

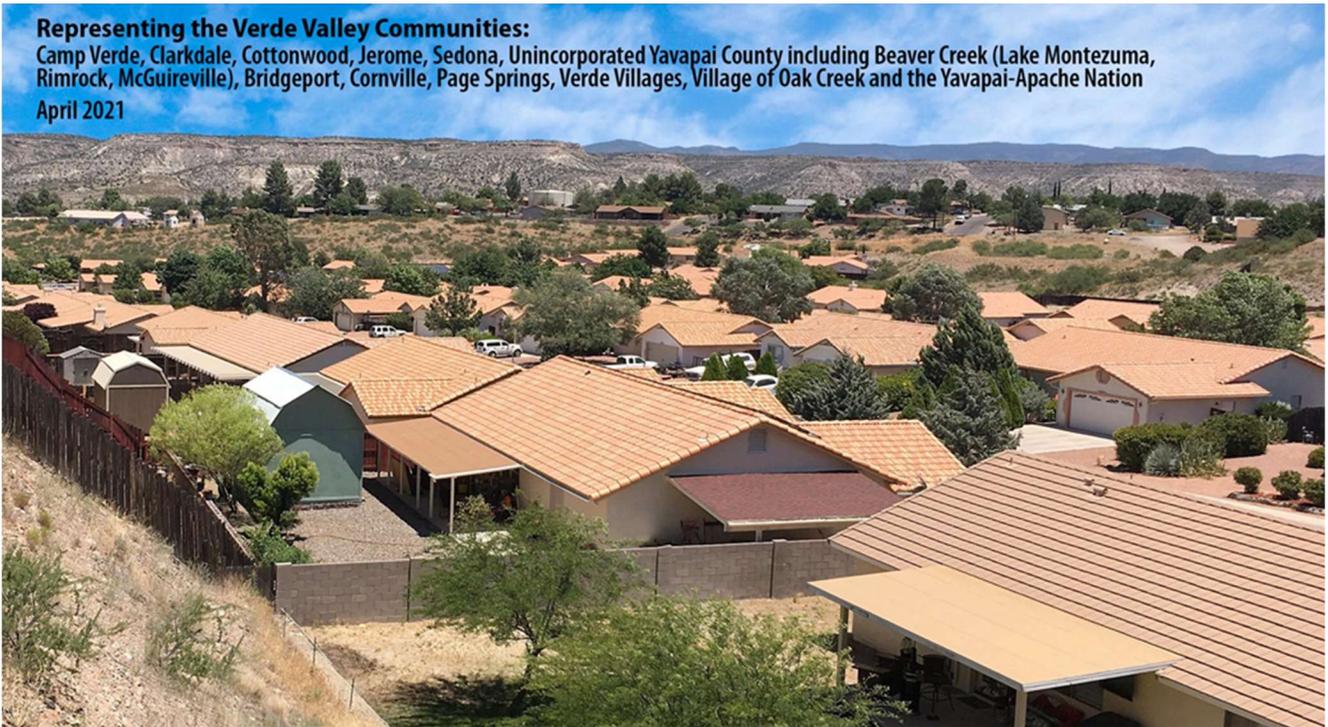
# Verde Valley Housing Needs Assessment

## Volume 3: Five-Year Affordable Housing

### Action Plan & Case Study

#### Representing the Verde Valley Communities:

Camp Verde, Clarkdale, Cottonwood, Jerome, Sedona, Unincorporated Yavapai County including Beaver Creek (Lake Montezuma, Rimrock, McGuireville), Bridgeport, Cornville, Page Springs, Verde Villages, Village of Oak Creek and the Yavapai-Apache Nation  
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## Executive Summary

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### 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.



### **Objectives of the Action Plan**

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.**

### **Affordable Housing Production Goal**

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.

### **Publicly Financed Housing Initiatives**

#### **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.



<b>Verde Valley Five-Year Affordable Housing Action Plan</b>				
Action	ACTION STEPS			
	Short Term: 1 Year	Mid-Term: 1-2 Years	Long-Term 3-5 Years	
<b>Workforce Affordable Housing Approach</b>	<b>Develop Collaborative Approach to Affordable Housing</b>	Promote affordable housing across the region. Establish a regional housing organization.		
	<b>Staffing</b>	Hire staff to prepare a strategy, develop policies and ordinances. Monitor the distribution of federal stimulus dollars for affordable housing		
	<b>Partnerships</b>	Create partnerships with HSNA/Habitat for Humanity/School Districts/Others.		
	<b>Local Funding Sources</b>		Consider developing local funding sources for housing.	
	<b>Zoning &amp; Planning</b>		Update General Plans/Update zoning codes to accommodate high density housing.	
	<b>Development Incentives</b>	Incorporate incentives into zoning ordinances.		
	<b>Affordable Housing Policies</b>		Adopt policies such as Sedona's DIGAH.	
	<b>Community Land Trust (CLT)</b>	Establish a Community Land Trust for future ownership of land for affordable units/complexes.		
	<b>City-Owned Land</b>		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.
	<b>Deed Restricted Housing</b>		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.
	<b>Promote Alternative Housing Types</b>			Consider the promotion of Accessory Dwelling Units (ADUs) for affordable housing.
<b>Down Payment Assistance Program</b>		Establish a down payment assistance program to promote homeownership.		
<b>Monitor the increase and loss of affordable units</b>		Create an inventory of the supply of affordable units. Monitor the loss or increase in units.		
<b>Low Income Affordable Housing Approach</b>	<b>LIHTC Program</b>	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.	
	<b>Private Activity Bonds (PAB) Program</b>	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.	
	<b>Federal &amp; State Affordable Housing Programs</b>		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

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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

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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**



**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

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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

<b>LIHTC Allowable Rents Based on Bedroom Size</b>						
<b>Yavapai County</b>						
<b>% AMI</b>	<b>0 Bdrm</b>	<b>1 Bdrm</b>	<b>2 Bdrm</b>	<b>3 Bdrm</b>	<b>4 Bdrm</b>	<b>5 Bdrm</b>
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
<b>Coconino County</b>						
<b>% AMI</b>	<b>0 Bdrm</b>	<b>1 Bdrm</b>	<b>2 Bdrm</b>	<b>3 Bdrm</b>	<b>4 Bdrm</b>	<b>5 Bdrm</b>
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
<b>100%</b>	<b>\$764,265,285</b>	<b>TOTALS</b>

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 as 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. Dominion 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.



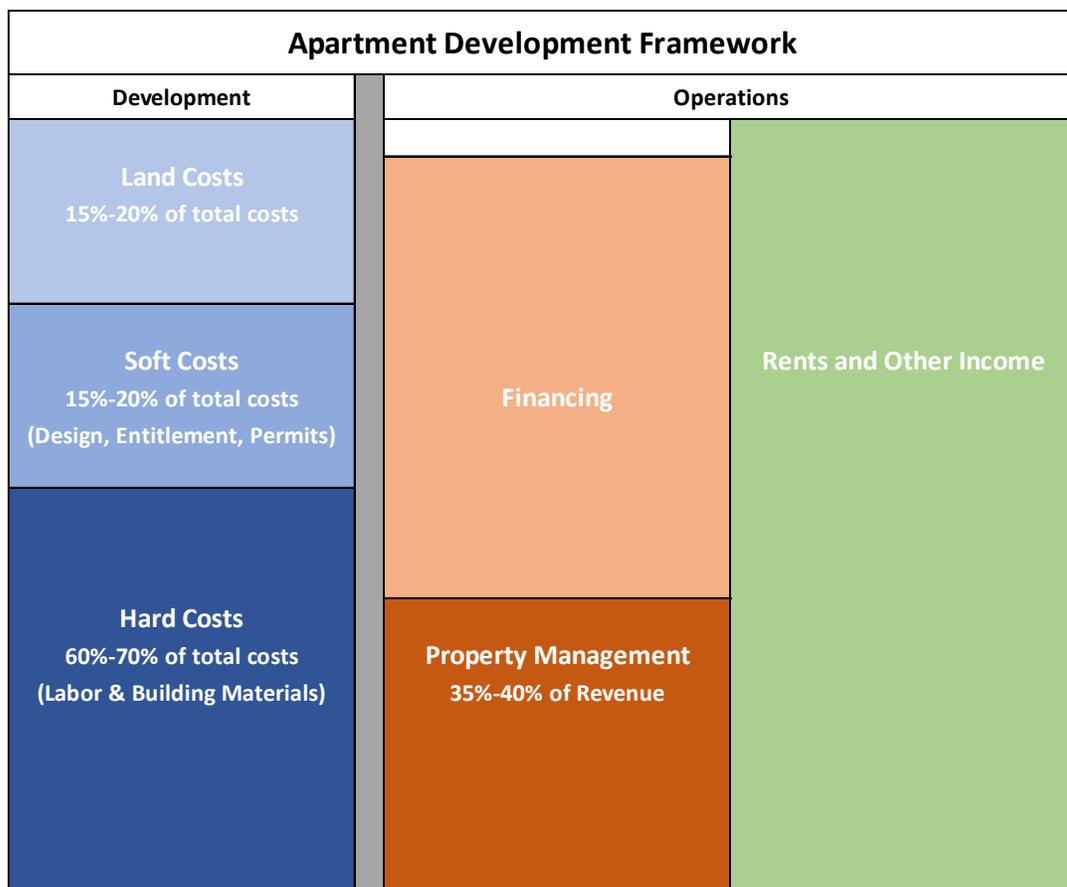
- **Financial literacy counseling:** Housing Counselors can pull tri-merge credit reports with scores and help clients understand their credit reports and how to improve or repair credit. Financial literacy counseling includes goal setting, budgeting, and credit evaluation.
- **Foreclosure counseling:**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

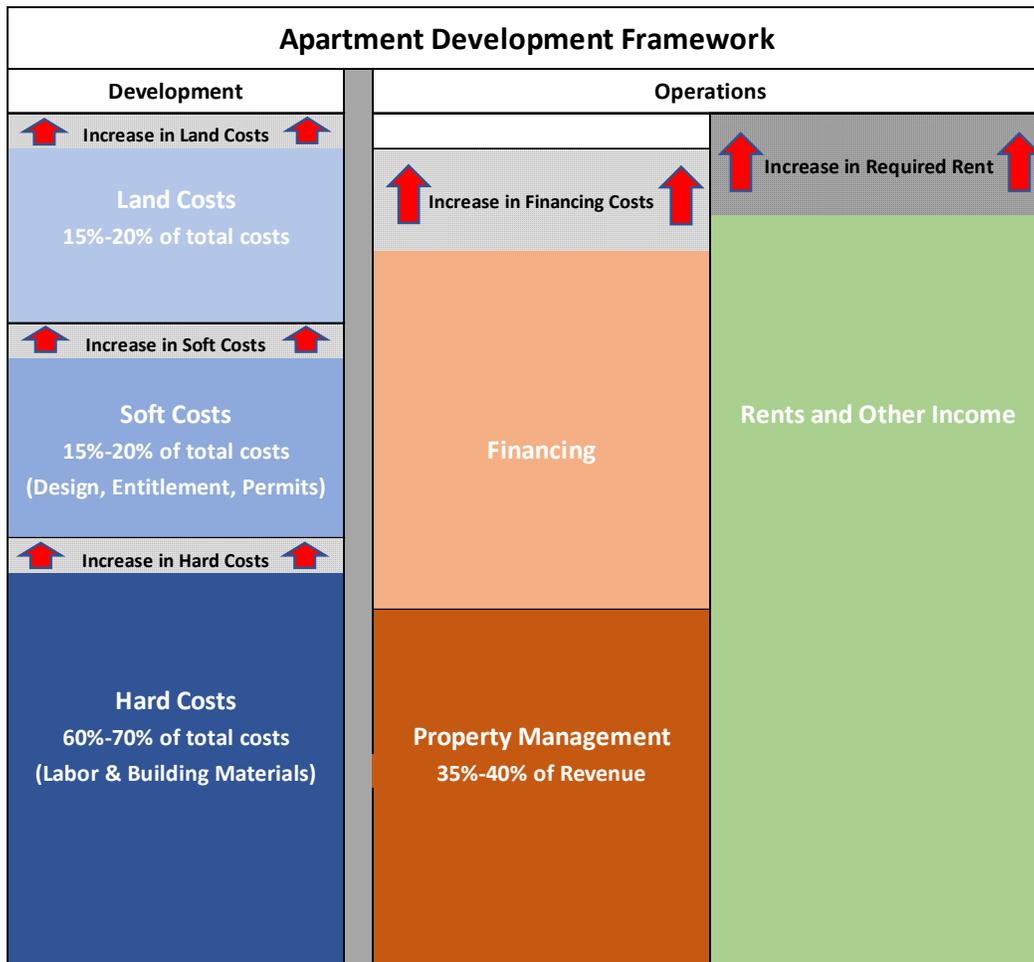
The following charts provide an overview of the costs associated with the development and operation of an affordable apartment complex and how affordable housing tools can affect those costs and revenues. Some of the charts have been adapted from the National Multifamily Housing Council’s report The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



<b>Apartment Development</b>	
<b>Costs of Development</b>	<b>Tools</b>
<p style="text-align: center;"><b>Land Costs</b> 15%-20% of total costs</p>	<ul style="list-style-type: none"> <li>Community Land Trust</li> <li>Land Banks</li> <li>Use of City-owned land</li> <li>Density bonuses</li> <li>Zoning/General Plan policies</li> <li>City contribution to lower private land costs (Gap financing)</li> </ul>
<p style="text-align: center;"><b>Soft Costs</b> 15%-20% of total costs (Design, Entitlement, Permits)</p>	<ul style="list-style-type: none"> <li>Waiver of permit fees</li> <li>Waiver/reimbursement of development fees</li> <li>Expedited review of plans</li> <li>Flexible design standards</li> <li>Streamlining of development requirements &amp; processes</li> <li>Apartment development by-right</li> </ul>
<p style="text-align: center;"><b>Hard Costs</b> 60%-70% of total costs (Labor &amp; Building Materials)</p>	<ul style="list-style-type: none"> <li>Waiver of construction sales tax</li> <li>Consistency in Building Codes</li> <li>Reduced parking requirements</li> <li>City assistance with infrastructure improvements</li> <li>Direct capital funding of development costs (Gap financing)</li> <li>Partnerships with private developers &amp; non-profits</li> </ul>

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



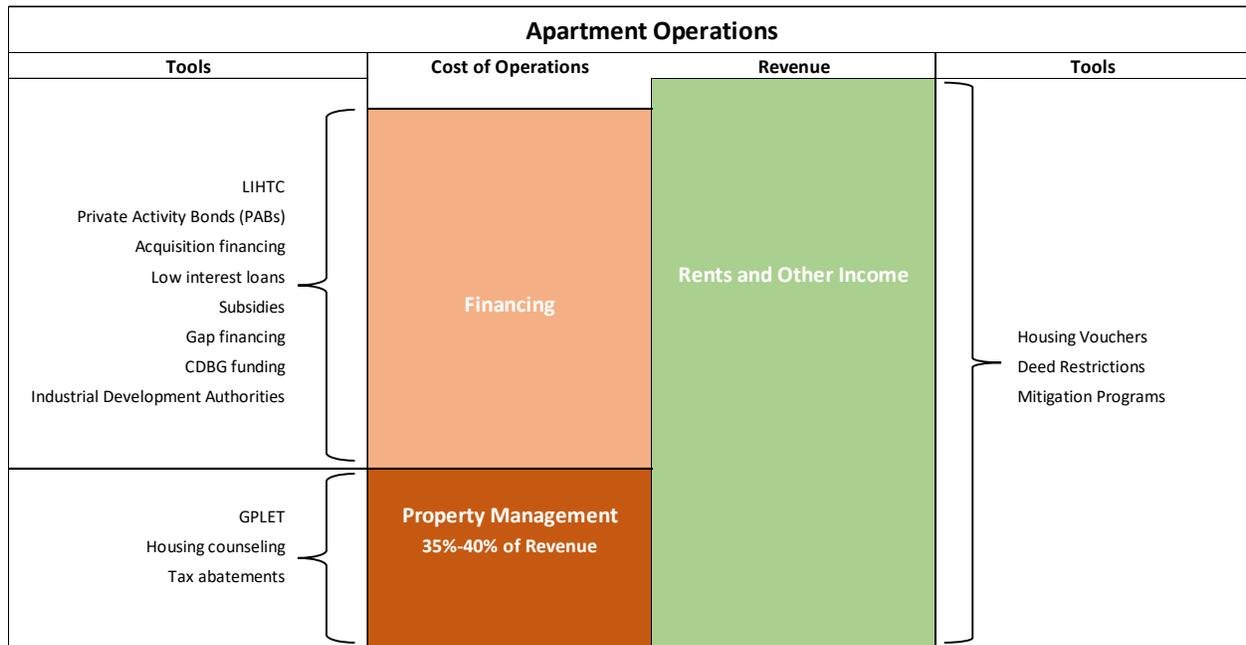
mass transit would also reduce costs. And in some cases, the city could assist with the cost of off-site improvements that may be required for the project.

**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

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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

<b>Verde Valley Five-Year Affordable Housing Demand</b>				
<b>Community</b>	<b>Existing Gap Demand</b>	<b>Forecasted Employment 5-Yr. Demand</b>	<b>Total 5-Yr. Demand</b>	<b>% of Total Demand</b>
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%
<b>Total</b>	<b>2,796</b>	<b>943</b>	<b>3,739</b>	<b>100.0%</b>
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 of 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				
% AMI	Persons in Family							
	1	2	3	4	5	6	7	8
<b>Income</b>								
120%	\$54,360	\$62,040	\$69,840	\$77,520	\$83,760	\$90,000	\$96,240	\$102,360
100%	\$45,300	\$51,700	\$58,200	<b>\$64,600</b>	\$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
<b>Maximum Affordable Housing Cost</b>								
<b>Persons/Room</b>	1	1.5	3	4.5	6	7.5		
<b>Unit Size</b>	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

<b>Zoning &amp; General Plan Summary Verde Valley Communities</b>		
<b>Jurisdiction</b>	<b>Multifamily Zoning</b>	<b>General Plan</b>
<b>Camp Verde</b>	R-2 District	2016 General Plan includes a Housing Element.
	Density permitted: Unspecified	Affordable housing policies/goals not addressed.
<b>Clarkdale</b>	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.
<b>Cottonwood</b>	R-3 and R-4 Districts	2014 General Plan has a sophisticated Housing Element.
	29 units/acre maximum	Affordability is a significant part of the Housing Element.
<b>Jerome</b>	R-2 District only permits single & two-family dwellings	2018 General Plan addresses STRs, encourages affordable housing.
<b>Sedona</b>	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)	
<b>Yavapai County</b>	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 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.

### **Publicly Financed Housing Initiatives**

#### **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.



<b>Verde Valley Five-Year Affordable Housing Action Plan</b>				
Action	ACTION STEPS			
	Short Term: 1 Year	Mid-Term: 1-2 Years	Long-Term 3-5 Years	
<b>Workforce Affordable Housing Approach</b>	<b>Develop Collaborative Approach to Affordable Housing</b>	Promote affordable housing across the region. Establish a regional housing organization.		
	<b>Staffing</b>	Hire staff to prepare a strategy, develop policies and ordinances. Monitor the distribution of federal stimulus dollars for affordable housing		
	<b>Partnerships</b>	Create partnerships with HSNA/Habitat for Humanity/School Districts/Others.		
	<b>Local Funding Sources</b>		Consider developing local funding sources for housing.	
	<b>Zoning &amp; Planning</b>		Update General Plans/Update zoning codes to accommodate high density housing.	
	<b>Development Incentives</b>	Incorporate incentives into zoning ordinances.		
	<b>Affordable Housing Policies</b>		Adopt policies such as Sedona's DIGAH.	
	<b>Community Land Trust (CLT)</b>	Establish a Community Land Trust for future ownership of land for affordable units/complexes.		
	<b>City-Owned Land</b>		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.
	<b>Deed Restricted Housing</b>		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.
	<b>Promote Alternative Housing Types</b>			Consider the promotion of Accessory Dwelling Units (ADUs) for affordable housing.
<b>Down Payment Assistance Program</b>		Establish a down payment assistance program to promote homeownership.		
<b>Monitor the increase and loss of affordable units</b>		Create an inventory of the supply of affordable units. Monitor the loss or increase in units.		
<b>Low/Income Affordable Housing Approach</b>	<b>LIHTC Program</b>	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.	
	<b>Private Activity Bonds (PAB) Program</b>	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.	
	<b>Federal &amp; State Affordable Housing Programs</b>		Investigate and promote the use of all available federal and state housing programs including Home+Plus, Mortgage Credit Certificates, CDBG, Wish Program, USDA Loans	

