

AGENDA



3:00 P.M.

CITY COUNCIL MEETING

WEDNESDAY, JUNE 12, 2024

NOTES:

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

www.SedonaAZ.gov

THE MEETING CAN BE VIEWED LIVE ON THE CITY'S WEBSITE AT WWW.SEDONAAZ.GOV OR ON CABLE CHANNEL 4.

GUIDELINES FOR PUBLIC COMMENT

PURPOSE:

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

PROCEDURES:

- Fill out a "Comment Card" and deliver it to the City Clerk.
- When recognized, use the podium/microphone.
- State your:
 1. Name and
 2. City of Residence
- Limit comments to **3 MINUTES**.
- Submit written comments to the City Clerk.

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

2. ROLL CALL

3. SPECIAL BUSINESS

LINK TO DOCUMENT =

- a. AB 3067 **Discussion/possible direction** regarding housing projects and potential changes to the Land Development Code (LDC) and Development Incentives and Guidelines for Affordable Housing (DIGAH) to address housing issues.
- b. **Discussion/possible action** regarding ideas for future meetings/agenda items.

4. EXECUTIVE SESSION

Upon a public majority vote of the members constituting a quorum, the Council may hold an Executive Session that is not open to the public for the following purposes:

- a. To consult with legal counsel for advice regarding matters listed on this agenda per A.R.S. § 38-431.03(A)(3).
- b. Return to open session. Discussion/possible action regarding executive session items.

5. ADJOURNMENT

Posted: 06/06/2024

By: DJ

JoAnne Cook, CMC
City Clerk

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

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

NOTICE TO PARENTS AND LEGAL GUARDIANS: Parents and legal guardians have the right to consent before the City of Sedona makes a video or voice recording of a minor child, pursuant to A.R.S. § 1-602(A)(9). The Sedona City Council meetings are recorded and may be viewed on the City of Sedona website. If you permit your child to attend/participate in a televised City Council meeting, a recording will be made. You may exercise your right not to consent by not allowing your child to attend/participate in the meeting.

CITY COUNCIL CHAMBERS
102 ROADRUNNER DRIVE, SEDONA, AZ

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



**CITY COUNCIL
AGENDA BILL**

**AB 3067
June 12, 2024
Work Session**

Agenda Item: 3a
Proposed Action & Subject: Discussion/possible direction regarding housing projects and potential changes to the Land Development Code (LDC) and Development Incentives and Guidelines for Affordable Housing (DIGAH) to address housing issues.

Department	Community Development/Housing
Time to Present	15 minutes
Total Time for Item	2 hours
Other Council Meetings	N/A
Exhibits	A. Development Incentives and Guidelines for Affordable Housing (DIGAH)

Finance Approval	Reviewed RMS 6/3/24	Expenditure Required
City Attorney Approval	Reviewed 6/4/24 KWC	
City Manager's Recommendation	Direction to staff. ABS 6/3/24	
		Amount Budgeted
		\$ xxx
		\$ xxx
		Account No. (Description)

SUMMARY STATEMENT

Background

The current LDC was adopted in November 2018 following a two year update process. The LDC update was the first comprehensive overhaul of the document since 1994 and represented a significant improvement over the previous Code. As thorough as the LDC review process was, staff committed to continuing to evaluate the LDC for potential changes to address changing conditions and needs within the City. Since the 2018 updates, Community Development Staff has brought forward additional proposed changes about once per year.

Through the last couple cycles of code updates, there has been discussion about having a round of updates that focus on particular issues rather than a mix of updates to the overall code, with housing being one of those issues. As Community Development and Housing Staff have begun working on code updates to address housing issues, questions about how to approach different issues, and whether the LDC is the appropriate avenue to address those issues, have arisen. Before jumping into drafting LDC changes, Staff is seeking direction from Council on their preferred approach.

In addition to seeking direction from Council regarding potential code revisions, this work session will also provide an opportunity for Council to provide direction to staff on expectations

for housing projects (including both affordable and market rate projects). While there has been an increase in interest in developing housing, many of the projects need zone changes and/or LDC modifications in order to make the project feasible. As Staff is typically the first contact for many of these projects, with Council not seeing a project until later in the development process, we are also seeking direction from Council regarding their expectations for these projects to ensure that we're steering developers in the right direction. As part of this discussion, direction is also requested regarding the order of review for housing project development agreements.

How Projects Are Reviewed

The following documents, policies, and processes are used in review of development projects.

Land Development Code (LDC): The LDC contains the standards of development for properties in Sedona. Having a standard in the LDC gives a developer the greatest assurance of what they are permitted to do; if they meet the requirements of the code for their zoning district, it will be approved. While this gives the developer assurances, it limits the ability of the City to negotiate for concessions or to place conditions on a particular type of development.

Processes established by the LDC include the following:

- **Zone Changes**: The applicant is seeking to change the underlying zoning of a property, changing the permitted uses (such as single-family to multi-family). The City is able to negotiate for "Community Benefits" through the Zone Change process. For housing projects, this could include a prohibition on short-term rentals, affordability restrictions, or a prohibition on condominium conversions.
- **Development Review**: The applicant is seeking to construct under the permitted uses and design standards as set forth in the LDC for their current zoning district. The City cannot negotiate for "Community Benefits" through this process if the development is not requesting any code exceptions.

Development Incentives and Guidelines for Affordable Housing (DIGAH): The DIGAH (Attachment A) is the City's Affordable Housing Policy, outlining what types of concessions the City is willing to provide for affordable housing development and what types of affordability restrictions the City would be expecting in exchange for those concessions. It lays out specific areas where a code exception may be approved administratively (by the Community Development Director), but gives the City Council the ability to approve code exceptions that go beyond the specific areas laid out in the DIGAH.

As this is a policy, and not an adopted code, it does not provide the same levels of assurances as the LDC does, but does give the City more room to negotiate based on the specifics of a particular project and to ensure that affordability restrictions are included as part of a project. These exceptions are typically reviewed and approved as part of a Development Agreement.

Current LDC Allowances Related to Housing

The current LDC sections that were adopted specifically to address housing issues include the following:

- [LDC Sections 2.11 \(M1: Mixed-Use Neighborhood\)](#), [2.12 \(M2: Mixed-Use Office\)](#), [2.13 \(M3: Mixed-Use Activity Center\)](#), [2.14 \(CO: Commercial\)](#), [2.15 \(IN: Light Industrial\)](#), [2.16 \(L: Lodging\)](#): Allows residential densities in excess of 12 units per acre if the project

includes strategies to address local housing needs. In addition, there is a Community Plan Policy that supports rezonings that exceed 12 units per acre under the same conditions.

- Densities greater than 12 units per acre have been permitted for projects that include, at a minimum, a deed restriction for long term rentals.
- Used for Pinon Lofts, Navajo Lofts, and Alkemista
- [LDC Section 2.24.B\(2\) \(Density: Calculation for Co-Housing, Live/Work, and Multifamily Dwellings\)](#): Units less than 1,000 square feet do not count as a full unit when calculating density.
 - Encourages/Incentivizes the creation of smaller units, allowing for a greater overall number of units where smaller units may be acceptable or desirable.
- [LDC Section 2.24.B\(3\) \(Density: Affordable Housing Exemption\)](#): Units that are deed restricted for affordable housing do not count towards the density of a lot.
 - This was done to not impact the number of market rate units a developer could build if they were willing to deed restrict additional units for affordable housing.
 - Used for Sunset Lofts and Villas on Shelby (still going through review process).
- [LDC Section 3.4 \(Accessory Uses and Structures\)](#): Permits a maximum of 2 habitable structures on a residential property, typically one house and one guest house.
 - Often referred to as an ADU, casita, guest house, in-law unit, etc.
 - The guest house is limited to half the size of the main house and is limited to a kitchenette (not a full kitchen).
 - Anything without a compliant internal connection to the main house is considered a separate structure.
 - All other structures on the property must be non-habitable (cannot have a full bathroom or kitchenette, must be labeled as non-habitable on building plans).
 - **NOTE:** Staff is aware that there have been some recent changes at the State level regarding what cities can do surrounding ADUs. We will be reviewing the requirements of this state law and its applicability to Sedona and bringing forward any required changes as part of a future LDC update.
- [LDC Section 5.7.F\(2\)a.1.i.c \(Building Design, Building Form, Building Massing, Single Family Residential\)](#): Manufactured homes have different massing requirements than single family homes, recognizing the limitations on the design of manufactured homes.

Current DIGAH Allowances

The DIGAH allows the consideration of the following through an administrative process (Community Development Director):

- Increase of lot coverage by 10% over base allowance of zoning district.
- Building height increase of 8 feet for portions of the building at least 20 feet from property lines, but prohibits the use of alternate standards if this exception is granted.

- Reduced required lot area by 20% or required lot dimensions by 20%. This allowance likely has limited application outside of single-family development.
- Encroach into front or rear setback by 5 feet. No allowances are given for reducing required side setbacks.

In order to have one of the above approved, the property owner must apply through the Community Development Department. [LDC Section 8.8.D \(Affordable Housing Alternative Standards Request\)](#) outlines the process for getting a DIGAH allowance reviewed and approved, which includes notification to property owners within 300 feet of the project site a minimum of 15 days in advance of a decision being made.

If the exception to the request being made is not one of the ones on the DIGAH list, the DIGAH gives the City Council the ability to approve an exception to any LDC requirement. This is typically done through a Development Agreement.

While nearly all affordable housing projects will also have to go through a Development Review process, setting the standards for how a project will be reviewed early on in the process is essential to move the project through in the most expeditious manner possible, which is why the Affordable Housing Alternative Standards Request is separate from and happens before the Development Review process.

Current Implementation

While the LDC/DIGAH allowances are currently in place and available for use, their actual use has been limited. The LDC allowance for density above 12 units per acre has been effective in getting multifamily projects with long-term rental restrictions approved in Commercial zones (Navajo Lofts and Alkemista) while exempting affordable units from density calculations has contributed to projects like Sunset Lofts and the Villas on Shelby.

However, the allowances in the DIGAH are rarely used, as the exceptions that developers are looking for are not on the narrowly defined list, and end up going through the Council approval process rather than the administrative process. Further, even if a developer were using one of the DIGAH allowances, there are likely other allowances they are asking for, so they end up going through the Council process anyway.

Allowances that have been in Development Agreements approved by Council include the following:

- [LDC Section 2.24.E: Height](#): Villas on Shelby. This exception was considered in conjunction with the allowances of the Sunset Live/Work CFA Plan.
- [LDC Section 5.5.D\(1\) \(Minimum Off-Street Parking Spaces Required\)](#). Requires multifamily developments with more than 10 units to have 0.5 covered parking spaces per unit.
 - This requirement was reduced for Sunset Lofts (0.25 covered spaces per unit), but not for the Villas on Shelby.
- [LDC Section 5.7.F\(2\)d: Building length](#). Requires lodging and multifamily buildings longer than 150 feet to reduce to 16 feet for 25% of the building footprint
 - This requirement was waived for Sunset Lofts and the Villas on Shelby

The Affordable Housing Alternatives as currently set up in the LDC sets the timing for the affordable housing allowances to be considered first and then the Development Review application to be considered. It was set up this way to ensure that when going through the development review process, there is a clear understanding of which standards the project was going to be reviewed under (standard code requirements vs. modified code requirements). Further, one of the findings that must be made for approval of a project is that:

“The proposed development shall be consistent with the purpose statements of this Code and comply with all applicable standards in this Code and all other applicable regulations, requirements and plans, unless the standard is lawfully modified or varied.” -[LDC Section 8.3.E\(5\)d](#)

Going through the process of modifying the standard prior to the Development Review approval by the Planning and Zoning Commission allows this finding to be met and reduces the uncertainty of the process. This requires coordination with Staff to ensure the correct exceptions are being requested, so there is typically an initial review that the project needs to go through with Community Development Staff.

While a Development Review could be approved conditioned on a modification to the established standard, if Council ultimately does not approve the modification, depending on the degree of the exception requested, the project may have to go back to the drawing board and restart the process, costing additional time and money.

Other Code Requirements That Have Been Cited as Areas That Could Be Impacting Housing

Various sections of the LDC have been identified as areas where changes could lead to an increased supply of housing and/or reduced costs of construction. If changes are contemplated, the following should be kept in mind:

- **Applicability:** Some code sections apply to all development, while others have limited applicability (typically based on type of development or zoning of the property). When code sections are being evaluated, the applicability of the section should be clear and what types of development/which zones the potential change applies to should also be made clear.
- **Purpose:** While not always readily apparent, most code sections were adopted with a purpose or end goal they were trying to accomplish. When considering a change, the original purpose of the code section should be understood and part of the evaluation of the change should include whether the purpose is still applicable, if the code section is accomplishing the purpose, and whether there are other, less onerous ways to accomplish the same purpose.
- **Anecdotal Stories vs. Actual Evidence:** There are a lot of stories that have been shared about how code sections impacted the buildability or affordability of a house (Staff has heard them all too). While we acknowledge those stories exist, many of them have a backstory, the code section may be one of many items that impacted the construction process, the property owner had a misunderstanding of the code, etc. Before jumping into making code changes based on anecdotal stories, the Council would be encouraged to understand the context behind that story in order to make an informed decision about the actual impact the code section had, if any, on the construction process.

Code Sections identified by Staff for discussion include the following. (If there are other code sections a Councilor would like to discuss, please give us a heads up so that we can prepare some background information prior to the meeting). Potential exceptions to code requirements could be added to the list of administrative exceptions that can be considered in the DIGAH (only applies to projects that include affordable housing) or could be incorporated as an LDC amendment (would apply equally to all projects).

LDC Section 2.24.E: Height: City height requirements generally restrict buildings to a maximum of two stories. While increasing height could allow more density, it also has the potential to block viewsheds and impact adjoining properties beyond what the property owners could reasonably expect under current code requirements. While there may be properties where additional height is appropriate, it would likely need to be evaluated on a case by case basis, based on the specific site where the additional height is proposed.

In addition, the LDC allows for additional height when unrelieved building planes are reduced (alternate standards), which creates more shadow lines and building articulation, but also potentially increases the cost of construction. The DIGAH allows for height increases without using unrelieved building planes, but specifically states that the DIGAH allowance cannot be combined with alternate standards.

LDC Section 3.4.C(2)a: Kitchens/Kitchenettes: The prohibition of full kitchens in guest houses has been cited as impacting the ability of these spaces to be converted into long-term rentals. When this item was brought forward by Staff in 2023, Council elected to not make any changes, in hopes that it would be a tool that could be used in the future to incentivize conversion of short term rentals into long term rentals.

LDC Section 5.5.D(1): Garage Requirements: Since 2019, Sedona has required that single-family homes over 1,500 square feet provide garage space for the property. This was done in response to complaints about garages being converted into living space (often for short term rentals) and the impact on the neighborhood of the parking that was previously in the garage migrating to the street, storage that was in the garage migrating to the backyard/side yard, etc. When implementing the change, Staff reviewed numerous single family permits and found that very few were being constructed without a garage, so the change was not seen as having an impact on new home construction. Since the code was initially changed, additional changes have been implemented to reduce garage requirements for houses on smaller lots and to increase garage requirements for larger houses (more than 6 bedrooms). Having the garage requirement has allowed the City to limit renovations/additions that seek to increase the number of bedrooms in a house when the garage is not being expanded.

LDC Section 5.7.F(2)a: Building Massing: Sedona has long required buildings to be broken up into differing masses to reduce visual impact and blend into the natural environment. Single-family buildings are required to have 2 masses at 1,000 square feet and 3 masses at 2,000 square feet while multifamily buildings are required to have 3 masses at 2,500 square feet. When massing is required, it must be in plan view (footprint of the building) as well as elevation view (rooflines). While massing requirements have been successful in meeting the stated goals, the requirement for building articulation may increase the cost of construction and there may be better ways to accomplish the same goals (see "Purpose" section at the beginning of this section), including modifying the applicability thresholds or focusing on elevation view masses rather than both plan and elevation view.

A recent code change modified the massing requirements for manufactured homes, as there were no manufactured home options that fit the massing criteria.

LDC Section 5.7.F(2)c.5: Transparency (Windows, Doors, Openings): Facades facing streets are required to have a minimum of 30% of the wall be windows, doors, other openings (15% of upper floors). This was done to encourage a more pedestrian-friendly streetscape and only applies to multifamily and commercial development.

LDC Section 5.7.F(2)c.6: Roofline Variation: A 2-foot vertical or horizontal offset is required every 50 feet to reduce the visual impacts of long, continuous rooflines. This can be accomplished by a step in a parapet wall, a change in ridgeline, a horizontal offset (column), or a change in parapet design/cornice treatment. The applies to multifamily and commercial development.

LDC Section 5.7.F(4): Building Materials: The LDC outlines the acceptable and unacceptable materials for buildings in Sedona. One material that is often brought up is the use of faux stone, which is currently prohibited unless specifically permitted by the Community Development Director.

Affordable Housing vs. Available Housing

Many of the issues discussed above assume a binary between code changes and the DIGAH. As the “AH” in DIGAH stands for “Affordable Housing,” using the DIGAH is limited to projects proposing to deed restrict for affordability*. However, the City also has a need for market rate housing. Many property owners have approached Staff inquiring about whether there are any allowances/exceptions available to them if they are willing to deed restrict for availability, but not affordability (no short term rentals, able to charge market rates). While there’s not a clear legal answer to that question, this is of interest to many in the community.

**Affordability: The DIGAH sets affordability targets at 115% of Area Median Income (AMI) for homeownership and 80% of AMI for rentals. Sedona has a need for affordable housing for households making up to 120% of AMI and the Housing Department would consider any unit with income restrictions up to 120% of AMI to be affordable housing. While units restricted to a lower AMI may need more incentives/exceptions, some incentives should be available to projects providing affordability restrictions at higher levels.*

Zone Changes and Discussions with Potential Developers

Staff is also regularly approached by developers seeking to develop their property with housing. This could include anything from rezoning a single-family property to allow a triplex to redeveloping a 10-acre parcel at a density of 20 units per acre. To aid in these discussions with developers, and understanding that all projects will be evaluated on a case by case basis, Staff is seeking direction from Council on the following:

- Expectations for long-term rental restrictions
 - How long should the restriction be valid for (5 years vs. 50 years)?
 - Is there a minimum initial lease term Council is expecting (30 days vs. 3 months)
 - Does the degree of change being sought impact this discussion?

- Examples:
 - Rezone from 4 units per acre to 20 units per acre (increasing density by a factor of 5)
 - Build in a commercial zone at 14 units per acre (restrictions only required above 12 units per acre)
- Expectations for affordability
 - How long should the restriction be valid for?
 - Target AMI? Or a mix of AMI to meet the mix of AMI seen in the population of Sedona?
 - Does the degree of code exception or City contribution sought impact this discussion?
 - Examples:
 - Seeking a 3 foot height exception vs. a 20 foot height exception
 - Seeking a City financial contribution to the project vs. being able to obtain financing outside of use of City funds?
- General expectations/preferences for housing development
 - Maximize number of units vs. variety of units to match the variety of needs seen in the population of Sedona
 - Example: A project that proposes all studio units has a higher number of units but serves a limited population (e.g., those who are willing/able to live in a studio) while a project that proposes studios, one-bedrooms, and two-bedrooms has fewer units but serves a greater variety of situations (e.g., families).

ADUs & HB 2720

While the majority of HB 2720, including the ADU requirement, does not apply to municipalities with less than 75,000, the amendment to A.R.S. 9-500.39 does. Beginning after the law goes into effect (likely around October), municipalities may require the owner of a STR to reside on the property if the property contains an ADU that is being used as an STR. Staff is looking for direction on whether Council would like to see a proposed ADU ordinance with the resident restriction.

Going Forward

While allowing Council to approve any exception they want leaves the most flexibility, it can be challenging for staff to discuss options with a developer without a clear understanding of what Council is expecting. Further, Staff is looking for direction from Council on which changes could be LDC changes (apply equally to all properties in a particular zoning district), which could be included in areas that could be considered through the DIGAH Administrative Process (applicable when affordability restriction are included as part of a project), and which should be reserved for Council discretion when reviewing a housing project.

We would also be looking for direction on what level of detail Council would be expecting when reviewing a request, understanding that, while more detailed plans can convey a clearer picture of what is being asked, detailed plans cost the developer money without a guarantee of

approval. As these costs can add up, staff does our best to work with developers to ensure that they are not spending money on unnecessary plans.

Staff is also looking for direction on whether Council would prefer potential development agreements go first to Planning and Zoning for a recommendation or whether staff should continue to bring them to City Council first.

The expected outcome of this work session is that City Staff will have a clearer direction from Council on how we should be approaching LDC changes and DIGAH changes, which would be coming back to City Council at a future date, as well as discussions with potential housing developers, which will hopefully lead to being able to move housing projects through the process in a more expeditious manner.

Climate Action Plan/Sustainability Consistent: Yes - No - Not Applicable

Board/Commission Recommendation: Applicable - Not Applicable

Alternative(s): N/A

MOTION

I move to: For presentation/discussion and direction only.



1. PURPOSE

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



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

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

2. DEFINITIONS

a. Affordable

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

b. Affordable Housing Development

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

c. Affordable Housing Unit (AHU)

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

d. Area Median Incomes (AMI)

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

e. Period of Affordability

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

f. Target Populations

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

3. AFFORDABLE HOUSING PROGRAM

a. Affordable Housing Development Determination

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

1. The City must agree that the number of AHUs proposed is sufficient to provide a community benefit.
2. Those AHUs must be affordable to households earning a specified percentage of area median income.
3. The AHUs must remain affordable for a specified period of time.

b. Percentage of AHUs

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

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

1. Residential Developments: For developments with 10 or more total units, AHUs equal to approximately 12% of the market rate units should be provided. For developments with 9 or fewer total units, AHUs equal to approximately 6% of the market rate units should be provided.
2. Lodging Developments: AHUs equal to approximately 12% of the number of lodging units should be provided.
3. Commercial Developments:
 - a) The amount of affordable housing for commercial proposals should be equal to approximately 12% of the square footage of the commercial buildings. This is called the affordable housing square footage.
 - b) For the purposes of determining how many AHUs could be built using the affordable housing square footage, the following standards are recommended:
 - studio = 500 sq. ft.
 - 1-bedroom = 600 sq. ft.
 - 2-bedroom = 800 sq. ft.
 - 3-bedroom = 1,000 sq. ft.
 - c) Using the standard square footage for each unit type, the number of AHUs that could fit into the affordable housing square footage should be determined. For example, if a development proposes to construct 10,000 square feet of commercial space, 1,200 square feet (10,000 x 12%) should be the affordable housing square footage. The applicant should propose 1,200 square feet of affordable housing in a bedroom distribution (the number of bedrooms per unit) acceptable to the City.

c. Methods of Providing Affordable Housing

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

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

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

d. Guidelines for Development of AHUs.

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

e. Anti-Displacement and Relocation

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

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

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

f. Target Populations – Homeownership

1. For developments with 34 or more total units (market-rate and AHUs):
Three-quarters (3/4) of the AHUs should be targeted to households earning between 81% and 115% of area median income adjusted for unit size in the county in which the AHUs are located, and one-quarter (1/4) should be targeted to households earning 80% or less.
2. For developments with 6 – 33 total units (market-rate and AHUs):
All of the AHUs should be targeted to households earning 115% or less of area median income adjusted for unit size in the county in which the AHUs are located.
3. For developments with 5 or fewer total units (market-rate and AHUs):
All of the AHUs should be targeted to households earning 150% or less of area median income adjusted for unit size in the county in which the AHUs are located.

g. Target Population -- Rental

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

h. Criteria for Eligibility

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

i. Marketing and Application Process

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

j. Affordable Housing Land Use Restrictions

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

4. INCENTIVES

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

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

a. Eligibility for Incentives

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

b. Fee Waivers and Deferrals

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

c. Expedited Review and Permit Processing

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

d. Flexible Development Standards Modification

The following requirements of the Sedona Land Development Code may be modified at the discretion of the City, to the extent necessary to accommodate the AHUs. The City will evaluate all requests to modify development standards on a case-by-case basis, based on, but not limited to, location, topography, compatibility with adjoining land uses, and visibility of the development.

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

e. Determination Considerations

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

1. The number, size, and type of housing units proposed, relevant details of the development, including the percentage of units designated as affordable; the degree of affordability; the number, bedroom size and location of AHUs and market rate units; rental rates and/or sales prices of AHUs and market rate units.
2. The additional employment base created by the proposed development.
3. The degree to which the proposed development is in harmony with the character of adjacent properties and fits into the context of the neighborhood in which it is located.
4. The degree to which the proposed development affects the health or safety of persons residing or working in the neighborhood of the proposed use.
5. The degree to which the proposed development is designed to minimize traffic congestion.
6. The degree of visual impact on adjacent properties and view corridors.

f. Modification of Provisions for Affordable Housing

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

g. Development Review/Public Participation

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

IN-LIEU FEE

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

1. Methodology for Determining an In-Lieu Fee

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

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

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

2. In-Lieu Fee Formula

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

- a. Establishing Median Cost for Market Rate Units. The median cost for market rate units shall be the median sales price of comparable market rate housing units in the City of Sedona. The median sales price of comparable market rate housing units in the City of Sedona shall be established by the City based on data provided by the Sedona Verde Valley Association of Realtors or other sources selected by staff for sales during the 12 months immediately prior to the calculation. The City or its designee may determine what constitutes comparable units. The City may periodically review the median sales price of comparable units in the City and may, based on that review, adjust the in-lieu fee formula.
- b. Establishing a Sales Price For AHUs. The sales price for AHUs shall be calculated based on a target income of one hundred percent (100%) of Area Median Income (AMI) for the county in which the proposal is located.

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

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

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

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

The appropriate multiplier will be applied to the market rate units according to the number of bedrooms in each unit. All the studio units will be multiplied by the 0.6 multiplier; all the 1 bedroom units will be multiplied by the .75 multiplier; all the 2 bedroom units will be multiplied by the .0.9 multiplier; all the 3 bedroom units will be multiplied by the 1.05 multiplier.

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

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

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

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

3. Homeowner Association Fees. The calculation assumes an average Homeowner Association (HOA) fee of \$150 per month. The City may periodically review and adjust this number.
4. Utilities. The calculation assumes basic utilities at \$150 per unit per month. The City may periodically review and adjust this number.
5. Property Taxes. The calculation assumes property taxes based on the following formula: maximum sales price multiplied by one percent, divided by twelve. The City shall periodically review property tax valuations and may, based on that review, adjust the property tax calculation formula.

c. Establishing a Percentage Multiplier for Size of Development

1. Developments with Eleven or More Units. The City shall use a twelve percent (12%) multiplier for developments with 11 or more housing units. In calculating in-lieu fees, the total number of residential units proposed will be multiplied by twelve percent (12%). For example, if a project proposes 15 market rate units, the total number of units (15) would be multiplied by 12% for a percentage multiplier of 1.8. See sample calculation.
2. Developments with Ten or Fewer Units. The City shall use a six percent (6%) multiplier for developments with 10 or fewer housing units. In calculating in-lieu fees, the total number of residential units proposed would be multiplied by six percent (6%). For example, if a development proposes 8 market rate units, the total number of units (8) would be multiplied by 6% for a percentage multiplier of .48. See sample calculation.

d. AHU Sales Price Calculation

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

e. Timing of Payment of In-Lieu Fees

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

f. Securing Payment of In-Lieu Fees

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

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

- a. The amount of affordable housing for commercial proposals should be equal to approximately 12% of the square footage of the commercial building. This is called the affordable housing square footage.
- b. For the purposes of determining how many AHUs could be built using the affordable housing square footage, a standard square foot amount of livable area has been assigned to units:

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

- c. Using the standard square footage for each unit type, the number of AHUs that could fit into the affordable housing square footage will be determined by the City. Those units will be used in the formula to calculate the in-lieu fee.

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

4. Sample In-Lieu Calculations

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

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

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

b. Calculation to establish the in-lieu fee:

1. For 10 or more units @ 12%

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

2. For 9 or fewer units @ 6%

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

DEVELOPMENT GUIDELINES FOR AFFORDABLE HOUSING UNITS

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

1. Amenities

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

2. Design

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

3. Development Agreement

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

4. Interior Finish

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

5. Land Use Restriction Agreement

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

6. Location

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

7. Long-Term Affordability

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

8. Occupancy

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

9. Period of Affordability

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

10. Phasing

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

11. Preferences

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

12. Proportion

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

13. Size

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

ELIGIBILITY CRITERIA FOR AFFORDABLE HOUSING UNITS

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

1. City Residency and Employment

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

2. Disclosure

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

3. Full Time Occupancy

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

4. Income

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

5. Legal Residency

Applicants must be legal residents of the United States.

6. Net Assets

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

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

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

7. Occupancy Standards

AHUs should be occupied by households of the appropriate size.

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

8. Percent of Income

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

9. Prior Homeownership

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

MARKETING AND APPLICATION PROCESS

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

1. Marketing, Application and Random Selection Plan

The marketing, application and random selection plan must include:

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

2. Affirmative Fair Marketing

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

3. Workshops

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

4. Application Process

The marketing and application plan will specify a date by which all applications for the random selection must be received. That deadline must be widely advertised. All applications must be mailed to a single address. Applicants will be required to attest that they meet eligibility

requirements and provide information on total household income in order to participate in the random selection.

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

5. Random Selection Process

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

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

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

6. Post-Random Selection

a. For rental housing: Applicants selected through the random selection process to rent an AHU will provide the developer with evidence of eligibility and provide any other information, such as references, required to rent the unit. If the applicant fails to rent the unit in a pre-specified period of time, the next applicant on the random selection list that is eligible for that size unit will be offered the opportunity to rent.

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

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

AFFORDABLE HOUSING LAND USE RESTRICTIONS

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

1. Land Use Restriction Agreement – Ownership AHU

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

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

a. Land Use Restrictions

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

7. In the event of foreclosure, transfer in lieu of foreclosure or assignment of an FHA mortgage to HUD, the resale provisions shall terminate, except that the City or its designee may exercise its right of first refusal.

b. Resale Restrictions

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

c. Resale Price Calculation

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

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

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

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

3. The cost of permanent substantial owner improvements may be added to the sales price of the AHU.
 - a. Only permanent substantial owner improvements undertaken with required permits issued by the City and HOA approvals shall be added to the sales price of an AHU. Permanent substantial owner improvements include, but are not limited to, additions, retaining walls, fences, decks, landscaping, and drainage.
 - b. Permanent substantial owner improvements may not exceed ten percent (10%) of the owner's purchase price and must be documented through receipts for materials and labor.

- c. Permanent substantial owner improvements do not include regular maintenance expenses, such as roofs; luxury items such as barbeques, spas, or swimming pools; or decorative items such as paint, wall coverings, window coverings, or floor treatments.

d. Enforcement Lien

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

2. Land Use Restriction Agreement – Rental AHUs

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

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

The LURA shall include the following:

- a. The number of AHUs and market rate units in the development. AHU size and amenities shall be indicated. Upon completion, the location of each AHU shall be referred to, through addendum, by street address.
- b. Where 100% of the units in a development are AHUs and on-site management is utilized, one unit could be reserved as a management unit and would be subject to affordability requirements.
- c. Prior to execution of the LURA, the developer shall evidence:
 - 1. Legal authority to enter into the transaction; and
 - 2. Good and marketable title to the property.
- d. During the term of the LURA, the owner shall not:
 - 1. Demolish any part of the project or substantially subtract from any real or personal property of the project;
 - 2. Permit the use of any residential rental unit for any purpose other than rental housing;
 - 3. Convert any AHU to condominium or other non-rental use;
 - 4. Execute any other agreement with provisions contradictory to, or in opposition to, the provisions of the LURA or the development agreement.
- e. The owner shall maintain the property in good condition, make all repairs in a timely fashion, and provide routine maintenance.

- f. The evaluation of income of all new tenants to determine if they are income qualified will be done according to one of the following methods:
 - 1. Review of annual tax returns and/or Social Security 1099 statements to determine gross income for each household member, or
 - 2. Whatever income determination method is required by specific subsidy sources.
- g. The owner shall recertify the income of existing tenants every year after initial occupancy and will include that information in the annual report.
- h. Residents whose incomes increase above program limits are not required to move. However, all AHUs should be rented to income-eligible households as they become vacant.
- i. Rents for AHUs can be adjusted annually using the Area Median Income (AMI). AMIs are determined by the United States Department of Housing and Urban Development for the county in which the development is located and are available from the City of Sedona's Department of Community Development. If rents are adjusted, residents shall receive written notice of the adjustment at least 60 days before the adjustment is implemented.
- j. Depending on City resources, apartment buildings that contain any AHUs may be required to participate in Sedona's crime-free housing program, if applicable.
- k. Affordable rental housing units shall remain affordable to the target population for a minimum of 50 years from the date of initial occupancy or for as long as the development remains as a rental, timeshare, or lodging development, whichever is longer.
- l. The City has the right to require corrections to ensure continued compliance with the terms of the LURA. In the event owner does not remedy compliance concerns, the City may exercise all rights available to it under Arizona law, including but not limited to notification of all note holders.
- m. The City or its designee has the right of first refusal on the purchase of any development containing rental AHUs at the appraised value. The owner must first notify the City in writing of the intent to sell; the City or its designee shall notify the owner of its intent to exercise the right of first refusal not more than 15 days from receipt of the owner's written notice. Upon receipt of such notice, the owner shall have an appraisal performed at his expense by an appraiser acceptable to the owner and the City and shall deliver the appraisal to the City. The City shall either close on the development containing rental AHUs within 60 days of receipt of such appraisal or shall notify owner that it has rescinded its election.
- n. Where more restrictive covenants, conditions and restrictions are in place, as a result, for example, of subsidy programs, the owner shall comply with those requirements.
- o. The applicant or its agent should manage and operate the AHUs and should submit an annual report to the City of Sedona's Department of Community Development identifying which units are AHUs in a development, the rental rate for each AHU over the course of the year, vacancy information for each AHU for the prior year, monthly income for tenants of each AHU, and any other related information requested by the City of Sedona. The City or its designee has the authority to inspect, monitor and otherwise ensure continued compliance with the terms of the LURA and the development agreement. A fee may be charged for compliance monitoring.