MINUTES OF THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, FEBRUARY 6, 2024, AT 6:00 PM IN THE CITY COUNCIL CHAMBERS, 181 NORTH 9TH STREET, SHOW LOW, NAVAJO COUNTY, ARIZONA

1. Call to Order.

   Mayor Leech called the meeting to order at 6:00 p.m.

2. Roll Call.

   COUNCIL MEMBERS PRESENT: Mayor Leech, Councilman Adams, Councilman Allsop, Councilman Hatch, Councilman Judd, Councilman Clark arrived at 6:03 p.m., Vice Mayor Kakavas arrived at 6:04 p.m.

   COUNCIL MEMBERS ABSENT: None.

   STAFF MEMBERS PRESENT: Morgan Brown, City Manager; Anna Atencio, City Attorney; Justin Johnson, Deputy City Manager; Brad Provost, Police Chief; Bill Kopp, Public Works Director; Justen Tregaskes, Planning and Zoning Director; Lisa Robertson, Grants Manager; Steve North, Business Development; Shannon Adams, Grants Coordinator; Kathy Clements, Assistant City Clerk; and Rachael Hall, City Clerk.

   GUESTS: Dawn Wilson-Golden, Doug Roberts, Mike Clements, and others.

3. Presentation and Discussion Regarding Workforce Housing.

   Mr. North said housing costs continued to rise, and there was a lack of affordable options in Show Low. The focus of this presentation would be on workforce housing.

   Mr. North said the Department of Housing and Urban Development defined Market Rate Housing as households with income greater than 120 percent of Area Median Income (AMI). Workforce housing was defined as households with income from 60 percent to 120 percent of AMI. In Show Low, that would be $38,500.00 to $77,000.00 annually. Subsidized Housing was defined as households with income less than 60 percent of AMI.

   Mr. North said development incentives would be offered on available new, renovated, or repurposed housing projects specifically for the workforce as defined in the policy. These incentive options included an expedited review and permit processing, waiver of permit fees, and reimbursement of capacity fees. Other incentives included reimbursement of sales tax on construction, City assistance with infrastructure improvements with the approval of the Public Works Director, and flexible development standards - up to a ten percent variance with the approval of the Planning and Zoning Director. Some items would be contingent on available funds and program authorization.

   Mr. North said for a project to be eligible for the program, the project must comply with zoning, land use, building, and engineering requirements. The developer must provide documentation proving compliance with the policy before receiving incentives. He said the City reserved the right to approve, approve with conditions, or deny any request for incentives and code modifications.

Mr. North said all projects must be completed, sold or rented, and occupied within 18 months. Project sales prices or rents must be attainable for the workforce for ten years, and owners must submit an annual affidavit of proof of compliance. Projects would be prohibited from becoming short-term rentals for ten years.

Mr. North said the housing projects must be owned or rented by legal U.S. residents. One adult in the household must be employed full-time or full-time equivalent for ten years. The home must be occupied full-time and could not be sub-leased. The home must be owned or rented by people who do not own or have joint ownership in another home.

Mayor Leech asked to review the first slide. Mr. Brown said the first slide showed the lack of workforce housing in the City. In the past 11 years, only six permits were issued for 47 multifamily units.

Mayor Leech asked if the proposed policy was the City's incentive program and how the City would budget for it. Mr. Brown said waiving permit fees would not affect the budget. However, the capacity fees would impact the budget. The City would set aside funds in the budget to help fund this incentive.

Vice Mayor Kakavas asked if the City would reimburse or waive taxes. Mr. North said the City would collect taxes and only reimburse taxes once the developer qualified for the program.

Councilman Allsop asked which was more costly, permit fees or capacity fees. Mr. Tregaskes said capacity fees were almost three times the cost of permit fees.

Councilman Judd asked how the City would know if a developer passed on discounted rents to tenants and if this program applied to rental and home sales. Mr. North said this program applied to rental properties and home sales, and the developer would have to submit an annual affidavit to the City that showed they complied with the policy.

Mayor Leech asked what the City's recourse was when the developer was out of compliance and the housing unit was occupied. Ms. Atencio said the City would have to sue for breach of contract.

Councilman Allsop asked if the City could include in the program participant agreement language that stated that if a participant backed out of the program, they would need to pay the City a certain amount. Mr. Brown said as part of the application process, the City would spell out what the developer needed to do to participate in this program, and if the developer were to fall out of compliance, they would have to pay the City back for all costs.

Mr. Brown said the program made a lot of sense for multifamily housing. However, it could be more difficult for single-family housing. As part of the agreement for single-family housing, the City would need to include language stating the City would place a lien on the house for the ten-year compliance period in the event the house was sold for a large profit that did not comply with the workforce housing AMI. The lien would allow the City to be reimbursed for all costs incurred.

Vice Mayor Kakavas asked if the City could get a surety bond for the properties that become part of this program. Mr. Brown said staff could look into obtaining surety bonds for participating properties.

Councilman Adams asked if staff knew of other communities with workforce housing programs. Mr. North said he had looked at several workforce housing programs in communities around Arizona, and some were doing similar things to what the City was proposing, but none were doing the combination of items proposed in this policy.

Mr. Brown said Sedona had a payment assistance program for people who worked for the City. That was not included in Show Low's proposed policy. Cities and towns were doing a variety of things based on the community's needs and economics. The proposed policy was based on some of the things other communities were doing and what would be best for Show Low.

Vice Mayor Kakavas said she would like to ensure that the City Attorney and City Manager were involved in any decisions regarding this policy and exceptions that would be made. Mr. Tregaskes said Mr. North provided a 50,000-foot overview and that there were more details in the policy, specifically language that decisions would be made in consultation with the City Manager and/or City Attorney and that not just one person would be responsible for making decisions.

Mr. Brown asked Mr. Tregaskes to address the flexible development standards. Mr. Tregaskes said that regarding the flexible development standards, the City had allowances in the City Code for minor variances. This allowed for the approval of up to a ten percent variance for things like setbacks and parking.

Mr. Tregaskes said regarding eligibility and incentives, the City was not locked into giving developers everything the policy listed. The City reserved the right to approve, approve with conditions, or deny any request for incentives and code modifications.

Mayor Leech asked how the program would work for someone who needed to get a loan to develop a project. Mr. Tregaskes said this would work better for multifamily housing versus single-family housing. The developer could utilize the agreement with the City and present it to the lender to help reduce the loan amount needed, especially to show a reduction in capacity fees.

Vice Mayor Kakavas asked what the limits of subleasing were and if they applied to multiple families living under one roof. Mr. Tregaskes said the intent of the subleasing restriction applied if the original tenant were to move away and lease the housing unit to another party. It would not apply to multigenerational households.

Vice Mayor Kakavas asked if the City would consider the total of all home occupants' salaries or only the applicants. Mr. Tregaskes said staff had not yet gotten into that level of detail regarding which occupants' salaries would be calculated in the AMI formula.

Councilman Allsop asked if apartments with a shared common room and kitchen combination with individually rented bedrooms would qualify for this program. Mr. Tregaskes said Flagstaff used that model mostly for students. He said that type of housing had not been built in Show Low, and there was no demand for it. This policy was focused on workforce housing, so each unit would need to be a stand-alone living unit with its own bedroom or sleeping area, bathroom, and kitchen.

Councilman Hatch asked if the City would need to take an interest in insurance coverage in the event of loss. Mr. Tregaskes said insurance requirements were not part of the conversation staff had engaged in, and staff had not seen this requirement in other communities. He said if a developer made a significant investment in housing, they would want to protect it.

Councilman Hatch asked how an increase in property value and the sale of that property would affect compliance with the program. Mr. Tregaskes said that would be part of the agreement with the City. If a developer or homeowner sold the property within a certain time, they must reimburse the City costs. The City could not tell a person they were prohibited from selling their home.

Ms. Atencio said there was discussion about putting liens on participating homes for the ten-year period. If the owner sold the home within that ten-year period, they either needed to sell the home to someone who met the income baseline, or if they sold outside that income baseline, the City had a financial interest in what they were selling it for.

Councilman Clark asked if the City was considering changing the zoning code to allow for more multifamily housing in different areas, such as duplexes in single-family residential areas. Mr. Tregaskes said yes, staff looked at the zoning districts across the board to find changes. Some items being reviewed included changing C2 zoning, which allowed for duplexes but not caretaker apartments. The MH zone allowed for manufactured homes but not apartments, and apartments would not be that much of an additional burden on the infrastructure in those areas. Attached Dwelling Units were a permitted use, but these units could not be rented; staff was looking into removing this limitation. Detached guest units were allowed with a Conditional Use Permit. The City was considering reducing the lot size required to qualify for the Conditional Use Permit.

Councilman Clark said he would like to make sure the City was exploring ways to allow people to build duplexes or other housing options so they could live on a property and generate rental income. Mr. Tregaskes said that attached dwelling units allowed for a maximum of a 950-square-foot attachment or 25 percent of the area of the primary residence, whichever was greater.

Mayor Leech thanked staff for working on this project.

Mr. Brown said this policy would be a living document, and changes could be made as the program evolved.

4. Adjournment.

There being no further business to be brought before the Council, **MAYOR LEECH ADJOURNED THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL OF FEBRUARY 6, 2024, AT 6:48 P.M.**

ATTEST: Rachael Hall

Rachael Hall

APPROVED:

John Leech, Jr., Mayor

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Show Low held on February 6, 2024. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 20th day of February, 2024.

Rachael Hall

Rachael Hall