



City of Ketchum

CITY COUNCIL MEETING AGENDA MEMO

Meeting Date: Staff Member/Dept:

Agenda Item:

Recommended Motion:

No action. Staff is bringing an analysis of the housing fee-in-lieu to the City Council for direction on recommending an update and preparing a fee resolution for review and approval at a future meeting.

Policy Analysis and Background (non-consent items only):

Introduction and History

The City of Ketchum adopted Ordinance 994 in 2006 establishing a community housing density bonus incentive which provided for an increased floor area ratio (FAR) in exchange for community housing. Changes have been made to the original requirement and Ketchum Municipal Code (KMC) Section 17.124.040 reflects the current standards. An applicant may satisfy the community housing requirement in different ways. One way is to contribute a housing in-lieu fee. Under KMC 17.124.040.B.2.c, the in-lieu fee shall be recommended by the governing housing authority **on an annual basis** and adopted by the City Council. The last fee update occurred in 2021 and went into effect in January 2022. Prior to that update, the last fee update occurred in 2016.

The purpose of the density bonus incentive “is to encourage new development to include a reasonable supply of affordable and resident occupied workforce housing for sale or rent, to help meet the demand and needs for housing of the community's employees.” A project may exceed the permitted FAR within the city’s Community Core (CC-1 and CC-2), Tourist (T, T-3000, and T-4000), and General Residential – High Density (GR-H) zone districts subject to review and approval of the project design by the Planning and Zoning Commission.

Projects taking advantage of the increased FAR must provide a certain square footage of community housing per the calculation outlined in KMC 17.124.040 or KMC 17.124.050 for hotels. The requirement may be satisfied by one or a combination of the following:

- Provide community housing on-site
- Construction of community housing off-site, within the city limits
- Acquisition of existing housing stock subject to City approval
- Land conveyance to the city
- Pay a fee-in-lieu of community housing

In-lieu fees are calculated using a dollar per square foot rate. In-lieu fee payments are required prior to issuance of the building permit for the project.

2021 Fee Update

The current in-lieu fee is \$450 per square foot, which was raised from the rate of \$238 per square foot established in 2016. However, the fee per square foot that BCHA and staff calculated and recommended using the existing fee methodology during the 2021 update was \$603. At the time of review in 2021, the City Council concluded that, due to the lapse in time since the last update (2016), the housing fee-in-lieu should be set at approximately 75% of the recommended rate.

The 2021 update followed the process below:

July-October 2021	Staff and BCHA conducted market research and a peer cities analysis to aid in updating the current rate adopted in January 2016
October 1st 2021	Draft information package sent to the development community for feedback, announcing City Council meeting on October 18th
October 18, 2021	City Council meeting to discuss revised fee – council requested additional information including a 5-year trend analysis, sensitivity analysis for key assumptions, and an example project
November 18, 2021	City Council meeting to review additional information and provide direction to staff. City Council determined: <ul style="list-style-type: none"> • That existing methodology and using all sales for median market rate purchase price would be retained for fee update. • Provided direction to host a Community Workshop where open dialogue can occur between council and stakeholders to better understand concerns and receive feedback on final assumptions
December 13, 2021	Community Workshop for discussion with the community and provide direction to staff on next steps
December 20, 2021	Staff presents fee resolution to City Council recommending housing in-lieu fee of \$450 per square foot. City Council approves update with effective date of January 1, 2022.

2021 Methodology Analysis

BCHA has used the same general methodology for determining the in-lieu fee since 2015. The methodology is not based directly on the cost of construction of housing units, but instead is a gap analysis between the cost of market rate housing in Ketchum and what a Category 4 household can reasonably afford. During the 2021 fee update, BCHA and staff assessed the fee methodology and numeric assumptions for the City of Ketchum against eight jurisdictions in Colorado, Wyoming, and Idaho. Subsequently, staff, the City Council and the community reviewed many of the numeric inputs in the methodology, and staff provided a sensitivity analysis of adjustments to the assumptions. Based on this analysis, BCHA and staff ultimately recommended retention of the existing fee methodology, with changes to the following assumptions:

- *Target Community Housing Unit Size.* The 2016 fee was set using a target community housing unit size of 1,250 square feet. This number was not generated through a review of existing deed restricted units but seen as an industry standard at the time. Staff and BCHA calculated the average unit size for all for-sale units in the City of Ketchum, resulting in a median unit size of 908 square feet. Staff were supportive of using the revised square footage of 908 rather than the initial 1,250 square feet as it is based on existing data (median unit size) which can be updated over time using established information.

- *Interest Rate.* The 2016 fee was set using a flat interest rate of 6.5%. In October 2021, staff and BCHA recommended using a 20-year average interest rate, rather than a flat rate. Feedback from the development community indicated a 5-year average interest rate is more realistic provided the fee is updated more regularly. Staff and BCHA were supportive of using a 5-year interest rate as the rate will be based on published interest rates and can be updated based on established information.
- *Administrative fee.* BCHA recommended increasing the administrative fee to 15% from the 10% used in 2016. Staff was supportive of this increase as administrative and soft costs associated with development of housing are often 20% of construction costs. BCHA recommended the increase in consideration of the escalation in administrative costs for the city, BCHA, or future community housing developers to construct and manage community housing units.

Recommended Update

BCHA and staff have analyzed the updated market data (September 2022 – August 2023) necessary to update the fee-in-lieu. BCHA first reviewed the fee based on the latest recommended assumptions from the 2021 process (described above). Using the recommended assumptions from the 2021 process, the fee-in-lieu would increase to \$830, an 84% increase from the current rate of \$450 (and a 38% increase from the originally recommended update of \$603).

Staff and BCHA next looked at the key numeric inputs contributing to the proposed rate:

- *Market Rate Median Price per Square Foot.* With the significant rise in home sale prices in 2022 and 2023, the market median price per square foot in Ketchum in the study period increased to \$938. This is up 43% from the price used in the 2021 analysis (\$658).
 - o During the 2021 update process, some community members questioned the use of all Ketchum market sales data for the purpose of determining the fee-in-lieu, arguing that the highest end luxury homes are so expensive per square foot that they are not valid for comparisons for community housing development costs. While staff and BCHA have argued that the use of medians in these calculations helps to eliminate these outliers, in this year’s analysis BCHA and staff analyzed the price per square foot if units are excluded that have more than 3 bedrooms, as existing community housing units range in size from studio to 3 bedrooms and the needs assessment determined that there isn’t substantial need for units with more than 3 bedrooms. With this adjustment to the input data, the market median price per square foot is \$864, a 31% increase from the 2021 figure.
 - o Consistent with this change, staff and BCHA also recommend updating the inputs for the monthly HOA dues analysis to be limited to Studio to 3 Bedroom units. This results in a slight increase from \$432 to \$439, but both analyses reflect a significant increase in HOA costs since the 2021 analysis (\$312).
- *Target Square Footage for Community Housing.* During the 2021 process, staff and BCHA recommended shifting the target size from 1,250 sf to the median size of existing community housing units. In the latest analysis, median community housing unit size decreased from 908 sf to 817 sf since 2021. Staff continues to support this approach.
- *5 Year Average Adjusted Interest Rate.* Due to the recent increases in interest rates, the adjusted 5-year average (which includes the average interest rate of 2023 through August) is 4.34%. At the time of the 2021 calculation, interest rates were still at historic lows. The current 5-year average interest rate does not reflect the reality of current interest rates, but it does represent diminished purchasing power for borrowers, adding to the affordability gap and higher fee calculation.
 - o Staff and BCHA recommend continuing to use the 5-year average adjusted interest rate, as recommended by the development community during the 2021 update process.

Based on the above recommended adjustments from staff, the 2023 fee-in-lieu would be \$747/square foot. This represents an adjustment of 66% from the current \$450, and 23% from the proposed 2021 rate of \$603.

Next Steps

Staff recognize that there needs to be a larger overhaul of the density bonus program – specifically with (1) the equation that determines how much floor area needs to be dedicated to community housing, (2) the requirement for only category 4, rather than category 4 being an average or using another mechanism to achieve an income mix among units and (3) removing the staff, council, and developer burden of negotiating the type of community housing units during every FAR Exceedance Agreement approval. To that end, staff are adding a general program update to the workplan timed with Comprehensive Plan density discussions. In the short term, staff can proceed with proposing changes to #2 above regarding mixed incomes, which would be processed with the Planning and Zoning Commission’s input.

In the meantime, staff recommend moving forward with a fee resolution to update the fee-in-lieu to the new fee of \$747 (or another number that the Council is comfortable with). This requires a public hearing with two weeks of public notice, which could be scheduled for the next Council meeting on November 6.

Sustainability Impact:

None OR state impact here: None.

Financial Impact:

None OR Adequate funds exist in account:

Increasing the community housing fee-in-lieu may increase the balance of the City of Ketchum in-lieu fund, however this is dependent on whether developers elect to build housing or pay the fee-in-lieu.

Attachments: None