Employee Housing
Mitigation Support Study

Prepared for:

San Miguel County

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EXECUTIVE SUMMARY

Introduction

RPI was contracted by San Miguel County in 2002 to determine an affordable housing impact fee to be imposed on new development permits in the unincorporated County.

This fee is based on a number of complex calculations but essentially represents an answer to seven basic questions:

1. How many employees are generated by what types of development – i.e. residential & non-residential?

2. What is the current level of service – i.e. how many employees working in the R-1 School District are living in deed-restricted housing?

3. What mitigation rate will allow the County to maintain its current level of service?

4. How much subsidy is needed per employee to construct employee housing units?

5. How much credit should developers receive for future payment towards employee housing – e.g. through the earmarked Telluride & Mountain Village sales taxes?

6. Taking the first five components into consideration, what is a fair and equitable fee structure?

7. Given the fee schedule, how much cash flow should the County expect to receive over time for employee housing?

This report is divided into two sections. Section I is separated into eight parts and is meant to convey information with a minimum clutter of complex calculations and methodologies. Section II is comprised of appendices which contain much of the technical information regarding the actual calculations used to derive the fee schedules and detailed explanations of methodologies.

Legal Authority

Counties have the implied powers necessary to carry out powers that are expressly delegated.[1] The power to impose employee housing mitigation fees stems from three sources of authority: planning and land use statutes, the impact fee statute, and the statute allowing counties to impose discretionary conditions on development

[1] Beaver Meadows v. Board of County Commissioners, 709 P.2d 928, 932 (Colo. 1985).

approvals. Because the County's analysis in support of housing mitigation so thoroughly demonstrates the relationship between the need for housing and the number of employees generated per square foot of new development, and because the fee will be calculated on the basis of the actual square footage of an individual development, the housing mitigation fee also satisfies the more stringent statutory requirement for discretionary conditions on development approvals. Please see the Legal Authority section for a more detailed discussion of the legal justification for this reports proposed fee structure.

Need

The collision of a growing job market and an increasingly expensive housing market has created a basic supply and demand imbalance between workers and housing. The number of jobs created in San Miguel county have grown by 9.3% per year between 1990 and 2000. Earnings per job have increased concurrently climbing 36% over the same time period. These earnings are, however eclipsed by a simultaneous 274% increase in the sale price of free market single family homes and a 127% increase in free market condominiums. In other words, home prices have increased 7 times and condominiums 4 times, faster than locals buying power.

Consequently, even with 30% of the workforce living in deed restricted housing, 27% of San Miguel County households are cost burdened by housing payments. This market is directly contributing to 2,200 workers commuting into the county for work. The 2000 Housing Needs Assessment Survey determined that commuting is having a major adverse impact on the performance of employees.

Employment Generation & Mitigation Rate

Employment generation refers to the number of employees resulting from a particular type of development of a specific size. Developing a vacant piece of land nearly always results in the need for additional employees that were not needed previously. For example, if a developer builds a new gas station/convenience store where none existed before, new employees will be required. Both residential and non-residential land uses generate employment.

A Boulder area consulting firm (RRC Associates) has been building a survey database over the past decade to establish employment generation rates for various non-residential land uses (e.g. restaurants, medical offices, etc.). RRC also established employee generation rates for residential land uses specifically for San Miguel County.

Residential land uses generate employees both during the construction phase and after the house is built. Once a house is built, it requires employees for ongoing maintenance and services such as landscaping, cleaning, interior decorating, etc. The RRC study determined an exponential relationship between the size of homes and the amount of employment they generate. In other words, larger homes generate the need for more employees than do smaller homes.

To calculate an impact fee, a mitigation rate must be determined. The mitigation rate establishes the percentage of employees generated by development for which the developer will be required to provide housing (or cash in lieu of) in order to maintain current service levels.

The County has yielded much of the production of employee housing in recent years through the PUD process (Lawson Hill and Mountain Village) and with the approval several Accessory Dwelling Units. However, a large portion of the development in the County during the last 10 years has been dispersed residential development occurring in older platted subdivisions, on older legal parcels, and on 35+ acre tracts. The current housing mitigation system is failing to produce enough housing to cover the needs of the workforce generated by economic activity in San Miguel County. With the exception of Aldasoro subdivision, yielding 11 deed-restricted mitigation units, and several dispersed accessory dwelling units, most of the residential development that has occurred in unincorporated San Miguel County's current housing mitigation system has produced only 11 deed-restricted units, enough housing for approximately 16 employees since 1990has not mitigated for employee housing. During the same time jobs increased by 3,300. Applying employee housing requirements according to the number of employees produced by a proposed land use is a broader and more direct method for mitigating for employee housing, greatly reducing unmitigated development. Adoption of this the impact fee schedule proposed in this report will result in a mitigation rate of 30% (based on the existing level of service). That is, the developer will be required to provide or pay for housing for 30% of all employees produced by the proposed land use.

Subsidy

As discussed previously, San Miguel County housing costs are rising faster than employees' earning power. Underlying this trend is a steady inflation of hard and soft development costs in addition to rising land costs. Consequently, developing employee housing in San Miguel County requires significant subsidies and all of the recent affordable housing projects undertaken in the County have required subsidies.

Establishing a housing mitigation fee requires understanding how much each employee housed in employee housing requires in subsidy. RPI's examination of recent employee housing projects reveals a weighted average subsidy per employee of \$46,013. That is, \$46,013 must be spent to cover the costs of housing a single employee to make that unit affordable.

Credits

Credits are an important component of impact fee calculations because they recognize that developers may will be paying some money towards employee housing through local government fees and taxes other than the impact fee. A properly constructed credit identifies these payments and credits them as payment toward the fee. This eliminates the possibility of "double dipping" and ensures an accurate and equitable fee is being charged for a developers fair share. The fee schedule proposed in this report reflects a credit to developers who would pay money towards employee housing through earmarked sales taxes levied by Mountain Village and the Town of Telluride. It is appropriate to credit these revenue sources because the level of service designation is considered County wide (within the R-1 school district)—consequently the crediting mechanism should be considered in this same context.

Fee Structure

The fee schedule is progressive through time and reflects the costs of both the construction and post construction components of employee generation (it also reflects the integration of appropriate credits). The following table outlines the fees for gross rounded square footages for simplicity. The actual fees will be based on a formula integrated into the code. For example, the fee for a house of 1253 sq. ft. will be slightly higher than for the 1000 sq. ft. home listed in the table.

Fee Schedule for various sized homes by year

Sq. Ft.	2002	2003	2004	2005	2006	2007
1000	$ 1,330	$ 1,405	$ 1,476	$ 1,541	$ 1,597	$ 1,652
2000	$ 1,835	$ 1,986	$ 2,127	$ 2,258	$ 2,369	$ 2,480
3000	$ 2,532	$ 2,759	$ 2,970	$ 3,166	$ 3,333	$ 3,499
4000	$ 3,494	$ 3,796	$ 4,078	$ 4,340	$ 4,561	$ 4,783
5000	$ 4,821	$ 5,198	$ 5,551	$ 5,878	$ 6,155	$ 6,432
6000	$ 6,652	$ 7,105	$ 7,528	$ 7,921	$ 8,253	$ 8,586
7000	$ 9,178	$ 9,707	$ 10,201	$ 10,659	$ 11,047	$ 11,435
8000	$ 12,665	$ 13,269	$ 13,833	$ 14,357	$ 14,800	$ 15,243
9000	$ 17,475	$ 18,155	$ 18,790	$ 19,379	$ 19,878	$ 20,376
10000	$ 24,113	$ 24,869	$ 25,574	$ 26,228	$ 26,782	$ 27,336
11000	$ 33,272	$ 34,103	$ 34,879	$ 35,599	$ 36,208	$ 36,818
12000	$ 45,911	$ 46,817	$ 47,663	$ 48,449	$ 49,113	$ 49,778
13000	$ 63,349	$ 64,331	$ 65,248	$ 66,099	$ 66,819	$ 67,539

Cash Flow

Rather than attempting to project the rate of residential and non-residential construction based on size or type, RPI employed a historical trend cash-flow analysis. RPI applied building permits issued in the unincorporated County for the years 1997-2001 to the fee structures offered in this support study.

This analysis shows the quantity of impact fee revenue San Miguel County might have collected for those years if it had adopted this fee structure in 1997. This historical knowledge, when combined with the current fee schedules yields a reasonable estimate for future revenues. Part VII provides three additional scenarios which include projections if the county were to exempt households of certain sizes from paying the employee housing impact fee.

Cash Flow Projections

	Scenario 1. Fee Applies to All Residences
1997	$ 232,583
1998	$ 194,041

1999	$ 287,515
2000	$ 341,300
2001	$ 289,629
Total	**$ 1,345,068**

Recommendations and Considerations

As outlined in detail in this report, RPI recommends adoption of the impact fee schedule based on the existing 30% service level and consequently a 30% mitigation rate. This fee schedule will begin building revenue that the county may leverage or use to cooperate on future employee housing projects. It is important to note that the level of service (30%) and consequently the mitigation rate (30%) are dynamic and should be updated over time to reflect changes. As more employee housing projects are built, it is likely that the key numbers (i.e. level of service and mitigation rate) will increase—particularly if the local jurisdictions develop a major employee housing project. It is also likely that the subsidy will increase over time as the cost of developing projects rises. When these numbers rise (level of service, mitigation rate, & subsidy costs), the fee's will also rise. Consequently, RPI recommends that this fee schedule be updated every two years at a minimum.

San Miguel County should take into consideration the fact that currently 74% of employees live within the County. And while an impact fee alone cannot serve to maintain this percentage, the county should seriously consider undertaking a long range employee housing plan to maximize the number of locally residing employees. This plan would include a target number of units to be constructed annually, identify and recommend revenue sources to fund construction, appropriate unit mixes (e.g. single family homes, apartments, etc.), identify building sites, timeframes, etc.

SECTION I

Part I. Legal Authority

Note: The Legal Authority section was prepared for RPI by Barbara M. Green of Sullivan/Green/Seavy L.L.C.

As political subdivisions of the state, counties have only those powers granted to them by the legislature.[2] Counties also have the implied powers necessary to carry out those powers that are expressly delegated.[3] The power to impose employee housing mitigation fees stems from three sources of authority: planning and land use statutes, the impact fee statute, and the statute allowing counties to impose discretionary conditions on development approvals.

Planning and Land Use Statutes: Authority to Mitigate Impacts to Housing

County planning statutes require counties to develop a master plan for development.[4] Master plans may include, among other things: "Projections of population growth and housing needs to accommodate the projected population for specified increments of time."[5] Counties also may plan for the "general character, location and extent of … housing developments, whether public or private; the existing , proposed or projected location of residential neighborhoods; and sufficient land for future housing development for the existing and projected economic and other needs of all current and anticipated residents …"[6]

The provisions of a master plan may be implemented through zoning and subdivision regulations.[7] Under the county zoning authority, counties may regulate, among other activities, the uses of buildings and land for trade, industry, residence, recreation, public activities, or other purposes.[8]

Counties also have general power to regulate land use and development under the Local Government Land Use Control Enabling Act.[9] Counties may plan for and regulate the use of land by regulating "the location of activities and developments which may result in significant changes in population density …"[10] They may also regulate "the use of land on the basis of the impact thereof on the community or surrounding areas."[11] Thus, counties have the authority to plan for the provision of adequate housing, to regulate the use of structures and land for residential uses, and to regulate the use of land based on the impact to the county.

2 Board of County Commissioners of Douglas County v. Bainbridge, Inc., 929 P.2d 691, 699 (Colo. 1997).
3 Beaver Meadows v. Board of County Commissioners, 709 P.2d 928, 932 (Colo. 1985).
4 C.R.S. § 30-28-106
5 § 30-28-106(3)(a)(X).
6 § 30-28-106(3)(a)(VII).
7 *See* C.R.S. Section 30-28-110-113 and Section 30-28-133, 136-137.
8 § 30-28-113(1).
9 C.R.S. Section 29-20-101 *et seq.*
10 § 29-20-104(1)(e).
11 § 29-20-104(1)(g).

Impact Fee Authority

In 2001 the legislature adopted SB 15 which gives counties and municipalities authority to assess impact fees to fund "expenditures by such local government on capital facilities needed to serve new development."[12]

The bill defines "capital facility" as follows:

> As used in this section, the term "capital facility" means any improvement or facility that: (a) is directly related to any service that a local government is authorized to provide; (b) has an estimated useful life of five years or longer; and (c) is required by the charter or general policy of a local government pursuant to a resolution or ordinance. § 29-20-104.5(4)

Under this definition, housing is a capital facility if it is directly related to a service that the County is authorized to provide. As discussed earlier, the county land use planning and zoning statutes give counties the authority to plan for projected housing needs and to regulate the use of structures and land for residential purposes. (A much more specific grant of authority to address the need for housing is found in the County Housing Authority Act.[13])

Assuming that employee housing is a service that the County is authorized to provide (see discussion of planning and land use statutes, above), the housing impact fee can only be used to invest in a capital facility "directly related" to providing that service. Assessment of a fee to construct housing or infrastructure to serve needed housing should satisfy this requirement.

The impact fee statute also requires that the impact fee be based on a quantification of the "reasonable impacts of proposed development on existing capital facilities" and that it be set at a level "no greater than necessary to defray such impacts directly related to proposed development." What is directly related is not defined by the statute, however in a recent Colorado Supreme Court decision, the Court made it clear that a local government does not need to engage in an individualized assessment of each development to determine the reasonableness of the fee.[14] It appears that the impact fee must be directly related to the cumulative impacts of development in the community, not to a particular development proposal.[15] The documentation contained in the Employee Housing Impact Study of the number of employees generated by residential and commercial land uses and the percentage of

[12] § 29-20-104.5(1)
[13] § 29-4-501 *et seq*.
[14] Krupp v. Breckenridge Sanitation District, 19 P.3d 687 (Colo. 2001).
[15] *See* White, *"A Municipal Perspective on Senate Bill 15: Impact Fees,"* 31 Colo. Law. 5 (May 2002)

employees requiring housing assistance in the County is more than adequate to support the relationship between the fee and the impacts to employee housing caused by new development in the County.

The impact fee statute also restricts when a fee may be imposed.

> No impact fee or other similar development charge shall be imposed on any development permit for which the applicant submitted a complete application before the adoption of a schedule of impact fees or other similar development charges by the local government pursuant to this section. No impact fee … shall be collected before the issuance of a development permit for such development activity. Nothing in this section shall … prohibit … deferring collection of an impact fee … until the issuance of a building permit. § 29-20-104.5(6)

Under this section, the County may impose the fee at the time of building permit even where the subdivision has been previously approved so long as a complete building permit application has not been submitted before a fee schedule has been adopted.

Discretionary Conditions of Development Approval

In addition to the specific statutory authority to impose impact fees for capital facilities, counties have authority to condition land use approvals by requiring a developer to dedicate property to the public, pay money or provide services.[16] Certain statutory requirements are triggered by such conditions when imposed on an "individual and discretionary basis."[17] The statutory requirements applicable to this type of condition are more stringent than the requirements applicable to impact fees because they are imposed on a case-by-case basis depending upon the impacts of an individual project rather than on a legislatively adopted fee schedule. Counties have used this discretionary authority to impose conditions on new development for many years based on the general authority of the land use statutes. An example of a discretionary condition would be the requirement that a developer pave a particular stretch of the road specifically impacted by traffic from the project.

According to the statute, a discretionary condition must be based on "duly adopted standards that are sufficiently specific" to demonstrate that the condition is rational

[16] *See, e.g.,* Beaver Meadows v. Board of County Comm'rs, 709 P.2d 928 (Colo. 1985).
[17] C.R.S. Section 29-20-203(1).

and consistent.[18] Examples of standards include paving width and thickness for roads or acres of park land per residential unit.

The statute sets up a two-part test to measure the validity of the condition. First, there must be an essential nexus between the dedication or payment and a legitimate local government interest, and second, the dedication or payment is roughly proportional in both nature and extent to the impact of the proposed use or development of such property.[19]

To satisfy the first prong of the test, the condition must relate directly to a legitimate governmental objective. Assuming that providing housing is a legitimate County objective then a requirement to dedicate land or pay a mitigation fee must relate directly to providing employee housing.

To satisfy the second prong of the test, the amount of the dedication of land or payment of money must be roughly proportional to the impact of the development. In the context of a housing dedication or fee, the County must demonstrate impacts to employee housing caused by that particular development and that the amount of the dedication or fee is proportionate to the extent and degree of that impact.

The employee housing fee being considered by the County is not really a discretionary condition because it would be based on a legislated formula applicable to broad classes of development. Nevertheless, it is likely to satisfy the statutory test for discretionary conditions imposed on development so long as the County land use code clearly includes a requirement that new development mitigate a certain percentage of employee housing needs caused by a particular development. The background study clearly shows a relationship between the square footage of construction and the need for employee housing, and the total fee assessed against the development is roughly proportionate to the cost to offset the need for housing caused by the development. Thus, the methodology used by the County to justify the imposition of housing mitigation is more than adequate to support a mitigation requirement under the statutory discretionary condition authority even if it were found not to qualify as an impact fee under the impact fee statute.

Conclusion and Recommendations

Assuming that counties have the statutory authority to address the need for employee housing, the employee housing mitigation process under consideration probably satisfies both the statutory requirements applicable to impact fees and to discretionary conditions on land use approvals. As an impact fee, the fees collected can be used only for capital facilities as that term is defined by statute. The County must incorporate the requirement to pay the fee into its land use regulations and a fee schedule must be adopted by resolution.

[18] § 29-20-203(2).
[19] § 29-20-203(1).

Because the County's analysis in support of housing mitigation so thoroughly demonstrates the relationship between the need for housing and the number of employees generated per square foot of new development, and because the fee will be calculated on the basis of the actual square footage of an individual development, the housing mitigation fee also satisfies the more stringent statutory requirement for discretionary conditions on development approvals. Thus, if a court were ever to decide that counties cannot assess employee "impact fees," the County would still have the authority to calculate the actual impact to employee housing caused by a development proposal and to require the developer as a condition of approval to mitigate that impact.

The following recommendations should be considered when adopting an employee housing mitigation system:

1. Ensure that providing employee housing is a clearly articulated goal in the County Master Plan.

2. Amend the development permit sections of the County land use regulations to require that all new development mitigate impacts to employee housing needs as a condition of approval.

3. Adopt a fee schedule by resolution. Include within the resolution the purposes for which the fee may be used. Note that if the County intends that the fee constitute a statutory impact fee, then it can be used solely for capital facilities.

4. As the amount of fee is calculated for a development project, provide supporting documentation of the amount of square footage that was applied to determine the total fee.

5. Include language in the County land use regulations that allows the County to require employee housing mitigation in addition to the amount of any flat fee if evidence shows that the particular development will generate a greater need for employee housing than will be mitigated by the fee.

6. Include language in the County land use regulations that provides an administrative appeal process for the housing mitigation fee or other mitigation requirement.

7. If the County chooses to impose a legislatively adopted impact fee and to require mitigation of impacts to housing needs on a case-by-case basis, the total of both requirements cannot exceed the actual impact of the project to employee housing (i.e. no double dipping).

8. Avoid any system that would regulate rental rates to avoid violating the prohibition against rent control used to invalidate a portion of the Telluride affordable housing program.[20]

[20] *See* Telluride v. Lot Thirty-Four Venture, 3 P.3d 30 (Colo. 2000).

Part II. Demonstration of Need

Employee Housing in San Miguel County

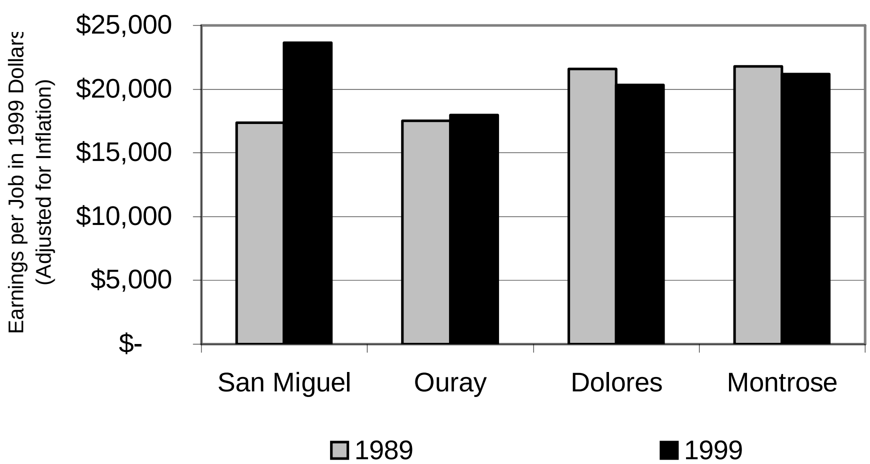
For nearly two decades affordable housing has been an issue for San Miguel County. The collision of a growing job market and an increasingly expensive housing market has created a basic supply and demand imbalance between workers and housing.

This section demonstrates the need both for employee housing and the need to charge land developers an impact fee for creating employee housing.

Past Trends & Existing Conditions: Jobs, Income & Labor Demand

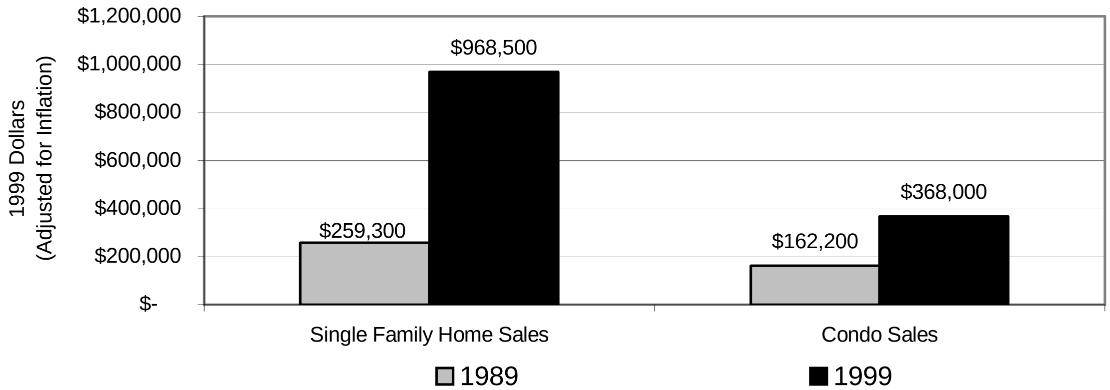
Amenity development and resort activity combined to create 9.3% annual job growth between 1990-2000. Earnings per job have climbed even more rapidly, and eclipse the earnings growth of every other County in the region (see **figure 1**).

Figure 1. Earnings per Job for San Miguel County and Nearby Counties



However, San Miguel County's 36% increase in *real* earnings per job (i.e. adjusted for inflation) during the 1990's is overshadowed by a simultaneous 274% increase in median free market single family home sale prices and a 127% increase in median free market condominium prices (1999 dollars). Median single family home prices have grown more than 7 times faster than earnings per job and condominium prices have grown at nearly 4 times the rate of locals' buying power. **Figure 2** demonstrates this increase in housing sale price dollars (adjusted for inflation).

Figure 2. Median Single Family Home and Condominium Sale Prices, R-1 School District



It is difficult for employees filling new jobs to find housing for purchase or afford rents in a housing market experiencing this kind of inflation. Increased pressure on the housing stock has driven prices upwards to such an extent that even with 30% of the workforce living in deed restricted housing (see **Figure 2**), 27% of San Miguel County households are cost burdened by their housing payments[21]. Expensive housing is directly contributing to the 2,200 daily commuters coming into the County to work in 2002. Many of these workers commute from Ouray, Montrose, and Dolores Counties.

San Miguel County and its municipalities are not yet built-out and State economists and demographers are projecting continued positive employment growth accompanying future development[22].

Commuting

If employee housing does not keep pace with employment growth, more commuting will result and the working resident population will become an ever-diminishing proportion of the total population of San Miguel County[23]. In fact, the number of commuters should be expected to increase by 250% in the next 15 years without an accompanying increase in employee housing. These commuters will account for approximately one-half of the total workforce if current trends continue.

County housing policy 2-2901 states that it is the County's intention to alleviate "overcrowding, excessive commuting, and social instability." Increased commuting traffic puts strain on both the viability of the workforce and the transportation infrastructure.

[21] 2000 San Miguel County Housing Needs Assessment, Pg. 79. Households are cost burdened when they spend more than 30% on their housing payments.
[22] http://dola.colorado.gov/demog/Economy/cbeflf.cfm
[23] Population types that could tend to decrease the proportion of working residents include: commuters, part-time residents, and tourists. Population is used to mean all of the people in the County at any single time.

Between 1987 and 1999, traffic on highway 145 at Ilium Road more than doubled[24] and further disperses onto County Roads and Town Streets creating the need for capacity related road improvements and increased maintenance at the State, County, and Municipal levels. Increased traffic flows on roads not designed to handle these volumes often necessitates expensive (and sometimes undesirable) road expansions.

The 2000 Housing Needs Assessment identified several problems related to commuting that affect the long term viability of the workforce. 62% of employers in San Miguel cited the lack of affordable housing as adversely affecting the performance of their employees. A majority of the survey group cited tardiness from long commutes as a major problem, and most employers also concluded that high worker turnover, related to long commutes, is a major problem.

An increasing proportion of commuters into San Miguel County can also adversely affect other communities. Bedroom communities such as Ridgway, Placerville, and Rico are forced to shoulder the increased public service and facility demands driven by population growth that was originally fueled by job growth in San Miguel County. Bedroom communities rarely reap the benefits of the commercial activity employing their residents.

For these reasons, and many others not mentioned in this abbreviated description of the employee housing problem, San Miguel County, the Towns of Telluride and Mountain Village and many communities throughout the West with similar conditions, have undertaken programs to increase the supply of housing at prices that local employees and their families can afford.

Part III. Employment Generation & the Mitigation Rate

Employment Generation

Employment generation refers to the quantity of employees resulting from a particular type of development of a specific size. Developing a vacant piece of land nearly always results in new labor force demand (i.e. need for additional employees that were not needed previously). For example, if a developer builds a new gas station/convenience store where none existed before, new employees will be required to operate this convenience store. Residential and non-residential land uses alike generate employment.

Determining the employment generation by differing development types is a critical component of determining an employee housing impact fee schedule.

[24] According to the CDOT traffic count database (http://www.dot.state.co.us/), traffic at South Fork Road (Illium Road)increased from 1950 average daily trips in 1987 to 4202 average daily trips in 1999.

Non-Residential Employment Generation Rates

RRC Associates, a Boulder based consulting firm, has been building a database for the past decade that consists of the results of several employer surveys aimed at establishing employment generation rates for various non-residential land uses. Four of the surveys used to build the database were conducted in San Miguel County and Telluride, and the rest were based in high-amenity/resort regions that share many characteristics with San Miguel County.[25]

The high number of responses increases confidence and statistical significance. The table of employment generation used in this analysis is based on the merged database and comes from a 2001 report[26] conducted for the Town of Telluride. RPI has analyzed the RRC report and determined that it meets all reasonable tests of significance and the generation numbers are considered to be accurate and based on the best information now available.

Figure 3. Non-Residential Employee Generation

Type of Use	2001 Composite Database FTEs per 1000 Sq. Ft.
Restaurant/Bar	6.5
Education	2.3
Finance/banking	3.3
Medical profession	2.9
Other professional services	3.7
Personal services	1.3
Real estate/property management	5.9
Retail	3.3
Recreation/amusements	5.3
Utilities	2.9
Overall	4.4
Lodging/hotel	0.3/unit

Residential Employment Generation

Like non-residential, residential development also generates employees. In addition to the spike of employment generated during the construction phase, the residence generates a demand for on-going maintenance and services such as property management, condominium and homeowners associations, landscaping, employees hired directly by the homeowner, minor carpentry, housekeeping, houseplant care, hot tub maintenance, etc.

25 Chaffee County: 1994, Copper: 2001, Eagle County: 1990, 1996, 1999, Estes Park: 1991, 1999, Frisco: 1998, Gunnison County: 1992, 1998, Keystone: 2001,Pitkin County: 1991, Routt County : 1990, San Miguel County: 2000 (plus Telluride 2001),Snowmass Village: 1999,Summit County: 1990, 2001,Telluride: 1993, 1996,Composite of Pitkin, Eagle, and Garfield Counties: 1998, Blaine County, ID: 1990, 1996

26 The report is called Telluride 2001 Employment Generation Ratios and is available through the Telluride Town Manager's Office.

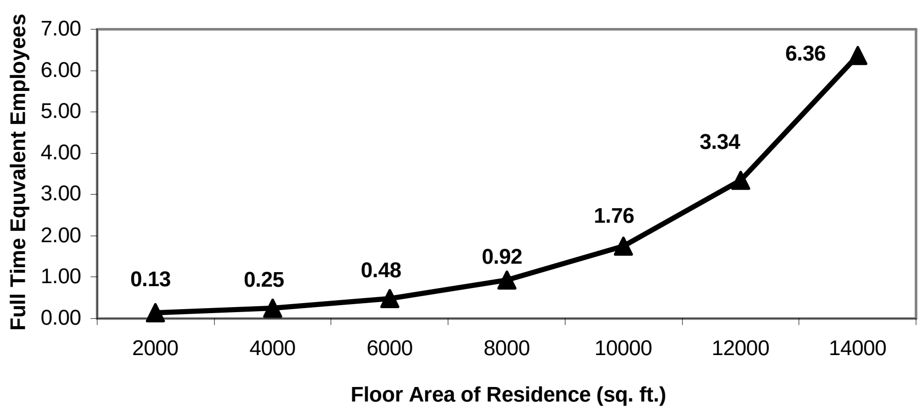
The December 2000 report by RRC Associates and The Housing Collaborative entitled *Residential Job Generation Study* (available from the San Miguel County Planning Office) provides statistically sound quantitative information regarding the amount of employment residential development generates both during construction and for ongoing maintenance and services. The data used in the analysis are based on a notably large survey (2,792 responses) conducted by RRC in 4 high-amenity, resort communities: San Miguel County, Gunnison County, Breckenridge/Upper Blue region, and Teton County, WY. As noted previously, RPI has deemed the methodology sound and all necessary adjustments are addressed. For example, RRC analysts designed the survey and the analysis so that they would not include work conducted by the occupants of the home in the employment generation figures.

The RRC report finds that as house size increases, so does the employment generation; both during construction and afterwards for ongoing maintenance & services for the residence. Two reports recently conducted in Pitkin County[27] found a similar positive relationship between the size of the residence and the employment generated. This finding makes intuitive sense because a larger homes will simply require more employees, particularly if the house is used to capacity on a regular basis. Naturally, a larger home takes more time and resources to build and maintain and will therefore generate additional employees. Ongoing maintenance and services might include minor carpentry, interior decorating, etc.

Ongoing Maintenance and Residential Services:

The RRC study finds a positive exponential relationship between the size of homes and the employment they generate.

Figure 4. Job Generation Curve for Ongoing Residential Maintenance and Services



The curve in **figure 4** is based on and exponential relationship outlined in **Appendix 4**. This curve establishes the statistical relationship between house size and employee generation. Clearly, larger residences generate more employees than smaller ones.

[27] *Residential Construction Workforce Dynamics* (1999) and *Post-Construction Residential Workforce Dynamics* (1999), both conducted and written by Gabe Preston.

See the *Residential Job Generations* (RRC) study for methods, data, and other details.

Construction

The RRC study concludes that the construction of each 1000 ft. of the total floor area of the average home requires 4.4 FTE/years. One FTE/year is equivalent to one full-time employee (approximately 2,000 hrs/year) working for 1 year. In order to convert this figure into a permanent full-time equivalent employee (FTE- the standard unit used when estimating residential employee demand), RPI divided the FTE years by 40 (average career length) to obtain total FTEs.

Figure 5 outlines the number of FTE's generated during the construction phase of residences for a sampling of square footages. Again, it is clear that residences with more square footage generate more employees than those with less square footage.

Figure 5. Residential Floor Area and FTE's

Floor Area (Sq. Ft.)	FTE's
2,000	0.22
4,000	0.44
6,000	0.66
8,000	0.88
10,000	1.1
12,000	1.32
14,000	1.54

Current Mitigation Rate

The employee housing mitigation program currently employed by the County is a percentage-based approach that applies to subdivision or multi-family development within the R-1 School District. The regulations require that 15% of all residential units in new subdivisions or multi-unit developments with 7 or more units be deed-restricted. The regulations also require that commercial development provide housing for 15% of the employees generated by the development.

A percentage based housing mitigation rate is appropriate given the nature of the employee housing issue because it provides a straightforward approach to achieving the goal of maintaining working locals living in the County. Under a percentage based mitigation system each new development, whether it be a home, a convenience store, or a commercial warehouse is required to provide housing (or cash in lieu for housing) for a certain percentage of the employees it generates.
The current housing mitigation system is failing to produce enough housing to cover the needs of the workforce generated by economic activity in San Miguel County.

The current housing mitigation system, originally adopted in 1990, has produced 11 deed-restricted units, enough housing for approximately 16 employees[28].

With an increase of nearly 3,300 jobs countywide in the last decade, there is no doubt that economic activity in the unincorporated County has generated more than 16 new employees during the 1990's. This is partly due to the fact that residential mitigation is required under the current Code only when a property is subdivided into 7 or more lots under the County's subdivision regulations (i.e. not for 35 acre subdivisions). However, the current mitigation rate (15%), legislated in 1990 neither fits the needs of today's market nor reflects the level of commitment to employee housing by San Miguel County, the Towns of Telluride and Mountain Village, the San Miguel County Housing Authority, the West Central Housing Development Organization, the R-1 School District, or private sector developers that have developed deed restricted housing.

Part IV. Employee Housing Mitigation Rate

The Mitigation Rate

The mitigation rate determines the percentage of employees generated by development for which the developer will be required to provide housing (or cash in lieu of) in order to maintain current service levels (i.e. 30% living in deed restricted housing). For example, if a developer builds a convenience store that is expected to generate 3 new employees that developer will be required to mitigate for 30% (or approximately 1) of those new employees. I

Currently, 30% of the employees working in the R-1 School District boundaries live in deed-restricted housing. See **Appendix 1** for a full description of the calculations/data summarized in **figure 6**. This is a crucial proportion because fundamentally, an impact fees is a tool to charge new development its fair share of its impact on a physical asset provided by a local government. The most durable and fair impact fees only charge new development to maintain existing "levels of service", which in the case of affordable housing is expressed as the proportion of the workforce living in deed restricted housing. Therefore, the County is fully justified in charging new development for its share of the cost of maintaining this proportion, but is essentially limited from requiring that developers provide housing or cash for housing for more than 30% of the employees they generate until the observed proportion increases. Such an increase would have to be accomplished using avenues other than impact fees.

The County's current 15% mitigation system, while it may have been appropriate for the circumstances in 1990, will likely contribute to an erosion of the current proportion of the local resident workforce living in deed-restricted housing. That is to say, in addition to the problem of only mitigating for new subdivisions (of which there are few), the mitigation from each subdivision development will fall short of

[28] The unincorporated County actually contains 191 deed restricted units, most of which originated under the affordable housing PUD regulations The 11 mitigation units were units built in the Aldasoro Subdivision.

the existing service level by 15%. Unmitigated development will contribute to a proportionate decline in the working resident population living in employee housing (and thus in San Miguel County) over time.

This method utilizes existing affordable housing (+ land dedicated to affordable housing) and employees housed as a baseline for service levels. This methodology ensures that 30% of all new employees generated by development in the County will be mitigated (i.e. fee revenue will be used to build employee housing for them).

Because 30% of the total number of employees generated by San Miguel County's job market are housed in deed restricted housing provided by various jurisdictions in the county, the level of service is 30%. To maintain this number (as a percentage of the total workforce) of employees living in deed restricted housing requires that the all new developments mitigate for 30% of all new employees generated. Again, in other words, if a new business is developed on a vacant piece of land that generates 3 new employees, that business will be required to mitigate (i.e. provide employee housing or cash in lieu) for approximately 1 of those employees.

The level of service and mitigation rates are crux numbers in impact fee calculations but are not static and may change over time. For example, if employee demand were to remain the same or decline, and simultaneously more employee housing units were to be built (perhaps paid for by a grant or other revenue such as a dedicated mill), the level of service would increase. Thus the overall fee schedule would increase. RPI recommends that this fee schedule be evaluated and updated every two years at a minimum.

Figure 6. Existing Employee Housing Service Level

Deed Restricted Units in R-1 School District	968
Employees in Deed Restricted Units	1,549
R-1 School District Employed Persons Demand	5,140
% of Labor Force in Deed Restricted Units	30%

Part V. Subsidy

As discussed in Part I, San Miguel County housing costs are rising faster than employees' earning power. Underlying this trend is a steady inflation of hard and soft development costs in addition to rising land costs. Consequently, developing employee housing in San Miguel County requires significant subsidies.

All of the recent employee housing projects have required subsidies. Employees are unable to cover the total development costs of projects with mortgages or rents that are affordable. The gap is widening between the costs of developing housing and employees' ability to pay for the development of this housing. Types of subsidies typically include cash contributions from local governments, land donations (by local governments or the school district), and State grants (primarily HOME funds).

In order to establish a housing mitigation fee, RPI closely examined the budgets of 4 recent employee housing projects covering the range of income categories. Budget information was obtained directly from the entities involved in developing the projects: Town of Telluride, San Miguel County, Mountain Village, Western Central Housing Development Organization, and Telluride School District R-1. Land value information was obtained from the development entities for all projects with the exception of Village Court[29]. **Figure 7** summarizes the results of this analysis.

Figure 7. Subsidy Analysis

	Wilkin Court	Village Court Expansion	Rio Vistas II	School District Four-Plex	Total
Project Development Cost	$ 2,405,692	$ 7,198,000	$ 1,504,000	$ 498,000	$ 11,605,692
Cash Subsidy	$ 105,000	$ 600,000	$ 500,000	$ -	$ 1,205,000
Land Subsidy Value	$ 700,000	$ 3,402,400	$ 508,100	$ 200,000	$ 4,810,500
Waived Fees	$ 5,200	$ 336,200	$ 62,000	$ -	$ 398,200
True Cost	$ 3,210,692	$ 11,536,600	$ 2,574,100	$ 698,000	$ 18,019,392
Total Subsidy	$ 805,000	$ 4,338,600	$ 1,070,100	$ 200,000	$ 6,413,700
Units	13	66	10	4	93
Subsidy per Unit	$ 61,923	65,736	$ 107,010	$ 50,000	$ 69,000
Weighted Average Subsidy per Unit	$ 69,020				

The weighted average subsidy per unit is $69,000. The average weighs the mean based on the number of units at each subsidy per unit rate, and is therefore the most accurate expression of the mean subsidy per unit.

The per unit subsidy divided by the target employees per housing unit for employee housing in San Miguel County (@ 1.5 employees/ unit), yields:

Per Employee Subsidy = $46,013

That is, on average, each employee requires $46,013 in subsidy in order to make a housing unit affordable. Once the number of employees generated by a development is determined (part II) and the number of those employees to be mitigated is established (30% - part IV) it is multiplied by the per employee subsidy. The resulting product reveals the base fee. This base fee is then modified by the credit discussed in the next section (part VI).

Part VI. Credit For Housing Sales Tax

Credits are an important component of impact fee calculations because they recognize that developers may have/will be paying some money towards employee housing through local government fees and taxes other than the impact fee. A properly constructed credit identifies these payments and credits them as payment

[29] Land value information was not available for the land upon which the 66 unit expansion was built, so RPI analysts calculated the average land cost per unit ($51,552/Unit) for the 3 other projects and multiplied this by 66 units to get the estimated land value of land required for the Village Court Expansion.

toward the fee. This eliminates the possibility of "double dipping" and ensures an accurate and equitable fee is being charged for a developers fair share.

Because the housing programs employed by Telluride, Mountain Village, and San Miguel County are all targeted at housing employees working in the R-1 School District, some of the employees generated by activity in unincorporated portion of the R-1 school district (the area to which the housing impact fee will apply) will undoubtedly live in Telluride or Mountain Village employee housing. Both Telluride and Mountain Village currently possess a .5% sales tax earmarked for affordable housing that can be used to build housing or pay off housing related debt. Therefore, a portion of employees generated by activity in the unincorporated County could reside in housing funded, in part, by the earmarked sales taxes in Telluride and Mountain Village.

The need for a credit arises from the fact that occupants of new residences in the unincorporated portion of the R-1 school district will be required to pay their share of the cost of housing the employees they generate, but they are also likely to buy retail goods in Telluride and Mountain Village, and will likely pay into the earmarked housing funds in both Towns. As stated above, some of this sales tax revenue may be allocated to pay for housing for a certain portion of the employees generated by activity in the unincorporated portion of the R-1 school district. In order to avoid a double-mitigation situation in which developers are charged an impact fee and a sales tax to build housing for the same portion of employees, RPI has calculated an employee housing sales tax credit.

The first step in calculating the credit is to determine what portion of the sales taxes revenues are generated by the residential population[30] in the unincorporated County, and how much housing this revenue could produce in the future. RPI recommends that the affordable housing sales tax credit be based on retail spending and taxation 10 years into the future. Crediting for sales tax revenues any farther into the future may result in over-crediting. San Miguel County has no authority over municipal housing and tax policies and the sales taxes could be abolished or re-allocated regardless of County action. See **Appendix 3** for a detailed discussion of the methodology for establishing the credit amount.

The most straightforward way to address the credit is to subtract it directly from the per employee subsidy. The credit amounts to a $276 discount to the per employee subsidy.

Figure 8. Subsidy Discounted for Telluride Sales Tax Credit

Credited Subsidy per Unit	$ 68,610
Credited Subsidy Per Employee	$ 45,740

[30] The population occupying residences, vs. lodging units, day visitors, etc.

Other Credits/Exemptions

Development in any subdivision/PUD that was approved under the current land use code that was previously required to deed restrict lots or units to meet the housing mitigation requirements (in the existing code) should be exempt from the requirements of this fee structure (i.e. paying the employee mitigation fee). Aldasoro may be the only such development that is exempt under this provision.

If the County decides to adopt measures requiring mitigation for additions (i.e. additions to existing structures or re-models that would add square footage) to existing residences, they may want to exempt properties that had previously been required to produce ADU's (to exceed the 5000 sq. ft. threshold) from the requirements of this fee structure (i.e. paying an employee mitigation fee).

Part VII. Fee Schedule

Residential Development Employee Housing Mitigation Fee Schedule

Fee Schedule

The total FTEs generated by ongoing services and maintenance were calculated using the formula established by RRC[31] (see Part II.). Construction FTEs, also described in the Employment Generation section, were calculated by multiplying the sq. ft. (1,000's) by the construction employment generation rate established by RRC (in FTE/years) and divided by a 40-year career length. Finding the ongoing maintenance and service FTE's *required to be mitigated at a 30% mitigation rate* is a matter of multiplying the FTEs generated by 30% (in **figure 9**, column 3 multiplied by 30% equals column 6).

Finding the construction FTEs required to be mitigated at a 30% rate is considerably more complicated. Once the unit is built, it requires maintenance and services in perpetuity. However, construction firms can build a certain amount of square-footage one year and move on to the next year without increasing employee numbers. Thus, it is necessary to approach the construction component of the impact fee in terms of how each residential unit contributes to overall growth in construction employees. The result is a construction mitigation rate that starts at a low rate and increases each year over time. See **Appendix 2** for a full description of the construction mitigation rate through 2010. The FTEs to be mitigated in f**igure 9** are the product of the FTEs generated, multiplied by the 2003 mitigation rate (1.5%).

[31] $Y = .070174e^{.000322 * a}$

Figure 9. 2003 Employees to be Mitigated Under the 30% Mitigation Rate by Sq. Ft.

Sq. Ft.	FTEs Generated (maint./services)	FTEs Generated (construction)	FTEs Mitigated (maint./services)	FTEs Mitigated (construction in 2003)	Total FTEs Mitigated (2003)
1,000	0.10	0.11	0.03	0.002	0.031
2,000	0.13	0.22	0.04	0.003	0.043
3,000	0.18	0.33	0.06	0.005	0.060
4,000	0.25	0.44	0.08	0.007	0.083
5,000	0.35	0.55	0.11	0.008	0.114
6,000	0.48	0.66	0.15	0.010	0.155
7,000	0.67	0.77	0.20	0.012	0.212
8,000	0.92	0.88	0.28	0.013	0.290
9,000	1.27	0.99	0.38	0.015	0.397
10,000	1.76	1.1	0.53	0.017	0.543
11,000	2.42	1.21	0.73	0.018	0.745
12,000	3.34	1.32	1.00	0.020	1.023
13,000 +	4.61	1.43	1.38	0.021	1.405

Applying this process through the year 2007 results in an employee mitigation by square footage under the 30% mitigation approach summarized in **figure 10.**

Figure 10. FTEs Required to be Mitigated by Residence Sq. Ft. Under 30% approach

Sq. Ft.	2002	2003	2004	2005	2006	2007
1,000	0.03	0.03	0.03	0.03	0.03	0.04
2,000	0.04	0.04	0.05	0.05	0.05	0.05
3,000	0.06	0.06	0.06	0.07	0.07	0.08
4,000	0.08	0.08	0.09	0.09	0.10	0.10
5,000	0.11	0.11	0.12	0.13	0.13	0.14
6,000	0.15	0.16	0.16	0.17	0.18	0.19
7,000	0.20	0.21	0.22	0.23	0.24	0.25
8,000	0.28	0.29	0.30	0.31	0.32	0.33
9,000	0.38	0.40	0.41	0.42	0.43	0.45
10,000	0.53	0.54	0.56	0.57	0.59	0.60
11,000	0.73	0.74	0.76	0.78	0.79	0.80
12,000	1.00	1.02	1.04	1.06	1.07	1.09
13,000 +	1.38	1.41	1.43	1.44	1.46	1.48

Having established the number of employees to be mitigated, calculating the fee is simply a matter of multiplying the number of employees to be mitigated by the per employee subsidy, credited for Telluride sales tax. The entire fee calculation formula follows:

$$\text{Fee} = \{ [(.070174e^{.000322*\text{sq. ft.}}) * (\text{mitigation rate})] + [(\text{sq. ft.} * .0044) * (\text{mitigation rate for that yr.})]/40 \} * (\text{Per Employee Subsidy - Credit})$$

maintenance-services FTEs

construction FTEs

Figure 11 summarizes the fees for the 30% mitigation approach in 1000 sq. ft. increments through 2007.

Figure 11. Residential Development Employee Housing Mitigation Fee 1000 sq. ft. Intervals for 30% Mitigation Approach.

Sq. Ft.	2002	2003	2004	2005	2006	2007
1000	$ 1,329	$ 1,404	$ 1,475	$ 1,540	$ 1,595	$ 1,651
2000	$ 1,833	$ 1,984	$ 2,125	$ 2,256	$ 2,367	$ 2,477
3000	$ 2,530	$ 2,756	$ 2,967	$ 3,164	$ 3,330	$ 3,496
4000	$ 3,491	$ 3,793	$ 4,074	$ 4,336	$ 4,557	$ 4,779
5000	$ 4,817	$ 5,194	$ 5,546	$ 5,873	$ 6,150	$ 6,427
6000	$ 6,646	$ 7,099	$ 7,522	$ 7,914	$ 8,246	$ 8,578
7000	$ 9,170	$ 9,699	$ 10,192	$ 10,650	$ 11,037	$ 11,425
8000	$ 12,654	$ 13,258	$ 13,821	$ 14,344	$ 14,787	$ 15,230
9000	$ 17,460	$ 18,139	$ 18,773	$ 19,362	$ 19,860	$ 20,358
10000	$ 24,092	$ 24,847	$ 25,551	$ 26,205	$ 26,759	$ 27,312
11000	$ 33,243	$ 34,074	$ 34,848	$ 35,568	$ 36,177	$ 36,785
12000	$ 45,871	$ 46,776	$ 47,621	$ 48,406	$ 49,070	$ 49,735
13000	$ 63,294	$ 64,275	$ 65,191	$ 66,041	$ 66,761	$ 67,480

Non-Residential Development Employee Housing Mitigation Fee Schedule

RRC Associates has been building a database for the past decade that consists of the results of several employer surveys aimed at establishing employment generation rates for various non-residential land uses. Four of the surveys used to build the database were conducted in San Miguel County and Telluride, and the rest were based in high-amenity/resort regions that share many characteristics with San Miguel County.

Figure 12. Inventory of Surveys Constituting RRC's Merged Employer Database:

• Chaffee County: 1994 • Copper: 2001 • Eagle County: 1990, 1996, 1999 • Estes Park: 1991, 1999 • Frisco: 1998 • Gunnison County: 1992, 1998 • Keystone: 2001 • Pitkin County: 1991	• Routt County: 1990 • San Miguel County: 2000 (plus Telluride 2001) • Snowmass Village: 1999 • Summit County: 1990, 2001 • Telluride: 1993, 1996 • Composite of Pitkin, Eagle, and Garfield Counties[32]: 1998 • Blaine County, ID: 1990, 1996

The high number of responses increases confidence and statistical significance. The table of employment generation used in this analysis is based on the merged database and comes from a 2001 report[33] conducted for the Town of Telluride when the Town was evaluating their employment generation figures.

[32] Source: Healthy Mountain Communities surveys of 1997/98 season
[33] The report is called Telluride 2001 Employment Generation Ratios and is available through the Telluride Town Manager's Office.

Figure 13 lists the per 1000 sq. ft. FTE generation rates from the RRC study and calculates the fee at the 30% mitigation level.

Figure 13. FTE Generation Rates for Non-Residential Development

Type of Use	2001 Composite Database FTEs per 1000 Sq. Ft.	Fee per 1000 sq. ft. @ 30% Mitigation
Restaurant/Bar	6.5	$ 89,193
Education	2.3	$ 31,561
Finance/banking	3.3	$ 45,283
Medical profession	2.9	$ 43,910
Other professional services	3.7	$ 39,794
Personal services	1.3	$ 50,771
Real estate/property management	5.9	$ 17,839
Retail	3.3	$ 80,960
Recreation/amusements	5.3	$ 45,283
Utilities	2.9	$ 72,727
Overall	4.4	$ 39,794
Lodging/hotel	0.3/unit	$ 60,377

Part VIII. Cash Flow Projections

Rather than attempting to project the rate of residential and non-residential construction based on size or type, RPI employed a historical trend cash-flow analysis. RPI applied building permits issued in the unincorporated County for the years 1997-2001 to the fee structures offered in this support study. It should be noted that there are some limited portions of the County in which building permits are not required-- these areas are outside of the R-1 School District. This analysis shows the quantity of impact fee revenue San Miguel County might have collected for those years if it had adopted this fee structure in 1997. This historical knowledge, when combined with the current fee schedules yields a reasonable estimate for future revenues.

The cash-flow assumes that all development would have chosen to pay cash instead of providing housing for the employees generated. The revenues also assume an inflation adjustment to the fee revenue based on the increase in the Denver/Boulder CPI during that time period.

The cash flow analysis accounts for the mitigation level 30% and possible exemption thresholds. San Miguel officials have expressed an interest in the possibility of exempting residences below various size thresholds. RPI has created cash flow analyses for four scenarios: 1) all residences charged the fee, 2) residences less than or equal to 1000 square feet are exempted, 3) residences 1800 sq. ft. and less are exempted (the size threshold for building permit discounts), and 4) residences of less than 3000 sq. ft. are exempted.

Figure 14. Cash Flow Scenarios

	Scenario 1. Fee Applies to All Residences
1997	$ 232,583
1998	$ 194,041
1999	$ 287,515
2000	$ 341,300
2001	$ 289,629
Total	**$ 1,345,068**
	Scenario 2. Fee Applies to Residences > 1000 sq. ft.
1997	$ 217,615
1998	$ 184,253
1999	$ 282,760
2000	$ 339,582
2001	$ 282,357
Total	$ 1,306,567

	Scenario 3. Fee Applies to Residences > 1800 sq. ft.
1997	$ 203,718
1998	$ 168,533
1999	$ 197,030
2000	$ 314,626
2001	$ 250,754
Total	$ 1,134,660
	Scenario 4. Fee Applies to Residences > 3000 sq. ft.
1997	$ 171,517
1998	$ 142,358
1999	$ 162,350
2000	$ 290,975
2001	$ 213,068
Total	$ 980,269

C.R.S. 29-20-104.5 (5) states:

> *A local government may waive an impact fee or other similar development charge on development of Low or Moderate income housing or employee employee housing as defined by the local government.*

While this language clearly enables the County to waive fees on employee housing, it is important that the definition of employee housing in the waiver is consistent with other County policies. While San Miguel could clearly waive deed restricted employee housing, it is advisable that the fee revenue waived for free market housing under a certain size threshold be made up with other funds (e.g. general fund revenues). For the three exemption thresholds in the cash flow analysis above, the total amount of revenue the County would need to make up is contained in **figure 15**.

Figure 22. Amount of Revenue Waived at Each Exemption Threshold

Size	Revenue needed from other sources
< = 3000 sq. ft.	$ 72,725
< = 1800 sq. ft.	$ 41,847
< = 1000 sq. ft.	$ 7,465

SECTION 2

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Appendix 1: Mitigation Rate Method, Percentage of R-1 School District Workforce Living in the Deed Restricted Housing

This appendix contains general description of the mitigation and level of service methodologies, followed by a series of equations leading to the conclusion that 30% of the employees working in the R-1 School District currently reside in deed-restricted housing. Following the equations are detailed derivations, explanations, and data sources of the components of the equations.

Methodology

RPI collected the most up-to-date existing (i.e. built) deed restricted housing and developable land owned by entities intending to develop employee housing. The parcels of land were converted into land-housing unit equivalents (land unit equivalents) based on value and the total units were multiplied by the estimated employees per dwelling unit to yield the number of employees living in Deed Restricted housing. RPI then divided the number of employees living in deed restricted housing in the R-1 School District by the workforce employed in the R-1 School District. This yields the percent of total workforce living in deed restricted housing.

Equations

Where,

Employees Living in DRH = (# of Existing DRH Units + Land Unit Equivalent) * Employees per Unit

And,

San Miguel County Labor Force Demand * (R-1 School District Jobs / San Miguel County Jobs)

= Labor Force Demand in R1 School District

% of workforce Living in the Deed Restricted Housing = Employees Living in DRH / Labor Force Demand

Derivations of the Components of The Equations

<u>Number of Deed Restricted Units</u>

RPI analysts obtained the current number of deed restricted units by asking housing and planning officials in San Miguel County, Town of Telluride, and Mountain Village to update the inventory contained in the 2000 San Miguel County Housing Needs Assessment. Based on the most up to date inventories, the number of existing deed restricted units in each jurisdiction is presented in **figure 1**.

Figure 1. Deed Restricted Housing Inventory

Jurisdiction	Existing Units
Unincorporated County	191
Town of Telluride	220
Town of Mountain Village	463
Total	**874**

Land Unit Equivalent Units

Land costs constitute a large portion of the true cost of providing employee housing. In the process of calculating the subsidy RPI gathered information with which to calculate the land cost per unit for four recent employee housing projects as well as the per unit total subsidy. Dividing the per unit land cost by the total subsidy for each project yields the proportion of the total subsidy attributed to land costs. The average for the four projects used throughout this report is 78%.

Figure 2. Land Cost / Total Subsidy for Four Recent AH Projects

	Wilkin Court	Village Court Expansion	Rio Vistas II	School District Housing
Land Cost Per Unit	$ 53,846	$ 51,552	$ 50,810	$ 50,000
Subsidy Per Unit	$ 61,923	$ 65,736	$ 107,010	$ 50,000
Land Cost/Total Subsidy	87%	78%	47%	100%
Average Land Cost/Total Subsidy			**78%**	

The town of Telluride owns land that can accommodate 45 units, the County owns land designated for housing to accommodate 62 units, and WCHDO possesses land enough to accommodated 13 units. Because land costs make up 78% of the total subsidy for an employee housing unit, owning land to accommodate Y units is equal to having already subsidized Y units x 78%. In a sense, these land unit equivalents (summarized in **figure 3**) are deed-restricted units “in the bank”.

Figure 3. Land Unit Equivalents

Entity	Land-Unit Equivalents
Unincorporated County	49
Town of Telluride	35
WCHDO	10
Total	94

The functional total of deed restricted units in San Miguel County is presented in **figure 4**.

Figure 4. Total Deed Restricted Units

Existing Deed Restricted Units	874
Land Unit Equivalents	94
Total Deed Restricted Units	968

Employees per Residential Unit

The labor force participation rate (calculated by dividing the 2000 Census San Miguel labor force by the 2000 Census population) multiplied by the average household size (also obtained from 2000 Census) yields the average employees per household in San Miguel County.

Figure 5. Employees per Residential Unit - San Miguel County 2000

Labor Force Participation Rate	71%
Average Household Size	2.2
Employees per Housing Unit	1.6

Labor Force Demand

2000 Labor Force Demand is calculated in the following steps:

1. RPI began with job estimates and 5 year incremental projections from 1990-2015. [34]
2. Analysts then divided jobs by a multiple job holding rate (1.2 for 2000) available from Demography Section projection worksheets to obtain employed persons demand.
3. Employed persons demand was adjusted upwards to account for local the unemployment rate (3.4% in year 2000).

2000 Labor Force Demand = 5,884

Labor Force Demand is generated by incorporating the projected 2000-2001 and 2001-2002 San Miguel County job growth rates into the 2000 labor force demand calculated above.

R-1 School District Labor Force Demand

Detailed 4-digit SIC level ES202 employment data contain a zip code field. Subtracting the Norwood and Egnar zip codes from the database leaves an area

[34] http://dola.colorado.gov/demog

roughly equivalent to the R-1 School District. It is important to note that ES202 jobs do not count proprietors, and so the Demography Section adjusts ES202 accordingly - jobs in **figure 6** reflect this adjustment. This method revealed that 90% of the jobs in San Miguel County are located in the R-1 School District while the other 10% are located mostly in the West end of the County.

Figure 6. R1 and R2 School District Breakdown

Area	ES202 Jobs	Percent of Total	Adjusted Jobs
R2 School Dist	461	10%	720
R1 School Dist.	4,064	90%	6,344
Entire County	4,525	100%	7,064

Final Calculation

Figure 7 reveals the total number and percentage of workforce living in deed restricted housing – San Miguel County 2002.

Figure 7. Percent of Workforce Housed in Deed Restricted Housing – San Miguel County 2002

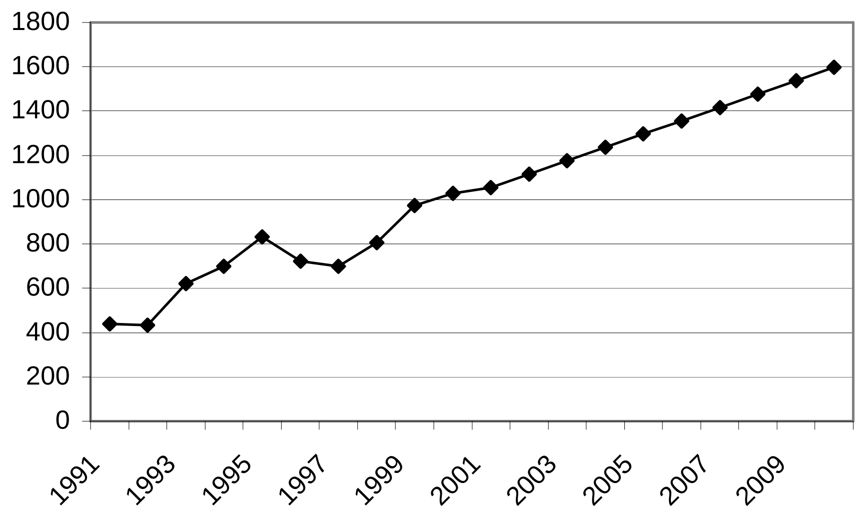
Deed Restricted Units in R-1 School District	968
Employees in Deed Restricted Units	1,549
R-1 School District Employed Persons Demand	5,140
% of Workforce in Deed Restricted Units	30%

Appendix 2: Construction Employee Generation Rates and Mitigation Rates

Once a unit is built, it requires maintenance and services in perpetuity. However, construction firms can build a certain amount of square footage one year and move on to build the next year without necessarily increasing employee numbers. Thus, it is obligatory to approach the construction component of the impact fee in terms of how each residential unit contributes to overall growth in construction employees.

The construction industry is producing job growth in San Miguel County. While the number of jobs is prone to fluctuations, the average annual change exceeded 10% for 1990-2000. A least squares projected trend line results in 1600 total jobs by 2010.

Figure 8. San Miguel County Construction Employment Growth



As construction employment grows, so will the number of construction employees needing housing given the 30% and 43% mitigation rates discussed in appendices 1 & 2. Consequently, an increasing number of new employees will need to be mitigated each future year (see black portion of bars in **figure 9**).

The quantity of employees to be mitigated each year divided into the total employees represents the construction mitigation rate for each year projected. The result is a construction fee structure sufficient to provide housing for one year for 30% of new employees. We assume that the existing 30% of R-1 School District employees living in deed restricted housing maintain their units, this results in a total mitigation of 30% each year. **Figures 9** and **10** summarizes the future mitigation rates for construction employees in the fee structure for the 30% mitigation rates.

Figure 9. Construction Employees Employee Housing Needs Projection - 30% Mitigation Rate

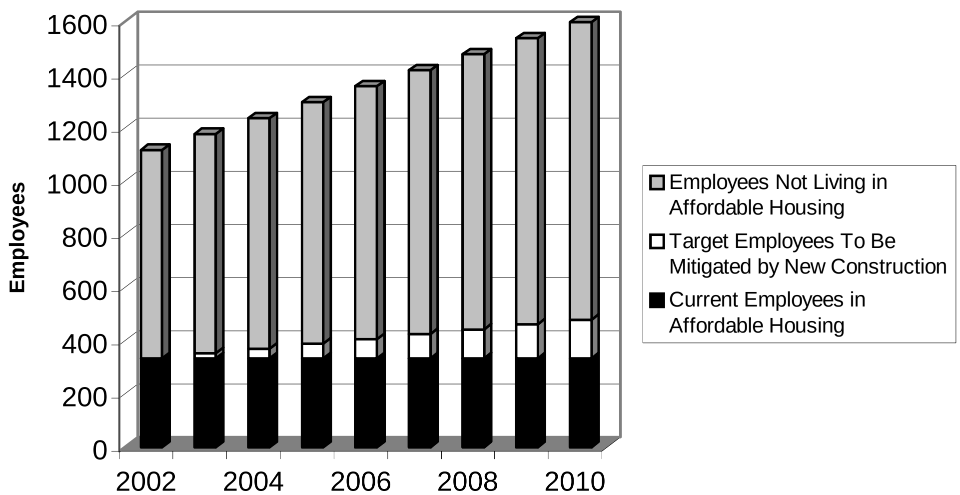


Figure 10. Construction Mitigation Rate Through 2010 –30% Mitigation Rate

Year	Mitigation Rate
2002	0.0%
2003	1.5%
2004	2.9%
2005	4.2%
2006	5.3%
2007	6.4%
2008	7.3%
2009	8.2%
2010	9.0%

Appendix 3: Determining the Percentage of Second Quarter Expenditures Attributable to the Unincorporated County Residential Population & Explanation of Credit Methodology

According to lodging occupancy studies conducted by Telluride and Mountain Village Visitor Services, the lodging occupancy during the second quarter has averaged 21% from 1997-2002, which applied to the current lodging unit base (1323 units) means that there are approximately 282 units occupied during the off-season. According to the 2000 Census the Unincorporated County and Incorporated portions of the County have 1,979 and 3,218 units respectively. Assuming that spending is proportionate to the number of units in each category, the unincorporated County housing units account for 57% of the second quarter spending.

Figure 11. Local Spending and Occupancy Rates

Off-Season Occupancy Rate	21%
Off-Season # Occupied Lodging Units	282
Unincorporated Housing Units	1,979
Incorporated Housing Units	3,218
% of Off Season Spending by Unincorporated County	57%

In order to ensure that tourist spending was not attributed to the residential population, second quarter ('off-season') tax revenues were used as the baseline measure of the residential population spending[35]. 1990-2001 quarterly taxable sales data for the Town of Telluride[36] allowed RPI to project the taxable sales attributable to the residential population ten years into the future[37]. To estimate the number of employees for which this revenue is projected to provide housing, RPI divided the projected revenue for each year by the subsidy (adjusted for inflation over time).

[35] Second quarter spending was multiplied by 4 to obtain the residential population spending.
[36] CO Dept. of Revenue
[37] using as least squares linear projection

Figure 12. Telluride Affordable Housing Sales Tax Projections for Resident Population Spending

	Revenue Generated	Employees Housed
2003	$ 340,466	7.2
2004	$ 357,600	7.4
2005	$ 374,734	7.5
2006	$ 391,867	7.6
2007	$ 409,001	7.8
2008	$ 426,135	7.9
2009	$ 443,269	7.9
2010	$ 460,402	8.0
2011	$ 477,536	8.0
2012	$ 494,670	8.1
Total	**4,175,681**	**77.4**

Quarterly sales tax revenues for Mountain Village were also adjusted to second quarter levels to avoid including tourists in the revenue projections. Mountain Village only recently adopted a sales tax in 1999, so historic sales tax revenues lacked the robustness necessary for establishing a trend line. Instead of a trend line, RPI averaged the housing revenue generated by the resident population for 99-2002 and projected this average into the future using an inflation factor. The total revenue for 2003-2012 was divided by the subsidy per employee (adjusted for inflation) to estimate the total employees for which the tax could provide housing (17 FTEs).

Figure 13. Mountain Village Affordable Housing Sales Tax Projections for Resident Population Spending

	Revenue Generated	Employees Housed
2003	$ 91,015	1.94
2004	$ 91,103	1.89
2005	$ 91,103	1.84
2006	$ 91,281	1.79
2007	$ 91,192	1.74
2008	$ 91,369	1.70
2009	$ 91,369	1.65
2010	$ 91,547	1.60
2011	$ 91,458	1.55
2012	$ 91,606	1.50
Total	**$ 913,044**	**17**

From this point, the calculations for Telluride and Mountain Village are parallel. Colorado Demography Section employment projections adjusted to reflect only employment in the R-1 School District (see **Appendix 1**) yielded a total of 1,384 new employees between 2003-2012. Under a 30% mitigation rate, 374 employees will need housing. Therefore, Telluride's sales tax could construct a maximum of 20.8% of the units needed by development in the R-1 School District over the next 10 Years while resident population expenditures in Mountain Village could meet as much as 4.5% of the need in the next ten years.

Figure 14. Credit Discount

	Telluride	Mountain Village
# Employees Mitigated by Sales Tax	77	17
# of Employees Needing Mitigation	374	374
Percent Mitigated 10 years	20.8%	4.5%
Percent of Employees in Unincorporated County	13%	13%
Percent Unincorporated Employees Living in Town	31%	25%
Percent Sales Tax Revenue Generated by Households	57%	57%
Credit Discount	0.5%	0.1%

According to the 2000 HNA, 13% of San Miguel County employees work in the unincorporated areas.[38] This means that if Telluride and Mountain Village houses employees proportionate to their origin of generation, only 13% of the employees in Telluride housing will work in the unincorporated area. Of the employees working in unincorporated areas 31% actually live in Telluride and 25% live in Mountain Village. Finally, 57% of the second quarter (off-season) revenue is generated by the unincorporated County resident population, with the remainder generated by tourists and incorporated residents. Mathematically, the way to integrate these proportions is to multiply them (see **figure 14**).

This .5% discount expresses the percentage of unincorporated employees in the R-1 School District that area likely to get an affordable housing unit in Telluride and similarly with the .1% discount for Mountain Village. By discounting the sum of these percentages (.6%) from the employee subsidy, the County would avoid possible double charging to mitigate employees.

[38] Pg. 29. the Varies/multiple category was spread proportionately throughout the other categories.

Appendix 4. Exponential relationship defined by RRC (explaining figure 5 Section I)

The following exponential relationship calculated by RRC using a non-linear regression:

$$Y=.070174e^{.000322*a}$$

Where,

Y = FTEs generated

And,

a = the sq. ft. of floor area
e = 2.718 Napier's constant

Goodness of fit and statistical significance (R^2 and F Statistic, respectively) were cited by RRC as follows:

$R^2 = .94$

F = 66.1

The exponential formula offers a useful tool for calculating Y employees for any sq. ft. of floor area (a).

Appendix 5: Implementation & Recommended Changes to the Current Code

The adoption of the fee structure presented in this report has some significant implications for the current County land use code. Following is a summary of the general code revisions RPI recommends.

I. *Subdivisions:* Amend employee housing requirements for residential development to reflect the employee generation basis of the fee structure. This will require the elimination of the 1 deed restricted unit in 7 ratio in the subdivision regulations as the basis for mitigating for impacts on employee housing.

II. *Commercial Development:* Change non-residential employment generation rates and mitigation rates to those used in this analysis.

III. *Building Housing in Lieu of Fee:* If the County wishes to allow a developer of a PUD/Subdivision to build housing on-site or in some other suitable location to meet their development's housing mitigation requirements (both subject to County approval), the development approval should specify the maximum square footage of residences and the maximum square footage of non-residential uses by type so that the County may base the housing mitigation requirements on the maximum buildout of the development. The development of employee housing should also be phased with the buildout of the free market development to ensure that the housing impacts are mitigated at the same pace at which they occur.

IV. *Deed Restrictions:* As part of the adoption of this fee structure, the County is obligated to adopt deed restrictions that include income/price limits and minimum occupancy requirements applicable to all employee housing units.

V. *Accessory Dwelling Units:* The residential development fee structure presented in this report is based on the relationship between housing mitigation required and the size of residences. Consequently the current ADU requirement at the 5,000 sq. ft. threshold is incongruent with the basis of the fee structure in presented in this report and therefore should be eliminated.

VI. *Redevelopment:* The County may want to include provisions in fee code language that requires housing mitigation for additions to existing structures and redevelopment of a lower employment generation use to a higher employment generation use.

VII. *Independently Calculated Employee Generation:* The County might consider allowing an independent employee generation calculation for non-residential developments to be reviewed by a County fee administrator.

VIII. *Exemptions:* Considerations for exempting homes at a square footage threshold

IX. *Practical Considerations:* When & how to calculate the fee.

X. *Updating the Fee Schedule:* What components need to be periodically updated and how often should they be updated.

The following sections consider the above points in more detail.

I. Subdivisions: Implications for the Current Employee Housing Mitigation Requirements

If the fee schedule presented in this report is adopted, a request for development permit in the R-1 School District will trigger the housing mitigation requirement--NOT at the subdivision of parcels into residential lots (as the existing code requires).

Consequently, the proposed fee structure will apply to all residential development and be due at the time of building permit[39], regardless of whether the proposed residential development is located on a new subdivision lot, a lot in a subdivision several decades old, a 35+ acre parcel, a patented mining claim, or a legal un-platted parcel.

This much broader applicability will generate a stream of employee housing production or revenue that more closely meets the needs generated by new development in the R-1 School District. This is due to the fact that formal subdivision application with 6 lots or more (subdivisions with less than 6 lots are exempt from the requirements under the current code), have been rare in San Miguel County over the last decade.

Current mitigation requirements for residential subdivisions, originally adopted in 1990, have produced 11 deed-restricted units, enough housing for approximately 16 employees[40]. The employee housing impact fee cash-flow projections presented in this report suggest that the County might have produced enough housing for as many as 70 employees in the same time period had this fee schedule been in place over the same time period.

In order to have consistent, straightforward mitigation requirements for residential development, RPI recommends that the County eliminate current residential subdivision housing requirements (1 in 7 ratio of deed restriction) and defer the housing mitigation requirements until the owner of each lot seeks to obtain a development permit to build a home.

Commercial Development: Implications for the existing Housing Mitigation Requirements

The approach for mitigating commercial development presented in this report is essentially the same as current regulations. However, three notable differences exist.

[39] If the applicant chooses to build housing to mitigate their development's affordable housing impacts (subject to County approval), the applicant would have to consent to some form of binding agreement with the County outlining the type of unit, the deed restriction or covenants, and the time of completion of the unit.

[40] The unincorporated County actually contains 191 deed restricted units, most of which originated under the affordable housing PUD regulations The 11 mitigation units were units built in the Aldasoro Subdivision.

1. Updated employee generation rates
2. A doubling of the 15% mitigation rate to a 30% mitigation rate
3. Ability to collect fee at the development permit stage rather than at platting of a new development

The non-residential employee generation research presented in this report reveals that generation rates are approximately 50% higher than the San Miguel County Code currently presumes (see Part III, non-residential employment generation rates).

Also, the current code requires developers to mitigate for 15% of employees. This study demonstrates that the County is justified in requiring non-residential development to provide housing or cash for 30% of the employees it generates.

Finally, where employee housing mitigation for non-residential development now applies only to plattings of new development, the proposed system will include a trigger for housing mitigation at development permit. This will allow the County to require mitigation for redevelopment, expansion, change of use, and other non-residential development resulting in additional employment generation occurring outside of the formal PUD/subdivision process.

Because the mitigation rate will be doubled, employment generation rates increased by 50%, and applicability broadened, a non-residential employee housing mitigation system presented in this report will yield significantly more housing than does the current system.

III. Building Housing in Lieu of Fee: Developers Option

San Miguel County may want to continue to allow subdivision/PUD applicants the option of meeting their development's mitigation requirements by construction employee housing on site or in another suitable location.

If the developer chooses to build employee housing instead of paying the fee (subject to County approval), that approval will need to specify the maximum size of the homes and non-residential uses by size/type so that the County can calculate the maximum number of employees the development will generate. This, in-turn, will allow a determination of the minimum amount of employee housing the developer will be required to build. The County may also consider designing a phasing mechanism requiring developers to build employee housing in pace with the buildout of the subdivision (e.g. a requirement that *x* employee housing units be built before the next *y* free market units receive a development permit).

IV. Deed Restriction: Implications for the current R-1 Deed Restriction

While the County's R-1existing deed restriction still has merits and has served County residents well to this point, the current housing climate warrants deed restrictions with price limits and occupancy requirements.

As noted in the 2000 Housing Needs Assessment, housing carrying the R-1 Deed Restriction is generally more affordable than free market housing. However, deed-restricted units' prices are rising.
One notable example is the Two Rivers project in which units were originally sold for $130,000 in 1995-1996 and are now selling in the $210,000-$220,000 range, affordable only to the upper end of middle income households (100%-120% AMI). If appreciation continues at this rate, Two Rivers units will only be affordable to upper income households (120%+ AMI) in the future. It is not unusual for larger single-family homes with the R-1 deed restriction to sell for over $400,000, which, while significantly cheaper than the same class of home without the R-1 deed restriction, is still out of reach for most local resident households[41].

Deed restricted rental units are more affordable than free market rents, but deed restricted rents can be high, with 10% of the deed restricted rental units edging over $1,200 per month in the year 2000 (affordable to households in the upper-middle income category with at least 100% AMI)[42]. The lower price of rents in deed restricted vs. free market units reflects a combination of rent limits on existing units in the Telluride Region as well as the type of units (more multifamily and condominiums) and occupancy restrictions.

Given the mitigation program proposed in this report, mitigation requirements can be met in two ways, both of which require additional regulation not currently contained in the R-1 Deed Restriction:

1. <u>Public Sector Projects:</u> Developers pay a fee to the County based on the employment to be generated that development. The County then ensures that these revenues are used to produce employee housing.

2. <u>Private Sector Mitigation:</u> Developers commit to producing employee housing either on-site or elsewhere in the R-1 School District subject to County approval.

<u>Public Sector Projects</u>

Recent affordable housing projects led by the County, Telluride, Mountain Village, and Western Central Housing Development Organization are governed by price/income restrictions or targets (Rio Vistas 2, Village Court Expansion, and Wilkin Court). These restrictions are due to a combination of State requirements for projects using HOME funds and the conclusion by most employee housing producing entities that price restrictions are critical to the long-term viability of the employee housing stock.

[41] The 2000 Housing Needs Assessment concludes that 68% of County households are income categories below the 120% AMI threshold.
[42] 2000 HNA pg. 63

The County, upon collecting fee revenue to produce employee housing, has an obligation to ensure that the housing remains affordable for its economic life. The most effective way to achieve this level of assurance is to integrate price and income thresholds into the deed restrictions (covenants).

<u>Private Sector Mitigation</u>

As with County expenditures of fee revenues, employee housing built in lieu of the fee (by developers) should remains affordable for their economic life. Again, price and income thresholds are the most effective mechanism.

A concern with private sector mitigation is that while the units may be produced, they may not be rented or sold to qualified employees. They may be used for other purposes or sit vacant.

This concern is particularly acute with smaller scale developments (e.g. one single family home receiving County approval to construct a deed restricted unit with price and income limits). Evidence gathered in an informal survey conducted by the San Miguel County Regional Housing Authority in the late 1990's suggests that Accessory Dwelling Units with the R-1 Deed restriction in the unincorporated County were less than 40% occupied. Imposing occupancy requirements (e.g. unit is not allowed to remain vacant for more than 90 days and shall be leased for no less than 6 months at a time) would likely raise the occupancy rates, particularly if accompanied with enforcement.

V. Accessory Dwelling Units: Implications for the current system

In some zone districts, San Miguel County Code requires one accessory dwelling unit bound by the R-1 deed restriction for single-family residences greater than 5000 sq. ft.. Adoption of the fee schedule proposed in this study requires that the County shift individual residential unit mitigation from a threshold based approach to an employment generation based approach.

Under the current fee structure, a house of 5000 sq. ft. is required to provide housing or a fee for housing (.11 FTEs in the year 2003). One ADU will provide housing for more than .11 FTEs, but the R-1 deed restriction is not restrictive enough to ensure that it is affordable and occupied by a qualified employee working in the R-1 School District.

A better means of achieving the outcome sought in the original ADU requirement threshold may be allowing developers of single family homes to build an accessory unit on site (or on a suitable off-site location in the R-1 School District) subject to price and income restrictions as well as occupancy requirements as discussed above. Again, this would represent a building in lieu of the fee.

It is important to note that while developers would have the option to build employee housing in lieu of the fee, they would NOT be eligible for a credit (a single employee housing unit for a single residence will likely more than compensate for the employment generation). For example, a developer of a 5000 sq. ft. single family home may opt, with the County's approval, to build an ADU with tighter deed restrictions capable of housing 1.5 FTEs while under the fee structure in this study, they are required to provide either housing or cash for .11 FTEs. This should not give this developer a bank of 1.39 FTEs from which to draw for future development. Development of the ADU is optional and as such does not warrant the granting of any special credits.

The County could continue to allow ADU's with the current R-1 deed restriction (subject to special review) in certain zone districts, but these units should not constitute mitigation without a deed restriction containing occupancy requirements and income/price limitations.

VI. Redevelopment: Additions and Conversions of Use

Because employment generation increases proportionate to increases in floor area of both residential and non-residential developments, the County may want to consider including a provision addressing additions to existing structures. Such a provision would simply require mitigation for the employees generated by the proposed total square footage (including addition) minus the employment generation of the existing structure. For example, a homeowner seeking to build an addition increasing house size from 3,000 to 8,000 sq. ft. (in 2003, a 3000 sq. ft. house would be required to mitigate for .06 FTEs, but an 8,000 sq. ft. house would be required to mitigate for .28 FTEs. In this case the homeowner would be required to mitigate for .22 FTEs.)

If a developer seeks to convert one land use to another with higher employment generation rates, the County may require mitigation based on the increase in FTE's. For example, conversion of a 1,000 sq. ft. retail establishment with a generation rate of 3.3 FTEs per 1,000 sq. ft. to a restaurant with a generation rate of 6.5 FTEs per 1,000 sq. ft., the development results in a net increase in FTEs and additional mitigation would be warranted.

VII. Independently Calculated Employee Generation: Non-Residential Development

Commercial activity can take many forms, the non-residential employment generation rates contained in this study may not always best represent the employment levels generated by basic development types in San Miguel County. Furthermore, developers may often propose development for which the County has no established employment generation rates, such as ski area expansions which are not necessarily tied to increases in floor area. In such cases, the best solution may be to allow the developer to submit an independent employment generation calculation that would then be reviewed by a County fee administrator.

VIII. Exemption or Discount for Smaller Residences

In preliminary meetings regarding this report, County Commissioners expressed interest in investigating the possibility and implications exempting or discounting the employee housing mitigation fee for smaller residential units. Interest in such an exemption or discount is driven by the intuitive, informal knowledge that smaller homes tend to be more affordable than larger luxury units and furthermore, are more likely to be occupied by local working residents. The purpose of this analysis is to provide empirically based information useful to the Commissioners when considering exemptions for smaller residences. The analysis is focused on answering the following questions:

1. Are smaller residential units affordable in the context of the San Miguel County income structure?
2. If so, what is the size threshold, below which, residential units are affordable in the context of the San Miguel County income structure?
3. To what degree will homes below such a size threshold serve as housing for local employees?

Affordability of Smaller Residential Units

The County Commissioners passed a resolution in 1997 granting a 25% discount on the primary building permit fee for homes constructed 1,800 sq. ft. or less. This was based on the finding of an informal analysis conducted by the building department[43] that newly constructed homes of this size were usually affordable in the context of the 1997 market. In addition, single-family units in Lawson Hill, an affordable housing P.U.D. are limited to 1800 sq. ft. of above ground floor area under the P.U.D. approvals. The existence of the 1800 sq. ft. threshold as the limit for affordably sized units in the County in current policies and approvals led RPI analysts to begin the analysis by looking at this threshold.

2001-2002 real estate sales data from the San Miguel County Assessor's Office[44] for all residential units for the unincorporated County and unincorporated portions of the R-1 School District were analyzed by sale price, size, status (deed restricted or not), and affordability relative to the income structure of San Miguel County stated as the percentage of the Area Median Income limits defined by H.U.D. Given a 30 year mortgage an interest rate of 7.5%, and invoking the H.U.D. standard that affordable housing payments should be no more than 30% of the total household income -- a household with 120% AMI[45] can afford no more than a $245,000 house with $1,720 per month mortgage payments.

[43] November 13, 2002 Memo from Gary Hodges, Building Official, to Planning Director Mike Rozycki
[44] Extracted and formatted by Telluride Consulting
[45] 120% of AMI was chosen as the income threshold because affordable housing projects in the County to date have not targeted income groups above 120% AMI. Furthermore, the 2000 Housing Needs Assessment sets 120% of AMI as the upper limit for middle income households, as does H.U.D. in many contexts. In other words, households with greater than 120% AMI are in the upper income category.

Figure 15. Analyzing Affordability of Homes 1800 sq. ft. or Less and 1000 sq. ft. or Less

	Less Than or = to 1000 sq. ft.	Less Than or = to 1800 sq. ft.
% of Free Market Units in Unincorporated R-1 School District Selling at Prices Affordable to Households 120% AMI or Less	87%	54%
% of Deed Restricted Units in Unincorporated R-1 School District Selling at Prices Affordable to Households 120% AMI or Less	100%	90%
% of All Units in Unincorporated R-1 School District Selling at Prices Affordable to Households 120% AMI or Less	92%	68%

Figure 15 summarizes an analysis of the percentage of free market units, deed restricted units, and a combination of both that sold for prices affordable for households 120% or less of AMI for two size thresholds, 1800 sq. ft. and 1000 sq. ft..

54% of the free market units sold within the unincorporated R-1 School district were affordable to 120% AMI or less. Conversely 46% of the units in this size range were affordable only to households with greater than 120% AMI. The 2000 Housing Needs Assessment concludes that 32% of households in the County have incomes greater than 120% AMI[46]. This means that the proportion of affordable 1800 sq. ft. (or less) units sold on the free market is very close to the proportion of households in the County that are in the middle and upper income brackets (i.e. greater than 120% of AMI).

While the sale prices of free market units less than 1,800 sq. ft. sold in the R-1 School District during 2001-2002 approximately mirror San Miguel County's middle and upper income groups' buying power, still, only about half of these units are "affordable" (if affordable is defined as affordable to middle income households or lower -- i.e. 120% AMI or less). In other words, about half of the units in this size category are not affordable to households that are most in need of affordable housing.

In order to achieve a higher level of affordability (defined as affordable to households with 120% AMI or less), the exemption threshold for free market units would need to be set at 1000 sq. ft.. 87% of free market units 1000 sq. ft. and less sold at prices affordable to households with 120% AMI or less. 85% of these units were condos, and the other 15% were single-family residences.

This real estate analysis was based on the sale of all units, new or pre-owned. The average price per square foot of free market units sold in the R-1 school district for 2001-2002 was $235 per square foot (includes land). Newer units will almost certainly be more expensive. However, as the units age, it appears that the current

[46] pg. 87

conditions in the market will render a certain portion of these units affordable to working families and households over time. Furthermore, low cost modular units widely available in today's market will also allow those who can afford the land to build relatively inexpensive new homes.

To What Degree Do Smaller Units in the R-1 School District Serve as Employee Housing?

This is an important question because if residential units below 1800 sq. ft. do in fact serve as employee housing, the County could exempt them from the employee mitigation fee on the basis that they contribute more employees to the workforce than they demand. However if the contrary is true, the County could still exempt them from the fee, but will be obligated to make up for the exempted fees with other revenue.

Houses and condos in a resort region can be used as vacation homes; itinerant homes (used for 3-9 months per year, but not year-round); short-term rentals (booked and managed by property management companies as lodging units); retiree homes (used by migrant retirees who tend to have other residences as well); time share (fractionally owned vacation homes); get-away cabins (often located on mining claims in the far reaches of accessible private land) and probably many other non-traditional uses of the housing stock.

The problem is that affordability to local incomes does not necessarily mean that the housing will be purchased and used by employees and their families or housemates. A newly constructed free market home or condo in the size range under consideration might easily convert to one of the uses where not occupied by individuals contributing to the workforce.

Conclusions

The 1800 sq. ft. threshold is a reasonable exemption or discount threshold from the employee housing mitigation fee so long as the owner deed restricts the unit to the R-1 deed restriction. In addition to ensuring that the units would be used as housing for local employees and their families or housemates, units in this size range with the R-1 deed restriction are nearly all (90%) affordable to middle income and lower income households.

If Commissioners seek to exempt units below a certain size threshold unconditionally (i.e. without an R-1 deed restriction requirement), 1000 sq. ft. is a more affordable exemption threshold because units in this size range nearly all (87%) sell at prices affordable to households with 120% AMI or less.

Unconditionally exempting units below the 1800 sq. ft. threshold would mean that approximately half of the exempted units would be affordable only to households in the upper income bracket (i.e. greater than 120% AMI). This may not be consistent with the County's affordable housing goals.

Because free market unit (regardless of size) has the potential to be used for something other than a primary residence for a working local, the County should obligate itself to make up for the exempted fee revenue from other funds if the exemption is not tied to an R-1 deed restriction. According to **figure 22 (**Cash Flow Analysis section - main body of the report) the County will have to relinquish approximately $42,000 per year to subsidize an unconditional 1800 sq. ft. exemption threshold and $7000-8000 at an unconditional 1000 sq. ft. exemption threshold. High growth years might increase these amounts. Again, these subsidies will not need to be made if the exemptions are tied to a deed restriction. Also, the subsidies will be lower if the County decides to only exempt a portion (e.g. 25%) of the fee.

IX. Practical Considerations when Charging Fee

When to Charge the Fee

The specific language of the State statutes granting local governments the ability to charge impact fees (CRS 29-20-103 thru 104.5) specifically states that impact fees apply to development permits. Practically speaking, it may be more efficient for the County to collect the fee when the County collects building permit fees. One way to accomplish this is to require applicants to sign an agreement at the development permit stage requiring that they will pay the employee housing impact fee when the other building permit fees are due.

How to Calculate the Residential Fee

The fee consists of two components, the ongoing maintenance and services component and the construction component. The fee calculation formula follows:

$$\{ [(.070174e^{.000322\text{*sq. ft.}}) * (\text{mitigation rate})] + [(\text{sq. ft.} * .0044) * (\text{mitigation rate for that yr.})]/40 \} * (\text{Per Employee Subsidy - Credit}) = \text{Fee}$$

Where e = 2.718 Napier's constant

The general formula can be simplified for ease of calculation. Since the mitigation rate for construction increases each year, here is a simplified fee calculation formula for 2003-2007:

2003	Fee = $\{[(.02106 * 2.718^{.000322\text{*sq. ft.}})] + [(\text{sq. ft.} * .000066)]/40\} * (\$ 45{,}740)$
2004	Fee = $\{[(.02106 * 2.718^{.000322\text{*sq. ft.}})] + [(\text{sq. ft.} * .000128)]/40\} * (\$ 45{,}740)$
2005	Fee = $\{[(.02106 * 2.718^{.000322\text{*sq. ft.}})] + [(\text{sq. ft.} * .000185)]/40\} * (\$ 45{,}740)$
2006	Fee = $\{[(.02106 * 2.718^{.000322\text{*sq. ft.}})] + [(\text{sq. ft.} * .000233)]/40\} * (\$ 45{,}740)$
2007	Fee = $\{[(.02106 * 2.718^{.000322\text{*sq. ft.}})] + [(\text{sq. ft.} * .000282)]/40\} * (\$ 45{,}740)$

How to Calculate the Non-Residential Fee

Sq. Ft. of Development * (Employee Generation Rate for Development Type/1000) * 30% * $45,740

Where the Employee Generation Rate is based on the table below:

Type of Use	2001 Composite Database FTEs per 1000 Sq. Ft.
Restaurant/Bar	6.5
Education	2.3
Finance/banking	3.3
Medical profession	2.9
Other professional services	3.7
Personal services	1.3
Real estate/property management	5.9
Retail	3.3
Recreation/amusements	5.3
Utilities	2.9
Overall	4.4
Lodging/hotel	0.3/unit

X. Updating Components of the Fee Structure

Two main components of the fee structure need to be evaluated and updated every two years:

The *mitigation rate* can change over time as employment trends change and as more employee housing is developed. If the County produces an increase in the level of service, then it is fully justified in raising the fee accordingly.

The *per employee subsidy*, that is, the gap (in dollars) between the cost of producing affordable housing for an employee and what that employee can afford to pay for the housing is subject to change as well. Recent trends suggest that the subsidy is on the rise. The County should monitor the subsidy every two years in light of the cost of new employee housing projects and wage/income trends.