require the inclusion of affordable units in a market rate complex. These latter programs are not permitted under State statute but can be implemented through negotiation during a rezoning process or annexation.

Tool 8: Fee Waivers & Expedited Processing

The Sedona Development Incentives & Guidelines for Affordable Housing document is well-crafted and similar to those policy documents found in the Case Studies analysis contained in this report in Appendix 1. However, it has its limitations since it is essentially a voluntary program on the part of housing developers. Strengthening the incentives and modifying certain portions of the DIGAH could assist in increasing participation by private interests. Following are some suggested revisions.

- The primary missing element of the DIGAH is a density incentive for the production of affordable units on a voluntary basis. The lack of a density incentive makes it very difficult for a developer to make the financial numbers work and voluntarily agree to provide affordable units. The granting of a small density incentive to select project would correct this issue. However, density and height are recognized as a major issue in the City among its residents. It is also recognized that the city increased its maximum multifamily density from 12 units per acre to 20 units per acre which is a major leap forward. The inclusion of a density incentive would make a voluntary affordable housing program work. An example of the impact of a density incentive for a prototypical apartment complex is outlined in a following section.

- The number of affordable housing units (AHUs) required in Section 3.b. of the DIGAH does not relate to the number of jobs created by commercial developments. For instance, the example cited in Section 3.b.3.c would only create two AHUs for a 10,000 square foot commercial development. However, this size of development is probably going to create somewhere between 20 and 30 jobs. Telluride requires a developer to produce housing for 40% of the employment created by a commercial development or somewhere around eight to 12 AHUs. For lodging, the number of employees created by a mid-priced, 3-star hotel is 0.8 employees per room (it is probably 1.2 employees per room for a 4-star hotel and 2.0 employees per room for a 5-star resort). The required AHUs under the DIGAH is much lower than the employment generated by a hotel project. Adjustment of these standards should be considered.

- Section 4.d. outlines a number of development standards that may be modified for a complex that provides affordable housing units including lot coverage, lot area, and setback. Recommended additions to this list include:
  - Reduced parking requirements for a complex located within a certain distance of mass transit.
  - The current DIGAH provisions permit an eight-foot increase in height of the building. This increased height allowance is not sufficient and should be increased to at least 10 feet and potentially 12 feet.
  - Waiver of the public art requirement for affordable housing complexes.
  - As noted above, a density incentive should be available to offset the cost of affordable units in the complex. A 10% incentive may be appropriate.

- The city's wastewater impact fees are a significant barrier to development. While the $8,216 per unit impact fee for apartments may be justified, it is significantly higher than the same fee in cities in the Phoenix area. For instance, the fee in Surprise is $2,193 per unit, in Goodyear it is $2,818 per unit and in Queen Creek it is $2,719 per unit. Subsidies to reduce the fee or provide a reimbursement of the fee could be a significant incentive for an apartment complex.

- The resale price of an ownership unit under the DIGAH is tied to the increase in the AMI and it appears the current owner would retain all the increase in the price of the unit. This provision will likely result in the increase in home price beyond affordable levels. Alternatively, the Flagstaff's resale formula restricts the increase in the equity due the owner to 25% of the CPI adjustment on the original price of the home. The owner also retains the equity gained by the pay down of the home loan. The Flagstaff formula assists in maintaining the resale of the home at an affordable level while still giving the owner some upside in the appreciation of the unit.

- A number of comments have been passed on to staff regarding certain indices that should be used in the calculation of in-lieu fees instead of those cited in the DIGAH. In addition, a number of income and interest rate indices should be updated each year for clarity in the document.

- The period of affordability should be reduced from 50 years to 30 years. All other programs reviewed use 30 years as a reasonable period for affordability.

Tool 9: Density Incentive

One of the primary shortcomings of the DIGAH is the lack of a density incentive. The inclusion of a density incentive would make a voluntary, market-based affordable housing program more effective. In order to implement a density incentive, modifications to adopted standards may be required such as increased height allowances, increased building and site coverage, relaxed parking requirements, and other incentives.

Pros:

- A density incentive of approximately 10% will assist with reducing the public subsidy needed to provide a reasonable return to the developer.
- Deed restrictions would be placed on the density incentive units for 30 years or more to maintain the affordability of rental units.
- Sedona would have more ability to negotiate for affordable units with the density incentive.

Cons:

- The lack of new residential development activity in Sedona may limit the effectiveness of procuring deed restricted units.
- Linkage and mitigation programs outlined in the DIGAH are not permitted as a requirement of development under State law. The DIGAH can only promote voluntary compliance with the provision for providing affordable deed restricted units.
- Deed restrictions often require a subsidy paid to the developer to offset the cost of providing affordable rents and the loss of value in the property.
- Residential density is a contentious issue for the City and its residents. Sedona's "small town" character predominates the discussion on new development activity. The city recently increased its maximum multifamily density from 12 units per acre to 20 units per acre which is a major leap forward. A density may fall into disfavor with the public.

Administrative Support:

- Requires staffing by the City to administer and monitor deed restricted rents.
- Partnership with a non-profit housing agency may assist with marketing properties for rent and monitoring of rents.
- Requires legal assistance in documenting development agreements and deed restriction documents.

Example:

The following chart is a comparison of three scenarios for the development of a 45-unit apartment complex which would be subject to deed restrictions and a density incentive. The chart is a summary of a proforma analysis and outlines the expected return on investment based on (1) market rents (no deed restricted units) and (2) the introduction of five deed restricted units in the complex that would be affordable to households earning 80% of the area median income (AMI) and (3) the allocation of five additional units for the complex as a density bonus. The proforma is modeled after the Pinon Lofts recently completed complex.

The analysis demonstrates that the density bonus would result in the reduction of the $950,000 subsidy in Scenario 2 to $250,000 in Scenario 3. This subsidy equates to $50,000 per unit with the deed restriction in effect for at least 30 years. The average annual cost for the restriction over 30 years is $1,667 per unit excluding the effect of inflation and rising rents.

Table 9

Five Year Return on Investment
Market Rate Complex vs. Deed Restricted Complex vs. Density Bonus

	1 Market Rate Complex	2 5 Affordable Units Deed Restricted	3 5 Affordable Units With Density Bonus
Market Rate Units	45	40	45
Affordable Units	-	**5**	**5**
Total Units	**45**	**45**	**50**
Target Affordable Income		80% AMI	80% AMI
Project Cost	$9,221,279	$9,221,279	$10,084,867
Equity Investment (30%)	**$2,766,384**	**$2,766,384**	**$3,025,460**
Year 5 Property Value	$12,025,254	$11,149,502	$12,779,593
Cost of Sale	($360,758)	($334,485)	($383,388)
Mortgage Ending Balance	($5,817,654)	($5,817,654)	($6,362,487)
Subsidy	**$0**	**$950,000**	**$250,000**
5-Year Cash Flow	**$5,846,842**	**$5,947,363**	**$6,283,718**
5-Year IRR	**17.6%**	**17.4%**	**17.4%**
Subsidy Per Unit	**$0**	**$190,000**	**$50,000**
Per Unit Value	$267,228	$247,767	$255,592

Recommendation: A density incentive should be considered within the City's Development Incentives & Guidelines for Affordable Housing (DIGAH).

Tool 10: Regulation Review

The Sedona Land Development Code requires a number of design enhancements for new residential and commercial structures. These enhancements include building massing and articulation including a minimum investment in public art among other requirements. Some of the requirements may result in an extraordinary expense for an affordable housing complex that make it challenging to construct affordable units. The City should evaluate and review the Land Development Code requirements relative to the potential cost of the design enhancements and public art investment and determine if some could be modified or waived for an affordable housing unit or complex.

Pros:

- Relaxing or waiving the design requirements and public art investment would likely assist in reducing the cost of development for affordable projects.
- The extent of the potential waiver of the Land Development Code requirements could be tied to the number of affordable units created in a project.

Cons:

- To ensure fairness and consistency in application of waiver of the requirements, granting of any waiver should be justified by the benefit provided to the affordable housing inventory.

Administrative Support:

- City staff would need to establish criteria for any waivers and document such waivers in development and deed restriction agreements.

Recommendation: The City should evaluate the cost of the Sedona Land Development Code design and public art requirements on prospective affordable housing complexes or units and determine if waivers of such requirements are appropriate.

5.0 OBJECTIVE 3: Increase Resources to Support Production of Affordable Housing

The case study analysis of this study identified a variety of financing tools that have been used by cities to fund housing programs. 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. Sedona's establishment of its Housing Fund as part of its annual Budget is an important statement of the City's commitment to address housing affordability.

Sedona's Housing Fund has a substantial balance generated from new development activity and a FY 2021 transfer from the General Fund. However, a consistent on-going source of funding may be required to address housing need depending on the types of programs and tools identified for the Action Plan.

The funding of housing programs on an on-going dedicated basis is often required to fully address need and show progress in creating affordable units. Following are some of the most popular dedicated funding sources.

- Retail sales tax: Communities often dedicate a portion of their sales tax revenues for specific purposes. Sedona raised its retail sales tax rate in 2018 from 3.0% to 3.5% with the 0.5% increase in effect for ten years and dedicated to transportation projects and related administrative and operational costs.
- Property tax: Dedicated property taxes have been approved in cities for specific purposes. Sedona does not currently have a property tax.
- Transient occupancy or bed tax: For tourist-oriented communities, the bed tax is a source of revenue that places the burden of cost on visitors. Sedona's bed tax was increased from 3% to 3.5% in 2014. However, in accordance with state law, the proceeds from the tax rate increase must be used exclusively for the promotion of tourism. The majority of the bed tax revenue is devoted to promotion of tourism with 45% deposited to the General Fund. An additional bed tax could be devoted to affordable housing.
- Mitigation or linkage programs: Developers may pay an in-lieu fee instead of providing affordable units. Sedona provides this option under its DIGAH.
- General Fund: Some cities provide an allocation of funds from the General Fund on a regular basis. Sedona appears to have made this allocation for FY 2021.

- Sale or Lease Proceeds: If City-owned land is leased or sold to a private developer, a portion of the proceeds could be dedicated to affordable housing efforts
- Bond financing: Some communities use bond financing for the direct construction of affordable units. For most cities in Arizona, this would be an unusual use of a city's financial resources. However, county or city industrial development authorities can provide financing for affordable housing. Sedona, working with a non-profit or for-profit organization, could promote affordable housing development through the Yavapai County or Coconino County Industrial Development Authorities.

6.0 OBJECTIVE 4: Monitor the Increase in Demand and Loss of Affordable Housing Units

The City should monitor the demand for affordable housing in Sedona as well as any loss of affordable housing through clearance of obsolete buildings resulting in displacement of residents. The monitoring of the affordable housing inventory can be accomplished through an Affordable Housing Impact Summary on an annual or semi-annual basis.

Sedona has a large inventory of mobile homes totaling 786 units with 442 built before 1979. In 1976, HUD established the Manufactured Home Construction and Safety Standards which regulate all aspects of the construction of mobile homes. Many of the units built before 1979 may be uninhabitable or unsafe and do not meet today's standards. However, they do provide low cost, affordable housing for low and moderate income households. If removed from the housing inventory, the housing gap would increase for each unit that is removed. If replacement units are not provided, residents of those units would need to relocate to another low cost unit or move to another community.

Mobile home parks may be a target for redevelopment, particularly those situated in high value commercial locations. Any removal of units should be monitored to ensure replacement units are provided.

An Affordable Housing Impact Summary could assist with monitoring demand for and loss of units. The demand for units can be determined by monitoring any increase in commercial development that generates new employment and ultimately demand for affordable housing. Metrics can be developed to estimate employment created by various commercial land uses. The following example (Table 10) assumes that the affordable housing demand is 45% of the new jobs created in the City. The number of newly developed or planned market rate and affordable units can also be collected based on building permit activity. Following is a simple example of an Affordable Housing Impact Summary.

Table 10

Annual Affordable Housing Impact Summary 2020			
Housing Demand			
Housing Demand Increase Due to Employment			
Use	**Square Feet/Rooms**	**Employees Per SF/Room**	**Total Employees**
Retail	10,000	400	25
Office	10,000	250	40
Hotel	100	0.8	80
Total			**145**
Affordable Housing Demand			**65**
Housing Supply			
Housing Supply Addition			
Housing Type	**Total Units**	**Market Rate Units**	**Affordable Units**
Single Family	10	10	-
Townhouse	4	4	-
Condo	6	6	-
Apartments	40	30	10
Mobile/Manufactured	20	10	10
Totals	**80**	**60**	**20**
Housing Supply Reduction			
Housing Type	**Total Units**	**Market Rate Units**	**Affordable Units**
Single Family	-	-	-
Townhouse	-	-	-
Condo	-	-	-
Apartments	-	-	-
Mobile/Manufactured	40		40
Totals	**40**	**-**	**40**
Net Gain (Loss) in Affordable Housing			**(20)**

Section 7.0 Affordable Housing Funding Commitments

The following table outlines the potential funding commitments for two affordable housing scenarios and some of the more productive affordable housing tools. The scenarios of 250 units and 470 units assume development over five years of a combination of market rate and affordable units. The scale of funding for each program is noted and the length of the affordability commitment.

While the cost of each program is noted, the direct cost to the City budget can vary. For instance, fee waivers can fulfill some of the costs of the programs. If the City owns land and can transfer ownership to the development entity, that cost may not be in the form of a cash commitment.

The funding commitments outlined below are <u>examples</u> of the scale and range of public funding that might be required for the Affordable Housing Action Plan and the number of affordable units that could be created. The ultimate cost of the Action Plan will be the result of negotiations with a development entity and the implementation of the appropriate tools, waivers, and incentives by the City. The examples suggest significant residential development activity for Sedona relative to historic averages. There is no assurance that the affordable units can be promoted for the dollars outlined in the table.

The LIHTC and PAB programs are designed to reach the lowest income levels of the population. They also appear to have the least cost to the City with a 30-year affordable commitment. For the two scenarios, only one LIHTC project is assumed to be constructed given the competition at the State level. One PAB project is assumed to be built in Scenario 1 and two projects in Scenario 2.

The renter subsidy program is the costly given that it only assumes a five-year commitment on the part of the City to provide rental subsidies. However, it provides the City the opportunity to provide subsidies on a pay-as-you-go basis rather than on a lump sum basis. Due to the cost, the City may wish to direct its funds to other programs rather than subsidies or to direct the subsidies to a higher income level (80% to 100% AMI).

The density incentive program requires a 30-year affordability commitment. This type of program is an outgrowth of Sedona's DIGAH and negotiations with a prospective developer whose project is proceeding through the rezoning process. A voluntary program to provide affordable units should reflect the increased development opportunity and land value to the developer.

The down payment assistance program could be designed as a revolving fund where payments are returned to the fund as a loan is paid or retired. Under a grant program the loan is forgiven.

Table 11

Sample Scenarios of Funding Commitments - Affordable Housing Action Plan
City of Sedona

Tool	Total Units	Market Rate Units	Affordable Units	Cost Per Unit	Total Cost	Commitments
Scenario 1						
LIHTC - 60% AMI	70		70	$8,100	**$567,000**	30 Year Affordable Commitment
PAB 4% Tax Credit- 50% AMI	100	80	20	$8,900	**$178,000**	30 Year Affordable Commitment
Renter Subsidy - 80% AMI	10		10	$8,500	**$425,000**	5-Year City Commitment
Density Incentive - 80% AMI	60	48	6	$50,000	**$300,000**	30 Year Affordable Deed Restriction
Down Payment Assistance	10		10	$15,000	**$150,000**	One Time Commitment
Totals	**250**	**128**	**116**		**$1,620,000**	
Scenario 2						
LIHTC - 60% AMI	70		70	$8,100	**$567,000**	30 Year Affordable Commitment
PAB - 50% AMI	200	160	40	$8,900	**$356,000**	30 Year Affordable Commitment
Renter Subsidy - 80% AMI	40		40	$8,500	**$1,700,000**	5-Year City Commitment
Density Incentive - 80% AMI	120	108	12	$50,000	**$600,000**	30 Year Affordable Deed Restriction
Down Payment Assistance	40		40	$15,000	**$600,000**	One Time Commitment
Totals	**470**	**268**	**202**		**$3,823,000**	

The above table illustrates the effort required to generate just a limited number of affordable units. Most of the low income units come from the federal tax credit programs. It is very costly for the City to attempt to reach households earning less than 80% of AMI. City funds will be best spent focusing on households earning 80% to 100% of AMI.

Appendix 1: Case Studies

Housing affordability is a primary theme for most tourism-dependent economies. The purpose of this analysis is to determine how those affordable housing-constrained communities approached the problem and what lessons were learned. The analysis focuses on identifying the primary strategies employed by those communities, the preparation of a "tool kit" of affordable housing concepts and approaches, and ultimately identifying those that may be transferable to Sedona.

Case studies were conducted through research and interviews for the following communities.

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

1.1 Martha's Vineyard, Massachusetts

Martha's Vineyard is an island off the southern coast of Massachusetts that historically has been a vacation destination for persons from around the country. The Island's official year-round population is approximately 17,300 persons; according to the U.S. Census it has 17,789 housing units, 11,422 of which are considered vacant. Approximately 90% of the vacant units, or 10,280 units, are considered as used for seasonal purposes. More than two-thirds of all new housing produced from 1990 to 2010 was built for seasonal or occasional use. When houses built for year-round families change hands, the buyers are most often seasonal residents who can afford current market rates. Demand for seasonal housing has pushed prices beyond the means of most year-round residents.

The need for affordable housing for all income levels has been long recognized by local authorities. While the major tourist season is rather short, from Memorial Day to Labor Day, more than 5,000 seasonal employees are needed to provide for the influx of tourists. In addition, the population of the Island is getting older as young families leave. The challenges to secure residence on Martha's Vineyard have become insurmountable for a growing segment of the population, including a majority of those who grew up there, many skilled and well-paid workers, and older households of moderate income.

As with other tourist areas, permanent residents must compete with vacation renters and second homebuyers for housing. Second-home buyers can outbid year-round residents wanting to purchase homes. Many tenants do not have stable year-round housing and are required to do the "Island shuffle", vacating their winter housing between May and September, so that owners can rent those accommodations at higher summer rates. Seasonal workers further add to the pressure for housing during the tourist season. Distinct from Sedona, since Martha's Vineyard is an island, there is no outlet for housing for permanent or seasonal employees in nearby communities. Many businesses, particularly those in the hospitality industry, must provide housing for their employees. Some have reverted to dormitory-style housing or renting homes that are large enough to accommodate several employees.

The affordability gap for local residents is large. While the Island's average weekly wage was only 71% of the state average, the median home price was 54% above the state's price. The median housing value according to 2018 U.S. Census is $685,000. Rents are similarly high exceeding the state's median by 17%. Winter rentals are more affordable, but individuals and families who rent these units risk becoming homeless during the summer.

A substantial investment of local resources has produced a significant amount of affordable housing over the years. The Island has seen development of about 300 affordable and community housing units. Approximately another hundred units are subsidized through the Dukes County Regional Housing Authority's Rental Assistance Program and rental vouchers. Additionally, the establishment of affordable housing trusts and the passage of the Community Preservation Act (CPA) have enhanced the capacity of towns on the Island to provide more affordable housing.

Affordable housing efforts are focused on several areas.

- Affordable Housing: Permanently deed-restricted, year-round housing affordable to individuals and families earning up to 80% of Area Median Income.
- Community Housing: Permanently deed-restricted, year-round housing affordable to families up to 150% AMI.
- Workforce Housing: Year-round or seasonal housing used by working people.
- Housing for Seniors and Those Needing Assisted Living: This includes a range of level of assistance for the elderly as well as for people with mental and physical handicaps.

Housing organizations serving Martha's Vineyard include public and non-profit entities:

- Dukes County Regional Housing Authority is a publicly chartered local housing authority that provides year-round housing options for the residents of Dukes County. It assists Island towns and organizations in the development of increased rental and homeownership opportunities. It is funded by all six Island towns and owns or manages

71 rental units, runs a rental assistance program, and provides a wide range of housing support services to the Island.

- Island Housing Trust (IHT) is a community based non-profit organization whose mission is the development and permanent stewardship of land for affordable housing through long-term ground leasing. Over the past ten years the Trust has sold and rented 102 homes and apartments to low and moderate-income families throughout Martha's Vineyard. Their current goal is to create another 100 new homes in the next two years. This will require raising $24 million by working in partnership with island towns, other housing organizations, land conservation organizations (which own land), and private sponsors, which IHT has depended on for a major part of its funding. The current fund raising effort is comprised of the following.
  - Town grants: $5 million
  - State grants: $5 million
  - Bank & private financing: $5.5 million
  - Private donations: $8.5 million.

  IHT's model is to lower the initial cost of ownership and rental housing by eliminating the land cost and a portion of the construction costs through grants and donations. For ownership housing, homeowners agree that if they sell their home, they sell it to another low or moderate-income family at an affordable price.

  Some of IHT's projects have been built in partnership with the Martha's Vineyard Land Bank Commission. Due to development pressures, Island voters created the Land Bank in 1986 and charged it with preserving the natural character of Martha's Vineyard. Nearly thirty years have later, 3,100 acres have now been conserved or about 5% of the land area of the Island. Revenue for the Land Bank is generated by a 2% surcharge on most real estate transfers. Budgeted revenues for 2020 are estimated at more than $10 million. Joint land purchases between IHT and the Land Bank have created clustered neighborhoods of affordable homes while permanently conserving surrounding open space.

- Habitat for Humanity of Martha's Vineyard relies heavily on volunteers, both professional and novice and partners with local groups to build simple, decent houses for deserving Island families. It has created 11 affordable homes.

Summary

Martha's Vineyard is a unique example of a resort community that has struggled with housing affordability for decades. Unlike other tourist destinations, it does not have a housing outlet in other communities for its seasonal or full-time employees. Those that work on the island must live somewhere on the island. Recognizing the extent of the problem, the six island towns have joined together to form various organizations that are aimed at preserving the character of the island while still providing for the housing needs of residents and employees. The result is a combination of public and private entities working together to solve the problem.

1.2 Flagstaff, Arizona

For decades, Flagstaff has battled with affordable housing as housing costs have risen well above incomes for many residents. According to the U.S. Census, the 2018 median home value of $415,000 in Flagstaff is 62% above the statewide median and 64% above the median home value for Greater Phoenix. Part of the housing affordability problem is the City's dependence on tourist-related industries that typically pay moderate wages including hospitality, food services, and retail trade. However, even essential personnel find it difficult to find affordable housing in the community. As a result, the City of Flagstaff, partnering with non-profit agencies, has developed a number of programs designed to address the need for housing for its workforce and low and moderate-income families.

The City's Housing Section of the Community Development Department is responsible for administering a variety of housing programs. In addition, the Flagstaff Housing Authority manages 265 public housing units and administers housing vouchers. In FY 2020, the Housing Section had 7.4 employees; the Housing Authority had 21.8 employees.

The Flagstaff Housing Section administers a number of affordable housing initiatives and services, from rehabilitation programs to down payment assistance programs to the Community Development Block Grant (CDBG) program. The City has instituted several programs that could be applied to the situation in Sedona. Following are some of the most notable programs.

- **Community Housing Assistance Program (CHAP)**: This program is a down payment and closing cost assistance initiative that provides up to $15,000 in matching funds for first-time homebuyers earning less than 125% of the area median income (AMI). For a family of four, the maximum income is $94,000. A household's down payment funds of $5,000 are matched three to one up to a total of $15,000 in assistance. The assistance loan is not forgiven, but is repaid when the home is sold, refinanced or not owner-occupied. The

City directly funds this program and partners with Housing Solutions of Northern Arizona to administer this program which also provides housing counseling services.

- **Employer Assisted Housing Program**: This program is designed to provide up to $10,000 in down payment and closing cost assistance to City employees. Funds are matched dollar-for-dollar with the buyer's funds up to $10,000. The funds are forgiven over ten years if the home remains owner-occupied and at least one householder remains employed by the City. The City partners again with Housing Solutions of Northern Arizona to administer this program.

- **Flagstaff Community Land Trust Program (CLTP)**: This City program is designed to assist first-time buyers by reducing the cost of housing. The homebuyer only purchases the house and other improvements while the City retains ownership of the land. The home is subject to a 99-year renewable ground lease with the City. Typically, an improved lot value is 20% to 25% of total house cost. In order to take advantage of the program, households must earn between 80% and 125% of AMI and must live within the Flagstaff Metropolitan Planning Organization (FMPO) area. Resale of the home is restricted and must retain its "affordable" status. Upon resale, the owner retains 25% of the increase in equity of the house plus the reduction in principle payments on the mortgage. Housing Solutions of Northern Arizona assists with the administration of this program.

  Methods for acquiring land for the CLTP include:
  - Using city land or donated land and a development partner to build units.
  - Having developers construct land trust homes in a market rate project and then convey the land to the City at the time of sale. The home is sold to an income qualified household by the homebuilder with restrictions on future appreciation of the home.
  - Purchasing land as part of a partnership with a non-profit who then builds the units.
  - Having a developer donate unimproved lots they intend to build on in the future for the CLTP.

  An example of the CLTP program is Izabel Homes. Ten single family homes were built by a for-profit development partner; the remaining six homes are being built by Habitat for Humanity and are being sold to qualified households (earning less than 80% of the area median income) with a 99-year ground lease.

- **Incentive Policy for Affordable Housing (IPAH)**: Flagstaff adopted the incentive policy in 2011 and uses it to promote the construction of affordable housing. The policy is implemented through the City's Zoning Ordinance, Division 10-30.20. The policy provides increased densities and waiver or reimbursement of fees for projects that guarantee at least a portion of the housing units will be affordable. In 2019, the City received commitments for 128 affordable ownership units and 174 affordable rental units. An update of the incentive policy is planned in the near future.

  The Policy calls for the development of a minimum of 10% affordable units for projects seeking rezoning or other land use approval. Units may be ownership or rentals; renter households must be income-certified on an annual basis. Projects must be located within ½ mile of a bus route. Incentives include the waiver or reimbursement of permit and planning fees depending upon the AMI served, reimbursement of development impact fees, expedited plan review, reduction in parking requirements, and a reduction in forest resource protection. Under State law, impact fees may not be waived but can be reimbursed to the developer from other city resources.

  In-lieu contributions are permitted for properties that are not financially feasible to develop affordable housing. The contribution may be financial or comparable land. Improvement districts may also be used as an incentive to produce affordable housing.

- **Low Income Housing Tax Credit (LIHTC) Projects**: The LIHTC Program is a federal program that has been one of the most successful programs for the construction of affordable housing units (a full description of the programs is included in the Tool Kit section of this report). Flagstaff has promoted the development of LIHTC projects for several decades. Since 1994, 994 LIHTC rental units have been built or committed to be built in Flagstaff. The affordability commitments of several of the affordable projects have expired, leaving approximately 642 units in the community comprised of 512 family units and 130 senior units. Another 174 units were awarded by the State in 2018, 2019 and 2020. However, the 2018 award was returned to the State since the project did not go forward. San Francisco Square Apartments was recently approved in the latest round comprised of 70 senior units. With the completion of the units approved in the last three years, Flagstaff will have 816 affordable units.

- **Housing Solutions of Northern Arizona (HSNA)**: An important partner in the affordable housing industry in Flagstaff is HSNA. They provide housing and credit counseling, foreclosure prevention, and pre-purchase assistance across Coconino, Yavapai, and

Mohave counties. The non-profit operates Sharon Manor, a transitional housing project for survivors of domestic violence, and 21 scattered site affordable permanent rental units in Flagstaff. HSNA also owns and operates AHC Construction, LLC, a licensed residential and small commercial construction company that the nonprofit uses for affordable housing rental development and rehabilitation.

HSNA is approved to package USDA direct loans for low-income homebuyers. They also work with member banks to determine eligibility for and facilitate the WISH program, which is funded by the Federal Home Loan Bank of San Francisco. WISH is a program that matches homebuyer contributions 4 to 1 for the purchase of a first home. Buyers can receive up to $22,000 in assistance. The program benefits households with incomes below 80% of AMI.

Summary

Over the last 30 years, Flagstaff has made a significant financial commitment to address the affordability issue. This commitment includes extensive staffing to administer programs and grants as well as direct funding of certain programs, including the use of General Fund dollars. Some of these programs may be directly transferable to strategies for Sedona. Housing Solutions of Northern Arizona is able to assist with the design and administration of similar programs and already provides counseling services in Yavapai County.

1.3 Telluride, Colorado

Telluride is a former mining town turned ski resort located in southwestern Colorado. The community is located within a box canyon in rural San Miguel County. According to the U.S. Census, Telluride had a 2018 population of 1,826 persons; adjacent Mountain Village, the primary ski and homesite resort, had a population of 1,767. The entire County population is estimated at less than 8,000 persons and there are few alternative housing options for resort employees.

Housing has been a significant employee retention and attraction issue for the community for decades. The average home price in Telluride in 2018 exceeded $1,000,000 while the County's median income is $58,000. The goal of the Town's housing program is to provide housing for 60% to 70% of the region's employees.

Telluride's Housing Department closely coordinates its operations with the San Miguel Regional Housing Authority (SMRHA). The Town's affordable housing programs can be separated into three categories.

1. Housing Development: This activity consisting of land acquisition and housing development by the Town is primarily handled by the Town Manager's office in consultation with SMRHA. Year-round housing is provided for employees who work within the boundaries of the local school district. All housing developments have been constructed by the Telluride Housing Authority and include 152 apartments, a day care facility, four laundry facilities, three tiny homes and a boarding house for 46 residents. On average, 15 new units are constructed by the Town each year.

The Telluride Town Councils sits as the Housing Authority Board of Directors and manages the Town constructed properties. Planning for additional units is underway on several sites purchased by the Town.

The Town operates an Affordable Housing Fund that receives revenue from:

- A 0.5% sales tax.
- A 2 mils property tax which produced an estimated $560,000 in 2019.
- Affordable housing mitigation payments required by the Town's Affordable Housing Guidelines.
- A 2.5% affordable housing short-term rental excise tax.

From time to time, the Town also transfers General Fund and Capital Fund dollars to the Affordable Housing Fund.

The Housing Fund set aside or reserve in 2019 was more than $2.6 million. Housing projects are built through bond financing. The Virginia Placer project of 18 apartments, three tiny homes and a boarding house for 46 occupants cost $8.9 million and was financed by a bond issuance of $8.6 million.

2. Regulatory Mechanisms: The Town's Land Use Code (LUC) and Affordable Housing Guidelines regulate the requirement that new development must provide affordable housing for 40% of new employees generated (mitigation requirements). Housing can be provided in the form of cash payments (mitigation payments), construction of new deed-restricted units, conveyance of land to the Town, or deed-restriction of existing units through purchase of the units. The Planning Department administers the affordable housing requirements and provides incentives to create new housing units through waiver of certain building and utility tap fees and a density bonus granted to establish more secondary dwellings. SMRHA provides assistance to the Planning Department to process and monitor deed-restricted units.

The mitigation requirements are calculated based on the number of new employees generated by a new business or development. For instance, for a commercial establishment, 4.5 employees are generated for each 1,000 square feet of floor area. That figure is multiplied by 400 square feet per employee, then by a factor of 40%. The result is the gross floor area of affordable housing mitigation. If the developer choses to pay an in-lieu fee, the current fee per square foot is $458 calculated as the difference between the market price of housing and the price affordable to the Town's target households.

The maximum sale price of a deed-restricted unit is subject to a formula that is based on the original purchase price plus an inflation factor. In summary, the calculation is:

- Original purchase price.
- Plus the lesser of a 3% per year inflation factor or the documented CPI factor.
- Plus assessments such as improvement districts against the property.
- Plus permitted capital improvements which cannot exceed 5% of the original purchase price.
- Less depreciation of permitted capital improvements.

The LUC permits the construction of a designated employee dwelling unit as a secondary unit or accessory dwelling unit (ADU) on a property. The owner must restrict the use of the unit by executing a covenant in favor of the Town which provides that it will be occupied by a qualified affordable household. Title to the unit shall not be subdivided from the original qualifying lot. The unit cannot be demolished or removed unless approved by the Town Council.

3. Federal & State Programs: SMRHA administers a number of programs that are available to eligible households including a Section 8 Housing Choice Voucher Program. Down payment assistance and mortgage tax credit certificates are also available. SMRHA also provides counseling to first time home buyers.

The Mortgage Tax Credit Certificate (MCC) program is a little used program created in the early 1980s that provides a dollar-for-dollar tax credit on their income taxes for their mortgage payments, effectively reducing their net monthly mortgage payment. Under the program, states can convert a portion of their federal allocation of private activity bonds (PABs) to MCC authority on a four-to-one basis. The certificates can help lenders increase their appeal to first time buyers and help borrowers qualify for a home. Tax credit percentages vary by state, but amount to 20% to 40% of mortgage interest. The remaining interest payments may be deducted as the standard home mortgage interest deduction.

Summary

Telluride represents a rather extreme example of a tourist community in a rural area that has few if any outlets for alternative housing options for moderate income households. Over the last three decades, the Town has implemented strong measures to address the housing affordability issue in order to maintain its economy. As a tourist-oriented community, it needs housing for moderate-wage service employees. Town housing programs target employees making between 70% and 125% of area median income. As a result of the Town's efforts, an estimated 47% of Telluride employees live in deed-restricted units. Approximately 67% of the affordable units have been constructed by the Town with another 23% coming from mitigation payments and 9% from density incentives.

The Town has formed a Housing Department and Housing Authority to administer and monitor its programs. It also has partnered with the county-wide Housing Authority to assist with monitoring deed-restricted units. As a tourist community, the Town levied a sales tax and short-term rental tax on hotels and other forms of tourist housing. It also has levied a property tax on owners. These different forms of financing have provided the resources to construct new housing units.

The primary mechanisms are the Town's Land Use Code (LUC) and Affordable Housing Guidelines which require the development of affordable housing for any new construction. These mitigation regulations have provided the ability of Telluride to address employee housing needs.

1.4 Breckinridge, Colorado

Breckinridge is situated in Summit County in central Colorado near the Continental Divide. Originally founded as a mining town, it now offers year-round events and activities. The Town has approximately 5,000 permanent residents. Its historic district is one of the largest in Colorado and a defining element that brings visitors year-round to the community in addition to its ski resort. Summit County has a population of approximately 31,000 persons and 9,700 households. With more than 32,000 housing units in the County, there clearly is a significant second home inventory.

Breckinridge, Summit County, and nearby communities have taken a regional approach to address housing affordability. The Summit Combined Housing Authority (SCHA) was formed in 2006 as a multijurisdictional housing authority under Colorado law. The SCHA was formed by an intergovernmental agreement between its member jurisdictions that includes the towns of Breckinridge, Dillon, Frisco, Montezuma, and Silverthorne.

The SCHA is primarily funded by a permanent .125% sales tax and a .600% sales tax adopted in 2016 that will expire in 2026. The combined sales tax was forecasted to generate $11.1 million in FY 2020 with $9.4 million distributed to the member towns. The largest sources of revenue for the Breckinridge Affordable Housing Fund in the 2020 budget was:

- Sales tax income of $3.5 million,
- $2.1 million for the sale of assets,
- $500,000 for housing impact fees.

The housing impact fee is set at $2 per square feet of building area. The Town also levies a 1% real estate transfer tax on the sale of any real estate asset.

The Town of Breckenridge uses a variety of techniques to achieve their housing goals. The Town provides several incentives to developers including free density, annexation fee waivers, no plant investment fees for water service, building permit fee waivers, and real estate transfer tax exemptions. In addition to these tools, the Town has participated in private public partnerships to develop approximately 75% of the existing deed restricted housing units. There are also over 116 individual units dispersed in Town that are subject to deed restrictions.

The primary affordable housing policies and programs are the following.

- **Land Bank**: Land is a critical factor in the provision of affordable housing, representing between 20% and 25% of the total cost of a new housing development. The Town has acquired land for the purpose of constructing both rental and for sale affordable housing. Some of the properties include Block 11 and McCain subdivisions and Valley Brook which are large mixed-use projects. Development of some of the properties is accomplished through public- private partnerships with private sector developers.

- **Deed Restrictions**: The Town utilizes deed restrictions (restrictive covenants) to ensure that housing (both rental and home ownership) remains affordable over time for use and occupancy by local employees. The deed restriction runs with the land and binds subsequent owners. A deed restriction in Breckenridge limits the occupancy of a home to a local employee and may include resale, appreciation, and income caps as well as other restrictions. There are approximately 1,000 deed restricted properties in Breckenridge.

- **Buys Downs**: As part of the 2008 Workforce Housing Action Plan, the Town expanded efforts to acquire existing free-market units and convert them to permanently affordable workforce housing through deed restrictions. This is an important strategy particularly as over time the market units that are currently occupied by employees are converted to other uses such as retirement or vacation homes. It is estimated that there are up to 1,000 market units in the Breckenridge area that are currently occupied by local employees. As employees retire and/or sell their market units to non-employees, the shortage of affordable workforce housing is exacerbated.

- **Housing Helps**: In addition to the on-going construction of new units and the buy down program, the Town instituted the Housing Helps program that incentivizes homeowners and real estate buyers and sellers to deed restrict their properties to help reserve the homes for the local population. The amount paid for a deed restriction will vary depending on the size of the unit, the location of the unit, the proximity to jobs and transit, and how well the unit meets the housing needs in the community. Recipients may use the funds for down payment, home repairs, special assessments, or any other purpose. In return, the recipients are required to execute a deed restriction that will insure the property is (1) occupied by a local employee and (2) is not used as a seasonal or vacation home or a short-term rental. There is no cap on the income of the occupant, no rent restriction, and no resale or appreciation cap. The Town estimates that the value of the deed restriction may be in the range of 10-15% of the market value of the property.

- **Annexations**: The Breckenridge annexation policy has been effective in generating affordable housing. Breckenridge annexations provide greater densities via transfer of development rights, deferring water tap fees, and waiving permit fees. On the proposed annexation, a minimum of 80% of the proposed dwelling units should be developed as deed restricted housing with a maximum of 20% market rate units.

- **Development Requirements**: To encourage the development of new affordable housing and buy down of existing units, the Town applies various provisions of its the Land Development Code (LDC) and affordable housing policies. Waivers of various fees are permitted in exchange for the construction of affordable or deed restricted units including:
  - Increased density
  - Annexation fee waivers (Up to $2,775 per unit)
  - No plant investment fees for water service ($4,281 per unit)
  - Building permit fee waivers ($3,200 per unit)
  - Real Estate Transfer Tax Exemption (1% of sales price)

   – Positive points for other non-workforce housing projects (as part of the Town's project ranking system under the LDC).

The LDC also requires that all newly constructed Accessory Dwelling Units be deed restricted. This restriction requires occupancy by a person who works an average of 30 hours per week for a business located in and serving Summit County and prohibits short term rentals.

- **Short Term Rentals**: The Town attempts to maintain a balance between providing lodging for tourists and preserving community character. Short term rentals provide an added value to the community but their locations, often surrounded by long-term housing, require special attention. Residents living near short term rentals need an outlet to express their concerns and help preserve their neighborhood.

  The Town recently adopted new rules and regulations for short term rental owners who now must have a BOLT (Business and Occupational Licenses and Tax) license, must pay an administrative fee, and must have a responsible agent that can respond to issues within 60 minutes. The Town of Breckenridge has also partnered with STR Helper to provide a hotline for residents who live near short term rentals to report issues like parking, trash, and noise.

- **County Down Payment Assistance Program**: SCHA operates two down payment loan assistance programs. One program is for households making between 50% and 80% of area median income. It provides for a one-to-one match of down payment loan up to $25,000 with a 20-year term and a 2% interest rate. For households earning between 80% and 160% of the area median income, the loan is for two times the down payment provided by the buyer up to a maximum of $15,000. The loan is at a 3% interest rate for 20 years.

Summary

Like most ski resort communities, Breckenridge has undertaken significant steps to provide housing for its employment base, using a combination of deed restrictions, direct construction of units, affordable housing development incentives, and land banking. It has also approached affordable housing as a regional issue, participating with a county-wide housing authority to assist with administration of programs, monitoring of deed restrictions, and housing counseling.

Appendix 2: Affordable Housing Tool Kit

This Tool Kit is a summary of techniques and approaches to address affordable housing based on the Case Study analysis and other research conducted for the Sedona Five-Year Action Plan. The most prevalent methods to provide affordable housing for low and moderate income households involve public subsidies, 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 2.1 of this Tool Kit focuses on additional concepts and proven methods that may be used at the local level to address housing affordability. Section 2.2 of this report outlines federal and state programs that may be used to further address affordability. Section 2.3 illustrates how the Tool Kit may be conceptually applied to the development and operation of an affordable housing complex.

2.1 Local Affordable Housing Approaches

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 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 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 ski 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. Assuming this range of value, the average value of a Vail deed restricted unit ranges from $577,000 to $865,000.

Despite the fact that deed restriction programs have worked well in ski communities, the approach appears costly. Many of the 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 high price of housing in Sedona and lack of moderate density units such as condos is a barrier for implementation of a buy-down program. For a $400,000 unit in Sedona, a deed restriction could cost $40,000 to $60,000. The overall cost of such a program may not provide the benefit for the resident population relative to need. And since the programs are voluntary, participation by local owners is unknown.

The Sedona Development Incentives & Guidelines for Affordable Housing (DIGAH) 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 is not focused at purchasing deed restrictions in a buy-down program for existing housing units on a voluntary basis. Subject to some modest recommendations to change parts of the Guidelines, the DIGAH provides the city with a process for promoting the development of affordable units and ensuring that any affordable deed restricted units will remain affordable for the long term.

Housing Mitigation and Linkage Programs: These programs vary from city to city, but require that any new development project provide for a portion of the employees who will be generated by 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 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. Sedona has adopted their Development Incentives & Guidelines for Affordable Housing document which can provide the resources for addressing its affordable housing situation.

Housing Trust Fund or Community Land Trust: A land trust holds title to the land and leases the property for 99 years with the goal of preserving the land for the long-term benefit of the community. When used for housing purposes, the total cost of a housing unit can be reduced by anywhere from 15% to 25%. Land trusts can be used for rental units as well as ownership housing. Persons making between 80% to 120% of AMI are usually targeted for these programs. Land is often acquired through donations from developers or the property could be underutilized city-owned land. Trusts often partner with a non-profit to construct units on the site.

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 provide homeownership opportunities to qualifying households that would otherwise not be able to achieve ownership. 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 TCLT maintains ownership of the land.

Land Bank: Land banks are designed to acquire and maintain properties and then transfer them to responsible ownership and productive use in accordance with local land use goals and priorities, creating a more efficient and effective system to eliminate blight.

In order to accomplish these tasks, land banks are often granted special powers and legal authority pursuant to state-enabling statutes. Though these statutes differ widely from state to state, the more recent examples of comprehensive land bank legislation generally grant to land banks the following powers:

- Obtain property at low or no cost through the tax foreclosure process
- Hold land tax-free
- Clear title and/or extinguish back taxes
- Lease properties for temporary uses
- Negotiate sales based not only on the highest bid but also on the outcome that most closely aligns with community needs such as workforce housing.

Land banks are typically used for redevelopment purposes that are focused on vacant, abandoned, and tax delinquent properties. However, unlike redevelopment authorities, land banks do not have the power of eminent domain. Many land banks were formed after the foreclosure and abandonment of properties during and after the Great Recession. There are an estimated 170 land banks operating in the U.S. with the greatest number found in Michigan, Ohio, and New York. Virtually all of the land banks are located in the eastern half of the U.S. Only one is operating in the west, the City of Eugene, Oregon Landbank Program. For one to be formed in Arizona, state enabling legislation would need to be passed. Generally, with the strength of the Arizona real estate market, a land bank is not a viable option for Sedona.

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 located within a certain distance of mass transit,
- Waiver of sales tax on construction of the project.

Sedona provides incentives in its DIGAH that include flexible development standards, waiver or deferment of permit fees and impact fees, and expedited review of plans (any waiver or deferment of impact fees would likely require the city to pay the fees on behalf of the project). It also provides for an increase in building height of eight feet (this likely is not enough of a height increase for any residential building). The DIGAH does not provide for a density incentive, reduced parking requirements, or waiver of sales taxes. In particular, a density incentive is a common incentive in most affordable housing programs. Sedona's density limit for multifamily housing is set at 20 units per acre.

Sedona may desire to consider a more formalized process for determining the extent of fees waivers and other incentives depending upon the level of low and moderate income renters benefited by a particular project. For instance, the highest level of waived or reimbursed fees is often provided for projects that have the highest percentage of affordable units in the complex and that reach the lowest income households. Such an approach would provide greater certainty for affordable housing developers rather than leaving fee waivers to negotiation.

Public-Private Partnerships: 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 report depend upon a housing authority to assist with administration of their housing programs. Some authorities were formal regional/county entities while others, such as Summit County in Colorado, are a multijurisdictional combined city-county organization. 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 current 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 a funding responsibility of the County.

Similar to Flagstaff, Sedona could form their own housing authority which would require additional resources to staff the organization and manage programs. Whether this is feasible for a small community with limited resources is questionable. Alternatively, rather than form an authority, Sedona could contract or partner with a non-profit organization such as Housing Solutions of Northern Arizona (HSNA) to assist with administration of housing programs.

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 like Sedona. 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.

  Sedona's ADU provisions permit a kitchenette in the unit, but not a full kitchen. The size of the ADU is also limited to a maximum of 750 square feet in size.

- **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, 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 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 ski 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. While Sedona may not experience annexations on a regular basis, affordable housing could be a significant 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 use 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. For instance, the Shadowbrook Apartments property tax is approximately

$0.54 per square foot. That property is 30 plus years old and its value may have been depreciated by the county assessor. Newer apartment complexes will have higher property tax payments.

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.

2.2 Public Affordable Housing Resources

This portion of the report will outline available public programs and resources to develop affordable housing in Sedona and 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 was awarded by ADOH which will result in 879 affordable housing units planned to be constructed in Arizona. ADOH has 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 13

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						

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.

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.

Table 14

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

Trellis, a nonprofit housing organization, has a LIHTC proposal under consideration by ADOH for using manufactured housing as an option to traditional built in place construction. They are proposing to construct individual manufactured homes in a community of approximately 40 homes that will initially be built as rental housing, but renters will be able to purchase the homes after 15 years. This financing structure allows low income families to save funds needed for purchasing a home, while having hands on experience of maintaining a residence. Through counseling and other supportive services, families will be able to obtain budgeting experience, learn maintenance and upkeep of their residence, and build equity in their home. Using this long-term comprehensive structure, Trellis will be able to provide home ownership opportunities for families earning between 60% and 120% of AMI.

In Sedona, 60% of AMI for a family of four currently is $45,120 in Coconino County (based on the median family income of $75,200) and $38,760 in Yavapai County (based on the median family income of $64,400). Families of four earning 120% of area median income would be $90,240 and $77,520 in Coconino and Yavapai County respectively.

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, and other allowable activities. In 2020, Arizona has the following allocations of PABs.

Table 15

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 Sedona and the Verde Valley.

- **Residential Rental Housing**: Tax credits are used as 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 credit available under the PAB program is 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 (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. Dominium, a private sector developer that has developed over 30,000 units of affordable housing in 21 states (including Arizona) would be interested in working with the City of Sedona to develop affordable housing in the community. They provide development, acquisition, construction, and architecture services.

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 Sedona 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 renters 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 often not used to construct or rehabilitation 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 $55M was allocated for rental housing. Other eligible activities were funded with the housing allocation including a portion of $600M 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 Sedona. 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 Sedona are administered by the Northern Arizona Council of Government (NACOG.) Within NACOG, cities that are eligible for funding rotate among eligible cities for funding. 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 City of Sedona receives CDBG funding every four years. In 2019, Sedona received approximately $330,000 in CDBG funds for Sedona Hope House which provides temporary housing for homeless families with children in the Sedona School District.

According to the Arizona Department of Housing, Sedona has tried several times to develop a program for owner-occupied housing rehabilitation but has struggled to find homeowners who want to participate or the units were rental mobile homes. In addition, the values of single family homes are pushing the limits of HUD's rehab values which make it difficult to find eligible units.

While Sedona will not receive another round of CDBG funding until 2023, funds may be use for all types of housing programs and assistance including providing subsidies for various other housing activities.

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 Services 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.

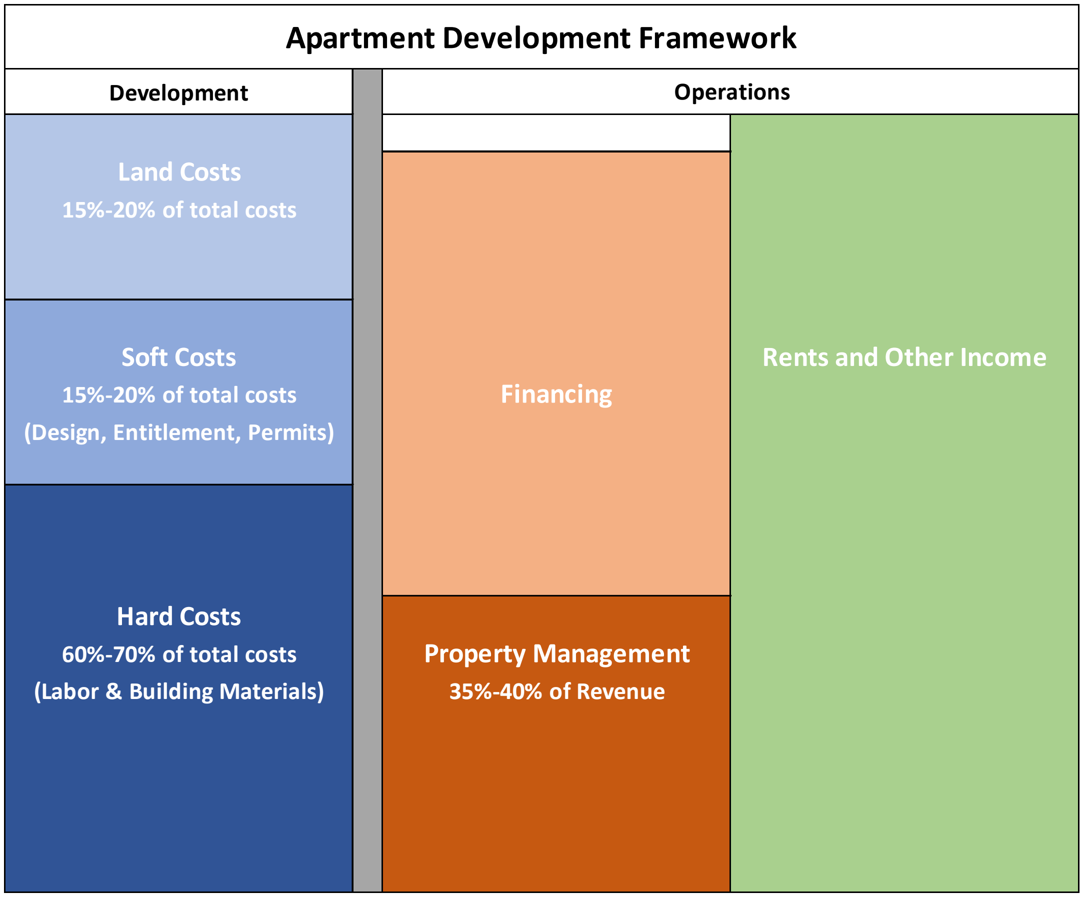
- **Rental Housing Development**: HSNA works with for-profit and non-profit developers on the creation of affordable rental housing units, utilizing LIHTC or HOME funds.

- **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.

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

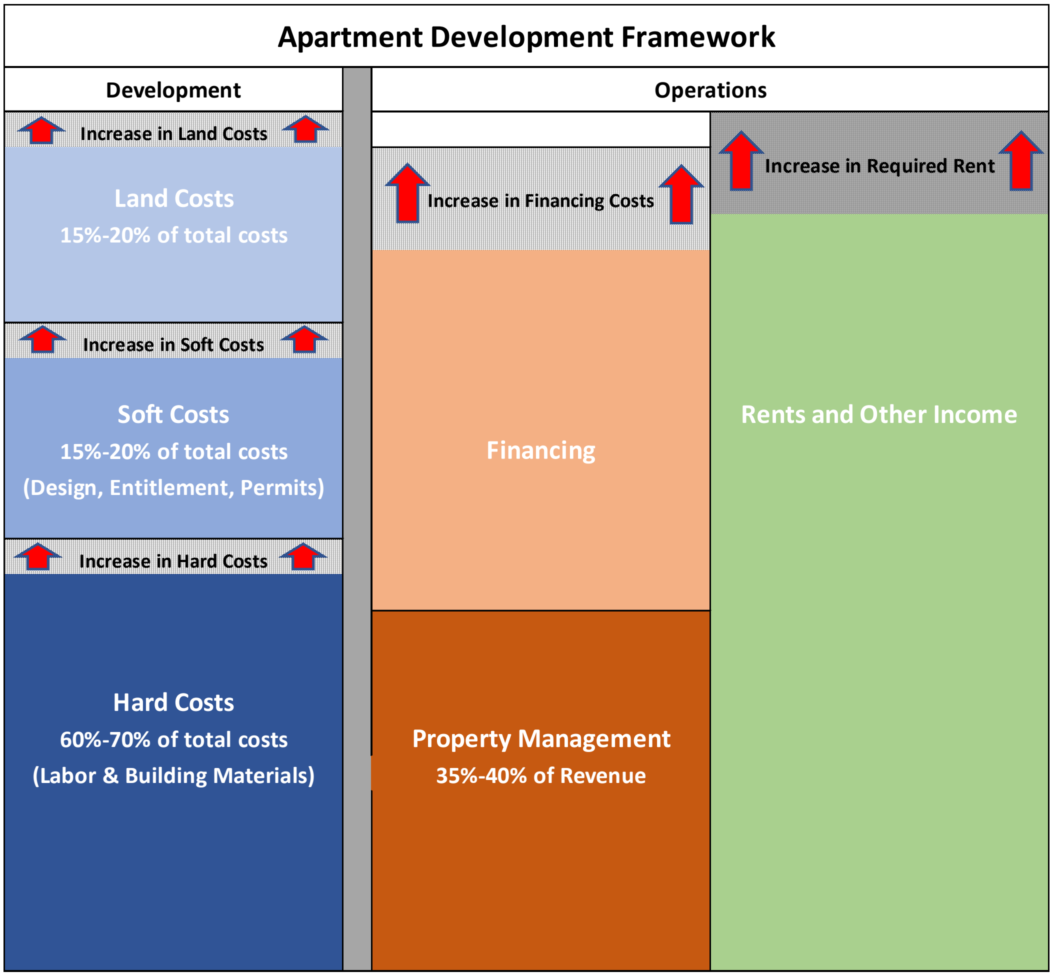
The following charts provide an overview of the costs associated with the development and operation of an affordable apartment complex and how affordable housing tools can affect those costs and revenues. Some of the charts have been adapted from the National Multifamily Housing Council's report The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

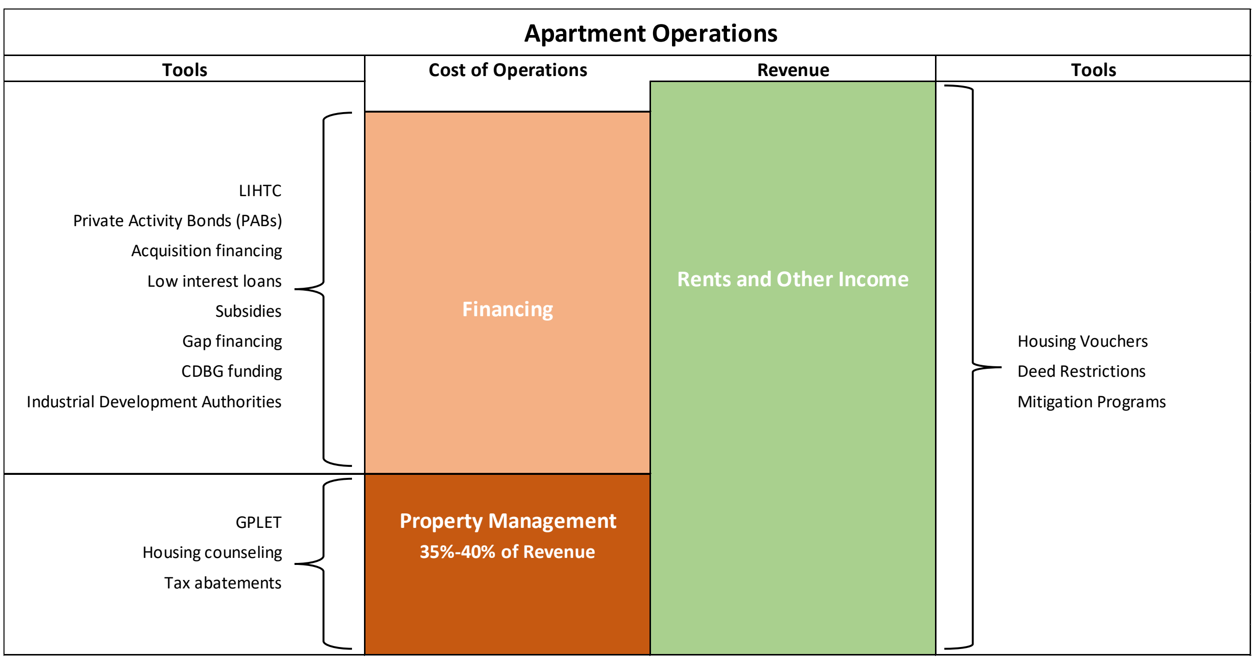
Construction costs can be impacted by both monetary approaches as well as partnerships with private developers and non-profit organizations. The waiver of sales taxes charged on the construction of a project could have a significant effect. For instance, Sedona charges a 3.5% tax on materials used in the construction of a complex (materials represent 65% of total construction cost). For a $10 million construction cost, the savings to a developer would be more than $225,000 or 2.3% of total cost. The reduction of parking requirements where the 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 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 housing 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.