



## PLANNING COMMISSION WORK SESSION MEMO

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**MEETING DATE:** January 11<sup>th</sup>, 2022

**AGENDA ITEM:** Work Session with Local Developers Re: Potential Amendments to Article XIII – Inclusionary Housing

**FROM:** Bill Almquist, Community Development Director

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Salida is experiencing a housing crisis unparalleled in recent history, if ever. The area's recent popularity, esp. amongst retirees, remote workers, and others with financial means to relocate to the Arkansas River Valley has driven home prices up sharply, convincing the owners of numerous rental homes to sell to the highest bidders, often from out of the area, leaving significantly fewer homes available for the local workforce. Meanwhile, the pace of new home construction (esp. affordable/attainable units, including rental units) has not kept up with the demand. The crisis is both one of affordability as well as supply and has put a significant stress on many local businesses who struggle to remain fully staffed, have had to reduce operational hours, or—in some cases—closed down altogether.

The City of Salida implemented an Inclusionary Housing (IH) ordinance in late 2018 in an attempt to ensure that a portion of all new homes being built remain affordable for the local workforce. To date, the policy has resulted in the commitments and/or construction of approximately 135 inclusionary housing units. At the last couple of work sessions, staff and Planning Commission have discussed a number of potential changes to the current IH policies. These discussions have covered a variety of topics, including: the applicability of additional land use applications types; offering dimensional standards incentives for built IH units in additional zones; the role of the fee-in-lieu of built IH units; the percentage of built IH units required; and creating more Area Median Income (AMI) level options for developers to meet the built IH unit requirements.

Whereas the current IH code only addresses affordability at 80% AMI and below, the overall housing need (as indicated in the Chaffee County Housing Needs Analysis and other subsequent analyses and surveys) covers a much broader range of income levels. As of November 2021, the median sales price of a home in Chaffee County was approximately \$560,000—up from approximately \$430,000 just one year ago (an increase of over 30%). This has put homeownership out of reach for most of the local workforce. For reference, assuming a 10% down payment, a 3-bedroom \$560,000 home would only be “affordable” (allocating no more than 30% of annual income) to households earning 180% AMI or more. A 2-bedroom home at the same price would only be affordable to households making 200% AMI or more. Anecdotal information and other data indicates that there is an acute need for rental units up to approximately 100% AMI, as well as for-sale homes up to at least 160% AMI.

The City has recently taken additional steps to help incentivize more affordable rental units by reducing system development fees for qualifying projects, as well the IH fees-in-lieu for such units. Planning Commissioners have generally agreed that the AMI levels required to satisfy the built IH unit requirements should be expanded, and that those for rental units should be lower than those for for-sale units, to better reflect the economic realities and variety of housing needs. It was also acknowledged that most rental projects serving 60% AMI or less generally require additional subsidies and may be best addressed via state and federal programming. At the November work session, Planning Commissioners expressed a desire to receive feedback directly from local developers who have already been involved in providing built inclusionary housing units regarding some potential changes.

Staff has drafted new methodology and regulations with the intention to incentivize more built IH units while providing additional flexibility for developers. Summaries of these methodologies are attached to this memo, along with comparisons to current code requirements. The primary changes proposed herein include:

- IH would also apply to *all* condo plats, as well as duplex conversions;
- The required # of built IH units would increase from 12.5% (1/8) to 16.7% (1/6);
- Per authority of HB 21-1117, fees-in-lieu would be eliminated as an option to satisfy the IH requirements, except in certain cases such as minor developments and for required fractional units;
- Developers would have a broader array of AMI level options to meet the built IH unit requirements for rental units ( $\leq 80$ ,  $\leq 100\%$ ) and for-sale units ( $\leq 100$ ,  $\leq 120$ ,  $\leq 140$ ,  $\leq 160\%$ );
- $\leq 60\%$  AMI units would be worth 1.5 IH units, not 2.
- Expanding dimensional standards incentives to include the R-2 zone.

Staff appreciates the feedback of both Planning Commission and local developers on such proposals, which is anticipated to occur in a roundtable discussion format and which will help inform any future proposed code text amendments.

**Attachments:**

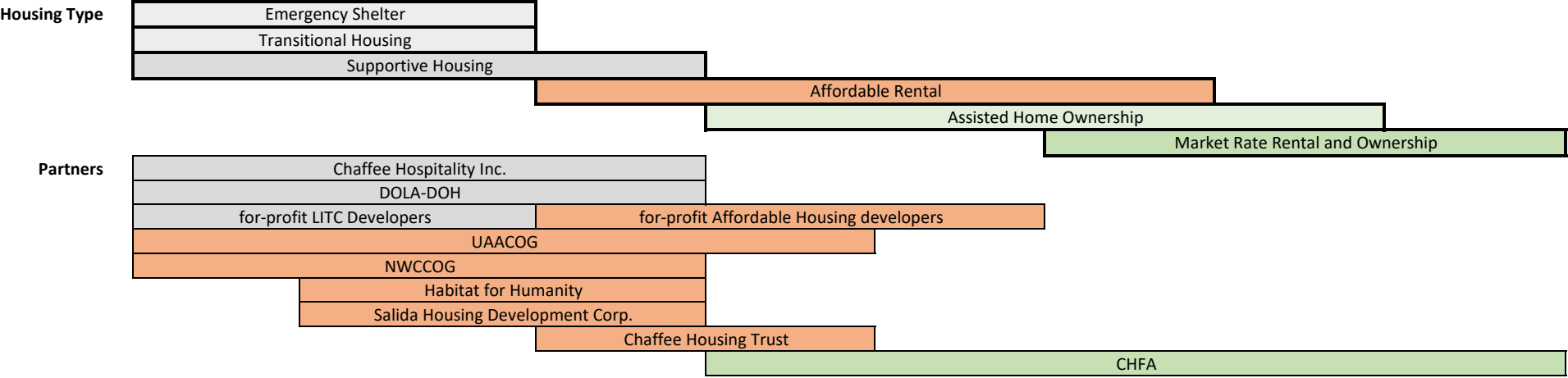
Chaffee County Housing Continuum

Proposed AMI Options Sheet for Built Units

IH Rent and For-Sale Prices Based on CHFA AMI Levels (2021)

Hypothetical Profit Calculation Sheets Based on Proposed Changes

	Income Level as % of AMI							
Chaffee County Annual Income (for a one person household)	Less than 30%	31 - 50%	51% - 60%	61% - 80%	81% - 100%	101% - 120%	120% - 200%	Over 200%
Hourly wage based on 2,080 hours/year (fulltime, year-round employment)	Less than \$15,450	\$15,451 to \$25,750	\$25,751 to \$30,900	\$30,901 to \$41,200	\$41,201 to \$51,500	\$51,501 to \$61,800	\$61,801 - \$103,000	Over \$103,000
	Less than \$7.43/hr (often SSI/SSDI)	\$7.43 to \$12.38/hr (CO Min Wage = \$12.32/hr) <sup>3</sup>	\$12.38 to \$14.86/hr	\$14.86 to \$19.81/hr	\$19.81 to \$24.76/hr	\$24.76 to \$29.71/hr	\$29.71 to \$49.52/hr	More than \$49.52/hr
% of Chaffee County Workforce 2020 <sup>1</sup>	0.0%	32.7%	2.4%	19.2%	26.2%	19.0%	0.0%	0.4%
% of Chaffee County Households <sup>2</sup>	12%	10%	23%			34%		21%
% of Chaffee County Non-family households <sup>2</sup>	23%	23%	27%			18%		9%
Owner/Renter occupied								
Affordable Housing Expense/month (for a one person household)	Less than \$386/mo	\$386 to \$644/mo	\$644 to \$773/mo	\$773 to \$1030/mo	\$1030 to \$1288/mo	\$1288 to \$1545/mo	\$1545 to \$2575/mo	\$2575/mo and up



Sources

1 - Colorado Department of Labor and Employment; 10/2020

2 - US Census: American Community Survey, 2010,2015 Estimates

3 - <https://cdle.colorado.gov/wage-and-hour-law/minimum-wage>

## Options for Satisfying IH Built Unit Requirements: Rental Project

	80% AMI Units \$1030/Studio \$1103/1BD \$1324/2BD \$1529/3BD	100% AMI Units ---- \$1378/1BD \$1655/2BD \$1911/3BD
Required # of IH Units		
1	X	
2	X	X
3	X	X
4	X	X
5	X	X
6	X	X
7	X	X
8	X	X
Totals	4	4
<p>* At least 50% of all IH rental units provided shall be deed-restricted at <math>\leq 80\%</math> AMI.</p> <p>** No studio units shall be allowed at <math>\leq 100\%</math> AMI</p> <p>*** Units deed-restricted at <math>\leq 60\%</math> AMI shall be worth 1.5 required units</p>		
<p>Highlights represent theoretical provided units per the above requirements for a hypothetical 48-unit rental project where the required # of IH units is 1 out of 6 (16.7%).</p>		

	<p><b>Options for Satisfying IH Built Unit Requirements: For-Sale Project</b></p>	
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Required # of IH Units	100% AMI Units	120% AMI Units	140% AMI Units	160% AMI Units
	\$205K/Stdio \$224K/1BD \$278K/2BD \$329K/3BD \$373K/4BD	\$237K/Stdio \$258K/1BD \$324K/2BD \$385K/3BD \$437K/4BD	---- \$313K/1BD \$389K/2BD \$460K/3BD \$522K/4BD	---- ---- \$455K/2BD \$536K/3BD \$607K/4BD
1	X	X	X	
2	X	X	X	X
3	X	X	X	X
4	X	X	X	X
5	X	X	X	X
6	X	X	X	X
7	X	X	X	X
8	X	X	X	X
Totals	2	2	2	2
<p>* The average of all IH units provided shall not exceed 140% AMI; and the amount of units at any one AMI level shall not exceed any other AMI level by more than one (in order to ensure parity between the AMI levels provided).</p>				
<p>** No studio units shall be allowed at 140% AMI or 160% AMI; nor shall 1BD units be allowed at 160% AMI</p>				
<p>Highlights represent theoretical provided units per the above requirements for a hypothetical 48-unit rental project where the required # of IH units is 1 out of 6 (16.7%).</p>				

**2021 CHAFFEE COUNTY AREA MEDIAN INCOME (AMI)**

Household size	30%	50%	60%	80%	100%	120%	140%	160%	180%	200%
1 person	\$15,450	\$25,750	\$30,900	\$41,200	\$51,500	\$61,800	\$72,100	\$82,400	\$92,700	\$103,000
1.5 person	\$16,545	\$27,575	\$33,090	\$44,120	\$55,150	\$66,180	\$77,210	\$88,240	\$99,270	\$110,300
2 person	\$17,640	\$29,400	\$35,280	\$47,040	\$58,800	\$70,560	\$82,320	\$94,080	\$105,840	\$117,600
3 person	\$19,860	\$33,100	\$39,720	\$52,960	\$66,200	\$79,440	\$92,680	\$105,920	\$119,160	\$132,400
4 person	\$22,050	\$36,750	\$44,100	\$58,800	\$73,500	\$88,200	\$102,900	\$117,600	\$132,300	\$147,000
4.5 person	\$22,935	\$38,225	\$45,870	\$61,160	\$76,450	\$91,740	\$107,030	\$122,320	\$137,610	\$152,900
5 person	\$23,820	\$39,700	\$47,640	\$63,520	\$79,400	\$95,280	\$111,160	\$127,040	\$142,920	\$158,800
6 person	\$25,590	\$42,650	\$51,180	\$68,240	\$85,300	\$102,360	\$119,420	\$136,480	\$153,540	\$170,600
7 person	\$27,360	\$45,600	\$54,720	\$72,960	\$91,200	\$109,440	\$127,680	\$145,920	\$164,160	\$182,400
8 person	\$29,130	\$48,550	\$58,260	\$77,680	\$97,100	\$116,520	\$135,940	\$155,360	\$174,780	\$194,200

**MAXIMUM AFFORDABLE MONTHLY RENT (Per CHFA, inc. utilities)**

	30%	50%	60%	80%	100%	120%	140%	160%	180%	200%
Studio (1 person)	\$386.25	\$643.75	\$772.50	\$1,030.00	\$1,287.50	\$1,545.00	\$1,802.50	\$2,060.00	\$2,317.50	\$2,575.00
1 bed (1.5 person)	\$413.63	\$689.38	\$827.25	\$1,103.00	\$1,378.75	\$1,654.50	\$1,930.25	\$2,206.00	\$2,481.75	\$2,757.50
2 bed (3 person)	\$496.50	\$827.50	\$993.00	\$1,324.00	\$1,655.00	\$1,986.00	\$2,317.00	\$2,648.00	\$2,979.00	\$3,310.00
3 bed (4.5 person)	\$573.38	\$955.63	\$1,146.75	\$1,529.00	\$1,911.25	\$2,293.50	\$2,675.75	\$3,058.00	\$3,440.25	\$3,822.50
4 bed (6 person)	\$639.75	\$1,066.25	\$1,279.50	\$1,706.00	\$2,132.50	\$2,559.00	\$2,985.50	\$3,412.00	\$3,838.50	\$4,265.00

**MAXIMUM SALES PRICE AFFORDABILITY GUIDELINES FORMULA**

$\leq 100\%$ Subtract \$250 from affordable monthly rents for taxes, insurance and HOA = principle & interest payment $> 100\%$ Subtract \$350 from affordable monthly rents for taxes, insurance and HOA = principle & interest payment										
	30%	50%	60%	80%	100%	120%	140%	160%	180%	200%
Studio (1 person)	\$136.25	\$393.75	\$522.50	\$780.00	\$1,037.50	\$1,195.00	\$1,452.50	\$1,710.00	\$1,967.50	\$2,225.00
1 bed (1.5 person)	\$163.63	\$439.38	\$577.25	\$853.00	\$1,128.75	\$1,304.50	\$1,580.25	\$1,856.00	\$2,131.75	\$2,407.50
2 bed (3 person)	\$246.50	\$577.50	\$743.00	\$1,074.00	\$1,405.00	\$1,636.00	\$1,967.00	\$2,298.00	\$2,629.00	\$2,960.00
3 bed (4.5 person)	\$323.38	\$705.63	\$896.75	\$1,279.00	\$1,661.25	\$1,943.50	\$2,325.75	\$2,708.00	\$3,090.25	\$3,472.50
4 bed (6 person)	\$389.75	\$816.25	\$1,029.50	\$1,456.00	\$1,882.50	\$2,209.00	\$2,635.50	\$3,062.00	\$3,488.50	\$3,915.00

Use interest rate of **5.39%\*** to calculate max affordable sales price, divide by .90 for a 90% LTV

**\* subject to change year to year**

	30%	50%	60%	80%	100%	120%	140%	160%	180%	200%
Studio (1 person)	\$26,990.03	\$77,998.71	\$103,503.05	\$154,511.73	\$205,520.40	\$236,719.89	\$287,728.57	\$338,737.24	\$389,745.92	\$440,754.60
1 bed (1.5 person)	\$32,412.80	\$87,036.65	\$114,348.58	\$168,972.44	\$223,596.30	\$258,410.96	\$313,034.81	\$367,658.67	\$422,282.53	\$476,906.38
2 bed (3 person)	\$48,829.67	\$114,398.10	\$147,182.32	\$212,750.76	\$278,319.20	\$324,078.44	\$389,646.88	\$455,215.31	\$520,783.75	\$586,352.19
3 bed (4.5 person)	\$64,057.99	\$139,778.64	\$177,638.96	\$253,359.61	\$329,080.26	\$384,991.72	\$460,712.37	\$536,433.02	\$612,153.67	\$687,874.32
4 bed (6 person)	\$77,206.34	\$161,692.56	\$203,935.67	\$288,421.89	\$372,908.11	\$437,585.13	\$522,071.35	\$606,557.57	\$691,043.79	\$775,530.01

**Effective 11/18/2021**

**THESE FIGURES ARE SUBJECT TO CHANGE WITHOUT NOTICE**

## Theoretical **24**-unit subdivision:

### Assumptions:

Average 1500 SF unit @\$250/SF

Average cost per unit to build = **\$375,000**

Average market sales price = **\$575,000**

Profit per market unit = **\$200,000**

3BD unit @ 80% AMI sales price = **\$253,000** (assumes smaller taxes, ins, HOA fees)

3BD unit @ 100% AMI sales price = **\$329,000** (assumes smaller taxes, ins, HOA fees)

3BD unit @ 120% AMI sales price = **\$385,000**

3BD unit @ 140% AMI sales price = **\$461,000**

3BD unit @ 160% AMI sales price = **\$536,000**

### Under current code:

Required # of IH units = **3 @ 80% AMI**

**21** market units x \$200,000 = **\$4,200,000**

**3** two-bedroom IH units @ 80% AMI = 3 x **(\$122,000)** = **(\$366,000)**

\$4,200,000

+

**(\$366,000)**

**Profit**

**\$3,834,000**

### Under proposed changes with 100/120/140/160% AMI options and increase to 16.7% IH units:

Required # of IH units = **4**

**20** market units x \$200,000 = **\$4,000,000**

**4** two-bedroom IH units (Assume 1 each @ 100%/120%/140%/160% AMI, per the rules of averaging and parity):

1 @ 100% AMI = **(\$46,000)**

1 @ 120% AMI = \$10,000

1 @ 140% AMI = \$86,000

1 @ 160% AMI = \$161,000

**\$211,000**

\$4,000,000

+ \$211,000

**Profit**

**\$4,211,000**

\$4,211,000 - \$3,834,000 = **\$377,000 Net Difference**

## Theoretical 28-unit subdivision:

### Assumptions:

Average 1500 SF homes @ \$250/SF

Average cost per unit to build = **\$375,000**

Average market sales price = **\$575,000**

Profit per market unit = **\$200,000**

3BD unit @ 80% AMI sales price = **\$253,000** (assumes smaller taxes, ins, HOA fees)

3BD unit @ 100% AMI sales price = **\$329,000** (assumes smaller taxes, ins, HOA fees)

3BD unit @ 120% AMI sales price = **\$385,000**

3BD unit @ 140% AMI sales price = **\$461,000**

3BD unit @ 160% AMI sales price = **\$536,000**

Fee-in-lieu = **\$25,000** (1500 SF @ \$16.51/SF)

### Under current code:

Required # of IH units = **4 @ 80% AMI (or 3 plus FIL for 4 units)**

**25** market units x \$200,000 = **\$5,000,000**

**3** two-bedroom IH units @ 80% AMI = 3 x (\$122,000) = **(\$366,000)**

**4** Fees-in-lieu = 4 x (\$25,000) = **(\$100,000)**

\$5,000,000

+ **(\$366,000)**

+ **(\$100,000)**

**Profit \$4,534,000**

### Under proposed changes with 100/120/140/160% AMI options and increase to 16.7% IH units:

Required # of IH units = **Build 4 plus pay fee-in-lieu on fractional unit (4/6ths)**

**24** market units x \$200,000 = **\$4,800,000**

**4** two-bedroom IH units (Assume 1 each @ 100%/120%/140%/160% AMI, per the rules of averaging and parity):

1 @ 100% AMI = **(\$46,000)**

1 @ 120% AMI = \$10,000

1 @ 140% AMI = \$86,000

1 @ 160% AMI = \$161,000

\$4,800,000

+ \$211,000

+ **(\$100,000)**

**\$211,000**

**Profit \$4,911,000**

**4** Fees-in-lieu = 4 x (\$25,000) = **(\$100,000)**

\$4,911,000 - \$4,534,000 = **\$377,000**



Or...					
Required # of IH units = <b>Build all 5</b>					
<b>23</b> market units x \$200,000 = <b>\$4,600,000</b>					
5 two-bedroom IH units:					
1@ 100% AMI =	(\$46,000)			\$4,600,000	
1 @ 120% AMI =	\$10,000		+	\$372,000	
1 @ 140% AMI =	\$86,000		Profit	<b>\$4,972,000</b>	
2 @ 160% AMI =	\$322,000				
	<b>\$372,000</b>		\$4,972,000 - \$4,534,000 = <b>\$438,000</b>		