



City of Ketchum
City Hall

October 18, 2021

Mayor Bradshaw and City Councilors
City of Ketchum
Ketchum, Idaho

Recommendation to update the City of Ketchum Community Housing In-Lieu Fees

Recommendation and Summary

Staff is recommending the council evaluate the information provided by the Blaine County Housing Authority (BCHA) and staff and adopt the following motion increasing the City of Ketchum fee-in-lieu for community housing from \$238 to \$607:

"I move to approve the updated community housing in-lieu fees in the amount of \$607 per square foot and to include the fee in Fee Resolution 21-015 with an effective date of January 1, 2022."

The reasons for the recommendation are as follows:

- The current in-lieu fee has not been updated since 2016.
- The methodology for calculating the fee has remained the same and BCHA has updated the fee calculation factors.
- An updated fee reflects current market conditions and results in additional funds for the production of community housing units.
- Compared with eight jurisdictions in Colorado, Wyoming, and Idaho, the City of Ketchum methodology is consistent with most peer resort communities

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 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

The methodology for applying the fee is established by ordinance in KMC 17.124.040.B.2.a and b. 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. The current in-lieu fee is \$238.00 per square foot. As part of this update, BCHA and staff assessed the fee methodology and numeric assumptions for the City of Ketchum against eight jurisdictions in Colorado, Wyoming, and Idaho (See Attachment D). Based on this evaluation, BCHA and staff recommend retention of the existing fee methodology, with changes to two assumptions, as discussed below.

In early October 2021, staff distributed an information package to the development community for review and comment. This information package included a memo from BCHA outlining the draft in-lieu fee payment of \$646 (Attachment A). During final review of the in-lieu fee proposal, staff and BCHA found an error in the calculation for the Affordable Price Per Square Foot. The correct in-lieu fee is \$607, not \$646.

Analysis

An update to the fee began in late 2019 and was delayed due to COVID and permitting activities. The update resumed in July 2021. BCHA conducted market research and data analysis and city staff reviewed materials from other jurisdictions and conducted phone interviews with their staff. Of the eight jurisdictions contacted, two do not provide in-lieu fees as an option for community housing mitigation. Telluride and Jackson/Teton County jurisdictions limit the use of in-lieu fees to fractional amounts after on-site or off-site units have been provided.

Methodology

Since 2015 BCHA has used the same methodology for determining the in-lieu fee. Based on the evaluation of other jurisdictions, and the determination of BCHA and staff, no changes are being recommended to the methodology. See Attachment B for the 2016 BCHA Memo on in-lieu fees.

Assumptions

As outlined in the September 28th memo from BCHA (Attachment A), all assumptions used in the methodology remain the same and have been updated using current fiscal year data, except for two:

- Interest rate used for Target Affordable Purchase Price
- Administrative fee for construction of community housing units

BCHA recommended an interest rate of a 20-year rolling average as published by Freddie Mac. Staff and BCHA received feedback from the Sun Valley Board of Realtors that an interest rate of a 5-year rolling average as published by Freddie Mac would be more appropriate. BCHA evaluates this recommendation in a memo issued on October 13, 2021 (Attachment C). In review of peer resort communities, the data set for interest rate is varied between the 20-year average and a single point interest rate at the time of fee update, depending on jurisdiction. Changing the interest rate from a 20-year average to a 5-year average would reduce the recommended in-lieu fee from \$607 to \$584 per square foot.

BCHA also recommends an administrative fee of 15%, an increase to the 10% fee used in 2016. Staff supports this increase as administrative and soft costs associated with development are often 20% of construction costs. BCHA is recommending an increase in administrative costs to 15% considering the escalation in administrative costs for the city, BCHA, or future community housing developer to construct and manage community housing units.

Staff and BCHA received comments expressing concern for the abrupt increase in fee and the potential impact on future development. Staff and BCHA acknowledge that by not increasing the fee on an annual basis, a more abrupt increase results depending on market conditions. Staff and BCHA do not believe the fee to be prohibitive to development altogether, but will cause the development community to think more creatively about how the community housing requirements for projects can be met through means other than paying the in-lieu fee.

Effective Date of New Fee

The city has multiple development applications in process with the Planning and Building Department. In-lieu fees are paid prior to issuance of a Building Permit but are calculated as part of the planning approvals. Changes to the in-lieu fee may have an impact on projects that are in the process as development proposals have considered the current fee. The Council has three options:

- A. Apply the updated fees to all projects that have not obtained an exceedance agreement or building permit. As of September 30, 2021, this approach would apply to three projects at various stages of the review process.
- B. Exempt all projects that have filed complete planning applications but have not yet obtained a building permit. This approach would not impact any projects currently in the process.
- C. Adopt the in-lieu fee with an effective date of January 1, 2022.

Staff recommends option C as it provides clarity to the development community for future planning purposes without impacting projects that are currently in the planning process.

Conclusion

After considering all variables and assumptions, staff and BCHA recommend adoption of a fee-in-lieu rate of \$607.00 per square foot effective January 1, 2022.

Sustainability

Adoption of the proposed rate does not inhibit the City of Ketchum's ability to implement the 2020 Ketchum Sustainability Action Plan.

Financial Impact

Increasing the fee-in-lieu from \$238.00 per square foot to \$607.00 per square foot 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

- A. September 28, 2021 BCHA In-lieu fee recommendation memo
- B. 2016 BCHA In-lieu fee recommendation memo
- C. October 13, 2021 BCHA In-lieu fee recommendation memo
- D. Peer Resort Jurisdictions Comparison

Attachment A:
September 28, 2021
BCHA In-Lieu Fee
Recommendation Memo

MEMORANDUM

To: Suzanne Frick,
City of Ketchum,
Planning Director

From: Nathan Harvill,
Blaine County Housing Authority,
Executive Director

Date: 28 September 2021

Re: 2021 Housing In Lieu Fee Schedule and Update

The City of Ketchum adopts a housing in lieu fee schedule upon recommendation from the Blaine County Housing Authority in consultation with City staff. The current in lieu fee was adopted in 2016 using a methodology adopted by the City in 2015. The overall goal of the in lieu fee is to incentivize developers to include a Community Housing component in those developments which exceed the City's Floor Area Ratio (FAR) standard. Developers may elect to pay a fee to the City in lieu of inclusion of Community Housing in the development.

Target Affordable Home Price

The methodology recommended is based upon an affordability gap as identified by aggregating the 12-month median of housing sales in Ketchum and comparing those numbers to the HUD standard of affordability for a two-person household, as published by HUD each April. BCHA uses the mid-point of Income Category 4 (80% to 100% of AMI) to determine an affordability in the "middle" of the Income Category to aggregate an affordable price. This is done to make the "Target Affordable Purchase Price" available to more households within an Income Category without disproportionately benefiting households at the higher end of the Category (i.e. price set at the bottom of the Income Category) or penalizing households at the lower end of the Income Category (i.e. price set at the top of the Income Category).

Changes discussed between BCHA and staff include a more accurate representation of the Adjusted Interest Rate when calculating affordability. Previously, a set interest rate of 6.5% was used. The impact of using a higher assumed interest rate is a lower overall target affordable purchase price, which gives opportunities to a greater number of households for purchase while also setting a baseline of affordability that can withstand additional fluctuations in interest rates and other market forces. BCHA and staff felt a more accurate interest rate based upon a rolling average of 20 years, as published by Freddie Mac, better reflects the reality of interest rates over the term of an expected

occupancy in the Community Housing Unit and is in keeping with the standard used in other resort communities. The current 20-year average on a 30-year fixed mortgage is **4.85%**. This number is incorporated into the table that follows.

Target Affordable Purchase Price
(Ketchum In-lieu fee)

BCHA Income Category No.	3	4	5
Area Median Income	61% - 80%	81% - 100%	101% - 120%
Max. Annual Income (2 person HH, 2021 Income Limits)	\$48,000	\$60,000	\$72,000
Gross Monthly Income (Income Category Limits)	\$4,000	\$5,000	\$6,000
Targeted Monthly Income (Income Category Midpoint)	\$3,500	\$4,500	\$5,500
Affordable Monthly Housing Costs (30% of gross)	\$1,050	\$1,350	\$1,650
Utilities, Taxes & Insurance (15% of Gross Housing Costs)	\$158	\$203	\$248
HOA Dues (Ketchum median*)	\$312	\$312	\$312
Mortgage Payment Amount (Housing Costs, minus Utilities/Taxes/Insurance, minus HOA Dues)	\$581	\$835	\$1,091
Twenty Year Adjusted Average Interest Rate	4.85%	4.85%	4.85%
Max. Mortgage (30-year Term)	\$110,028	\$158,266	\$206,694
Down payment (3%)	\$3,301	\$4,748	\$6,201
Target Affordable Purchase Price	\$113,329	\$163,014	\$212,895

Market Rate Price

The 12-month *median* price of all homes sold in Ketchum is **\$1,085,000**. During that same interval, the *average* price was **\$1,661,408**. The median price is a more accurate measure as it insulates the data from influence by outliers in sales price.

Size of Units and Price per Square Foot

The median size of units sold in Ketchum over the last 12-month span is **1,697** livable square feet with a median price of **\$658 per square foot**. To accommodate for the large median home size, the City and BCHA established a median target of **1,250** square feet for Community Housing Units.

Administrative Fees

The administrative fees reflect that a developer, in choosing to pay the fee in lieu of onsite Community Housing, is passing administrative and soft costs associated with

developing that housing over to the City or a future Community Housing developer. Additionally, BCHA and staff discussed the administrative fee and up found that a 15% administrative fee would be appropriate and consistent with standards employed by other resort communities in the Mountain West region. The calculation in the table below incorporates a 15% Administrative Fee.

In Lieu Fee Calculation Table

Using the data above as its basis, BCHA recommends adoption of an in lieu fee payment of **\$646** per square foot in accordance with the City's existing ordinances related to the development of Community Housing. BCHA's recommended in lieu fee schedule is calculated in accordance with the table below:

City of Ketchum In-lieu Fee Calculation Worksheet <i>(Affordability Gap Method)</i>	
Market Rate Median Price*	\$1,085,000
Market Rate Median Size (Livable sq. ft.)	1,697
Market Rate Median Price per Square Foot*	\$658
Affordable Purchase Price	\$163,014
Affordable Price Per Square Foot	\$96
Affordability Gap (Purchase Price)	\$921,986
Affordability Gap (Price per Livable sq. ft.)	\$562
Administrative Fee (15%)	\$84
2021 Payment In-lieu (per sq. ft.)	\$646
*SVBOR Sold Data FY 2021	

Cordially,



Nathan S. Harvill,
Executive Director,
Blaine County Housing Authority



Attachment B:

2016

BCHA In-Lieu Fee

Recommendation Memo



February 8, 2016

To: Micah Austin, Planning Director
Re: 2016 Housing In-lieu Fee

Each year the City of Ketchum adopts a housing in-lieu fee based on recommendations from the Blaine County Housing Authority. The current in-lieu fee was adopted in January of 2015. In 2015 BCHA developed and recommended a methodology, adopted by the city, for determining an in-lieu fee in the City of Ketchum based on the affordability gap in the city. Our recommended in-lieu fee for 2016 follows.

2016 Target Affordable Home Price

(Ketchum In-lieu fee)

BCHA Income Category Area Median Income	2 < 60%	3 61% - 80%	4 81% - 100%	5 101% - 120%
Max. Annual Income (2 person HH, 2015 Income Limits)	\$37,800	\$50,400	\$63,000	\$75,600
Gross Monthly Income	\$3,150	\$4,200	\$5,250	\$6,300
Targeted Monthly Income		\$3,675	\$4,725	\$5,775
Affordable Monthly Payment (30% of gross)		\$1,103	\$1,418	\$1,733
Utilities, Taxes & Insurance (15%)		\$165	\$213	\$260
HOA Dues (Ketchum median)		\$288	\$288	\$288
Mortgage Payment Amount		\$649	\$917	\$1,185
Max. Mortgage (6.5%, 30 years)		\$103,000	\$145,000	\$187,500
Down payment		\$2,500	\$5,000	\$10,000
Target Affordable Purchase Price		\$105,500	\$150,000	\$197,500

Market-rate Price

The 12-month rolling average of the median price of all homes sold in Ketchum is \$610,000. The average price over the same time period is \$945,820. We use the median price because it is less influenced by abnormally large or small sales.

Size of Units and Price per Square Foot

The median size of units sold in Ketchum in the last twelve months is 1,812 square feet and the median price per square foot is \$336. To account for the relatively large median home size, we set a median target of 1,250 square feet for homes for the workforce.

Administrative Fees

By making a payment in-lieu of providing housing, a developer passes the administrative costs as well as the other soft costs associated with development to the city or the community housing developer. The city should consider adding an administrative fee to compensate for these soft costs. We use 10% in our recommendation. Soft costs are typically estimated to be 20% of the total cost of development.

City of Ketchum In-lieu Fee Calculation Worksheet <i>(2016 Affordability Gap Method)</i>	
Market Rate Median Price*	\$612,500
Target Median Size (sq. ft.)	1,250
Market Rate Median Price per Square Foot*	\$336
Affordable Purchase Price	\$150,000
Affordable Price Per Square Foot	\$120
Affordability Gap	\$462,500
Affordability Gap (per sq.ft.)	\$216
Administrative Fee (10%)	\$22
2016 Payment In-lieu (per sq.ft.)	\$238
*SVBOR InfoSparks Jan 2016, 12 month rolling ave.	

Respectfully Submitted,



David Patrie
Executive Director

Attachment C:
October 13, 2021
BCHA In-Lieu Fee
Recommendation Memo

MEMORANDUM

To: Suzanne Frick,
City of Ketchum,
Planning Director

From: Nathan Harvill,
Blaine County Housing Authority,
Executive Director

Date: 13 October 2021

Re: 2021 Housing In Lieu Fee Schedule and Update (Amended)

As a supplement to the original memorandum of September 28 and in consideration of further discussions with staff and stakeholders, I would like to provide additional information to the City of Ketchum as it discussed adopting a revised housing in lieu fee schedule. As previously discussed, the current in lieu fee was adopted in 2016 using a methodology adopted by the City in 2015. The overall goal of the in-lieu fee is to incentivize developers to include a Community Housing component in those developments which exceed the City's Floor Area Ratio (FAR) standard. Developers may elect to pay a fee to the City in lieu of inclusion of Community Housing in the development.

Target Affordable Home Price

While the methodology recommended is based upon an affordability gap as identified by aggregating the 12-month median of housing sales in Ketchum, staff and BCHA were questioned about the base line of a 2-person household. We have noted that new American Community Survey data show an estimated household size of 2.43 persons within the city of Ketchum and which is the basis of rounding our household estimates to 2 persons, using the HUD standard of affordability, as published by HUD each April. BCHA still recommends using the mid-point of Income Category 4 (80% to 100% of AMI) to determine an affordability in the "middle" of the Income Category to aggregate an affordable price. This rationale is explained in further detail in the September 28 memorandum.

Changes discussed between BCHA and staff include a more accurate representation of the Adjusted Interest Rate when calculating affordability. In the prior memo, BCHA and staff felt a more accurate interest rate based upon a rolling average of 20 years, as published by Freddie Mac, better reflects the reality of interest rates over the term of an expected occupancy in the Community Housing Unit and is in keeping with the standard used in other resort communities. After consultation and further discussion with

stakeholders, we thought a fairer assessment of the interest rates could be the 5-year average on a 30-year fixed mortgage (given that 5 years have elapsed since the last review of the City's in lieu fees), the 5-year adjusted average is currently **3.69%**. This number is incorporated into the updated table that follows.

BCHA Income Category No.	3	4	5
Area Median Income	61% - 80%	81% - 100%	101% - 120%
Max. Annual Income (2-person HH, 2021 Income Limits)	\$48,000	\$60,000	\$72,000
Gross Monthly Income (Income Category Limits)	\$4,000	\$5,000	\$6,000
Targeted Monthly Income (Income Category Midpoint)	\$3,500	\$4,500	\$5,500
Affordable Monthly Housing Costs (30% of gross)	\$1,050	\$1,350	\$1,650
Utilities, Taxes & Insurance (15% of Gross Housing Costs)	\$158	\$203	\$248
HOA Dues (Ketchum median*)	\$312	\$312	\$312
Mortgage Payment Amount (Housing Costs, minus Utilities/Taxes/Insurance, minus HOA Dues)	\$581	\$836	\$1,091
Five Year Adjusted Average Interest Rate	3.69%	3.69%	3.69%
Max. Mortgage (30-year Term)	\$126,260	\$181,723	\$237,186
Down payment (3%)	\$3,788	\$5,452	\$7,116
Target Affordable Purchase Price	\$130,048	\$187,175	\$244,302

Market Rate Price

There was a question from a stakeholder with regard to the baseline of the market price comparison. Previously, the standard unit of measure has been the 12-month *median* price of all homes sold in Ketchum, which is **\$1,085,000**. It was brought to our attention that the sale of luxury homes have potential to skew the median price, thus widening the parameters of the median.

While compelling, the goal of the in-lieu fee incentive and the community housing exceedance program is to reflect the open market in Ketchum and correspond it to the purchase price that a typical local household could afford, given the resources available to them. The reality is that world-wide competition for limited real property resources will consequently drive up the price. The market will seek to create the highest and best use of a parcel, and currently, as in the past, that trend has been toward high priced housing that is promoted worldwide and is beyond the reach of the local population. The goal of an in lieu fee is to find an amount that would close this gap for a local buyer of a given property, in the event that a developer is unable or unwilling to provide that local housing within a proposed development.

Administrative Fees

Further discussion was had concerning the purpose of administrative fees. As stated in memoranda from our predecessors at both BCHA and City of Ketchum Planning, these administrative fees reflect that a developer, in choosing to pay the fee in lieu of onsite Community Housing, is passing administrative and soft costs associated with developing that housing over to the City or a future Community Housing developer. To further clarify, this fee is for delivery of the initial development of Community Housing off site from a proposed development, including the vetting of proposals wishing to access in lieu funds and guidance through the approval process beyond simply collecting and disbursing the funds.

Recommended Community Housing Size

In the past, the recommended size for Community Housing Units was set at **1,250** by BCHA's and City of Ketchum Planning Department predecessors. In the September 28 memorandum, The in-lieu fee was calculated using the median square footage at market (1,697), rather than the Community Housing recommended square footage of 1,250. This error is also corrected in the calculation below.

In Lieu Fee Calculation Table

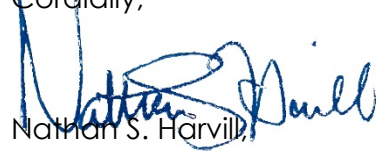
Using the new data above as its basis, BCHA offers a different consideration for the Council and Mayor that includes an alternative in lieu fee payment of **\$584** per square foot in accordance with the City's existing ordinances related to the development of Community Housing (Using the Household size of 2, the 5-year average adjusted interest rates, and target of 1,250 recommended square footage as as baselines). This alternate in lieu fee schedule is calculated in accordance with the table below:

City of Ketchum In-lieu Fee Calculation Worksheet (Affordability Gap Method)	
Market Rate Median Price*	\$1,085,000
Market Rate Median Size (Livable sq. ft.)	1,697
Market Rate Median Price per Square Foot*	\$658
Affordable Purchase Price	\$187,175
Recommended Community Housing Unit Sq. Footage	1,250
Affordable Price Per Square Foot	\$150
Affordability Gap (Purchase Price)	\$897,825
Affordability Gap (Price per Livable sq. ft.)	\$508
Administrative Fee (15%)	\$76
2021 Payment In-lieu (per sq. ft.)	\$584

Future Review

Finally, BCHA recommends an annual review of the in-lieu fee to take place during the month of April or as soon after the new Income Limits are published by HUD and adopted by BCHA. Additionally, BCHA recommends a meeting with stakeholders and staff to look at further discussions related to a potential calculation of in lieu fees and/or inclusionary Community Housing as a part of exceedance agreements that are more project-specific to achieve more accurate analysis. BCHA is willing and able to participate in these future policy discussions, as needed and requested by the City.

Cordially,



Nathan S. Harvill,
Executive Director,
Blaine County Housing Authority



Attachment D:

Peer Resort Jurisdictions
Comparison

Comparison: Assumptions for Target Affordable Purchase Price			
The chart below compares the assumptions used to generate the Target Affordable Purchase Price for the City of Ketchum in 2016 with the Peer Resort Jurisdiction's assumptions for Target Affordable Purchase Price.			
Assumption	2016 City of Ketchum Assumption	Data Input for City of Ketchum Assumption	Peer Resort Comparison
Income Category	Category 4	Annual income data issued by HUD in April each year	Data input is consistent, income category target varies by community
Household Size	2-person household	Average household size based on census data	All communities use average household size of the jurisdiction, except for Jackson/Teton CO
Percent of Income to Housing	30% of gross annual income	Affordable Housing Best Practice	All communities use 30% except for Jackson/Teton CO
Utilities/Taxes/Insurance	15% of housing cost	Estimate based on market conditions	All communities include utilities/taxes/insurance at an estimate based on local market data
HOA fees	Median from all sales	MLS Transaction Data	All communities include HOA dues at varying levels based on transaction data
Term of Loan	30-year fixed	Affordable Housing Best Practice	All communities use a 30 year fixed rate mortgage
Interest Rate	6.50%	Estimate based on market conditions	Most communities use an average of posted interested rates over a set period of time. Jackson/Teton CO is the only other community with a set interest rate.
Down Payment	3%	Estimate based on market conditions	Most communities use a 3-5% down payment assumption. Eagle County assumes 10% but have received recent feedback that the assumption is too high. Amount is dependent on loan product and individual circumstances

Peer Resort Jurisdictions: Detail								
The chart below provides the detail of each jurisdiction and the assumptions use for fee-in-lieu of community housing.								
	Mechanism	Cash-in-lieu Methodology	Target Affordable Purchase Price Assumptions					
			% of Income	Mortgage Term	Household Size	Interest Rate	Down Payment	Admin Fee
Ketchum, ID	Incentive - Density Bonus	Free Market Affordability Gap	30%	30 year fixed	Average Household Size	5 year average	3%	15%
McCall, ID	Incentive - Density Bonus	N/A	No cash-in-lieu option					
Vail, CO	Impact Fee	Free Market Affordability Gap	30%	30 year fixed	Average Household Size	7%	5%	
Eagle County, CO	Impact Fee	Free Market Affordability Gap	30%	30 year fixed	Average Household Size	30 year average	10%	15%
Steamboat Springs, CO	N/A	N/A	No cash-in-lieu option					
Jackson/Teton CO, WY	Impact Fee	Free Market Affordability Gap	22%	30 year fixed	Unit size and employees per household	20 year average	5%	0%
Telluride, CO	Impact Fee	Blended Method	Methodology Varies					
Pitkin County, CO	Impact Fee	Free Market Affordability Gap	30%	30 year fixed	Average Household Size	Current year - updated annually	5%	10%
Aspen, CO	Impact Fee	Blended Method	Methodology Varies					