

## City of Flagstaff Housing Commission Whitepaper with information to prepare for January 6, 2020 meeting

### Background and History

Since at least 1959, City planning documents have identified the need for additional affordable housing in Flagstaff. Per Ordinance No. 2019-25, one of the listed duties of the newly established Housing Commission is to “Examine funding sources available for housing in Flagstaff, make recommendations to City Council on potential funding sources, including bond measures, and provide oversight of any funds approved by the electorate for housing purposes.” City Council clearly expressed the desire that this be the first item that the Housing Commission addresses.

With the 2020 General Election fast approaching, it is critical for the Housing Commission to decide whether or not to recommend to City Council the pursuit of an Affordable Housing Bond Measure.

As conveyed in the first Housing Commission meeting both the state and the federal government have programs for affordable housing, both rental and ownership. However, in many cases Flagstaff residents who need affordable housing are not eligible for those programs because of the federally established income qualification limits known as Area Median Income (AMI). Most federal and state programs target at or below 80% AMI. The City of Flagstaff currently does not have a dedicated ongoing funding source to help Flagstaff’s workforce earning more than 80% the Area Median Income (AMI). There is one program funded with General Funds to assist with down payment and closing costs for first time Flagstaff homebuyers up to 125% of AMI, but this program is funded on an annual basis and has not always been allocated funding by City Council.

2019 Area Median Income Limits for Flagstaff

Household size	30%	50%	60%	80%	100%	125%
1	\$16,050	\$26,750	\$32,100	\$42,800	\$53,500	\$66,875
2	\$18,350	\$30,600	\$36,720	\$48,900	\$61,200	\$76,500
3	\$21,330	\$34,400	\$41,280	\$55,000	\$68,800	\$86,000
4	\$25,750	\$38,200	\$45,840	\$61,100	\$76,400	\$95,500
5	\$30,170	\$41,300	\$49,560	\$66,000	\$82,600	\$103,250
6	\$34,590	\$44,350	\$53,220	\$70,900	\$88,700	\$110,875
7	\$39,010	\$47,400	\$56,880	\$75,800	\$94,800	\$118,500
8	\$43,430	\$50,450	\$60,540	\$80,700	\$100,900	\$126,125

Note: 30%, 50%, 80% and 100% income categories are provided by HUD. The 60% income category is provided by ADOH. The 125% numbers are based off of the 100% AMI.

## Background and History Continued

The 2019 Arizona Department of Housing (ADOH) Study *2019 Housing At-a-Glance* recognized Flagstaff as one of the highest priced housing markets in the state. Of major Arizona cities, Flagstaff's median home price was third highest behind Scottsdale and Sedona. The study also recognized that Flagstaff was one of only a handful of Arizona cities where a police officer, making the median salary for that City's police department, could not afford to purchase a median priced home.

The ADOH chart on the following page depicts housing affordability based on occupations around the state in 2018. To further understand occupations and income qualifications please refer to the AMI chart below, paying particular attention to the above or below 80% AMI column.

Occupation	Household Size	Hourly Wage	Gross Income	AMI Status
Police officer	1	\$24.46	\$50,876.80	> 80% AMI
Teacher	1	\$22.02	\$45,801.60	> 80% AMI
Retail Worker	1	\$11.84	\$24,627.20	< 80% AMI
Nurse	1	\$36.84	\$76,627.20	> 80% AMI
Firefighter	1	\$18.41	\$38,292.80	< 80% AMI
Waitperson	1	\$10.51	\$21,860.80	< 80% AMI
<b>Total of All Occupations</b>	1	\$16.18	\$33,654.40	< 80% AMI

## Housing Affordability: The Stoplight Chart depicts how affordable housing was for home buyers and renters in common occupations around the state in 2018.

### Mortgage Assumptions

Down Payment	5.00%
Interest Rate	4.86%
Loan Term in Years	30
Annual Property Tax	0.72%

<span style="color: green;">■</span>	Can afford to buy or rent
<span style="color: blue;">■</span>	Can afford to buy
<span style="color: yellow;">■</span>	Can afford to rent
<span style="color: red;">■</span>	Cannot afford to buy or rent

City	County	Median Sales Price (2018)	Annual Salary Required	Hourly Wage Required (Buy)	2 Bedroom Apartment Monthly Rent	Hourly Wage Required (Rent)	Hourly Median Wage						Total of All Occupations
							Police Officer	Teacher	Retail Worker	Nurse	Firefighter	Waitperson	
Douglas	Cochise	\$63,250	\$16,008	\$7.70	\$823.00	\$15.83	\$25.29	\$17.67	\$11.41	\$30.67	\$18.63	\$11.92	\$17.39
Sierra Vista	Cochise	\$165,000	\$41,759	\$20.08	\$823.00	\$15.83	\$25.29	\$17.67	\$11.41	\$30.67	\$18.63	\$11.92	\$17.39
Flagstaff	Coconino	\$385,000	\$97,438	\$46.85	\$1,237.00	\$23.79	\$26.46	\$22.02	\$11.84	\$36.84	\$18.41	\$10.51	\$16.18
Globe	Gila	\$117,500	\$29,738	\$14.30	\$889.00	\$17.10	\$24.66	\$17.74	\$11.54	\$36.11	\$18.23	\$10.51	\$17.52
Pine	Gila	\$125,000	\$31,636	\$15.21	\$889.00	\$17.10	\$24.66	\$17.74	\$11.54	\$36.11	\$18.23	\$10.51	\$17.52
Safford	Graham	\$132,450	\$33,521	\$16.12	\$840.00	\$16.15	\$24.18	\$20.19	\$11.49	\$29.74	\$21.67	\$10.01	\$17.95
Chandler	Maricopa	\$295,500	\$74,787	\$35.96	\$1,073.00	\$20.63	\$33.66	\$20.16	\$11.61	\$37.04	\$25.32	\$11.37	\$18.27
Glendale	Maricopa	\$242,000	\$61,247	\$29.45	\$1,073.00	\$20.63	\$33.66	\$20.16	\$11.61	\$37.04	\$25.32	\$11.37	\$18.27
Mesa	Maricopa	\$239,500	\$60,614	\$29.14	\$1,073.00	\$20.63	\$33.66	\$20.16	\$11.61	\$37.04	\$25.32	\$11.37	\$18.27
Peoria	Maricopa	\$287,500	\$72,762	\$34.98	\$1,073.00	\$20.63	\$33.66	\$20.16	\$11.61	\$37.04	\$25.32	\$11.37	\$18.27
Phoenix	Maricopa	\$239,500	\$60,614	\$29.14	\$1,073.00	\$20.63	\$33.66	\$20.16	\$11.61	\$37.04	\$25.32	\$11.37	\$18.27
Scottsdale	Maricopa	\$445,000	\$112,624	\$54.15	\$1,073.00	\$20.63	\$33.66	\$20.16	\$11.61	\$37.04	\$25.32	\$11.37	\$18.27
Surprise	Maricopa	\$250,000	\$63,272	\$30.42	\$1,073.00	\$20.63	\$33.66	\$20.16	\$11.61	\$37.04	\$25.32	\$11.37	\$18.27
Tempe	Maricopa	\$272,590	\$68,989	\$33.17	\$1,073.00	\$20.63	\$33.66	\$20.16	\$11.61	\$37.04	\$25.32	\$11.37	\$18.27
Bullhead City	Mohave	\$124,000	\$31,383	\$15.09	\$776.00	\$14.92	\$26.14	\$16.39	\$11.68	\$34.54	\$20.52	\$10.51	\$14.95
Kingman	Mohave	\$145,000	\$36,698	\$17.64	\$776.00	\$14.92	\$26.14	\$16.39	\$11.68	\$34.54	\$20.52	\$10.51	\$14.95
Lake Havasu City	Mohave	\$245,000	\$62,006	\$29.81	\$776.00	\$14.92	\$26.14	\$16.39	\$11.68	\$34.54	\$20.52	\$10.51	\$14.95
Lakeside	Navajo	\$163,350	\$41,342	\$19.88	\$796.00	\$15.31	\$24.53	\$18.20	\$11.64	\$36.38	\$17.04	\$11.71	\$16.71
Pinetop	Navajo	\$235,000	\$59,475	\$28.59	\$796.00	\$15.31	\$24.53	\$18.20	\$11.64	\$36.38	\$17.04	\$11.71	\$16.71
Show Low	Navajo	\$212,000	\$53,654	\$25.80	\$796.00	\$15.31	\$24.53	\$18.20	\$11.64	\$36.38	\$17.04	\$11.71	\$16.71
Snowflake	Navajo	\$155,000	\$39,228	\$18.86	\$796.00	\$15.31	\$24.53	\$18.20	\$11.64	\$36.38	\$17.04	\$11.71	\$16.71
Marana	Pima	\$244,000	\$61,753	\$29.69	\$903.00	\$17.37	\$28.53	\$19.05	\$11.60	\$35.26	\$18.89	\$11.79	\$17.04
Sahuarita	Pima	\$158,000	\$39,988	\$19.22	\$903.00	\$17.37	\$28.53	\$19.05	\$11.60	\$35.26	\$18.89	\$11.79	\$17.04
Tucson	Pima	\$192,950	\$48,833	\$23.48	\$903.00	\$17.37	\$28.53	\$19.05	\$11.60	\$35.26	\$18.89	\$11.79	\$17.04
Casa Grande	Pinal	\$175,000	\$44,290	\$21.29	\$1,073.00	\$20.63	\$25.33	\$18.89	\$11.74	\$35.94	\$17.50	\$12.35	\$17.81
Coolidge	Pinal	\$141,500	\$35,812	\$17.22	\$1,073.00	\$20.63	\$25.33	\$18.89	\$11.74	\$35.94	\$17.50	\$12.35	\$17.81
Florence	Pinal	\$176,500	\$44,670	\$21.48	\$1,073.00	\$20.63	\$25.33	\$18.89	\$11.74	\$35.94	\$17.50	\$12.35	\$17.81
Maricopa	Pinal	\$208,000	\$52,642	\$25.31	\$1,073.00	\$20.63	\$25.33	\$18.89	\$11.74	\$35.94	\$17.50	\$12.35	\$17.81
Rio Rico	Santa Cruz	\$112,900	\$28,573	\$13.74	\$749.00	\$14.40	\$21.75	\$18.16	\$11.11	\$32.84	\$19.94	\$10.01	\$15.79
Chino Valley	Yavapai	\$204,000	\$51,630	\$24.82	\$958.00	\$18.42	\$25.54	\$19.11	\$11.87	\$36.57	\$17.36	\$10.69	\$16.20
Prescott	Yavapai	\$343,100	\$86,834	\$41.75	\$958.00	\$18.42	\$25.54	\$19.11	\$11.87	\$36.57	\$17.36	\$10.69	\$16.20
Sedona	Yavapai/Coconino	\$426,000	\$107,815	\$51.83	\$1,237.00	\$23.79	\$25.54	\$20.57	\$11.87	\$36.57	\$17.36	\$10.69	\$16.20
Somerton	Yuma	\$169,900	\$42,999	\$20.67	\$798.00	\$15.35	\$24.06	\$17.21	\$11.53	\$35.23	\$22.69	\$10.95	\$14.20
Yuma	Yuma	\$117,375	\$29,706	\$14.28	\$798.00	\$15.35	\$24.06	\$17.21	\$11.53	\$35.23	\$22.69	\$10.95	\$14.20
Arizona		\$235,800	\$59,678	\$28.69	\$878.00	\$16.88	\$31.36	\$19.63	\$11.61	\$36.43	\$21.24	\$11.24	\$17.80

## Overview of Contents

With the intent to provide as much information as possible for the Housing Commission to decide as to whether or not to recommend to City Council an Affordable Housing ballot measure for the 2020 General Election this white paper focuses on the following topics,

1. Recommendations of the ECONA's Housing Attainability for the Flagstaff Workforce Report
2. Current City of Flagstaff programs and funding sources that further affordable housing goals
3. Analysis of Proposition 422 (2018 Ballot Question)
4. General Obligation Bond Information
5. Revenue Bond backed by Sales Tax
6. Fees
7. Other Relevant Information
8. Next Step and Direction
  1. What type of funding source should be utilized?
  2. What should the money be utilized for?
  3. How much money should the City request in bonding authority for the 2020 ballot question?

### 1.) ECONA Study Recommendations

A 2016 survey of the largest employers in the Flagstaff area and their stakeholders, conducted for the Economic Collaborative of Northern Arizona (ECoNA) by the Northern Arizona University W. A. Franke College of Business, showed that half of all respondents were considering leaving Flagstaff because of high housing costs. Of those "considering leaving", a large majority (67.8%) were renter households. (pg. 31)

The ECONA Study was provided to you via email on November 26, 2019.

For the approximately 5,900 respondents to the survey, housing and housing affordability were critical issues. "Almost four-fifths of respondents also indicated that affordable workforce housing was a personal concern to them," as reported in ECoNA's 2017 *Housing Attainability for the Flagstaff Workforce Report*. (pg. 6)

The Report also summarized the analysis and findings of Werwath & Associates on behalf of ECoNA (pg. 3). Those findings include:

- Flagstaff's cost of living is 14.1% above the national average, driven by housing costs 36% above the national average. (pg. 45)
- 43% of households (which includes renters) in Flagstaff are cost burdened and paying more than 30% of their incomes for housing. (pg. 10)
- 60% of renter households in Flagstaff are cost burdened. (pg. 10)
- 22% percent of the population in Flagstaff is considered "extremely low income." (pg. 10)
- The 2016 median sales price for a single-family home was \$350,000, requiring an income over \$90,000 a year to purchase. (pg. 17)
- The 45% homeownership rate is strikingly low compared to the statewide average of 63% and national average of 64%. (pg. 16)
- Sales of single-family homes below \$250,000 shrunk by more than 50% between 2014 and 2016. (pg. 18)

## ECONA Study Recommendations Continued

- Sales of single-family homes below \$200,000 decreased by 60% between 2014 and 2016. (pg. 19)
- There were only 15 homes listed under \$250,000 citywide and only six listings below \$200,000 in May of 2017; 1% of all single-family listings. The cost and availability before or after this date may be different. (pg. 19)
- Only 2.6% of market rate rental units were available to rent and no income restricted units were vacant in February-March 2017. (pg. 21)
- Reported rental rates exceed what is considered Fair Market Value for the US Department of Housing and Urban Development (HUD) by between \$200 and \$400 a month depending on unit size. (pg. 21)

The ECoNA study recommended (among other things):

- Create dedicated local funding sources, both public and private, that can support more workforce housing creation and create mechanisms such as a workforce housing trust fund to recapture and recycle this funding. (pg. 37/38)
- Create locally funded down payment assistance programs that serve a broader range of incomes than current sources. (pg. 41)
- Engage the business community to proactively advocate for new housing developments that meets workforce needs, in addition to direct investment of resources. (pg. 38/39)

## 2.) Current Programs and Funding Sources

The City of Flagstaff's Housing Section works to improve local housing affordability, in conjunction with several non-profits and agencies, by supporting:

- Affordable home ownership opportunities;
- Down payment assistance programs;
- Owner-occupied housing rehabilitation program for health and safety repairs; and
- The creation of new affordable rental and ownership units through development incentives.

The **Homebuyer Assistance Program** provides qualified, first time home buyers with down payment and closing cost assistance that must be repaid at the time the house is a) sold, b) refinanced for cash out, or c) no longer owner occupied. To view all the 275 households assisted between 1999 – 2019 Homebuyers Assistance Program, view the link for a map of statistics and details.

<https://flagstaff.maps.arcgis.com/apps/opsdashboard/index.html#/d21a74a4f29d4a53b4d44f3fa9eef1dd>.

The City's Homebuyers Assistance Programs include:

- **Community Homebuyers Assistance Program (CHAP)** – Funding is provided through the City of Flagstaff's (COF) General Fund and is a typically a onetime allocation as determined annually by Council. CHAP serves households (up to 125% AMI) that are seeking to purchase of a home within the Flagstaff City limits. CHAP aims to increase the homeownership rate especially among workforce households and to revitalize and stabilize neighborhoods. CHAP aims to serve households that do not have sufficient cash to purchase a home but are otherwise mortgage eligible based on credit & employment.

## Current Programs and Funding Sources Continued

- **Employer Assisted Housing (EAH)** - Funding is provided through the COF's general fund and is typically a onetime allocation as determined annually by Council. The goal of the EAH program is to add a housing-based incentive (matching funds of up to \$10,000) to assist with recruitment and retention of eligible City of Flagstaff employees regardless of income.
- **Financial Assistance Program (FAP)** – Community Development Block Grant funds provide down payment & closing cost assistance, helping low-income (up to 80% AMI) first-time homebuyers open the door to homeownership. These funds are awarded as a onetime allocation to applying non-profits by Council through an annual granting process. Buyers must contribute a minimum of 1% of the purchase price or \$2,000, whichever is greater, of their own funds. Down Payment and/or Closing Cost assistance is available up to \$15,000, based on the need of the client.

Housing Program	CHAP	HAP	EAH
<b>Funding Source</b>	COF - General	CDBG	COF - General
<b>Demographics</b>	up to 125% AMI	up to 80% AMI	Eligible COF Employees
<b>Fiscal Year 2016</b>	\$0.00	\$120,000.00	\$90,000.00
<b>Fiscal Year 2017</b>	\$0.00	\$0.00	\$80,000.00
<b>Fiscal Year 2018</b>	\$200,000.00	\$0.00	\$100,000.00
<b>Fiscal Year 2019</b>	\$170,000.00	\$0.00	\$30,000.00
<b>2016-2019 Accomplishments</b>	<b>11 Households</b>	<b>4 Households</b>	<b>13 Households</b>

The **Owner-Occupied Housing Rehabilitation (OOHR) Program** funds health and safety repairs, accessibility improvements, and efficiency/weatherization improvements for qualified, low-income homeowners in City limits. Rehabilitation projects can range from furnace replacement to large multi-system projects addressing health and safety hazards throughout the home. The homeowners agree to a zero-interest rate loan funded by the City with Community Development Block Grant funds. The loan does not have to be repaid until the home is a) sold, b) refinanced for cash out, or c) no longer owner occupied, at which time the loan is repaid, and the funds are returned to the City.

Housing Program	OOHR	Accomplishments
<b>Funding Source</b>	CDBG	
<b>Demographics</b>	up to 80% AMI	
<b>Fiscal Year 2016</b>	\$181,938.40	4 Households
<b>Fiscal Year 2017</b>	\$0.00	0 Households
<b>Fiscal Year 2018</b>	\$163,729.79	4 Households
<b>Fiscal Year 2019</b>	\$219,094.57	TBD

## Current Programs and Funding Sources Continued

Lastly, the **Incentive Policy** for Affordable Housing and the Flagstaff Zoning Code offer financial and regulatory incentives through reimbursement and/or waivers of City development fees to assist private development of affordable housing units. The incentive fund for affordable housing is funded through City of Flagstaff general funds, typically on a onetime allocation basis. The incentive fund is generally utilized by small builders as the funding is available is very limited. Currently, there is approximately \$200,000 in uncommitted incentive funds.

Incentive Fund - Completed Projects				
Project Location	Year	Affordable Units	Rent/Own	AMI Served
5000 N Mall Way	2012	29	Rent	80%
2606 East Street	2013	4	Rent	60%
317 Butler Avenue	2014	1	Own	80%
2326 N Izabel Street	2015	1	Own	80%
298 S Verde	2015	1	Own	80%
2113 N Second Street	2016	3	Rental	80%
2318 N Izabel Street	2016	1	Own	80%
2310 N Izabel Street	2019	1	Own	80%
2334 N Izabel Street	2019	1	Own	80%
720 W Birch Avenue	2019	1	Own	75 - 125%
<b>Total Affordable Units</b>		<b>43</b>		
Regulatory Incentives - Completed Projects				
Project Location	Year	Units	Rent/Own	AMI Served
997 E Pine Knoll Drive	2009	61	Rent	80%
600-800 E University Heights	(being built)	12	Rent	80%
<b>Total Affordable Units</b>		<b>73</b>		

### 3.) Analysis of Proposition 422

The City of Flagstaff City Council directed Proposition No. 422 to be included as a ballot measure in the 2018 election. The measure failed by 757 votes.

#### QUESTION NO. 422 – IMPROVING HOUSING AFFORDABILITY

YES	12,482	(48.53%)
NO	13,239	(51.47%)

Below is the official ballot language and the formal pros and cons that were provided by the public or taken from news coverage.

#### PROPOSITION NO. 422

**Purpose:** Improving Housing Affordability

**Amount:** \$25,000,000

To address the high cost of housing in Flagstaff, shall the City of Flagstaff be authorized to issue and sell general obligation bonds in a principal amount up to \$25,000,000:

- for the purpose of increasing the number of housing units affordable for more residents in the City by construction, rehabilitation, redevelopment and acquisition of land for housing units; and the related infrastructure;
- for the purpose of assisting more Flagstaff residents to afford housing by making loans and grants for the construction, rehabilitation, redevelopment and acquisition of housing units; and the related infrastructure; and
- to pay all costs and expenses properly incidental thereto and to the issuance and sale of bonds?

The bonds may be issued in one or more series, will not mature more than 20 years from the date or dates of their issue, will bear interest at a rate or rates not to exceed 10% per annum, and will have such other provisions as are approved by the City Council.

If the bonds are approved, the City Council will create and appoint a Housing Bond Committee to advise the City Council on the use of the proceeds of the sale of the bonds and related matters.

The following sentence has been included on this ballot as required by Section 35-454(C), Arizona Revised Statutes: The issuance of these bonds will result in a property tax increase sufficient to pay the annual debt service on the bonds.

A **YES** vote shall authorize the governing body of the City to issue and sell \$25,000,000 of general obligation bonds of the City to be repaid with secondary property taxes.

A **NO** vote shall not authorize the governing body of the City to issue and sell such bonds of the City.

#### Pros

“The \$25 million housing bond will be leveraged with private-sector investment, grants and national resources ensuring local funding is optimized to meet the greatest need. The creation of a revolving fund to provide down payment assistance loans is critical as this one-time investment can be repaid and loaned again – over and over to help families today and in the future. Accountability is built in to the Proposition, with the creation of a Housing Bond Committee to make expert recommendations to Council about program design and bond expenses.” *Devonna McLaughlin (from the informational pamphlet for the General/ Special Election)*

## Analysis of Proposition 422 Continued

### Pros Continued

“As 42% of Flagstaff pays more for housing than is considered affordable, F3 supports Proposition 422, a \$25M bond that is expected to increase affordable housing by over 1,000 homes. Council will have final authority on how the bond is spent, based on recommendations from an appointed citizen committee. Proposition 422 funds will be made available as other City bond obligations are paid off, and home-owners will not see a change in property tax rate.” *Michael Caulkins, F3 President & Emily Melhorn, F3 Vice President from the informational pamphlet for the General/ Special Election*

“We have the highest rents in Arizona, and our rents have now exceeded those of Boulder, Colorado. Housing, both rental and home ownership, that is affordable to those earning up to 125% of the median income is critical to the long-term stability of our community and to our employers who depend on a quality work force.” *Rick Lopez (from the informational pamphlet for the General/ Special Election)*

### Cons

“The Flagstaff Realtors Association president said the proposition’s ambiguity left many in the association unsure on how they felt about the attempted solution, and so the members will not come out with an official stance on it.” *Arizona Daily Sun article from November 6, 2018 [Prop 418, 422 fail among slew of Flagstaff initiative results](#)*

“Borrowing \$25 million will use up too much of the City's bonding capacity for General Obligation Bonds that are repaid with the secondary property tax at the current rate. We have many other important and expensive needs, including paying for the City's share to finish the construction of the Rio de Flag flood control project, and the City should have the ability to bond for them.” *Al White (from the informational pamphlet for the General/ Special Election)*

“This vague legally-binding bond question is the only information we have. I cannot support bond language that does not address permanent affordability. Why are we not guaranteed every unit built under this program is permanently affordable? Without permanency, the public investment in affordability is short-lived. Instead, after some period or after the life of the bond (20 years), the affordability would vanish and units would revert to the open market. This does not address permanent affordability which is needed for any such program to be truly successful.” *Charlie Silver (from the informational pamphlet for the General/ Special Election)*

A housing survey was conducted by Frederic Solop and Global Vision before the Proposition 422 was voted on in 2018. This was a telephone survey to 400 likely Flagstaff voters. For survey results see the attached document.

#### 4.) Bonding Information

A bond (debt) is a contract between the purchaser of the debt who, in effect, lends the City money and the City pledges to repay it. Cities are allowed to issue several types of debt such as General Obligation bonds, revenue bonds, certificates of participation, leases, loans, ext.

##### General Obligation Bonds

Arizona law requires that General Obligation Bonds be voter approved. These bonds are repaid with a dedicated funding source, typically secondary property tax and are commonly called GO bonds.

When a ballot measure is approved by the voters, the bonds are issued and sold periodically when funds are needed for a specific project or purpose. Only the actual amount needed for such specific project or purpose would be issued each time, with the total amount of bonds issued not exceeding the amount approved by voters. Money received from the issuance and sale of the bonds must only be used for the purposes specified in the bond ballot question.



- For planning purposes:
  - 20-year debt issuance at 5% interest rate
  - \$10M, \$25M and \$60M in bonds
  - Average Class 3 Residential Assessed Value - approx. \$240,000
  - Total rate stays within current policy: 0.8366

Amount of Voter Authorization	Amount of Total Debt Paid	Average Tax Rate Required	Residential Annual Impact	20-Year Impact
\$ 10,000,000	\$ 15,934,493	0.0917	\$ 19	\$ 380
\$ 25,000,000	\$ 39,836,233	0.2293	\$ 46	\$ 920
\$ 60,000,000	\$ 95,606,960	0.5502	\$ 111	\$ 2,200

##### Primary Property Taxes

Primary property taxes are generally used to support the *maintenance and operation* budgets for local governments, such as cities, counties, school districts, and community college districts. Each year's property tax bill has a separate primary and secondary property tax rate for the City as well as most other local governments.

##### Secondary Property Tax

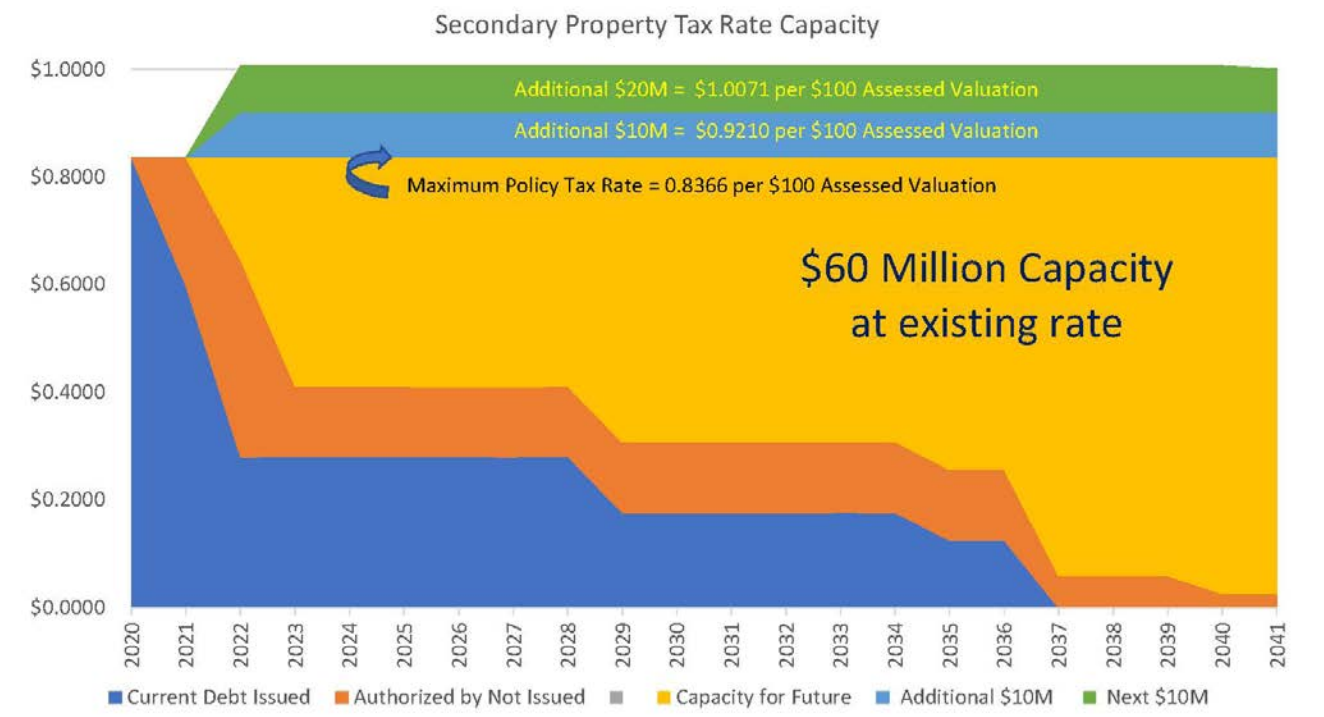
Secondary property taxes assessed by cities must be voter approved and are generally used pay to repay bonds issued, budget overrides, and special districts. Each year's property tax bill has a separate primary and secondary property tax rate for the City as well as most other local governments.

## Bonding Information Continued

The current tax rate is \$0.8366 per \$100 of assessed valuation and the city administrative policy is to remain at or below 0.8366 rate. The city is allowed to go above this rate for the purpose of paying debt. Based on the current projection of assessed valuations, estimated capacity is \$60 Million under the current rate policy of \$0.8.366 per \$100 remaining through fiscal year 2041.

## Bonding Capacity

The total amount of GO bonds the City may have outstanding at any one time is limited by the State Constitution. The limit is based on a percentage of the value of all taxable property, within the City. At this time, the remaining available constitutional bond capacity of the City, for all permitted purposes is almost \$200 million.



## **5.) Revenue Bond backed by Sales Tax**

### **What is City Sales Tax?**

In general, a sales tax applies to the sales of goods. Sales tax is also applied to advertising, rentals of commercial property, and the sale of new construction. Flagstaff is the only city in the state with an expiration date on its base sales tax.

### **Do I pay local taxes that are similar to the sales tax?**

Yes. To learn more, view the State of Arizona, Coconino County & City of Flagstaff's transaction privilege tax rates visit <https://www.flagstaff.az.gov/53/Tax-Rate-Chart>

- 1.) The City of Flagstaff currently has a base transaction privilege tax ("sales tax") rate of 1% (excluding the tax on food). This fund pays for police, fire, and day-to-day operations of the City. The sales tax expires every ten years and must be renewed by the voters.
- 2.) The City currently has a 2% lodging, restaurant, and lounge (known as "BBB") tax that applies to hotels, restaurants and bars. This fund provides dependable source of revenue for parks and recreation, beautification, economic development, tourism, and arts and sciences until March 2028, when it will again expire.
- 3.) Since 2000, the Flagstaff City Council has collected City Transportation Sales Taxes for roads, pedestrian, bicycle, and safety improvements at a combined rate of 0.426% or 42.6 cents on a \$100 retail purchase.

### **Do people other than Flagstaff citizens pay this tax?**

Yes. Studies show that people who do not live in the City pay approximately 50% of the City tax. This includes tourists, people with second homes in Flagstaff, as well as people living in outlying areas who shop in the City. A significant number of homes in Flagstaff are second homes for people who live elsewhere. These homeowners purchase goods in the City and contribute tax with those purchases.

### **Are there any specific items that are not subject to city tax?**

Yes. The two biggest items that the current city tax code exempts are the sale of food for home consumption (groceries), and residential rentals.

## **6.) Fees**

Cities are allowed to charge fees for certain purposes as provided for in State Law. The fee needs to be linked to the services provided. It is unlikely that a fee would produce the type of revenue resources to support bonding of a meaningful amount. If the Housing Commission would like to pursue additional consideration of fees, staff will engage legal staff to provide further information.

## **7.) Other Relevant Information**

Staff is aware that there is a combined effort of the Parks and Recreation and Open Space Commissions to prepare a recommendation to City Council to place one or several questions on the ballot requesting bond authority for projects in both areas. At this time, the Commissions are discussing GO Bonds to be repaid via secondary property tax in an undetermined amount.

## 8.) Next Steps and Direction

Staff is seeking direction at the January 6, 2020 Housing Commission meeting as to whether Commissioners would like to proceed in exploring a 2020 ballot measure (bond or sales tax) for improving housing affordability in Flagstaff. If the recommendation to Council is to proceed in placing a ballot measure on the General Election ballot, this recommendation would be made at the March 3, 2020 Council meeting.

As stated earlier in this document, Ordinance 2019-25 lists a commission duty “Examine funding sources available for housing in Flagstaff, make recommendations to City Council on potential funding sources, including bond measures, **and provide oversight of any funds approved by the electorate for housing purposes.**” While the City Council is ultimately responsible for budgeting, approving debt issuance, and any resulting contracts, the Housing Commission will provide oversight, including project recommendations etc. to City Council. It is also important to note that funding resulting from bonding can be awarded to community partners through a procurement process and is does not have to be solely spent by the city.

If the Commission votes to further explore a ballot measure for improving housing affordability the next steps will be to consider the three interrelated questions below:

### 1. What type of funding source should be utilized?

- Secondary Property Tax
  - Tax Rate – \$0.8366 per \$100 of assessed value if property values remain stable.
  - Length of Repayment – The City secondary property tax for the Housing Affordability portion is projected to be for 20 years. Please note that the full funding is available to be borrowed at any time, only the repayment period is projected for 20 years.
  - Borrowing Amount – The City has the ability to borrow an amount not to exceed \$60 million secured by the City secondary property tax to fund Housing Affordability programs.
  
- Sales Tax
  - Tax Rate example – a rate increase of \$0.001 or 1/10 of a penny would equate to \$.10 cents on a \$100 expenditure. This tax rate increase would bring in \$2 million per year or \$20 million dollars in 10 years.
  - Length – to repay \$20 million worth of bonding with the rate example above is projected to be approximately 10 years.
  - Borrowing Amount – Based on the tax rate listed in bullet one, the City may borrow an amount not to exceed \$20 million secured by the City sales tax to fund Housing Affordability programs. Please note that the full funding is available to be borrowed at any time, only the repayment period is projected for 10 years.

## **Next Steps and Direction Continued**

### **2. What should the money be utilized for?**

Examples of how funding could be utilized:

- Down payment assistance (ownership)
- Housing Rehabilitation (rental or ownership)
- Incentives for private developers to include affordable units in market rate development, including non-traditional projects such as cohousing, occurring in the community
- Utilization of City owned land for the creation of affordable housing units (rental and/or ownership)
- Installation of infrastructure related to affordable housing creation
- Purchase of land for the creation of affordable housing
- Eviction prevention / mortgage foreclosure assistance
- Programs supporting community efforts surrounding homelessness
- Rental Assistance Programs such as move in assistance
- Purchase of existing housing units to be sold/rented to eligible populations
- Creation of programs incentivizing accessory dwelling units (ADU) that serve low to moderate income renters

### **3. How much money should the City request in bonding authority for the 2020 ballot question?**

- In 2018 the ballot measure was for \$25 Million