
TOWN OF BASALT, COLORADO
COMMUNITY HOUSING – STRATEGY SUPPORT STUDY
January 2009

Background

In Basalt and similar communities where land is expensive and housing demand is fueled by wealth from outside the region, the private market tends to supply housing that is priced beyond the reach of most local employees. This results in an undersupply of adequate housing that is affordable for low- to middle-income employees. A Housing Needs Assessment dated December 2008 quantified the disparity between incomes and housing costs in Basalt. It found that incomes in excess of 150% of the Area Median Income are now required to buy a home, even a small condominium, and that rents have escalated above the level that is affordable for low- and moderate-income renters.

The private market will tend to supply housing at prices that cover the cost of new construction (including land, fees and profits) but will not provide housing below cost unless required. In high-amenity communities where land is expensive and free-market housing prices are higher than what many employees can afford, new development does not adequately respond to the demand for workforce housing. As a result, labor shortages arise and there are too few employees to support a healthy economy. Jobs are difficult to fill including positions that are essential to the welfare and safety of residents such as fire fighters, police officers, teachers, and medical practitioners. Employees are often forced to commute long distances in sometimes dangerous conditions to find homes in less expensive communities.

The insufficient response by development to workforce housing demand also results in what is often termed “loss of community.” Residents often leave when they cannot find housing that is affordable and meets their family’s changing needs. School enrollment may decline. Civic organizations are unable to raise the volunteers they rely upon. Sense of neighborhood is lost as homes that were once occupied as primary residences stay empty and dark much of the time.

Municipalities and counties throughout the United States, and particularly in Colorado, California and Florida, have created requirements to address the shortcomings of the free market when it comes to providing housing that is affordably priced for local wage earners. The requirements were enacted to provide an adequate labor force for a sustainable economy and community and also to preserve the fabric or character of the community as it grows.

Purpose of the Study

Since 1999, the Town of Basalt’s zoning code has required that new development provide Community Housing. In response to the findings of the 2008 Housing Needs Assessment and in accordance with its 2007 Master Plan, the Town is considering changing current code requirements. Both amendments to existing requirements and potentially the addition of a residential linkage program are under consideration. This report is intended to provide support

to the Town on policy decisions and revisions to their guidelines for three distinct regulatory housing strategies:

- Inclusionary Zoning (Currently exists in the Basalt Code) – A portion of the units in new residential subdivisions and PUD's are set aside for Community Housing, with deed restrictions that permanently protect their affordability and occupancy.
- Commercial Linkage (Currently exists in the Basalt Code) -- Developers of commercial space build or pay for the construction of housing specifically for the workforce. The basic premise of these linkage programs is that new commercial development fuels demand for housing through the new on-site jobs that are created.
- Residential Linkage (A new component under consideration) – Builders of new residential units are required to address a portion of the housing demand generated by on-site jobs associated with the maintenance and operation of the home, usually by providing a payment in lieu when homes are the size allowed in Basalt.

The Town recognizes that there is an existing deficiency in Community Housing, and intends to continue efforts to partially address this shortfall. Plans include purchasing and subsidizing units for Town employees, possibly providing Town-owned land for housing and requiring annexed properties to include Community units. The number of units provided by these efforts in relationship to the existing deficiency is not an issue addressed, however, by herein. This study focuses on the links between new development and Community Housing demand insuring that new development is only required to address housing needs it generates in the future as growth occurs.

Organization of the Study

This report provides a rationale for policy decisions on the percentage of housing demand that should be addressed and the percentage of total new units that should be deed restricted. It provides a basis for public accountability. Further, it also offers defensibility against legal challenges. It is organized into three sections:

1. Community Metrics, which summarizes key income, job and housing occupancy characteristics and is the foundation for policy decisions.
2. Linkage Calculations, which provide both commercial and residential job generation data and the methodology for applying that data to proposed development thus establishing the link between new development (both commercial and residential) and Community Housing demand.
3. Payment in Lieu Calculation, which presents a formula and current data for determining the amount that the Town might charge under certain conditions as a payment in lieu of constructing a residence(s).

I. Community Metrics

This section of the report provides quantitative measurements of several key community characteristics which could be the basis for determining price, income and occupancy restrictions.

Income

In order to preserve the current mix of low-, moderate-, middle- and upper-income households in Basalt as the community grows, a goal for all new housing in the community could be targeted to the income distribution in the left column – 37% for low income households (\leq 80% AMI), 53 for moderate to middle income households (81% - 150% AMI) and 21% for upper-income residents ($>$ 150% AMI).

Since the free market will likely serve the 21% of employee households with incomes greater than 150% AMI, Community Housing could be priced to be affordable for all other income groups. As shown in the column on the right, 46% could be priced to be affordable for low-income households (\leq 80% AMI), 36% for 81% to 120% AMI households, and 18% for residents with incomes from 121% to 150% AMI.

Table 1
Income Distribution – Households with Basalt Employee(s)
Shading denotes low income.

Household Income	% All Employee Households	% Employee Households \leq 150% AMI
50% or less AMI	23.2	29.2
50.1% - 80% AMI	13.5	17.0
80.1 - 100% AMI	18.1	22.8
100.1% - 120% AMI	10.8	13.6
120.1% - 150% AMI	13.9	17.5
More than 150% AMI	20.5	
Total	100%	100%

Jobs/Housing Relationship

Commuting is a well established pattern in the Roaring Fork Valley as employees are often unable to live in the communities where they work. Keeping in-commuting the same as it is today, in relative or absolute terms as the community grows, could be the goal upon which linkage requirements are based. According to the Housing Needs Assessment, approximately 25% of the employees who work in Basalt also live in town. It is important to understand that, if development is required to provide housing for 25% of the demand generated, the actual number of employees will increase as jobs are created. A rate higher than 25% would be needed to curtail the increase in the number of employees and cars on the road.

Table 2
Estimates of Commuting

	Total*	%
Persons Employed in Basalt	2,500	100%
Residents working in Basalt	700	25%
In-commuters	1,800	75%
Employed Residents	2,000	100%
Employees Living in Basalt	700	35%
Out commuters	1,300	65%

Occupancy of Homes

The percentage of homes in Basalt occupied as primary residences has been decreasing and is now estimated by the Housing Needs Assessment to be approximately 85% (table on top of page 30), with 25% of the residential units sold in 2007 purchased by residents from outside the region (page 41). The relationship between primary and second homes is an important component of community character. As more homes become vacation properties sitting vacant much of the year, local residents are forced out by the higher prices the absentee owners can pay, neighborhoods lose their neighbors, and volunteerism declines. These are well recognized trends in high-amenity communities.

To maintain the community's character, the Town might want to require that up to 85% of all new homes built be deed restricted for occupancy as a primary residence.

II. Linkage Methodology

To establish a basis for both residential and commercial linkage requirements, a five-step formula-driven process as outlined below is suggested. It uses well-documented statistics from primary research conducted in Basalt as well as similar western mountain communities to provide a method for quantifying the number of jobs and corresponding housing demand generated by development. It establishes a reasonable relationship between development in general and the legislative adoption of linkage requirements.

The steps are as follows:

1. Determining the number of jobs generated by commercial and residential development in order to calculate housing demand generated by new development;
2. Accounting for multiple job holding to eliminate double counting of employees;
3. Converting the number of employees to households by applying an employees per household ratio;
4. Crediting developments for contributions to employee housing; and,
5. Consolidating the information on job generation, job holding patterns, employees per household and income levels into a formula that can be applied to commercial, residential or mixed-use projects to calculate mitigation requirements.

The formula often results in a fraction of a dwelling unit being required. When this is the case, or in other circumstances as may be allowed, payment can be made in lieu of producing units. Determining the amount of the payment that can be made in lieu is based on the affordability gap, which is the difference between what targeted households can afford to pay and market prices for housing.

1. Job Generation

When new commercial/industrial/lodging/residential projects are built, additional employment is generated. Some of the new commercial employment may be from new businesses and some may be from businesses relocating from other space (thereby freeing up that space for other tenants), but the net effect over time is a net increase in employment in the community. Job generation rates that provide measurements of the number of jobs typically generated by residential units and in various types of commercial spaces can be used to estimate the number of jobs that will be created when development is planned.

Commercial

Beginning in 1990, RRC Associates and Rees Consulting, Inc. conducted housing needs assessments in mountain communities and counties in Colorado, Idaho and Wyoming. As part of these studies, public- and private-sector employers were surveyed concerning the number of jobs they offer and the amount of space they occupy. These surveys of 1,995 employers were used to compile a database on job generation ratios (Merged Database), which are expressed as the number of total jobs (full- and part-time combined, not FTE) per 1,000 square feet of net leasable space. Additionally, as part of the 2008 Basalt Housing Needs Assessment process, an employer survey was conducted of Basalt Employers. The generation rates from the Basalt survey, as well as the larger merged database are provided in the following table.

**Table 3
Commercial Job Generation Rates**

	Basalt Jobs/1,000 sqft	N	Merged Database Jobs/1,000 sqft	N
Bar/restaurant	4.05	4	8.15	213
Construction	4.67	4	6.67	165
Education	.		1.67	45
Office	3.88	16	3.64	395
Government	0.40	1	2.44	79
Real Estate/property management	.		5.00	116
Retail sales	3.14	8	3.28	421
Service	7.45	2	3.94	124
Recreation/attractions/amusements	.		4.38	69
Other	6.59	2	3.67	199
Utilities	.		1.44	8
Manufacturing	.		1.80	15
Warehouse /storage	.		1.73	2
Transportation	.		4.00	9
Overall Median	4.30	37	4.00	1,860

	Basalt Emp/unit	N	Merged Emp/unit	N
Lodging/hotel/housekeeping	.		0.53	102
Property Management	0.69	2	0.42	33

Source: RRC Associates/Rees Consulting surveys

Overall, 4.0 employees work in every 1,000 square feet of net leasable commercial space. The ratios for restaurants and bars (8.15 per 1,000 SF), construction (6.67 per 1,000 SF) and real estate/property management offices (5.0 per 1,000 SF) are considerably higher than the overall median. Research has shown that these job generation ratios change very little over time.

The rates for lodging and professionally managed vacation properties are unique in that they are expressed on a per room or unit basis rather than per 1,000 square feet. The rate for lodging is .53 employees per room while property management is .42 per unit. The employee generation for lodge/hotel properties varies significantly by property type. For example, a luxury/upscale resort hotel with a spa, restaurant, room service etc. might have a job generation rate of between 2 and 3/room. A small hotel with only front desk service might have a generation rate between 0.01 and 0.4. Some communities have recognized the large variance in hotel generation rates and have provided the option for an independent calculation of the number of employees to be generated by the proposed development. The proposed rate would be evaluated as part of the development review process.

The merged data base contains a total of 1,995 cases from surveys conducted in Colorado and Idaho from 1990 through 2008. The employer survey conducted in Basalt as part of a housing needs assessment in 2008 generated 39 valid cases that are included in the merged database. The merged database combines surveys from commercial core areas, where space tends to be intensively used, and nearby communities and unincorporated areas, where employment is

often less. It is recommended that the merged dataset be used rather than figures for just Basalt for the following reasons:

- The smaller number of cases in individual communities is less statistically valid than the merged data set, particularly when broken down by types of businesses;
- Surveys of individual communities provide point-in-time estimates of job generation during the year of the survey. These rates are subject to change depending on many factors, including local and regional economic conditions and changes in development incentives, ordinances and regulations that may affect the intensity of commercial space usage in the community;
- The merged data set provides a more general sample of the types of businesses and intensity of uses found in resort communities over a period of time that includes both economic booms and slumps. This results in numbers that represent average commercial job generation that can be comfortably used over an extended period of time, rather than constantly changing with point-in-time economic conditions; and,
- The merged data set also provides a more general sample of the intensity of uses of businesses in multiple resort communities. Because each community represents a different “maturation” state, the database presents an average mix of intensities that could be expected as communities change and as businesses move into and out of communities. The merged database provides job generation rates that recognize the changing economic mix of communities over time, both within and between different industries, and accommodates this change.

The merged database includes both core resort areas as well as nearby communities, which are listed below, with survey dates ranging between 1990 and 2008.

- Blaine County, ID: 1990, 1996
- Snowmass Village: 1999, 2008
- Routt County: 1990
- San Miguel County: 2000
- Frisco: 1998
- Grand County: 1992, 2001, 2007
- Gunnison County: 1992, 1998
- Composite of Pitkin, Eagle, and Garfield
- Counties (from Healthy Mountain
- Communities surveys of 1997/98 season)
- Keystone: 2001
- Copper Mountain: 2001
- Eagle County: 1990, 1999, 2001, 2007
- Summit County: 1990, 2001
- Telluride: 1993, 1996, 2001
- Teton County: 2006
- Aspen 2002, 2008
- Garfield County 2004
- Pitkin County 1991, 2004
- Basalt 2008

Some communities use a single average while others combine similar categories into several groups. The rates are usually used to estimate employment when the PUD or building permit application is filed. The rates can be applied to new development and to redevelopment that results in additional space being created. Using a single average makes it less problematic when the exact use of space is not defined at the time of project approval. For instance, space in a commercial building could be used for either a retail shop or an office, which have different job generation rates. The problem is compounded by the fact that the use could change over the years; a single rate makes it unnecessary to reconsider the employment generated by the space.

It is acknowledged that restaurants, bars and other uses with high job generation rates may be encouraged by the use of a single average and that uses with lower rates, like services and education, might be discouraged from locating in Basalt.

Residential

Residential dwelling units generate demand for housing through their operation and maintenance. Activities including exterior and interior maintenance and upkeep, house cleaning, meal preparation, childcare, personal services, and home office support generate jobs, many of which are relatively low paying. The employees that fill these jobs generate demand for modestly-priced housing. Further, homes built for second homeownership reduce the land and number of units available for the local workforce. As a result, the more homes that are built in Basalt (particularly for visitor or second home use), the more the affordable housing problem is aggravated.

Average job generation rates were calculated to support an employee housing mitigation program that is fairly simple to administer, yet responsive to the finding that large residential units generate more jobs than smaller units. Data from homeowners surveys administered in mountain communities across Colorado including Eagle and Pitkin counties were used. The data include 3,362 valid cases for residences. The surveys focused on jobs directly generated as a result of the residential unit. That is, jobs associated with housing maintenance and operations, including property and rental management, homeowner's association, gardeners, snow removal, exterior maintenance, housekeepers, kitchen help/chef, child care provider/nanny, caretaker/ concierge/butler, personal trainer/administrative assistant and other related employees. The studies did not include workers generated through construction of the home.

The job generation rates, expressed in full-time equivalents (FTE) per unit, were found to vary by square footage according to the following exponential functions:

Equation of Residential Employee Generation by Home Size

$$\text{Total FTE} = 0.0893 * e^{(.0003)(\text{Finished Square Footage})}$$

The following table of FTE employee generation rates was calculated by applying the above formula to each of the residential square-footage categories shown in the first column.

Table 4
Residential Job Generation Rates by Size

Size of Unit Finished Sq Ft	Merged Database
<1,000 s.f.	0.10
1,000 - 1,999	0.14
2,000 - 2,999	0.19
3,000 - 3,999	0.26
4,000 - 4,999	0.34
5,000 - 5,999	0.46
6,000 - 6,999	0.63
7,000 - 7,999	0.85
8,000+	1.14
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Number of Cases	3,362

Source: Rees Consulting, Inc. and RRC Associates, Residential Job Generation Studies

The residential job generation rates expressed in 1,000 square foot increments are substantially similar in all of the communities surveyed; there is little variation by community/county. In other words, a 5,000 square foot house in Basalt generates about the same employment as a 5,000 square foot house in Carbondale. The fact that job generation is linked to the size of the home and not the value of the home ensures this consistency in job generation rates. If an overall average for all homes was used, however, job generation rates would vary considerably due to the different mix of housing sizes in each community. Communities where house sizes tend to be large would have higher averages than communities with smaller homes. Use of an overall average is therefore not recommended.

There is a positive correlation between household size and job generation – the larger the home, the more jobs that are generated by the residence. To ensure fairness in implementation, requirements should vary by size of the home. The implementation of requirements segmented by broad categories of mitigation (e.g., less than 3,000 square feet and 3,000 square feet or more) does not equitably distribute job generation and employee mitigation.

2. Accounting for Multiple Job Holding

The *commercial* job generation ratios measure the number of full- and part-time employees working within various types of commercial space. Some of the employees, particularly the part-time workers, may also hold other jobs. In order to avoid double counting and potentially requiring two different commercial developments to pay for housing the same employee, the number of total employees in commercial space that generate demand for housing in Basalt is adjusted for multiple jobs they might hold.

The 2008 Basalt Housing Needs Assessment measured multiple job holding. On average in the town, employees hold 1.25 jobs. This measure was calculated by evenly weighting the number of jobs held during the winter, summer and shoulder seasons.

It should be noted that the job generation rates for *residential* dwellings are presented in terms of full-time equivalents (FTE) and, as such, do not need to be adjusted for multiple job holding.

3. Converting from Workers to Households

It is recognized that employees often live together in family and unrelated roommate households. Housing requirements should recognize established lifestyle patterns and existing characteristics. The 2008 Basalt Housing Needs Assessment found that there are 1.73 employees per unit on average in the town. As such, the number of employees generated by a project should be divided by 1.73 to convert to the number of households generated.

4. Credits and Double Charging

Communities considering commercial linkage and residential linkage should ensure that the adopted programs are not “double-charging” for the same employees. In other words, if residential developments are required to mitigate for all jobs created through homeowner expenditures (direct basic jobs and secondary jobs), commercial linkage figures must ensure that employees housed by residential linkage requirements are not also required to be housed through commercial linkage. The job generation rates provided in this study eliminate the possibility of double charging by only accounting for the direct jobs provided on-site.

5. Linkage Formula

To determine the number of workforce housing units that commercial, residential or mixed-use projects must produce, the following formula is recommended:

- The size of the project is first multiplied by the appropriate job generation rate to estimate the number of jobs that will be created.
- The number of jobs generated for commercial space and lodging is then divided by the average job holding ratio of 1.25 to estimate the number of new employees that will be generated by the development.
- The number of new employees is then converted to an estimate of the number of new households generated by the project by applying a factor of 1.73 employees per household.
- The rates, expressed as percentages of the total number of households generated to determine the number of units required. The percentage of new households for which housing must be provided is a function of public policy as well as proportionality.

Table 5
Linkage Calculation Formulas

Formula	Residential	Commercial
Size of Development	# units in 1,000' ranges	# square feet
x Job generation rates	<1,000 s.f. - 0.10	Bar/restaurant - 8.15
	1,000 - 1,999 - 0.14	Construction - 6.67
	2,000 - 2,999 - 0.19	Retail sales - 3.28
	3,000 - 3,999 - 0.26	Manufacturing - 1.80
	4,000 - 4,999 - 0.34	Overall Median - 4.00
= Jobs Generated		
÷ Jobs per Employee	N/A	1.25
= Employees Generated		
÷ Employees per Household	1.73	1.73
= Housing Demand Generated		
x inclusionary/linkage rate	TBD	TBD
= Community Housing Units Required		

III. Payment in Lieu Calculation

The difference between prevailing market prices and what targeted households can afford to pay for housing is the gap that must be taken into consideration when determining the amount of the payment that could be made in lieu of producing units under certain circumstances. This gap varies by the income level of the targeted household.

To generate a figure for the targeted income category that represents the gap between affordable and market costs, a series of calculations must be made, as follows:

1. The income range of targeted households is first established. The basis is the median family income for three-person households from the 2008 Needs Assessment. The Needs Assessment used a weighted average of incomes by household size in Eagle County and Pitkin County. It is assumed that the size of households served by residential linkage will average close to three persons given that the average household size in the community is 2.55 persons per unit. The income range must be updated annually to reflect changes in the published wage or median income figures, depending upon which is used as an eligibility measure. As a result, the amount of the gap and resulting payment in lieu will fluctuate yearly.
2. Target income points within the range are then set so that a gap calculation can be performed for the range of household incomes served. In Basalt, households with incomes up to 150% AMI will be served.
3. The affordable monthly housing payment is next established based on a commonly used standard: 30% of gross income equals housing payment.
4. The affordable monthly housing payment is then converted to an affordable purchase price by assuming a 5% down payment, 20% of the total affordable housing payment covers property taxes and insurance with the remaining 80% of the payment paying for a mortgage with a 6.0% fixed rate of interest for 30 years. The interest rate is currently lower (about 5.25%) and fluctuating. A rate of 6% better represents rates for the past year, and makes it less likely that the payment in lieu would need to be adjusted during the coming year.
5. The average size for Community Housing units varies by AMI category, ranging from 800 to 1,100 square feet.
6. The market price for comparable units is then determined using the median sales price per square foot of dwelling units purchased in Basalt in 2008. The cost of units sold rather than the cost of construction has been used for several reasons:
 - Market-rate prices on a per square foot basis can be readily obtained and can be used to update the fee on a regular basis;
 - Construction costs vary widely, depending upon numerous variables. Adding the cost of land further complicates the calculation; and
 - The County may use the fees obtained to purchase existing units, provide rent subsidies, or support other housing efforts in addition to new construction projects.
7. The affordability gap is the difference between the market cost and the affordable purchase price. The market cost for the average Community Housing unit is

determined by multiplying the average size of the unit by the median price per square foot of \$494 in the Town of Basalt. The average size of unit varies by AMI category.

**Table 6
Payment in Lieu Calculation for 2008**

Payment in Lieu	60% AMI	100% AMI	135% AMI
Target Income Point	\$47,340	\$78,900	\$106,516
Gross Monthly Income	\$3,945	\$6,575	\$8,876
Affordable Monthly payment	\$1,184	\$1,973	\$2,663
Property Taxes/Insurance/HOA estimate	\$237	\$395	\$533
Mortgage Payment	\$947	\$1,578	\$2,130
Max. Mortgage Amount	\$157,998	\$263,330	\$355,496
5% Down	\$8,316	\$13,859	\$18,710
Affordable Purchase Price	\$166,314	\$277,189	\$374,206
Average Sq. Ft of Units	800	950	1,100
Median per Sq Ft. (sales 9/2007 to 8/2008)	\$494	\$494	\$494
Market Cost per Unit	\$395,200	\$469,300	\$543,400
Affordability Gap	\$228,886	\$192,111	\$169,194
Plus 15% Administrative Fee	\$34,333	\$28,817	\$25,379
Payment in Lieu per Unit	\$263,219	\$220,927	\$194,573

In many cases, linkage regulations will result in a fraction of a housing unit being required. As such, the payment is determined by applying that fraction to the per-unit in lieu amount.

The payment in lieu calculation must be updated annually upon publication of household income estimated by HUD and receipt of sales data for the previous year from the Assessor's Offices in Eagle and Pitkin counties.

It should be noted that the payment in lieu calculations include an allowable administrative fee for expenses directly related to operation of the impact mitigation program and production of units, which is optional. Also, the calculations presented above assume that any HOA fees (plus property taxes and insurance) would be covered by 20% of the "affordable monthly housing payment." This percentage can be amended if HOA dues tend to be lower or higher than this allowance.