Arizona Housing Coalition

Speaking Up for Home and Hope

Housing Affordability: Handbook for Arizona Cities

Written in partnership by:

Ash Uss, Executive Director - From the Ground Up

Joanna Carr, Housing Advocate and former Research and Policy Director - Arizona Housing Coalition

Tabitha Densen, Writer and Copy Editor - TD Creative Services

October 2023

Arizona Housing Coalition

Speaking Up for Home and Hope

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 Arizonan has a safe, affordable place to call home.

About Addressing Arizona's Housing Crisis

Edition one of the Best Practices Toolkit for Municipalities, for Increasing the Supply of Affordable Housing in Arizona, was published in January 2021. Since that time, the housing and resource landscape in Arizona has changed dramatically with factors related to the COVID-19 pandemic, the economy and the influx of stimulus funding for housing and homelessness allocations. This second edition of the publication is necessary to outline housing landscape in Arizona, and barriers to affordable housing development, and to provide best practices for municipalities that are allowable under Arizona state law, within the context of a post-pandemic outlook. The handbook builds on edition one by sharing further innovations and best practices that can be adopted by municipal governments in Arizona. Municipalities are encouraged to use this guide as a resource in exploring strategies to increase affordable housing in their communities.

Acknowledgements:

The AZHC would like to thank the following for their knowledge and expertise in the development of this handbook:

Jon Ehlinger
Garcia Family Foundation

Vitalyst Health Foundation

Morrison Institute for Public Policy

Joanna Carr
Housing Advocate and former Research and Policy Director at the Arizona Housing Coalition

Community partners and stakeholders across the state who shared information, housing innovations and guidance

Contents

CHAPTER ONE
OUTLINING THE AFFORDABLE HOUSING CRISIS IN ARIZONA

THE AZ HOUSING LANDSCAPE

Even before the COVID-19 pandemic, Arizona was in the midst of an affordable housing crisis. This crisis, defined by supply and demand, includes a shortage of housing across the spectrum, from low-income housing to home ownership. While stakeholders, housing leaders, and community members agree there is a significant housing crisis, it is challenging to accurately capture the scope of the need. In 2022, the Arizona Department of Housing estimated a housing shortage of 270,000 units across the state. In a more recent report by Common Sense Institute from February 2023, however, the Arizona housing gap is cited as 74,419 units. Across Arizona, there are just 24 affordable and available homes for every 100 extremely low-income renter households. Additionally, home prices have risen 54.2% over the past two years creating a "perfect storm" of factors that negatively impact Arizonans of all income levels. As housing costs increase, wages remain stagnant and the cost of living continues to climb. The median income in Arizona has increased just 5% since 2019. This crisis has been exacerbated by the unexpected challenges of the pandemic, including housing market forces and the collective economic and social impacts of a global pandemic on individuals and families.

ARIZONA
FAIR MARKET RENT (FMR)

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

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

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

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

(Source)

Early on in the pandemic, our communities got to work focusing on crisis response, the priority being how to protect those without a home from COVID-19. Investments in funding from the CARES Act of 2020 were largely apportioned to this response, reaching organizations and services that serve those experiencing homelessness. As we moved through the pandemic, we began to see gaps in the housing and homelessness response system unveiled. This included the inextricable link between housing and health and the need to increase cross-sector collaboration with health entities, such as those providing behavioral health and substance use services. Inequities that had long existed in the housing and homelessness response system were pushed to the forefront as we saw health disparities among BIPOC communities, pushing a need for greater attention to housing inequity. Flaws in our eviction data emerged through our national inability to accurately track how many households were at risk of losing their housing amid the lifting of moratoriums served to stall eviction and keep people safe.

Once the initial crisis response work settled, we became aware of the impacts of the pandemic on the housing market. Notably, the increase in housing costs as rents started to rise at significant rates. Rent prices increased across the state of Arizona. In Tucson specifically, rent prices increased 124% in 2022. This was not a factor associated only with the high-population, urban areas of Arizona, but an issue that spread statewide and into our outlying, rural parts of the state. As we focused conversations on low-income households and affordable housing, there has been a shift in the acknowledgement this issue now reaches more of our population. Seniors, for example, are a subsection of the population impacted deeply by affordable housing, as are those on middle incomes and essential workers. The National Low-Income Housing Coalition reports that 27% of middle-income households in Arizona are cost-burdened, meaning they spend more than 30% of their income on housing costs and utilities.

As households became increasingly cost-burdened, we saw increases in homelessness across the state. Between 2020 and 2022, the national Point-in-Time Count recorded an increase of 23% across the state of Arizona (22 % increase in Maricopa County, 68% increase in Pima County and 3% increase across the remaining 13 counties that comprise the Arizona Balance of State). This increase is not surprising considering national research by the U.S Government Accountability Office that found an increase of $100 per month in median rent is associated with a 9% increase in homelessness.

Through 2022 we too witnessed increases in eviction filing rates, back to pre-pandemic levels. This increase came following the lifting of CDC eviction moratoriums, put in place between September of 2020 and January 2021 to protect renters against eviction enforcement. The increase back to pre-pandemic levels falls within the context of an availability of Emergency Rental Assistance funds through the US Department of Treasury. This highlights the impact of affordability on housing instability and is an indication of the important need for ongoing rental assistance funds to meet the needs of households as rents continue to rise.

Since the first edition of this publication, there has been an increase in awareness and attention to the lack of affordable housing across the nation. In 2022, the U.S. Department of Housing and Urban Development (HUD) launched the "On Our Way Home" initiative. Under the guidance and leadership of Secretary Marcia L. Fudge, "On Our Way Home" is an effort to address housing supply and to reduce the costs of housing by providing tools and resources to local communities. In the same year, President Biden also released a Housing Supply Action Plan that aims to increase the supply of quality housing in the United States. His plan strives to reduce the lack of housing in 5 years through both legislative and administrative actions that create and preserve additional housing units. Since passing the Housing Supply Action Plan, leaders and experts from the National Low-Income Housing Coalition have met with White House officials to discuss legislative and administrative housing priorities. While this handbook focuses on strategies for municipalities, the increase in support for housing at the federal level is a critical component in successful implementation of local and state-level housing strategies.

MOST EXPENSIVE AREAS

Rank	MSA	Housing Wage
1	Phoenix-Mesa-Scottsdale	$33.46
2	Flagstaff	$31.06
3	Prescott	$24.63
4	Tucson	$22.60
5	La Paz County	$21.37

MSA = Metropolitan Statistical Area

(Source)

Moving into 2023, Arizona has received substantial funding from the federal government, through various stimulus packages. The American Rescue Plan Act funding, allocated to state and local governments, has provided an opportunity for decision makers to make investments in housing long-term. We have seen decisions being made at the state and local level that target affordable housing development, preservation, supportive services, and investments in services that target those experiencing homelessness. The need for local policy that supports the development of affordable housing is now greater than ever and there is work to be done. The following chapters will provide actionable solutions, within the context of Arizona State law, that can be considered for adoption within municipal governments.

In addition to this report, we recommend several additional resources for further information:

Vitalyst Health Foundation's Promising Housing Practices in Arizona SPARK Report which provides a detailed overview of diverse housing options for all income levels that can unlock Arizona's potential and help families and communities to prosper.

Arizona State University- Morrison Institute for Public Policy's housing research reports on:
a. State-Level Legal Barriers to Adopting Affordable Housing Policies in Arizona
b. Exclusionary Zoning: A Legal Barrier to Affordable Housing
c. Brief Overview of Housing Policy and Discrimination in Arizona
d. Housing Arizona: Meeting Development Challenges to Arizona's Shortage

Additionally, we want to remind readers that this handbook is not exhaustive. We know there are innovative housing programs and initiatives in every corner of our state. This document strives to provide an overview of the barriers to housing and the potential pathways through those barriers. We hope that municipalities, city staff members and housing providers can use this as an anchor in implementing best practices and creative strategies.

CHAPTER TWO
HOUSING INEQUITY

When we dive into the issues of housing unaffordability and barriers to housing, race and inequity cannot be overlooked. The gap in the homeownership rate between Black and white families in the US is bigger today than it was when it was legal to refuse to sell someone a home because of the color of their skin.The National Center for Transgender Equality found that one-fifth of transgender individuals in Illinois report experiencing gender-identity- related discrimination. Renters with disabilities who earn low wages and receive inadequate Supplemental Security Income (SSI) are "priced out" of their housing at rates higher than that of the general population. It is important for municipal leaders, city planners and those working in housing development and policy to understand the implications of discriminatory practices on communities, and to understand these inequities. Throughout this handbook, we highlight several laws and policies that are discriminatory in nature and that disproportionately impact people of color and special populations. This chapter aims to provide background information and historical context to some of these practices. We strongly recommend that readers reference ASU Morrison Institute for Public Policy's "A Brief History of Housing Policy and Discrimination in Arizona" for more information.

HISTORICAL CONTEXT AND BACKGROUND

In 1933, the United States was in the midst of a housing shortage. When the Federal Housing Administration formed in 1934, it began incentivizing development for white communities and refusing to insure mortgages in and near African-American neighborhoods. The Federal Housing Administration asserted that if African-Americans bought homes in or near suburban areas, the property values of the homes they were insuring to white people would decline, and their loans would be at risk. Under the New Deal, "redlining began." The Home Owners Loan Corp. and the Federal Housing Administration color-coded federal maps of every metropolitan area in the country to indicate where it was safe to insure mortgages. African-American communities and places where African-Americans lived nearby were colored red to inform appraisers that these neighborhoods were too risky to insure mortgages.

In 1968, President Lyndon Johnson signed the Civil Rights Act of 1968, also known as the Fair Housing Act. The Fair Housing Act prohibited housing discrimination based on race, religion, sex, national origin, familial status or disability. The act primarily focused on preventing discrimination and reversing housing segregation. The act also established a complaint process for individuals who've experienced housing discrimination and created a formal set of mechanisms and procedures to formally file discrimination complaints. While the Fair Housing Act was a meaningful first step in addressing housing discrimination, it had its limitations and shortcomings. In the late 60's and early 70's, there was significant backlash and acts of violence from white communities in response to the Fair Housing Act and a desire to keep Black people out of white neighborhoods.

The Fair Housing Act has been criticized for not having enough "teeth" and for putting the burden of stopping discrimination on victims, by requiring them to file a formal complaint or bring their issue to federal court in a lawsuit. Although the Fair Housing Act prohibited housing discrimination, there are many present-day practices and policies which, by the nature of their design, discriminate against certain populations and/or have a disproportionately negative impact on certain groups of people. Throughout this handbook, we will explore some of these policies and practices. Below are some additional resources we recommend to readers:

"The Color of Law: A Forgotten History of How Our Government Segregated America"
Richard Rothstein

"Housing for Indigenous People and Tribal Nations"
National League of Cities

"Investment without Displacement: From Slogan to Strategy"
Urban Displacement Project

"How Zoning Laws Exacerbate Inequality"
The Atlantic

"People with Disabilities Living in the US Face Urgent Barriers to Housing: Federal Programs are Not Meeting the Housing Needs of Disabled People"
Urban Institute

"Just Action: How to Challenge Segregation Enacted Under the Color of Law"
Richard and Leah Rothstein

"Institutionalized racism of the past': Discriminatory housing practices resound in south Phoenix today"
AZ Central

"Systemic Barriers to Home Ownership Among Black, Indigenous & People of Color (BIPOC) Communities & Policy Solutions"
Arizona Housing Coalition

"Many tribal homes don't have clean water, and the road to getting it is filled with hurdles"
NPR

Arizona Housing Coalition

CHAPTER THREE

EXISTING BARRIERS TO HOUSING DEVELOPMENT WITHIN ARIZONA

In November 2021, Morrison Institute for Public Policy at Arizona State University released "State-Level Legal Barriers to Adopting Affordable Housing Policies in Arizona," which provides a detailed overview of the existing barriers to housing development in Arizona. This chapter elaborates on many of those barriers and includes additional barriers to affordable housing development and preservation that are present in Arizona State law. This information may spur thought and conversation around legislative change advocacy. However, in the absence of such legislative developments, 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 municipal level to incentivize or force private developers to set aside a certain percentage of their units within new construction projects at an affordable rent for low-to-moderate income level individuals. The number of units required to be built due to inclusionary zoning varies across developments and most have a limited affordability period after which the units can be converted to market-rate rents. Inclusionary zoning is beneficial because it is more fiscally sustainable than traditional affordable housing programs and it also promotes economically diverse communities by creating housing for individuals at diverse income levels. Unfortunately, Arizona is one of only seven states in the nation that prohibit 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 municipalities for increasing the supply of affordable rental housing.

IMPACT FEES AND THE ARIZONA REVISED STATUTES (ARS)

Some states allow 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.

Opponents of impact fees assert that these fees may further economic segregation given the fact that land is generally more affordable and available in lower-income neighborhoods.

The Arizona Revised Statutes (ARS) Title 9, Chapter 4, Article 6.2.1 controls how 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. Arizona's laws around impact fees are among the nation's most restrictive. 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. The funds cannot be used to operate, maintain, repair, alter, or replace capital facilities. 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 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 was a significant victory for affordable housing advocates as it 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 works by establishing a baseline tax level for the entire city and capturing any taxes paid above that amount into an affordable housing fund. Taxes paid above the tax increment in affluent and developing areas are pooled and then used for development in communities that have been identified as "blighted" or "in need of investment." These funds can directly be used for the development of affordable housing. Every state allows TIF, except for Arizona, due to a state law enacted in 1999 that prohibits municipalities from adopting it. Opponents of TIF share that it can divert public funds for either special funding interests of municipalities and politicians or from schools and other vital community programs to the private sector. TIF can also be used as a form of gap financing to increase the financial feasibility of expensive projects. Arizona municipalities are encouraged to explore additional taxation tools not exempted by state law.

Establishing a TIF area can generate affordable housing development in one of two ways: by creating a pool of affordable housing funds upon which community developers can draw, or by recapturing upfront cost of development through the increases in property taxes that result from that investment. TIF districts can be controversial if perceived as a redistribution of wealth among communities or as a mechanism to divert public funds to support special interests. City leaders should consider adopting TIF policies alongside the appropriation of affordable housing funds to provide continued incremental support for communities as they develop. In addition, it is important that cities that adopt TIF are transparent and work with residents to determine the most beneficial allocation of these funds.

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 at $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 has historically been an active advocate for full restoration of the HTF. In 2021, the HTF received a $15 million investment. In July of 2022, the Arizona Legislature successfully passed $60 million for the HTF. In May of 2023, Arizona's Governor Katie Hobbs signed her first budget for Arizona which included a $150 million investment in the Arizona Housing Trust Fund. These funds will be used to create additional housing that is affordable and to prevent homelessness. Housing experts and advocates suggest these funds be used to leverage existing funding opportunities, such as the Low-Income Housing Tax Credit (LIHTC) program. Additionally, the recent HTF investment could create opportunities to prevent evictions and homelessness by funding emergency rental assistance programs. Increased investments to the HTF are critical because these funds are the most flexible funds available to the Arizona Department of Housing.

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 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. Limitations on short-term rentals for tourism exacerbates the housing crisis because tourism creates a need for a workforce to support tourists (restaurants, hotels, etc.), while actively reducing the amount of affordable housing that is available for those employees.

Arizona leaders first attempted to regulate short-term rentals in 2019 when the Legislature passed House Bill 2672. This law was meant to address the issue of short-term rentals being used for large events and parties that are disruptive and unsafe to local communities. Cities are able to penalize negative behaviors of owners and tenants of short-term rentals. The law established penalties and intense consequences for repeat offenders of noise complaints, but upheld the law that prevents cities from restricting the number of short-term rentals. In 2022, Governor Ducey signed Senate Bill 1168, which gives municipalities some power regarding short-term rentals. Unfortunately, SB 1168 maintains Arizona's preemption law and prohibits cities from imposing any limitations or restrictions on the number of short-term rentals in their cities. SB 1168 requires that owners of short-term rentals provide contact information to the cities in the event of complaints and issues. Additionally, the law requires that owners of short-term rentals address these complaints in a timely manner.

Cities across the country have started implementing different regulations and mechanisms to mitigate the impact of short-term rentals on the housing crisis. Boston, for example, requires that short-term rental owners register their property as a short-term rental with the City of Boston and that they obtain a formal business license. In Denver, short-term rentals are only allowed in the owner's primary residence. By only allowing short-term rentals in a primary residence, it reduces the number of people from out of state who buy housing stock and then use it as an investment

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.*

property, therefore preserving some housing stock for full-time residents.

In 2023, the City of Tempe unanimously passed a package of regulations on short-term rentals. The regulations require a formal license for short-term rental owners, liability insurance to cover renters, and background checks against a sex offender registry, among other requirements.

COMMUNITY OPPOSITION

Local opposition to affordable housing development is a significant barrier to affordable housing development. Referred to as NIMBY-ism (Not In My Back Yard-ism), 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. In Metro Phoenix, for example, at least 30 apartment developments were stalled or completely shelved in 2021 due to community opposition. When passionate people in communities advocate against housing developments in community meetings, council meetings and public forums, it limits the abilities of elected officials, cities and developers to follow through with meeting local housing needs. Housing leaders, developers and advocates have been working on strategies and initiatives to address community opposition to housing. Their efforts are summarized in Chapter 4.

SOURCE OF INCOME DISCRIMINATION PROTECTION

Another housing barrier is the lack of protection against source of income discrimination. Source of income is not a protected class under the Federal Fair Housing Act (FHA), which means that landlords and management companies can refuse to rent to people who are paying their rent with certain forms of income like Housing Choice Vouchers, veterans' benefits or Social Security Insurance (SSI) payments. Source of income discrimination is directly related to racial and class discrimination. When a landlord declines to accept certain vouchers that are historically more utilized by renters of color, women, and individuals with disabilities, it perpetuates racial segregation of communities and the concentration of poverty.

In 2022, Tucson's Mayor and City Council passed a measure that made it illegal for landlords to reject rental applications based on the applicant's source of income. While the decision was viewed as a victory for housing advocates and homeless service providers, it led to a legal conflict between the City of Tucson and the State of Arizona. Former Attorney General Mark Brnovich asserted that the recent ordinance violated a state law from 1992 that ruled that local fair housing ordinances had to be passed no later than Jan. 1, 1995. In 2023, Attorney General Kris Mayes agreed with the City of Tucson and ruled that the source of income discrimination protection was legal. This decision was a critical precedent in Arizona; it ultimately paved the way for the City of Phoenix to pass a similar ban on source of income discrimination in 2023 for residents in Phoenix who are using traditionally stigmatized sources of income like Section Housing Choice Vouchers, unemployment and veteran's benefits, Social Security Disability Insurance and more.

RENT CONTROL

There is a national conversation about rent control as a tool to preserve affordable rental rates. Rent control aims to reduce rapid increases in rent and to preserve existing affordable housing. This can be helpful in reducing displacement and evictions and disrupting gentrification of communities. Under current state law in Arizona, it is illegal for cities and counties to enact rent control measures and ordinances. Several state representatives in Arizona have suggested bills that would allow cities to implement caps on rent increases, but these efforts have been unsuccessful, largely because of the difference of opinions and conflicting research on the benefits of rent control.

Through the lens of economists and business leaders, rent control is believed to have negative unintended consequences on the overall economic growth of communities. The primary opposition to rent control policies is that they fail to create incentives for building new housing. In places where there are rent control policies, developers generally find it more advantageous to build condos instead of apartments and landlords often transform apartments into market-rate condos, resulting in an overall decrease of affordable units. Similar research highlights that rent control policies reduce investment and development; however, economic research fails to acknowledge the positive socioeconomic and cultural implications of keeping people housed in their communities and reducing displacement as rent prices increase.

Despite the varying research and opinions about the efficacy of rent control, AZHC encourages municipalities to develop strategies to reduce the occurrence of significant rent increases in communities and to develop strategies to reduce evictions, displacement and gentrification.

Closing note for the end of this section:
As a reminder, Morrison Institute of Public Policy at Arizona State University released "State-Level Legal Barriers to Adopting Affordable Housing Policies in Arizona" which provides a detailed overview and further information about Arizona specific barriers to increasing the supply of affordable housing.

CLIMATE CHANGE AND ARIZONA'S WATER CRISIS

Climate Change

While environmental regulation policies surrounding climate change are critical, especially for lower-income and under-resourced communities, people often overlook the impact of climate change on affordable housing. Often, regulations to address and mitigate climate change can make housing developments more expensive and difficult, affecting the overall cost of the project as well as construction costs.

Additionally, increasing natural disasters related to climate change and the global warming of the planet are increasing the number of climate migrants, or people who are displaced and must relocate due to a natural disaster like a hurricane. In 2019, natural disasters displaced almost one million Americans. Amid a national housing crisis where cities are already struggling to provide adequate housing supply for their residents, natural disasters and the influx of climate migrants intensify the problem by reducing the number of available housing units in one place and increasing the demand for housing in a new location.

Arizona's Lack of Water

Another barrier to the creation of additional housing stock is the lack of water in Arizona. In June 2023, Governor Hobbs announced that Phoenix was out of groundwater and that by 2121, the Phoenix metro area will be short nearly 5 million acre feet of water. This means that future developments in the region whose water is not guaranteed will have to identify other water sources, which increases the risks, costs and challenges of developing housing of all kinds. The announcement and water restrictions apply specifically to groundwater. Developers are still able to build in metro Phoenix, but need to identify other water sources like the Colorado River whose water level is at an all-time low.

RURAL HOUSING NEEDS

Another significant barrier to housing development across the state is the failure to address the unique needs of rural and tribal communities. Construction costs for affordable housing in rural communities are generally higher because development typically is of smaller scale than in urban areas. This reduces the incentives for private investments and development in housing. COVID-19 exacerbated the housing crisis in rural America. It compelled many higher-income earners who work from home to transition from urban corridors and city life to small town living. Population growth as a result of the pandemic means a reduction in the total number of available housing units in those communities. Below are resources containing specific strategies to address housing shortages in rural communities:

- Housing Assistance Council
- USDA Rural Housing Service
- Rural Community Assistance Corporation (RCAC)

Arizona Housing Coalition

CHAPTER FOUR

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 fill gaps that traditional financing cannot do alone. We also recommend that readers visit this guide from the U.S. Department of the Treasury for information about ways to leverage state and local fiscal recovery funds for affordable housing production and preservation.

The role the 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. This section provides a non-exhaustive list of several financing options across various stages of an affordable housing project. We also suggest that readers reference this opinion piece about some additional financing options for affordable housing.

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.

PRE-DEVELOPMENT

- **PURPOSE:** To pay due diligence expenses, deposits, and other pre-development 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

Pre-development loan funds are helpful tools in supporting and incentivizing the development of affordable homes. Typically, affordable housing financing does not cover costs for the pre-development phase. LISC, for example, offers zero-interest loans to nonprofit housing developers for costs in this phase.

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.

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. In 2023, ADOH awarded $34,643,698 in federal tax credits for 15 projects comprising 1,049 units and $1,875,000 in state tax credits for 2 projects comprising 120 units in the 2023 Low Income Housing Tax Credit round. 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. The ADOH considers applications through the QAP under several set asides that focus on specific populations: 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 the 70% coverage 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 multifamily 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.

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. In 2023, the Arizona state cap was $883,103,640 or $120 per state resident. A list of Arizona projects that received tax-exempt financing can be found here. 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 (GO 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 issue general obligation bonds, municipalities must apply a special election process. The process involves a referendum or special election in which the public is invited to vote on approval for a specific housing measure. The City of Phoenix is preparing for a Special Election in November 2023, where citizens will vote on whether or not to adopt the proposed $500 million GO Bond Program. In 2022, residents of Flagstaff approved Proposition 442, a $20 million GO bond measure dedicated to advancing rental and homeownership strategies in the region. Flagstaff became the first Arizona city to leverage these bonds to boost housing supply.

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 Federal Home Loan Banks (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. FHLBs were established by Congress in 1932. FHLB institutions by law are required to establish an Affordable Housing Program (AHP) and to contribute 10% of their earnings to their AHP. The FHLBank Indianapolis, for example, awarded $1.5 million in grants throughout 2022 for various housing developments in Detroit. Similarly, the FHLBank San Francisco awarded $31.9 million in AHP grants to 39 developments throughout Arizona, California, and Nevada, creating or preserving 2,712 homes that are affordable and attainable. 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. In 2022, Arizona received $8,663,850.00 in 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. FHA loans create a pathway to homeownership for individuals with a lower-than-average credit score who may not have the funds for a significant down payment on a home to borrow up to 96.5% of the value of a home.

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 several loan programs 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, 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 municipalities of the tribe's choosing for community and public safety programs, which can be used for gap financing on affordable housing projects. Grant applications are made to individual tribes through their grant application processes. Municipalities may also sponsor nonprofit organizations to make eligible grant applications and to act as a passthrough 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, Howard Epstein, community funders and the Arizona Community Foundation (ACF) created the Arizona Housing Fund (AZHF). 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 fund seeks donations on real estate transactions. Participating entities request 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. The AZHF is working to engage more realtor associations and builders into partnership, so that the Escrow Donation Program is available to every buyer and seller in Arizona as a standard offering in the future.

In addition to the Escrow Donation Program, the AZHF has the capability to receive individual donations. 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 AZHF 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. In January of 2023, the fund issued its first grants, a total of $850,000 to four projects across the state aimed at addressing homelessness and housing insecurity.

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 FIVE

BEST PRACTICE STRATEGIES TO INCREASE THE AFFORDABLE HOUSING SUPPLY

This chapter outlines specific strategies that Arizona's 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. We strongly recommend that readers reference a recent Spark report from Vitalyst titled "Promising Housing Practices in Arizona."

PARTNERSHIPS

Building effective partnerships between 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 task forces or commissions at the municipal level targets partnership through stakeholder involvement in increasing affordable housing supply. A task force 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 from diverse sectors 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: Pima County Affordable Housing Task Force

In November 2021, Pima County Administration approved the creation of an Affordable Housing Task Force. The task force met for almost one year with the goal of providing guidance to the Board of Supervisors and the Pima County Housing Commission on ways to improve housing affordability in the region. The group also focused on identifying public/private partnership opportunities that would increase housing availability and affordability.

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 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

Source:
http://vitalysthealth.org/the-wheel/

that contribute to successful affordable housing development. Research points to a need for greater collaboration between the healthcare system and housing providers. In one study of roughly 10,000 people in Oregon who lacked stable housing, providing them affordable housing resulted in a decrease of Medicaid expenditures by 12 percent.

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 April 2022, had invested $800 million in communities across the country, resulting in almost 19,000 homes for people struggling with housing insecurity. 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.

The Arizona Health Care Cost Containment System (AHCCCS) 1115 Waiver

AHCCCS is Arizona's statewide Medicaid agency that provides healthcare to Arizona residents. AHCCCS operates under a Section 1115 Demonstration project that is renewed every five years. For 2022-2027, AHCCCS requested and received approval for the AHCCCS H2O demonstration. In addition to the traditional programs provided, the amended waiver focuses on expanding housing services and interventions for AHCCCS members who are experiencing homelessness or are at risk of becoming homeless. The H2O demonstration also focuses heavily on Arizona's most vulnerable populations and attempts to provide targeted and coordinated health and social services. The amended waiver will allow social service and housing providers to receive reimbursement for services not traditionally covered by Medicaid and aims to concurrently reduce costs to the healthcare system, highlighting a successful health and housing partnership.

Case Example: Home Matters to Arizona and Housing Solutions of Northern Arizona, Inc. or JoJo's Place

Home Matters to Arizona leverages government, philanthropy and private dollars to build a fund that awards grantees with financial investments for increasing the supply of housing. A significant amount of the fund comes from healthcare companies and organizations such as Dignity Health, MercyCare, United Healthcare, and Arizona Complete Health. In 2021, the fund awarded $351,000 to Housing Solutions of Arizona to rehabilitate a 44-unit motel for use as transitional housing for people formerly experiencing homelessness called JoJo's Place. In addition to housing, JoJo's place will be a bridge to other vital community services like food, mental healthcare and case management. Given national research that highlights how housing can significantly reduce healthcare costs, JoJo's Place is a great example of how partnerships between healthcare and housing have meaningful social and fiscal benefits.

Additional examples of health and housing partnerships in Arizona include, but are not limited to, Dignity Health Community Investment program, MercyCare, and 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 Faith-Based Development Initiative that offers guidance and resources for faith partners seeking to develop their underutilized land into affordable housing. Leveraging partnerships with faith-based organizations is not only a mechanism to address the lack of availability of land for housing, but often FBOs can provide some of the critical social and communal support necessary for people to thrive in housing.

In the Vitalyst paper, "Promising Housing Practices in Arizona," they offer additional information on the role of faith-based community development corporations (CDCs) in meeting housing needs.

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: City of Tempe, Affordable Housing Strategy (AHS)

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.

Case Example: Housing Affordability Strategy for Tucson (HAST)

In 2021, the Mayor and Councilmembers in the City of Tucson adopted the Housing Affordability Strategy for Tucson (HAST).The strategy identified specific action items and priorities to increase housing affordability in the region. The strategy incorporates extensive community engagement and mechanisms to track the implementation and progress of the strategy. The full plan can be found here.

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

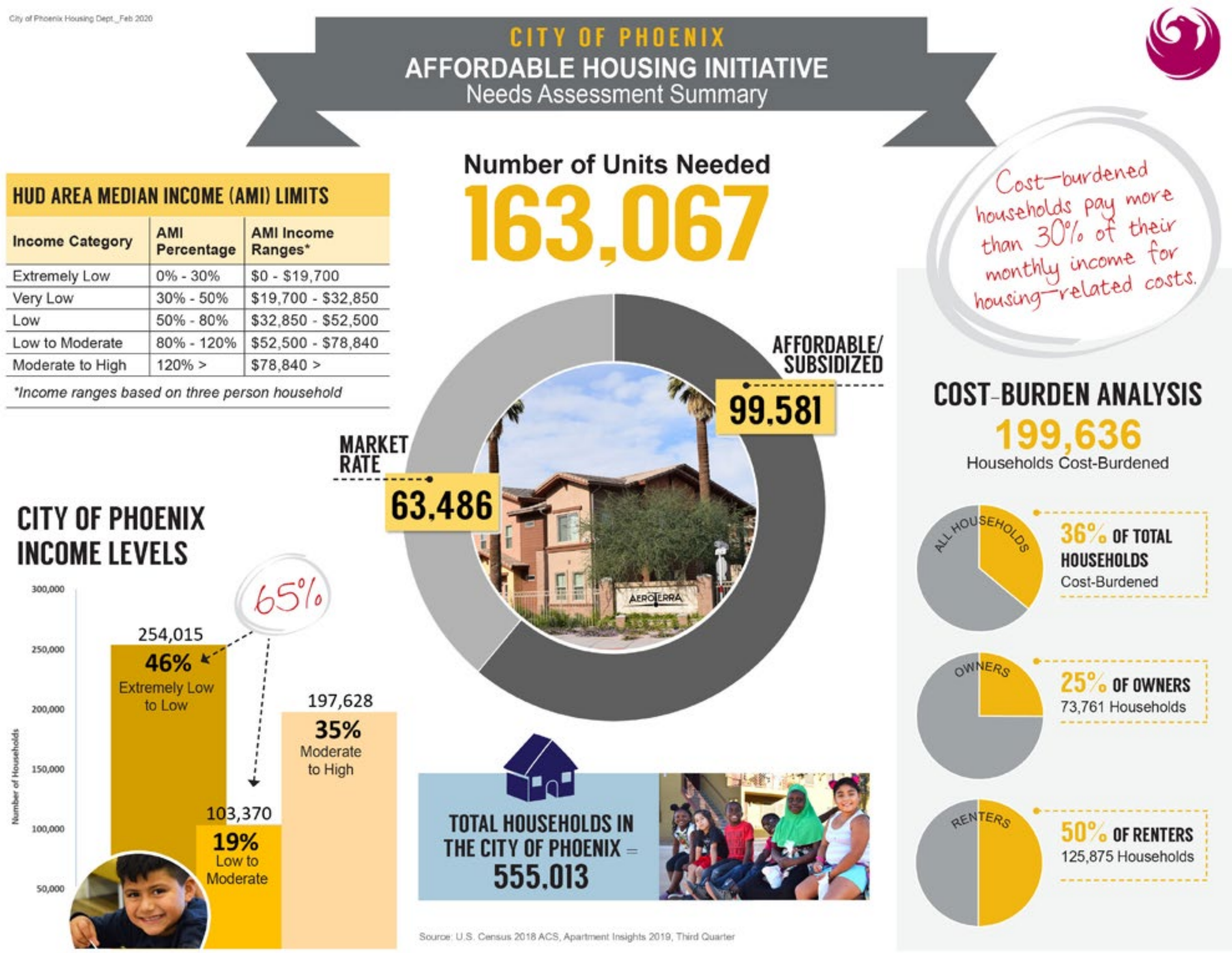
A housing needs assessment allows local municipalities to determine the need for affordable housing within their locality through gaps analysis of available affordable units, based on the specific population. Housing needs assessments are recommended within Arizona's diverse jurisdictions to identify 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 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:

City of Tempe, 2017 Housing Inventory and Affordability Analysis
City of Tucson, 2019 Comprehensive Housing Market Analysis
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
City of Yuma, 2021 Housing Needs Assessment
Verde Valley, 2021 Verde Valley 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 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 extremely low-income 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.

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 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.

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 area median income 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 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 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?

Municipalities can play a critical role in CLT success in several 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. Detailed information and guidance on municipal and CLT partnerships can be located in the Lincoln Institute's Policy Focus Report. A non-exhaustive list of how municipalities may support CLTs is offered below:

- 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, which was 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 handbook.

Architect rendering of Tempe Micro Estates. Source

Examples of CLTs Statewide

Pima County Community Land Trust

Community Homes of Patagonia

Townsite Community Land Trust

Flagstaff Community Land Trust Program

We also recommend that readers visit the Vitalyst paper, "Promising Housing Practices in Arizona," which offers additional guidance and information on CLTs.

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 a 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.

Case Example: Threshold by HOM Inc. in Maricopa County

In 2022, HOM Inc., an Arizona-based organization that works with nonprofits throughout the state to address housing and homelessness, launched Threshold. Threshold is Maricopa County's first centralized landlord engagement service aimed at attracting and retaining landlords who are willing to provide housing to people who are experiencing and/or exiting homelessness. Threshold provides financial and operational support to landlords who participate in the program. Property owners and managers who join the Threshold network receive:

- A signing bonus equivalent to 1.5 times the unit's monthly rent when a new tenant is signed on
- Reduced tenant screening requirements in areas such as income, past eviction records and justice system involvement
- Assurance that rental assistance will be paid on time each month
- A dedicated 24/7 support team
- Coverage of claims for damages above normal wear and tear up to three times the monthly rent and an additional one month's rent for vacancy loss

Threshold also operates an online system called Padmission which makes it easier for property owners to find potential tenants, and for people seeking housing to find vetted, quality, affordable housing. Since receiving the $5 million investment from federal COVID-19 relief funds, the program has been successful. In its first year, the program partnered with 401 new landlords and property owners and added 880 new properties that offered at least one unit for people experiencing homelessness. Threshold has successfully facilitated the placement of over 800 households into housing. This program is a great strategy in retaining and adding housing units for vulnerable community members. Similar programs have also been effective in Rhode Island and Cook County, Illinois.

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.

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 run 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. Most of the nation's affordable rentals consist of unsubsidized privately owned multifamily housing. 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. Data also show that short-term rentals are a huge factor that results in the loss of housing within the state, as discussed elsewhere in this handbook.

The preservation strategy also applies to owner-occupied properties. The preservation of owner-occupied homes ensures long-term affordability. Restoration programs can intervene to preserve existing housing for households who have reached homeownership but are still cost-burdened or who are at risk of abandoning their homes due to unsafe conditions.

Case Example: The City of Tucson Home Repair Program

The City of Tucson's City's Home Repair Program provides support to homeowners whose homes are in need of urgent repair due to hazardous and/or unsanitary conditions. The program offers assistance with major and minor repairs, home access for ADA needs, repairs to mobile homes and repairs to reduce lead hazards. For lower-income individuals, such expenses could cause significant economic burden and, in some cases, homelessness.

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.

Preservation Strategies for Existing Units

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 discussed in Chapter 2.

Case Example: Cincinnati's Strategy to Purchase Single Family Homes

In 2022, the Port of Greater Cincinnati Development Authority (known as The Port) outbid private investors and acquired $14.5 million in debt to purchase homes that would've otherwise been purchased and used for rental properties. This was the first time in the United States where a public agency purchased that many private properties. The average purchase price per home averaged out to roughly $78,000 with a plan to rent the homes at affordable rents and then sell the homes. The Port partnered with a local nonprofit that prepares people for home ownership through education and other support.

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 VAIL InDEED, an effort to buy deed restrictions on rental and ownership units that impose regulations on who may occupy the unit. The program aims to purchase deed restrictions on homes in Vail to protect and preserve the Vail community. The goal is to maintain and sustain homes for residents by placing a deed restriction that is enforceable on the sale and purchase of the home. The effect is control over who can purchase existing homes in Vail, known for its tourism. The Vail Town Council prioritized protecting and preserving homes in the area for families to occupy year-round, recognizing land and construction resources are in short supply. 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.

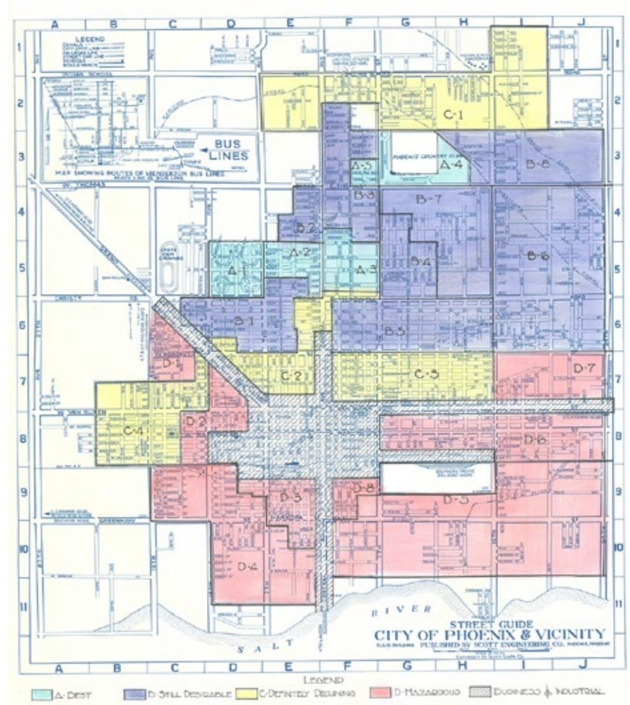
This is a policy that could be replicated in Arizona in response to the rise in investor purchases for short-term rental. Again, as the program is voluntary, we believe there is political feasibility in implementation of a similar program within Arizona municipalities. Such a practice would deter purchasers 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 prohibiting mandatory inclusionary zoning policy. While municipalities cannot supersede this state law regulation, they may mitigate its effects through 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



Source

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 plots of land for 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, because 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.

Morrison Institute of Public Policy at Arizona State University released a paper titled "Exclusionary

Zoning: A Legal Barrier to Affordable Housing" that provides the history and impact of exclusionary zoning.

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, (ADUs) and apartment complexes. The formula be78 bhind 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 multifamily 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.

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."

Relaxing ADU Regulations and Adopting

Source

ADU Amnesty

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 in Arizona that mandates 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 a 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 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 an 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. Zoning overlays can also further the economic development of communities by identifying areas for development and redevelopment that align with municipal economic development objectives.

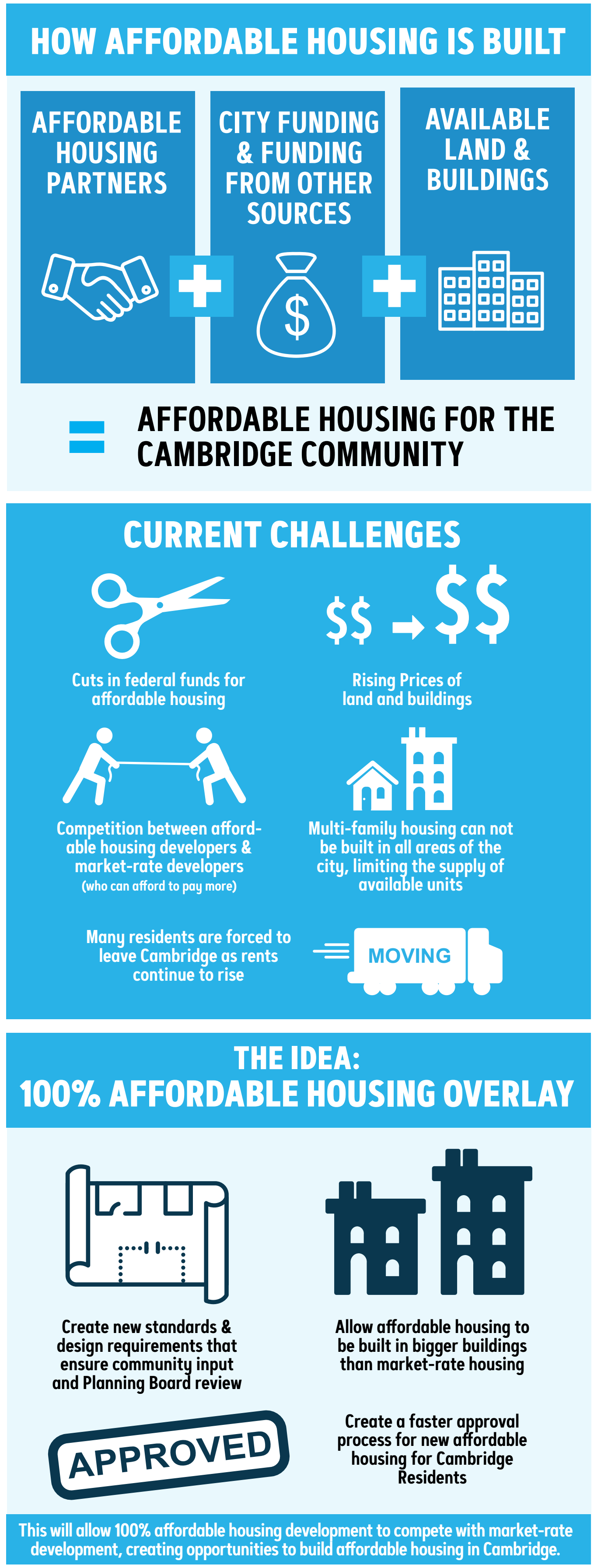
Case Example: The City of Cambridge Affordable Housing Overlay

In 2020, the city of Cambridge, Massachusetts passed 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 ordinance allows developers to use public funds in designated zones to quickly develop units with a streamlined approval process that would reduce time and cost barriers and create socioeconomic diversity.

The Ordinance allows
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. Multifamily and townhouse development in areas not allowed under existing zoning laws
4. Conversion of large residential properties into multifamily and townhouse development
5. A new review process to include community input, while removing discretionary approval requirements

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 show 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 needs. 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. In 2023 the City of Phoenix asked Village Planning Committees to weigh in on proposed changes to city code that would reduce parking requirements.The



Source: cambridgema.gov/AffordableHousingOverlay full staff report outlining the proposed text amendment can be found here.

Relaxing Accessory Dwelling Unit (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, casitas, 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, such as prohibiting a kitchenette, 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 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."

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 Regulation Changes for ADUs and their uses:

Tucson- In 2021, the Tucson City Council approved measures to allow ADUs. This was a critical step in increasing the supply of housing in Tucson. Information about ADU code in the City of Tucson can be found here.

City of Phoenix- The City of Phoenix also amended its code to allow ADUs. Throughout the summer of 2023, the City presented to Village Planning Committees for their input on the amendment to allow ADUs. Staff members from the city's Planning and Development department see ADUs as a pathway to meeting the city's goals to increase affordable housing across the city.

Apache County- In 2019, Apache County passed an ordinance to allow for guest houses, as long as the property is at least five acres and the guest house is smaller than the primary house on the property.

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 plan would conflict with the Arizona Revised Statutes on short-term rental protections. However, as the plan would be voluntary, we do not believe any deed restriction program would be deemed in conflict with state regulations. Municipalities must also consider the policing of such a plan 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. In Maine, for example, where home prices are increasing at an alarming rate and inventory is at an all-time low, tiny homes are becoming increasingly popular. 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 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.

Case Study: Tempe - Tempe Micro Estates

The Tempe Micro Estates is a group of thirteen 600 square foot, single-family homes for households earning 120% or less of the Area Median Income (AMI). Maricopa County, the City of Tempe and a local nonprofit, Newtown Community Development Corporation, partnered on the initiative. This is a great example of a collaborative initiative to address a local affordable housing crisis.

Case Study: Flagstaff - Tiny House Village by Hope Construction

In 2022, Hope Construction began working on Tiny House Village, a tiny home community with 6 different floor plans ranging from 600-900 square feet. The model for Tiny House Village is a lease land development; residents purchase and have ownership of their homes, but lease the land where the homes are located to cover services like sewer, water, trash, snow removal and property taxes.

Case Study: Hope Factory Productions

Hope Factory Productions is a collaborative effort of architects, engineers and industrial designers aiming to use tiny home villages to address homelessness. Under their proposed model, they hope to partner with a faith partner to utilize church land which helps mitigate some of the zoning challenges people face. Their model also includes volunteer-driven construction, close partnership with the local municipality, and partnerships with organizations like Habitat for Humanity, the Salvation Army, and Goodwill.

Case Study: Jerry Ambrose Veterans Council (JAVC) and Tiny Homes for Veterans

JAVC is an organization that provides extensive services to veterans across Mojave County. In 2022, JAVC received $2.8 million to transform downtown Arnold Plaza into transitional housing for veterans. Funding the project mostly came from ADOH alongside donations to JAVC for construction and other expenses.

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. However, an excise tax is due on a GPLET-agreed property, as stipulated by the county treasurer. The GPLET requires municipalities to strategically target the incentive on areas that need revitalization, with a focus on attracting high density, multifamily housing to encourage sustainability of a downtown area. Considering the high cost of such projects within urban cores, the GPLET is designed to reduce overall expenses. The GPLET has a long-term outlook, focused on regeneration of entire areas, with housing development a part of a sustainability plan to grow economic activity over time.

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 from 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, 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 incentivizes 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 number 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 construction 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.

Case Example: 3D Printed Home in Tempe

In 2022, Habitat for Humanity partnered with a German company to provide one of Arizona's first 3D printed homes for a low-income family.

Master Leasing

One tactic to move people from homelessness to housing at a quicker rate is through master leasing. There are multiple applications of master leasing. In Los Angeles, for example, the city leased an entire apartment building and then subleased the units to people exiting homelessness. In other options, a city could lease a building and then sublease to a nonprofit organization responsible for housing placement and case management. Some of the benefits of master leasing include but are not limited to:

- Expedited access to buildings and units
- Access to units for people excluded from the private rental market
- Expanding relationships with new landlords and developers

Direct Cash Assistance

Direct cash assistance or direct cash transfer (DCT) programs are an efficient way to provide flexible funds to communities for the different needs they experience. Although DCT programs have always been a part of social service programs in America, the pandemic reinvigorated their role locally and nationally. Emergency relief funding went to providing emergency rental assistance that could be used to prevent evictions and homelessness. DCT programs are beneficial because:

- They generally have fewer requirements for eligibility.
- They reduce some of the administrative barriers like documentation which delays the process of providing assistance.
- They are flexible and can be used for diverse ex penses that meet the most urgent needs of recipients.

In the greater Washington D.C. region, DCT was an effective strategy in providing economic relief to individuals most negatively impacted by the COVID-19 pandemic. The Greater Washington Community Foundation facilitated and managed the administration of nearly $26 million in funds, awarded in increments of $50 to $2,500 to nearly 60,000 residents. Certain states, such as Minnesota, are continuing to fund these rental assistance and cash assistance programs as a mechanism to reduce eviction rates and prevent homelessness.

Shared Housing

Shared Housing or "home sharing" is another creative strategy in addressing Arizona's housing crisis. Home sharing occurs when two or more unrelated people share a house or apartment and split living costs such as rent and utilities. Generally, a program or organization provides the service of recruiting, screening and matching participants. The first formal home sharing program began in California in 1979. Home sharing is an effective model because it uses existing housing stock more efficiently and intentionally, but it also reduces social isolation and addresses the alarming increase in senior homelessness, many of whom are on fixed incomes, struggle with loneliness, and have challenges with aging in place.

There have been several successful home sharing programs and shared housing initiatives in Arizona:

- Tucson Home Sharing, Inc.
- ASU Action Nexus on Homelessness, Shared Housing Programs in Arizona
- East Valley Senior Home Sharing

Below are some additional shared housing resources for municipalities to reference:

- The Shared Housing Institute develops tools, resources and trainings on effective shared hous ing practices.
- The National Shared Housing Resource Center provides resources and information on home sharing and helps connect home sharing programs across the United States.

Innovative Housing Program Spotlight

Below are some examples of innovative, collaborative and creative housing programs. This list is not inclusive of all the exciting and innovating housing programs happening across the state, but is meant to give municipalities some ideas of creative ways to meet housing needs in their communities. Additionally, we recommend that municipalities reach out to the organizations and partners that made these innovative programs possible.

Shipping Container Shelters for People Experiencing Homelessness in Southwest Phoenix

In 2022, the Phoenix City Council approved a proposal to use shipping containers as shelter units for people experiencing homelessness in Phoenix. The $3 million contract is with Steel & Spark LLC. The initiative is funded through the American Rescue Plan Act.

Use of Bureau of Land Management Land (BLM) land to meet Arizona's Housing Needs

Arizona State University (ASU) is working on an initiative to use BLM land for transitional housing. This is an interesting model because governmental entities can lease this land for $10 per acre. Nonprofit organizations can lease the land at 50% of fair market value. Currently, ASU and the working team of partners and stakeholders are exploring three parcels for the project. For more information about this effort, please reach out to ASU's Action Nexux on Homelessness

Vitalyst's Initiative to Develop School Land for Attainable Housing

In 2021, Vitalyst released a SPARK paper titled **"How School Districts Can Create Attainable Housing Opportunities: Legal and Financial Pathways to Attract and Retain Employees."** Given inflation and stagnant wages, there is a crisis with retaining and recruiting teachers. School districts across the nation are challenged with recruiting and hiring teachers without affordable housing nearby. The research and proposal created by Vitalyst offers strategies for converting excess school land into housing and creating "teacherages," or attainable housing specifically for teachers.
Click here for the full report.

Hotel-to-Housing Conversions

Throughout the COVID-19 pandemic, nonprofit organizations, municipalities and counties relied heavily on hotel to housing conversions to house vulnerable populations. When cities went into lockdown and travel restrictions went into place, hotels were empty. This created an opportunity to use those rooms to house people experiencing homelessness and medically vulnerable individuals for both temporary and permanent housing. Hotels are a viable option for these efforts because they generally possess the necessary infrastructure for housing. In Maricopa County, for example, the county's Human Services department leveraged $28.1 million from multiple funding sources including Emergency Solutions Grant for COVID-19 (ESG-CV), CARES Act Funding, and American Rescue Plan Act (ARPA) funding to lease hotels in Phoenix to three service providers to operate bridge housing. Hotel-to-Housing conversions have been a successful model across the state. For a full guide on strategies and best practices in hotel-to-housing conversion, click here. Below are a few additional cities working on converting hotels into housing:

- Flagstaff
- Tucson
- Mesa

Use of Manufactured and Mobile Homes

Manufactured homes are a promising option on the list of tactics to address our affordable housing crisis. By design, they are significantly less expensive than other housing developments. One great example of manufactured housing is from DignityMoves, an organization that provides shelter to people experiencing homelessness in California. Their innovative model uses factory units and leased land to quickly and significantly less expensively provide interim housing to people experiencing homelessness. They take advantage of parking lots and other unused sites to provide housing for as little as 3 years. Because they use temporary structures, the developers can work around traditional zoning barriers that are in place for permanent structures. They have communities across California. Below are some additional resources about manufactured housing as well as strengths and challenges to overcome:

• "The Role of Manufactured Housing in Increasing the Supply of Affordable Housing" by The Urban Institute"
• "Rural Research Brief: Manufactured Housing in Rural America" by the Housing Assistance Council

Case Study: Paloma Village in Chino Valley

Paloma Village is a 25-unit manufactured home community for up to 60 people in Chino Valley. The Coalition for Compassion and Justice (CCJ) is the social service provider responsible for providing onsite advocacy services to tenants. CCJ provides a wide range of services to address poverty in Yavapai County. Individuals living in Paloma Village will be paying between $900-1100 in rent, with CCJ functioning as the "compassionate property owner" to tenants. This allows them to rent to diverse individuals and to mitigate some of the traditional housing barriers that low-income and cost burdened individuals face. Additionally, CCJ leverages non-government funding which affords them significant flexibility in the way they use their funds. In 2019, CCJ received the "Innovation in Housing" award from the Arizona Housing Coalition for their creativity and collaboration in their unique approaches to housing vulnerable individuals.

BALLOT INITIATIVES

In Chapter 2 we referenced existing barriers to housing development in Arizona. In 2022, the National Low-Income Housing Coalition released a toolkit titled "Housing on the Ballot: How to Organize a Successful Ballot Measure Campaign for Affordable Homes." This is a great resource for municipalities seeking guidance on ways to advocate for and successfully implement policy changes that preserve and create affordable housing. As mentioned in **Chapter 3**, residents of Flagstaff approved

The Coalition for Compassion and Justice - Paloma Village renderings

Proposition 442, a $20 million GO bond measure dedicated to advancing rental and homeownership strategies in the region. This campaign is an excellent example of a successful ballot initiative.

ADDRESSING COMMUNITY OPPOSITION

State law requirements for public notice give 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, even though research shows that LIHTC developments have mostly positive effects on surrounding property values. By addressing community opposition strategically, municipalities may lessen 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 project development or policy reform, municipalities can reduce opposition while bringing communities together to achieve common goals. The Municipal Engagement Initiative (MEI) is an organization that works with local residents and provides education and resources that bridges the lack of understanding about affordable housing so that community members have more of an overall positive view about affordable housing.

Case Example: Minneapolis 2040 Plan and the Civic Engagement Policy

In 2019, the City of Minneapolis successfully adopted a comprehensive plan that aims to tackle 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 multifamily 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 engage in 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. The plan included 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.

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. In addition to targeted responses to opposition, the City of Minneapolis engaged in 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.

"HOME IS WHERE IT ALL STARTS" CAMPAIGN

In 2023, a group of housing advocates across Arizona launched the "Home is Where it All Starts" campaign. The campaign draws on data that highlight how traditional messages about housing, specifically the use of the phrase "affordable housing" backfire and limits the ability to develop housing that is affordable. The statewide effort hopes to tackle NIMBYism and provide significant community education and outreach to disrupt the inaccurate picture that many Americans have about housing that is affordable. Specifically, the campaign proposes several alternatives to the phrase "affordable housing":

- A Home That Meets Our Needs
- A Home Within Reach
- Affordable Rents and Mortgages
- At Home in Arizona

For more information about the campaign and to get involved, please visit https://homeiswhereitallstarts.org/.

This Resource outlines the 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 allows us to imagine innovative solutions that overcome these barriers. The document shares existing innovations that have already been developed by municipalities within our state, along with examples from municipal efforts nationally. Municipalities are encouraged to use this as a resource in efforts to explore strategies to increase affordable housing within their jurisdictions.

The Arizona Housing Coalition remains committed to advocating for safe, affordable homes for all Arizonans, at the federal, state and local levels. 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. 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 **Jamie Podratz** at jamie@azhousingcoalition.org

Arizona Housing Coalition

Speaking Up for Home and Hope