Participate

From: bob@sunvalleyrealtors.org
Sent: Monday, December 4, 2023 12:00 PM
To: Neil Bradshaw; Courtney Hamilton; Jim Slanetz; Michael David; Amanda Breen
Cc: Participate
Subject: Fee-in-lieu Considerations and Alternatives

Mayor and Ketchum City Council:
This fee-in-lieu calculation may seem simple on its surface, however there are multiple alternatives, all with logical rationale for use, that can be utilized within the existing calculation methodology when determining the correct fee-in-lieu amount to maximize the housing and economic benefits to the City of Ketchum. In the following comments, we will summarize our analysis, and then add additional detail in support of our recommendation.

The majority of scenarios modelled by the City's consultant proved that building according to the provisions of Ordinance 1249 would not be financially feasible. If today's actual market conditions were utilized in the consultant's analyses, all scenarios modelled by the consultant would be infeasible. Any increase in the fee-in-lieu payment will only increase the degree of infeasibility, and increasing the fee-in-lieu by the recommended 65% will be the straw that breaks the back of our construction economy in Ketchum, and could likely prevent local non-real estate business owners from improving their property for the benefit of their businesses. Furthermore, if applications to construct mixed use buildings continue to drop, the primary goals of interim ordinance 1234 and permanent ordinance 1249 (increase the quantity of housing units regardless of cost, and increase downtown vitality) cannot be achieved. In an environment like this, the City should be looking for ways to increase feasibility, not to further reduce it.

To put the $741 recommended FIL amount into perspective, when it is multiplied by the approximately 1,167 square feet of community housing requirement that results from a 2.25 F.A.R. development on a single 5,500 square foot Ketchum lot, the City is seeking to collect an $864,747 fee-in-lieu from each project. The negative impact on feasibility, and potentially on the City's goals for downtown Ketchum, is obvious.

We have done extensive work analyzing the components of the fee-in-lieu calculation, which work we have discussed at length with staff, including a 1.5 hour conversation last Friday. Without changing the methodology of how the fee-in-lieu ("FIL" below) calculation is derived, we have provided alternatives that you could, or should, choose to utilize that would reduce the amount of the fee-in-lieu from the recommended $741 per square foot of required community housing area, **to $521 per square foot**, a $220 per square foot, or 30%, reduction. It is then within your purview, as you have done previously, to select some significantly lesser number than this reduced upper limit in recognition of the overriding economic factors outlined below. For example, choosing to use 85% of the revised FIL of $521 equates to a FIL of $443 per square foot.

These are the alternative inputs we suggest for use in the existing methodology. They are explained more fully below. As a result of our discussion, I believe staff agrees with our mathematical calculations of the impact of these alternatives, although obviously not with our suggestion that they should be used, leaving you to decide which inputs are most appropriate in furtherance of your housing and economic policy goals:

Summary of Alternatives and Resulting Reduction to FIL per Square Foot:
Use AMI based income limits: **-$23 per SF**
Use Ketchum Family Size to Determine Correct Income Limits: **-$47 per SF**
Use Appropriate Analysis Sample Size to Reflect Real Purchase Conditions: **-$70 per SF**
Eliminate Arbitrary Administrative Fee: **-$97 per SF**
Total Reduction: -$237 per SF (%)

Note: The total (-$237) reduction resulting from using individual alternative inputs in the existing methodology exceeds the combined reduction in FIL stated in paragraph two above (-$220) because as alternative inputs are utilized the amount of the administrative fee (15% of the total affordability gap per square foot) drops in proportion to the drop in affordability gap resulting from using the alternative inputs.

Probable Economic Impacts of Choosing a new FIL over $450 per Square Foot:

1. $741 per square foot exceeds the cost to construct a community home as part of a mixed use project, ensuring that either projects will not go forward at all because this higher FIL cost makes the entire project more infeasible, or if the project proceeds, the community housing units will be built on site. While some on-site community housing construction is desired, having no contributions to the housing fund because it is the more expensive alternative reduces the City's capacity to contribute to the funding of larger affordable housing projects (Bluebird Village, 1st and Washington, etc.), which projects supply more affordable homes more quickly than the quantity resulting from on-site construction.
2. If enacted, due to the 65% increase in FIL amount, development proposals will either i) stop altogether save for owner/user developments with lower or non-existent ROI requirements, as already infeasible conditions as acknowledged by the City's consultant are made worse by a significantly increased FIL, or ii) development will occur at 1.0 F.A.R. or less so that project sponsors can avoid the FIL payment and the minimum residential density requirements of Ordinance 1249. The negative economic impacts on both the public (less property tax revenue) and private sectors, on jobs, housing, and vitality, for decades looking forward, are obvious should this come to pass.
3. At the last TAG meeting, a ratio analysis over time was presented by a TAG member that analyzed the market rate cost for residential units downtown relative to the then existing FIL amount. This analysis showed that a market price for residential top floor units of $3,000 per square foot would be necessary to support the recommended FIL cost and equate the $741 FIL amount to the historic ratio between the FIL and market price. Even if this analysis is approximate, it highlights the reality that if development costs increase, those increased costs must be passed on to buyers or projects will not go forward as financial feasibility is reduced or eliminated. What little economic diversity there is in Ketchum housing will be further reduced if this occurs.

Cyclicality in Construction Costs will not Sufficiently Offset Infeasibility:
We are advised that assuming that financial infeasibility is a short term problem that will correct itself through reduced cyclical construction and development costs is an incorrect assumption. While there could be some moderation in interest rates in coming years, it is unlikely that the major components of construction cost (labor and materials) will reduce sufficiently to improve feasibility, if at all. Any possible change in land costs resulting from existing landowners' desire to sell due to their unwillingness to invest in Ketchum because of high development costs are also insufficient to materially affect feasibility, as the amount of likely change in land pricing is a relatively small percentage of overall construction costs. In summary, any future change in construction and development costs not controlled by the City are unlikely to offset the finding of development infeasibility, which finding is only worsened by an increase in FIL costs. Again, in order to achieve its housing and vitality goals, the City should be looking for ways to improve development feasibility, not to further reduce it.

Thank you for your consideration of these comments. We respectfully ask you to determine that this is not an appropriate time to increase the fee-in-lieu, and to review this decision in one year, and every year thereafter, to ensure that the correct balance between the cost of development and the City's goals is maintained.

Thank you,

Bob Crosby
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ADDITIONAL DETAIL SUPPORTING FIL CALCULATION INPUTS:

1. **Income Limits.** The $741 fee-in-lieu recommendation is derived by using of BCHA's income limits table to determine what a community home purchaser can afford (the *Target Affordable Purchase Price* on the worksheet). Unfortunately, the BCHA table is NOT based on Ketchum's Area Median Income, rather it is based on an adjusted set of income limits that HUD calculates in support of its programs for Very Low Income and Low Income (HUD's terms) families. Ketchum's fee-in-lieu calculation is meant to establish the gap between what a hypothetical community housing purchaser can afford based on the BCHA category the family represents, as determined by how its earnings compare to the Area Median Income, not some adjustment to the Area Median Income as is represented now by the recommended FIL amount. Utilizing the true Area Median Income based income limit table would result in **a reduction of the recommended FIL of $23 per square foot**.
2. **Household versus Family Size.** Staff presently uses the American Community Survey ("ACS" below) estimate of Ketchum's median household size rounded to the nearest whole number to determine which set of income limits from the BCHA table to use to determine the Target Affordable Purchase Price. The most recent estimate for this value is 2.31 people per household resulting in staff using a 2 person household to determine the income limit input. The ACS most recent estimate for Ketchum's median family size is 2.83 people per family, which, if used, when rounded up to 3 persons would result in a higher income limit being used to calculate the Target Affordable Purchase Price. For the record, I have no idea how HUD defines the difference between household and family. It is to you to decide whether the most appropriate measure for this calculation is Ketchum's household, or family, size. If you determine that family size should be used, the result would be **a $47 per square foot reduction** in the FIL. For what it's worth, to add further confusion as to which input is appropriate for this calculation, HUD's term for what we refer to as Area Median Income is Family Median Income.
3. **Analysis Sample Size:** We think that the FIL calculation would be improved by limiting the analysis sample to those homes that would actually be considered by a community home purchaser, or a body seeking to financially assist a community home purchaser, with ample cushion included to ensure that even the most expensive homes likely to be considered are included. With the 3 bedroom median purchase price in Ketchum during the analysis period being $1,860,000, and only 3 out of 26 properties in the 3 bedroom category being under $1,000,000, it is clear that none of these properties would be a viable purchase option for a community home purchaser, as it is extremely unlikely that the affordability gap could ever be funded. However, the 2 bedroom median purchase price is almost $1 million lower at $885,000 and 18 of the 25 properties in the 2 bedroom category are priced under $1,000,000, making this tranche of properties a much more reasonable upper limit for a community home buyer and therefore calculation of the FIL. Furthermore, the median purchase price for the combined set of studio, 1 bedroom, and 2 bedroom homes is $649,000, establishing this combined data set of 41 properties as the most appropriate for this purpose. The 41 sales within the one year analysis period shows that there is more than enough supply within this up-to-two-bedroom tranche to provide for all probable community housing purchase transactions. Utilizing 2 bedrooms homes as the upper limit for the analysis sample size in recognition that it includes all properties and more that would ever be considered for a community housing purchase **would reduce the FIL by $70 per square foot**.
4. **Administrative Fee:** This is an arbitrary amount that has no place in the FIL calculation, which calculation is meant to provide the difference between a community home purchaser's target affordable purchase price and the market price for an appropriate home, no more and no less. It is not derived from real estate market data used to determine the affordability gap (the purpose of this exercise), and frankly more closely resembles an arbitrary tax on development activity. Furthermore, the staff report states that it is collected to fund the soft costs of future development, which costs the department does not, and will not incur. As evidenced by Bluebird Village and 1st and Washington, when developing community housing the City partners with an entity that has development expertise, and it is those entities which bear the responsibility and necessity to incur soft costs as part of the development they agree to provide in exchange under those partnership agreements. It is outrageous given these circumstances that for every 1,000 square feet of community housing for which the FIL is paid, the City would collect a $97,000 fee without having to document that it is actually incurring costs of a similar amount. **Eliminating the administrative fee would reduce the FIL by $97 per square foot.**
5. **Timeline:** Similar to the logic of using the 5 year average interest rate to provide a FIL amount that is absent mortgage rate market aberrations, it would be reasonable to smooth out the pandemic impact on local real

estate prices by using a similar calculation of the median purchase price over a longer period that would include periods both before and after the pandemic influenced pricing surge. For the purpose of the FIL we would suggest using the same period to calculate median purchase prices as is being used for the interest rate (5 years). **Reduction in FIL $TBD depending on agreed analysis timeline.**

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