Arizona Housing Coalition

Speaking Up for Home and Hope

Best Practice Toolkit for Municipalities, for Increasing the Supply of Affordable Housing in Arizona

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Arizona Housing Coalition

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About The Arizona Housing Coalition (AZHC):

The Arizona Housing Coalition (AZHC) is a collaborative association that aims to end homelessness and advocate for safe, affordable homes for all Arizonans. Through advocacy, education and collaboration, we're working to create an Arizona where housing stability is universal, and every man, woman, child and veteran has a safe, affordable place to call home.

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CHAPTER ONE

OUTLINING THE AFFORDABLE HOUSING CRISIS IN ARIZONA

2020 has presented new and complex challenges to Arizona's housing landscape, which has been impacted by the COVID-19 pandemic and the Black Lives Matter movement, both of which have revealed the socioeconomic costs of unstable housing and the structural issues that impact access to safe, affordable housing. Arizona was already in the midst of a housing crisis, defined by increasing rents, high eviction rates, increased homelessness and a severe shortage of affordable housing. Phoenix, for example, was ranked as the fastest growing rental market nationally, with an 8.1% increase in average rent, double the national average in 2019. Research by the National Low Income Housing Coalition (NLIHC, 2020) ranks Arizona as one of the states where extremely low income (ELI) renters face the greatest challenge in finding affordable housing, with only 26 affordable units for every 100 extremely low-income households. To add context, 204,164 households in Arizona are considered ELI, representing approximately 10% of all households in the State. Furthermore, 78% of these households are considered extremely rent-burdened, meaning they spend at least 50% of their income on rent. For any household to afford a modest two-bedroom unit in Arizona, they need to earn at least $21.10 per hour or be working a 70-hour week at the State minimum wage of $12 per hour. Income loss as a result of COVID-19 is further pushing the gap between rent and income.

ARIZONA
FAIR MARKET RENT (FMR)

70 Work Hours Per Week At **Minimum Wage** to Afford a **2-Bedroom Rental Home**

57 Work Hours Per Week At **Minimim Wage** to Afford a **1-Bedroom Rental Home**

1.8 Number of Full-Time Jobs at **Minimim Wage** to Afford a **2-Bedroom Rental Home**

1.4 Number of Full-Time Jobs at **Minimim Wage** to Afford a **1-Bedroom Rental Home**

The COVID-19 pandemic has added an additional layer of insecurity to lower income households who have been most impacted by the pandemic in regard to income loss. While State and federal moratoriums have placed much needed protections in place to slow evictions for those unable to make rent payments during the pandemic, these protections do not ensure long-term housing security once these short-term interventions are lifted. Households already experiencing cost-burdens are most at risk of housing loss once we reach the end of the eviction moratorium. Further, the COVID-19 pandemic has highlighted the socioeconomic costs of the affordable housing crisis, as those without a safe and stable place to call home are at a higher risk of contracting COVID-19 and other chronic illnesses. Increasing and preserving affordable housing supply within Arizona is even more of a priority than it was prior to the pandemic.

The impact of the affordable housing crisis within Arizona extends beyond low-income households. The affordable housing crisis is felt too within middle-income households, which are also at risk of housing insecurity and may struggle to build wealth as a result of cost-burdens. Within Maricopa County, 46% of all renters in all income brackets are considered rent-burdened, paying more than 30% of their income on housing. In the City of Flagstaff, a household earning less than $28.73 per hour or $59,760 annually would be considered rent-burdened in a modest two-bedroom property in the City. Once known as having an affordable real-estate market, Arizona has experienced rapidly increased property values, making homeownership out of reach for many. Phoenix saw a 44% increase in home prices between 2013 and 2019. With just a 12% increase in the average income during the same period, this results in home ownership becoming less and less attainable.

Arizona comprises diverse communities, with populations spanning urban, rural and tribal communities across large geographical areas, each experiencing unique housing supply and affordability issues. Coconino County, with the City of Flagstaff at its core, is by far the least affordable county in the State, with a two-bedroom housing wage of $24.35, more than double the State minimum wage.

Figure 1 shows the extent of affordability by county in Arizona, using the housing wage for a two-bedroom fair market rent property as a measure. Maricopa, Pinal and Yavapai counties are the least affordable, after Coconino County. In no county in Arizona can a household afford a modest two-bedroom unit on the State minimum wage.

A lack of affordable housing contributes to high rates of evictions and homelessness within the State, as households struggle to afford to maintain their housing. Since 2017, homelessness across the State has steadily increased, with 10,979 individuals experiencing homelessness on a given night in January in 2020, compared to 8,947 in 2017. The crisis of home loss is often accompanied by a wide spectrum of costly, interwoven social consequences that have lasting and damaging effects on households, such as income loss, ill health, disruption to education and involvement in the criminal justice system. Having an eviction on one's record is a significant barrier to housing, resulting in prolonged homelessness, doubling up or accessing substandard "slumlord" housing as a matter of last resort. Unfortunately, the affordability crisis within the State means many households are living precariously in housing that they may not be able to afford from one month to the next and who are at risk of housing loss. The development of safe, affordable housing is critical in Arizona to ensure that more households will have access to long-term housing where families can grow and succeed.

It is not easy to develop and preserve affordable housing within Arizona. There are many barriers presented by State law, local policy and funding issues that prevent our communities from moving forward. We know we have the passion, knowledge and expertise across the State and across many sectors, including our valued nonprofits, financial institutions, community organizations, architects and developers; yet we need the support of local, federal and state agencies to remove barriers preventing forward movement. In this report, we outline existing barriers and present viable solutions available to local municipal agencies to inform local policymakers on strategies and best practices to increase and preserve affordable housing.

Figure 1. **LEAST AFFORDABLE COUNTIES IN ARIZONA** (ranked)

Rank	County	Fair Market Rent*
1	Coconino County	$24.35
2	Maricopa County	$22.56
3	Pinal County	$22.56
4	Yavapai County	$19.73
5	Pima County	$18.25
6	Gila County	$17.73
7	Mohave County	$16.75
8	Cochise County	$16.48
9	La Paz County	$16.48
10	Graham County	$16.40
11	Yuma County	$15.69
12	Navajo County	$15.42
13	Santa Cruz County	$14.46
14	Apache County	$13.90
15	Greenlee County	$13.77

*** Housing Wage for 2-Bedroom Fair Market Rent (FMR)**

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CHAPTER TWO

EXISTING BARRIERS TO HOUSING DEVELOPMENT WITHIN ARIZONA

This chapter of the toolkit provides an overview of the various barriers to affordable housing development and preservation, presented by Arizona State law. This information may spur thought and conversation around legislative change advocacy. However, in the absence of such legislative developments, local municipalities are encouraged to develop policies and best practices that creatively mitigate the impact of these barriers and to seek strategies that are politically feasible. Such best practices are discussed in **Chapter Four.**

INCLUSIONARY ZONING AND STATE LAW PROHIBITIONS

Inclusionary zoning policies are imposed at the local municipal level to enforce private developers to set aside a certain percentage of their units within new construction projects at an affordable rent. The benefits of mandatory inclusionary zoning include the long-term impact of economic integration on household success. Unfortunately, Arizona is one of only three states in the nation that prohibits mandatory inclusionary zoning through state law. Until such time as our State law is changed, mandatory inclusionary zoning is not a tool available to Arizona's local municipalities for increasing the supply of affordable rental housing.

IMPACT FEES AND THE ARIZONA REVISED STATUTES (ARS)

Some states allow local municipalities to charge impact fees on new private development to leverage revenue into local affordable housing trust funds. Such fees, also called linkage fees or development impact fees, describe the link between the production of market-rate units and affordable housing development. The fees are normally charged per square foot on a new commercial or residential development. Revenue from such fees is streamed into housing trust funds to provide vital funding for affordable housing development and restoration.

The Arizona Revised Statutes (ARS) Title 9, Chapter 4, Article 6.2.1 controls how local municipalities in Arizona can use revenue from impact fees. This State Law tightly controls how an impact fee can be charged and what its revenue may be used for. The law stipulates that a municipality may only use impact fees to offset costs associated with the expansion of infrastructure and public services as a result of the new development and that the fees must benefit the specific development. Included in such new development costs are engineering, improvements, architectural services and real property. Municipalities in Arizona are therefore unable to stream revenue from impact fees into a housing trust fund; however, impact fee waivers are a possible incentive, as explained in later sections.

THE GIFT CLAUSE

The Arizona Gift Clause creates some ambiguity as to whether local municipalities can gift or significantly reduce the cost of city-owned land for the purpose of affordable housing development. The State of Arizona forbids governments from making gifts or donations to private parties, unless the associated expenditure is for public benefit and the taxpayers receive adequate value in return. A recent case, **The Goldwater Institute v. City of Phoenix**, disputed whether selling land with a 92% discount for the purpose of redevelopment for low- to moderate-income homeownership was a public benefit. The judge held that "The transaction unquestionably involves a public purpose." The judge further determined that the entire community benefits from use of the land for affordable housing. This case is a win for affordable housing advocates as it has weakened the barriers the Gift Clause posed to affordable housing development and opened the door for municipalities to consider reducing the cost of city-owned land for this public benefit.

TAX INCREMENT FINANCING (TIF) AND STATE LAW RESTRICTIONS

Tax increment financing (TIF) is a tool that focuses not on waiving or reducing taxes to incentivize development, but on increasing property taxes to create fund leverage opportunities. TIF draws revenue from more affluent and developing areas that can be streamed into funding for affordable housing projects. TIF works by establishing a baseline tax level for the entire city and capturing any taxes paid above that amount into an affordable housing fund. Every state allows TIF, except for Arizona, due to a State law enacted in 1999 that prohibits municipalities from adopting it. Arizona municipalities are encouraged to explore additional taxation tools not exempted by State law.

THE HOUSING TRUST FUND (HTF) CAP

The Arizona Housing Trust Fund (HTF) is the State's resource dedicated to the provision of affordable housing. Revenue in the HTF is sourced from the sale of unclaimed property and, prior to the Great Recession, was generating approximately $40 million per year. In 2010, due to budget constraints, the Arizona Legislature capped the HTF to $2.5 million, causing a monumental loss of funding for affordable housing projects. Prior to the cap, the HTF was a magnet for private investment, leveraging over $350 million per year and helping 10,000 Arizonans annually. Funds leveraged were used to create new apartments, repair homes in rural areas, assist families displaced by disaster, provide homeless prevention funds and assist tribal and rural households with homeownership.

AZHC continues to advocate for full restoration of the HTF.

RESTORING THE HOUSING TRUST FUND

IN THE PAST THE HTF HAS:

- **Built homes for our most vulnerable populations.** *Created 250 apartments for those less fortunate including seniors, people with disabilities, and people experiencing homelessness*
- **Provided disaster-related housing relief.** *Assisted families displaced by disasters, like the Yarnell fire victims*
- **Assisted with rural homeownership.** *Helped 230 rural families become homeowners*
- **Supported homeless prevention programs.** *Prevented 6,000 Arizonans from falling into homelessness*
- **Leveraged federal and private capital.** *Helped to bring in over $350 million in federal and private dollars to layer with state investment*
- **Paid for rural home repairs.** *Repaired 360 rural dilapidated homes, many occupied by the elderly*
- **Helped homeless shelters.** *Assisted more than 3,000 people in shelters*
- **Assisted with tribal housing.** *Aided with housing on Arizona's tribal lands, which experience some of the most extreme conditions in Arizona.*

SHORT-TERM RENTALS AND THE LOSS OF AFFORDABLE HOUSING

In 2016, the Governor of Arizona enacted legislation under **Senate Bill (SB) 1350**, which prohibits Arizona municipalities from restricting the use of short-term rentals. This is yet another barrier to the preservation of existing affordable housing. The proliferation of short-term rentals particularly impacts the availability of affordable housing in high-tourism areas such as Sedona, Flagstaff and Scottsdale. Following the enactment of SB1350, Sedona saw a rise of short-term rental units from 300 to 1000, accounting for 20% of the City's entire housing inventory.

COMMUNITY OPPOSITION

Local opposition to affordable housing development is a significant barrier to affordable housing development. Referred to as NIMBY (Not In My Back Yard), opposition to affordable development often delays planning approval and can completely kill projects before they get off the ground, or may add to development costs through aesthetic compromises and time delays.

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CHAPTER THREE

AFFORDABLE HOUSING FINANCING: EXISTING TOOLS AND POSSIBLE SOLUTIONS

The affordable housing funding gap refers to the difference between the revenue available through affordable rents and the costs to construct and operate an affordable housing property. Understanding the myriad of financial tools available to fill this gap is a complex area that often requires municipalities and developers to draw on the expertise and experience of affordable housing finance consultants beginning at the planning phase of a project. Funding sources are often layered to maximize capital, reduce overall costs and to fill gaps that traditional financing cannot do alone.

The role the local municipality can play in addressing the affordable housing funding gap includes the provision of affordable housing financing to projects through various sources, such as CDBG, HOMES funds and bond financing. Cities and towns may also provide technical assistance for projects in the form of dedicated affordable financing consultancy and expertise. Information provided in this section serves to provide a non-exhaustive list of a number of financing options across various stages of an affordable housing project.

PRE-DEVELOPMENT FUNDS

Pre-development funds are especially useful for small nonprofit developers who are unlikely, as opposed to larger organizations or private developers, to have the capital reserves available for upfront costs needed to move forward with a project. Pre-development costs are considered high-risk to traditional lenders and are offered with high interest rates that are detrimental to an affordable housing development budget.

Pre-development funds can apply to the following:

- Investigating potential leads on development or preservation projects.
- Conducting due-dilligence to determine feasibility of a proposed project.
- Purchasing and holding property or land until additional financing is in place for develoment or rehabilitation.
- Operating a property until permanent funds are available through rental revenue.

LOCAL INITIATIVES SUPPORT CORPORATION (LISC)

The Local Initiatives Support Corporation (LISC) offers a variety of lending products designed to support local development projects. Their pre-development fund can be used to support upfront costs in affordable housing developments up to $1,500,000 at a 5-7% fixed interest rate loan over a two-year period. LISC is a national organization and its fund can be utilized by eligible projects across Arizona.

PREDEVELOPMENT

- **PURPOSE:** To pay due diligence expenses, deposits, and other predevelopment costs
- **ELIGIBLE PROJECTS:** Rental housing; for-sale housing; community facilities; commercial and mixed-use projects
- **LOAN AMOUNT:** Up to $1,500,000
- **INTEREST RATE:** 5-7% fixed
- **TERM:** Up to 2 years
- **REPAYMENT:** Interest-only, payable monthly
- **LOAN FEES:** Up to 1.5% of loan amount plus legal fees
- **COLLATERAL:** Flexible; generally secured

In partnership with LISC, the **Arizona Community Foundation (ACF)** offers pre-development loans at zero interest via their Affordable Housing Fund. The fund is statewide and offers up to $75,000 per project. Eligible projects include supportive housing, rehabilitation of foreclosed and abandoned properties and the conversion of existing units into affordable housing.

ENTERPRISE

Enterprise offers pre-development loans for due diligence, site control deposits, and fees relating to permits, applications and consultancy. The funds are available for multifamily, rental and supportive housing and properties for sale. The funds are offered up to $250,000-750,000 at a variable or fixed interest rate.

TAX CREDIT EQUITY FINANCING

The 9% Low Income Housing Tax Credit (LIHTC)

The 9% Low Income Housing Tax Credit (LIHTC) is perhaps one of the most important and competitive funding tools for affordable housing development. The 9% credit can be used to support projects that don't require any additional federal subsidies and is designed to subsidize 70% of the low-income unit costs within a project. Administered by the Arizona Department of Housing (ADOH), LIHTC is awarded annually by the federal government for the development of affordable housing for low-income families and allocated to projects through a competitive process. It works by allowing private investors a federal income tax credit as an incentive to invest in affordable housing. Equity raised through these investments is used for affordable housing development and renovation of existing affordable units. Once the 9% LIHTC award is allocated, developers have the choice to claim the tax credits or sell them to investors. Common practice is for developers to use a syndicator to act as broker between the investor and developer, to pool numerous projects within one LIHTC equity fund to benefit from economies of sale.

Developers can apply for LIHTC to fund their projects through the ADOH, in accordance with the Qualified Allocation Plan (QAP). The QAP requires that projects serve low-income households over the longer time periods (Reference 8). In 2019, ADOH allocated $19,171,755 in tax credits across 13 individual projects in the State. The LIHTC is tightly regulated and restricted to carefully ensure that housing developed using the tax credit remains affordable for at least 30 years. The process for allocation is competitive, with more applications than allocations each year. Fifty-three applications were submitted for LIHTC consideration within the State, for the limited allocation in 2019. The ADOH considers applications through the QAP under a number of set asides that focus on specific population groups: tribal, balance of State, chronic with veteran preference, nonprofit development and State special projects.

The 4% LIHTC

The 4% tax credit is an underutilized resource in the State. As with the 9% tax credit, the 4% tax credit offers a dollar for dollar amount; however, this tax credit is only designed to cover 30% of development costs and therefore the value of the 4% credit is significantly less than 70% of the 9% tax credit. As a result, developers tend to favor the competitive 9% tax credit for its higher rate of return. There are, however, benefits of the 4% tax credits that are often overlooked:

- The 4% tax credit can be used towards new construction developments that have used additional government subsidies, meaning that subsidies such as tax-exempt finance bonds may be layered along with other gap financing to increase fund leverage.
- The 4% tax credit may be used to acquire existing buildings, where the 9% tax credit may not.
- While the 9% tax credit is capped, the 4% tax credit is not, meaning there is no competition for the credit.

LIHTC is a complex area of understanding and successful projects utilize experts in the field to navigate the rules, regulations and documentation. Despite this, with the right players at the table, LIHTC projects enable affordable rents and profit opportunities for developers, therefore making the resource valuable for our community.

TAX-EXEMPT BONDS

Private Activity Bonds

State and local governments can issue tax-exempt bonds to provide debt financing for a variety of eligible private projects, including the development of multi-family rental housing. Tax-exempt bonds are also termed Private Activity Bonds. Tax-exempt bonds are issued through the municipal Industrial Development Authority (IDA) at the state, county or city level and developers who are allocated the bond are eligible to receive the 4% LIHTC. Developers may purchase these bonds and may deduct interest income from their federal gross income tax obligations, resulting in reduced-cost financing. Since the 9% LIHTC is limited and does not meet the needs of all proposed projects in Arizona, tax exempt financing combined with the 4% LIHTC is a useful alternative for those developments that do not qualify for the competitive 9% credit.

Local municipalities interested in offering tax-exempt bonds for affordable housing development are encouraged to understand the availability of bonds within the state and the competition for available funds. The IRS code limits tax-exempt bonds per state, up to $316,745,000 or $105 per state resident, whichever is greater. In 2020, the Arizona volume cap was $764,265,285 and 15%; $114,639,792 was allocated by the State for residential rental projects and is handled by the Arizona Finance Authority. A list of Arizona projects that received tax-exempt financing can be found here. Local municipalities can also play an important role in advocating for more funds to be allocated by the State for residential rental projects.

General Obligation Bonds

General obligation bonds are tax-exempt, government-issued bonds available to state and local governments that can be used to fill financing gaps for affordable housing. The bonds are useful for large projects or a group of projects, since the bonds provide large upfront financial resources. To obtain general obligation bonds, local municipalities must apply a special election process to authorize issuance of the bonds. The process for a local municipality to gain approval on issuing a bond involves a referendum or special election in which the public is invited to vote on approval for a specific housing measure.

CONVENTIONAL FINANCING AND COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Affordable housing developers may use conventional financing to meet gaps in funding for a project. Conventional financing refers to funding mechanisms commonly used in market-rate real estate development. Examples of conventional financing include loans, loan guarantees, mortgage insurance and equity. Some private financial institutions also offer investments in affordable housing development and additional financial solutions alongside conventional financing.

The Community Development Financial Institutions Fund (CDFI Fund) serves mission-driven financial institutions to support economically disadvantaged communities by injecting sources of capital into neighborhoods that lack access to financing. The Capital Magnet Fund invests in CDFIs and nonprofit organizations to provide financing for affordable housing projects. The fund generates $20 for every $1 of funding awarded and offers competitive grants to finance affordable housing projects.

Bank of America, for example, invested $4.7 billion in 2018 and has financed 194,500 affordable housing units between 2005 and 2018 nationwide. Bank of America works with developers to create lending solutions for a range of affordable housing projects. They offer specialist advice around tax requirements, risk and funding growth through their community development corporation.

A list of registered CDFIs that serve Arizona can be located here.

Community Investment Program of FHLBs

FHLBs are the nation's largest single, private source of funds for community lending, providing liquidity for their member institutions to turn into lendable funds to support affordable housing development. FHLB institutions by law are required to establish an affordable housing program. The FHLBank San Francisco for example, provides grants for affordable housing projects in various states, including Arizona, through its affordable housing program. In 2020, the program allocated $37.7 million to 50 construction and rehabilitation projects across California, Arizona and Nevada, through their member financial institutions. A list of FHLBs can be found here.

FEDERAL GRANTS

HOME Investment Partnerships Program (HOME)

HOME funds are allocated from the federal government to state and local governments to fund a wide range of activities, often in partnership with local nonprofit organizations. The fund is exclusively designed to support projects that provide affordable housing to low-income households. State and local governments can use the funds to acquire, construct or rehabilitate affordable housing, with stipulations that the units are to be occupied by income-eligible households for specific lengths of time.

The State is automatically eligible to receive HOME funds of at least $3 million per year. Local jurisdictions are eligible for a HOME allocation dependent on their inadequacy of affordable housing and additional factors, including the incidence of poverty. Smaller jurisdictions or those that don't meet the criteria may partner with neighboring municipalities if a combined allocation meets the threshold for receiving HOME funds.

A list of Arizona HOME grantees can be found here.

Community Development Block Grants (CDBG)

CDBG are Department of Housing and Urban Development (HUD)-allocated grants, awarded to states, cities and counties annually for the purposes of providing decent and suitable housing and expanding economic opportunities for low- and moderate-income households. The funds may be used for construction costs of new development, pre-development costs, rehabilitation costs and the cost of reconstruction of existing buildings and payments to support housing counseling agencies for homebuyer support. Guidance on the full use of CDBG funds for affordable housing efforts may be found here.

HUD has bolstered the CDBG fund through the CARES Act to bring more funding to communities in response to the COVID-19 pandemic. Arizona received a total of $122 million in additional CDBG funds between April and September 2020, allocated between State and local governments. The funds are targeted to address the immediate crisis presented by COVID-19, encouraging hotel acquisition and emergency rental payments. Municipalities are also encouraged to consider the use of funds to acquire units for affordable housing to bolster housing infrastructure mid- and post-pandemic. A list of allowable uses for CDBG-COVID funds can be found here.

A list of Arizona CDBG entitlement jurisdictions can be found here.

HUD and Federal Housing Administration (FHA) loans

HUD and the Federal Housing Administration (FHA) jointly provide multifamily lending and insurance programs made available for affordable housing construction and rehabilitation projects. HUD insures loans for the full spectrum of the housing market and applies special considerations to projects that focus on low-income housing. The HUD 221(d)(4) program, for example, provides financing in the form of a low-interest loan offered on a 40-year fixed term. Obtaining a HUD loan is more time-consuming than obtaining a conventional loan, due to cost and time constraints; however, the benefits of low interest rates outweigh these upfront barriers. The loans are typically offered on a 40-year fixed term with no maximum loan amount and a minimum loan of $4 million. Further information and a list of FHA/HUD loans are available here.

United States Department of Agriculture (USDA) Rural Development Agency Loan and Grant Programs

To support affordable housing development in rural locations, the United States Department of Agriculture (USDA) offers a number of loan programs available for rural development projects. These financial products are targeted toward rural communities to support low- and moderate-income households and farm labor workers. The grants vary in their purpose and eligibility and are available to states, local municipalities, nonprofits and farming corporations. A full list of loan and grant programs available through the USDA is available here.

LOCAL GRANTS AND SUBSIDIES

Arizona Gaming Funds

Proposition 202, the Indian Gaming Preservation and Self-Reliance Act (2002), requires Arizona tribal communities that receive gaming revenue to contribute 1-8% of revenue to the State and local governments. Twelve percent of these funds are distributed to local municipalities of the tribe's choosing for community and public safety programs, which can be used for gap-financing affordable housing projects. Grant applications are made to individual tribes through their grant application processes. Local municipalities may also sponsor nonprofit organizations to make eligible grant applications and to act as a pass-through to distribute funds. A list of tribes that collect gaming revenue and are required to provide municipal funds can be found here.

Local Initiative Support Corporation (LISC) Funds

Alongside their pre-development fund, LISC offers additional financial tools that can be used for affordable housing gap financing options:

- The Home Matters Fund provides $100 million in below-market debt and grants for projects that add critical affordable housing units, drawn from health plans through a public-private partnership. The funds are focused on specific locations within Arizona and are focused on Medicare-eligible households and workforce housing under 120% of the area median income (AMI). Eligible projects are those that serve veterans, seniors, people with disabilities, individuals involved in criminal justice and those eligible for AHCCCS. More information can be located here.
- Below-market loans are available to community development corporations, nonprofit and for-profit affordable housing developers, and local and state housing authorities at a 5-8% fixed rate. The funds are available for the development of both rental and for-sale affordable housing projects.

Arizona Housing Fund (AZHF)

In 2019, the Arizona Housing Fund (AZHF) was created through a partnership between the founders of the fund and the ACF. The fund is described as a public-private-philanthropic solution to the affordable housing crisis. Additional partners include the Home Builders Association of Central Arizona and the Association of Realtors, along with many other nonprofit agencies, healthcare companies and community organizations. The purpose of the housing fund is to provide additional funding in the State for the development of permanent supportive housing and low-income housing. The AZHF recognizes that obtaining limited existing funding is a barrier to nonprofit affordable housing development and management.
The AHF is defined by an innovative solution to fund leverage through the voluntary Escrow Donation Program. This works by requesting a one-time

donation of $25 or more into the trust fund at the real estate transaction closing, through a one-page donation form included in the sales and escrow package. By continuing to engage realtor associations and builders into partnership, the AHF is striving for the Escrow Donation Program to be available to every buyer and seller in Arizona as a standard offering in the future. Additional to the Escrow Donation Program, the AHF has the capability to receive individual donations and its goal is to leverage $10 million per year. Held at the ACF, the fund has no overhead costs, meaning that 100% of the fund goes directly to the nonprofits who are awarded the grants. The AHF is an example of innovation in partnership and affordable housing fund leverage, positioning itself in the real estate industry as a creative and effective approach to raising funds outside of traditional government sources.

Grant opportunities will be available through the AHF once there are enough dollars in the fund to provide grants to qualifying projects. The AHF will provide updates to nonprofits and partners in the field of affordable housing, including online updates. To ensure notifications are received, organizations can communicate their interest through the ACF website or the AZHF website.

AFFORDABLE HOUSING FUNDING CASE EXAMPLE

Historic Coffelt-Lamoreaux

Built originally in 1954 and owned by Maricopa County, Coffelt-Lamoreaux was designated for demolition in 2012. The properties, initially targeted for returning Korean War veterans, were rundown and unsafe. In a partnership between the Housing Authority of Maricopa County, the City of Phoenix, Gorman & Company and HUD, extensive renovations were completed, which revitalized the community through innovative design and the provision of services.

CONSTRUCTION FUNDS

TOTAL COST OF DEVELOPMENT $45,539,507	
Seller Carryback	$4,900,000
LIHTC Equity	$15,845,641
Housing Tax Credit Equity	$5,172,492
HUD 221(d) (4) loan Federal Home	$14,150,000
Loan Bank (FHLB)	$1,500,000
Affordable Housing Program	$650,000
City CBDG funds	$900,000
ADOH State dollars	$2102,000
HAMC soft loan Deferred Development Fee	$319,374
Tax-Exempt Bond Allocation	$25,0000,0000

CHAPTER FOUR

BEST PRACTICE STRATEGIES TO INCREASE THE AFFORDABLE HOUSING SUPPLY

This chapter outlines specific strategies that Arizona's local municipalities may adopt in addressing the affordable housing crisis and overcoming barriers to development and restoration. Best practices and national examples are outlined, with suggestions of innovative solutions to create feasibility within Arizona, along with promising examples of innovation and best practices already occurring in the State.

PARTNERSHIPS

Building effective partnerships between local municipalities, nonprofits, the business sector and cross-sector organizations is an important strategy to leverage the resources, skills and expertise needed to build more affordable housing.

Affordable Housing Taskforce

The creation of taskforces or commissions at the local municipal level targets partnership through stakeholder involvement in increasing affordable housing supply. A taskforce may be introduced by municipal legislation and be defined by tasks and deliverables that lead to new development and the preservation of the affordable housing supply. A taskforce or commission includes a wide variety of stakeholders who identify strategies to create and preserve affordable housing. Activities include the evaluation of existing programs and exploring new initiatives with the goal of providing policy recommendations to council.

Case Example: The City of Flagstaff's Affordable Housing Commission

In April 2019, the City of Flagstaff approved an affordable housing commission tasked with making recommendations to City Council to address the affordable housing crisis within the City. One strategy of the commission is to explore partnerships from the local business community, bringing together the expertise of building and real estate professionals, low-income housing experts and representatives of the community. Details of the commission, including the enacting authority, may be found here.

Health and Housing

The inextricable link between health and housing, as amplified by the COVID-19 pandemic, has spurred partnerships between healthcare and housing providers in an effort to address housing as a social determinant of health. Such partnerships can leverage additional funding plus the expertise to guide housing experts in addressing the multiple social dimensions of health and social outcomes that contribute to successful affordable

housing development. UnitedHealthcare is one such for-profit healthcare company that has dedicated capital to affordable housing. UnitedHealthcare has a dedicated Affordable Housing Investment Program that, as of March 2019, had invested $400 million in 80 communities across 18 states, resulting in over 4,500 new affordable homes. By partnering with local affordable housing advocates and local, socially-minded organizations that understand the link between housing and health, UnitedHealthcare has provided valuable public-private partnerships that have resulted in access to safe, affordable housing and better health. UnitedHealthcare recognizes the critical link between health and housing and the impact that their investments and partnerships have on the wellbeing of communities.

Case Example: UnitedHealthcare and Chicanos por la Causa

In 2016, UnitedHealthcare invested $20 million in a partnership with Chicanos Por La Causa, allowing the purchase and renovation of 500 units in two apartment complexes. The units were furnished and provided affordable housing to homeless or at risk households . The two agencies had a prior relationship centered on investments in preventative care and services, and the key to this partnership was a trusted relationship and shared vision.

Additional examples of Health and Housing Partnerships in Arizona include:

Dignity Health Community Investment program

AHCCCS, Mercy Care, ADOH, Catholic Charities and Thomas Development Co, The Laurel Tree Development

Faith-Based Organizations (FBOs):

Building relationships with faith-based organizations (FBOs) is a viable yet overlooked strategy. Many FBOs own underutilized land or vacant property. According to the NHP Foundation, FBOs are some of the nation's largest owners of land; however, financial and technical capacity for development of the land within each FBO is often limited. Therefore, partnerships can be effective in leveraging resources. Enterprise has created a useful white paper that addresses tactics for developing relationships with potential FBOs for the purpose of land acquisition.

CREATING A MUNICIPAL AFFORDABLE HOUSING STRATEGY

Municipal commitment to affordable housing development is often limited to the general plan. Municipalities nationwide are creating independent, strategic plans that specifically address affordable housing. Such a practice aligns with municipal commitments to making affordable housing a priority, allowing the creation of clear goals and strategies for increasing, preserving and restoring supply.

Case Example, The City of Tempe

In 2019, Council Members of the City of Tempe unanimously voted to approve an affordable housing strategy to tackle the affordable housing crisis in the City. The plan spans 20 years to 2040, with three major priorities: to collect affordable housing impact statements, to expand developer incentives, and to dedicate seed funding to the HTF. The purpose of the strategy is to guide decisions over the duration of the plan with the overarching goal of providing quality housing that is affordable to households at all income levels.

Inter-Jurisdictional Partnerships – An Arizona Statewide Municipal Response

Inter-jurisdictional partnerships in affordable housing allow multiple entities to work together to tackle housing issues that expand beyond municipal boundaries. The benefit of inter-jurisdictional partnerships is a focused approach on a regional issue that enhances coordination and information sharing and can increase funding resources. Although the affordable housing crisis in Arizona is not unique to individual jurisdictions and municipal areas, the specific barriers are, especially between rural and urban areas. Inter-jurisdictional partnerships allow counties and cities to work collaboratively through a regional effort to address local affordable housing issues, while pulling in developers and other organizations that can bring expertise and knowledge to the table in a regional approach.

Housing Needs Assessments

A housing needs assessment allows local municipalities to determine the need for affordable housing within their locality through gaps analysis of available affordable units, based on the specific population. Housing needs assessments are recommended within Arizona's diverse jurisdictions to identify the unique needs of individual counties, cities and towns. A brief guide on how to conduct a housing needs assessment can be located here. It is possible for local municipalities to contract specialist assistance in developing a housing needs assessment. For example, in 2019 the City of Sedona and the White Mountain Apache Housing Authority both issued requests for proposals (RFPs) for qualified firms to complete housing needs assessments. Details of the RFPs are included in the links below.

Examples of Housing Needs Assessments that have been completed or are planned in Arizona can be viewed at the following links:

Urban Jurisdictions

City of Tempe, 2017
Housing Inventory and Affordability Analysis

City of Tucson, 2019
Comprehensive Housing Market Analysis

City of Chandler, 2019
Community Needs Assessment

Rural Jurisdictions

City of Sedona, 2019
RFP for Housing Needs Assessment and 5-year Affordable Housing Action Plan

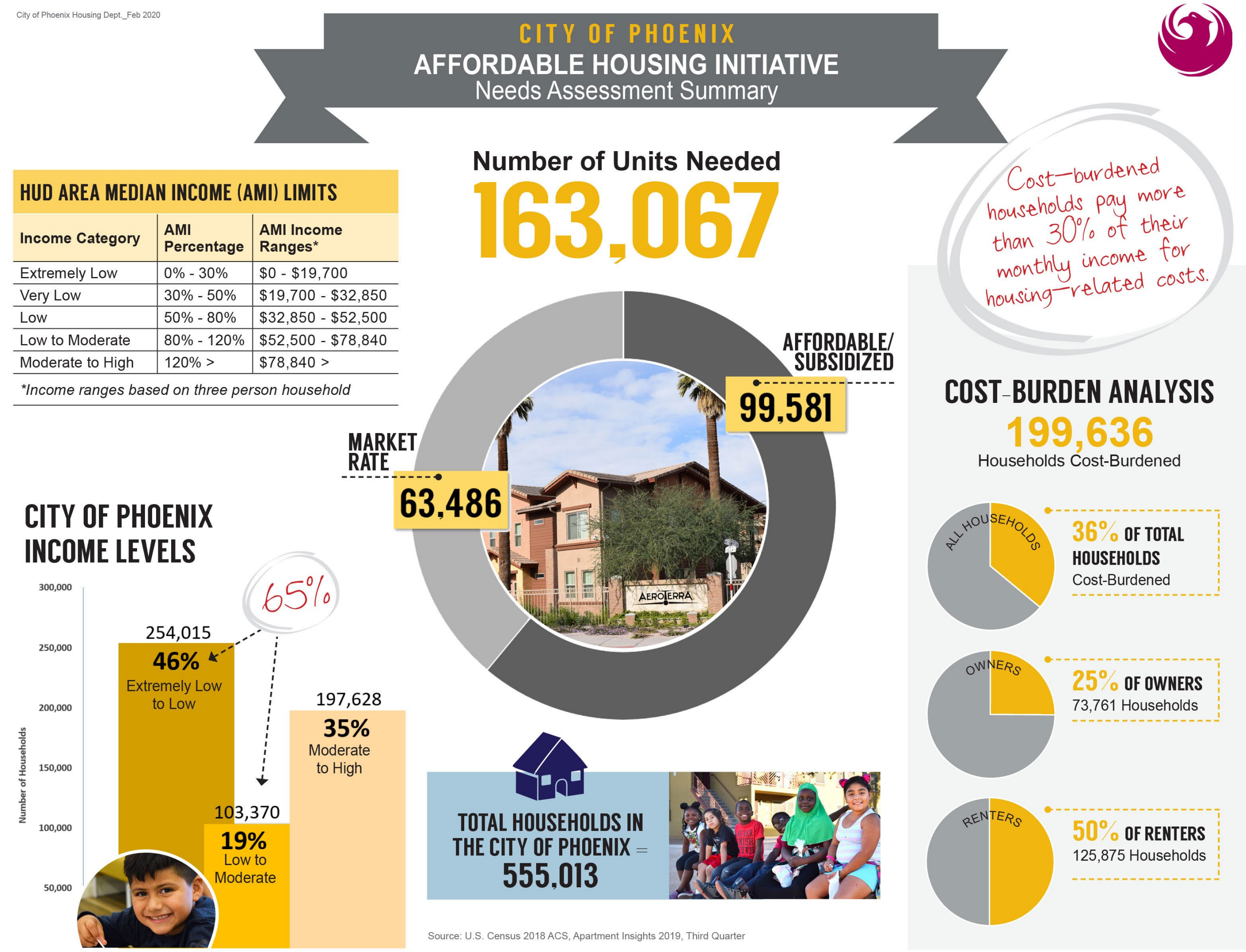
Kingman and Mohave County, 2019
Community Health Needs Assessment

Coconino County, 2017
Coconino Co. Community Needs Assessment Report
City of Maricopa, 2017
Housing Needs Assessment

White Mountain Apache Tribe, 2019
RFP, Housing Needs Assessment

Case Example: City of Phoenix Housing Needs Assessment Summary

In 2019, the City of Phoenix launched their Affordable Housing Initiative to identify the City's housing needs and to provide policy recommendations to address the affordable housing crisis locally. An important part of this initiative was the completion of a housing needs assessment in February 2020 to estimate the number of additional affordable units required to meet the needs within city limits and to understand the population and needs within the specific city region. Data was derived from census data, Apartment Insights data, and data derived from partner portfolios. The Needs Assessment Summary drew surprising results for the City and has proven to be an essential tool for the City to understand the population and the specific needs pertaining to affordable housing development. The housing needs assessment found that 65% of the City's population fell into the ELI or low to moderate income housing bracket and that 36% of total households within the City are considered to be cost-burdened (that is, they pay more than 30% of monthly income for housing-related costs). Further, the City identified that 99,581 affordable or subsidized units and 63,486 market-rate units are required to meet housing needs within the City. Additionally, through this housing needs assessment, the City found that existing, naturally affordable units were being utilized by moderate to high income households, meaning there is an imbalance between the need and the existing availability. The findings of the housing needs assessment allowed the City to identify policy initiatives that meet specific housing needs of the City. These policy recommendations were presented in the Housing Phoenix Plan, which received unanimous approval by the Phoenix City Council in June 2020. The Housing Phoenix Plan, including a detailed overview of the Housing Needs and Gap Analysis, can be found here.



Income Category	AMI Percentage	AMI Income Ranges*
Extremely Low	0% - 30%	$0 - $19,700
Very Low	30% - 50%	$19,700 - $32,850
Low	50% - 80%	$32,850 - $52,500
Low to Moderate	80% - 120%	$52,500 - $78,840
Moderate to High	120% >	$78,840 >

AFFORDABLE HOME OWNERSHIP AND THE ROLE OF THE HOUSING COUNSELOR

Affordable homeownership sits on the higher end of the housing spectrum, below market-rate rent and homeownership, and is aimed at making homeownership a reality for households who are out of reach of the market-rate home buying market. Homeownership is an important consideration in the conversation around increasing the supply of affordable housing, as a mechanism to build wealth and to promote a number of positive social, economic, family and civic outcomes. Housing counseling agencies play a critical role in supporting households who are seeking affordable homeownership. Services include homebuyer education courses, assessment of buyer readiness, determining appropriate lending products and homebuyer assistance programs, recognizing and avoiding scams, and preparing for ongoing homeownership responsibilities.

Local municipalities can serve a critical role in encouraging affordable homeownership through the provision of funds for homebuyer assistance programs. Down payments and closing costs are the most common barriers to homeownership, especially in areas of high housing cost burdens, where households struggle to save for upfront costs. Cities and towns can develop homebuyer support programs in the form of grants or loans to help households overcome barriers. Many jurisdictions target this assistance to low- or middle-income households by setting maximum AMI limits to first time homebuyers. Since funds provided in the form of grants cannot be repaid, the assistance provided is often low and/or offered under a match program, requiring households to contribute some costs to be matched up to a certain limit. Municipalities may also consider providing a forgivable loan that requires, for example, a buyer to remain in the property for a certain number of years before the loan is forgiven. This type of loan aligns with HOME funds, which require a minimum duration of affordability. Alternatively, municipalities may offer low- or no-interest loans that are more affordable than loans on the regular market. Alongside HOME funds, CDBG funds may be allocated for down payment and closing cost assistance. Locally generated funds may also be used to supplement these federal sources.

Partnerships between cities/towns and housing counseling agencies are beneficial for the pooling of financial and educational resources. Such partnerships ensure local municipal funds are allocated to households who are given the adequate support to prepare for and sustain affordable homeownership.

A list of HUD-approved housing counseling agencies can be found here.

Examples of Municipal and Housing Counseling Agencies in Arizona:

City of Flagstaff Community Homebuyer Assistance Program (CHAP) and Housing Solutions of Northern Arizona

The City of Flagstaff offers homebuyer assistance through down payments and closing costs, up to $15,000 in matching funds. The fund is made available to first-time homebuyers who are eligible for a mortgage but for whom the upfront costs create a barrier to homeownership. The City partners with the Housing Solutions of Northern Arizona, a HUD-approved housing counseling agency for fund administration and homebuyer education and support.

City of Avondale and Trellis

The City of Avondale provides up to $30,000 in down payments, closing costs and principal reduction assistance to qualified first-time buyers interested in homeownership in the City. The assistance is offered in the form of a non-interest-bearing loan that is forgivable unless the purchaser sells the home within a specified time period or fails to maintain the home. The funds were sourced from federally allocated HOME funds. The City has partnered with Trellis, a HUD-approved counseling agency to provide the administration and homebuyer education.

COMMUNITY LAND TRUSTS (CLTS), A SOLUTION FOR AFFORDABLE HOMEOWNERSHIP

Community Land Trusts (CLTs) are nonprofit community-based organizations that develop and steward affordable housing on behalf of a community. CLTs balance the needs of individuals to access land and maintain security of tenure with a community's need to maintain affordability, economic diversity and local access to essential services. Homeownership among low-income households is an important solution to ensure affordability across the housing spectrum. Homeownership can be difficult and too often impossible to achieve for households and families with low or moderate income. Yet, homeownership is a mechanism for wealth building and is the basis for a number of indicators of social, economic, family and civic outcomes, including education, health and crime. HUD recognizes interventions for low income, minority and first-time homebuyers as essential to balanced housing options within communities. CLTs offer a model that municipalities can use in efforts to increase opportunities for homeownership, alongside down-payment assistance and other financial support mechanisms, such as subsidies and soft loans.

In offering a reliable model for affordable homeownership, CLTs acquire land through donation or purchase using government funds and hold the land title to control and preserve long-term affordability. When homes are sold to low-income families, CLTs provide long-term leases of the land, usually a 99-year term, and have the first right of refusal to purchase the land back on sale of the property. The resale price is determined by a formula stipulated in the terms of the ground lease, to ensure the property always remains affordable and available to the CLT. This formula also ensures a fair return on investment to the owner of the home, to ensure wealth building through homeownership. The lease includes provisions that enable stewardship, such as the CLT's right to enforce repairs if the property becomes hazardous. Through growth, CLTs are able to contribute to the supply of affordable housing stock and play an important role in the preservation of existing affordable homes.

How Can Local Municipalities Support or Create CLTs?

Local municipalities can play a critical role in CLT success in a number of ways: by partnering with existing CLTs, by exploring the scope for CLT start-up within the municipal entity, and by creating partnerships with willing and able community-based organizations. Land acquisition and subsidy provision are the key resources municipalities can bring to established CLTs. Start-up CLTs can benefit from organizational oversight and publicity, alongside funding assistance. However, to have success in growing the CLT model, there must be public will among council members and constituents for homeownership in addition to rental as solutions to meeting the need for affordable housing. A non-exhaustive list of how municipalities may support CLTs is offered below. Detailed information and guidance on municipal and CLT partnerships can be located in the Lincoln Institute's Policy Focus Report.

- Provide municipal oversight of performance
- Publicize goals and activities
- Lead outreach with constituents, nonprofits and residents to educate on the purpose and local benefit of CLTs
- Take the lead in setting up a CLT
- Work alongside community partners who are already leading on a start-up
- Offer support to mature CLTs, finding opportunities to support existing and future projects
- Donate land and provide leases for land acquisition
- Provide fees and waivers for CLT project development
- Provide city funds for housing subsidies
- Support development and sustainability through CDBG and HOME grants
- Reassess tax policy and valuation for CLT homes

Case Example: The City of Tempe and the Newtown Community Development Corporation (CDC)

The Newtown Community Development Corporation (CDC) was founded in 1994 as a restoration coalition and steadily expanded from restoration and preservation in a specific Tempe neighborhood to a new focus on increasing affordable housing by the year 2000. In that year, the City of Tempe partnered with the Newtown CDC and provided funding to acquire, rehabilitate and resell six houses. When Newtown later became an official CLT, it partnered with the City of Tempe and other stakeholders to establish the new model. Along with assisting in establishing the CLT, the City continued to provide funding for additional projects, such as homebuyer education and housing counseling. The City of Tempe recently partnered with Newtown on their Tempe Micro Estates project set to be developed on three vacant lots the City purchased using CDBG funds. The City of Tempe sold the land to the Newtown CDC at a nominal cost with a specific land-use restriction to preserve the City's interest in the land. By selling the land at a low cost, rather than making it a 100% donation, the City was able to mitigate the barriers posed by the Gift Clause, as outlined in **Chapter Two** of this toolkit.

Architect rendering of Tempe Micro Estates

Examples of CLT's State-wide

Pima County Community Land Trust
Newtown Community Land Trust
Community Homes of Patagonia
Townsite Community Land Trust
Flagstaff Community Land Trust Program

AFFORDABLE HOUSING RESTORATION AND PRESERVATION

Strategies around affordable housing are incomplete when the focus is solely on increasing supply without giving attention to preserving affordable stock that already exists within communities. The following best practices cover strategies that consider various forms of housing loss.

Landlord Engagement and Retention for Subsidy Programs

Housing Subsidy programs such as Section 8 and other voucher programs are important affordable housing solutions for low-income households that would otherwise be unable to afford fair market rent. For such programs to be successful, housing authorities work hard to build relationships with landlords who are willing to rent units to voucher holders. The State of Arizona offers no source of income discrimination protections, and as such, State law allows landlords to refuse to rent to a prospective tenant on the basis they are low-income and/or hold a housing voucher. This means landlord engagement strategies are more vital in Arizona than they are in other states, such as Oregon, which provides source of income discrimination protections.

Source of income discrimination is not the only challenge that puts subsidy programs at risk. Communities across Arizona have witnessed a loss of landlords willing to engage with subsidy programs because of unfavorable administrative processes that create delays in payment and require excessive paperwork. Arizona's public housing authorities are at increased risk of losing landlords willing to access subsidies due to the implications of the COVID-19 pandemic. Before municipalities engage in exploring strategies to engage landlords, it is vital for municipalities to review the existing processes tied to their housing authorities and subsidy programs to identify areas for improvement in processes that impact the experience of the landlord, such as the rent payment schedule.

Landlord Incentive Programs

Landlord incentive programs can offer a critical tool for engaging and retaining landlords in the subsidy program. At the State level, ADOH administers a Landlord Incentive Program (ALIP) available to landlords statewide to mitigate financial loss, such as vacancy and damages, and is available to eligible subsidy providers, including permanent supportive housing programs and HUD-VASH programs. Municipalities that operate as housing authorities may make use of the ALIP. Such incentive programs are deemed by the Interagency Council on Homelessness as a "Game Changer" when it comes to persuading landlords to rent to tenants in voucher programs who may be more likely to have an eviction history, criminal background or other barrier to housing. Municipalities may also consider appropriating funds to a landlord mitigation program or to creating a flexible fund to fill in the gaps that may slow down the process, such as application fees and inspection costs, which are usually not covered by subsidy programs.

Property Tax Waivers

Tax tools as a strategy for encouraging new affordable housing development can augment strategies that aim to entice and retain landlords willing to rent to low-income households. This works by offering a tax abatement or annual reduction in real estate tax assessment based on the amount of units leased to voucher holders.

Other best practices related to landlord engagement include:

- Improvement of the inspection process to remove unnecessary protocols
- Implementation of a support system for landlords, such as a specified customer service line
- A landlord bonus program
- A marketing campaign for landlord recruitment
- An anti-stigma campaign
- The recruitment of a navigator specifically tasked with landlord outreach.

Preservation Strategies for Existing Units

According to HUD, the preservation of existing affordable housing typically costs around one-half to two-thirds of the cost of new development and is therefore an important strategy in the overall goal of increasing affordable housing. An additional benefit of preservation is enabling households to remain in their homes and neighborhoods. Strategies around affordable housing preservation runs the gamut from units that are publicly owned and subsidized to units that are privately owned and unsubsidized, often owned by small "mom and pop" landlords who are more at risk of foreclosure than large multi-unit owners. These small-scale landlords also are more likely to struggle with the upkeep of properties to ensure "safe" housing.

Affordable housing preservation strategies also take into consideration the subsidized housing developments and LIHTC-funded properties that have expiring subsidy and affordability requirements. The owners of such properties have the option to convert them into market-rate or non-residential use, which can create a significant loss to the existing affordable market. Deciding whether to prioritize restoration or new construction within the context of limited municipal funds can be complicated and depends on a variety of factors, including whether a newly constructed project would be less expensive than restoration of an existing one. A list of factors municipalities can consider when deciding between restoration and new construction can be located here.

Privately owned and unsubsidized units should not be overlooked by municipalities wishing to explore preservation strategies. Unsubsidized affordable units are lost with market and land price increases, sale by owner or renovation leading to rent increase. In these cases, when existing affordable housing becomes unaffordable, housing stability is disrupted, which has lasting impacts on households due to the upheaval of being forced to leave a home and neighborhood. We know also that short-term rentals are a huge factor that results in the loss of housing within the State, as discussed elsewhere in this toolkit.

The preservation strategy also applies to owner-occupied properties. The preservation of owner-occupied homes ensures long-term affordability. We talked previously about the important role of CLTs in supporting individuals and families to wealth building through homeownership. By supporting those households who have reached homeownership but are still cost-burdened or who are at risk of abandoning their homes due to unsafe conditions, restoration programs can intervene to preserve this form of existing housing.

Case Example: The City of Tucson

City Home Advocacy Rehabilitation Modification Program (CHARM)

The City of Tucson's City Home Advocacy Rehabilitation Modification Program (CHARM) program provides support to homeowners whose homes are in need of urgent repair. The program is offered to households of limited income and is offered in partnership with several local agencies: DIRECT Center for Independence (DIRECT), Community Home Repair Projects of Arizona (CHRPA), Tucson Metropolitan Ministry (TMM), and FSL Home Improvement. The program offers assistance with major and minor repair, home access for ADA needs, repairs to mobile homes and repairs to reduce lead hazards.

Useful examples of national preservation programs include:

District of Columbia - Housing Preservation Strike Force

Cook County - Preservation Compact

Example Strategies that Can be Explored at the Municipal Level:

1. Create a preservation unit or task fund
2. Collect and maintain data to identify "at-risk" properties
3. Explore draft regulations that allow the transfer of ownership of at-risk properties to pre-qualified developers
4. Explore voucher programs to help seniors age in place

5. Create energy retrofit programs
6. Offer Tax abatements for preservation projects
7. Adopt a Transfer of Development Rights (TDR) program

Detailed policy suggestions are located here.

Addressing the Short-Term Rental Problem

The loss of existing housing to short-term rental requires Arizona municipalities to adopt innovation in mitigating the State law prohibition of short-term rental restrictions.

Tax Surcharge

Chicago is taking action on short-term rentals by imposing a 21% tax surcharge through a new ordinance approved in June 2019. Chicago already imposes a 17.4% tax on hotels that apply to short-term rentals through companies such as AirBnB. The revenue leveraged from the additional 4% surcharge will be used to fund a local housing trust fund for supportive housing and services and housing for homeless families and chronically homeless individuals. This innovative measure allows funding for housing within a context where affordable housing is scarce and where short-term rentals contribute to the loss in housing. The political feasibility of this type of strategy in Arizona depends on whether a surcharge is considered a "restriction" and therefore not compliant with the State law that prohibits short-term rental restrictions. We believe a tax surcharge should not be viewed as a restriction to short-term rentals, as such a policy would not prevent an individual from renting their home on a short-term basis; it would simply create a tax implication. However, municipalities must be aware that a legal challenge to such an ordinance may arise, creating a risk to implementing this policy. Municipalities are advised to consult with their legal departments on the risk of a potentially challengeable ordinance.

Deed Restriction Program

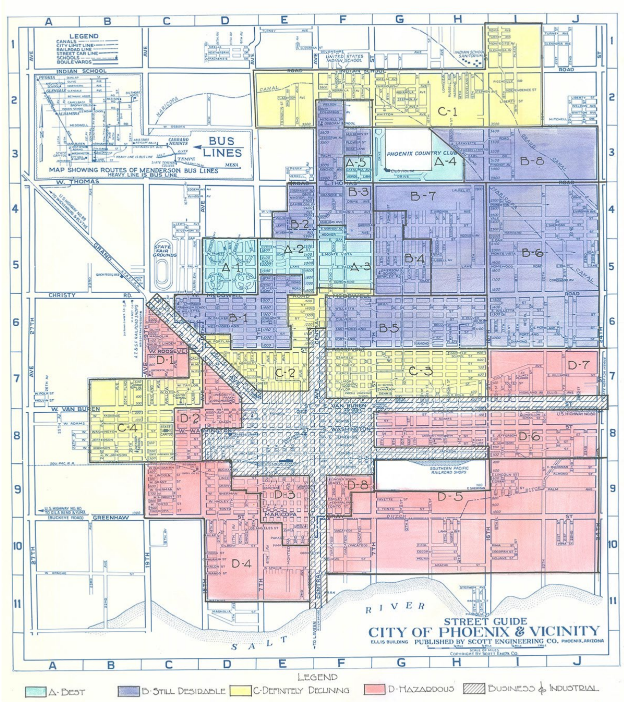
Vail, Colorado has created an innovative response to investor purchases of local homes by implementing a Deed Restriction Program. The goal is to maintain and sustain homes for local residents by placing a deed restriction that is enforceable on the sale and purchase of the home. The effect is control over who is able to purchase existing homes in Vail, known for its tourism. The Vail Town Council made protecting and preserving homes in the area for families to occupy year-round, recognizing land and construction resources are in short supply, therefore highlighting the need to preserve existing housing. The Vail Town Council provided a capital investment with $3.7 million to be used for deed restriction purposes. Under the program, residents have the option to deed restrict their homes with a stipulation that only residents occupying the home as their primary residence and working within the County for 30 hours per week may qualify to purchase or rent the home. Homeowners are incentivized to deed restrict their home with a qualifying one-time payment.

This is a policy that could be replicated in Arizona in response to the raise in investor purchases for short-term rental. Again, as the program is voluntary, we believe there is political feasibility in implementation of a similar program within Arizona municipalities. Such a practice would deter purchasers looking to use a property as a second home or short-term rental investment, thus preserving existing stock for residents and working to prevent further loss of homes. Such a practice would work well in areas with high housing costs as a result of tourism, such as Sedona and Flagstaff and other areas that have lost housing stock to out of area investment companies.

MODERNIZATION OF LOCAL LAND USE POLICY

Overregulation of land use creates substantial barriers to affordable housing supply. Zoning regulations, parking requirements, height restrictions, lengthy permitting processes and community opposition contribute to increased development costs. Overregulation costs restrict the ability of the developer to offer affordable rents. Addressing overregulation and reform of land use policy is therefore a vital strategy to addressing housing affordability. A prominent barrier to affordable housing development is the State law prohibition on mandatory inclusionary zoning policy. While municipalities cannot supersede this State law regulation, they may mitigate its effects through the creation of policies that incentivize the inclusion of affordable units. Land [use policy reform](#) can be critical to encouraging equitable development in response to the national affordable housing crisis.

The History of Land Use in Arizona and the Impact of Exclusionary Zoning



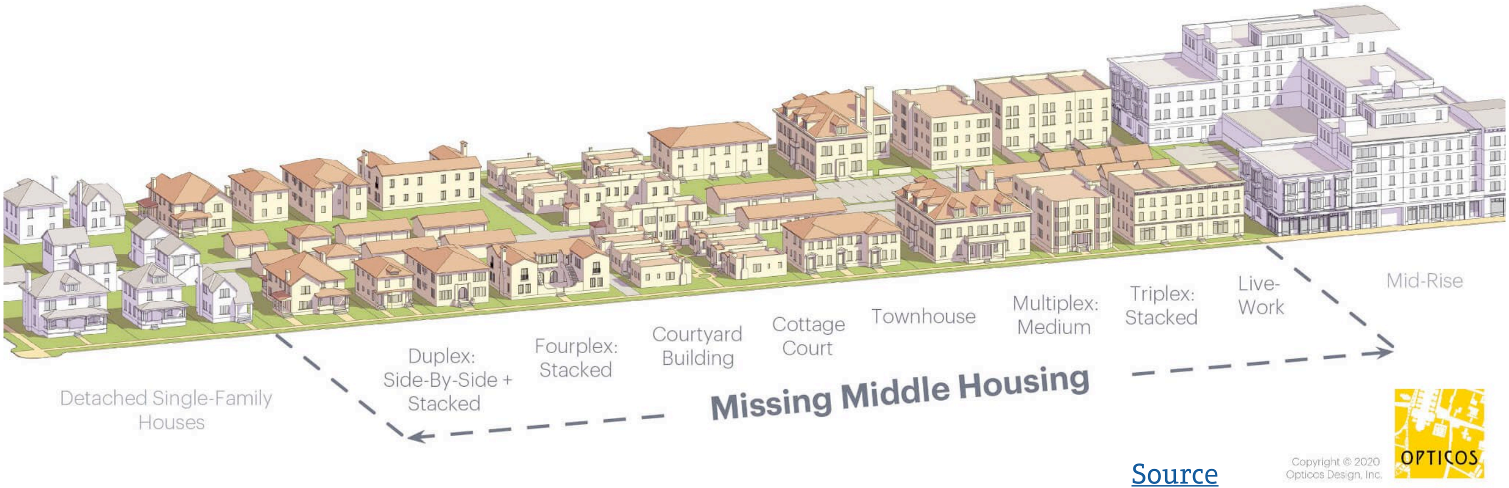
Exclusionary zoning refers to zoning policies and building codes that effectively exclude low-income households from neighborhoods. Zoning codes in Arizona are deeply rooted in racial discrimination that have shaped our cities and towns and contributed to significant inequalities within BIPOC communities. Racial zoning, which explicitly prohibited African Americans from purchasing or renting properties in particular neighborhoods, became unlawful following a series of cases and ultimately the 1968 Fair Housing Act. However, a loophole was later institutionalized by the Supreme Court, in which it was held that economic exclusionary zoning was not unlawful.

Economic exclusionary zoning excludes those with lower incomes from accessing neighborhoods through the implementation of single-family zoning. This zoning code designation separates particular plots of land for the purpose of developing a single home and is often combined with building codes that require a certain square footage or parking requirements. Ultimately, single-family zoning indirectly excludes low-income households from accessing such housing due to the lack of affordability. Historically, as a result of single-family zoning, low-income households were forced into communities that lacked the same quality of resources and services available in single-family zones. Such policy creates disparity between the predominantly white, single-family neighborhoods and BIPOC communities, since people of color are disproportionately represented among low-income populations.

Rezoning

Rezoning is an approach being implemented nationally to address both the affordable housing crisis and the damaging effects that historic exclusionary policies have created within cities and towns. Rezoning involves amending single-family zoning codes to allow for greater density with a healthy mix of home types in more neighborhoods, including duplexes, triplexes, accessory dwelling units (ADUs) and apartment complexes. The formula behind rezoning is simple; that by allowing more density on a single piece of land, the cost of land per unit is reduced, enticing development, lowering housing costs and reducing displacement over the long term.

A notable national example of rezoning can be viewed in the approved Minneapolis 2040 plan, which proposes to replace single-family zoning across the majority of Minneapolis with higher density zoning. The plan sets out zoning changes with four major focuses: allow multi-family housing on select transit routes, allow new housing in areas that already have a mix of housing choices, allow up to three dwellings on existing single-family lots, and allow the highest density in the downtown area. One of the most significant barriers municipalities face in introducing rezoning policy is community opposition, which presents itself in local meetings and which can strongly influence whether a new policy is passed by council. Minneapolis combined a community engagement policy with the plan to engage the community in the planning process through education and inclusion strategies. Community engagement not only serves as a mechanism for overcoming opposition, but also serves to engage the community in zoning plans for the purpose of ensuring equity in accordance with the needs and values of the community. This approach is described further in the **Addressing Community Opposition** section.



Source

Rezoning and the Missing Middle

To create equitable neighborhoods, it's important for municipalities to understand what neighborhoods want and what the market needs. Missing middle housing is described as critical to the solution of the affordable housing crisis, referring to the duplexes, triplexes, townhouses, live/work units and other housing designs that sit between single family homes and apartment complexes. Reforming land use policy to allow for the missing middle is a subtle way to add density into neighborhoods without changing the neighborhood's character. The shift in supply and demand by increasing density alleviates rising costs and is described as "affordable by design."

Improving the Approval Process

The approval process for development and permitting can be lengthy and time-consuming. When building codes are enforced across various municipal agencies, inter-agency communication can be a barrier to timely approval. Inter-agency approval processes may create fragmented layers of policies, adding cost and time constraints to the developer, which then impacts the ability to offer affordable rents. There is no State law provision in Arizona that imposes the streamlining of the approval process for affordable housing projects; however, there is local power to do so. It is recommended that a review of the approval process should be done in conjunction with a review of building and zoning codes to determine how municipalities may simultaneously update land use policy to ensure maximum effect of a more streamlined process.

Affordable Housing Overlays

Affordable housing overlays are one tool that cities can use to increase the affordable housing supply in designated areas, such as in downtown or transit areas. The term "overlay" refers to a layer of development standards established on top of an area's base zoning in order to achieve specific outcomes. Overlays have been used to achieve a variety of community-supported goals, including encouraging economic redevelopment and revitalization, promoting mixed-use development, creating safe and accessible pedestrian environments and encouraging shared parking.

Development standards for an affordable housing overlay may include reduced parking requirements, increased density and height, decreased setbacks, increased lot coverage, streamlined permit processes and residential development in areas not zoned for such use. The development standards established through an affordable housing overlay offer incentives to developers willing to set aside a percentage of affordable units, normally ranging from 25%-100%. The benefit of establishing an overlay is that it is a carrot, not a stick. The base zoning and development standards remain. The overlay provides opportunities, not restrictions.

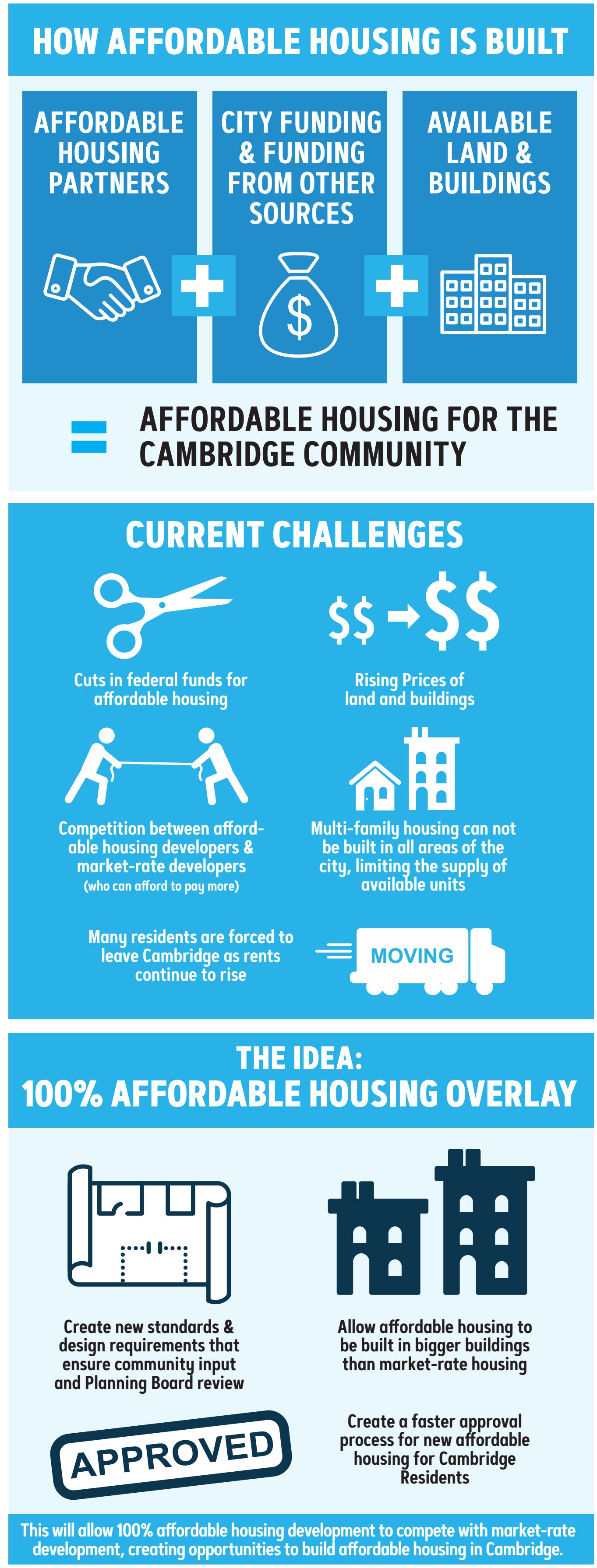
Affordable housing overlays are a good option for Arizona to mitigate the inability of municipalities

to enforce inclusionary zoning. Rather, municipalities may provide options for land owners to develop more units with a specific set of incentives linked to the overlay. The condition that developers can only make use of the increased density and other development regulations if they commit to providing affordable units, may be a greater incentive than market-rate
development within the restrictions of the existing code.

Additionally, as overlays are often focused around transit areas and often include a variety of land use policies to create economic revitalization, there is a long-term benefit to development in such areas, adding to the incentive. In terms of the benefit to implementing overlays vs. rezoning entire districts, there is a key difference: overlays allow the municipality to control the affordability of dense development by stipulating use of the opportunity for density development only if affordable units are offered. Whereas, with rezoned districts, the municipality is allowing greater density but not as an opportunity – meaning incentives for affordable development in non-overlay districts become more vital. An overlay therefore is an additional incentive to encourage the developer to create affordable units and use the opportunity that an overlay provides.

Case Example: The City of Cambridge Affordable Housing Overlay

The City of Cambridge, Massachusetts has bold plans to move forward with a 100% affordable housing overlay to tackle the City's affordability crisis. The proposed overlay applies citywide and not just in specific districts. The City developed this proposal in response to recognizing that nonprofit developers cannot compete with market-rate developers and that the existing zoning code in the target area created infeasibility for affordable development. The goal of the Cambridge overlay is to allow developers to use public funds in designated zones where there are currently few affordable options, to quickly develop units with a streamlined approval process that would reduce time and cost barriers and create socioeconomic diversity.



Source: cambridgema.gov/AffordableHousingOverlay

The Overlay would allow:

1. As-of-right permitting, meaning that as long as development plans meet the permitting requirements, building may proceed without the need for special permitting or variances.
2. Increased density, with flexibility on dimensional standards and parking requirements.
3. Multi-family and townhouse development in areas not allowed under existing zoning laws
4. Conversion of large residential properties into multi-family and townhouse development
5. A new review process to include community input, while removing discretionary approval requirements

To ensure affordability in the overlay district, residential developments will all be deed restricted to ensure units will remain affordable under the following formula:

i. At least 80% of the rental units must be set aside for households earning no more than 80% of AMI. ii. Up to 20% of rental units may be set aside for households earning up to 100% of AMI. iii. At least 50% of ownership units must be set aside for households earning no more than 80% of the AMI. iv. Up to 50% of ownership units may be set aside for households earning up to 100% of AMI.

Residents may earn less than these limits, particularly if the development includes additional rental subsidies or is funded through a program that requires units to be affordable to lower income households. Larger buildings may be "mixed-income" communities with ranges of units affordable to households with different incomes under 100% of AMI.

The full proposal for the 100% affordable housing overlay can be viewed here. The details of this overlay, although relating to a citywide proposal, can be applied in smaller overlay districts.

Removal of Parking Requirements

When contemplating land use reform and affordable housing incentives, municipalities may consider addressing their parking requirement ordinances to identify opportunities for waiving or reducing costs and barriers to development. Data shows that households in affordable units often have fewer vehicles than in market-rate units and additionally, where projects are centered around urban cores and transit areas, the need for a vehicle is reduced. As such, by not amending the parking requirements in consideration of the characteristics of affordable housing developments, there is likely to be a surplus of parking and a missed opportunity to reduce costs and incentivize below-market-rate development. A one-size-fits-all parking requirement doesn't make sense for municipalities focusing their strategies on community need. Local Housing Solutions has created a guide to reduced parking requirements that municipalities may find useful in considering this incentive. The guide encourages municipalities to engage with key stakeholders, such as transportation planners and local transit authorities, when determining their reduced parking policy and to create clear eligibility criteria for the incentive.

Relaxing ADU Regulations and Adopting ADU Amnesty

ADUs are smaller, independent dwellings located on the same lot as a single-family home. Such units are also known as granny flats, accessory units or secondary units. Amending zoning codes to allow homeowners to build and utilize ADUs is an effective strategy for increasing the supply of affordable housing. It also offers the opportunity to enable families to remain in close proximity for social support, which is an important consideration for Arizona with the rise of elderly homelessness. Some municipal codes allow ADUs, but restrict their uses, ultimately restricting the use of an ADU for a rental unit. Impact fees and building code requirements attached to ADU development in current codes may disincentivize homeowners from building or repurposing existing ADUs. Municipalities must also consider the supply of existing ADUs that have potential to boost our State's supply overnight with the stroke of a pen. Many older neighborhoods have existing ADUs that are unpermitted and therefore may be unlawful under existing policy. Some municipalities nationally are offering ADU amnesty programs, such as in San Jose, to encourage homeowners to legalize their ADUs, increasing housing stock while addressing existing safety issues of unpermitted buildings. Municipalities in Arizona may adopt similar programs in an effort to identify and legalize existing unpermitted ADUs.

Examples of Restrictive ADU Ordinances in Arizona

Maricopa County - "An ADU/guest house may not be rented or leased separate from the primary structure."

Pima County - "A Guest house is a detached structure consisting of a minimum of two rooms and a bathroom, which may have a kitchen, used primarily by members of the family occupying the main dwelling and their non paying guests."

Prescott Valley - "An attached or detached accessory building used to house guests of the occupants of the principal building, and which shall never be rented or offered for rent."

Examples of Building Code Amendments to Support Tiny Homes in Arizona

The City of Tempe has a proposed ordinance change that will allow ADUs to exist on single-family lots, which remain classified as single-family use, therefore ensuring that multi-family restrictions do not apply. The ordinance will allow a property owner to rent out their ADU for supplemental income.

Apache County introduced a new ordinance that would allow ADUs to be built on existing single-family lots.

The Short-Term Rental Problem around ADUs

Municipalities in Arizona have to consider how the State law prohibition on short-term rental restrictions may play into ADU development. The City of Sedona, for example, following the enactment of this law, withdrew their ordinance change to allow for ADUs for long-term rental. Sedona had drafted the ordinance change to increase the affordable housing supply in the City; however, their requirement of stipulating long-term rental use was in conflict with the 2016 State law prohibition. Possible mitigating policies include deed-restricting ADUs that receive municipal technical assistance with design plans, waiving fees or providing grants. Such deed restrictions would stipulate that in exchange for these resources, the owner would only rent the unit for long-term use. Again, as with the deed restriction program on owner-occupied properties and the short-term rental surcharge, Arizona municipalities must consider whether such a scheme would be in conflict with the Arizona Revised Statutes on short-term rental protections. However, as the scheme would be voluntary, we do not believe any deed restriction program would be deemed in conflict with these State regulations. Municipalities must also consider the policing of such a scheme to ensure owners maintain their deed requirements.

By weaving the long-term ADU use conversation into community engagement policies, municipalities may gain buy-in from homeowners while tackling community opposition. Making the community feel that they are part of the solution, while outlining the problem that exists in their community, could have an incentive effect.

Tiny Home Development

Tiny homes as a response to the affordable housing crisis is a controversial topic in Arizona as communities discuss whether the tiny home model offers a viable solution to affordable housing. Tiny homes are growing in popularity mostly among young professionals in response to increasing home prices and the financial housing cost burden to single-person and couple households. Municipalities should caution that tiny homes are not a fix-all solution, ensuring that consideration is given to fixing the large-scale problems that have caused this model to be a desirable option for certain populations and must also consider that this is not a viable option for larger families who are significantly represented in the low-income and housing-burdened brackets. However, tiny homes certainly have their place within the spectrum of possible solutions.

There are numerous barriers to tiny home development within the State of Arizona. Zoning and ordinances around tiny home development can be a regulatory nightmare, largely since ordinances are out of date and do not provide wording on tiny homes, leaving many developers and interested members of the public confused. In the absence of tiny home permit policies, tiny homes are limited to the general building code, which often stipulates a minimum size that is larger than the standard 400 square feet for a tiny home. There is also the question of where tiny homes can be located. If a structure is treated under the building code as a single structure, placing such a structure on a single-family lot is not low-cost and also takes space that could be used for a dwelling of higher density.

Municipalities wishing to explore tiny home development as a potential response to the affordable housing crisis would need to review their existing code to determine what changes are required to remove barriers to tiny home development as a plausible affordable housing solution. Regulations related to building size and parking requirements should be amended to align with the tiny home model. Definitions should be provided to provide clarity for tiny homes on wheels, with the view of allowing moveable structures to be parked outside of RV zoning areas and to be closer to urban cores and transportation routes. Municipalities should also implement revisions to zoning code language stipulating in which zones tiny home structures may be placed and consider specific zones for tiny home communities. Again, as with ADUs, under State law, municipalities cannot restrict the use of short-term rentals, meaning creating a tiny home code to encourage affordable housing supply is not without its risk of encouraging short-term rental supply. Municipalities are encouraged to consider zoning ordinance revisions in addition to strategies to incentivize long-term rentals and to dissuade short-term rentals, as described in previous sections.

Examples of ADU Ordinance Reform in Arizona

Coconino County was receiving almost daily requests from community members to build tiny homes. As a result, the county amended their tiny home permitting policy to define them as dwellings no larger than 400 square feet and no smaller than 160 square feet. Further, the county stipulated that non-mobile tiny homes can be located on single-family and multi-family lots and in zones allowing ADUs.

Pima County altered their permitting regulations in 2016 following the rise in the tiny home trend. The code provides definitions for moveable and permanent structures and removed some building requirement codes that were recognized as not compatible with or necessary for the tiny home model.

INCENTIVIZING DEVELOPMENT

Coupling land-reform policy with incentive policy is an effective strategy for simultaneously reversing the effects of historic land use laws and incentivizing development where State law does not allow affordability to be enforced. Land use reform will create a more favorable landscape for affordable housing developers; however, layering such reform with incentives is vital to persuading developers to join the affordable housing field. Incentives work to lower the cost of construction, passing these savings to renters through affordable rents.

Tax Tools

Municipal Tax Abatements

By offering tax abatements to developers willing to create affordable units, municipalities can incentivize affordable development for projects that do not qualify for the Arizona State property tax waiver. These are predominantly developments that seek to make a profit, and are therefore in the private market. Examples of property tax waivers that

incentivize new development can be found here.
The Government Property Lease Excise Tax (GPLET)

The Government Property Lease Excise Tax (GPLET) is an Arizona State-enacted tax incentive that municipalities can offer on specific land development projects, usually located in downtown areas. The GPLET allows property owners to deed their land to a government entity for a period of up to 25 years. In doing so, no property tax would be due for the period of the deed, since government-owned property is not subject to property tax. An excise tax is however due on a GPLET-agreed property, as stipulated by the county treasurer. The GPLET requires municipalities to strategically target the incentive on areas that are in need of revitalization, with a focus on attracting high density, multi-family housing to encourage sustainability of a downtown area. Taking into account the high cost of such projects within urban cores, the GPLET's purpose is designed to reduce the overall expense. The GPLET has a long-term outlook, focused on regeneration of entire areas, with the housing development a part of a sustainability plan to grow economic activity overtime.

A downside to the GPLET incentive as a tool for community growth are the shortfalls experienced by local schools which suffer a revenue drop in the absence of property tax for the development. As such, it is important for municipalities considering exercising the GPLET incentive to consider how this impact can be mitigated. As affordable housing should be strategically placed and designed to promote healthy communities, the loss of dollars to the school district is a conflict.

Information on the Arizona GPLET plus a list of GPLET lessors can be found on the Arizona Department of Revenue website.

Impact Fee Waivers

As noted in Chapter Two, Arizona State law creates a barrier to municipalities charging impact fees to create housing trust funds, since there is specific regulation on how impact fees can be used. Impact fee waivers are common incentives being applied nationally to incentivize affordable housing development. However, Arizona State law imposes additional rules that create a regulatory hoop for municipalities to jump through to implement an impact fee waiver program. ARS 9-463.05(B)(13) stipulates that municipalities may agree to waive any development or impact fees; however, in doing so, the municipality must also reimburse the development fee account for the amount that was waived. This suggests that municipalities would need to draw from their general fund to "reimburse" their impact fee account.

Case Example: The City of Tucson

The City of Tucson has implemented an impact fee waiver program in line with State regulations. Their impact fee subsidy program receives its impact fee reimbursement from the City's general fund. Eligible developers are nonprofits whose development is certified by the Director of Housing and Community Development for developments that will remain affordable to households at 80% or less of AMI. The subsidy is limited to no more than the percentage of non-public investment into the project and therefore the less private money placed into the project, the lower the percentage of impact fees that can be subsidized. For example, a project with 80% public funding (LIHTC, HOME, etc.) and 20% private funding (private mortgage, deferred developer fee, etc.) would get 20% of the impact fee subsidized from the general fund. The developer pays the other 80% of the impact fee. More information on eligibility and criteria of the City of Tucson's affordable housing impact fee subsidy can be read here.

Additional Fee Waivers

Municipalities may also consider waiving additional fees linked to development and construction, such as permitting fees and planning fees. Waiving fees for affordable housing development requires a delicate balance, since the fees linked to development and construction are often used by municipalities to fund critical infrastructure and services. Therefore, municipalities are encouraged to review how fees related to construction currently limit housing production and how these fees can be restructured to remove barriers to affordable development while maintaining revenue for critical infrastructure projects. Some municipalities completely waive specific fees, and others include a waiver on a case-by-case basis; however, case-by-case waivers can be burdensome and individual municipalities must account for workload and increased approval time. If a municipality is unable to mitigate the loss of revenue of a fee waiver, another option to consider is a fee deferment. In this case, developers can pay fees at a later stage in the project after securing lower-cost financing options than high-interest short-term construction loans developers traditionally use to cover the fees.

Case Example: The City of Flagstaff

As part of the City of Flagstaff's incentive policy for affordable housing, the City of Flagstaff offers fee waivers to developers who agree to offer affordable housing units. The fee waiver program is accompanied by restrictions, such as excluding developers from the program who owe money to the City or who have an existing violation. Fees included in the waiver/reimbursement policy are:

- Rezoning application fee
- General plan amendment fee
- Developer master plan
- DRB concept plan submittal
- Preliminary plan submittal
- Final plan submittal
- DRB site plan submittal
- Concept plan
- P&Z review/approval
- Building permit deposit fees
- Building permit fees
- Plan check fees
- Public improvement permit fees
- Plan review engineering
- Over the counter permit fees

The fee waivers are available to developers offering 20% or more affordable units. Waivers, along with reimbursements, are subject to a sliding scale; the lower the AMI served by the developer, the higher the waiver. The schedule also allows a 100% waiver for developments that meet voluntary and mandatory energy code requirements. A full breakdown of waivers and reimbursements along with the AMI sliding scale for the City of Flagstaff can be viewed here.

Density Bonuses

A density bonus is a commonly used affordable housing incentive that allows developers to increase the dwelling units per acre, floor ratio or height, resulting in more housing units being built on a given site than allowable under existing zoning code. Density bonuses commonly allow a 10-20% increase in density. In exchange for the density bonus, developers agree to a certain number of affordable units in the project, therefore encouraging mixed-income development. Density bonuses may also be offered to market-rate developers in exchange for a fee or in-kind support for affordable housing trust funds. The incentive of increasing density mitigates the revenue loss associated with offering an affordable rent, as opposed to a market-rate rent. The use of a density bonus is especially useful for Arizona in the context of the inability to impose inclusionary zoning, as it is a way to incentivize the inclusion of affordable units without requiring it.

As with rezoning policy, local municipalities may push back on density bonus policy recommendations due to the anticipated change in landscape. Density bonuses work best in areas already designated for taller construction; however, this does not mean that the incentive cannot work in areas where high buildings would damage the character of a landscape. Density bonuses can be used to build out, extend existing properties or construct lower yet wider buildings to protect views and character. This guide has some useful information on considerations for local municipalities exploring density bonuses as an option to incentivize development.

Additional Fee Waivers

As part of the City of Tempe's affordable housing strategy, the City proposes density bonuses in lieu of either affordable units or payment into a housing trust fund. The draft Density Bonus Program is limited to development within Tempe's Urban Code District, allowing additional density for affordable housing but also for sustainability, public spaces and the assurance of historic preservation, therefore combining various City priorities into the bonus program. The Density Bonus Program proposes to incentivize affordable units at affordability levels based on AMI and to use deed restrictions to ensure the units remain affordable despite any change of ownership. The City will also offer monitoring of affordability at an additional cost to the developer. The program will operate on a points-based system in which developers will receive a certain amount of points per benefit the development will provide. Points needed to gain the density bonus will vary depending on the zone in which the project is planned to be located. This will allow the City to strategically offer the bonus based on areas they wish to prioritize for community benefit, including affordable housing. The draft plan can be read in full here.

INNOVATION AND CREATIVITY IN AFFORDABLE HOUSING SOLUTIONS

Innovation and creativity in addressing the affordable housing crisis is important for identifying possible solutions that fill the gaps existing resources do not meet. To keep up with the demand at the speed that is required, we are seeing examples of creative and innovative affordable housing solutions that push outside traditional and limited resources and contribute to filling the gap.

3D Home Construction

ICON Builders have challenged the innovation of affordable housing using 3-D printing technology to create homes at a fraction of the cost of traditional development methods. This technology has the capability to build two-bedroom homes within 24 hours of printing time. The developers partnered with NewStory, a nonprofit exploring solutions and approaches to ending homelessness on a project in Mexico, which resulted in the creation of homes for families experiencing homelessness. ICON Builders later partnered with Mobile Loaves & Fishes (MLF), an Austin-based nonprofit, to build 3-D homes within a 51-acre village for individuals experiencing homelessness.

The Coalition for Compassion and Justice (CCJ): An Example of Innovation and Creativity

The Coalition for Compassion and Justice (CCJ) is a collaborative nonprofit organization that has over time developed a number of programs to tackle poverty in Prescott, Yavapai County. Their various programs include a mixed-gender shelter, client advocacy services, home repairs for low-income housing and their Second Chance Housing program. The housing program aims to provide affordable housing solutions to assist clients out of homelessness and eventually into market-rate housing. The goal is to provide enough affordable housing units to enable the closure of their shelter, with the vision of moving clients immediately from the streets into safe, secure housing. Building a sense of community is at the heart of each housing solution offered under Second Chance Housing, and this seems to drive the success of residents through the housing program. CCJ recognizes the need to provide housing to those who have significant barriers to housing, such as evictions, convictions and low income. By positioning themselves as landlord throughout their housing opportunities, CCJ has the ability to rent without restrictions, therefore removing the barrier of landlord engagement and retention that many of our communities experience. CCJ does not receive any State or federal funding, and instead engages in building effective partnerships, identifying flexible grant opportunities and fundraising initiatives to leverage financial tools, land and property. By leveraging non-government funding, CCJ is able to retain flexibility in their use of funds that are received. CCJ has developed a variety of housing types in its portfolio, which started in 2015 with the acquisition of trailer homes through donations. These homes are now owned by CCJ and the land is sublet to each resident household by CCJ directly. These units are rented for $450 per month and are sold to households pending a good rental history. CCJ currently owns four mobiles homes and subleases six RV spaces. In 2018, CCJ expanded to build three cottages on the land of a main house dwelling site. The cottages are small, one-room cottages containing

The Coalition for Compassion and Justice - Prescott cottages

space for furniture, but no facilities. The bathroom and kitchen are located in the main house, which all residents have access to. By building the cottages on land adjacent to the main house, CCJ ensured compliance with the City of Prescott's ADU zoning regulations. The cottages are rented to clients for $250 per month, maintaining affordability. The cottages are each occupied by single clients, as is the main house. The concept of shared facilities, along with the positioning of the cottages, fosters a sense of community, while providing space for individual privacy.

CCJ's most recent project is the development of a lodge, in partnership with Dorn Homes, a local private developer. The lodge will provide housing to four to six individuals with shared communal facilities. The lodge is being built on a piece of land purchased by CCJ. Construction is being provided at 100% donation by Dorn Homes, which has a compassionate footprint, dedicated to meaningful change in their community through their program Dorn Cares. As with the cottage development, the lodge allows privacy with private rooms and porches within a shared living setting to foster community. All projects are dispersed around the City, promoting community integration. All models of housing within the Second Chance Housing program encourage a gradual transition to market-rate housing, while providing a stable and supportive environment that replaces the experience of homelessness and shelter. The next project for CCJ is a planned campsite with supportive services. This project will meet the needs of those clients who chose to live without walls and will ensure access to safety and services.

CCJ's ability to provide innovative solutions is defined by the progressive attitude of the organization and its clear drive to create solutions and move past barriers. CCJ has built a relationship with the City and is bold in introducing plans and working through any policy barriers that may arise in the approval process. By engaging the local community in its missions, CCJ has gained key private donors who are vital in CCJ's efforts in leveraging land and units for development. Progressively researching flexible grants through foundations also allows CCJ to continue to receive flexible dollars that support its development plans. Leveraging public-private partnerships through building relationships with local compassionate businesses, such as Dorn Homes, has proved vital in enabling cost-effective development that brings the community together in a shared vision. What drives CCJ's success the most, however, is its dedication to the client, placing their needs at the heart of any solution. CCJ prioritizes the client's need for safe, secure and affordable housing that fosters success through community cohesion, from a place of housing crisis all the way through to finding market-rate housing and independence.

ADDRESSING COMMUNITY OPPOSITION

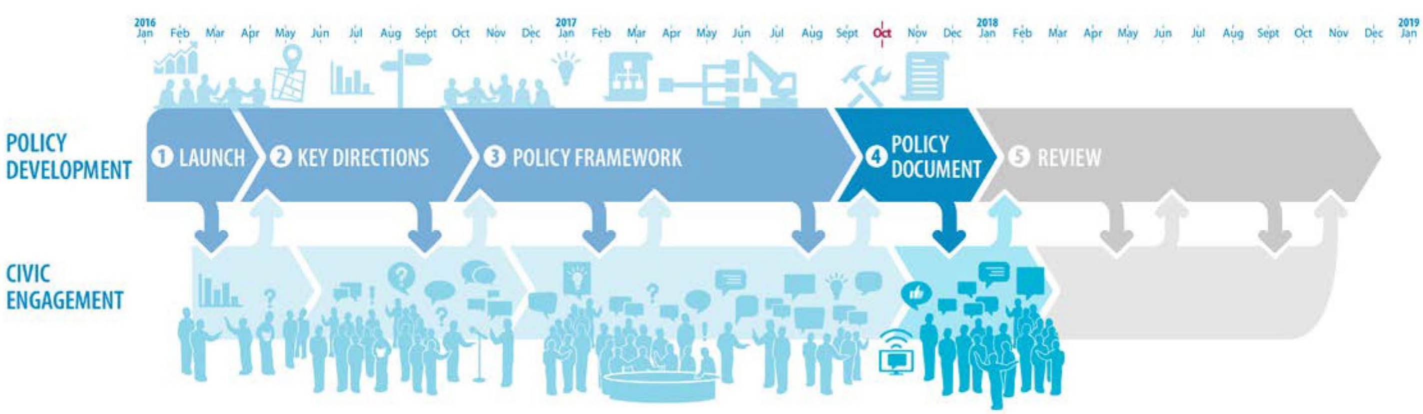
State law requirements for public notice gives rise to opposition at many stages of affordable housing development, from zoning requests to hearings for land use reform proposals. As described in previous sections, such opposition can prevent projects and policy reforms from advancing. By addressing community opposition strategically, municipalities may mitigate the impact that community opposition has on affordable housing development. A common error that developers and municipalities make is being quiet about a plan until the last minute, in the hope that communities will be sidelined without time to organize resistance. By being transparent and encouraging open lines of communication with communities about reform or development, relationships can be developed to build trust and hold difficult but necessary conversations. By effectively engaging a cross-section of the community in all stages of the development process, whether it be project development or policy reform, municipalities can reduce opposition while bringing communities together to achieve common goals.

Case Example: Minneapolis 2040 Plan and the Civic Engagement Policy

In 2019, the City of Minneapolis successfully adopted a comprehensive plan that set out to tackle the barriers and inequities that were created by historical exclusionary housing policies. Under the Minneapolis 2040 Access to Housing Policy, the plan proposed citywide rezoning, allowing greater density and therefore ending single-family zoning. The plan passed with a majority of 12 to 1 and its success is attributed to significant focus on engaging the community in understanding the needs and the benefits around multi-family zoning. In 2006, the City of Minneapolis made a commitment to civic engagement, recognizing this as the tool to empower citizens to influence local government decisions that impact their community and individual lives. The City recognized that those communities that have been victims of historic exclusionary zoning laws were underrepresented in the civic process. By making civic engagement a key focus of the planning policy and beyond, the City presented a clear priority of reaching all members of the community to engage in the planning process, including low-income households and BIPOC. The City created a Civic Engagement Plan to ensure that all members of the community had an opportunity to bring voice to the planning process of the Minneapolis 2040 plan. The goals of the Civic Engagement Plan included creating an inclusive and equitable process that allowed the community to be represented and heard.

Key Activities in the Civic Engagement Plan

In engaging inclusive communities in the civic process, Minneapolis adopted three pillars of engagement: informing, interacting and feedback. Through the planning process of the 2040 Plan, the City engaged in focused activities, including community workshops, community dialogues, street festivals, artist-designed engagement, online engagement and social media. Engagement activities were carefully planned and managed by a steering committee composed of City departments focused on long-term planning.



Addressing Opposition

When the City of Minneapolis introduced its proposal to end single-family zoning, there was predicted opposition from wealthy, predominantly white neighborhoods. However, the City was ready to respond through the groundwork it had built in the civic engagement part of the planning process. The City addressed every point the opposition made through persuasive responses. Additional to targeted responses to opposition, the City of Minneapolis engaged other tactics, laid in the foundation of the planning process. Included in this was the election of a new generation of leaders, encouraging younger generations to hold leadership positions in the City. This tactic was based on the determination that community opposition is generational rather than divided by political opinion. Bringing communities together by targeting underrepresented groups and encouraging civic participation in the planning process had created a powerful force in tackling the opposition to the proposed plan.

This Best Practice Toolkit for Municipalities outlines the undoubtable need to increase affordable housing across Arizona. Acknowledging the barriers to development that are either unique to Arizona or that are shared with out-of-state municipalities, the toolkit provides suggested best practices and innovative solutions that mitigate these barriers. The toolkit shares existing innovations that have already been developed by local municipalities within our state, along with shared examples from local municipal efforts nationally. Local municipalities are encouraged to use this toolkit as a resource in efforts to explore strategies to increase affordable housing within their jurisdictions.

The Arizona Housing Coalition remains committed to advocate for safe, affordable homes for all Arizonans, at the Federal, State and Local level. Advocating for the full restoration of the Housing Trust Fund and the implementation of a State Low Income Housing Tax Credit remains at the forefront of State-level advocacy for 2021. At the local level, the Arizona Housing Coalition seeks to expand the capacity of local housing and homelessness advocates and policy makers through education, engagement, and sharing of best practices and toolkits. We support our members through forums, networking opportunities and meetings with local elected and appointed officials, to fuel solutions for the housing problems of low-income Arizonans.

Inquiries, feedback and requests for information or support can be directed to **Joanna Carr** at joanna@azhousingcoalition.org

Arizona Housing Coalition

Speaking Up for Home and Hope