MINUTES OF THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, MARCH 18, 2025, 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 6:03 p.m.

2. Roll Call.

   COUNCIL MEMBERS PRESENT: Mayor Leech, Vice Mayor Kakavas (arrived at 6:07 p.m.), Councilman Adams, Councilman Clark, Councilman Hatch, Councilman Judd, and Councilman Whipple.

   COUNCIL MEMBERS ABSENT: None.

   STAFF MEMBERS PRESENT: F. Morgan Brown, City Manager; Anna Atencio, City Attorney; Justin Johnson, Deputy City Manager; Steve North, Economic Development Director; and Rachael Hall, City Clerk.

   GUESTS: Jim Hammett, Joseph Jarvis, Andrew Myers, and others.

3. White Mountain Advisory Group Proposed Workforce Housing Project Presentation.

   Jim Hammett of the White Mountains Advisory Group said he would provide an update on the Workforce Housing Feasibility Study and introduce Sustainability Partners, a funding group for the project. The market study was complete and showed a workforce housing deficit of approximately 900 units. He said the financials were being completed, and so far, nothing caused alarm.

   Mr. Hammett said they were here to present how Sustainability Partners could fund the project. He introduced Andrew Myers and his associate, Joe Yuhas.

   Mr. Myers said he wanted to talk about Sustainability Partners and their Infrastructure as a Service model and how it might be a solution for the City's workforce housing needs. Sustainability Partners was a public benefit company that worked with cities, towns, counties, universities, and school districts to fund infrastructure needs. He said Sustainability Partners provided a unique alternative to traditional financing. They could fund up to 100 percent of infrastructure projects, structuring the agreement as a utility use agreement or fee-for-service arrangement. The City would be paying for a service, so it would be an off-balance sheet mechanism to fund infrastructure projects. And in the case of affordable housing, it provided a unique solution.

   Mr. Myers said the challenges with workforce housing consisted of large capital burdens, limited credit and debt capacity, and competing needs and interests. Moving the needle on workforce housing required substantial capital investment, and the City had competing needs for bonding and debt capacity. In addition, planned capital projects could take time, introducing delays in meeting growing needs as construction and asset costs increase. He said since the pandemic, the longer the projects were delayed, the more costs increased.

Mr. Myers said Sustainability Partners was an alternative to debt financing. It was non-debt funding, which preserved the City's credit and debt capacity for other needs. Appropriately structured, it could be off the balance sheet without impacting the City's credit rating. Sustainability Partners could pay up to 100 percent of project costs or provide a local match for federal or state funding programs. He said use payments would be made from the operating budget, similar to a monthly utility bill. The usage fees were designed to be tied to revenue and could be structured to increase over time as revenue sources increased.

Mr. Myers said that regarding workforce housing, Sustainability Partners would endeavor to structure the deal so that the City would be cash flow positive on day one, or at least as close to cash flow positive on day one as possible.

Mr. Myers said the Sustainability Partners agreement was a simple ten-page agreement. The usage-based billing was aligned with the revenue sources with the option for the City to take ownership of the asset at any time. Part of the non-debt solution was that the agreement could be canceled with 30 days' notice. In the case of workforce housing, this was a powerful provision because the fee paid to take over the property would be pro-rated against the initial project cost, not against the project's fair market value at the time it was acquired.

Mr. Myers said, as an example, if a $30 million workforce housing project was built that had a 30-year useful life, and 15 years into the project, the City decided that they wanted to take over ownership of that property or wanted to turn it over to private development, Sustainability Partners would pro-rate the purchase against the initial project costs based on the remaining useful life. He said it would be 50 percent of the project cost that the City would pay at that 15-year mark. The appreciation for that property would be accrued to the City, not to a private developer or Sustainability Partners.

Mr. Myers said all the assets that Sustainability Partners funded were owned on paper. That was part of it being a non-debt solution. However, the City had complete operational control over any of the assets funded by Sustainability Partners. So, if Sustainability Partners were to fund standard municipal infrastructure, it would be operated the same way standard city-owned assets would be operated, but it would be owned on paper by Sustainability Partners. But at any time, the City could take over ownership.

Mr. Myers said Sustainability Partners did not have an exit plan related to this infrastructure. The whole concept of their model was that they would have a 50 to 100-year relationship with the City. They hold that infrastructure on paper from an ownership standpoint, but the City would control it operationally. Sustainability Partners could fund up to 100 percent of the development of a community, including design and engineering expenses, project management, installation, maintenance, long-term upgrades, and zero upfront costs for the City.

Mr. Myers said because they used a use-based agreement, the fees would not kick in until the property had been turned over and ready to be occupied. Sustainability Partners carried all the costs during the entire construction of the project. Once the tenants started moving in, they provided the revenue to meet the use fee agreement. He said Sustainability Partners could also put escalators in place. In some cases, it might make sense to provide housing at or below market rate or make that math work; it might make sense to include an escalator, something like two percent a year allowed for a lower initial monthly payment. The market rents would outpace the City's fee to Sustainability Partners. Rents would go up three, four, or five percent annually. The delta between what the City paid as a use fee agreement and what the rents the City collected would continue to grow. And all of that additional revenue would go to the City.

Mr. Myers said that, as a public-based company, their fees were flat. They charged 80 basis points annually for managing the project. There would be a cost of capital associated with the project as well, but the fee remained relatively flat throughout the life of the agreement. As rents increased, the City would be in a position to offer deeper and deeper subsidies on these properties, to provide incentives to essential workers, or to use it as a revenue-generating tool.

Mr. Myers said the City would have no capital outlay, could set rents at or below market rate, and had the potential to be cash flow positive in the near term, leaving a high return on investment for the City, especially with the ability to reacquire the property at a later time with all of the appreciation on that property accruing to the City and not to Sustainability Partners or a private developer. The City could dissolve the agreement at any time with 30 days' notice. The City could also dissolve the agreement and sell the community with full equity accruing to the benefit of the City.

Mr. Myers said that Sustainability Partners would also take on the maintenance responsibility for these assets. They kept a maintenance reserve fund in escrow to handle any maintenance issues. That was the City's money. It would be integral to the use fee agreement. If the agreement were canceled or the asset's useful life expended, that maintenance reserve fund would revert to the City.

Mr. Myers said Sustainability Partners funded many different types of infrastructure this way, and all the communities across Northern Arizona faced a similar situation. It was difficult to attract and retain essential workers, teachers, police officers, and firefighters. He said this model allowed communities to control their destiny and create a rent-controlled housing supply that could be made available to essential workers on a discounted, subsidized basis.

Councilman Adams asked if Sustainability Partners would sell off the agreement, forcing the City to work with another company. Mr. Myers said the program was structured with the ten-page master utility service agreement. Any project that was done would be an addendum to that agreement. Each project would be put into a special purpose vehicle, like its own corporate entity that the investor, Sustainability Partners, and the City were members of. If a larger company acquired

Sustainability Partners or were to go bankrupt, none of the terms would change. In the case of bankruptcy, the asset would revert to the City free of charge.

Vice Mayor Kakavas asked how many other projects like this had been developed. Mr. Myers said Sustainability Partners was active in about 20 states nationwide with over a billion dollars in assets under management. This was a relatively new model in Arizona. He and his partner Joe Yuhas had been talking to cities and towns for a little over a year in Arizona and rolling out the program.

Mr. Myers said they were piloting it primarily in the Southeast and the Hawaiian Islands. At this point, they were on the 40th addendum with the state of Hawaii, working with 12 different state agencies there. He said they were working with dozens of different communities across the Southeast. Many of the projects were cash flow positive. They sought to identify areas where revenue streams could be matched to the investment.

Mr. Myers said they had done many projects in areas like water meters, transitioning to the new AMI water meter systems, enhancing billing accuracy, and identifying leaks. One hundred percent of the water meter projects were cash flow positive on day one. He said workforce housing was a new vertical for the company, and they were pioneering it here in Arizona.

Mr. Myers said the first project would be built in Angel Fire, New Mexico, a resort community. They were building workforce housing for resort staff. That project would be on the ground by July of this year.

Mr. Myers said they had calls with Cottonwood and Payson about workforce housing and were exploring a project with the City of Flagstaff. Several communities across the state were talking about doing similar projects and were very interested in what was happening in Show Low.

Councilman Judd asked for clarification regarding the escalators. Mr. Meyers said the escalators would be built in, and an escalator on the use payment that the City would be paying. It was done this way to drive down the initial monthly payment. For example, if there was a target of $1,600.00 a month for a two-bedroom unit, but with the chosen product and the financing model, the numbers came in at $1,850.00 a month. A two percent escalator could be added to drive down that initial monthly payment to $1,550.00. Then, a two percent annual increase in that payment would be added. However, that could be advantageous because it allowed the City to make the project cash flow positive. A one- or two-percent annual escalator would be pretty safe, and below the annual market, rent increases across the area. It allowed the City to have a project that was cash flow positive on day one and then continuously moving forward. That was something the City would agree to beforehand.

Councilman Judd asked who controlled the rent rates. Mr. Myers said the City controlled the rents. The use fee agreement with the City would either be fixed or have a fixed escalator associated with it. The rent rate was a policy decision made by the City Council. If the use fee agreement was $1,600.00 per unit, then in year one, the rent charged was $1,650.00; in year two, $1,700.00, and ten years from now, $2,350.00 for that unit, all of that delta between those two numbers would be accruing to the benefit of the City. Sustainability Partners was taking the private developer out of the value chain. The appreciation on the property or rent was not accrued to a private developer. It accrued to the City's benefit, which could then be used to create incentives for essential workers and affordable housing.

Councilman Whipple asked if Sustainability Partners had any knowledge or experience with the private sector, complaining about cities' involvement in workforce housing projects. Mr. Myers said not thus far but every community was different. You could not have a community made up of retirees and second homeowners. There needed to be housing stock for essential workers to live and work within the community.

Mr. Myers said if the housing crisis eased 10 or 15 years down the road, and the City wanted to turn this property back over to the private market, it could be done on very advantageous terms and in a way that would be profitable for the City. Under the Sustainability Partners' model, that would be a policy decision that the City Council would make.

Vice Mayor Kakavas asked if the proposed housing comprised of stand-alone units or group housing. Mr. Myers said they could fund any concept. Mr. Hammett's group proposed a two-story apartment complex design with high-quality construction. Zenni Home was the identified manufacturer. They were based in Page but were building a new regional factory later this year. They utilized all steel frame construction with a long, useful life. This worked with the Sustainability Partners model as they amortized that cost over the useful life of the asset. It was an advantage to the City as well.

Mr. Myers said if the housing had a 40 or 50-year useful life, as opposed to a product with a 20 or 30-year useful life, the relative monthly payment on that unit would be substantially lower. Zenni Home was also highly motivated to get a project built and installed in this region as a showcase because they would be building a factory here. He said he thought the City was well-positioned to get a reasonably priced, high-quality product.

Councilman Clark asked how many units were planned for the development. Mr. Myers said 150 units were planned for the property.

Councilman Clark asked about the makeup of units. Mr. Myers said there would be a mix of two and three-bedroom units.

Councilman Clark asked what the project's total cost would be once it was built out. Mr. Myers said the total all-in cost would be between $35 and $40 million.

Councilman Judd asked if the amortization schedule was done. Mr. Myers said the amortization schedule had not yet been completed. They were in the process of evaluating what that financial model was going to look like. They were doing the underwriting process with Zenni Home. The amortization schedule was going to be in different buckets. The frame of the building would have a particular useful life. The appliances installed in the units would have a different useful life. It would be an aggregated number. He said Sustainability Partners would update the City as those numbers were developed.

Mayor Leech asked if Sustainability Partners provided the information for the housing units only and if the City was doing the infrastructure. Mr. Myers said most of the utilities had been stubbed out to the edge of the property. He thought a thousand feet of sewer line needed to be brought in. However, the infrastructure costs were relatively modest and were budgeted for within the number mentioned previously. Sustainability Partners' core business was doing core and super core infrastructure, things like water mains, sewer lines, wastewater, those types of projects. The infrastructure could be funded by the City, Sustainability Partners, or any combination of these.

Councilman Judd asked if White Mountains Advisory Group owned the property. Mr. Hammett said it was under contract and off the market, and once the City executed the development services contract, it would be assigned to the City.

Councilman Clark asked if the workforce housing study provided information on the market rent rate versus the workforce housing rate and if that was factored into financing the project. Mr. Hammett said the City's guidelines were between 80 and 120 percent, with average medium income (AMI) allocated at 30 percent of a tenant's income. For example, if someone made $1,000.00 monthly, their rent would be $300.00. The market rate for two and three bedrooms was about $1,700.00 to $2,000.00. He said there was a demand for about 900 units.

Councilman Clark asked hypothetically what the rent would be for a couple making approximately $100,000.00 a year for a three-bedroom apartment. Mr. Hammett said that under the City's current policy, the workforce rate was based on one income, not both, so only the qualifying income would be considered. He said the current starting teacher rate was $38,000.00, but the school district was looking into providing a housing stipend of $700.00 to $800.00 monthly. That was not yet approved, and the funds would come from the school district as part of their investment in education.

Mr. Hammett said if you put a couple in one of the workforce housing units with a qualifying salary of $60,000.00 a year, they would pay approximately $1,500.00 to $1,600.00 per month.

Councilman Clark asked if the City would need to make up the difference in that scenario. Mr. Hammett said it was not an even trade. The AMI could go up to 120 percent, so workforce housing would be a mix of incomes. They would balance that mix. For example, with the school district, if a teacher rented a unit, they would cover the difference with the stipend that the school district would provide.

Councilman Clark asked what the City would need to budget annually to ensure that the difference between rents coming in and usage fees going out was covered. Mr. Hammett said that number was being developed and would be presented at a later date.

Mr. Myers said that would be a policy decision for Council to make. Some of these units could be made available at market rate. There was no federal requirement for rents to be 80 to 120 percent AMI. There was an outside requirement of what the rents needed to be set at. Some of the units allocated to the hospital could be $2,200.00 a month, which would provide an internal subsidy within the project to the other units offered at a lower rate. There could be a lot of different ways to get the right numbers.

Mr. Myers said they were building an affordable, high-quality project and amortizing that project cost out over the useful life of the asset, providing the City with the per-door cost and the all-in monthly use fee—the tenant mix to cover that fee still needed to be determined. If the Council decided to provide some units substantially below market to attract teachers and police officers, that would be an allocation out of the City's operational budget to make up that delta. That would be a policy decision for the City Council to make.

Mr. Hammett said the City's current workforce incentive program only considered one salary for a project like this. It probably made more sense to look at both incomes using an aggregate of both, but that would be a policy decision.

Councilman Clark asked if, once the project was completed, the City decided to send a 30-day cancelation notice on a project that cost $40 million and was now valued at $45 million, would the City still need to pay whatever was in the agreement and the depreciated rate. Mr. Myers said the project would be pro-rated. If it were a $40 million project, it would be pro-rated against $40 million. Mr. Hammett did an excellent job of finding a supplier for the units that would have a substantial market value. The City could probably recoup its investment immediately on that property, especially a few years later when it's depreciated. The City would pay on a declining balance and have an appreciating asset. The City would be in a strong financial position.

Councilman Clark asked for confirmation that if the City sent a 30-day cancellation notice, it would be responsible for the totality of the value. Mr. Hammett said it was an incentive for the Council to be prudent in their decision and not to follow the person who wanted to sell or buy it back immediately. When private industry develops these projects, they did not make financial sense. They always end up with a deficit of anywhere from 25 to 40 percent negative cash flow over the cost of money and everything else. He said this model got the project on the books and got people in the units. It provided a safety net for the City and the other employers. This was an investment in workforce housing by the City, which would produce many benefits.

Mayor Leech asked how many units the feasibility study showed the City needed.

Mr. Hammett said the study showed just under 900 units for workforce housing. The housing study commissioned by the City considered everything and was much higher.

Councilman Whipple asked to hear what was being presented to the school district, the hospital, the college, and others.

Mr. Hammett said he was presenting the same information that was presented this evening. Their employees had a 30 percent allocation of their wages for workforce housing rent, and the employer would need to provide a stipend to cover the rest, whether it was the hospital, the school district, or the college. The hospital puts their traveling people up in hotels. This program would be an incentive for them to reduce costs. The school district was having difficulty recruiting teachers because of the housing situation. This would enable them to attract more young teachers to develop and invest in the school district. With the college, they could expand their nursing program by 40 students if they had a place for them to live.

Councilman Whipple asked if these other parties had been told the City was looking into this and what studies were being done. Mr. Hammett said he had told these other employers what was being worked on and that the City was making a commitment to workforce housing, but the project was in the due diligence phase.

Vice Mayor Kakavas asked if there was a point where renters moved on to other housing as their income increased. Mr. Hammett said the goal for workforce housing was to step up, whether their rent increased to market rate or they were doing well enough to buy a house. This project would be a foundation for upward mobility.

Councilman Clark asked how workforce housing worked with the Fair Housing Act and whether, from a legal aspect, this would conflict in any way with it. Ms. Atencio said this had been discussed in previous meetings, and as long as it was the Sustainability Partner's asset, it would relieve the City of some of the burden, but some requirements would still be necessary. All the repercussions had not yet been ferreted out.

Mr. Myers said the project would be owned by Sustainability Partners and managed by a private entity being made available as a service to the City. Research on this issue still needed to be done. The City should be able to make a policy decision on who the tenants would be because it was paying for a service from a private entity instead of it being city-owned.

Councilman Clark said the Council, as a legislative body, would be making decisions about who could and could not live in the units and that the Council could ultimately be liable for that as the policymakers. The City would be utilizing the property, dictating and governing who could reside there based on the Council's policy decision.

Mr. Hammett said there was income-regulated housing throughout the nation, and part of the income regulations had been vetted. More discriminatory actions and things of that nature would violate the Fair Housing Act.

Councilman Clark asked about the next steps. Mr. Hammett said the feasibility study must be completed and presented to the Council for approval.

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 MARCH 18, 2025, AT 6:45 P.M.**

ATTEST: Rachael Hall

Rachael Hall, City Clerk

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 March 18, 2025. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 1st day of April, 2025.

Rachael Hall

Rachael Hall, City Clerk