# AGENDA ITEM or FINAL CONTRACT REVIEW SUBMITTAL FORM

**Agenda Item:** Resolution; Amending the Workforce Housing Linkage

**Action Requested:** Board of County Commissioners' Signature

**Parties to the Agreement:**

**Term Begins:** **Term Ends:** **Grant Contract #:**

**Summary:**

Update and amendment to the methodology for calculating Workforce Housing Linkage Fees

**Fiscal Impact:**

**Submitted by:** Neal Starkebaum **Submitter's Email Address:** nstarkebaum@gunnisoncounty.org

**Finance Review:** (●) Required ( ) Not Required

Comments:
No concerns, ln

Reviewed by: GUNCOUNTY1\lNienhueser Discharge Date: 6/22/2018

**County Attorney Review:** (●) Required ( ) Not Required

Comments:
ok db 6/29/18

Reveiwed by: GUNCOUNTY1\dBaumgarten Discharge Date: 6/29/2018 Certificate of Insurance Required Yes ( ) No (●)

**County Manager Review:**

Comments:

Reveiwed by: GUNCOUNTY1\mbirnie Discharge Date: 6/29/2018

( ) Consent Agenda (●) Regular Agenda ( ) Worksession Time Allotted: 10

Agenda Date: 7/3/2018

*Revised April 2015*

Gunnison County Community
Development Department
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June 19, 2018

**TO:** **Board of County Commissioners**
**Matthew Birnie, County Manager**
**David Baumgarten, County Attorney**

**FROM:** **Cathie Pagano, Director**
**Neal Starkebaum, Assistant Director**

**SUBJECT:** **Update to Workforce Housing Linkage Fees**

Please find the attachments:

RRC Associates Report – *Gunnison County Workforce Housing Linkage Fees Update*
BOCC Resolution
Exhibit A – Excel Document - *Steps to Updating the Workforce Housing Linkage Fee and Workforce Housing Linkage fees.*

# GUNNISON COUNTY WORKFORCE HOUSING LINKAGE FEES UPDATE

***Prepared by RRC Associates***
***May 1, 2018***

## Introduction

RRC Associates of Boulder, CO was retained by Gunnison County to assist with an update to the County's workforce housing linkage fees. The fees, originally adopted in 2006, are levied on qualifying commercial and residential construction.[1] The objective of the fees is to fund the development of workforce housing, and thus help satisfy the employee housing demand generated by new development.

It is recommended that the linkage fee rates be updated periodically in order to accurately reflect changes in market conditions. This report walks through the key data inputs to the linkage fees and incorporates more current data as available and warranted to update the fees.

## Organization of the report

This report is divided into sections which address each of the data inputs to the workforce housing linkage fees. Additionally, the final section of the report illustrates the resulting fee levels under sample development scenarios, and includes comparisons to the existing fee levels. The report sections address the following topics:

1. Commercial development job generation rates (i.e. jobs generated by occupants of commercial space).
2. Residential development employee generation rates (i.e. full-time equivalent employees associated with the maintenance and operations of residences).
3. Multiple job holding rates (to convert from jobs associated with commercial development to employed persons).
4. Employees per household ratio (to convert the number of employees to households, i.e. housing units demanded).

[1] Empirical support for the fees adopted in 2006 was provided by the report, "Gunnison County Nexus/Proportionality Analysis for Commercial and Residential Linkage Fee Programs," March 2006, Rees Consulting / RRC Associates.

5. "Affordability gap" per unit (i.e. the difference between what targeted households can afford to pay and the market price for housing).
6. Supportable mitigation rate (based on the share of Gunnison County households earning less than 80% of the area median income).
7. Resulting fee levels, with calculation examples and comparisons to current fees.

In addition to this written report, an Excel spreadsheet has been provided under separate cover which can be used by the County to calculate commercial and residential workforce impact fees under the existing and updated fee calculations.

## 1. Commercial development job generation rate

RRC Associates and Rees Consulting have conducted housing needs assessments and nexus studies in mountain resort communities in Colorado, Idaho, and Wyoming. As part of these studies, public- and private-sector employers have been surveyed concerning the number of jobs they have and the amount of floor space they occupy. These surveys have been used to compile a database of commercial job generation ratios, which are expressed as the number of total jobs (full and part time combined, not FTE) per 1,000 square feet of space.

Based on results from 2,850 surveyed employers currently included in the database, the median job generation rate is 3.3 jobs per 1,000 square feet of commercial space. This calculation excludes outliers that are at least two standard deviations above or below the mean job generation rate. This job generation rate is above the 2.9 jobs per 1,000 square feet that is used in the current fee program, and reflects the inclusion of additional employers.

**Table 1. Commercial Job Generation Rate: Proposed vs. Current**

| Proposed | Current |
|---|---|
| 3.3 jobs / 1000 sqft | 2.9 jobs/1000 sqft |

Source: RRC Associates / Rees Consulting multi-community commercial job generation database.

## 2. Residential development job generation rate

RRC Associates and Rees Consulting have conducted homeowner surveys at mountain resorts in CO, ID and WY to understand the number and type of jobs associated with the maintenance and operations of residential homes. These surveys have been used to compile a database on residential job generation rates.

As documented in the 2006 Gunnison County Nexus Study and as shown in Table 2 below, the number of full-time equivalent employees (FTEs) tends to rise in an exponential relationship to the square footage of the home. The formula derived from this relationship is currently used in Gunnison's residential linkage fee program to estimate residential employment generation.

Since the 2006 study, with the emergence and/or growth of Airbnb and other short-term rent-by-owner platforms, there is reason to believe that employment requirements associated with the operation and maintenance of residential homes has increased (e.g. via increased housekeeping and property management services to homes rented short term). We do not have data which accurately reflects the effect that such changes may have had in markets such as Gunnison County. Absent a firm basis to make a change, we would recommend keeping the residential job generation formula unchanged for homes up to 8,000 square feet in size, while acknowledging that it may be conservative in light of this market shift.

**Table 2. Residential Job Generation Rate, for Homes up to 8,000 Square Feet (where y=FTEs and x=square footage)**

| Proposed | Current |
|---|---|
| $y = 0.0893e^{0.0003x}$ | $y = 0.0893e^{0.0003x}$ |

Source: RRC Associates / Rees Consulting multi-community residential job generation database.

For homes in excess of 8,000 square feet, we propose shifting to a linear employment generation formula instead of the existing exponential formula, based on additional detailed review of employment generation rates of homes in the database in excess of 8,000 square feet. The proposed formula, illustrated in Table 3 below, results in more moderate estimates of employment generation for homes in excess of 8,000 square feet.

**Table 3. Residential Job Generation Rate, for Homes in Excess of 8,000 Square Feet (where y=FTEs and x=square footage)**

| Proposed | Current |
|---|---|
| y = 0.0000807039*(x-8000) + 0.984369650791295 | $y = 0.0893e^{0.0003x}$ |

Source: RRC Associates / Rees Consulting multi-community residential job generation database.

## 3. Multiple jobholding rate

The commercial job generation rate discussed above is used to calculate the number of jobs (both full-time and part-time) generated by new development. To convert jobs into employees, it is necessary to account for multiple jobholding, which tends to be prevalent in mountain resort communities.

The county's commercial linkage program currently utilizes a factor of 1.10 jobs per worker, based on Gunnison County 2009/10 job and labor force counts, when the area was in the midst of a recession. We would recommend using a more current factor of 1.24 jobs per worker, based on a resident survey conducted as part of the 2016 Gunnison Valley Housing Needs Assessment, when economic conditions were more robust. We believe the 1.24 jobs per worker factor may be more representative of current conditions.

**Table 4. Average Number of Jobs per Employee**

| Proposed | Current |
|---|---|
| 1.24 | 1.10 |

Source: 1.24 jobs/employee: 2016 Gunnison Valley Housing Needs Assessment. 1.10 jobs per employee: Gunnison County, based on 2010 job counts per Colorado State Demographer and 2009 worker counts per US Census – American Community Survey.

## 4. Employees per household

Employees often live together in family and unrelated roommate households. As such, the number of employees generated by a project should be divided by the average number of employees per household to convert to the number of households generated.

The county's residential linkage fee program currently utilizes an employees per household factor of 1.65, based on the results of a resident survey conducted in 2009 as part of the 2009 Gunnison County Housing Needs Assessment. The commercial linkage fee program uses a factor of 1.60 employees per household (likely reflecting a subsequent calculation).

More recently, the 2016 Gunnison Valley Housing Needs Assessment found that there are 1.77 employees per unit on average in the Gunnison Valley portion of the county. This higher figure likely reflects a combination of job growth since 2009 and an increasingly tight housing market, which may be leading to increased crowding. It may also reflect a somewhat different employment environment in the Gunnison Valley area as compared to the rest of the county.

Consideration has been given to continuing to use the 2009 figure of 1.65, as representing a more desirable, less crowded housing condition, as well as a figure which applies countywide (rather than in the Gunnison Valley specifically). However, for purposes of this update, the 2016 figure of 1.77 has been chosen for conservatism and because it is the most current available factor.

**Table 5. Employees per Household (in households which have employed persons)**

| Proposed | Current |
|---|---|
| 1.77 | 1.65 (residential linkage)<br>1.60 (commercial linkage) |

Source: 1.77 employees per household: 2016 Gunnison Valley Housing Needs Assessment. 1.65 employees per household: 2009 Gunnison County Housing Needs Assessment. 1.60 employees per household: calculated by Gunnison County.

## 5. Housing affordability gap

The difference between prevailing market prices and what targeted low-income households can afford to pay for housing is the housing affordability gap.

For purposes of calculating the affordable purchase price, Gunnison County's linkage fee programs benchmark to a two person household earning 50 percent of the Area Median Income (AMI). Based on data from HUD, the income for this targeted household is currently $28,500, up from $26,450 in 2012. The affordable monthly housing payment is assumed to be 30 percent of gross income, or $712.50. This payment can currently buy a home worth $103,039, assuming 80 percent of the monthly housing payment goes to principal and interest (20 percent to taxes and insurance), a 5 percent down payment, and a 30 year mortgage at an interest rate of 5.73 percent (up from 4.5% in 2012).[2] The affordable purchase price of $103,039 is down from $110,291 in the current residential fee structure, with the cost of a higher interest rate outweighing the benefit of higher income.

For purposes of calculating the market price, an average housing unit size of 850 square feet is assumed, based on the County's objective of producing a variety of housing units for multiple types of households. This is multiplied by the current average market price of housing per square foot of $270, which is the based on sales of single-family, condominium and townhome units of up to 1,700 square feet in Gunnison County in 2017.[3] This cost is up slightly from $261/sqft in the current fee calculations.

The affordability gap, or the difference between the market cost and the affordable purchase price, is calculated to be $126,461 currently, up from $111,559 in the current fee framework.

**Table 6. Affordability Gap**

| Factor | Proposed | Current | Source |
|---|---|---|---|
| Income -- 50% AMI, 2 person HH | $28,500 | $26,450 | HUD income limits FY 2017 |
| Affordable monthly payment (30% of income) | $712.50 | $661.25 | |
| Share of payment going to principal/interest | 80% | 80% | |
| Share of payment going to taxes/insurance | 20% | 20% | |
| Mortgage interest rate (30 year) | 5.73% | 4.50% | Bankrate.com/RRC Assoc. |
| Affordable price (with 5% down) | $103,039 | $110,291 | |
| Market price per sqft | $270 | $261 | Gunnison Co. Assessor/RRC |
| Unit size (sqft) | 850 | 850 | |
| Market price per unit | $229,500 | $221,850 | |
| **Affordability Gap/Fee in Lieu per Unit** | **$126,461** | **$111,559** | |

[2] The 5.73% interest rate is based on the average 30-year mortgage interest rate of 4.73% as of April 25, 2018 (as accessed at https://www.bankrate.com/mortgages/analysis/), plus 1 percentage point (assuming many target borrowers don't receive the best rate).

[3] Outliers (sales costing less than $100 or more than $700 were per square foot) were removed. Additionally, the calculation excludes non-arms-length transactions and sales of mobile homes, summer residences (typically not heated or insulated enough to be occupied in winter), apartments, condotels, and deed-restricted units. A total of 289 usable sales remained for calculation purposes.

## 6. Supportable mitigation rate

The supportable mitigation rate is the maximum amount of employee housing demand generated by new development that can be mitigated by the imposition of linkage fees. The mitigation rate is equivalent to the share of households in Gunnison County which earn 80 percent of AMI or less, which is 43.5 percent in the current fee system (and rounded down to 40 percent for conservatism).

Using the most current available figures from HUD, a similar 44.7 percent of households earn 80 percent of AMI or less, which rounds down to an identical 40 percent.

**Table 7. Employees per Household (in households which have employed persons)**

| Item | Proposed | Current |
|---|---|---|
| Share of Gunn. Co. HH's earning ≤ 80% AMI | 44.7% | 43.5% |
| Supportable mitigation rate (rounded down by Gunnison Co. to accommodate margin for error) | 40% | 40% |

Source: Proposed: HUD CHAS 2010-14 data. Current: 2009 American Community Survey (ACS) and other Census data. The Mitigation rate is rounded down at discretion of Gunnison County.

## 7. Fee-in-lieu calculation examples

To determine the number of workforce housing units that commercial, residential or mixed-use projects must produce, and the fee that can be charged in lieu of producing the units, the following approach is used:

- The number of employees is calculated based on the size of the project by applying the appropriate job generation formulas. (In the case of commercial development, the formula outputs jobs, which must be converted to employees by dividing by average jobs per employee.)

- The number of new employees is then divided by the average employees per household to estimate the number of new households generated by the project.

- The housing mitigation rates, expressed in a percentage and approved by the Board of County Commissioners, are applied to the total number of households generated to determine the number of units required. The mitigation rate is currently 1% for commercial development. For residential development, the mitigation rate is 5% for units 500-2,000 square feet in size, then rises at a linear rate to 40% for units which are 4,000 square feet, and finally plateaus at 40% for units larger than 4,000 square feet.

- The fee-in-lieu is calculated by multiplying the units required by the affordability gap per unit.

Table 8 to follow illustrates fee-in-lieu calculations for a 1,000 square foot commercial or industrial development. The current fee rate is $1,785 per 1,000 square feet of development, while the proposed fee rate is $1,901 per 1,000 square feet.

**Table 8. Illustrative Fee-in-Lieu Calculation: Commercial/Industrial Development**

| Calc. | Factor | Proposed | Current |
|---|---|---|---|
| 000 | Example: 1000 sqft building | 1,000 | 1,000 |
| x | Jobs / 1000 sqft | 3.3 | 2.9 |
| = | Jobs generated | 3.30 | 2.90 |
| / | Avg jobs per employee | 1.24 | 1.10 |
| = | Employees generated | 2.66 | 2.64 |
| / | Avg employees per HH | 1.77 | 1.60 |
| = | Households generated | 1.50 | 1.65 |
| x | Affordable housing mitigation rate | 1% | 1.06% |
| = | Mitigation units required | 0.015 | 0.0175 |
| x | Affordability gap per 850 sqft unit | $126,461 | $102,000 |
| **=** | **Fee in lieu** | **$1,901** | **$1,785** |

Similarly, Table 9 to follow illustrates fee-in-lieu calculations for a 4,050 square foot residential home. The current fee rate for a home of this size $8,140, while he proposed fee rate is $8,601.

**Table 9. Illustrative Fee-in-Lieu Calculation: Residential Development**

| Calc. | Factor | Proposed | Current |
|---|---|---|---|
| | Example: 4,050 sqft home | 4,050 | 4,050 |
| | FTEs generated | 0.301 | 0.301 |
| / | Avg employees per HH | 1.77 | 1.65 |
| = | Households generated | 0.170 | 0.182 |
| x | Mitigation rate | 40% | 40% |
| = | Units required | 0.0680 | 0.0730 |
| x | Affordability gap per 850 sqft unit | $126,461 | $111,559 |
| **=** | **Fee in lieu** | **$8,601** | **$8,140** |

**BOARD OF COUNTY COMMISSIONERS**
**OF THE COUNTY OF GUNNISON, COLORADO**

**RESOLUTION NO: 2018-__**

# A RESOLUTION AMENDING THE WORKFORCE HOUSING LINKAGE FEES

**WHEREAS**, the Board of County Commissioners of the County of Gunnison, Colorado (hereinafter the "Board") amended the *Gunnison County Land Use Resolution* and enacted a Workforce Housing Fee (also known as the "Linkage Fee") on June 13, 2006 through Resolution No: 06-44; and

**WHEREAS**, the Board amended certain portions of the Workforce Housing Fees, by resolution or motion, on March 4, 2008 and April 1, 2008 and June 2, 2009 and February 21, 2012; and

**WHEREAS**, the Board intends to adopt the methodology of calculation for updating the Workforce Housing Linkage Fee, as identified in the report titled *Gunnison County Workforce Housing Linkage Fees Update*, prepared by RRC Associates, dated May 1, 2018 and the Excel document titled *Steps For Updating the Workforce Housing Linkage Fees and Workforce Housing Linkage Fees*; and

**WHEREAS**, the Board determines that such update and amendment to the fee structure is in the best interest of the community; and

**NOW THEREFORE, BE IT RESOLVED** by the Board of County Commissioners of the County of Gunnison, Colorado that:

1. The amended Workforce Housing Linkage Fees, as identified in the Excel document titled *Steps For Updating the Workforce Housing Linkage Fees and Workforce Housing Linkage Fees* attached hereto and incorporated herein as "Appendix A", is hereby is adopted.

2. The Community Development Department shall update the Workforce Housing Linkage Fees, using the adopted calculation methodology, by the end of May, annually.

**INTRODUCED** by Commissioner _____, seconded by Commissioner _____, and adopted on this ____ day of _____, 2018.

**BOARD OF COUNTY COMMISSIONERS**
**OF GUNNISON COUNTY, COLORADO**

| | | |
|---|---|---|
| _____ | _____ | _____ |
| Phil Chamberland, | Jonathan Houck, | John Messner, |
| Chairperson | Commissioner | Commissioner |

**ATTEST:**

_____

**Gunnison County Clerk and Recorder**

# STEPS FOR UPDATING THE WORKFORCE HOUSING LINKAGE FEES AND WORKFORCE HOUSING LINKAGE FEES

**This spreadsheet can be used to update the Gunnison County affordability gap per unit on an annual or other periodic basis.**
See Table 1 and enter numbers where shown to update affordability gap.
It can also be used to calculate Gunnison County fees-in-lieu for commercial development, new residential units, and residential additions
See Tables 2 - 4 for these calculations.
To calculate the fees, enter the square footage where shown in the respective tables. The resulting fees are shown at the bottom of each table.

## 1. Calculation of affordability gap per unit:

| Factor | 2018 | Update Information |
|---|---|---|
| **1) Calculation of affordable price:** | | |
| Gunnison County 50% AMI, 2 person HH | $28,500 | Enter data here (HUD) |
| Affordable monthly hsg payment (30% of income) | $712.50 | |
| Share for property tax & mortgage insurance | 20% | |
| Share for mortgage principal & interest | 80% | |
| Affordable mortgage paymt (principal & interest) | $570.00 | |
| Mortgage term (years) | 30 | |
| Mortgage term (months) | 360 | |
| Annual mortgage interest rate | 5.73% | Enter data here (Bankrate.com +1%) |
| Monthly mortgage interest rate | 0.4775% | |
| Principal paid over life of the loan | $97,887 | |
| Down payment as a share of purchase price | 5% | |
| **Affordable purchase price** | **$103,039** | |
| | | |
| **2) Calculation of market price:** | | |
| Avg sales price per sqft (2018: units <= 1700 sqft, between $100 - $700/sqft only) | $270 | Enter data here (Assessor) |
| Assumed square footage of affordable unit | 850 | |
| **Market price per unit** | **$229,500** | |
| | | |
| **3. Affordability gap per affordable unit (market price minus affordable price)** | **$126,461** | |

# STEPS FOR UPDATING THE WORKFORCE HOUSING LINKAGE FEES AND WORKFORCE HOUSING LINKAGE FEES

## 2. Calculation of commercial fee-in-lieu:

| Calc. | Factor | 2018 |
|---|---|---|
| /1000 | **Enter square footage here:** | **1,000** |
| x | Jobs / 1000 sqft | 3.3 |
| = | Jobs generated | 3.300 |
| / | Avg jobs per employee | 1.24 |
| = | Employees generated | 2.661 |
| / | Avg employees per HH | 1.77 |
| = | Households generated | 1.504 |
| x | Affordable housing mitigation rate | 1% |
| = | Mitigation units required | 0.015 |
| x | Affordability gap per 850 sqft affordable unit | $126,461 |
| = | **Fee in lieu:** | **$1,901** |

## 3. Calculation of residential fee-in-lieu for a NEW project:

| Calc. | Factor | 2018 |
|---|---|---|
| | **Enter square footage here:** | **5,000** |
| | Employment generation formula for <=8000 sqft homes (y=FTEs; x=sqft) | $y = 0.0893e^{0.0003x}$ |
| | Constant | 0.0893 |
| | Exponent | 0.0003 |
| | Employment generation formula for 8000+ sqft homes (y=FTEs; x=sqft) | y = 0.0000807039*(x-8000) + 0.984369650791295 |
| = | Employment generated | 0.400 |
| / | Employees per household | 1.77 |
| = | Households generated | 0.226 |
| x | Mitigation rate | 40.00% |
| = | Affordable units required | 0.090 |
| x | Affordability gap per 850 sqft affordable unit | $126,461 |
| = | **Fee in lieu:** | **$11,438** |

# STEPS FOR UPDATING THE WORKFORCE HOUSING LINKAGE FEES AND WORKFORCE HOUSING LINKAGE FEES

*Explanation of approach: The fee-in-lieu of an addition is calculated based on the incremental additional square footage added to a home. The calculations below calculate this incremental fee by comparing the fees-in-lieu that would charged on two hypothetical homes: 1) a new home equal in size to the existing subject home, and 2) a new home equal in size to the subject home after the addition has been*

## 4. Calculation of residential fee-in-lieu for an ADDITION:

| Calc. | Factor | 2018 |
|---|---|---|
| | **Enter EXISTING sqft of subject home (BEFORE addition):** | **8,000** |
| | **Enter sqft of subject home AFTER addition is completed:** | **9,000** |
| | Employment generation formula for <=8000 sqft homes (y=FTEs; x=sqft) | $y = 0.0893e^{0.0003x}$ |
| | Constant | 0.0893 |
| | Exponent | 0.0003 |
| | Employment generation formula for 8000+ sqft homes (y=FTEs; x=sqft) | y = 0.0000807039*(x-8000) + 0.984369650791295 |
| | **Step 1: Calculate <u>hypothetical</u> (not actual) fee-in-lieu associated with unit BEFORE addition** | |
| = | Employment generated | 0.984 |
| / | Employees per household | 1.77 |
| = | Households generated | 0.556 |
| x | Mitigation rate | 40.00% |
| = | Affordable units required | 0.222 |
| x | Affordability gap per 850 sqft affordable unit | $126,461 |
| = | Fee-in-lieu | $28,132 |
| | **Step 2: Calculate <u>hypothetical</u> (not actual) fee-in-lieu associated with TOTAL SQFT of unit AFTER addition** | |
| = | Employment generated | 1.115 |
| / | Employees per household | 1.77 |
| = | Households generated | 0.089 |
| x | Mitigation rate | 40.00% |
| = | Affordable units required | 0.252 |
| x | Affordability gap per 850 sqft affordable unit | $126,461 |
| = | Fee-in-lieu | $31,872 |
| **=** | **Fee-in-lieu (step 2 minus step 1):** | **$3,740** |