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

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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.

Implementation Strategy

The Implementation Strategy outlined in a Five-Year Action Plan prioritizes actions to be taken by the City of Sedona in accordance with the objectives of this study. The City of Sedona will need to make a significant financial and administrative commitment to address the current need and future demand for affordable housing in the community. At the very least, this commitment will require retaining a staff that is dedicated to administering housing programs and recruiting housing developers to the community.

The initial first-year priorities of the Action Plan are intended to establish the tools that Sedona may need to attract affordable housing and housing developers to the community. Action items thereafter are described as Mid-Term (1 – 2 years) and Long-Term (3 – 5 years). The first-year priorities are:

- Establishing a Community Land Trust (CLT): A CLT is one of the most important tools that a city can have at its disposal to promote affordable housing. It can be used for a variety of purposes from providing land for single family homes to sites for multifamily complexes including Low Income Housing Tax Credit complexes.
- City-Owned Land: An inventory of City-owned assets should be undertaken to determine any potential opportunities for housing development. The City may also want to consider the purchase of sites that are suitable for housing and also identify properties owned by government, quasi-government, or non-profit entities that may also qualify for housing development.
- Amendments to the Development Incentives and Guidelines for Affordable Housing (DIGAH): The DIGAH is a well-designed document that needs some updating and amendments to make it more flexible and responsive to the demand for affordable housing that the City will inevitably encounter in the future.

If completed within the first year of the Action Plan, the above priority tasks will set the stage for the City to better address the creation of affordable housing in the community. Action items that follow thereafter will depend upon the foundation of tools that established in the first-year Plan. The Action Plan is outlined on Table B.

Table B

City of Sedona Five-Year Affordable Housing Action Plan				
		ACTION STEPS		
Objective		**Short Term: 1 Year**	**Mid-Term: 1-2 Years**	**Long-Term 3-5 Years**
Objective 1: Encourage Development of Affordable Housing Units				
Workforce Affordable Housing Approach				
	Tool 1: Community Land Trust (CLT)	Establish a Community Land Trust for future ownership of land for affordable units/complexes.		
	Tool 2: City-Owned Land	Inventory City-owned land assets for potential affordable housing sites. Consider the purchase of land for such uses.		
		Initiate partnerships with other organizations that own land and may be willing to participate in an affordable housing complex.		
	Tool 3: Deed Restricted Housing		Establish a deed restriction subsidy program for multifamily developers as part of the DIGAH.	Recruit a multi-family developer to construct a market rate complex with at least 10% workforce units.
	Tool 4: Rental Subsidy Program (Voucher)			Establish a demonstration rental subsidy program.
	Tool 5: Down Payment Assistance Program	Consult with Housing Solutions of Northern Arizona (HSNA) for affordable housing assistance.	Establish a down payment assistance program.	
Low Income Affordable Housing Approach				
	Tool 6: LIHTC Program	Establish a Marketing Program targeting affordable housing developers.	Recruit a LIHTC developer to construct a complex in the City, assist with identifying suitable sites, negotiate local subsidy if needed.	
	Tool 7: Private Activity Bonds (PAB) Program	Establish a Marketing Program targeting affordable housing developers.	Recruit a developer to construct a PAB mixed-use complex, assist with identifying suitable sites, negotiate local subsidy if needed.	
Objective 2: Incentivize the Inclusion of Affordable Units in Private Development				
	Tool 8: Fee Waivers & Expedited Processing	Strengthen incentives and modify portions of the DIGAH.		
	Tool 9: Density Incentive	Create a density incentive within the DIGAH.		
	Tool 10: Regulation Review		Evaluate the cost impact of Land Development Code enhancements on affordable housing.	
Objective 3: Increase Resources to Support Production of Affordable Housing				
				Evaluate the need for an on-going dedicated funding source for affordable housing.
Objective 4: Monitor the Increase in Demand and Loss of Affordable Housing Units				
		Create an Affordable Housing Impact Summary to monitor the supply of affordable units.		
		Monitor the loss of mobile home units, particularly those built before 1976.	Monitor the loss of mobile home units, particularly those built before 1976.	Monitor the loss of mobile home units, particularly those built before 1976.

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 C 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 C

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		
4% Private Activity Bond Complex 60% AMI 40% Affordable Units		
	4% Tax Credit Complex	
Assumptions	**Per Unit**	**Total**
Land (Acres)		3.40
Units		68
Market Rate Units		41
Affordable Units		**27**
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	3.75%	
Amortization (Years)	40	
Targeted Households (AMI)	60%	
Construction Cost	**Per Unit**	**Total**
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		**$449,849**
Total Tax Credit Equity - 10 Years	32.3%	$4,228,579
Mortgage	60.0%	$7,846,200
Deferred Development Fee	3.5%	$457,695
Soft Debt	4.2%	$544,526
Soft Debt Per Affordable Unit		**$20,168**

Alternative 2		
4% Private Activity Bond Complex 50% AMI 20% Affordable Units		
	4% Tax Credit Complex	
Assumptions	**Per Unit**	**Total**
Land (Acres)		3.40
Units		68
Market Rate Units		54
Affordable Units		**14**
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	3.75%	
Amortization (Years)	40	
Targeted Households (AMI)	60%	
Construction Cost	**Per Unit**	**Total**
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		**$449,849**
Total Tax Credit Equity - 10 Years	32.3%	$4,228,579
Mortgage	66.0%	$8,630,820
Deferred Development Fee	0.8%	$104,616
Soft Debt	0.9%	$112,985
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 <u>voluntary</u> 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)**

7.0 Implementation Strategy

This Implementation Strategy outlined in a Five-Year Action Plan prioritizes actions to be taken by the City in accordance with the objectives of this study. This section of the report also outlines two affordable housing development and program scenarios for the City and the potential funding commitments that would be required for each scenario. The prospective funding commitments outlined in this section are examples of the scale and range of public funding that might be required and the resulting number of affordable units that could be created.

7.1 Five -Year Action Plan

The City of Sedona will need to make a significant financial and administrative commitment to address the current need and future demand for affordable housing in the community. At the very least, this commitment will require retaining a staff that is dedicated to administering housing programs and recruiting housing developers to the community. In addition, due to the City's perception as a tourism economy, marketing efforts will likely be needed to demonstrate the strong demand for affordable housing at all income levels. The low vacancy rates in rental housing in Sedona and surveys which indicate employees' desires to live in the City must be promoted through various media to prospective housing developers, investors, and financial institutions.

The Action Plan outlined in Table 11 is a recommended five-year effort to address affordable housing in the City. The initial first-year priorities are intended to establish the tools that Sedona may need to attract affordable housing and housing developers to the community. Action items thereafter are described as Mid-Term (1 – 2 years) and Long-Term (3 – 5 years). **Implicit in the Action Plan is retaining or hiring of staff to administer housing programs and address changes to the City's regulatory documents.** The administrators ultimately responsible for implementation of the Action Plan are the City Manager and Assistant City Manager.

As noted above, the initial priorities outlined in the Action Plan are directly targeted at equipping the City with the tools that will be needed to promote the development of affordable housing. In detail, those priorities are:

- Establishing a Community Land Trust (CLT): A CLT is one of the most important tools that a city can have at its disposal to promote affordable housing. It can be used for a variety of purposes from providing land for single family homes to sites for multifamily complexes including Low Income Housing Tax Credit complexes. While the CLT may not used for several years after its formation or on a regular basis, it should be available when the need arises.

- City-Owned Land: An inventory of City-owned assets should be undertaken to determine any potential opportunities for housing development. The City may also want to consider the purchase of sites that are suitable for housing and also identify properties owned by government, quasi-government, or non-profit entities that may also qualify for housing development. These sites could be offered to affordable housing developers through an RFP process. The creation of a CLT which could hold title to the land would likely expedite the development of available housing sites.
- Amendments to the Development Incentives and Guidelines for Affordable Housing (DIGAH): The DIGAH is a well-designed document that needs some updating and amendments to make it more flexible and responsive to the demand for affordable housing that the City will inevitably encounter in the future. Included in this priority item is the consideration of incorporating a density incentive within the DIGAH.

If completed within the first year of the Action Plan, the above priority tasks will set the stage for the City to better address the creation of affordable housing in the community. Action items that follow thereafter will depend upon the foundation of tools that established in the first-year Plan.

The Five-Year Action Plan is outlined on Table 11.

Table 11

City of Sedona Five-Year Affordable Housing Action Plan				
Objective		ACTION STEPS Short Term: 1 Year	Mid-Term: 1-2 Years	Long-Term 3-5 Years
Objective 1: Encourage Development of Affordable Housing Units				
Workforce Affordable Housing Approach				
	Tool 1: Community Land Trust (CLT)	Establish a Community Land Trust for future ownership of land for affordable units/complexes.		
	Tool 2: City-Owned Land	Inventory City-owned land assets for potential affordable housing sites. Consider the purchase of land for such uses.		
		Initiate partnerships with other organizations that own land and may be willing to participate in an affordable housing complex.		
	Tool 3: Deed Restricted Housing		Establish a deed restriction subsidy program for multifamily developers as part of the DIGAH.	Recruit a multi-family developer to construct a market rate complex with at least 10% workforce units.
	Tool 4: Rental Subsidy Program (Voucher)			Establish a demonstration rental subsidy program.
	Tool 5: Down Payment Assistance Program	Consult with Housing Solutions of Northern Arizona (HSNA) for affordable housing assistance.	Establish a down payment assistance program.	
Low Income Affordable Housing Approach				
	Tool 6: LIHTC Program	Establish a Marketing Program targeting affordable housing developers.	Recruit a LIHTC developer to construct a complex in the City, assist with identifying suitable sites, negotiate local subsidy if needed.	
	Tool 7: Private Activity Bonds (PAB) Program	Establish a Marketing Program targeting affordable housing developers.	Recruit a developer to construct a PAB mixed-use complex, assist with identifying suitable sites, negotiate local subsidy if needed.	
Objective 2: Incentivize the Inclusion of Affordable Units in Private Development				
	Tool 8: Fee Waivers & Expedited Processing	Strengthen incentives and modify portions of the DIGAH.		
	Tool 9: Density Incentive	Create a density incentive within the DIGAH.		
	Tool 10: Regulation Review		Evaluate the cost impact of Land Development Code enhancements on affordable housing.	
Objective 3: Increase Resources to Support Production of Affordable Housing				
				Evaluate the need for an on-going dedicated funding source for affordable housing.
Objective 4: Monitor the Increase in Demand and Loss of Affordable Housing Units				
		Create an Affordable Housing Impact Summary to monitor the supply of affordable units.		
		Monitor the loss of mobile home units, particularly those built before 1976.	Monitor the loss of mobile home units, particularly those built before 1976.	Monitor the loss of mobile home units, particularly those built before 1976.

7.2 Affordable Housing Funding Commitment Scenarios

Table 12 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 will not require 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 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 through a density incentive should reflect the increased development opportunity for the housing site and ultimate increase in property 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 12

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.

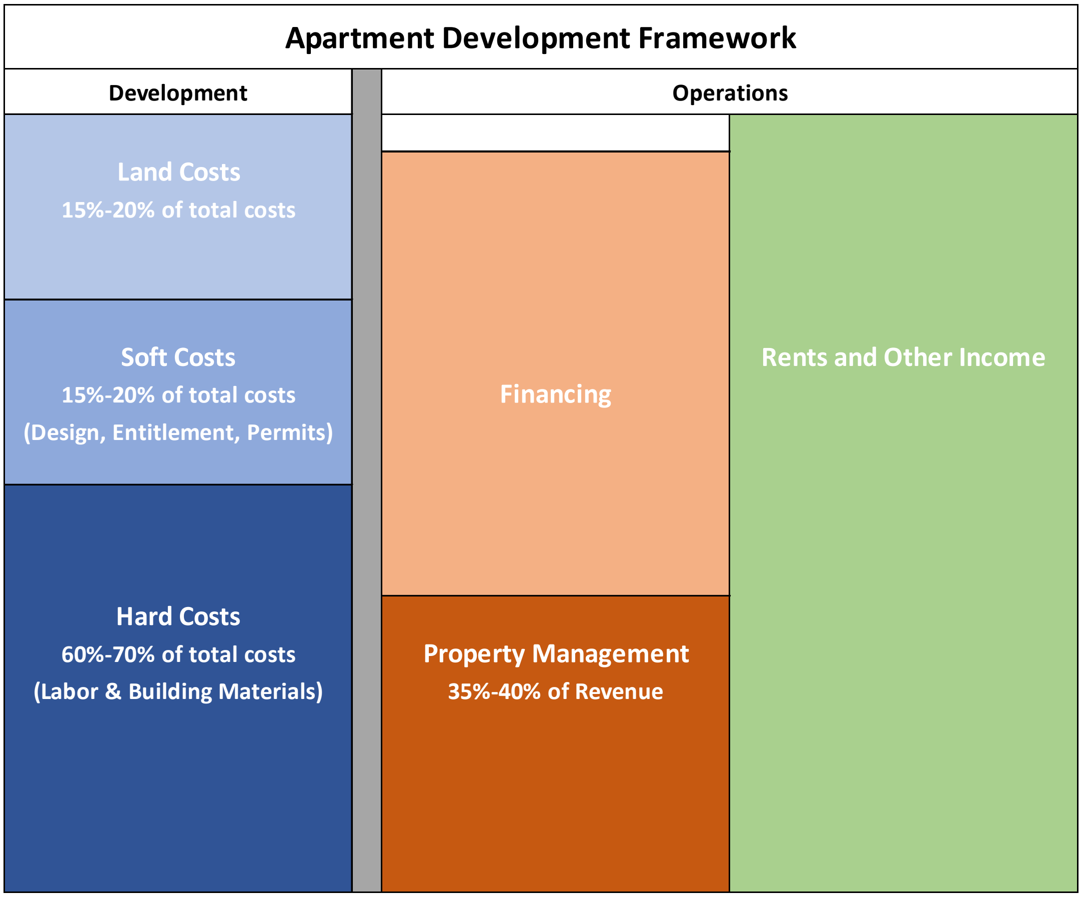
- **Rental Housing Development**: HSNA works with for-profit and non-profit developers on the creation of affordable rental housing units, utilizing LIHTC or HOME funds.

- **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

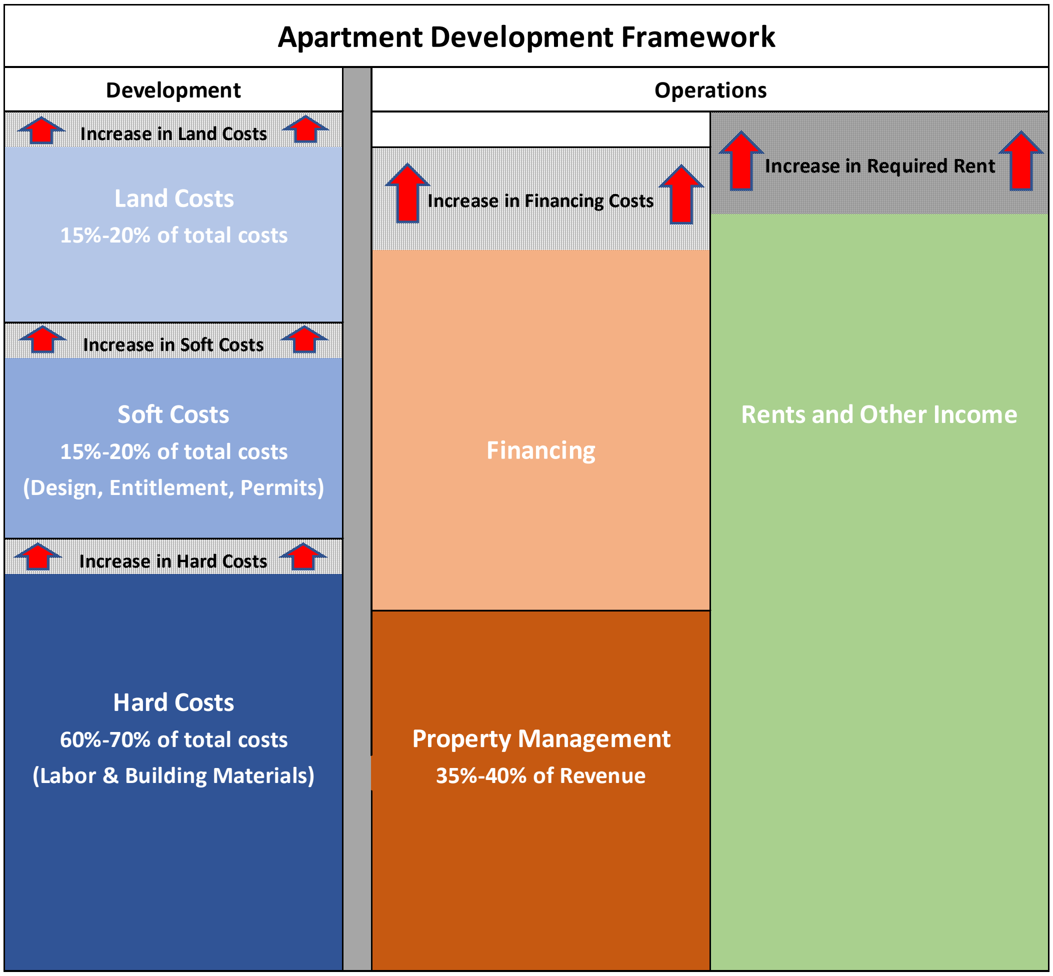
The following charts provide an overview of the costs associated with the development and operation of an affordable apartment complex and how affordable housing tools can affect those costs and revenues. Some of the charts have been adapted from the National Multifamily Housing Council's report The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

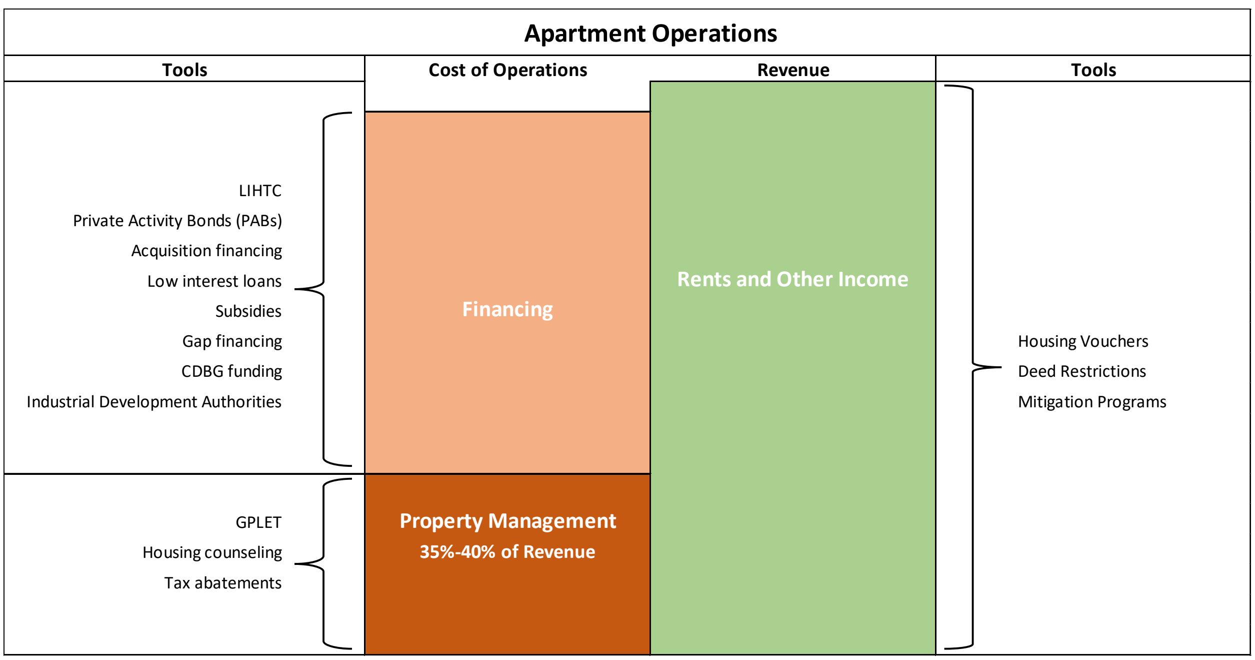
Construction costs can be impacted by both monetary approaches as well as partnerships with private developers and non-profit organizations. The waiver of sales taxes charged on the construction of a project could have a significant effect. For instance, Sedona charges a 3.5% tax on materials used in 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.