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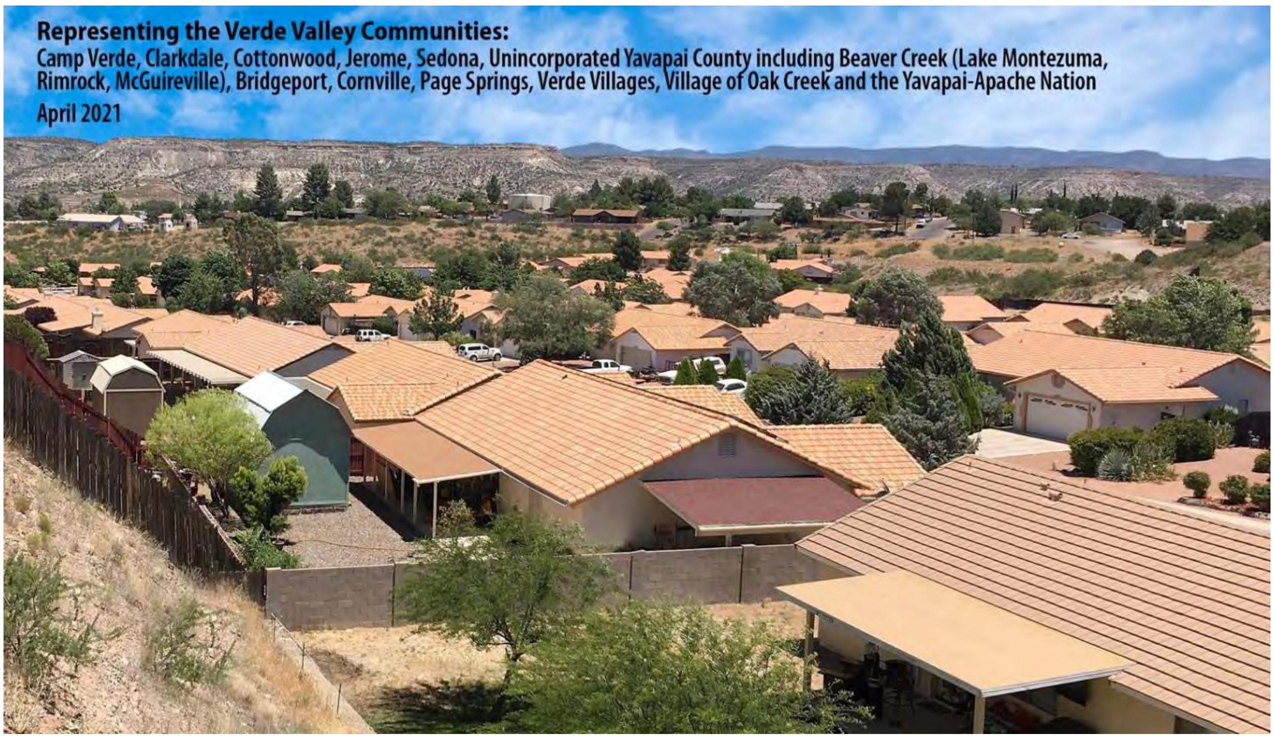
Verde Valley Housing Needs Assessment
Volume 1: Existing Conditions & Housing Gap Assessment



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Executive Summary

Purpose of Report

The purpose of this report is to provide the Verde Valley Workforce Housing Alliance with the initial findings of the existing conditions analysis and housing gap assessment. Included with this assessment is a summary of the Verde Valley Regional Housing Survey conducted in January 2021. The survey was directed at persons working in the Verde Valley to evaluate their views on housing conditions and on living and working in the Verde Valley. The summary of the survey is included in Appendix 2 of this report.

Housing Gap Assessment Findings

- There has been much discussion about the term “affordable housing”. “Affordable” is often associated with housing for the lowest income households. “Workforce” or “attainable” housing is often associated with the demand from critical service providers and other service workers. In the context of this study, the term “affordable” will apply to all households that are burdened by housing costs or those that can’t find housing due to its cost relative to household income. Affordable housing refers to a continuum of housing demand that affects persons from the lowest income levels to those earning above the area median income. A healthy economy and housing market must address all these demand sectors.
- The housing “gap” is the difference between the demand for housing units available at different income levels and the supply of those units. The “gap” affects both homeowners as well as renters. However, homeowners have more options to reduce their housing costs; renters have limited options other than to find more affordable housing farther from their place of employment or to double up with roommates to share rent. The effort to address affordable housing should approach both ownership units (which help bring stability to neighborhoods) as well as providing rental units for all income levels.
- The Verde Valley housing inventory is similar in several ways to the statewide inventory. Overall, the percentage of single family homes in the Verde Valley at 64.6% is about equal to the statewide 64.0% figure. Where the inventory differs is in mobile homes and apartments. Approximately 18.5% of all housing units in the Valley are mobile homes compared to the Arizona average of 10.5%. This percentage for the Verde Valley, however, is likely consistent to what is found in the non-urban parts of the state. Mobile homes comprise a high percentage of units in Camp Verde, Cottonwood, and the unincorporated areas of the Valley. Sedona has 902 mobile homes or approximately 13.3% of all housing units.

- The inventory of traditional apartment units in the Verde Valley is very low. Across Arizona, these units account for nearly 16% of all housing units. In the Verde Valley, they only total 6.2% of total units. In most communities the percentage is even lower (2.0% in Camp Verde and 4.7% in Sedona). Only Cottonwood has a reasonable percentage of apartment units at 14.4% of the housing inventory. The lack of apartments restricts the ability of low and moderate income households to find housing in the Verde Valley. Most households likely resort to renting and/or sharing the rent for mobile homes or single family homes.
- According to the U.S. Census, there are 5,264 mobile homes in the Verde Valley and 1,471 homes (27.9%) of those units were built before 1979. It is likely that many of these units may pose health and safety hazards for residents if built before June 1976 when HUD established minimum standards for construction.
- The price of housing in the Verde Valley has been cyclical and was dramatically impacted by the Great Recession and housing bubble. The unweighted average price of housing in the Valley, including all types of units, rose to $328,000 in 2007 before declining by 42% in 2012 to $190,000. Prices subsequently started to rise again and have now eclipsed the highest price reached during the housing bubble. The unweighted average price of a housing unit increased by 76% to $343,600 in 2019. The price of housing in most communities rose by an annual average of between 9% and 10% since 2012. The unweighted average price of housing is somewhat driven by the high prices in Sedona. Housing sales prices in the other Verde Valley communities are significantly lower, generally in the $250,000 to $300,000 range.
- Employment in the Verde Valley is expected to continue to grow over the next ten years despite the short-term effects of the COVID-19 pandemic during 2020. Employment is forecasted to increase from 24,300 jobs in 2019 to 28,500 jobs by 2030, an increase of approximately 4,200 jobs (an annual growth rate of 1.46%). The majority of that increase is expected to occur in Cottonwood (1,072 jobs) and Sedona (1,609 jobs).
- The predominance of job growth in the Verde Valley over the next ten years is forecasted to be in the Accommodations & Food Service industry – essentially restaurants and hotels. Health Care & Social Assistance is also forecasted for a significant increase, predominantly in Cottonwood. Other Services, primarily tourist-oriented jobs, and Retail Trade are also forecasted for significant growth. (The employment forecast is from ESRI based on available data and trends analysis.)
- As of the date of this report, Arizona has weathered the pandemic very well and is one of the leading economies in the country during the closure of the economy and recovery. The U.S. Census estimates that Arizona grew by approximately 130,000 persons in 2020.

- While air travel has been affected and has limited the number of out-of-state and out-of-country tourists visiting Arizona, visitors are likely driving from nearby states instead of flying from more distant locations. With the availability of vaccines, air travel has started to increase in 2021. Pent-up demand for travel is expected to further accelerate this year.
- While there is still some uncertainty on the effects of the pandemic on the economy, there is much greater optimism that the availability of vaccines will allow employment across Arizona to stabilize and recover in 2021. Forecasted employment growth across the Verde Valley is not expected to be affected over the long term by the 2020 pandemic.
- A common method of determining housing affordability is evaluating the relationship between household income and the cost of housing. The threshold for affordability established by HUD is a household paying a maximum of 30% of income toward housing. Across the Verde Valley, 71% of households earning less than $35,000 per year are burdened by housing costs. For renters with the same incomes, 88% are burdened by housing costs. For most communities, the housing cost burden falls upon those households making less than $50,000 per year. Throughout the Verde Valley, 36.4% of all households, more than 10,000, are considered cost burdened. This group includes many essential workers such as teachers and critical service employees such as police and fire fighters.

Table A

Verde Valley Housing Cost Burden Summary

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

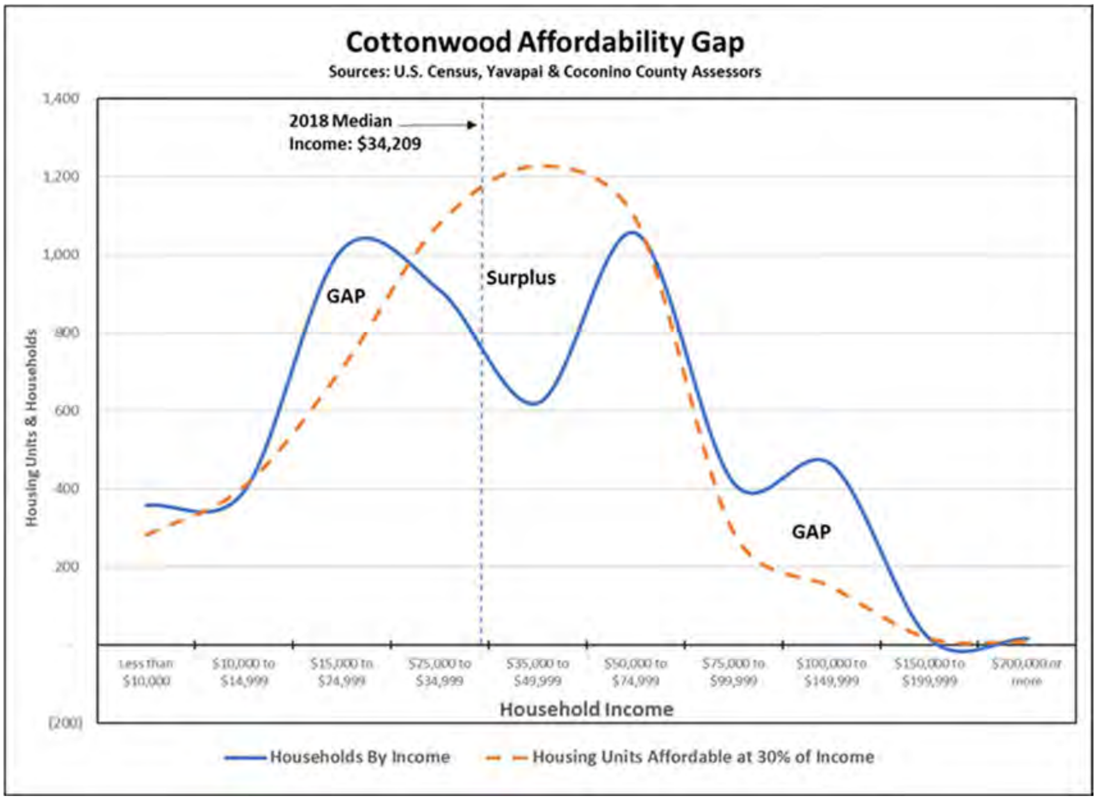
Source: 2018 American Community Survey 5-Year Estimates

- Short Term Rentals (STRs) advertised on sites such as Airbnb and Vrbo have become a significant housing issue for parts of the Verde Valley, but especially in Sedona and to some extent in the Village of Oak Creek. State legislation prevents cities and towns from regulating or prohibiting STRs. Of utmost concern with STRs is the conversion of housing units from permanent to transient use, many units which would be affordable to moderate income households. STRs can also change the character of the City's residential neighborhoods and result in the reduction of property values for the community's permanent residents. Unfortunately, STRs will be a significant part of the

Verde Valley housing inventory until legislation is enacted at the State level to regulate them. Recent STR data from various sources appears to indicate that the market has not been materially affected by the COVID-19 pandemic and the industry is currently outperforming the hotel industry.

- The affordability gap analysis prepared for this study evaluates the relationship between the household incomes of residents and the availability of housing units that are affordable to those households based on available Census data. For instance, the number of households in a community at each income level are compared to the available housing units that they can afford. The “gap” occurs where there are more households than units. A chart illustrating the Cottonwood housing affordability gap follows. The chart is representative of the housing gap that is found in most communities – a gap at the low end of the income range and one at the high end. At the low income ranges, the gap extends to those households earning below $25,000. This is the household group that cannot find housing that is affordable to them, representing the most critical need. The gap at the upper end of the income range suggests that persons of higher incomes are purchasing or renting housing units that are below the 30% affordability standard. Essentially, they do not purchase or rent units to their full income ability. The gap for Cottonwood is estimated at 370 units.

Chart A



- For the entire Verde Valley, the affordable housing gap is estimated 2,285 units or approximately 8.0% of total households. That gap primarily affects households earning less than $25,000. However for Sedona, the affordability gap affects households up to $100,000 of income. This outcome likely dictates different strategies for Sedona compared to the remainder of the Verde Valley. For instance, Sedona will need to address the housing needs of both low and moderate income households as well as middle income or workforce households including essential workers such as police, firemen, nurses, teachers, etc.

The difference in the gap analysis between Sedona and the remainder of the Verde Valley suggests that persons who work in Sedona are finding housing outside of the city. For instance, the overall gap for the Verde Valley is 2,285. However, if Sedona is separated from the Verde Valley gap, the overall gap for the remaining communities is 1,538 units. **It is therefore recommended that the affordable housing gap for the Verde Valley is comprised of the following:**

- **Sedona: 1,258 units**
- **Remainder of Verde Valley: 1,538 units**
- **Total: 2,796 units**

Table B

Housing Gap Estimate By Income Range Verde Valley							
Household Income Range	**Camp Verde**	**Clarkdale**	**Cottonwood**	**Jerome**	**Sedona**	**Uincor. County**	**Total**
Less than $10,000	(82)	(94)	(76)	(5)	(205)	(209)	**(671)**
$10,000 to $14,999	30	(146)	(64)	(0)	(512)	(546)	**(1,238)**
$15,000 to $24,999	(95)	(280)	(370)	(11)	(747)	(782)	**(2,285)**
$25,000 to $34,999	(27)	(34)	(198)	4	(972)	(606)	**(1,833)**
$35,000 to $49,999	42	(12)	409	(10)	(981)	(195)	**(746)**
$50,000 to $74,999	(57)	11	444	(7)	(1,154)	42	**(722)**
$75,000 to $99,999	9	39	316	12	(1,258)	23	**(859)**
$100,000 to $149,999	10	(86)	2	35	(943)	(112)	**(1,094)**
$150,000 to $199,999	80	71	2	15	(448)	(222)	**(501)**
$200,000 or more	4	-	(5)	0	-	(0)	**(2)**
Source: 2018 American Community Survey 5-Year Estimates							

- An additional source of affordable housing demand is the growth of employment as persons moving to the Verde Valley for work search for housing close to their place of employment. Employment growth for the Verde Valley over the next ten years is expected to reach 4,200 jobs. This employment forecast is adjusted by the percentage of dual income households and those households that would be expected to earn less than 100% of the Yavapai County area median income ($64,600). Based on those criteria, the demand for affordable units is forecasted at 1,885 units over ten years or 943 units throughout the Verde Valley over the next five years.

Table C

Affordable Housing Demand From Employment Growth		
Community	**5-Year Demand**	**Annual Demand**
Camp Verde	160	32
Clarkdale	15	3
Cottonwood	241	48
Jerome	12	2
Sedona	362	72
Unincorporated Area	151	30
Total	**943**	**189**
Source: EMSI		

<u>**Housing Affordability Summary**</u>

The final five-year affordable housing gap for the Verde Valley is a combination of:

- Addressing the current shortage of affordable housing for existing residents that is 2,796 units.
- Providing for the housing needs of low and moderate income persons who will be filling new employment opportunities within the Valley over the next five years. That demand is estimated at a total of 943 households.

In total, the five-year affordable housing demand is estimated at 3,739 units. Sedona accounts for 43% of the demand followed by the unincorporated areas at 25%.

Table D

Verde Valley Five-Year Affordable Housing Demand

Community	Existing Gap Demand	Forecasted Employment 5-Yr. Demand	Total 5-Yr. Demand	% of Total Demand
Camp Verde	95	160	255	6.8%
Clarkdale	280	15	295	7.9%
Cottonwood	370	241	611	16.3%
Jerome	11	12	23	0.6%
Sedona	1,258	362	1,620	43.3%
Unincorporated Area	782	151	933	25.0%
Total	**2,796**	**943**	**3,739**	**100.0%**

Source: EMSI

<u>**Summary Findings and Conclusions – Verde Valley Housing Survey**</u>

As part of the Verde Valley Region Housing Needs Assessment and Action Plan, an online survey was prepared by the Regional Economic Development Center at Yavapai College and distributed to persons who work or live within the region. The survey's purpose was to evaluate housing conditions in the eyes of employees, where employees live, the amounts they pay for housing, and their views on living and working in the Verde Valley. The distribution of the survey was coordinated with the Verde Valley Regional Economic Organization in partnership with the County, cities and towns in the Verde Valley, and local businesses in the community.

The survey questionnaire was divided into three sections:

- Work Environment: Questions related to type of business the employee works in, commuting patterns, where they live, and how long they have worked in the region.
- Housing Situation: What type of housing the resident lives in, the amount of rent or mortgage payment, and satisfaction with the respondent's housing situation.

- About You: Demographic information on the resident and their family including household income.
- Additional Comments: Providing survey respondents the opportunity to include additional feedback.

The survey had 1,869 individual responses. The majority of respondents were females (64%), and 85% of people were over 35 years of age. More than two-thirds of households (68%) reported two or fewer people living in the residence and four out of 10 households were single income. The median annual household income of respondents is $65,942 compared to the Arizona median income of $62,055 and Yavapai County median income of $53,816 (2019 U.S. Census data).

Key takeaways from the survey are that employees have shown longevity in working and living in the area. The majority of survey respondents have worked in the region for more than five years, have a full-time position, and travel less than 20 miles to work. A very high portion live in a single-family residence and are satisfied with their housing situation and dwelling condition. The survey shows that respondents' housing burden (both renters and owners) is below the national average. The region's challenges are:

- A lack of affordable housing,
- A lack of housing inventory in general,
- Low wages, and
- Strong concerns regarding the vacation rental sector which is depleting the housing inventory.

Table E shows the cost burden for homeowners and renters by the range of burden. The federal government has established the standard for housing cost burden as those households that spend more than 30% of household income on rent or mortgage payments. For renter households, 49.7% are paying more than 30% of their income to housing and 10.8% are severely burdened paying 50% of income toward housing. Approximately 38.0% of homeowners pay more than 30% of income toward housing, and 17.6% are severely burdened paying 50% of income toward housing. Overall, 41.0% of all households in the Verde Valley pay more than 30% of their income on housing. This level is above the national average of 30.6% of all households paying more than 30% of income on housing and above the statewide average of 29.0% for Arizona (according to the U.S. Census).

Table E

Housing Cost Burden						
	Owners		Renters		All Households	
Burden Range	**Households**	**% of Total**	**Households**	**% of Total**	**Households**	**% of Total**
Less than 30%	795	65.7%	239	57.0%	1,034	63.6%
30% to 49.9%	**247**	**20.4%**	**162**	**38.9%**	**409**	**25.1%**
50% or more	**214**	**17.6%**	**45**	**10.8%**	**259**	**15.9%**
Total	1,211	100.0%	416	100.0%	1,627	
Median Cost Burden	22.6%		22.0%		22.4%	

Additional opinions expressed in the survey include:

- 43% of renters said they plan to own a home within 2 years.
- The most common obstacles for renters to become homeowners include lack of affordable units, lack of down payment, and low income.
- The majority of all survey respondents report “very to somewhat satisfied” with current housing (72%) and describe their physical housing as “above average to excellent”.
- Survey respondents who were considering moving away from the Verde Valley cited reasons of lack of affordable housing, quality of medical resources, and low wages.
- Almost 80% of residents live in a single family or manufactured home. Another 10% live in an apartment or condominium/townhome.
- Of the survey respondents, the homeownership to renter ratio is 70% owner to 27% renter. According to the U.S. Census, the Verde Valley homeownership rate is about 69% of all households.

1.0 Introduction

The purpose of this report is to provide the communities of the Verde Valley and Yavapai County with the findings of the existing conditions analysis and housing gap assessment. The report is comprised of two sections:

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

The affordability gap is the difference between the number of households within each income range and the number of housing units affordable to those households. The "gap" typically occurs at the lower end of the income range where there are more households than affordable units. For these households to find housing in a community, they must pay more than 30% of their income toward shelter, live in substandard and/or overcrowded conditions, or find housing at some distance from their place of work. One of the standards of determining the gap is estimating the number of households that are paying more than 30% of income towards housing. Alternatively, a comparison of household incomes to housing values and rents is another method that will be used to evaluate affordable housing demand.

Included in the Appendix of this Assessment is a summary of the Verde Valley Regional Housing Survey conducted in January 2021. The survey was directed at person working in the Verde Valley to evaluate their views on housing conditions, where they live, the amounts they pay for housing, and their views on living and working in the Verde Valley. The distribution of the survey was coordinated in partnership with the Verde Valley Regional Economic Organization, Yavapai County, the cities and towns in the Verde Valley, and local businesses in the community.

2.0 Demographic & Economic Analysis

Most of the data presented in this section is a comparative analysis of the cities of the Verde Valley and the unincorporated areas of eastern Yavapai County. This provides perspective on how each community compares to its Verde Valley neighbors and the Verde Valley as a whole. Verde Valley communities include in this analysis are the incorporated municipalities of Camp Verde, Clarkdale, Cottonwood, Jerome, and Sedona as well as unincorporated areas the County where Census data is available including Cornville, Lake Montezuma, Verde Village, and Village of Oak Creek.

2.1 Demographic Profile

The 2019 population of the Verde Valley is estimated by the Arizona Office of Economic Opportunity (OEO) at 65,556 persons (Table 1). Cottonwood is the largest community in the Verde Valley followed by Camp Verde. The unincorporated area known as Verde Village also is one of the largest communities. OEO estimates prepared between the decennial census years are based on surveys, permit data, and other sources. The true resident population for the Verde Valley communities will not be known until the 2020 Census is completed with data available in 2021 and 2022.

Table 1

2019 Population & Household Estimates

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

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

Table 2 compares the historic and forecasted growth of the Verde Valley over the next 30 years. The area experienced significant growth between 1990 and 2000; over the next 30 years the Verde Valley is expected to increase by nearly 13,000 persons. Nearly one-half of that growth is expected to occur in the unincorporated areas of the Verde Valley followed by increases in Cottonwood, Sedona, and Camp Verde.

Table 2

Verde Valley Population History & Forecast							
Year	**Camp Verde**	**Clarkdale**	**Cottonwood**	**Jerome**	**Sedona**	**Unincor. County**	**Total Verde Valley**
1990	6,243	2,144	5,918	403	7,720	13,991	36,419
2000	9,451	3,422	9,179	329	10,192	22,534	55,107
2010	10,875	4,103	11,238	441	10,020	25,717	62,393
2018	11,113	4,328	12,133	447	10,305	26,352	64,678
2020	11,224	4,403	12,292	444	10,382	27,155	65,899
2030	11,612	4,669	12,857	418	10,777	29,122	69,456
2040	12,334	5,033	13,739	399	11,511	31,193	74,210
2050	13,025	5,364	14,557	372	12,333	33,083	78,734
2020-2050 Change	**1,802**	**961**	**2,265**	**(72)**	**1,951**	**5,928**	**12,835**
Source: U.S. Census Bureau; Office of Economic Opportunity							

The above population estimates and forecasts are prepared by the State Demographer who takes into account historic growth trends, housing permitting, age of the population, and similar factors. The estimates and forecasts may not account for current development proposals and projects presented to the cities and towns, some of which may affect growth prospects. This study will rely on the official forecasts from the Arizona Office of Economic Opportunity which will likely change in the future.

The average household size is the smallest in Clarkdale, Sedona and Village of Oak Creek (Table 3A). These three communities also have the highest median age – close to or above 60 years. Across the Verde Valley on average, renter-occupied units have larger households than owners, something not typically found in the demographic characteristics of a region. Normally, renters have lower household sizes because they are younger and do not have children. This factor may reflect the difficulty of finding affordable ownership housing in this part of Yavapai County.

Surprisingly, the median age of the entire Verde Valley at 52.5 years is significantly higher than the statewide median of 37.2 years. The older median age for the Verde Valley may show that it is a magnet for retirees desiring to live an environment with significant natural beauty and a moderate climate.

Table 3A

Average Household Size & Median Age				
	Household Size			Median
Community	Average	Owner	Renter	Age
Camp Verde	2.56	2.42	2.87	40.7
Clarkdale	1.89	1.82	2.03	57.3
Cottonwood	2.19	2.20	2.18	33.8
Jerome	2.03	2.24	1.58	53.8
Sedona	1.96	2.01	1.84	61.2
Cornville	2.38	2.39	2.26	54.7
Lake Montezuma	2.33	2.42	2.16	56.3
Verde Village	2.64	2.57	2.82	47.5
Village of Oak Creek	1.98	1.91	2.13	62.8
Verde Valley	**2.25**	**2.23**	**2.29**	**52.5**

Source: 2014-2018 and 2015-2019 American Community Survey 5-Year Estimates

Recently released data from the U.S. Census for 2019 shows how the demographic character of the Verde Valley has changed over the last nine years. All communities are getting older and typically there is a decrease of residents in the younger age groups in most jurisdictions. The median age of the Verde Valley population has increased from 46.8 years to 52.5 years between 2010 and 2019. The State of Arizona has experienced a similar aging of the population, but to a lesser extent. In 2010, the median age of Arizonans was 35.5; in 2019, this increased to 38.3. Table 3B shows the loss of younger households and an increase in older households throughout most of the Valley, especially in Sedona and the unincorporated areas of the Verde Valley. Overall, there was a decrease in renter households and an increase in owner households. This is consistent with the rise in homeownership since the end of the Great Recession. However, it could also signal that younger residents left the area due to the lack of jobs during the Great Recession and did not return.

The aging of the population suggests that the Verde Valley has become a retirement destination due to its mild climate and scenic beauty. However, the loss of the younger age groups also signals that it may be losing a vital component of its population which is needed to provide various services for the community. The loss of the younger demographic was noted in interviews with stakeholders in Sedona and through a survey of employees. But the loss appears to be throughout the Verde Valley if the Census data is correct. This trend could have long term impacts for school district enrollment and the filling of jobs in the local economy.

Table 3B

Tenure By Age of Householder									
	Camp Verde			Clarkdale			Cottonwood		
Age	2010	2019	Change	2010	2019	Change	2010	2019	Change
Total Households	**3,820**	**3,809**	**(11)**	**1,660**	**2,082**	**422**	**5,465**	**5,478**	**13**
Owner	2,921	2,850	(71)	1,322	1,479	157	2,637	2,680	43
Renter	899	959	60	338	603	265	2,828	2,798	(30)
15 to 24 years	198	26	**(172)**	16	2	**(14)**	384	273	**(111)**
25 to 34 years	553	388	**(165)**	86	226	140	466	569	103
35 to 44 years	507	633	**126**	160	62	**(98)**	473	613	140
45 to 54 years	616	537	**(79)**	294	201	**(93)**	855	384	**(471)**
55 to 59 years	330	295	**(35)**	116	378	262	566	539	**(27)**
60 to 64 years	340	342	2	336	26	**(310)**	408	707	299
65 to 74 years	898	852	**(46)**	333	649	316	1,057	1,332	275
75 to 84 years	264	558	294	270	462	192	807	773	**(34)**
85 years +	114	178	64	49	76	27	449	288	**(161)**
Median Age of Population	**37.3**	**40.7**		**51.6**	**57.3**		**30.8**	**33.8**	

	Jerome			Sedona			Uninc. County			Verde Valley		
Age	2010	2019	Change	2010	2019	Change	2010	2019	Change	2010	2019	Change
Total Households	**212**	**232**	**20**	**5,307**	**5,542**	**235**	**11,421**	**11,337**	**(84)**	**27,885**	**28,480**	**595**
Owner	123	160	37	3,660	4,262	602	8,212	8,516	304	18,875	19,947	1,072
Renter	89	72	(17)	1,647	1,280	(367)	3,209	2,821	(388)	9,010	8,533	(477)
15 to 24 years	4	-	**(4)**	34	59	25	331	252	**(79)**	967	612	**(355)**
25 to 34 years	23	23	**-**	393	114	**(279)**	948	811	**(137)**	2,469	2,131	**(338)**
35 to 44 years	39	13	**(26)**	583	598	15	1,495	1,063	**(432)**	3,257	2,982	**(275)**
45 to 54 years	63	37	**(26)**	930	651	**(279)**	2,169	1,747	**(422)**	4,927	3,557	**(1,370)**
55 to 59 years	62	43	**(19)**	877	739	**(138)**	1,488	1,248	**(240)**	3,439	3,242	**(197)**
60 to 64 years	12	19	7	605	618	13	1,171	1,756	585	2,872	3,468	596
65 to 74 years	7	70	63	1,131	1,769	638	2,013	2,808	795	5,439	7,480	2,041
75 to 84 years	2	27	25	525	600	75	1,271	1,233	**(38)**	3,139	3,653	514
85 years +	-	-	-	229	394	165	535	419	**(116)**	1,376	1,355	**(21)**
Median Age of Population	**45.4**	**53.8**		**54.6**	**61.2**		**47.0**	**53.4**		**46.8**	**52.5**	

Sources: ACS 2010 and 2019 5-Year Estimates

The level of education completed by the population is typically a reflection of household income and the employment characteristics of the region. Educational attainment for most Verde Valley communities, those adults with bachelor degrees or higher, is below the statewide average. Sedona residents have a high level of education with 46% of residents having a bachelor's degree or higher. Comparatively, only 22% of the remaining of Verde Valley residents have attained a bachelor's degree or higher. The unincorporated areas of the County have a relatively high level of residents with college degrees. Overall, education attainment in the Verde Valley is slightly below that found across the state of Arizona.

Table 4

Educational Attainment - Last year Completed in School Percent of Persons Age 25 and Older								
Educational Level	**Camp Verde**	**Clarkdale**	**Cottonwood**	**Jerome**	**Sedona**	**Unincor. County**	**Total Verde Valley**	**Arizona**
Population 25 years and over	**7,953**	**3,780**	**8,429**	**384**	**8,983**	**20,877**	**50,406**	**4,516,175**
Less than 9th grade	396	154	427	11	227	637	1,852	267,198
9th to 12th grade, no diploma	821	69	808	-	231	1,410	3,339	342,451
High school graduate	2,255	1,201	2,873	87	1,501	5,124	13,041	1,091,339
Some college, no degree	2,430	1,243	2,274	146	2,086	6,430	14,609	1,143,553
Associate's degree	480	334	756	52	823	2,017	4,462	386,977
Bachelor's degree	1,121	412	775	62	2,255	2,685	7,310	802,435
Graduate or professional degree	450	367	516	26	1,860	2,574	5,793	482,222
Percent of Total								
Less than 9th grade	5.0%	4.1%	5.1%	2.9%	2.5%	3.1%	3.7%	5.9%
9th to 12th grade, no diploma	10.3%	1.8%	9.6%	0.0%	2.6%	6.8%	6.6%	7.6%
High school graduate	28.4%	31.8%	34.1%	22.7%	16.7%	24.5%	25.9%	24.2%
Some college, no degree	30.6%	32.9%	27.0%	38.0%	23.2%	30.8%	29.0%	25.3%
Associate's degree	6.0%	8.8%	9.0%	13.5%	9.2%	9.7%	8.9%	8.6%
Bachelor's degree	14.1%	10.9%	9.2%	16.1%	25.1%	12.9%	14.5%	17.8%
Graduate or professional degree	5.7%	9.7%	6.1%	6.8%	20.7%	12.3%	11.5%	10.7%

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

As expected, household incomes in Sedona are higher than every other community in the Verde Valley. Average incomes, which are skewed by high income households, are significantly higher in Sedona; average incomes in the Village of Oak Creek are nearly as high in Sedona. The high incomes in Sedona and Oak Creek are a reflection of the natural and historic characteristics of the communities which attract above-average income individuals to work, live, and retire there.

Table 5

Median & Average Household Incomes		
Municipalities	**Median Income**	**Average Income**
Camp Verde	$40,000	$52,849
Clarkdale	$48,685	$60,577
Cottonwood	$34,209	$46,138
Jerome	$43,523	$67,519
Sedona	$60,015	$85,574
Unicorporated Areas		
Cornville	$54,400	$68,065
Lake Montezuma	$40,892	$49,065
Verde Village	$49,935	$65,150
Village of Oak Creek	$56,263	$84,379
Total Verde Valley	$47,558	$64,390

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

Despite relatively high incomes in parts of the Verde Valley, there are still families and households that have very modest incomes. According to the Census, 37% of households in the Verde Valley earn less than $35,000 per year. In some communities, the percentage is even higher including 45% in Camp Verde and 51% in Cottonwood. These are the households that are most vulnerable to increases in housing values and rents.

Table 6

Household Income By Income Range							
Income	Camp Verde	Clarkdale	Cottonwood	Jerome	Sedona	Unincor. County	Total Verde Valley
Less than $25,000	1,242	666	1,765	78	1,128	2,269	7,148
$25,000 to $34,999	534	114	909	9	513	1,327	3,406
$35,000 to $49,999	625	434	620	33	599	1,951	4,262
$50,000 to $74,999	803	490	1,056	35	1,112	2,473	5,969
$75,000 to $99,999	261	127	415	16	711	1,199	2,729
$100,000 to $149,999	348	294	462	20	583	1,327	3,034
$150,000 to $199,999	40	31	16	21	203	525	836
$200,000 or more	99	71	16	15	497	343	1,042
Total	3,956	2,226	5,253	227	5,348	11,414	28,424
Percent of Total							
Less than $25,000	31.4%	29.9%	33.6%	34.3%	21.1%	19.9%	25.1%
$25,000 to $34,999	13.5%	5.1%	17.3%	4.0%	9.6%	11.6%	12.0%
$35,000 to $49,999	15.8%	19.5%	11.8%	14.5%	11.2%	17.1%	15.0%
$50,000 to $74,999	20.3%	22.0%	20.1%	15.4%	20.8%	21.7%	21.0%
$75,000 to $99,999	6.6%	5.7%	7.9%	7.0%	13.3%	10.5%	9.6%
$100,000 to $149,999	8.8%	13.2%	8.8%	8.8%	10.9%	11.6%	10.7%
$150,000 to $199,999	1.0%	1.4%	0.3%	9.3%	3.8%	4.6%	2.9%
$200,000 or more	2.5%	3.2%	0.3%	6.6%	9.3%	3.0%	3.7%

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

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

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

The estimates of low and moderate-income households for Yavapai County are shown on Table 7. The data is somewhat dated as of 2017, but the most current information available from HUD. In 2017, the median household income was estimated at $54,800. Combined, 38.9% of the County's households are classified as low-income or 36,645 households.

Table 7

Low & Moderate Income Households Yavapai County			
% of Median Household Income	Income for Household of 4	Total Households	% of Total Households
0%-30%	$0 - $16,440	9,695	10.3%
30%-50%	$16,441 - $27,400	11,010	11.7%
50%-80%	$27,401 - $43,840	15,940	16.9%
80%-100%	$43,841 - $54,800	10,345	11.0%
>100%	$54,801+	47,360	50.2%
Total		**94,345**	

Sources: U.S. Censuse 2013-2017 ACS, HUD CHAS Dataset

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

Table 8

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

Source: U.S. Federal Register

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

Valley communities' poverty levels are above the statewide average. Approximately 10,430 persons or 16.3% of the Verde Valley population is considered to live in poverty in 2017.

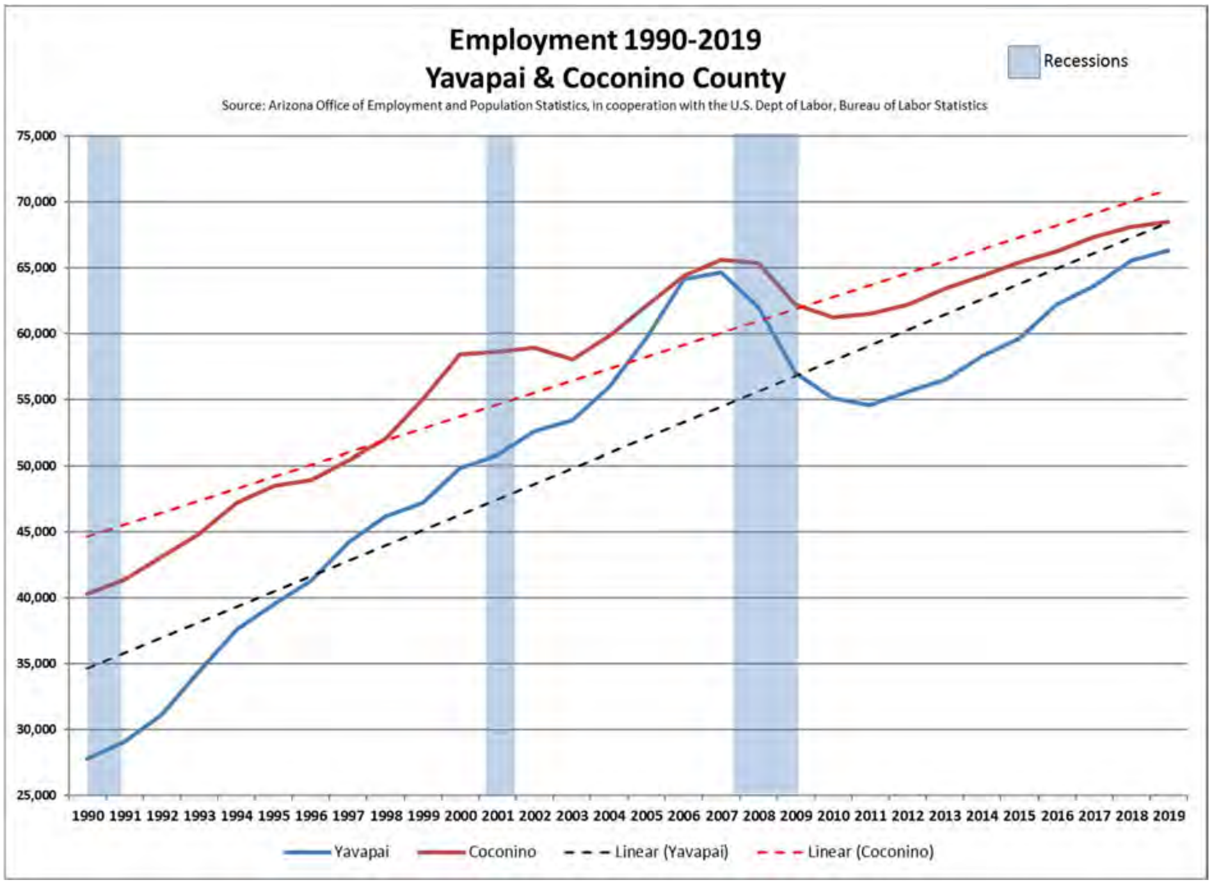
Table 9

Poverty		
Jurisdiction	Persons in Poverty	% of Total Population
Camp Verde	2,390	22.8%
Clarkdale	586	14.0%
Cottonwood	2,356	20.4%
Jerome	56	13.0%
Sedona	1,118	10.9%
Cornville	211	6.7%
Lake Montezuma	1,029	20.5%
Verde Village	2,228	17.9%
Village of Oak Creek	456	7.1%
Total Verde Valley	**10,430**	**16.3%**
Arizona	**1,128,046**	**17.3%**
Source: 2013-2017 American Community Survey 5-Year Estimates		

2.2 Economic Profile

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

Chart 1



The following table illustrates the location quotient (LQ) for Yavapai County compared to the state of Arizona. The LQ is a simple method for determining the local or regional specialization of an economy compared to a state or the country. The LQ identifies industries or occupations that stand out due to their above average per capita employment. Industries with a high LQ are usually those that are exporting an above average amount of good and services out of the community and are therefore net importers of dollars. An LQ is calculated by dividing the percentage of jobs in each industry in the local economy, in this case Yavapai County, by the percentage of jobs in the Arizona economy. An LQ above 1.0 indicates local strength in that industry; the reverse is true for LQs below 1.0.

The economy of Yavapai County with 66,300 jobs has a high LQ in goods producing industries and a slightly below average LQ in service providing industries. The County's LQ is particularly high in Mining and Construction. In service providing industries, the County has high LQs in Education and Health Services and Leisure and Hospitality. In particular, the Leisure and Hospitality industry is considered an "export" industry because it brings dollars from outside the region into the

County. The County also has a high level of government employment which is typically found in the non-urban areas of the state.

Table 10

Employment by Type 2019 Yavapai County & Arizona					
	Yavapai County		Arizona (1,000's)		Location
Job Type	**Jobs**	**% of Total**	**Jobs**	**% of Total**	**Quotient**
Total Nonfarm Employment	**66,300**		**2,930.8**		
Goods Producing	**10,400**	**15.7%**	**366.0**	**12.5%**	**1.26**
Mining & Construction	6,300	9.5%	188.5	**6.4%**	**1.48**
Manufacturing	4,100	6.2%	177.6	**6.1%**	**1.02**
Service-Providing	**55,900**	**84.3%**	**2,564.8**	**87.5%**	**0.96**
Trade, Transportation, and Utilities	12,300	18.6%	545.0	18.6%	**1.00**
Information	500	0.8%	47.4	1.6%	**0.47**
Financial Activities	2,000	3.0%	222.5	7.6%	**0.40**
Professional and Business Services	4,500	6.8%	441.0	15.0%	**0.45**
Educational and Health Services	13,000	19.6%	465.0	15.9%	**1.24**
Leisure and Hospitality	10,900	16.4%	331.9	11.3%	**1.45**
Other Services	2,200	3.3%	95.3	3.3%	**1.02**
Government	**10,500**	**15.8%**	**416.7**	**14.2%**	**1.11**
Federal Government	1,500	2.3%	56.6	1.9%	**1.17**
State and Local Government	9,000	13.6%	360.1	12.3%	**1.10**

Source: Arizona Office of Economic Opportunity

A further analysis of the economy of the Verde Valley is provided on Table 10A. The data collected from the Maricopa Association of Governments (MAG) illustrates the strengths of the local economy by industry cluster using the Location Quotient analysis. The table shows above average employment in consumer services (defined as restaurants, auto repair, and personal services such as salons, spas, etc.), government, health care, hospitality and tourism, media and publishing, and retail services. The Verde Valley is very low in the industry clusters of business services, manufacturing, telecommunications, and transportation & distribution.

Table 10A

Employment By Industry Cluster
Verde Valley Vs. State of Arizona

Cluster	Verde Valley Employees	Verde Valley % of Total	Arizona (1,000s) Employees	Arizona (1,000s) % of Total	Location Quotient
Business Services	1,096	4.2%	298,840	12.0%	0.35
Construction	1,730	6.6%	164,910	6.6%	1.00
Consumer Goods Manufacturing	128	0.5%	29,700	1.2%	0.41
Consumer Services	3,360	12.9%	274,050	11.0%	1.17
Education	2,060	7.9%	206,240	8.3%	0.95
Finance, Insurance, & Real Estate (FIRE)	1,212	4.6%	179,890	7.2%	0.64
Government, Social, & Advocacy Services	2,800	10.7%	261,570	10.5%	1.02
Health Care	3,797	14.6%	270,510	10.9%	1.34
High Tech Manufacturing & Development	205	0.8%	105,680	4.3%	0.19
Hospitality, Tourism & Recreation	4,445	17.1%	111,140	4.5%	3.81
Media, Publishing & Entertainment	339	1.3%	20,720	0.8%	1.56
Metal Inputs & Transportation-Related Manuf.	46	0.2%	29,010	1.2%	0.15
Non-Metallic Manufacturing	156	0.6%	27,990	1.1%	0.53
Resource-Dependent Activities	315	1.2%	41,610	1.7%	0.72
Retail	3,480	13.3%	281,390	11.3%	1.18
Telecommunications	90	0.3%	25,880	1.0%	0.33
Transportation & Distribution	810	3.1%	157,090	6.3%	0.49
Totals	**26,069**	**100.0%**	**2,486,220**	**100.0%**	

Source: 2019 Arizona COG/MPO Employer Database limited to employers with 5 or more employees.

The Strategic Plan produced for the Verde Valley Regional Economic Organization (VVREO) in 2017 identified six industry clusters that have been identified as targets for the Verde Valley based on existing industry concentrations, supply chain opportunities, and growth potential. The target industries are also identified to promote the diversity of the local economy and improve wage levels for local employees. The target industries include:

- Agriculture and food processing
- Advanced manufacturing
- Business and professional services
- Healthcare services
- Hospitality and tourism
- Information technology and telecommunications

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

Table 11

Unemployment Rate

Year	Arizona	Yavapai County	Camp Verde	Clarkdale	Cottonwood	Jerome	Sedona
2012	8.3%	8.6%	9.9%	13.6%	8.7%	5.4%	7.1%
2013	7.7%	7.7%	8.9%	12.3%	7.8%	5.0%	6.6%
2014	6.8%	6.4%	7.4%	10.5%	7.1%	7.4%	6.3%
2015	6.1%	5.6%	6.5%	9.3%	6.3%	6.6%	5.7%
2016	5.4%	4.9%	5.7%	8.3%	5.5%	5.7%	5.2%
2017	4.9%	4.5%	5.3%	7.6%	5.1%	5.2%	4.7%
2018	4.8%	4.5%	5.2%	7.5%	5.0%	5.1%	4.7%
2019	4.8%	4.5%	5.3%	7.6%	5.0%	5.2%	4.6%
2020 Average Through Oct.	**7.9%**	**7.4%**	**6.0%**	**11.3%**	**6.6%**	**11.4%**	**7.8%**
Oct. 2020	**7.9%**	**6.9%**	**5.6%**	**10.6%**	**6.2%**	**10.7%**	**7.3%**

Source: Arizona Office of Economic Opportunity

The occupations of Verde Valley employees are spread across a number of categories with the most employed in management, business, science, and arts occupations. Sedona and Clarkdale employees are heavily oriented toward the management, business, science, and arts occupations. Cottonwood has the highest percentage of service occupations, likely tied to its dominance as the retail center of the Verde Valley.

Table 12

Employment by Occupation

Occupation	Camp Verde	Clarkdale	Cottonwood	Jerome	Sedona	Uninc. Area	Verde Valley
Civilian employed population 16 years and over	3,969	1,722	4,823	248	4,516	10,417	25,695
Management, business, science, and arts	23.3%	53.3%	25.5%	37.1%	40.9%	31.7%	32.4%
Service	25.9%	14.6%	35.4%	19.4%	21.6%	26.1%	26.2%
Sales and office	23.7%	17.2%	22.2%	27.4%	26.8%	23.7%	23.6%
Natural resources, construction, and maintenance	15.3%	3.5%	8.8%	2.8%	4.3%	11.2%	9.6%
Production, transportation, and material moving	11.7%	11.4%	8.2%	13.3%	6.3%	7.3%	8.3%

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

Table 13 from the U.S. Census measures the commute time of a community's residents. The average commute time for Verde Valley residents is about 24 minutes. The only community with a commute time under 20 minutes is Sedona. This implies that many of the residents of Sedona live and work in the community. The commute times of other jurisdictions indicate that most people drive some distance to work including those that may commute to Sedona. Overall, these commute times are consistent with the times found in the urban areas of the state.

Table 13

Average Travel Time to Work

Jurisdiction	Minutes
Camp Verde	22.8
Clarkdale	23.8
Cottonwood	23.1
Jerome	21.5
Sedona	16.4
Uninc. Area	27.6
Verde Valley	**23.7**

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

The U.S. Census Bureau produces a model that estimates commuting patterns of residents for counties and cities. The data is somewhat dated from 2017 but provides some indication of where residents live and work. The following table shows the inflow and outflow of all jobs for the cities of Sedona and Cottonwood as an example of commuting patterns.

For Cottonwood, 77% of the City's residents leave the community each day for work. The Census model shows that most work in Sedona, Phoenix, and Flagstaff. Likewise, 77% of the persons who work in Cottonwood commute into the community each day from other locations. Most come from Verde Village, Prescott Valley and Camp Verde. Less than one-quarter of the residents of Cottonwood live and work in the city.

In total, of the 5,979 persons working in Sedona, only 25.8% or 1,544 persons live in the City. The remaining 74.2% of workers (4,435 persons) live outside Sedona and commute in. Verde Village, Cottonwood, and Village of Oak Creek are the three primary areas where Sedona workers live. Of the 3,725 working persons who live in City of Sedona, 2,181 leave the city for work while 1,544 live and work in the city. Over 40% of all working adults who live in the Sedona also work in Sedona.

Table 14

Inflow/Outflow Job Counts 2017					
City of Sedona					
Where Sedona Workers Live			Where Sedona Residents Are Employed		
Place	Count	Share	Place	Count	Share
All Places	**5,979**	**100.0%**	**All Places**	**3,725**	**100.0%**
Sedona	1,544	25.8%	Sedona	1,544	41.4%
Verde Village	637	10.7%	Phoenix	418	11.2%
Cottonwood	615	10.3%	Flagstaff	211	5.7%
Village of Oak Creek	475	7.9%	Scottsdale	115	3.1%
Camp Verde	252	4.2%	Cottonwood	90	2.4%
Flagstaff	237	4.0%	Tempe	80	2.1%
Phoenix	208	3.5%	Village of Oak Creek	74	2.0%
Cornville	198	3.3%	Prescott	64	1.7%
Lake Montezuma	132	2.2%	Camp Verde	56	1.5%
Prescott Valley	106	1.8%	Mesa	46	1.2%
All Other Locations	1,575	26.3%	All Other Locations	1,027	27.6%
City of Cottonwood					
Where Cottonwood Workers Live			Where Cottonwood Residents Are Employed		
Place	Count	Share	Place	Count	Share
All Places	**4,607**	**100.0%**	**All Places**	**4,535**	**100.0%**
Cottonwood	1,046	22.7%	Cottonwood	1,046	23.1%
Verde Village	955	20.7%	Sedona	564	12.4%
Prescott Valley	246	5.3%	Phoenix	513	11.3%
Camp Verde	206	4.5%	Flagstaff	344	7.6%
Flagstaff	168	3.6%	Prescott	209	4.6%
Phoenix	158	3.4%	Scottsdale	182	4.0%
Clarkdale	156	3.4%	Camp Verde	157	3.5%
Cornville	152	3.3%	Verde Village	127	2.8%
Sedona	82	1.8%	Prescott Valley	116	2.6%
Prescott	78	1.7%	Clarkdale	91	2.0%
All Other Locations	1,360	29.5%	All Other Locations	1,186	26.2%
Source: U.S. Census Bureau's OntheMap					

Employment in the Verde Valley is expected to continue to grow over the next ten years despite the short-term effects of the COVID-19 pandemic during 2020. Forecasts prepared prior to the pandemic expected the region to grow at an annual rate of 1.46% through 2030. Employment is forecasted to increase from 24,300 jobs in 2019 to 28,500 jobs by 2030, an increase of approximately 4,200 jobs. The majority of that increase is expected to occur in Cottonwood (1,072 jobs) and Sedona (1,609 jobs). While there is still some uncertainty on the effects of the pandemic on the economy, there is much greater optimism that the availability of vaccines will allow employment across Arizona to stabilize and recover in 2021. In Sedona, the tourism market does not appear to be affected by the pandemic and sales tax receipts have recovered. Planned hotel projects still appear to be moving forward. Forecasted employment growth across the Verde Valley is not expected to be affected over the long term by the 2020 pandemic.

Chart 2

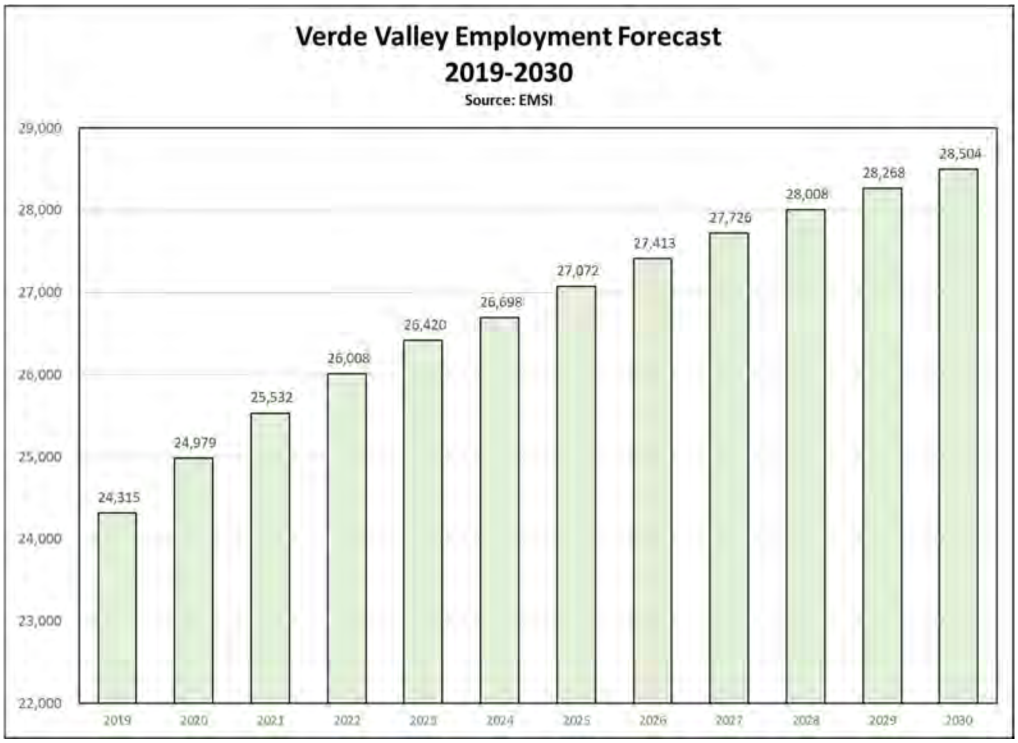
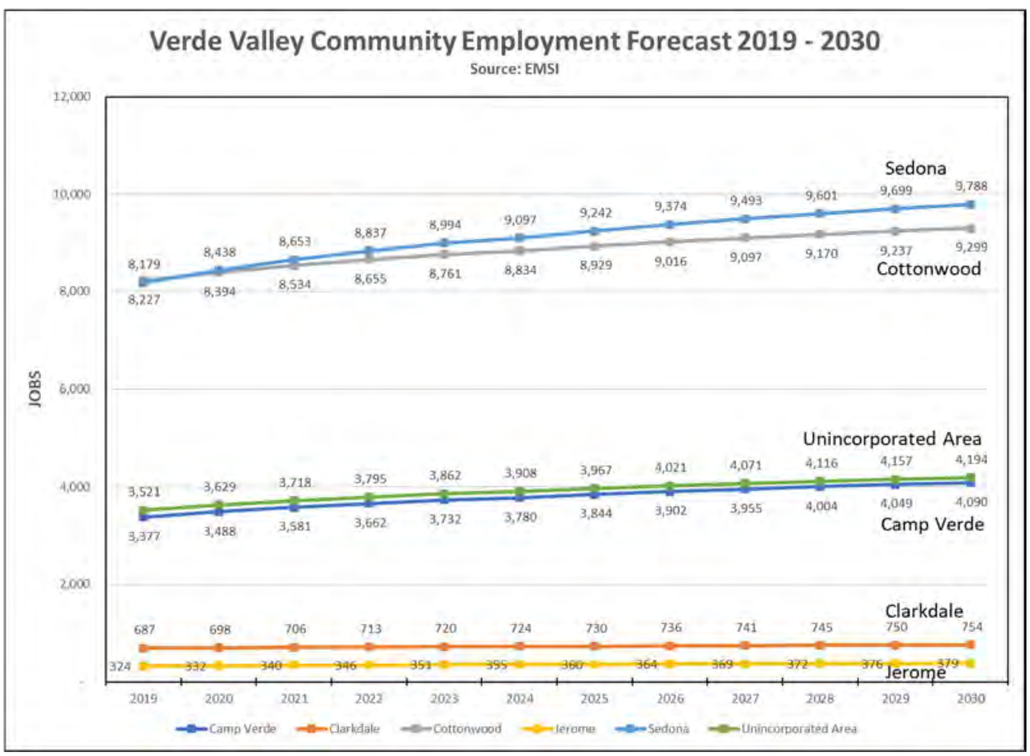


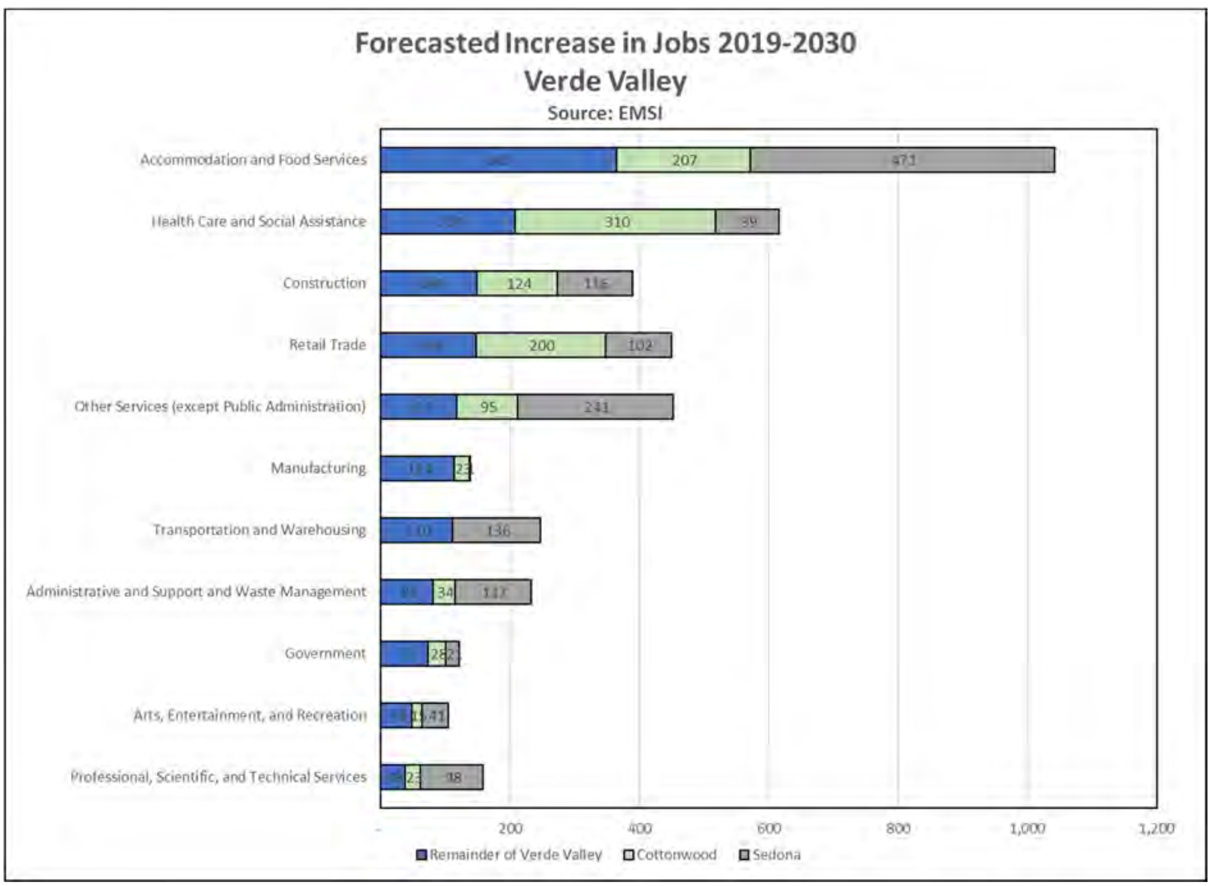
Chart 3



The predominance of job growth in the Verde Valley over the next ten years is forecasted to be in the Accommodations & Food Service industry – essentially restaurants and hotels. Health Care & Social Assistance is also forecasted for a significant increase, predominantly in Cottonwood. Other Services, primarily tourist-oriented jobs, and Retail Trade are also forecasted for significant growth. The source of the employment forecast is ERSI based on current trends. However, economic development efforts by the Verde Valley Regional Economic Organization (VVREO) and local communities anticipate a different mix of job growth in the future that will diversify the local economy.

As of the date of this report, Arizona has weathered the pandemic very well and is one of the leading economies in the country during the closure of the economy and recovery. The U.S. Census estimates that Arizona grew by approximately 130,000 persons in 2020. While air travel has been affected and has limited the number of out-of-state and out-of-country tourists visiting Arizona, visitors are likely driving from nearby states instead of flying from more distant locations. With the availability of vaccines, air travel has started to increase in 2021. Pent-up demand for travel is expected to further accelerate this year.

Chart 4



2.3 Summary

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

- The Verde Valley region is forecasted by the Arizona Office of Economic Opportunity to grow from its 2020 population of 65,900-person population to 78,835 over the next 30 years. Nearly one-half of that growth is expected to occur in the unincorporated areas of the Verde Valley followed by increases in Cottonwood, Sedona, and Camp Verde.
- As expected, Sedona and the Village of Oak Creek have the highest median and average household incomes in the Verde Valley, reflecting the natural attributes of those communities and the desire of persons to retire there. The median income for the Verde Valley at $47,500 is typical for the non-urban parts of the state.
- The education level of the population of the Verde Valley is slightly below the statewide average. Sedona has the highest level of persons with bachelor's degrees and higher.
- Poverty in the Verde Valley is below the statewide average. However, several Verde Valley communities' poverty levels are above the statewide average. Approximately 10,430 persons or 16.3% of the Verde Valley population is considered to live in poverty in 2017.
- Yavapai County's strongest industries are in Mining and Construction, Educational and Health Services, and Leisure and Hospitality. It appears that most of the goods producing jobs in Yavapai County are located in the Prescott area. Leisure and Hospitality is an important export industry for the County's communities.
- Employee commuting patterns are considered an important indicator of the difficulty in finding affordable housing. For Sedona, 75% of those employees who work in the city live in another community. The same pattern of commuting is found in Cottonwood where 77% of the City's residents leave the community each day for work. Less than one-quarter of the residents of Cottonwood live and work in the city.
- Employment in the Verde Valley is expected to continue to grow over the next ten years despite the short-term effects of the COVID-19 pandemic during 2020. Employment is forecasted to increase from 24,300 jobs in 2019 to 28,500 jobs by 2030, an increase of approximately 4,200 jobs (forecast from ESRI). The majority of that increase is expected to occur in Cottonwood (1,072 jobs) and Sedona (1,609 jobs). While there is still some uncertainty on the effects of the pandemic on the economy, there is much greater optimism that the availability of vaccines will allow employment across Arizona to stabilize and recover in 2021. Forecasted employment growth across the Verde Valley is not expected to be affected over the long term by the 2020 pandemic.

3.0 Housing Conditions & Trends

The best available housing data for non-urban areas of the state comes from the American Community Survey of the U.S. Census. The data has been compiled from the 2014-2018 and 2015-2019 Five Year Estimates. Five Year estimates are the only data available for areas with smaller populations where there are too few households to provide a reliable survey estimate. To compute the estimates, the Census pools survey responses for the entire five-year period and applies measures to account for changes in geography, value of the dollar, margins of error, and similar factors.

Throughout most of this section, data will be shown for the all the cities and towns in the Verde Valley, the unincorporated parts of the Verde Valley and the entire Verde Valley. The Verde Valley communities include Camp Verde, Clarkdale, Cottonwood, Jerome and Sedona. The unincorporated areas of the Valley include Cornville, Lake Montezuma, Verde Village, and the Village of Oak Creek.

3.1 Housing Occupancy

According to the Census, there are 33,326 housing units in the Verde Valley of which 4,902 are considered vacant. Vacancy data from the Census has often been questioned for its accuracy and the estimate of nearly 15% of the Valley inventory considered as vacant may be inaccurate or misunderstood. Vacant units can include seasonal housing, abandoned units, units that are vacant but for sale, units that are available for rent but are currently vacant, and similar conditions. Sedona has the highest vacancy rate of 21.2%, well above the Verde Valley average. The largest number of vacant units, 2,210 units, is in the unincorporated areas.

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

Of note is the number of seasonal or recreational units in Sedona and the unincorporated areas of the Verde Valley. In Sedona, 64.5% of all vacant units are listed as seasonal or 928 units. The unincorporated areas show even more seasonal units at 1,255. The majority of these units are in the Village of Oak Creek. A total of 8.4% of the region’s housing units are considered seasonal compared with the statewide average of 6.4%. This data likely understates the true seasonal characteristic of the housing market since other occupied units may be used seasonally as well. The seasonal units correlate with the higher median age of residents found in the Verde Valley.

Table 15

Total Housing Units														
	Camp Verde		Clarkdale		Cottonwood		Jerome		Sedona		Uninc. Area		Verde Valley	
Occupancy Status	Units	%	Units	%	Units	%	Units	%	Units	%	Units	%	Units	%
Total Units	**4,488**		**2,267**		**5,887**		**272**		**6,788**		**13,624**		**33,326**	
Occupied	**3,956**	**88.1%**	**2,226**	**98.2%**	**5,253**	**89.2%**	**227**	**83.5%**	**5,348**	**78.8%**	**11,414**	**83.8%**	**28,424**	**85.3%**
Vacant	**532**	**11.9%**	**41**	**1.8%**	**634**	**10.8%**	**45**	**16.5%**	**1,440**	**21.2%**	**2,210**	**16.2%**	**4,902**	**14.7%**
For rent	132	24.8%	-	0.0%	-	0.0%	3	6.3%	155	10.7%	248	11.2%	537	11.0%
Rented, not occupied	2	0.4%	-	0.0%	-	0.0%	3	6.3%	32	2.2%	109	4.9%	146	3.0%
For sale only	45	8.4%	-	0.0%	25	4.0%	-	0.0%	159	11.1%	153	6.9%	382	7.8%
Sold, not occupied	-	0.0%	-	0.0%	74	11.7%	-	0.0%	-	0.0%	-	0.0%	74	1.5%
For seasonal, recreational use	162	30.5%	41	100.0%	372	58.7%	26	58.3%	928	64.5%	1,255	56.8%	2,786	56.8%
For migrant workers	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	32	1.5%	32	0.7%
Other vacant	191	35.9%	-	0.0%	162	25.6%	13	29.2%	166	11.5%	412	18.6%	944	19.3%
Seasonal Units % of Total Units		**3.6%**		**1.8%**		**6.3%**		**9.7%**		**13.7%**		**9.2%**		**8.4%**

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

The Verde Valley housing inventory is similar in several ways to the statewide inventory. Overall, the percentage of single family homes in the Verde Valley at 64.6% is about equal to the statewide 64.0% figure. Where the inventory differs is in mobile homes and apartments.

- Approximately 18.5% of all housing units in the Valley are mobile homes compared to the Arizona average of 10.5%. This percentage for the Verde Valley, however, is likely consistent to what is found in the non-urban parts of the state. Mobile homes comprise a high percentage of units Camp Verde, Cottonwood, and the unincorporated areas of the Valley. Even Sedona has 902 mobile homes.
- The inventory of traditional apartment units in the Verde Valley (5 or more units in a building as shown on Table 16) is very low. Across Arizona, these units account for nearly 16% of all units. In the Verde Valley, they only total 6.2% of all units. In most communities the percentage is even lower (2.0% in Camp Verde and 4.7% in Sedona). Only Cottonwood has a reasonable percentage of apartment units at 14.4% of the housing inventory. The City has 846 apartment units; the entire Verde Valley only has 2,064 apartment units. The lack of apartments restricts the ability of low and moderate income households to find housing in the Verde Valley. Most households likely resort instead to renting mobile homes.

Table 16

Total Housing Units by Unit Type														
	Camp Verde		Clarkdale		Cottonwood		Jerome		Sedona		Uninc. Area		Verde Valley	
Unit Type	Units	%	Units	%	Units	%	Units	%	Units	%	Units	%	Units	%
Total housing units	**4,488**		**2,267**		**5,887**		**272**		**6,788**		**13,624**		**33,326**	
1-unit, detached	2,858	63.7%	1,564	69.0%	2,911	49.4%	197	72.4%	4,976	73.3%	9,033	66.3%	21,539	64.6%
1-unit, attached	105	2.3%	202	8.9%	305	5.2%	13	4.8%	253	3.7%	412	3.0%	1,290	3.9%
2 units	-	0.0%	213	9.4%	468	7.9%	24	8.8%	193	2.8%	424	3.1%	1,322	4.0%
3 or 4 units	158	3.5%	110	4.9%	189	3.2%	21	7.7%	129	1.9%	231	1.7%	838	2.5%
5 to 9 units	48	1.1%	-	0.0%	287	4.9%	7	2.6%	139	2.0%	259	1.9%	740	2.2%
10 to 19 units	32	0.7%	-	0.0%	237	4.0%	-	0.0%	83	1.2%	235	1.7%	587	1.8%
20 or more units	12	0.3%	-	0.0%	322	5.5%	4	1.5%	94	1.4%	305	2.2%	737	2.2%
Mobile home	1,237	27.6%	178	7.9%	1,168	19.8%	6	2.2%	902	13.3%	2,669	19.6%	6,160	18.5%
Boat, RV, van, etc.	38	0.8%	-	0.0%	-	0.0%	-	0.0%	19	0.3%	56	0.4%	113	0.3%

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

Depending on the age of mobile home units, some may pose health and safety hazards for residents if built before June 1976 when HUD established minimum standards for construction. According to the U.S. Census, of the 5,264 occupied mobile homes in the Verde Valley, 1,471 (27.9%) were built before 1979. In addition, there are another 896 units that are considered vacant, but data on their age is not available from the Census. In Sedona, that percentage of units built before 1979 is even higher at 50.3%. It is likely that most of these units do not meet the current construction standards for mobile homes and some may be unsuitable for habitation. However, the units do provide housing for low and moderate income households.

Table 17

Occupied Mobile Home Inventory by Year Built							
Year Built	Camp Verde	Clarkdale	Cottonwood	Jerome	Sedona	Uninc. Area	Verde Valley
Mobile Homes	1,081	138	978	6	829	2,232	5,264
Before 1979	320	-	138	6	417	590	1,471
% Before 1979	**29.6%**	**0.0%**	**14.1%**	**100.0%**	**50.3%**	**26.4%**	**27.9%**

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

Homeownership in the Verde Valley is above the statewide average of 63.6%. However, Cottonwood has a very low homeownership rate of 48.3% according to the U.S. Census. Sedona, Camp Verde, and the unincorporated areas have ownership rates above 70%.

Household size across the Valley is relatively consistent although Clarkdale, Jerome, and Sedona have average household sizes below 2.0 persons per household. For Sedona, the average size of the City's households is not unexpected given the average age and household income of the residents.

Table 18

Housing Tenure and Household Size							
Tenure	**Camp Verde**	**Clarkdale**	**Cottonwood**	**Jerome**	**Sedona**	**Uninc. Area**	**Verde Valley**
Occupied housing units	**3,956**	**2,226**	**5,253**	**227**	**5,348**	**11,414**	**28,424**
Owner-occupied	2,863	1,529	2,535	138	4,113	8,634	19,812
% Owner-occupied	72.4%	68.7%	48.3%	60.8%	76.9%	75.6%	69.7%
Renter-occupied	1,093	697	2,718	89	1,235	2,780	8,612
% Renter-occupied	27.6%	31.3%	51.7%	39.2%	23.1%	24.4%	30.3%
Avg household size owner-occupied unit	2.47	1.89	2.30	2.17	1.98	2.32	2.24
Avg household size renter-occupied unit	3.05	1.96	2.15	1.64	1.75	2.40	2.27

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

Approximately one-half of the housing stock in the Verde Valley was built since 1990. Sedona has one of the oldest housing inventories with more than 60% of its units built before 1990. Camp Verde, Clarkdale, and Cottonwood all have a much newer housing inventory.

Table 19

Year Structure Built														
	Camp Verde		**Clarkdale**		**Cottonwood**		**Jerome**		**Sedona**		**Uninc. Area**		**Verde Valley**	
Year Built	**Units**	**%**	**Units**	**%**	**Units**	**%**	**Units**	**%**	**Units**	**%**	**Units**	**%**	**Units**	**%**
Total housing units	**4,488**		**2,267**		**5,887**		**272**		**6,788**		**13,624**		**33,326**	
2014 or later	60	1.3%	17	0.7%	123	2.1%	-	0.0%	49	0.7%	66	0.5%	315	0.9%
2010 to 2013	102	2.3%	12	0.5%	56	1.0%	-	0.0%	60	0.9%	131	1.0%	361	1.1%
2000 to 2009	1,037	23.1%	292	12.9%	1,480	25.1%	26	9.6%	803	11.8%	3,317	24.3%	6,955	20.9%
1990 to 1999	1,228	27.4%	784	34.6%	1,665	28.3%	10	3.7%	1,725	25.4%	3,512	25.8%	8,924	26.8%
1980 to 1989	698	15.6%	436	19.2%	693	11.8%	21	7.7%	1,561	23.0%	3,431	25.2%	6,840	20.5%
1970 to 1979	802	17.9%	111	4.9%	1,019	17.3%	25	9.2%	1,618	23.8%	2,044	15.0%	5,619	16.9%
1960 to 1969	370	8.2%	89	3.9%	394	6.7%	-	0.0%	534	7.9%	606	4.4%	1,993	6.0%
1950 to 1959	65	1.4%	202	8.9%	193	3.3%	10	3.7%	340	5.0%	177	1.3%	987	3.0%
1940 to 1949	64	1.4%	18	0.8%	98	1.7%	-	0.0%	88	1.3%	109	0.8%	377	1.1%
1939 or earlier	62	1.4%	306	13.5%	166	2.8%	180	66.2%	10	0.1%	231	1.7%	955	2.9%
Total Since 1990	**2,427**	**54.1%**	**1,105**	**48.7%**	**3,324**	**56.5%**	**36**	**13.2%**	**2,637**	**38.8%**	**7,026**	**51.6%**	**16,555**	**49.7%**

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

Short Term Rentals (STRs)

Over the past three years, short term rentals advertised on sites such as Airbnb and Vrbo have become a significant housing issue for many residents of the Verde Valley. Unfortunately, there is little a municipality can do to regulate STRs. SB1350 became law in January 2017 and preempted cities and towns from prohibiting and regulating STRs. Since that time, STRs have proliferated in Arizona, particularly in tourist-oriented communities. In Sedona for instance, a total of 744 verified listings were noted in mid-2019, excluding hotels, lodges, B&Bs, and timeshare properties. This STR inventory represents approximately 11% of all housing units in Sedona (although some STRs advertised on websites include RVs, tents, and cave dwellings). Through other legislation, Sedona is able to place a sales tax on STRs and require owners to post emergency contact information on the properties. Sedona is also creating a hot line for residents to lodge complaints about the use of STRs.

STRs are found throughout the Verde Valley and present a variety of negative impacts for local communities. These include illegal conversions of buildings to residential use, the lack of parking for homes that can accommodate large tourist groups, the introduction of commercial uses in residential areas, and the violation of building and safety codes that normally apply to hotels or other guest properties. Of utmost concern is the conversion of housing units from permanent to transient use, many units of which would be affordable to moderate income households. STRs can also change the character of a community's residential neighborhoods and result in the reduction of property values for the community's permanent residents.

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

Unfortunately, STRs will be likely continue to be a significant part of the Verde Valley housing inventory until legislation is enacted at the State level to regulate their use and operations. A number of states and cities have enacted prohibitions to restrict their continued proliferation.

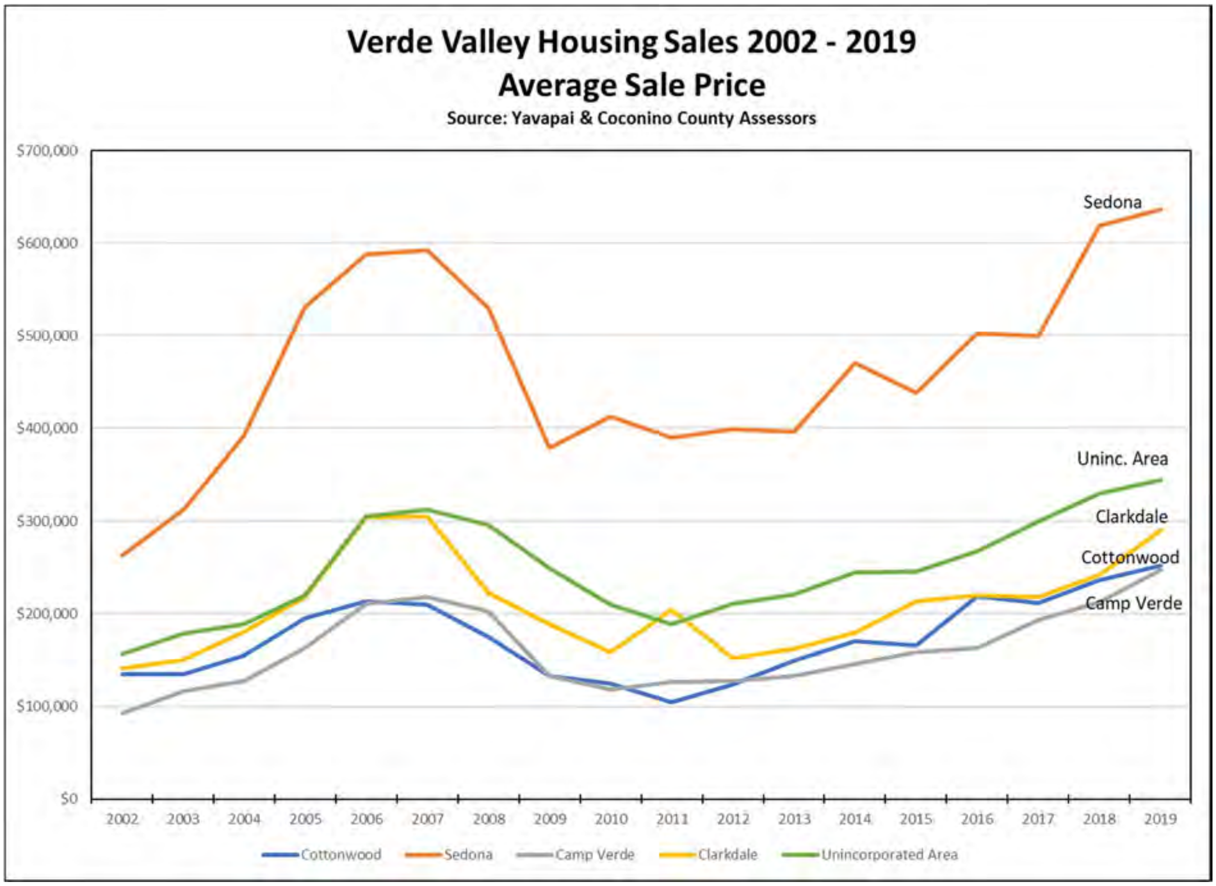
3.2 Housing Prices and Rents

Housing Prices

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

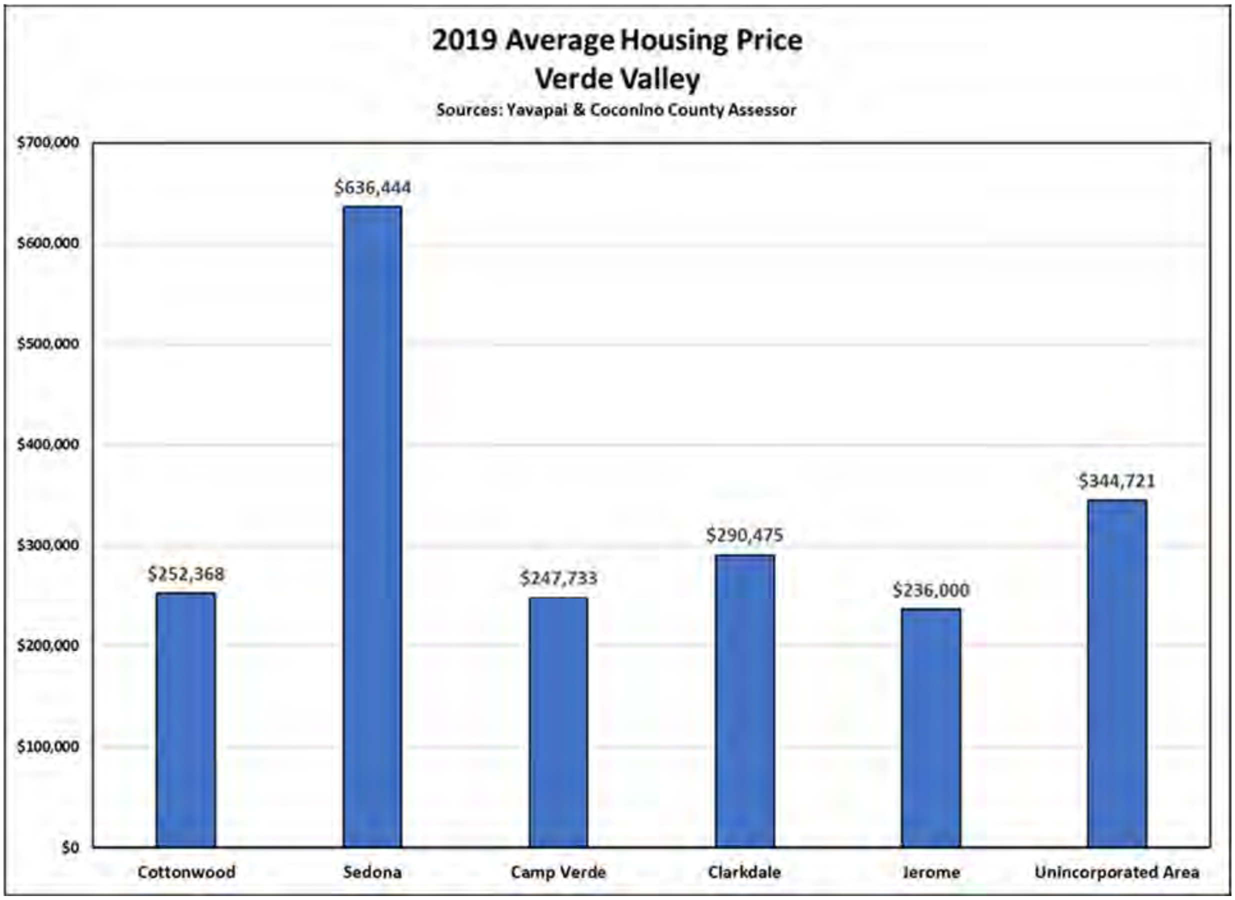
The price of housing in the Verde Valley has been cyclical and dramatically impacted by the Great Recession and housing bubble. The unweighted average price of housing in the Verde Valley, including all types of units, rose to $328,000 in 2007 before declining by 42% to $190,000 in 2012. Prices started to rise thereafter and have now eclipsed the highest price reached during the housing bubble. Since 2012, the unweighted average price of a housing unit has increased by 76% to $334,600 in 2019. The price of housing in most communities rose by an annual average of between 9% and 10% since 2012. Remarkably, Sedona experienced the lowest average annual price increase of 6.9% since 2012 rising to $636,400.

Chart 5



The 2019 average housing price by community is shown on Chart 6.

Chart 6



Housing prices naturally vary by type. The average price of a single family home in Sedona was close to $700,000 in 2019. Housing sales prices in the other Verde Valley communities are significantly lower than those found in Sedona, generally ranging from $250,000 to $350,000. In fact, mobile home prices in Sedona are nearly equal in price to single family homes found in other parts of the Verde Valley. The unincorporated area of Yavapai County shows the highest average price for a housing unit outside of Sedona, primarily found in Cornville and the Village of Oak Creek.

Table 20

2019 Average Home Price By Type Verde Valley				
Community	**Mobile Home**	**Condo**	**Single Family**	**Average**
Camp Verde	$156,189	$197,900	$279,993	$247,733
Clarkdale	$213,500	$244,044	$301,773	$290,475
Cottonwood	$125,042	$174,270	$278,144	$252,368
Jerome	$0	$0	$236,000	$236,000
Sedona	$266,526	$368,036	$682,094	$636,444
Uninc. Area	$136,995	$357,775	$370,211	$344,721

Note: Sales are through October 2019

Sources: Yavapai & Coconino County Assessors

The vast majority of sales in the Verde Valley are in the single family category. However, this trend is primarily due to the small number of condo units in the area.

Table 21

2019 Home Sales By Type Verde Valley				
Community	**Mobile Home**	**Condo**	**Single Family**	**Total**
Camp Verde	28	1	81	**110**
Clarkdale	7	9	71	**87**
Cottonwood	12	25	126	**163**
Jerome			5	**5**
Sedona	11	32	140	**183**
Uninc. Area	64	71	494	**629**
Total	**122**	**138**	**917**	**1,177**
% of Total	**10%**	**12%**	**78%**	**100.0%**

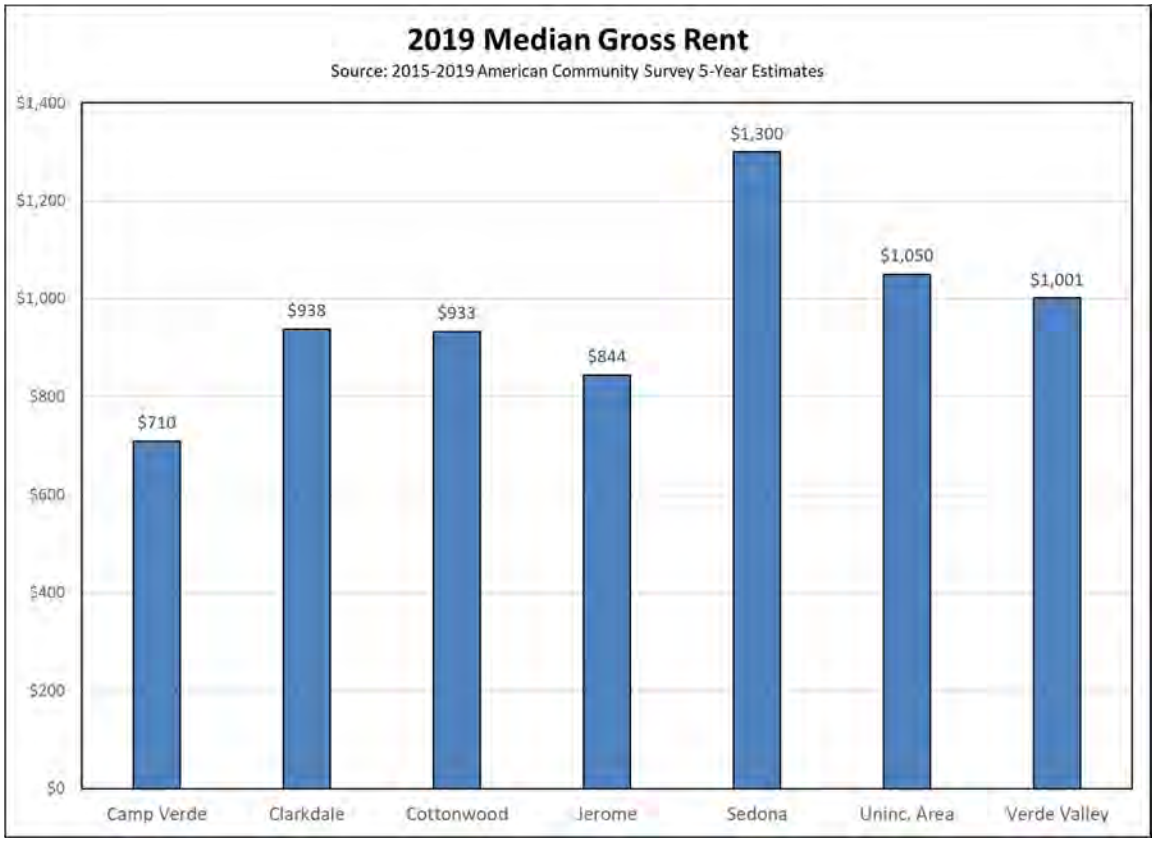
Note: Sales are through October 2019

Sources: Yavapai & Coconino County Assessors

Rents

Similar to housing price information from the U.S. Census, rental data is typically out-of-date and may not account for the rapid increase in rents over the past few years. However, the U.S. Census just recently released rent data for 2019. While the data may not totally reflect the rental housing market today, rents appear more realistic than earlier data releases. The median gross rent for the Verde Valley is now estimated at $1,000 per month. The median gross rent in Sedona is 30% higher than the Verde Valley median and more than $350 higher than found in neighboring Verde Valley communities.

Chart 7



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

Table 22

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

Source: Zillow

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

For the Verde Valley, rents have increased dramatically by an average of more than 20% between 2015 and 2020 (unweighted by number of housing units) (Table 23). The highest rent increases occurred in the Cornville area followed by Sedona. Cornville experienced a 54% increase in rents across all unit sizes while Sedona's rents increased by 34%. Rents across most communities were well above the rate of inflation that averaged less than 2% annually over the last five years or a total of approximately 10% for the last five years. Rents, therefore, increased at twice the rate of inflation over the past five years.

Table 23

Fair Market Rent Comparison 2015 & 2020
Verde Valley Communities

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

Source: HUD Fair Market Rents

An inventory of apartment complexes in the Verde Valley was conducted by this firm using available data sources and online websites. The complexes range from those with five units or more. The data may be incomplete and not account for every complex. Most of the projects were fully occupied and rent data was not provided by managers when contacted. The inventory is dominated by the Town of Cottonwood with 63% of all units followed by Sedona with an estimated 16% share.

Table 24

Verde Valley Apartment Inventory		
Community	**Units**	**% of Total**
Camp Verde	135	9.6%
Clarkdale	67	4.8%
Cottonwood	879	62.7%
Jerome	24	1.7%
Oak Creek	74	5.3%
Sedona	224	16.0%
Total	**1,403**	**100.0%**

Source: Elliott D. Pollack & Co.

The following table outlines the affordable rents for certain Yavapai County occupations and critical service personnel. Wages are based on U.S. Department of Labor surveys for the County. Rents are based on a person spending no more than 30% of their income on housing including utilities. The table demonstrates that teachers, police, firefighters, LPNs, and restaurant and hospitality employees would all find it difficult to obtain rental housing in some parts of the Verde Valley such as Sedona, the Village of Oak Creek, and Cornville. Rents in Camp Verde, Clarkdale, and Cottonwood are more affordable and likely the preferred place of residence for many persons working in Sedona. Critical or essential occupations are critical to the economy of the Verde Valley and its tourism industry, for without these employees, services would suffer.

Table 25

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

*Includes rent and utilities

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

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

Table 26

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

3.3 Housing Cost Burden

A common method of determining housing affordability is evaluating the relationship between household income and the cost of housing. The threshold for affordability established by HUD is a household paying 30% of income toward housing. For renters, this estimate includes rent and utilities; for a homeowner it includes a mortgage payment, property taxes, and insurance. Table 27 outlines those households that are burdened by housing payments in the Verde Valley. Overall, 36.4% of households are considered burdened in the region. More than 40% of households in Clarkdale, Cottonwood, and Sedona are considered burdened by housing costs.

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

Across the Verde Valley, 71% of households earning less than $35,000 per year are burdened by housing costs. For renters with the same incomes, 88% are burdened by housing costs. For most communities, the housing cost burden falls upon those households making less than $50,000 per year. This core household group encompasses 8,600 households which includes many essential workers such as teachers and critical service employees such as police and fire fighters. For Sedona, however, the housing cost burden extends to those earning more than $75,000. Of the 10,336 households in the Valley that are considered cost burdened, 45% or more than 4,500 households are considered "extremely" cost burdened paying more the 50% of their income on housing.

Table 27

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

Verde Valley

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

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

Source: 2018 American Community Survey 5-Year Estimates

Overcrowding is another housing problem that is defined by HUD as more than one person per room living in a housing unit. In the Verde Valley, 1.1% of owner-occupied units are considered overcrowded. Rental units typically have a higher rate of overcrowding than owner-occupied units. An estimated 5.1% of all rental units in the regions are considered overcrowded with more than one person per room. In total, 660 housing units are considered overcrowded or 2.3% of the total occupied housing inventory. About 0.6% of total house units (183 units) are considered extremely overcrowded with more than 1.50 persons per room. The only community with a high level of overcrowding is Camp Verde with 15.3% of rental units considered overcrowded.

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

Table 28

Overcrowded Housing Units

	Camp Verde		Clarkdale		Cottonwood		Jerome		Sedona		Uninc. Area		Verde Valley	
Occupants Per Room	**Units**	**%**	**Units**	**%**	**Units**	**%**	**Units**	**%**	**Units**	**%**	**Units**	**%**	**Units**	**%**
Total Occupied Units	**3,956**		**2,226**		**5,253**		**227**		**5,348**		**11,414**		**28,424**	
Owner occupied:	**2,863**	**72.4%**	**1,529**	**68.7%**	**2,535**	**48.3%**	**138**	**60.8%**	**4,113**	**76.9%**	**8,634**	**75.6%**	**19,815**	**69.7%**
0.50 or less	2,209	55.8%	1,448	65.0%	2,062	39.3%	112	49.3%	3,669	68.6%	7,137	62.5%	16,640	58.5%
0.51 to 1.00	651	16.5%	81	3.6%	457	8.7%	26	11.5%	365	6.8%	1,373	12.0%	2,953	10.4%
1.01 to 1.50	3	0.1%	-	0.0%	16	0.3%	-	0.0%	79	1.5%	91	0.8%	189	0.7%
1.51 to 2.00	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	33	0.3%	33	0.1%
2.01 or more	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Overcrowded Units	**3**	**0.1%**	**-**	**0.0%**	**16**	**0.6%**	**-**	**0.0%**	**79**	**1.9%**	**124**	**1.4%**	**222**	**1.1%**
Renter occupied:	**1,093**		**697**		**2,718**		**89**		**1,235**		**2,780**		**8,612**	
0.50 or less	639	58.5%	636	91.2%	1,796	66.1%	70	78.7%	822	66.6%	1,700	61.2%	5,667	65.8%
0.51 to 1.00	287	26.3%	56	8.0%	822	30.2%	19	21.3%	413	33.4%	914	32.9%	2,512	29.2%
1.01 to 1.50	119	10.9%	5	0.7%	48	1.8%	-	0.0%	-	0.0%	116	4.2%	288	3.3%
1.51 to 2.00	48	4.4%	-	0.0%	52	1.9%	-	0.0%	-	0.0%	50	1.8%	150	1.7%
2.01 or more	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Overcrowded Units	**167**	**15.3%**	**5**	**0.7%**	**100**	**3.7%**	**-**	**0.0%**	**-**	**0.0%**	**166**	**6.0%**	**438**	**5.1%**
Total Overcrowded Units	**170**	**4.3%**	**5**	**0.2%**	**116**	**2.2%**	**-**	**0.0%**	**79**	**1.5%**	**290**	**2.5%**	**660**	**2.3%**

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

3.4 Summary

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

- The Verde Valley has an above average number of seasonal housing units which fits with the tourism economy of the area and the age and incomes of local residents. In the collection of Census data for 2020, the seasonal and vacant housing inventory may increase dramatically due to the abundance of short term rentals in the region.
- The inventory of traditional apartment units in the Verde Valley (5 or more units in a

building as shown on Table 16) is very low accounting for only 6.2% of all housing units compared to the statewide average of 16%. In most communities the percentage is even lower (2.0% in Camp Verde and 4.7% in Sedona). Only Cottonwood has a reasonable percentage of apartment units at 14.4% of the housing inventory. The lack of apartments restricts the ability of low and moderate income households to find housing in the Verde Valley.

- Approximately 18.5% of all housing units in the Verde Valley are mobile homes compared to the Arizona average of 10.5%. However, this percentage is consistent with what is found in the non-urban parts of the state. Mobile homes comprise a high percentage of units in Camp Verde, Cottonwood, and the unincorporated areas of the Valley.
- According to the U.S. Census, 1,471 of 5,264 occupied mobile homes in the Verde Valley (28%) were built before 1979. It is likely that many of these units may pose health and safety hazards for residents if built before June 1976 when HUD established minimum standards for construction.
- The price of housing in the Verde Valley has been cyclical and dramatically impacted by the Great Recession and housing bubble. Since 2012, the price of housing in most communities rose by an annual average of between 9% and 10% since 2012. Sedona experienced the lowest average annual price increase in the Valley of 6.9% since 2012 although its average price rose to $636,400.
- For the Verde Valley, rents have increased dramatically by an average of more than 20% between 2015 and 2020. The median gross rent for the Verde Valley is now estimated at $1,000 per month. Rent increases across most communities were well above the rate of inflation that averaged less than 2% annually over the last five years. Rents therefore increased at twice the rate of inflation over the past five years.
- Overall, 36.4% of households in the region are considered burdened by housing cost. More than 40% of households in Clarkdale, Cottonwood, and Sedona are considered burdened by housing costs. Typically, high housing costs primarily affect renters since they have few options for securing a suitable and safe place to live. Across the Verde Valley, the core household group burdened by housing costs encompasses 8,600 households earning less than $50,000 per year which includes many essential workers such as teachers, and critical service employees such as police and fire fighters.
- According to HUD, fair market rents in Verde Valley have increased dramatically since 2015. The increase in rents ranges from 20% in the Village of Oak Creek to 54% in Cornville. The annual rate of increase for most communities is two to three times the rate of inflation over the past five years.

- Short Term Rentals (STRs) have become a significant housing issue in the Verde Valley over the past three years, particularly in Sedona where 744 units are listed on various STR websites. Aside from the disruption to neighborhoods, STRs have resulted in the conversion of housing units from permanent to transient use, many units of which would be affordable to moderate income households. The loss of this housing inventory has exacerbated the affordable housing issue in the Verde Valley.

4.0 Affordable Housing Gap Analysis

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

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

There are two primary components of the housing gap:

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

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

4.1 Gap Affecting Existing Residents

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

There are two methods for determining the housing gap:

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

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

Each approach will be outlined in this report.

Housing Cost Burden Approach

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

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

Table 29

Verde Valley Housing Cost Burden Summary

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

Source: 2018 American Community Survey 5-Year Estimates

The highest levels of cost burdened households are found in Clarkdale, Cottonwood, and Sedona, all above 40%. Sedona also has the highest number of severely burdened households among the municipalities with 1,215 residents paying more than 50% of income towards housing. The unincorporated areas of Yavapai County have the highest level of housing cost burden on an absolute basis although its percentage is lower due to a larger population.

An important element of addressing housing affordability in the Verde Valley is to determine how each community may be contributing to the issue. The following table shows the share of housing cost burdened households among all Verde Valley communities and the unincorporated area. On an absolute measure, the unincorporated areas of the Valley have the highest cost burden – nearly 3,700 households. Similarly, on a percentage basis, about 36% of the Valley's cost burdened households live in unincorporated areas. Cottonwood and Sedona have a 21% and 22% share, respectively. The remaining communities show a much smaller share of cost burdened households.

Table 30

Housing Cost Burden By Community

Community	Occupied Housing Units	Cost Burdened Units	% Cost Burdened Units	Share of Verde Valley Burdened Units
Camp Verde	3,956	1,144	28.9%	11.1%
Clarkdale	2,226	1,034	46.5%	10.0%
Cottonwood	5,253	2,135	40.6%	20.7%
Jerome	227	62	27.3%	0.6%
Sedona	5,348	2,275	42.5%	22.0%
Uninc. Area	11,414	3,686	32.3%	35.7%
Totals	28,424	10,336	36.4%	100.0%

Source: 2018 American Community Survey 5-Year Estimates

Cost burden is often cited as the basis for determining the affordability gap. However, the cost burden standard of 30% of income is not an absolute measure and some households may be able and willing to pay more of their income on housing. Some apartment rental managers use a 35% standard or even higher for qualification purposes. As a result, alternative affordability gap approaches are often considered as well.

Affordability Gap Analysis Approach

This alternative affordability gap analysis evaluates the relationship between the household incomes of residents and the availability of housing units that are affordable to those households based on available Census data. The "gap" occurs where there are more households than units. Table 31 is an example of the approach for the City of Cottonwood. A similar analysis has been conducted for each Verde Valley community and the unincorporated area.

The housing values and rents outlined in Table 31 are based on available Census data from 2018 and do not reflect the current market realities that have changed significantly over the past year. However, even though the Census-derived rents and home values may be questionable, the most important part of the analysis is the relationship between incomes and housing costs in 2018. This relationship likely has not changed and, if anything, has further deteriorated. The housing gap analysis is considered a conservative measure of the demand for affordable units in the Verde Valley.

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

For those units that are owner-occupied, the affordable monthly payment for housing has been converted to a value or cost of a housing unit. The assumptions used for this calculation assume a 5% down payment and a 4% interest rate on a home loan over 30 years. In addition, the monthly mortgage payment is increased by a factor of 1.45 to account for private mortgage insurance (for any loan with less than a 20% down payment), property taxes, and home insurance. For a household earning $50,000, in theory they could afford a housing unit valued at $190,200. They could also afford a rental unit with a $1,250 monthly rent.

The number of owner and renter-occupied units available within Sedona at each income level shown on the right side of the table is based on Census data. The "gap" is the difference between available units and the number of households at each income level. For Cottonwood, the resulting calculation demonstrates that the gap extends to households earning up to $25,000 and the total cumulative gap is 370 units. This represents approximately 7.0% of all households.

Table 31

Cottonwood Affordability Gap Analysis

Assumptions	
Maximum % of Income for Housing	30%
Interest Rate	4.00%
Down Payment	5.00%
Median Household Income	$34,209
PMI/Home Insurance/Property Tax Factor	1.45

Household Income		Total	Affordability Range		House Value		Monthly Rent		Units Available		Total Units		Cumulative
									Owner	Renter			
Low	High	Households	Low	High	Low	High	Low	High	Occupied	Occupied	Available	GAP	GAP
$0	$10,000	357	-	$250	-	$38,000	$0	$250	161	120	281	(76)	(76)
$10,000	$14,999	394	$250	$375	$38,000	$57,100	$250	$375	105	301	406	12	(64)
$15,000	$24,999	1,014	$375	$625	$57,100	$95,100	$375	$625	277	431	709	(305)	(370)
$25,000	$34,999	909	$625	$875	$95,100	$133,100	$625	$875	419	662	1,081	172	(198)
$35,000	$49,999	620	$875	$1,250	$133,100	$190,200	$875	$1,250	558	669	1,227	607	409
$50,000	$74,999	1,056	$1,250	$1,875	$190,200	$285,300	$1,250	$1,875	647	443	1,090	35	444
$75,000	$99,999	415	$1,875	$2,500	$285,300	$380,400	$1,875	$2,500	195	92	287	(128)	316
$100,000	$149,999	462	$2,500	$3,750	$380,400	$570,600	$2,500	$3,750	149		149	(314)	2
$150,000	$199,999	16	$3,750	$5,000	$570,600	$760,700	$3,750	$5,000	16	-	16	0	2
$200,000	-	16	$5,000	$0	$760,800	$0	$5,000	$0	8	-	8	(8)	(5)
		5,258							2,535	2,718	5,253		

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

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

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

As noted earlier in this report, throughout the Verde Valley there are an estimated 5,264 mobile homes representing nearly 20% of all housing units. Included in that amount are 1,471 units that were built before 1979. In 1976, HUD established the Manufactured Home Construction and Safety Standards which regulate all aspects of the construction of mobile homes including design and construction strength, durability, transportability, fire resistance, and energy efficiency. Many of the units built before 1979 may be uninhabitable or unsafe and do not meet today's standards. However, they do provide low cost, affordable housing for low and moderate income households. If removed from the housing inventory, the gap would increase for each unit that is removed. If replacement units are not provided, residents of those units would need to relocate to another low cost unit or move to another community.

Table 32

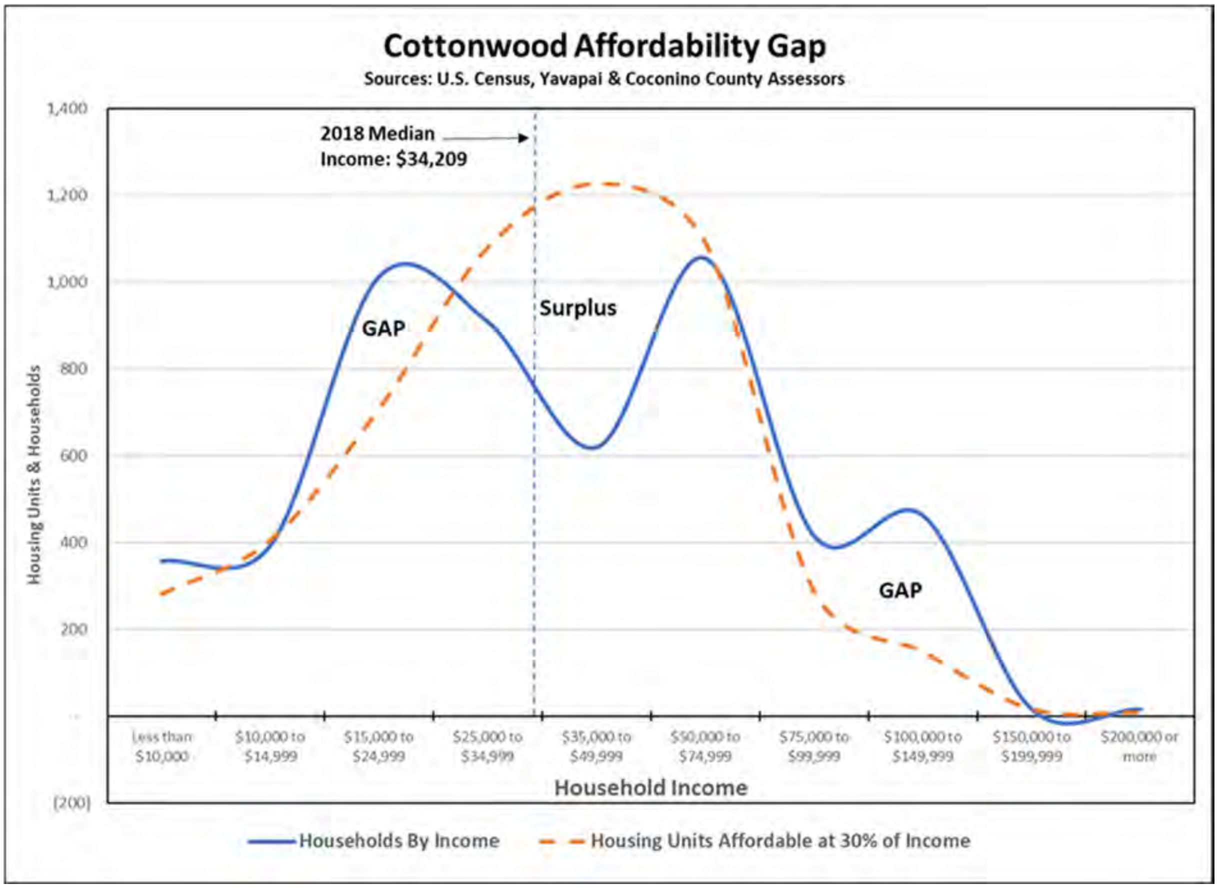
Occupied Mobile Home Inventory by Year Built

Year Built	Camp Verde	Clarkdale	Cottonwood	Jerome	Sedona	Uninc. Area	Verde Valley
Mobile Homes	1,081	138	978	6	829	2,232	5,264
Before 1979	320	-	138	6	417	590	1,471
% Before 1979	**29.6%**	**0.0%**	**14.1%**	**100.0%**	**50.3%**	**26.4%**	**27.9%**

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

A chart illustrating the Cottonwood housing affordability gap follows. The chart is representative of the housing gap that is found in most communities – a gap at the low end of the income range and one at the high end. At the low income ranges, the gap extends to those households earning below $25,000. This is the household group that cannot find housing that is affordable to them, representing the most critical need. The gap at the upper end of the income range suggests that persons of higher incomes are purchasing or renting housing units that are below the 30% affordability standard. Essentially, they do not purchase or rent units to their full income ability. In the end, the low income households are forced to find more expensive housing where there is a surplus of housing; the upper income households also crowd into this area searching for housing that is less expensive than they can afford (at the 30% income standard). The impact of short term rentals may also be affecting the upper end of the housing market and reducing the available inventory.

Chart 8



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

The comparison of data among the communities shows the difference between Sedona and the remaining towns and cities. For Sedona, the affordability gap affects households up to $100,000 of income. For all other jurisdictions, the gap is at the lower end of the income range under

$25,000. This outcome likely dictates different strategies for Sedona compared to the remainder of the Verde Valley. For instance, Sedona will need to address the housing needs of low and moderate income households as well as middle income or workforce households including essential workers such as police, firemen, nurses, teachers, etc.

Table 33

Housing Gap Estimate
Verde Valley

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

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

Source: 2018 American Community Survey 5-Year Estimates

The difference in the gap analysis between Sedona and the remainder of the Verde Valley suggests that persons who work in Sedona are finding housing outside of the city. For instance, the overall gap for the Verde Valley is 2,285. However, if Sedona is separated from the Verde Valley gap, the overall gap for the remaining communities is 1,538 units. **It is therefore recommended that the affordable housing gap for the Verde Valley is comprised of the following:**

- **Sedona: 1,258 units**
- **Remainder of Verde Valley: 1,538 units**
- **Total: 2,796 units**

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

4.2 Demand for Housing Generated by Employment Growth

The population of the Verde Valley is expected to grow by approximately 12,800 persons over the next 30 years. This population will create demand for housing although a major portion of the growth will likely be persons that retire to the area.

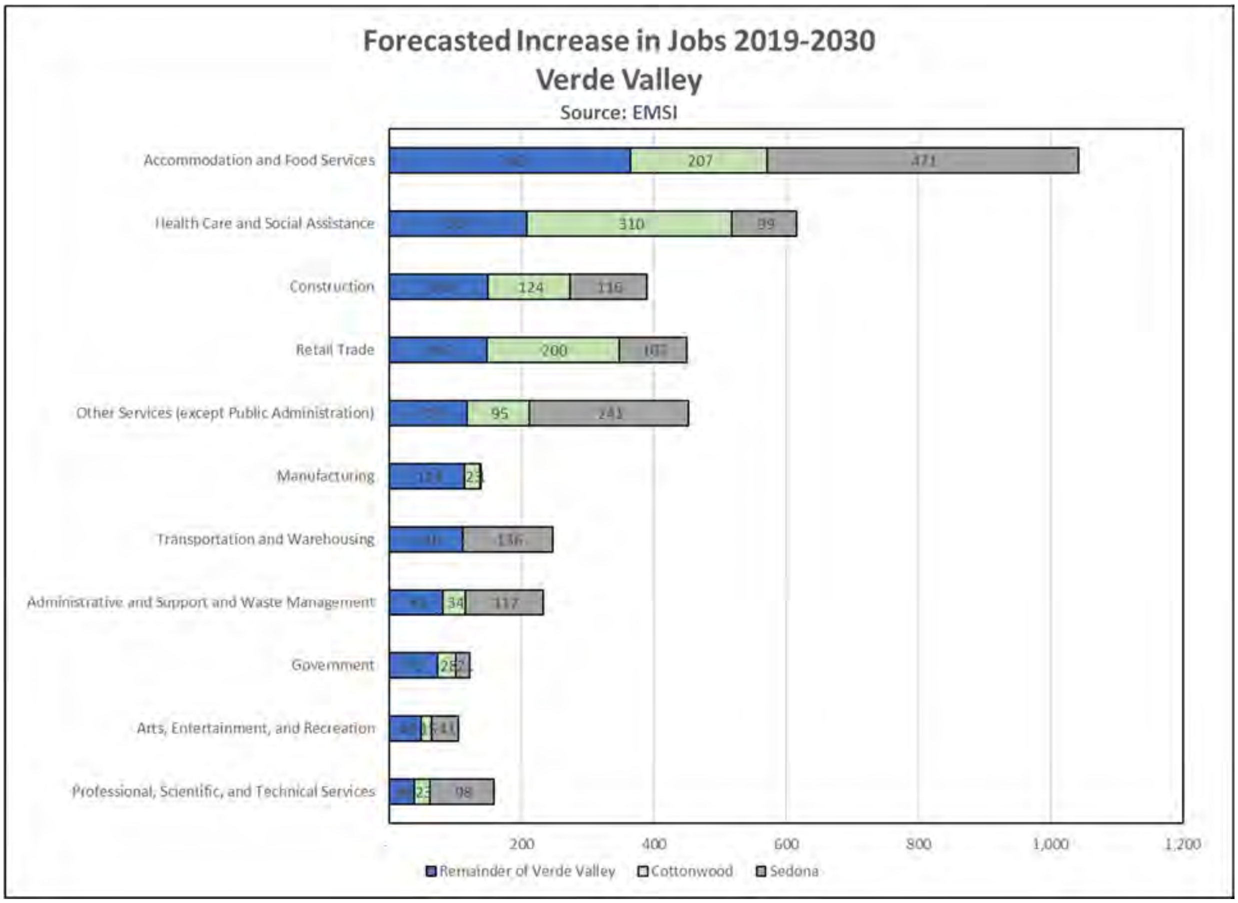
Of more significance is the forecasted growth in employment over the next ten years that totals approximately 4,200 jobs (as noted in Section 2.2 of this report). Employment is the primary factor that will generate demand for housing in the region, with employees most likely searching for housing close to their place of work.

Approximately 70% of the forecasted job growth in the Verde Valley is expected in five industries noted below. However, the efforts of VVREO and local communities to diversify the economy may result in a different mix of jobs over the long term.

- Accommodations and Food Services (24.7% of total jobs)
- Health Care and Social Assistance (14.6% of total jobs)
- Retail Trade (10.7% of total jobs)
- Other Services (10.7% of total jobs)
- Construction (9.2% of total jobs)

Approximately 45% of the Accommodations and Food Service jobs are expected to locate in Sedona although the population growth of the entire Valley will also create demand for these services in other cities. The majority of Healthcare jobs are forecasted to occur in Cottonwood. The Other Services category, primarily comprised of tourist-oriented jobs and consumer services, is also forecasted for significant growth.

Chart 11



The employment forecast for the Verde Valley of 4,200 new jobs over the next ten years is subject to some uncertainty due to the pandemic. However, based on current trends in the Valley, there is much greater optimism that the availability of vaccines will allow employment across Arizona to stabilize and recover in 2021, particularly in areas like the Verde Valley that are tourist destinations.

Using the results of the available surveys, the above employment forecast of 4,200 jobs is reduced by the percentage of dual income households and those households that would be expected to earn less than 100% of the Yavapai County area median income ($64,600). Based on those criteria, the demand for affordable units is forecasted at 943 units throughout the Verde Valley over the next five years. Table 34 shows the demand by community and annual demand.

Table 34

Affordable Housing Demand From Employment Growth		
Community	**5-Year Demand**	**Annual Demand**
Camp Verde	160	32
Clarkdale	15	3
Cottonwood	241	48
Jerome	12	2
Sedona	362	72
Unincorporated Area	151	30
Total	**943**	**189**

Source: EMSI

Summary

The final five-year affordable housing gap for the Verde Valley is a combination of:

- Addressing the current shortage of affordable housing for existing residents that is nearly 2,800 units.
- Providing for the housing needs of low and moderate income persons who will be filling new employment opportunities within the Valley over the next five years. That demand is estimated at a total of 943 households.

In total, the five-year affordable housing demand is estimated at 3,739 units. Sedona accounts for 43% of the demand followed by the unincorporated areas at 25%.

Table 35

Verde Valley Five-Year Affordable Housing Demand				
Community	Existing Gap Demand	Forecasted Employment 5-Yr. Demand	Total 5-Yr. Demand	% of Total Demand
Camp Verde	95	160	255	6.8%
Clarkdale	280	15	295	7.9%
Cottonwood	370	241	611	16.3%
Jerome	11	12	23	0.6%
Sedona	1,258	362	1,620	43.3%
Unincorporated Area	782	151	933	25.0%
Total	**2,796**	**943**	**3,739**	**100.0%**

Source: EMSI

This Volume 1 of the Verde Valley Housing Needs Assessment summarizes the demographic characteristics of the population and existing housing conditions in the Valley, culminating in an estimate of affordable housing demand. Volume 2 of this study will present a five-year action plan, strategies, and tools that may be employed to address the affordable housing needs.

As part of this report, the results of the Verde Valley Regional Housing Survey have been included in Appendix 2 for reference. The survey collected more than 400 responses from persons working in Sedona. The survey responses can be compared to the survey that VVREO is distributing to Verde Valley residents.

Appendix 1: Verde Valley Affordability Gap Charts

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

Chart 12

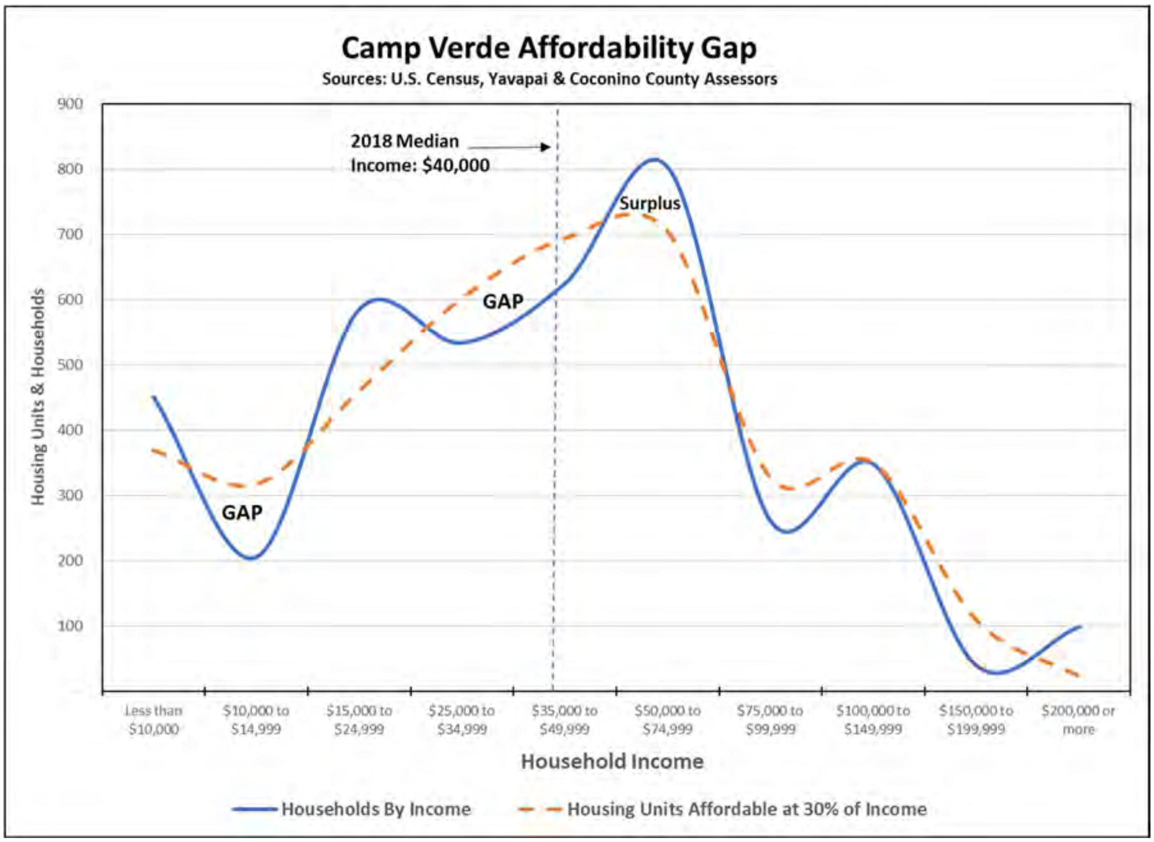


Chart 13

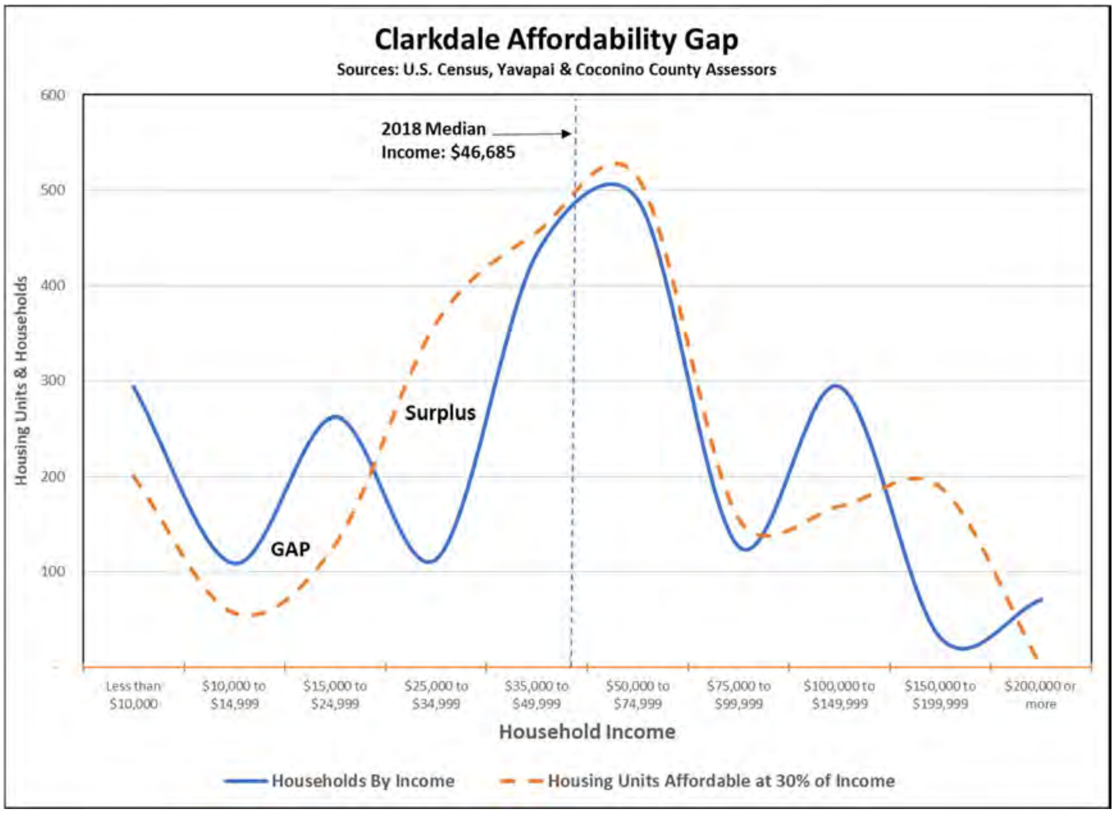


Chart 14

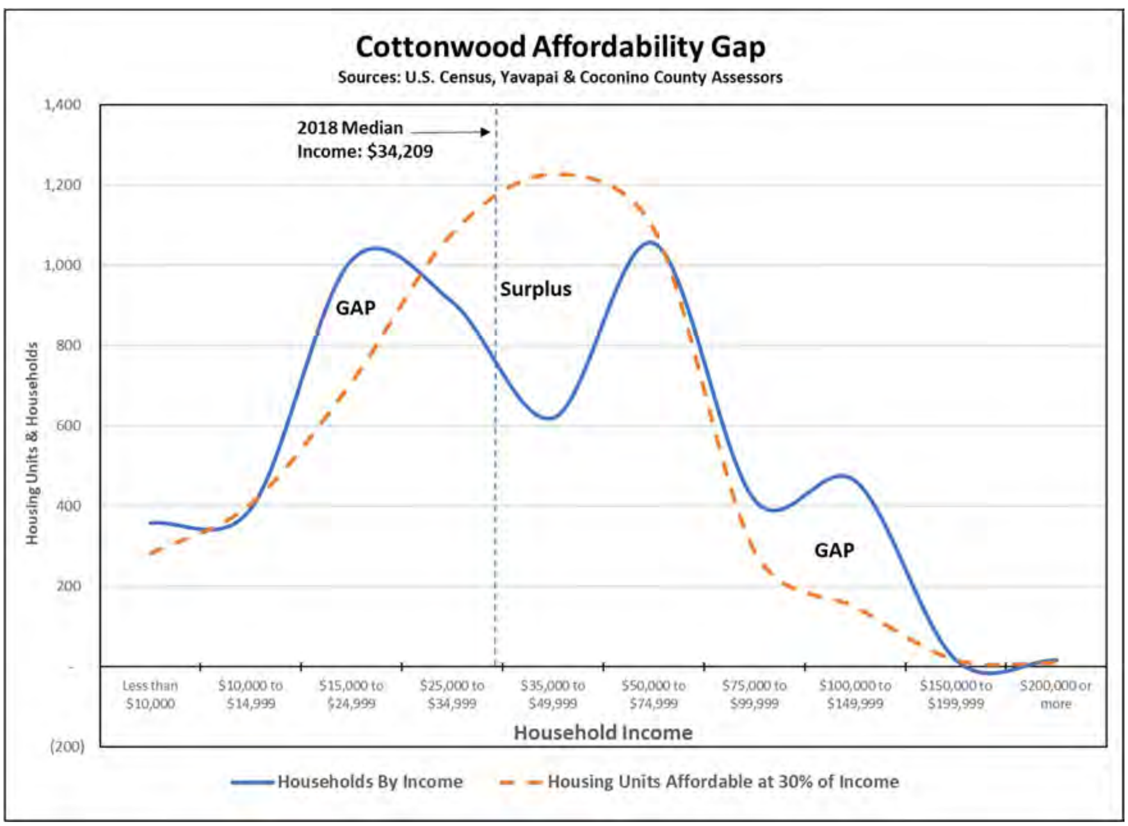


Chart 15

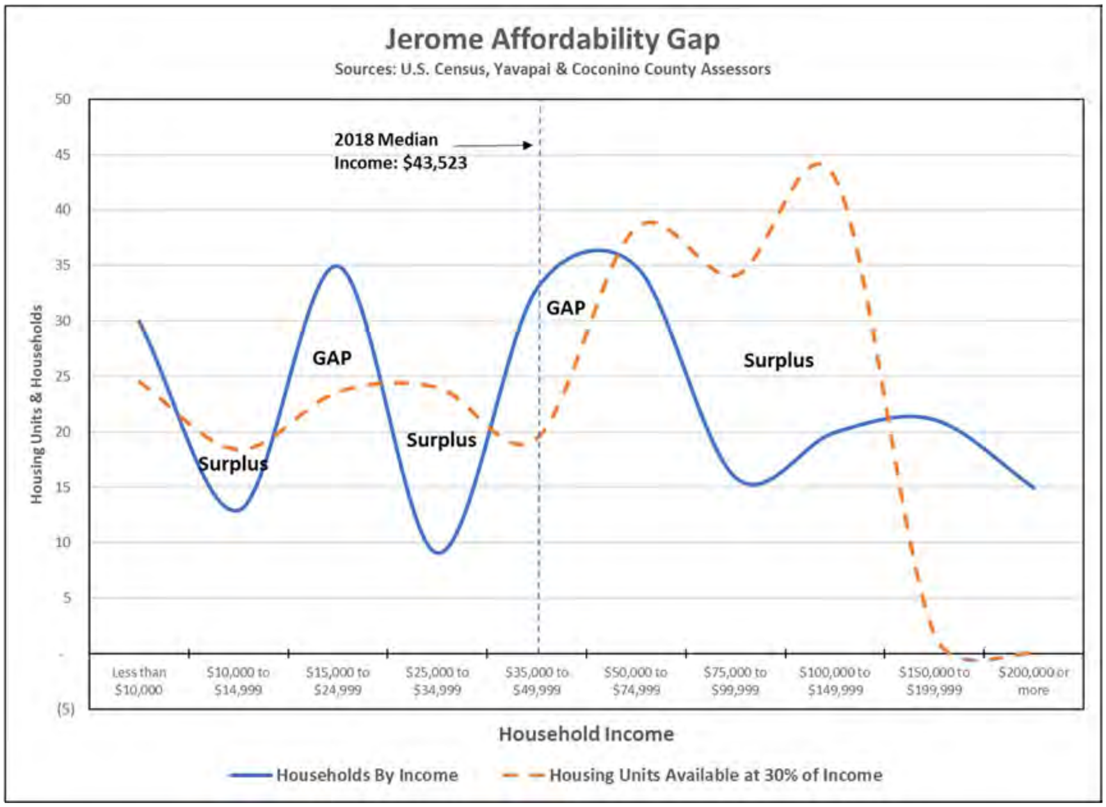


Chart 16

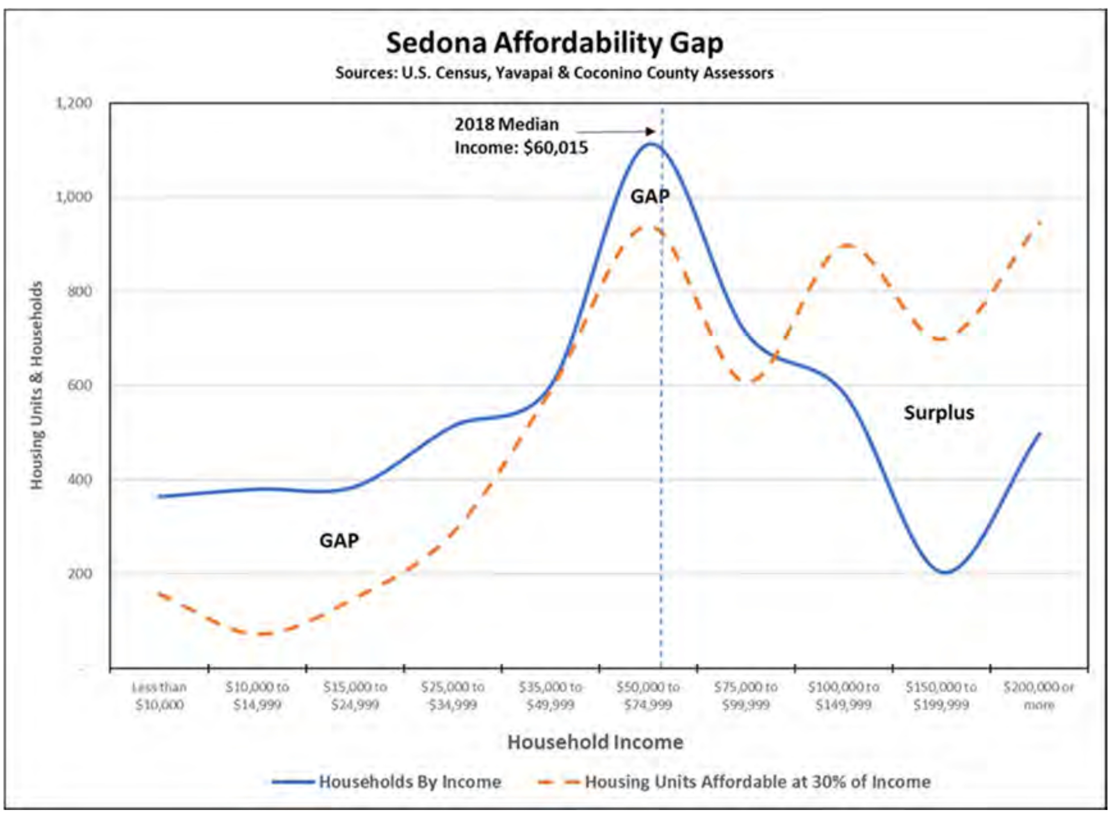
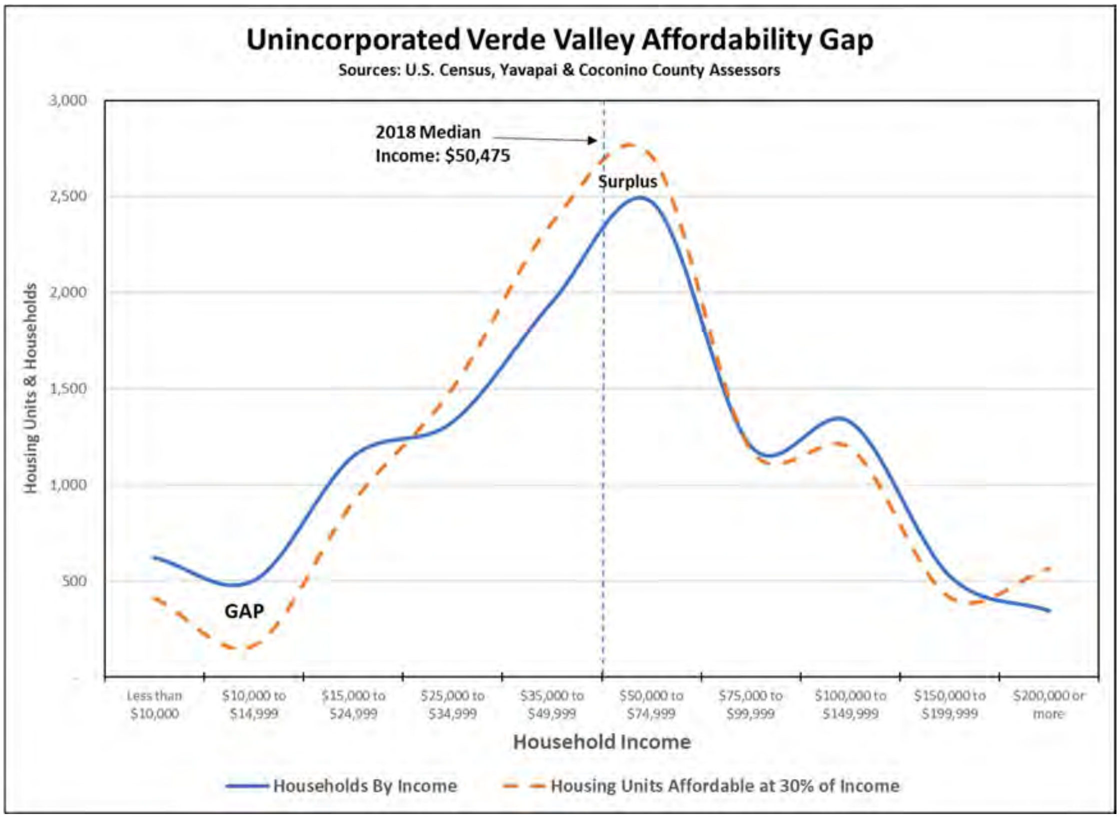


Chart 17



Unincorporated Verde Valley Affordability Gap
Sources: U.S. Census, Yavapai & Coconino County Assessors
2018 Median Income: $50,475
Surplus
GAP
Housing Units & Households
3,000
2,500
2,000
1,500
1,000
500
Less than $10,000
$10,000 to $14,999
$15,000 to $24,999
$25,000 to $34,999
$35,000 to $49,999
$50,000 to $74,999
$75,000 to $99,999
$100,000 to $149,999
$150,000 to $199,999
$200,000 or more
Household Income
Households By Income
Housing Units Affordable at 30% of Income

Appendix 2: Summary Findings – Verde Valley Regional Housing Survey

An online survey was prepared by the Regional Economic Development Center at Yavapai College as part of this Housing Needs Assessment. The results of the survey are outlined in this Appendix along with the survey instrument.

Introduction

As part of the Verde Valley Region Housing Needs Assessment and Action Plan, an online survey was prepared and distributed to persons who work or live within the region. The survey's purpose was to evaluate the housing conditions, where employees live, the amounts they pay for housing, and their views on living and working in the Verde Valley. The distribution of the survey was coordinated with the Verde Valley Regional Economic Organization, partnership with the county, cities, and towns in the Verde Valley, and local businesses in the community. All responses are kept strictly confidential, and individual responses will not be revealed to any employer or business.

The survey questionnaire was divided into three sections as follows:

- Work Environment: Questions related to type of business the employee works in, commuting patterns, where they live, and how long they have worked in the region.
- Housing Situation: What type of housing the resident lives in, the amount of rent or mortgage payment, and satisfaction with the respondent's housing situation.
- About You: Demographic information on the resident and their family including household income.
- Additional Comments: Providing survey respondents to include additional feedback.

This summary report is organized in the following manner.

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

Primary Findings and Conclusions

About You (Demographics)

The distribution of the survey was highly successful, with 1,869 individual responses. The majority of respondents were females (64%), and 85% of people were over 35 years of age (Tables 21 and 22). More than two-thirds of households (68%) reported two or fewer people living in the residence (Table 23). Four out of 10 households were single income, and 50% stated annual income to be under $75,000 (Table 24 and 25).

Additional Comments

The open-ended comment section at the end of the survey received 842 responses. These responses were grouped into categories with the top five challenges noted as lack of affordable housing (rental and owner), concerns with the vacation rental sector, lack of housing inventory, and low wages. Remarks also included support for housing solutions and satisfaction of living in the Verde Valley.

Work Environment

- There is a heavy weighting toward Medical/Healthcare/Wellness sector represented 23% of all responses. In addition to the forementioned, Self-employed, Other, Government, Education, Profession, and Retail sectors constituted 75% of all responses. (Table 1)
- For the survey overall, retirees made up about 26% of respondents, which aligns with the Verde Valley demographics. Table 1 shows business sector information for employed respondents. The top sectors are the Medical/Healthcare/Wellness (23%), Self-Employed (12%), Other (11%), Government (9%), Education (9%), and Professional (7%).
- Approximately one-quarter of all respondents live in the City of Cottonwood. Sedona, Camp Verde, and Village of Oak Creek are the next most popular places of residency within the survey. (Table 2)
- The majority (75%) of respondents travel less than 20 miles to their place of work. The communities of Cottonwood and Sedona reported the highest number of people working outside their residence community. (Table 3 and 4)
- Our sample reported 67% were Full-time vs. 13% Part-time employees with less than 2% identified as Seasonal. (Table 6 and 7)
- The survey showed 67% were full-time by employment status, 13% part-time, 18% self-employed, and 2% reported not applicable. Only 2% identified as being employed seasonally.
- There is longevity in persons working in the region. The majority of survey respondents have worked in the region for more than five years while 30% reported less than two years. (Table 8)

Housing Situation

- Almost 80% of residents live in a single family or manufactured home. Another 10% live in an apartment or condominium/townhome. (Table 9)
- Time at current residence is distributed consistently within the selection options noting current residence of 3-5 years ranking at 23%. (Table 10)
- Time at current residence is distributed consistently across the selection options. The most frequently selected time at the existing home was 3-5 years at 23%. (Table 10)
- Of the survey respondents, the homeownership to renter ratio is 70% owner to 27% renter, although 93% of all survey respondents prefer to own rather than rent. (Table 11 and 18) According to the U.S. Census, within the entire Verde Valley area, the homeownership rate is about 69% of all households.
- 46% of homeowners report paying monthly costs of $1,000 or more, noting 17% of survey respondents not reporting. (Table 16) U.S. Census reports that 49% of Yavapai County homeowner pay monthly costs of $1,000 or more.
- The majority of renters (57%) report total monthly rent between $750 to $1,499. 78% of renters share rental cost, resulting in those that share paying less than $1,000. (Table 12 and 13)

- Renters that plan to own a home within 2 years are divided 42% Yes and 47% No. (Table 14)
- 43% of renters said they plan to own a home within 2 years
- The most common obstacles for renters to become homeowners include lack of affordable units, lack of down payment, and low income. (Table 15)
- The majority of all survey respondents report "very to somewhat satisfied" with current housing (72%) and describe their physical housing as "above average to excellent" (59%). (Table 17 and 19)
- Survey respondents that were considering moving away from the Verde Valley cited lack of affordable housing, quality of medical resources, and low wages. (Table 20)

Housing Burden

Table A

Survey	
Median Annual Income	$ 65,942
Median Monthly Income	$ 5,495
Median Rent Cost plus Utilities	$ 1,209
Median Rent Burden	22.0%
Median Mortgage Payments plus Utilities	$ 1,243
Median Mortgage Burden	22.6%

Table B

Housing Cost Burden				
	Owners		Renters	
Burden Range	Households	% of Total	Households	% of Total
Less than 30%	795	65.7%	239	57.0%
30% to 49.9%	247	20.4%	162	38.9%
50% or more	214	17.6%	45	10.8%
Total	1211	100.0%	416	100.0%
Median Cost Burden	22.6%		22.0%	

- Housing Cost Burden: The federal government has established the standard for housing cost burden as those households that spend more than 30% of household income on rent or mortgage payments. However, it is more burden for a low-income household to spend 30% of their income on housing and have enough left to purchase basic necessities. Households spending more than 50% are severely cost-burdened.
- To address the housing cost burden question, renter and owner housing cost burdens were estimated by comparing the median rent ($1,209 including utilities) and median mortgage payments ($1,243 including utilities) to median household income ($65,942). For renters, the survey question was stated for the respondent to provide their rent payment. The Census definition of rent burden includes both rent and utilities. To adjust for utilities, the average renter utility bill was assumed at $150 per month and added to the total rent payment. (Table A)

- The median rent burden for Verde Valley residence is approximately 22.0% according to survey results. Median homeowner cost burden is much lower at 22.6%. Homeowners have more options for relieving cost burden by moving and/or selling their homes. Renter populations do not have similar options. (Table A)
- The Housing Cost Burden (Table B) shows the cost burden for homeowners and renters by the range of burden. For renter households, 49% are paying more than 30% of their income to housing and 11% are severely burden paying 50% of income toward housing. These levels are below the national average of 48% paying more than 30% according to the U.S. Census. Approximately 48% of homeowners pay more than 30% of income toward housing, and 18% are severely burden paying 50% of income toward housing.

Summary Comments

Key takeaways from the survey are that employees have shown longevity in working and living in the area. The majority also reported they have a full-time position and travel less than 20 miles to work. A very high portion live in a single-family residence and are satisfied with their housing situation and dwelling condition. The survey shows that respondents' housing burden (both renters and owners) is below the national average. The region's challenges are a lack of affordable housing, housing inventory, and wages, with strong concerns regarding the vacation rental sector.

Work Environment

Table 1

Type of Business Worker Currently Employed In		
Business Sector	**Residents**	**% of Total**
Medical/Healthcare/Wellness	314	22.90%
Self-Employed	165	12.04%
Other	145	10.58%
Government	128	9.34%
Education	117	8.53%
Professional	100	7.29%
Retail Worker	72	5.25%
Service Worker	65	4.74%
Non-Profit Agency	62	4.52%
Unemployed	48	3.50%
Public Safety	37	2.70%
Hotel	34	2.48%
Construction	28	2.04%
Recreation	19	1.39%
Fine Arts	16	1.17%
Manufacturing	15	1.09%
Casino	6	0.44%
Total	**1371**	**100.00%**

Table 2

Community Where Resident Lives		
Community	**Residents**	**% of Total**
Cottonwood	454	24.29%
Sedona	308	16.48%
Camp Verde	257	13.75%
Village of Oak Creek (VOC)	207	11.08%
Clarkdale	169	9.04%
Cornville/Page Springs	142	7.60%
Verde Village	139	7.44%
Beaver Creek (McGuireville/Lake Montezuma/Rimrock)	77	4.12%
Other (please specify)	48	2.57%
Jerome	42	2.25%
Prescott/Prescott Valley/Chino Valley	12	0.64%
Oak Creek	9	0.48%
Flagstaff	5	0.27%
Total	**1869**	**100.00%**

Table 3

Community Where Resident Works		
Working Community	**Total**	**% of Total**
Cottonwood	538	28.79%
Retired Not Working	475	25.41%
Sedona	283	15.14%
Camp Verde	172	9.20%
Other	138	7.38%
Clarkdale	57	3.05%
Village of Oak Creek (VOC)	52	2.78%
Unemployed	51	2.73%
Cornville/Page Springs	24	1.28%
Jerome	23	1.23%
Flagstaff	20	1.07%
Prescott/Prescott Valley/Chino Valley	15	0.80%
Beaver Creek (McGuireville/Lake Montezuma/Rimrock)	8	0.43%
Other	7	0.37%
Oak Creek	3	0.16%
Verde Village	3	0.16%
Total	**1869**	**100.00%**

Table 4

Commuting Distance							
Residence Community	**Miles to Work**						
	0-9	**10-20**	**21-30**	**31-40**	**41-50**	**More than 50**	**No Commute**
Beaver Creek (McGuireville/Lake Montezuma/Rimrock)	10	22	21	5	3	1	3
Camp Verde	105	45	19	9	7	9	11
Clarkdale	93	11	10	2		6	4
Cornville/ Page Springs	42	31	13	1	2	1	2
Cottonwood	237	68	27	10	5	6	14
Flagstaff	1		1			3	
Jerome	22	5	1	1			3
Oak Creek	2						
Other	11	6	1	2	1	5	11
Prescott/ Prescott Valley/ Chino Valley	1	1		1	1	2	2
Sedona	101	15	7	4	1	3	31
Verde Village	79	14	8	2	1	1	5
Village of Oak Creek	36	20	7	4	1	1	24
Total	**740**	**238**	**115**	**41**	**22**	**38**	**110**

Table 5

Method of Getting to Work							
Residence Community	**Bicycle**	**Carpool**	**Drive yourself**	**Public Transit**	**Walk**	**N/A**	**Total**
No Community Identified			1				1
Beaver Creek (McGuireville/ Lake Montezuma/Rimrock)		2	61			2	65
Camp Verde	1	3	174		9	18	205
Clarkdale	2		107		4	13	126
Cornville/Page Springs			81		1	9	91
Cottonwood	3	6	319	4	12	23	367
Flagstaff		1	4				5
Jerome			19		8	5	32
Oak Creek			1		1		2
Prescott/ Prescott Valley/ Chino Valley			6			2	8
Sedona	3		105	4	10	40	162
Verde Village		1	104			5	110
Village of Oak Creek	2		61		2	28	93
Other			26		2	9	37
Total	**11**	**13**	**1069**	**8**	**49**	**154**	**1304**
% of Total	**0.84%**	**1.00%**	**81.98%**	**0.61%**	**3.76%**	**11.81%**	**100%**

Table 6

Type of Employee					
Resident Community	Full-Time	Part-Time	Self-Employed	N/A	**Total**
No Community Identified	1				1
Beaver Creek (McGuireville/Lake Montezuma/ Rimrock)	49	8	8		65
Camp Verde	146	24	30	4	204
Clarkdale	89	13	19	5	126
Cornville/Page Springs	65	8	17	1	91
Cottonwood	264	49	48	5	366
Flagstaff	5				5
Jerome	14	5	13		32
Oak Creek		1	1		2
Prescott/Prescott Valley/Chino Valley	5	2		1	8
Sedona	70	32	49	10	161
Verde Village	89	7	11	3	110
Village of Oak Creek	51	12	23	7	93
Other	23	2	8	4	37
Total	**871**	**163**	**227**	**40**	**1301**
% of Total	**66.95%**	**12.53%**	**17.45%**	**3.07%**	**100.00%**

Table 7

Seasonal Employee		
No	1217	93.69%
Yes	20	1.54%
N/A	62	4.77%
Grand Total	**1299**	**100.00%**

Table 8

Years at Current Employer		
Less than 1 year	164	12.59%
1-2 years	218	16.73%
3-5 years	254	19.49%
5-10 years	259	19.88%
More than 10 years	388	29.78%
N/A	20	1.53%
Grand Total	**1303**	**100.00%**

Housing Situation

Table 9

Type of Residence										
Community	Apartment	Condo/ Townhome	Duplex	Homeless	Mobile or manufactured home	Share a residence	Single family Home	Other (please specify)	Prefer Not to Answer	Total
No Community Noted					1		1		1	2
Beaver Creek (McGuireville /Lake Montezuma/ Rimrock)	3		6		10	2	50	5		76
Camp Verde	10		4	1	40	8	174	12		249
Clarkdale	11	9	2	1	18	4	122		1	167
Cornville/ Page Springs			2	1	19	6	108	3		139
Cottonwood	56	23	14	6	44	14	275	11	1	443
Flagstaff							5			5
Jerome	4		1			7	30			42
Oak Creek		1					7			8
Prescott/ Prescott Valley/ Chino Valley		1			1	3	4	1	1	10
Sedona	15	35	5		32	11	190	6	2	294
Verde Village	2	1	1		22	5	105			136
Village of Oak Creek (VOC)	5	26	2		2	3	156	5		199
Other (please specify)	1		1		6	2	30	4	2	44
Total	**107**	**96**	**38**	**9**	**195**	**65**	**1257**	**47**	**8**	**1814**
% of Total	**5.9%**	**5.3%**	**2.1%**	**0.5%**	**10.7%**	**3.6%**	**69.3%**	**2.6%**	**0.4%**	**100%**

Table 10

Years at Current Residence		
Less than 1 year	205	11.25%
1-2 years	294	16.14%
3-5 years	424	23.27%
6-10 years	345	18.94%
11-20 years	331	18.17%
More than 20 years	217	11.91%
Prefer Not To Answer	6	0.33%
Grand Total	**1822**	**100.00%**

Table 11

Own or Rent Residence		
Own	1272	69.85%
Rent	495	27.18%
N/A	54	2.97%
Total	**1821**	**100.00%**

Table 12

Monthly Rent		
Less than $250	6	1.20%
$250 to $499	27	5.39%
$500 to $749	65	12.97%
$750 to $999	109	21.76%
$1,000 to $1,249	90	17.96%
$1,250 to $1,499	89	17.76%
$1,500 to $1,999	46	9.18%
$2,000 +	25	4.99%
No cash rent	27	5.39%
Prefer Not to Answer	17	3.39%
Grand Total	**501**	**100.00%**

Table 13

Shared Rent, Resident's Share		
Less than $250	14	3.57%
$250 to $499	49	12.50%
$500 to $749	67	17.09%
$750 to $999	67	17.09%
$1,000 to $1,249	46	11.73%
$1,250 to $1,499	23	5.87%
$1,500 to $1,999	20	5.10%
$2,000 +	6	1.53%
Housing, no cash rent	52	13.27%
Prefer Not to Answer	48	12.24%
Grand Total	**392**	**100.00%**

Table 14

Renters that Plan to Own a Home in the Verde Valley Within 2 Years		
No	236	47.11%
Yes	214	42.71%
N/A	51	10.18%
Grand Total	**501**	**100.00%**

Table 15

Obstacle to Buying for Residents Currently Renting	% Cases
Lack of affordable for-sale units	69.7%
Lack of down payment	54.2%
Not earning enough income	48.7%
Credit history/credit score	25.7%
Concern about the economy and housing market	22.4%
Student debt	13.8%
Other reason	9.4%
Will be moving away from the area soon	5.4%

Table 16

For Home Owners, Monthly Housing Costs, Including Mortgage Payments, Property Taxes, and Property Insurance.		
Less than $250	170	10.33%
$250 to $499	142	8.63%
$500 to $749	132	8.02%
$750 to $999	165	10.03%
$1,000 to $1,249	203	12.34%
$1,250 to $1,499	185	11.25%
$1,500 to $1,999	177	10.76%
$2,000 +	196	11.91%
N/A	275	16.72%
Grand Total	**1645**	**100.00%**

Table 17

Satisfaction with Current Housing Situation		
Very satisfied	897	51.52%
Somewhat satisfied	369	21.19%
Neutral	174	9.99%
Somewhat dissatisfied	165	9.48%
Very dissatisfied	136	7.81%
Grand Total	**1741**	**100.00%**

Table 18

As a Lifestyle Choice, Preference to Own or Rent		
Homeownership	1626	93.50%
Renting	113	6.50%
Grand Total	1739	100.00%

Table 19

Physical Description of Housing		
Excellent	486	27.91%
Above Average	571	32.80%
Average	512	29.41%
Below Average	136	7.81%
Poor	36	2.07%
Grand Total	**1741**	**100.00%**

Table 20

If You Were To Move From The Verde Valley, Your Reason Would Be?	
Reason to move	% Cases
Lack of affordable housing	35.4%
Other reason	34.8%
Cost of housing	30.1%
Quality of medical resources	27.3%
Low wages	24.1%
Lack of employment	20.2%
Cost of living: non-housing	19.7%
Quality of schools/education	13.2%

About You

Table 21

Male/Female		
Female	1095	64.15%
Male	563	32.98%
Prefer Not to Answer	49	2.87%
Grand Total	**1707**	**100.00%**

Table 22

Age		
18-25 years old	44	2.57%
26-35 years old	157	9.17%
36-50 years old	376	21.95%
51-64 years old	515	30.06%
65 or older	594	34.68%
Prefer Not to Answer	27	1.58%
Grand Total	**1713**	**100.00%**

Table 23

The Number of People Living in Your Household		
Just me	325	18.98%
2 people	846	49.42%
3-4 people	394	23.01%
5-8 people	122	7.13%
More than 8 people	9	0.53%
Prefer Not to Answer	16	0.93%
Grand Total	**1712**	**100.00%**

Table 24

Household Annual Income Before Taxes for 2019		
Less than $15,000	59	3.46%
$15,000 - $24,999	128	7.50%
$25,000 - $34,999	166	9.72%
$35,000 - $49,999	210	12.30%
$50,000 - $74,999	305	17.87%
$75,000 - $99,000	232	13.59%
$100,000 - $124,999	157	9.20%
$125,000 - $149,999	80	4.69%
$150,000 - $199,999	86	5.04%
$200,000 and over	92	5.39%
Prefer Not to Answer	192	11.25%
Grand Total	1707	100.00%

Table 25

Description of Resident's Household Income		
Single income household	685	40.11%
Dual income household (spouse/partner also works)	619	36.24%
Other	215	12.59%
Prefer Not to Answer	108	6.32%
Multigenerational	81	4.74%
Grand Total	1708	100.00%

ADDITIONAL COMMENTS

The additional open-ended comment section at the end of the survey received 842 responses. These responses were grouped into categories in ranking order as follows:

- Lack of affordable housing
- Better regulations and/or oversight for vacation rental industry (Air BB)
- Lack of affordable rental
- Lack of housing inventory (both ownership & rentals)
- Low wages
- Challenged to find workforce/employees
- Tourism/service industry not meeting wage needs
- High Cost of Living
- Lack of low-income housing
- Lack of affordable senior/disability/single housing
- High construction cost
- Poor quality rental properties
- Concerned with growth, overcrowding and the effects on natural resources
- Agree with the need for affordable housing projects
- High volume traffic
- Enjoy living in the Verde Valley

Verde Valley Region Employee Housing Survey

The Verde Valley Region is interested in understanding the housing needs in the Verde Valley. This survey is being done in partnership with the county, cities, and towns in the Verde Valley. Your participation is important to understanding the area's housing needs. All responses will be kept confidential and individual responses will not be shared with any employer or business.

Please take ten minutes to answer the following questions. Thank you for your participation, we cannot understand housing needs in the Verde Valley without you.

If you work more than one job, please answer job related questions for your primary job.

Work Environment

1. **In what type of business are you currently employed?**
   - o Service worker
   - o Retail worker
   - o Recreation (bike rental, jeep tours)
   - o Hotel
   - o Professional (engineer, accountant, real estate agent/investor, lawyer)
   - o Medical/Healthcare/Wellness
   - o Construction
   - o Manufacturing
   - o Public Safety (police, fire fighter)
   - o Government
   - o Non-Profit Agency
   - o Education
   - o Fine Arts
   - o Casino
   - o Self-Employed
   - o Retired Not Working
   - o Unemployed
   - o Other (specify)___________________

2. **In what community, city, or town do you reside?**
   - o Cottonwood
   - o Verde Village
   - o Camp Verde
   - o Clarkdale
   - o Jerome
   - o Oak Creek
   - o Cornville/Page Springs
   - o Beaver Creek (McGuireville/Lake Montezuma/Rimrock)
   - o Sedona
   - o Village of Oak Creek (VOC)
   - o Flagstaff
   - o Munds Park
   - o Prescott/Prescott Valley/Chino Valley
   - o Other (specify) __________________

3. In what community, city, or town do you work?

- o Cottonwood
- o Verde Village
- o Camp Verde
- o Clarkdale
- o Jerome
- o Oak Creek
- o Cornville/Page Springs
- o Beaver Creek (McGuireville/Lake Montezuma/Rimrock)
- o Sedona
- o Village of Oak Creek (VOC)
- o Flagstaff
- o Munds Park
- o Prescott/Prescott Valley/Chino Valley
- o Retired Not Working
  If Retired, please skip to Question 9
- o Unemployed
  If Unemployed, please skip to Question 9
- o Other (specify)__________________

4. Approximately how many miles do you commute from your residence to your place of work in the Verde Valley Region?

- o 0 – 9 miles
- o 10 – 20 miles
- o 21 – 30 miles
- o 31 – 40 miles
- o 41 – 50 miles
- o More than 50 miles

5. How do you normally get to work?

- o Drive yourself
- o Carpool
- o Public transit
- o Bicycle
- o Walk
- o Other (specify)___________________

6. What type of employee are you?

- o Full-time
- o Part-time
- o Self Employed

7. Are you a Seasonal employee?

- o Yes
- o No

8. How long have you worked at your present job?

- o Less than 1 year
- o 1 – 2 years
- o 3 – 5 Years
- o 5 – 10 years
- o More than 10 years

Housing Situation

9. What type of residence do you live in?

- o Single family home
- o Duplex
- o Apartment
- o Condominium/Townhome
- o Mobile or manufactured home
- o Share a residence
- o Homeless
- o Other (specify)___________________

10. How many years have you lived in your present residence?

- o Less than 1 year
- o 1 – 2 years
- o 3 – 5 Years
- o 6 – 10 years
- o 11 – 20 years
- o More than 20 years

11. Do you rent or own your residence?

- o Rent
- o Own ***If you own your home, please skip to Question 16***

12. If you rent, what is the monthly rent for the residence?

- o No cash rent
- o Less than $250
- o $250 to $499
- o $500 to $749
- o $750 to $999
- o $1,000 to $1,249
- o $1,250 to $1,499
- o $1,500 to $1,999
- o $2,000+

13. If you share the rent, how much do you pay of the monthly rent?

- o Housing, no cash rent
- o Less than $250
- o $250 to $499
- o $500 to $749
- o $750 to $999
- o $1,000 to $1,249
- o $1,250 to $1,499
- o $1,500 to $1,999
- o $2,000+

14. If you are a renter, do you plan on purchasing a home in the Verde Valley Region in the next two years?

- o Yes
- o No

15. If you prefer homeownership and are currently renting, what are the obstacles preventing you from purchasing a home? *(Check all that apply)*

- o Lack of a down payment
- o Student debt
- o Not earning enough income
- o Will be moving from the area soon
- o Credit history/credit score
- o Lack of affordable for-sale units
- o Concern about the economy and housing market
- o Other (specify)___________________

16. If you own your residence, what is your monthly housing cost including mortgage payment, property taxes, property insurance?

- o Less than $250
- o $250 to $499
- o $500 to $749
- o $750 to $999
- o $1,000 to $1,249
- o $1,250 to $1,499
- o $1,500 to $1,999
- o $2,000+

17. How satisfied are you with your current housing situation?

- o Very satisfied
- o Somewhat satisfied
- o Neutral
- o Somewhat dissatisfied
- o Very dissatisfied

18. As a lifestyle choice, which do you prefer, homeownership or renting?

- o Homeownership
- o Renting

19. How would you describe the physical condition of your current residence?

- o Excellent
- o Above average
- o Average
- o Below average
- o Poor

20. If you were to move from the Verde Valley Region what would your reasons be? *(Check all that apply)*

- o Lack of employment
- o Low wages
- o Lack of affordable housing
- o Quality of medical resources
- o Cost of living – non-housing
- o Cost of housing
- o Quality of schools/education
- o Other (specify)____

About You

21. Are you:

- o Male
- o Female
- o Prefer Not to Answer

22. What is your age?

- o 18 – 25 years old
- o 26 – 35 years old
- o 36 – 50 years old
- o 51 – 64 years old
- o 65 or older

23. How many people live in your household, including yourself?

- o Just me
- o 2 people
- o 3 – 4 people
- o 5 – 8 people
- o More than 8 people

24. What was your annual household income before taxes for 2019?

- o Less than $15,000
- o $15,000 – $24,999
- o $25,000 – $34,999
- o $35,000 – $49,999
- o $50,000 – $74,999
- o $75,000 – $99,000
- o $100,000 – $124,999
- o $125,000 – $149,999
- o $150,000 – $199,999
- o $200,000 and over

25. What best describes your household income?

- o Single income household
- o Dual income household (my spouse or partner also works)
- o Multigenerational
- o Other (please explain) ____

ADDITIONAL COMMENTS

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

This survey and the regional housing study are made possible through the generous commitment and support of the cities, towns, county, businesses, and non-profits in the Verde Valley.

Final 5-10-2021

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

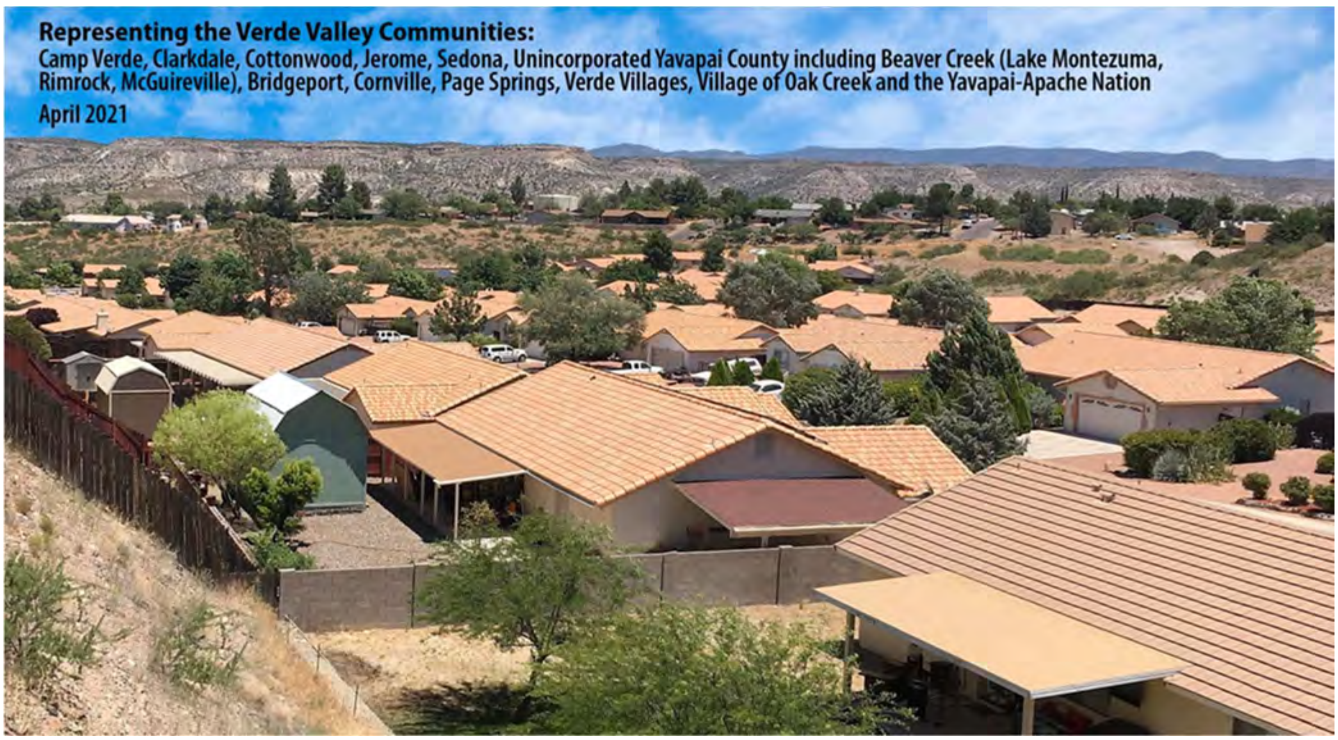


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Table of Contents

1.0 Purpose of Report

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

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

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

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

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

2.0 Local Affordable Housing Approaches

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Site Plan for Tempe Micro Estates

Homes Surround Central Courtyard

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

Government Property Lease Excise Tax (GPLET):

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

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

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

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

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

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

3.0 Public Affordable Housing Resources

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

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

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

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

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

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

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

Table 1

LIHTC Allowable Rents Based on Bedroom Size

Yavapai County

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

Coconino County

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

Source: AZ DOH

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

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

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

Table 2

Affordable Housing Complexes
Verde Valley

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

Sources: Socialserve, AZ DOH, USDA

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

Table 3

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

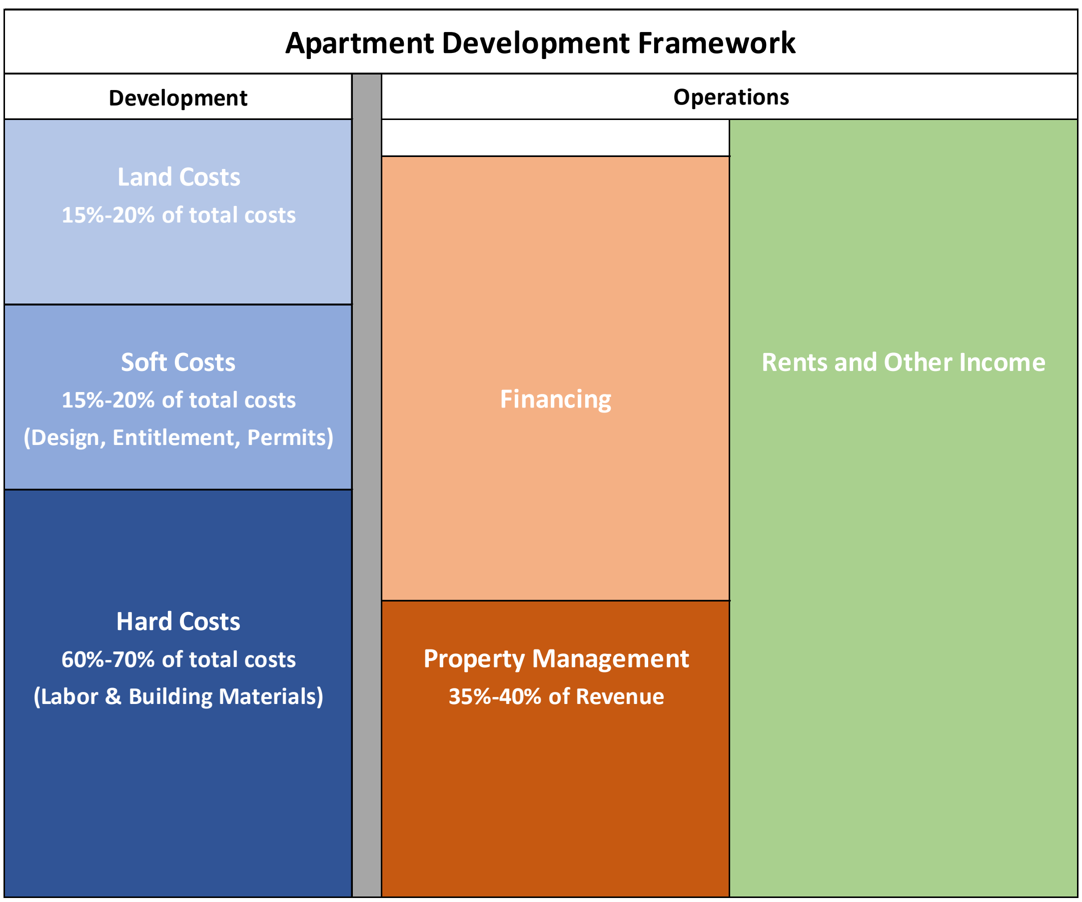
- **Rental Housing Development**: HSNA works with for-profit and non-profit developers on the creation of affordable rental housing units, utilizing LIHTC or HOME funds.

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

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

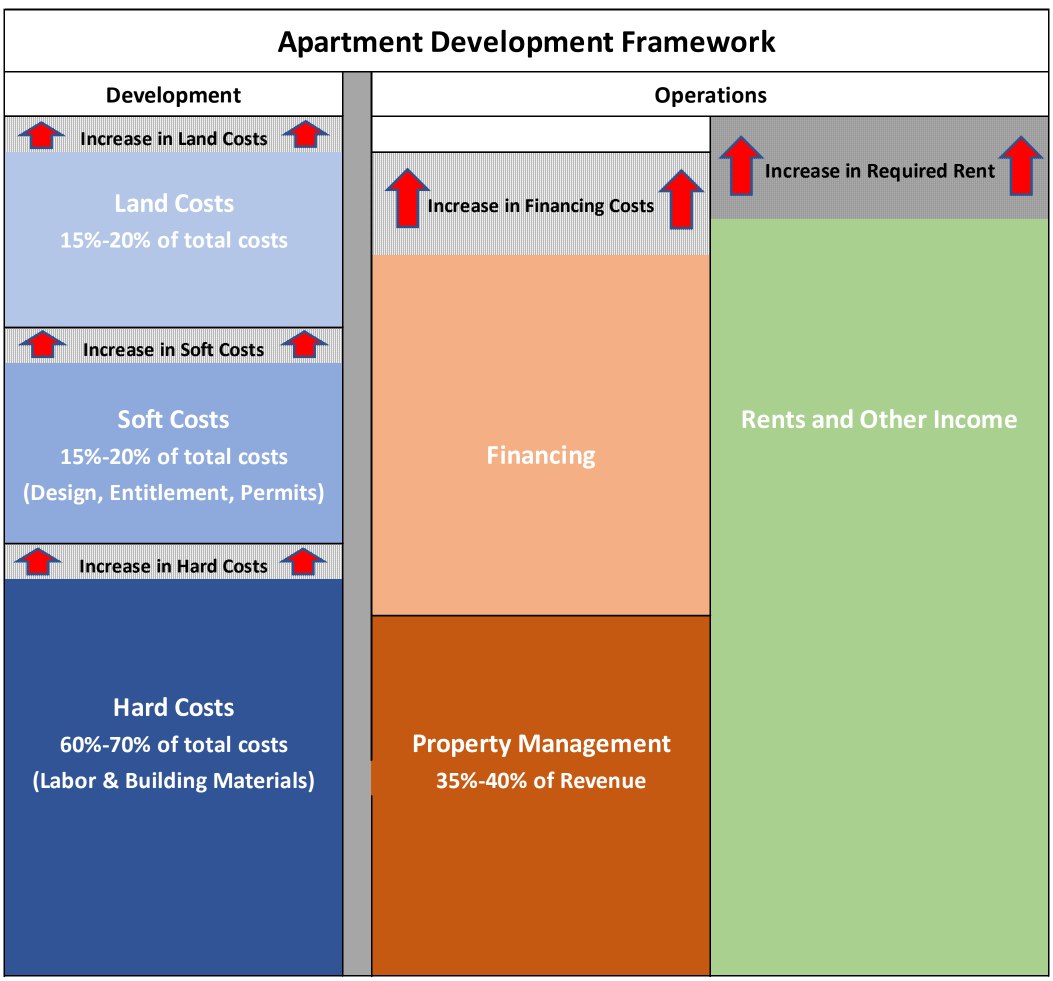
The following charts provide an overview of the costs associated with the development and operation of an affordable apartment complex and how affordable housing tools can affect those costs and revenues. Some of the charts have been adapted from the National Multifamily Housing Council's report The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

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



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

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



Apartment Development Tool Kit

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

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

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

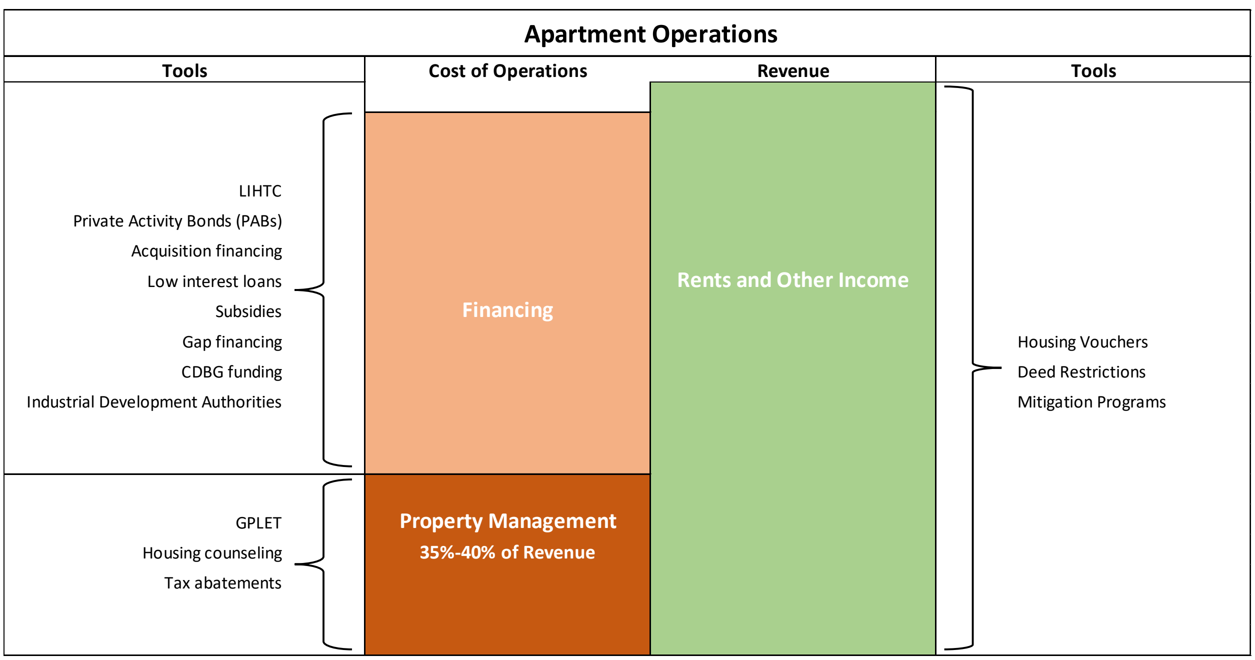
Construction costs can be impacted by both monetary approaches as well as partnerships with private developers and non-profit organizations. The waiver of sales taxes charged on the construction of a project could have a significant effect. The contracting sales tax in the Verde Valley ranges from 3.00%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

Apartment Operations Tool Kit

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

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

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



Summary

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

5.0 Recommendations on Tools & Approaches for Verde Valley

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

5.1 Zoning and Planning

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

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

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

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

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

Table 4

Zoning & General Plan Summary
Verde Valley Communities

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

5.2 Recommended Tool Kit Elements

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

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

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

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

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

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

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

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

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

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

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

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

Staffing & Funding

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

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

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

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

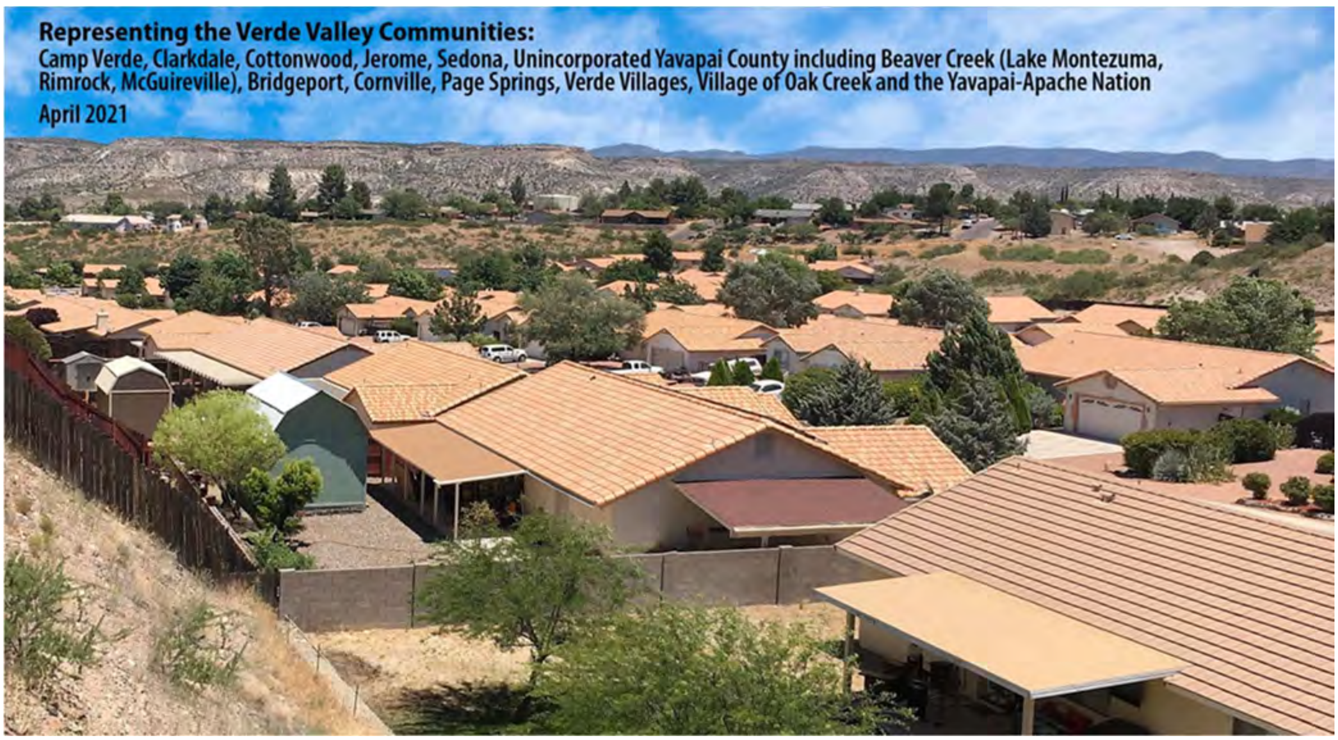
- Increase in retail sales tax rates
- Dedicated property tax
- Increase in transient occupancy or bed tax
- Mitigation or linkage programs that require in-lieu payments
- General Fund allocations
- Sale or lease proceeds from city owned land
- Bond financing

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

Structure of Regional Affordable Housing Effort

To be determined.

Verde Valley Housing Needs Assessment
Volume 3: Five-Year Affordable Housing Action Plan & Case Study



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Executive Summary

Introduction

Housing affordability is a primary issue for many non-urban communities and tourism-dependent economies in Arizona that rely on a wide range of service jobs for the retail, hospitality, and restaurant industries. The Verde Valley is no different and its success as a tourist destination and retirement enclave has placed pressure on the housing market to maintain affordability. This Five-Year Affordable Housing Action Plan addresses these issues and outlines a strategy to address the creation of affordable housing opportunities for local residents at a variety of income levels.

As part of this report, a case study analysis was undertaken of affordable housing strategies adopted by communities that are similar to the cities and towns in the Verde Valley region. The study focused on how those affordable housing-constrained communities approached the problem and the lessons that were learned. Out of these case studies evolved the compilation of a "tool kit" of affordable housing concepts and approaches that may be transferable to the Verde Valley. The tool kit is a critical element of the Action Plan outlined herein.

Five-Year Affordable Housing Action Plan

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

Goal of Action Plan

The goal of the Action Plan is to provide quality housing solutions that are affordable to Verde Valley households at a variety of income levels with specific focus on those households that are cost-burdened and earning less than the Yavapai County area median income of $64,600.

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 the Verde Valley's tight housing market.

<u>Objectives of the Action Plan</u>

The objectives of the Action Plan are the result of analysis of the affordable housing landscape in the Verde Valley, the case study analysis of approaches used in similar communities, and input from city and town staff, community stakeholders, and the community-at-large through a survey. The objectives are:

1. **Establish a regional, collaborative approach to the affordable housing issue for the entire Verde Valley.**
2. **Encourage development of affordable housing units that meet the needs of low and moderate-income households.**
3. **Actively recruit housing developers to the Verde Valley, including affordable as well as market rate developers.**
4. **Incentivize the inclusion of affordable units in private development.**
5. **Increase resources to support production of affordable housing.**
6. **Monitor the increase in demand and loss of affordable housing units in the community.**

<u>Affordable Housing Production Goal</u>

The Verde Valley's affordable housing gap is estimated at 3,739 households including existing demand and future employment demand. For all the communities in the Verde Valley, except Sedona, the housing gap falls on households earning less than $25,000. Much of the effort to address affordable housing in this Action Plan will target low-income households. However, the provision of market-rate housing for moderate income households will help to open up housing for all income levels.

It is recommended that the communities commit to the creation of 1,000 affordable housing units over the next five years or an average of 200 units per year. This production goal can be a combination of housing for low and moderate-income households (households earning less than 80% of AMI) as well as workforce households (earning between 80% and 100% of AMI). Monitoring of housing development activity in the Verde Valley should be a collaboration of the cities and towns and any staff that may be retained to implement the Action Plan.

The Affordable Housing Action Plan will require a commitment on the part of the Verde Valley communities to address the issue.

- This commitment will at least require staffing in order to administer programs and recruit housing developers to the community.
- A combination of tools and resources will likely be required to attract affordable housing to the Verde Valley including public-private partnerships, fee waivers, density incentives, public subsidies, and partnerships with local organizations.

- Managing an affordable housing program will be a matter of trial and error and finding the right mix of tools that work for the cities and towns of the Verde Valley. Adjustments will need to be made along the way and tools expanded or removed as needed.

The Action Plan

The Action Plan is primarily focused on initiatives that can be implemented at the local level to promote affordable housing. However, federal and state resources are also important to reach the lowest income households. The plan is divided into two sections: (1) those actions directed at local housing initiatives and (2) how publicly financed housing programs can be implemented.

Local Housing Initiatives

Develop a Collaborative Approach to Affordable Housing Among Verde Valley Communities

It is vital to the Verde Valley's affordable housing effort that all communities develop common policies and ordinances to address the problem. These tools include General Plan policies, zoning ordinances, housing policies, partnerships, an organizational structure, and other approaches that allow the region to speak with one voice on affordable housing. An umbrella organization comprised of community officials and stakeholders could be formed to oversee the effort.

Staffing

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

Partnerships

Partnerships need to be developed between the Verde Valley communities and organizations such as Housing Solutions of Northern Arizona, Habitat for Humanity, local school districts and others that may assist with the development of affordable units.

Local Funding Sources

Federal and state affordable housing resources have been declining in recent years. Local funding is a critical element for addressing local housing needs. Verde Valley communities may wish to consider providing dedicated on-going funding sources to combat affordable housing issues.

Zoning and Planning

Zoning regulations and General Plans are essential to promoting affordable housing. One of the key factors that will assist with the development of affordable units is an appropriate level of density permitted under a zoning code to foster multifamily complexes. Higher densities assist in reducing the cost per housing unit for land and development. Two Verde Valley communities allow densities that will promote conventional multifamily development: Cottonwood and Sedona. Camp Verde does not specify a maximum density in its Zoning Code but limits building height to 30 feet or three stories with a maximum lot coverage of 50%. This may provide flexibility to reach densities that would allow conventional apartment development.

The minimum density for apartments permitted under zoning should be at least 18 to 20 units per acre. The County and Clarkdale have maximum densities of 14.5 units per acre. Jerome only permits two-family dwellings, a result of its topographic constraints. Sedona has several multifamily zoning districts that can accommodate a range of housing products up to 20 units per acre. Cottonwood's ordinance permits up to 29 units per acre with 30% of the site reserved for usable open space.

Clarkdale, Camp Verde and Yavapai County may wish to evaluate their zoning ordinances to ensure they permit conventional apartment development at densities of at least 18 to 20 units per acre.

All communities in the Verde Valley have a Housing Element in their General Plans although the County does not. General Plan updates should occur every ten years and housing elements should be updated to reflect current conditions.

Zoning ordinances and General Plans of cities and towns and the County should be updated to encourage the development of affordable housing throughout the Verde Valley.

Development Incentives

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

- Expedited review of plans.
- Density incentives to offset the inclusion of affordable units in the project.
- Waiver of permit fees (building fees, plan review fees, etc.).
- Reimbursement of development impact fees.
- Waiver of sales tax on construction of the project.

Affordable Housing Policies

The cities of Flagstaff and Sedona have developed sophisticated housing policies and guidelines that require developers to include affordable housing units in a development project or to contribute in-lieu funds that can be used to develop those units in the future. Sedona's Design

Incentives and Guidelines for Affordable Housing (DIGAH) is a model policy that could be replicated for other Verde Valley communities.

Community Land Trust (CLT)

CLTs have become one of the most popular local government techniques to address affordable housing. A Verde Valley Community Land Trust could be established among the municipalities and the County as a regional entity to provide land for development of affordable units. A Verde Valley CLT could provide the initial structure or organization that local communities need to bring everyone together in a common effort.

Municipality-Owned Land

Most jurisdictions have excess land or parcels that are not used at the current time, and which could be converted to residential purposes. The cities and towns of the Verde Valley should conduct an inventory of available publicly owned land that could be used for housing purposes.

Deed Restricted Housing

Deed restricted housing is one of the primary tools used in tourist-oriented communities to address affordable housing. However, the approach is costly and requires monitoring by local staff. Some cities have recognized issues with the financing of deed restricted properties and have phased out their programs. The approach should be used with caution but may be needed in certain situations.

Promoting Alternative Housing Types

Accessory Dwelling Units (ADUs) have become popular in recent years as a way to address the lack of affordable housing. However, in tourist-oriented communities, ADUs often end up as short-term rentals. Deed restrictions negotiated at the time of building permit approval can prohibit the use of an ADU as a short-term rental although current state law prohibits the local regulation of short-term rentals. Alternatives to restrict the use of ADUs may be as a conditional use under zoning, thereby permitting the placement of a restriction on the property. This may be an avenue for local communities to consider.

Down Payment Loan Assistance Program

In this program, low interest loans or grants are provided to low and moderate-income households for the purchase of a home. As loans or grants are paid, the money can be returned to a revolving fund for use by other households. The programs usually target moderate-income 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.

<u>Publicly Financed Housing Initiatives</u>

Low Income Housing Tax Credit Program (LIHTC)

The LIHTC program is one of the most successful affordable housing approaches that uses private investment to create affordable units. However, it is subject to significant competition. The Verde Valley should begin a marketing program to attract LIHTC developers to the region and assist with the application process at the Arizona Department of Housing.

Private Activity Bonds (PABs)

Private Activity Bonds that provide special financing benefits for state and local government projects. Tax credits are used as a funding source for rental housing projects except the PAB program credits are 4% rather than 9% under the LIHTC program. Because of the lower tax credits, there is less competition for funds and the allocation to the state is often undersubscribed. The Verde Valley should initiate a marketing program to developers of PAB complexes which are often more acceptable to neighborhoods because of the mixed-income composition of the residents.

Federal & State Affordable Housing Programs

A number of affordable housing programs are available from federal and state agencies. Housing Solutions of Northern Arizona (HSNA) is certified to assist cities and individuals with some of these programs. The programs include:

- Community Development Block Grants (CDBG).
- Workforce Initiative Subsidy for Homeownership (WISH) Program.
- U.S. Department of Agriculture (USDA) Loan Programs for rural Arizona.
- Mortgage Revenue Bonds (MRB) and Mortgage Credit Certificates (MCC).
- The Home+Plus Home Buyer Down Payment Assistance Program.
- The Home+Plus 30-year fixed-rate mortgage combined with down payment assistance.

The recommended actions steps and timeline for the Action Plan are illustrated on the following chart. The overall housing production goal of the Action Plan is to create 1,000 affordable housing units over the next five years or an average of 200 units per year.

Verde Valley
Five-Year Affordable Housing Action Plan

Category	Action	ACTION STEPS: Short Term: 1 Year	ACTION STEPS: Mid-Term: 1-2 Years	ACTION STEPS: Long-Term 3-5 Years
Workforce Affordable Housing Approach	**Develop Collaborative Approach to Affordable Housing**	Promote affordable housing across the region. Establish a regional housing organization.		
	Staffing	Hire staff to prepare a strategy, develop policies and ordinances. Monitor the distribution of federal stimulus dollars for affordable housing		
	Patnerships	Create partnerships with HSNA/Habitat for Humanity/School Districts/Others.		
	Local Funding Sources			Consider developing local funding sources for housing.
	Zoning & Planning		Update General Plans/Update zoning codes to accommodate high density housing.	
	Development Incentives	Incorporate incentives into zoning ordinances.		
	Affordable Housing Policies		Adopt policies such as Sedona'a DIGAH.	
	Community Land Trust (CLT)	Establish a Community Land Trust for future ownership of land for affordable units/complexes.		
	City-Owned Land		Inventory City-owned land assets for potential affordable housing sites.	
				Initiate partnerships with other organizations that own land and may be willing to participate in an affordable housing complex.
	Deed Restricted Housing		Establish a deed restriction program for multifamily developers .	Recruit a multi-family developer to construct a market rate complex with at least 10% workforce units.
	Promote Alternative Housing Types			Consider the promotion of Accessory Dwelling Units (ADUs) for affordable housing.
	Down Payment Assistance Program		Establish a down payment assistance program to promote homeownership.	
	Monitor the increase and loss of affordable units		Create an inventory of the supply of affordable units. Monitor the loss or increase in units.	
Low Income Affordable Housing Approach	**LIHTC Program**	Establish a Marketing Program targeting affordable housing developers.	Recruit LIHTC developer to construct complexes in the region, assist with identifying suitable sites, negotiate local subsidy if needed.	
	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.	
	Federal & State Affordable Housing Programs		Investigate and promote the use of all available federal and state housing programs including Home+Plus, Mortgage Credit Certificates, CDBG, Wish Program, USDA Loans	

1.0 Introduction

Housing affordability is a primary issue for many non-urban communities and tourism-dependent economies in Arizona that rely on a wide range of service jobs for the retail, hospitality, and restaurant industries. The Verde Valley is no different and its success as a tourist destination and retirement enclave has placed pressure on the housing market to maintain affordability. This Five-Year Affordable Housing Action Plan addresses these issues and outlines a strategy to address the creation of affordable housing opportunities for local residents at a variety of income levels.

As a prelude to the Action Plan, a case study analysis was undertaken of affordable housing strategies adopted by communities that are similar to the cities and towns in the Verde Valley region. The study focused on how those affordable housing-constrained communities approached the problem and the lessons that were learned. Out of these case studies evolved the compilation of a "tool kit" of affordable housing concepts and approaches that may be transferable to the Verde Valley. The tool kit is a critical element of the Action Plan outlined herein.

The next section outlines the primary findings of the case study and a "Tool Kit" of approaches and techniques that have worked in other communities to address housing affordability. The tool kit is primarily focused on actions **local** cities, towns, and counties can implement.

Section 3.0 provides an overview of the public resources at the federal and state levels that are available to address affordable housing. These resources generally target the lowest income households. However, for cities outside of Arizona's urban areas, there are few programs available to support affordable housing. Funding is often limited and the competition for funds is fierce.

Section 4.0 provides 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 for the benefit of low and moderate-income households.

The last section of this report is the recommended Five-Year Affordable Housing Action Plan for the Verde Valley.

2.0 Local Affordable Housing Approaches

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

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

Out of the case study analysis evolved a "Tool Kit" of affordable housing techniques and approaches to address affordable housing at the **local** level. The most prevalent methods to provide affordable housing for low and moderate-income households involve public subsidies or programs, much of which flows from federal and state governments. Some of these sources are entitlement program grants to local jurisdictions by formula (such as CDBG), while others are competitive and discretionary. Because these sources are insufficient to address a community's existing and future affordability needs, many housing-constrained cities, towns, and counties have taken it upon themselves to expand their affordable housing inventory.

A broad range of affordable housing techniques and strategies have been developed across the country by housing-constrained or tourism-dependent communities that are especially vulnerable to rising home prices and rents that are beyond the reach of many service industry employees. The primary techniques that local communities can implement are outlined in this section of the report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Retail sales tax
- Property tax
- Transient occupancy or bed tax
- Mitigation or linkage programs

- General Fund allocations
- Sale or Lease Proceeds
- Bond financing

Public-Private Partnerships (PPP): Through PPP, the resources of a 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 municipality-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 Northern Arizona is certified to provide such services throughout Yavapai and Coconino counties.

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

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

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

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

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

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

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

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

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

- **Tiny Homes**: These single family units are typically less than 500 square feet in size and can be built with wheels or on a foundation. If on a foundation, they could serve as an ADU on a single family lot. If they are built on wheels, the unit may need to be registered as an RV which could limit their use in single family zoning districts.

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

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

  The City of Tempe is experimenting with a tiny home complex known as Tempe Micro Estates that embodies the co-living concept. Located in a single family neighborhood, the City has partnered with Newtown Community Development Corporation to build thirteen

600 square foot tiny homes (one bedroom loft units). The units are built on land owned by a Community Land Trust. The site features a 900-square foot common room with a kitchen and laundry near the front of the property providing a place to gather, share meals, and interact with neighbors. Homes are priced at $210,000 but are available for as low as $170,000 with subsidy available for qualifying households. Land lease and HOA fees are estimated at $135 per month.

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

Site Plan for Tempe Micro Estates

Homes Surround Central Courtyard

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

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

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

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

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

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

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

3.0 Public Affordable Housing Resources

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

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

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

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

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

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

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

Table 1

LIHTC Allowable Rents Based on Bedroom Size

Yavapai County

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

Coconino County

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

Source: AZ DOH

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

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

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

Table 2

Affordable Housing Complexes
Verde Valley

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

Sources: Socialserve, AZ DOH, USDA

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

Table 3

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Workforce Initiative Subsidy for Homeownership (**WISH) Program**: The WISH 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

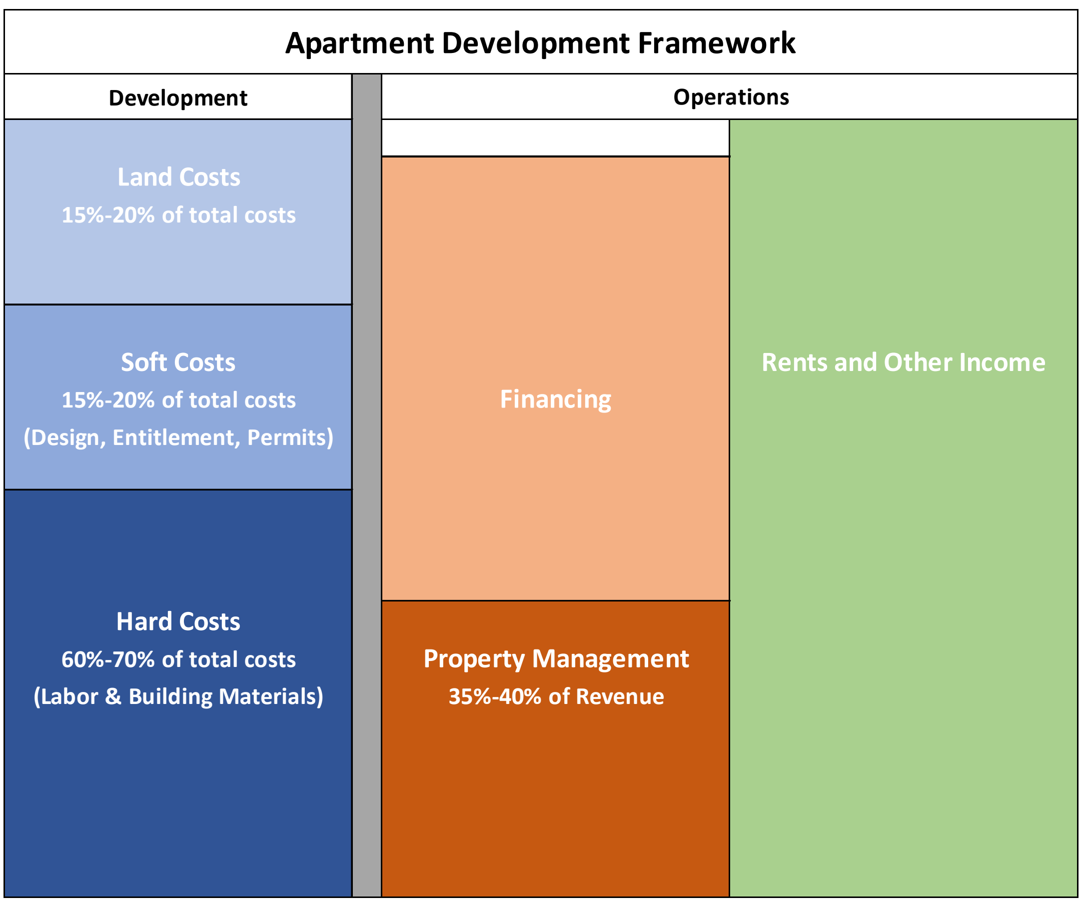
- **Rental Housing Development**: HSNA works with for-profit and non-profit developers on the creation of affordable rental housing units, utilizing LIHTC or HOME funds.

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

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

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

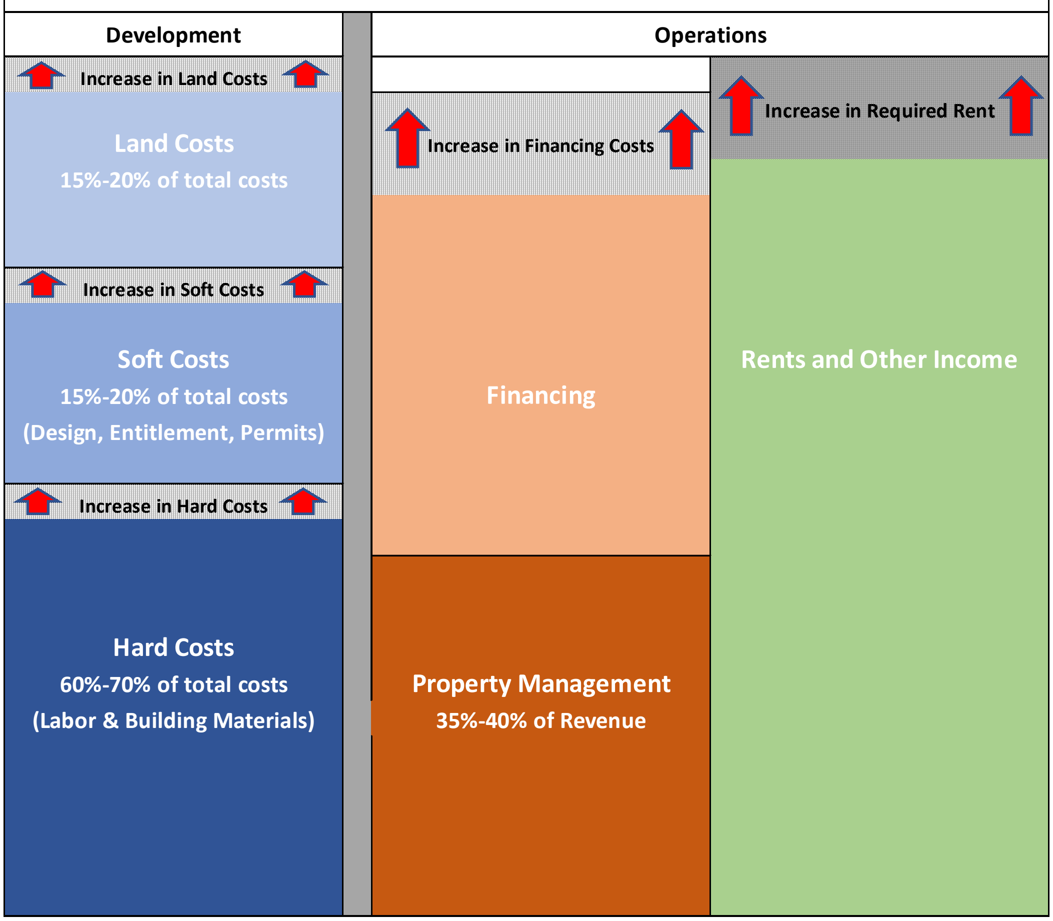
The following chart is a simplified representation of the relationship between apartment development costs and rents. Land costs are typically a function of the market and vary widely depending on location and community. Soft costs are dependent on the city in which the complex is located. Design requirements,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



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

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

Apartment Development Framework



Apartment Development Tool Kit

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

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

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

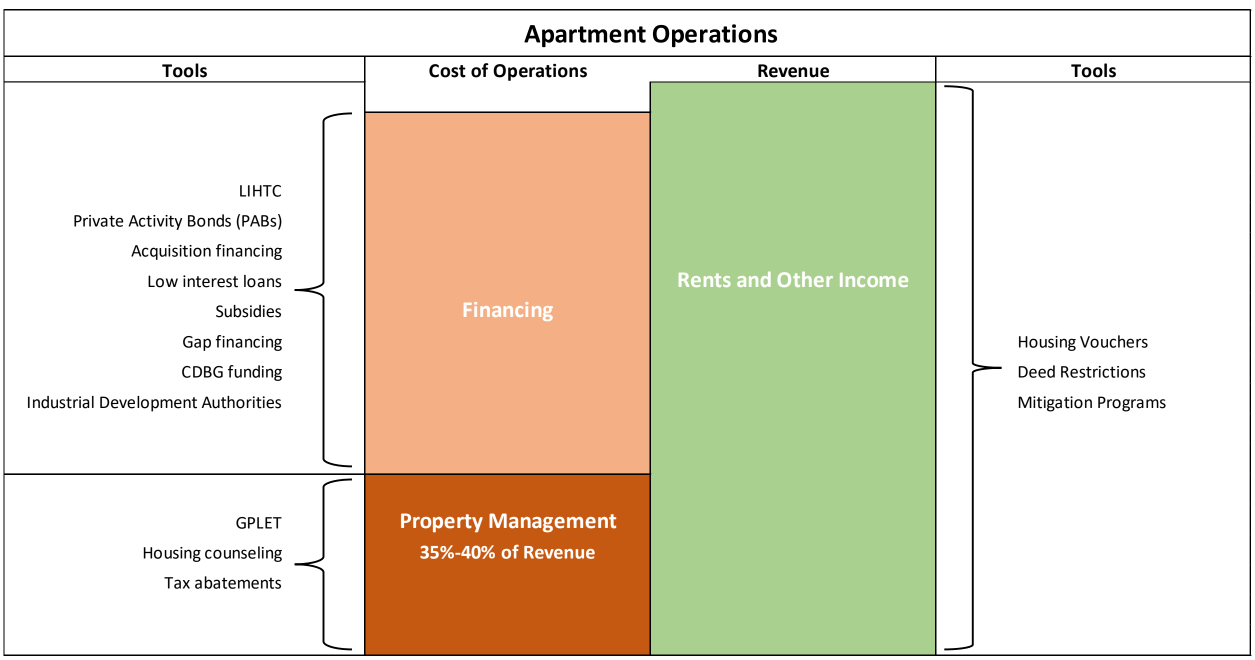
Construction costs can be impacted by both monetary approaches as well as partnerships with private developers and non-profit organizations. The waiver of sales taxes charged on the construction of a project could have a significant effect. The contracting sales tax in the Verde Valley ranges from 3.00%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

Apartment Operations Tool Kit

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

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

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



Summary

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

5.0 Five-Year Affordable Housing Action Plan

This Five-Year Action Plan addresses the creation of affordable housing in the Verde Valley for a variety of income levels. As a prelude to the Action Plan, the case study analysis of tourism-dependent communities analyzed how those cities approached the housing affordability problem and what lessons were learned. The case studies focused 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 communities in the Verde Valley.

The goal of the Action Plan is to provide quality housing that is affordable to Verde Valley households at a variety of income levels with specific focus on those households that are cost-burdened and earning less than the Yavapai County area median income of $64,600. The U.S. Department of Housing and Urban Development (HUD) classifies households by income in the following manner:

- Extremely low income: Persons in households earning less than 30% of the area median income (AMI) (less than $19,380).
- Very low income: Persons in households that between 30% and 50% of the AMI ($19,380 to $32,300).
- Low income: Persons in households that earn between 50% and 80% of AMI ($32,200 to $51,680).
- Moderate income: Persons in households that earn between 80% and 100% of AMI ($51,680 to $64,600).

To achieve the goal of the Action Plan, several approaches are necessary to address the Verde Valley's housing needs. The term "affordable housing" is often associated with housing for the lowest income households generally earning less than 80% AMI. "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. The wages for these jobs are typically in the moderate-income category. In the context of this study, the term "affordable" will apply to all households that are burdened by housing costs or those who 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 up to and sometimes 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 the Verde Valley's tight housing market.

5.1 Objectives of the Action Plan

The objectives of the Action Plan described below are the result of analysis of the affordable housing landscape in the Verde Valley, the case study analysis of approaches used in similar communities, and input from city and town staff, community stakeholders, and the community-at-large through a survey. The objectives are:

1. **Establish a regional, collaborative approach to the affordable housing issue for the entire Verde Valley.**
2. **Encourage development of affordable housing units that meet the needs of low and moderate-income households.**
3. **Actively recruit housing developers to the Valley, including affordable as well as market rate developers.**
4. **Incentivize the inclusion of affordable units in private development.**
5. **Increase resources to support production of affordable housing.**
6. **Monitor the increase in demand and loss of affordable housing units in the community.**

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

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

5.2 Affordable Housing Demand

Volume 1 of this study identified an affordable housing gap of 3,739 households including the existing demand of 2,796 units and the future employment demand of 943 units. For all the communities in the Verde Valley, except Sedona, the housing gap falls on households earning less than $25,000. For Sedona, the gap extends to households earning up to $100,000. However, while much of the effort to address affordable housing in this Action Plan will target low-income households, the provision of market-rate housing for moderate income households will help to open up housing for all income levels.

Table 4

Verde Valley Five-Year Affordable Housing Demand				
Community	Existing Gap Demand	Forecasted Employment 5-Yr. Demand	Total 5-Yr. Demand	% of Total Demand
Camp Verde	95	160	255	6.8%
Clarkdale	280	15	295	7.9%
Cottonwood	370	241	611	16.3%
Jerome	11	12	23	0.6%
Sedona	1,258	362	1,620	43.3%
Unincorporated Area	782	151	933	25.0%
Total	**2,796**	**943**	**3,739**	**100.0%**

Source: EMSI

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 resources available to address housing for low-income households are limited and subject to intense competition. For instance, for a Low Income Housing Tax Credit (LIHTC) complex, the Verde Valley 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 County as outlined in HUD programs. The 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 5

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		
Source: HUD 2020								

As a way of assessing the progress of local communities in addressing affordable housing, it is important to establish a five-year affordable housing production goal. It is recommended that the communities commit to the creation of 1,000 affordable housing units over the next five years or an average of 200 units per year. This production goal can be a combination of housing for low and moderate-income households (households earning less than 80% of AMI) as well as workforce households (earning between 80% and 100% of AMI). Monitoring of housing development activity in the Verde Valley should be a collaboration of the cities and towns and any staff that may be retained to implement the Action Plan.

5.3 Preface to Affordable Housing Action Plan

The Affordable Housing Action Plan is prepared with the understanding of the limitations facing the Verde Valley in the expansion of its affordable housing stock. The inventory of multifamily units in the Verde Valley accounts for only 6.2% of total dwelling units (as opposed to 16% across the state). This situation creates a significant hurdle to bring the inventory of affordable housing up to near state-wide levels. In most communities the percentage of multifamily units is even lower (2.0% in Camp Verde and 4.7% in Sedona). Only Cottonwood has a reasonable percentage of apartment units at 14.4% of the housing inventory.

The demand for affordable units in the Verde Valley is substantial at 3,739 units. Excluding Sedona, the demand in the remaining communities of the Verde Valley is 2,119 units. For small cities and towns, this will require a huge effort to address affordability. For this reason, the Verde Valley communities will need to be proactive in their approach to implementing the Action Plan.

Given the limitations facing the Verde Valley in the development of affordable housing units, the Affordable Housing Action Plan will require a commitment on the part of the communities 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, (2) the lack of affordable housing in the communities today, and (3) the commitment of local communities to address the issue.
- A combination of tools and resources will likely be required to attract affordable housing to the Valley including public-private partnerships, fee waivers, density incentives, public subsidies, and partnerships with local organizations.
- Managing an affordable housing program will be a matter of trial and error and finding the right mix of tools that work for the cities and towns of the Verde Valley. Adjustments will need to be made along the way and tools expanded or removed as needed.

5.4 Affordable Housing Action Plan

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

Local Housing Initiatives

Develop a Collaborative Approach to Affordable Housing Among Verde Valley Communities

It is vital to the Verde Valley affordable housing effort that all communities develop common policies and ordinances to attack the problem. This does not mean that the same policies and ordinances would be adopted by each community. Each city, town and the county will have their own biases and ways of doing business. However, the Verde Valley as a whole needs to promote affordable housing and have a set of tools that work for each community. These tools include General Plan policies, zoning ordinances, housing policies, partnerships, an organizational structure, and other approaches that allow the region to speak with one voice on affordable housing. An umbrella organization comprised of community officials and stakeholders could be formed to oversee the effort.

Staffing

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

- Administration of a regional housing activities.
- Preparing an overall strategy for addressing regional affordable housing needs.
- Developing policies and ordinances that can be used by local communities to address the development of affordable units.
- Marketing housing sites to low and moderate income housing developers.
- Monitoring the development or loss of affordable housing in the Verde Valley.
- For the near term, coordinating an effort among the Verde Valley cities and towns and the County to ensure that the region receives its fair share of any federal stimulus funds directed towards affordable housing.

Partnerships

Housing Solutions of Northern Arizona is authorized to provide a variety of housing services to Yavapai, Coconino, and Mohave counties. The agency may be able to assist the Verde Valley in implementing some of the key programs. Other organizations such as Habitat for Humanity could assist with the development of affordable units in partnership with the cities and towns. Partnerships with school districts could also result in the use of excess land for housing purposes.

Local Funding Sources

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

- Increase in retail sales tax rates
- Dedicated property tax
- Increase in transient occupancy or bed tax
- General Fund allocations
- Sale or lease proceeds from city owned land
- Bond financing

Zoning and Planning

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

Table 6

Zoning & General Plan Summary
Verde Valley Communities

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

Two Verde Valley communities allow densities that will promote conventional multifamily development: Cottonwood and Sedona. Camp Verde does not specify a maximum density in its R-2 zoning district but limits building heights to 30 feet or three stories with a maximum lot coverage of 50%. This may provide flexibility to reach densities that would allow conventional apartment development.

The minimum density permitted under zoning should be at least 18 to 20 units per acre. The County and Clarkdale have maximum densities of 14.5 units per acre. Jerome only permits two-family dwellings, a result of its topographic constraints. Sedona has several multifamily zoning districts that can accommodate a range of housing products up to 20 units per acre. Cottonwood's ordinance permits up to 29 units per acre with 30% of the site reserved for usable open space.

Clarkdale, Camp Verde, and Yavapai County may wish to evaluate their zoning ordinances to ensure they permit conventional apartment development at densities of at least 18 to 20 units per acre.

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

Zoning ordinances and General Plans of cities and towns and the County should be updated to encourage the development of affordable housing throughout the Verde Valley.

Development Incentives

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

- Expedited review of plans.
- Density incentives to offset the inclusion of affordable units in the project.
- Flexible development standards for the size of the lot, setbacks, etc.
- Adjustments to building design standards.
- Waiver of permit fees (building fees, plan review fees, etc.).
- Reimbursement of development impact fees (impact fees cannot be waived but could be paid by the city).
- Reduced parking requirements, particularly if a property is located within a certain distance of mass transit.
- Waiver of sales tax on construction of the project.

Affordable Housing Policies

The cities of Flagstaff and Sedona have developed sophisticated housing policies and guidelines that require developers to include affordable housing units in a development project or to contribute in-lieu funds that can be used to develop those units in the future. This type of policy document can only be implemented at the time of rezoning or annexation of a property under state law. However, it provides the cities with a way of generating affordable units.

Sedona has adopted their Design Incentives and Guidelines for Affordable Housing (DIGAH). The DIGAH is an important regulation that is similar to ordinances found in in many tourist-dominated, housing-constrained communities. It has been successful in producing affordable units and collecting in-lieu fees for Sedona. With some modification, it could be a model that is replicated for other Verde Valley communities.

Community Land Trust (CLT)

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

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

Municipality-Owned Land

Most communities have excess land or parcels that are not used at the current time, and which could be converted to residential purposes. This is a cost-effective way to generate land for housing without an impact on a city's budget. In combination with a CLT, excess land can be an important element of addressing housing affordability. The cities and towns of the Verde Valley should conduct an inventory of available publicly owned land that could be used for housing purposes.

Deed Restricted Housing

Deed restricted housing is one of the primary tools used in tourist-oriented communities to address affordable housing. The deed restriction ensures that housing units will be reserved for the benefit of local employees working in the area. However, the approach is costly and requires monitoring by local staff. Some cities have recognized issues with the financing of deed restricted properties and have phased out their programs. The approach should be used with caution but may be needed in certain situations.

Promoting Alternative Housing Types

Accessory Dwelling Units (ADUs) have become popular in recent years as a way to address the lack of affordable housing. Cities across the country now permit ADUs by right in single family zoning districts in an effort to expand affordable units. However, in tourist-oriented communities, ADUs often end up as short-term rentals. Deed restrictions negotiated at the time of building permit approval can prohibit the use of an ADU as a short-term rental as well as requiring that the unit remain under single ownership with the primary unit. While state law restricts the local regulation of short-term rentals, ADUs could be considered a conditional use under zoning, thereby permitting the placement of a restriction on the property. This may be an avenue for local communities to consider.

Down Payment Loan Assistance Program

Low interest loans or grants are provided to low and moderate-income households for the purchase of a home. Typically, there is a match of the buyer's down payment of two to three times up to a maximum. As loans or grants are paid, the money can be returned to a revolving fund for use by other households. The programs usually target moderate-income 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. The programs are operated similar to the Down Payment Loan Assistance Program but require the employee to work for the city or the loan must be repaid.

<u>Publicly Financed Housing Initiatives</u>

Low Income Housing Tax Credit Program (LIHTC)

The LIHTC program is one of the most successful affordable housing approaches that uses private investment to create affordable units. However, it is subject to significant competition. The Verde Valley should begin a marketing program to attract LIHTC developers to the region and assist with the application process at the Arizona Department of Housing.

Private Activity Bonds (PABs)

Private Activity Bonds that provide special financing benefits for state and local government projects. Tax credits are used as a funding source for rental housing projects except the PAB program credits are 4% rather than 9% under the LIHTC program. Because of the lower tax credits, there is less competition for funds and the allocation to the state is often undersubscribed. However, PAB financing only makes up around 40% of total project costs. As a result, developers often require additional funding from public and non-profit sources in addition to bank financing. The Verde Valley should initiate a marketing program to developers of PAB complexes which are often more acceptable to neighborhoods because of the mixed-income composition of the residents.

Federal & State Affordable Housing Programs

A number of affordable housing programs are available from federal and state agencies. Housing Solutions of Northern Arizona (HSNA) is certified to assist cities and individuals with some of these programs. The programs include:

- Community Development Block Grants (CDBG) which are administered by the Northern Arizona Council of Government (NACOG).
- Workforce Initiative Subsidy for Homeownership (WISH) Program which is administered by HSNA for residents of Coconino, Yavapai and Mohave counties.
- U.S. Department of Agriculture (USDA) Loan Programs for rural Arizona. HSNA is approved to package USDA direct loans for low-income homebuyers.
- Mortgage Revenue Bonds (MRB) and Mortgage Credit Certificates (MCC) available from the Arizona Industrial Development Authority.
- The Home+Plus Home Buyer Down Payment Assistance Program administered by the Arizona Industrial Development Authority (AZ IDA).
- The Home+Plus 30-year fixed-rate mortgage combined with down payment assistance.

The recommended actions steps and timeline for the Action Plan are illustrated on the following chart. The overall housing production goal of the Action Plan is to create 1,000 affordable housing units over the next five years or an average of 200 units per year.

Verde Valley
Five-Year Affordable Housing Action Plan

	Action	ACTION STEPS		
		Short Term: 1 Year	Mid-Term: 1-2 Years	Long-Term 3-5 Years
Workforce Affordable Housing Approach	**Develop Collaborative Approach to Affordable Housing**	Promote affordable housing across the region. Establish a regional housing organization.		
	Staffing	Hire staff to prepare a strategy, develop policies and ordinances. Monitor the distribution of federal stimulus dollars for affordable housing		
	Patnerships	Create partnerships with HSNA/Habitat for Humanity/School Districts/Others.		
	Local Funding Sources			Consider developing local funding sources for housing.
	Zoning & Planning		Update General Plans/Update zoning codes to accommodate high density housing.	
	Development Incentives	Incorporate incentives into zoning ordinances.		
	Affordable Housing Policies		Adopt policies such as Sedona'a DIGAH.	
	Community Land Trust (CLT)	Establish a Community Land Trust for future ownership of land for affordable units/complexes.		
	City-Owned Land		Inventory City-owned land assets for potential affordable housing sites.	
				Initiate partnerships with other organizations that own land and may be willing to participate in an affordable housing complex.
	Deed Restricted Housing		Establish a deed restriction program for multifamily developers .	Recruit a multi-family developer to construct a market rate complex with at least 10% workforce units.
	Promote Alternative Housing Types			Consider the promotion of Accessory Dwelling Units (ADUs) for affordable housing.
	Down Payment Assistance Program		Establish a down payment assistance program to promote homeownership.	
	Monitor the increase and loss of affordable units		Create an inventory of the supply of affordable units. Monitor the loss or increase in units.	
Low Income Affordable Housing Approach	**LIHTC Program**	Establish a Marketing Program targeting affordable housing developers.	Recruit LIHTC developer to construct complexes in the region, assist with identifying suitable sites, negotiate local subsidy if needed.	
	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.	
	Federal & State Affordable Housing Programs		Investigate and promote the use of all available federal and state housing programs including Home+Plus, Mortgage Credit Certificates, CDBG, Wish Program, USDA Loans	